

ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
COLLEGE OF SOCIAL SCIENCES
DEPARTMENT OF SOCIAL ANTHROPOLOGY

MICROFINANCE AND LIVELIHOOD OF *ENSET*-BASED SMALLHOLDERS:
THE CASE OF OMO MICROFINANCE IN CHEHA *WOREDA*, GURAGE ZONE

BY
ELIAS KIBATU



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SCHOOL OF GRADUATE STUDIES
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Microfinance and Livelihood of *Enset*-Based Smallholders: The Case of Omo
Microfinance in Cheha *Woreda*, Gurage Zone

By

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GLOSSERY OF LOCAL TERMS

<i>Aratsa Abedare</i>	Private Money lender
<i>Areqi*</i>	Local liquor
<i>Arefa</i>	Annual festival for the Muslims
<i>Azemach</i>	A traditional title given for clan leaders
<i>Bête-Gurage</i>	Gurage decedents who belongs to one tribe
<i>Bodje</i>	The thunder god of the Gurage
<i>Chat</i>	Chata edulis
<i>Cheshet</i>	<i>Annual religious festival held to honor waq</i>
<i>Dengene</i>	Wealthy person
<i>Dega*</i>	Highland /wet region
<i>Demuamit</i>	Stands for female deity of fertility among the Gurage
<i>Equb*</i>	A form of rotating saving in which members come together to save in cashes or in kind on regular basis
<i>Enset</i>	Bana like plant that serve as the staple food of the Gurage
<i>Gor</i>	Harvest season mostly associated with annual enset cultivation time.
<i>Iddir</i>	A social and traditional financial organization established to provide assistance at times of mourning
<i>Jeben</i>	A pottery made for coffee boiling

* These terms in Cheha dialects are also Amharic terms to imply the same meaning

<i>Kebele*</i>	The lowest/grass root level administration in Ethiopia's Federal Government
<i>Korkoro-bet</i>	Tin roofed house
<i>Kola*</i>	Lowland
<i>Maresha*</i>	A two forked wooden digging and cultivation tool
<i>Mesker</i>	A cultural and religious festival in Ethiopia Christianity, boldly celebrated typically among the Gurage to honor the Finding of the True Cross.
<i>Nepoare</i>	Annual religious festival held to honor bodje
<i>Sara</i>	Customary law
<i>Senche</i>	Annual religious festival held to honor demuamit
<i>Sebat-Bet Gurage</i>	The seven tribes of Gurage that forge the Gurage confederation
<i>Ser-bat</i>	The Gurage's grass roofed house/hut
<i>Waq</i>	The Gurage god and goddesses of war
<i>Weyna dega</i>	Mid wet region
<i>Yedar</i>	September
<i>Yekere Kawa</i>	Coffee drinking among close neighbors in the morning
<i>Yegepat Kawa</i>	Coffee drinking among close neighbors in the evening
<i>Yegen Iddir</i>	Community/ territorial based association aimed at providing funeral expenses and material for members at times of mourning and fire incident
<i>Yeguragekitcha</i>	The Gurage customary law

* These terms in Cheha dialects are also Amharic terms to imply the same meaning

<i>Yemegest Birr</i>	A local name given for Omo Microfinance loan
<i>Yetseb Iddir</i>	A clan based financial association to offer funeral expense for members at times of mourning
<i>Waq</i>	The Gurage sky god
<i>Wesa</i>	Local bread made of enset
<i>Zer</i>	Heavy rainy season that ranges from June to September

LISTS OF ACRONYMS

- AdCSI:** Addis Credit and Saving Institution
- DESCI:** Dedebit Credit and Savings Institution
- FDRE:** Federal Democratic Republic of Ethiopia
- FGD:** Focus Group Discussion
- EPRDF:** Ethiopian People Revolutionary Democratic Front
- ICSI:** Informal Credit and Saving Institutions
- IFIs:** Informal Financial Institutions
- LICs:** Low Income Countries
- MDGS:** Millennium Development Goals
- MFIs:** Microfinance Institutions
- MIS:** Management Information System
- NGOs:** Non-Governmental Organizations
- OCSSCO:** Oromia Credit and Savings Share Company
- OMFI:** Omo Microfinance Institution
- SFPI:** Specialized Financial and Promotional Institute
- SHGs:** Self-Help Group
- SNNPR:** Southern Nations, Nationalities and Peoples Region
- WMFI:** Wisdom Microfinance Institution

ABSTRACT

Despite controversies on the impact it has on poor households, MFIs are growing and operating in various regions of Ethiopia and in different socio-economic settings, by applying a similar approach. While the considerable number of Gurage enset culture smallholders are interacting with microfinance, empirical studies are lacking that reveals the overall situation of the interaction.

With the objective of examining the scenario of the interaction of smallholders with MFIs particularly, Omo, in a setting characterized by traditional farming, small and fragmented land holding; agricultural production is dominated by perennial enset crop for subsistence. For this purpose, Enata Kebele in Cheha Woreda has been selected as a point of reference. By applying more of a qualitative approach, data is collected by using tools like participant observations, in-depth interviews, case studies, FGDs, key informant interviews and ethnographic conversation.

The study reveals that the actual factors that push smallholders to access credits from Omo deviate from the intended purposes of microfinance. Only a few smallholders' actual factors fit with the intended purpose, while the majority accesses credit with the intention of using it to address other intended socio-economic issues. They don't only use the credit off the target, they also misuse it, waste it for unnecessary activities and fraction the credit into several parts rather than using it for one planned economic activity. This study also displays, though credits should have to be given for those who can repay it with incomes generated in a short period of time, due to the poor recruitment and evaluation, smallholders' credit request is rarely negatively responded by Omo microfinance. Even if the study area has a good repayment rate, it is not an indicator of positive change; it rather is the result of asset reduction and indebtedness for repayment.

The impact assessment of this study shows few success stories from those who attempted to use the credit for business activities. The negative side is manifested by reducing assets of smallholders, causing conflict among family members, further indebtedness, psychological stress and enhances the exploitation of smallholders by local money lenders. The challenges that contribute for this are poor client selection, absence of regulations, training and advice to smallholders, little promotion for saving, inappropriate usage of credits, poor institution capacity and risks in the smallholders setting. Since the improvement brought by Omo Microcredit is witnessed in only few household, the majority studied smallholders have developed a negative attitude towards Omo Microfinance. This study finally concludes, while the credit can be successful for those households determined to engage in regular trade, the situation of the majority studied smallholders will be more disastrous if they do not managed to withdraw early from Omo at all costs.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

According to a UN report, around one-fifth of the world population (1.3 billion) people are living in extreme poverty earning less than one dollar per day (Hermes and Robert, 2007:462). The largest proportion of this figure, about seventy percent (Miller, 2011: 4) are found in developing countries of which the bulk of society is engaged in farming. Among those engaged in farming, Ellis (2007:3) indicates, over one billion people of the world population belong to peasant households. Of this, about seventy percent of the peasants live in developing countries. The peasant farming is also called smallholder agriculture, family farming, subsistence farming, and low-income farming (Salami et al., 2011: 8; and Krishna, 1977: 13).

The agrarian societies in Africa which are dominated by smallholders plays a major role in producing food for both rural and urban populations and providing incomes, employment, and export earnings (Krishina, 1977). Besides, agriculture based rural areas in Africa are the mainstay (employ 80%) of the population and includes the continent's extreme poor, about seventy percent (NPEAD, 2002a in Moyo, 2006: 110).

The study (Salami et al., 2011:8) on East Africa is congruent with this fact; the case studies on Kenya, Uganda, Tanzania, and Ethiopia reveal that agriculture is the backbone of the country; smallholder farming constitutes about 75 % of the agricultural production and employs over 75% of the population. Particularly looking at Ethiopia which is dominated by smallholders; according to the 2011 analytical report on the economic activities based on the 2007 population and housing census of the country, the agricultural sector employ 84% of the country's population and contributes 44.1 % to the nation's economy (GDP).

Albeit such figures and of unquestionable importance in developing countries, smallholder farming is characterized by low productivity. The factors contributing for this are deep rooted and various: small and fragmented land holdings, traditional farming, dependence on seasonal rainfall, bad weather condition, pests and crop disease, lack of access to markets, volatile food and energy prices, lack of technology, and lack of credit.

By understanding how the rural areas face various complicated obstacles and are not given due emphasis, on one hand and recognizing the rural agricultural sectors as an important component in attaining all rounded development, on the other hand, donors, governments, intellectuals stress economic growth to end poverty at national level in general and within rural populations in particular (Andrews, 2006:8). To achieve this, in the past years different policies and strategies were designed and implemented.

One among the major development instrument seen as an antipoverty tool is microfinance. MFIs first emerged in Bangladesh in the 1970s and quickly expanded across developing nations. It is one of development instrument which got rapid promotion from donors, governments and international communities. Through microcredit, savings and others services compatible to poor households, MFIs envisioned to mitigate poverty by raising agricultural productivity and diversifying income sources of farming households.

Along with other developing countries, Ethiopia also recognized microfinance as important weapon to alleviate poverty and facilitate rural development. To offer microcredit to the poor who can't access credits from formal banks because of their collateral requirements, microfinance in Ethiopia has formally commenced in 1996 with proclamation number 40/1996 (Getaneh 2008: 119). From this time onward, MFIs and interacting households are steadily increasing. As of the year 2011, the number of MFIs reached to 31 and outreached clients are over 2.4 million and the area is indentified as rapidly growing (Deriba et al., 2013: 15).

With this development what is needed is a multi-disciplinary approach to examine the impact that microfinance brings in the livelihood of the smallholders and the challenges the area is facing in different settings. In fact, research is conducted on this infant industry, but there is a controversy on its impact in the rural agricultural sector and role on poverty reduction. The researches conducted so far are not all inclusive in terms of regions and economic activities. The available few researches are more generalized and hence lack in-depth investigation to display the impacts brought in the livelihood of the rural smallholders and the challenges it is facing in different socio- cultural scene. Moreover, there is no attempt made to see the situation of the smallholders' interaction with

microfinance, in a setting where land holding is small and fragmented, farming is done with digging stick and dependence is on one crop cultivation for subsistence. Therefore, this study is conducted to assess and examine the scenario of the interaction between smallholder agriculture and Omo Microfinance approach in an *enset* (False-banana) cultivation setting.

1.2. Statement of the Problem

To combat poverty in general and to improve the livelihood of smallholder agricultural households in particular, one of the instruments adopted across developing countries is microfinance (Seneaneke and Premarante, 2006: 143; Getahun, 2000: 59). It is believed an appropriate and promising tool to alleviate poverty and raise the income of the poor. Particularly in Low Income Countries (LICs), microfinance becomes popular:

“In a number of agricultural dependent Low-Income Countries (LICs), external financing to smallholder agriculture has been seen as one of the major means to effectively bring about agricultural transformation. The urge to finance smallholder agriculture stems from the belief that farmers are efficient in production but they are poor: if left unassisted they are likely to lose their production strength, consequently leading to an even underdeveloped agriculture” (Kolajo, 1993 in Temu, Mwachang'a and Kilima, 2012:119).

Since informal financial institutions like money lenders are exploitative, on the one hand, and formal commercial banks are inaccessible by smallholders, on the other hand, MFIs are established to overcome these problems by innovating diverse financial services to poor households. Consequently, it has gained recognition and promotion from governments in developing countries, the international community, NGOs and donors (Gatahun, 2000: 59). In the last two decades MFIs became widely distributed and able interact with many household. According to Daley-Harris (in Hermes and Robert, 2007: 462), between the years 1997 and 2005, the number of MFIs drastically rose from 618 to 3,133 and the people who accessed MFIs rapidly increased from 13.5 million to 113.5.

Similarly in Ethiopia, with the formal establishment of microfinance in 1996, many MFIs are opened concentrating mainly in rural areas (Getaneh 2008: 119). As indicated by Getaneh, in the year 2008, there were 29 MFIs in Ethiopia and the microcredit outreach

was estimated to 2 million people. Though the outreach is still small compared with the potential seekers and demands in Ethiopia, MFIs are growing and today there are 31 MFIs and over 2.4 million outreached clients (Deriba et al., 2013: 15).

With this dynamism of ever-increasing promotion and usage of microfinance within the poorest economies of the world, however, a continuing controversy and debate is going on the impact microfinance actually brought on poverty alleviation and role in bring about sustainable development. In this respect, Hulme indicates that “Microfinance programs and institutions are increasingly important in development strategies but knowledge about their impacts is partial and contested.” (2000: 79). Accordingly, the available literature does not agree on the impacts of microfinance on the poor’s’ livelihood. Some (Littlefield et al., 2003 and Dunford, 2006) advocate the positive aspects of microfinance in that it is significantly improving the livelihood of the poor. On the other hand critics (Hermmes and Robert 2007; Scully 2004; Simanowitz 2002; and Ciravengna 2001) doubt that microfinance has achieved considerable improvement in the situation of the poor. Hence, the matter still invites for empirical in-depth investigation.

Though not sufficient, along with the outreach and developments of MFIs in Ethiopia, studies have been conducted with various contents. The studies conducted so far mainly emphasize on impact and role of microfinance on women empowerment. Among the studies on impact of microfinance on poverty are (Fiona, 2000; Bamlaku, 2004; Abebe, 2006; Seyd, 2007; Kassa, 2008; and Ayelech, 2010). Himanot (2007) and Muleta (2008) conducted studies on the role of microfinance on women empowerment. While Jemale (2003) studies the factors that influence microfinance loan repayment, Shimelles and Zahidula (2009), Befekadu (2007), and Getaneh (2005) attempts to explore the challenges faced by microfinance in Ethiopia.

By cautiously analyzing the aforementioned studies on microfinance in Ethiopia there are gaps. Firstly, the studies conducted so far in microfinance are of much more general aspects (mixing urban and rural dwellers at a time) than here intended. Since smallholders possess their own typical socio- economic feature, they deserves a separate study in their interaction with development instruments like microfinance. Secondly, most of the studies also are of a quantitative approach and hence, they lack in-depth investigation by focusing on a

particularly socio-economic setting. Thirdly, most of the studies conducted so far repeatedly emphasized a few regions of Ethiopia: Addis Ababa, Amhara, and Oromia. Hence, the microfinance system operating in Southern Nation Nationalities and Peoples Region (SNNPR) is not give due emphasis. Particularly no attempt has been made to study the microfinance program operating among the Gurage People where smallholders are mainly dependent on a perennial single crop –*enset*, landholding is small and fragmented, and farming is undertaken by *maresha*. So, a study to see the impacts and challenges microfinance program operating among *enset* culture people is needed because “there is no one size that fits for all.”

Therefore, this investigation is conducted to fill the above mentioned gaps. It will be an attempt to deeply investigate the interaction between microfinance and smallholders among the *enset* cropping Gurage people. For this purpose only one *Kebele* of Cheha *Woreda*, Enata and Omo Microfinance of Cheha Sub-branch will be taken as a case study to examine the issue in-depth. The study is guided and intended to address the following research questions:

1. What are the driving forces behind Gurage *Enset* culture smallholders to access microcredit in a situation where informal financial institutions like *iqub* and *iddir* are widespread?
2. What impact did Omo Microfinance so far bring into smallholders livelihoods where there is small and fragmented landholding, and farming by digging stick and *enset* production for subsistence characterizes smallholders?
3. Do smallholders in Cheha repay the used credit successfully with the income they generate from it?

1.3. Objectives of the Study

1.3.1. General Objective

The overall objective of this study is to explore and examine the situation of *enset* cultivating smallholders who are interacting with microfinance development scheme.

1.3.2. Specific objectives

This investigation specifically aims to:

- uncover the factors responsible for *enset* cultivating smallholders credit request in Cheha where traditional savings and credits sources are widespread
- examine smallholders' usage of the accessed loan from Omo Microfinance from a gender perspective
- explore the positive and negative impacts of Omo brought in the livelihood of smallholders in Cheha in terms of agricultural productivity, diversifying sources of income and minimizing exploitation of smallholders by money lenders
- examine the repayment situation in the Cheha's setting
- identify the challenges that hamper the effectiveness¹ of Omo Microfinance in its interaction with smallholders in Cheha

- Assess the attitudes of *enset* cultivating smallholders towards Omo Microfinance in study area.

1.4. Research Methods and Fieldwork

1.4.1. Research Approach

Since the research conducted concerning microfinance in a more general aspect and inclined more to a quantitative research, the research approach applied in this investigation is mainly qualitative aimed at generating detailed information and analyzing the issue deeply. For this matter, by concentrating on the interaction of smallholders with Omo in Cheha *Woreda* and particularly focusing on one *Kebele*, the used data collection instruments are participatory observation, FGD, in-depth interview and also case studies. Besides, the detailed information gathered through these tools, secondary sources like books, journals, thesis, and relevant internet webs are explored and consulted to consolidate the primary data. Accordingly, data is analyzed in descriptive and narrative way.

1.4.2. Target Population and Sampling Techniques

¹ Effectiveness can be measured by the objectives of microfinance in a rural agricultural setting. The objectives of MFI are: facilitating agricultural productivity; liberating poor households from the exploitation of money lenders; and diversifying sources of income of poor farm households. Hence, in this study the effectiveness of OMFI of Cheha sub-branch is measured whether these objectives are achieved or not.

The target groups of this study are those smallholders who are in Cheha *Woreda* whose life is sustained by mainly *enset* cultivation with a few livestock rearing. Particularly this study targeted Enata *Kebele* smallholders who are accessing microcredit from the *Woreda's* OMFI, Emdibir sub-branch. Cheha *woreda* is selected for this research because it is the leading *Sebat-Bet* Gurage where land holding is very small (less than two hectare in average), crop diversification is minimized and dependence on *enset* cultivation is much high, farming it in a more traditional way. Similarly, in addition to all these features characterize smallholders the particular study *Kebele*, Enata, it is one among the largest clients of Omo existing and the *Kebele's* land holding per household is less than the *Woreda's* average (on average it is around one hectare).

So in this study, Enata *Kebele* serves as particular point of reference. According to the head of the *Kebele*, the total population of the *Kebele* is around 2900 and the households (*abawera*) are around 300. Of the households around 140 are currently interacting with Omo Microfinance. There are others who withdraw after interacting and, according to the *Kebele's* head, households so far having not interacted with Omo are very few. In this study all in all 45 informants were selected. Of these 15 are female and the rest are male. Out of the total 45 informants, 36 smallholders (households) are the main focus of the study. of these 24 are mature/active clients of OMFI; 5 are in-coming clients, and 7 are withdrawals from Omo after interaction. And the rest 9 are key informants, *Kebele's* administrative head, *Woreda's* administrative officials, and OMFI Cheha Sub-branch manager. To screen out and include all the necessary diverse participants of the study, purposive sampling technique is used in this study.

1.4.3. Data Collection Methods

1.4.3.1. Primary Data Collection Methods

Both primary and secondary data sources are used in this study. To generate sufficient data to address all the objectives of the study, in addition to consulting secondary sources, a combination of data collection tools are employed in this study

I. In-depth Interview

In-depth interview is one of the important data collection instrument in anthropological research. Because it requires repeated face-to-face contact, spending lengthy times between the researcher and the informants, the in-depth interview assures corresponding understanding and accurate information (Kumar, 2005: 124). To deeply understand the major issues in the research, key informants are selected and in-depth interviews are conducted with diverse participants of the research. The key informants are selected based on their age; experience and long live in the study area. To grasp the general socio-economic scenario of the study area, elders and administrative officials of the *woreda* are interviewed. Moreover, an independent in-depth interview is carried out at house hold level to assess the factors behind smallholders' quest for microfinance; usage of the credit among the clients; the impact the credit brought in the households; the smallholders' repayment process and the problem they face; and smallholders' attitude toward Omo Microfinance Institution which they are contacting. The informants for in-depth interview are selected purposely after a list of interacting households with Omo Microfinance is accessed from OMFI of Cheha Sub-branch.

II. Focus Group Discussion (FGD)

“Focus groups are formally organized, structured groups of individuals brought together to discuss a topic or series of topics during a specific period of time.” (Monette, Sullivan and Dejong, 2008:185). It helps to examine the perception, experiences, and understanding of a group of people who share a similar experience in common in terms of a particular situation (Kumar, 2005: 124). Focus group discussion utilizes group interaction purposely to produce rich data which is not accessible without group interaction (Morgan, 1988:12). By creating a conducive discussion environment for smallholders to share their experience, their situation and to examine the general view of the group about Omo Microfinance in their *Kebele*, FGDs were carried out in this study. Particularly the group discussion focused on assessing experiences and what smallholders witnessed on their lives and others concerning impacts of microfinance, on what activities Omo credit is productive and unproductive, group attitudes towards microfinance, to explore the challenge that affect them in their interaction with Omo. For this purpose two FGDs are carried in Enata. While one FGD consisting eight members (five men and three women) is carried out among mature clients

who are still continued as accessing credit from OMFI, the second FGD consisting seven members is carried out among withdrawals(three women and four men).

III. Participant Observation

“Observation involves the systematic viewing of people’s actions and the recording, analysis and interpretation of their behavior” (Gray, 2004: 239). “Observation provides an opportunity to get beyond people’s opinions and self-interpretations of their attitudes and behavior towards an evaluation of their actions in practice.” (ibid: 238). To immerse into the lives of smallholders and make rapport to generate detail information on the issue under study, participant observation is used in this study. Since the field work is carried out when smallholders are busy with in the annual *enset* cultivation time, I tried to approach the farmer in participating in their farming activities. To enhance the relation and rapport, I actively attended in the regular neighbors’ coffee drinking took place every morning (*yekere kawa*) and night (*yegepat kawa*). Moreover, to make the collected data reliable and concrete, after the rapport is made, house condition, living conditions and agricultural fields of smallholders who are interacting and interacted with Omo Microfinance is observed to cross check what informants orally taking concerning particularly the impacts of Omo in their livelihood.

I. Case Studies

Case study serves as one important data collection method. “The case study method is an approach to studying a social phenomenon through a thorough analysis of an individual case” (Kumar, 2005: 113). It offers an opportunity for intensive analysis of detail issues which are not addressed by other methods (ibid). So for intensive and detail analysis case studies are selected and used in this study. Important cases indentified through the FGDs, in-depth interview and participant observations are used to back up analysis and arguments. Diverse case studies are used in the analysis under different topics like factors for smallholders request for microcredit, the usage of loan, the problems of the individuals households faced in repayment process, the impact the credit brought at household level to make the discussion more concrete and illustrative. all in all, nine case studies are used in this study.

II. Ethnographic Conversation

Besides the above mentioned data collection tools, informal discussions were also made throughout the fieldwork. To extract sufficient data and grasp the studied issues in-depth, I had continuous conversations with diverse groups in the study area. Young boys and girls, family members, elders, the *Kebele's* administrative staff and others who now the issues of microfinance is interacted and informal discussions were carried out when ever opportunities are created. This helped me to generate sufficient data and cross check data coming from diverse groups.

1.4.3.2. Secondary Data Collection Methods

To understand and build up the conceptual framework of the study issue, pertinent literature from secondary diverse sources were extensively read and used throughout this thesis. Accordingly books, journals, research reports, thesis and relevant internet sources are explored and used wherever necessary to enhance the discussion. Statistical data on microfinance clients of the study area and documents relevant to help grasp the overall socio-economic scenario of the studied people and area were collected from the studied *Kebele* and *woreda's* Omo Microfinance office and administration.

1.4.4. Selection of Field Site and Fieldwork

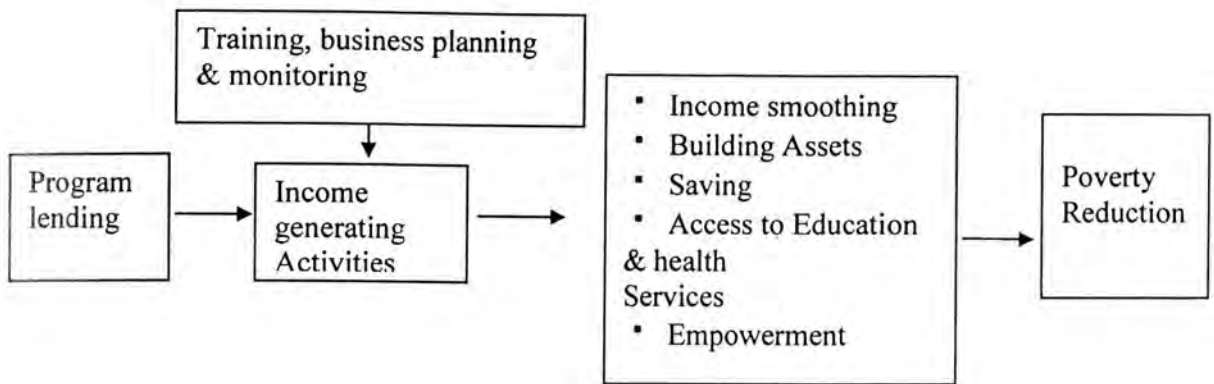
To collect the necessary data, I carried out a fieldwork spending in total two months and two weeks. The fieldwork was carried out in two rounds. The first round took place for two months and one week, the whole January and February and the first week of March, 2013. It is in this time I introduced myself to all the bodies, like the informants of the *Kebele*, administrative bodies of the *Kebele*, the *Woreda* and the Omo staffs who participated in this study. Having approached and contacted all the different bodies, the necessary data were collected from them. After having undertaken a first phase of the fieldwork, I came back to Addis Ababa to check up the collected data and identify gaps. To cover the identified gaps and collect additional data on some issues, I conducted a second round fieldwork. For this time only one week was spent in the study area at the end of March.

The field work was conducted in Enata *Kebele* which is one among 39 rural *Kebeles* in Cheha *Woreda*. The total population of the *Kebele* is around 2900 and the households (*abawera*) are 300. The *Kebele* falls totally under the *weyena dega* (mid-wet) agro-ecological zone. This *Kebele* has been chosen because I have some background knowledge of this *Kebele* and somewhat I am more familiar with this *Kebele* than with others, though I have long been out of the area. Secondly the *Kebele* is one among the leading Omo Microfinance rural clients concentrated. Of the total households in the *Kebele*, 130 households are currently interacting with it and many other withdrew after having interacted. There are still households interacting with other MFIs in the *Woreda*. all in all the households that so far left not interacted with MFIs be it with Omo or others are very few. Despite this, the *Kebele* is indentified where landholding is very small and fertilizer intake is the least in the *Woreda* according to *Woreda's* Agricultural Office and the *Kebele's* head.

1.4.5. Data Analysis

Since the data were collected through qualitative data collection tools, the analysis accordingly is qualitative. The writing style applied in this study is descriptive and narrative. Data collected through in-depth interviews, FGDs, case studies, participant observation, and ethnographic conversation throughout the field work are described, examined and enhanced through the narrated case studies. The analysis of data from the fieldwork is comparative and is also backed from relevant literature taken from secondary sources.

Below is analysis model that displays how variables interact in a microfinance scheme to mitigate poverty. Microfinance as a development approach targets on poverty reduction through program lending (mainly providing loans). The loan is giver for those household who are indentified as poor but have the potential to generate income if they are give loans with training and monitoring on the usage of loan, business plane, assessing the productivity of the loan. Generally, the end result of giving credit is to reducing poverty through income generation, building assets, mobilizing saving and facilitating education and health services. Thus, this model is adopted as an analysis framework in this study.



Source: Adopted from Bamlak (2006: 7).

1.5. Significance of the Study

This study will have significance for many parties: Firstly, though this is not my first experience in conducting research, the fieldwork approach applied in social anthropology is the exposure in my MA study. Hence, the experience has a contribution to me to undertake a good exercise for anthropologically investigations. Besides, the relative long fieldwork stays which demand the interaction with many individuals and various situations will help acquire lessons for future life and anthropological investigations.

Secondly, since a separate comprehensive study on the interaction between the microfinance and smallholders in Ethiopia is scanty, this study can contribute to the literate in this respect. Moreover, the interaction of microfinance particularly in the *Enset* culture of the Gurage people can contribute to the understanding of situation which is different from other areas; this study will have a particular significant in indicating the effectiveness of microfinance and challenges in such a scenario. In doing so, OMFI and other MFIs operating in Gurage rural areas, may take lessons from this study to critically see their interaction with rural smallholders to achieve their objectives of improving the livelihood of poor farm households.

Thirdly, this study will come up with findings that may serve as a spring board for those interested to conduct further investigation in the area in related issues.

1.6. Limitations of the Study

This study is not free from challenges. The first limitation of the study is that though there are 39 rural *Kebeles* in Cheha *Woreda*, only one was selected for this study. The shortage of finance and time keep me to focus on one rural *Kebele* among the 19 *Kebeles* outreached by Omo Microfinance. This limitation is covered by the selection of the area where a density of Omo clients exists and I have embraced diverse informants in the study *Kebele*. Moreover, there is also asymmetry in the socio-economic situation in the Cheha *Woreda's* rural *Kebele* particularly in the mid wet situated regions.

The second constraint is, since the time when the fieldwork was carried out is the most important harvest time (*gure*) in the study area, when the annual *enset* cultivation took place, informants cannot easily be accessed at any time. The informants I accessed in some specific time in the morning and early evening particularly in the first months of the fieldwork. Hence, interview times were arranged mostly in the early morning and early evening. Besides, so as to save the time of the informants, interviews were carried out while farming took place, and evening times that were used for coffee drinking when everybody was relaxed.

The other limitation is that since the rural Cheha are not yet electrified, reading and using a laptop at night was impossible. So this forced me to minimize and use the day-times effectively. The other challenge was the distance between the Enata *Kebele* and the *Woreda* which took almost 4 hours on foot for going and back. This problem was overcome by staying in the capital of the town, Emdibir, for two days when ever I go there to collect all the necessary data rather than going daily.

1.7. Ethical Considerations

The ethical issues are given due emphasis throughout the fieldwork. The different participants were informed about the purpose of this study and data were collected from informants only after securing their permission. Hence, no informant in this study is threatened and forced to an interview and to give information. The confidentiality and

personality of informants is kept. For this purpose, the actual names of the informants are not used, rather a code name is preferred.

1.8. Thesis Organization

This thesis is organized in six chapters. The first chapter is the introductory section where I present subtopics like background of the study, statement of the problem, objectives, significance and limitations of the study. Besides, the research methodology applied in this investigation is clarified in this chapter.

The second chapter is limited to the review of related literature. Under it I attempted to build up conceptual frameworks for smallholder agriculture, microfinance and other issues that revolve in the interaction between microfinance and smallholders. After intensively reviewing the literature, gaps were identified that are to be covered in this study.

Chapter three embarks on the analysis part by introducing the background of the study area. It goes through touching important aspects to give an insight about the studied people and area. The topography, demography, the origin of the people, political aspect, and socio-economic structures in the Cheha *Woreda* are treated and a brief account is presented. The section also assesses informal financial institutions prevailing in the studied area to make clear the next two important chapters that deal with the interaction of smallholders with Omo Microfinance.

The two important analysis parts center on chapter four and five. In chapter four, the factors that lead smallholders to access Omo microcredit, the client selection process, the usage of the credit, the repayment situations of the smallholders in the study area are discussed. The fifth chapter assesses the impact brought by Omo Microfinance in the livelihood of smallholders in Enata, challenges that hamper the effectiveness of Omo in smallholders' life, and it also examines the attitudes of the studied Enata smallholders dwellers to Omo Microfinance they have been interacting with.

The last but not least chapter is chapter six, which is devoted to summarize the important findings and conclusions of this study.

CHAPTER TWO

LITERATURE REVIEW

2.1. Smallholders: Definition and Typical Feature

As Ellis (2007:3) indicates, over one billion people of the world population belong to peasant households. The peasant farming is also called smallholder agriculture, family farming, subsistence farming, and low-income farming (Salami et al., 2011: 8; and Krishna, 1977: 13). Such economic activities characterizes developing countries, among the total peasant population, Africa alone has a share of seventy percent (Ellis, 2007:3). The case studies on four east Africa countries: Kenya, Uganda, Tanzania (Salami et al., 2011) reveal that smallholder farming constitutes about 75 % of the agricultural production and employs over 75% of the population. Indeed, smallholders' production and animal husbandry in Africa has a pivotal role in providing food to their population, being the main stay of the population, export earnings for themselves and government (Krishna, 1977: 13). The Ethiopia case is not different from this fact.

Having this general view about smallholders, let us see the definitions and characteristics of smallholders. Netting (1993: 2) defines smallholders as "rural cultivators, practicing intensive, permanent diversified agriculture on relatively small farms in areas of dense population." According to him, in such farming systems, the family is the centre of planning, decision-making and implementation. Morton (2007: 2) uses smallholder agriculture to describe "rural producers, predominantly in developing countries, who farm using mainly family labor and for whom the farm provides the principal source of income."

Smallholders as socio-economic category, have their own typical features that distinguish them from other economic activities. (Burgess, 1997:128) gives the following general characteristics:

They encounter a range of ecological conditions and accept considerable risk by planting crops in regions with erratic rainfall patterns. The majority lives in zones suitable only for semi intensive cultivation, drought-resistant crops, and livestock. Although smallholders work plots of generally less than four hectares, many experience a shortage of draft power, farm equipment, and fertilizer that prevents them from fully cultivating this small area. Even though families are large, family labor often cannot compensate for the lack of assets; poorer farmers hire

themselves out as casual laborers to compensate for production shortfalls, while farmers with sufficient land and draft power hire poorer farmers.

Yilkal (2003: 12), also recognizes that smallholders as a socio-economic concept is characterized by small and fragmented farmland using family labor along with animal husbandry.

African smallholder farmers can be categorized on the basis of different criteria. (Dixon et al. in Salami et al., 2010: 8-9) categorize them on the basis of the agro-ecological zones in which they operate; the type and composition of their farm portfolio and landholding; and on the basis of annual revenue they generate from farming activities. Accordingly, in high population densities area, smallholder farmers usually cultivate less than one hectare of land and among the sparsely populated areas, smallholders may possess 10 hectare or even more in combination with livestock of up to 10 animals (ibid.). On the basis of farm revenue, smallholder may vary from producing crops only for subsistence to those in developed countries earning as much as USD 50,000 a year (ibid.).

Based on the above classification, the study area - Cheha *Woreda*, is characterized by smallholders with the cultivation a plot of land, on average less than two hectare with few animal husbandry.² Thus, in this investigation the term smallholder agriculture is used to describe those households holding less than two hectares of land and with livestock rearing 1-4. Besides, smallholder farming is operated on fragmented land, using family labor, and production mainly goes for the smallholder for family consumption and farming is undertaken traditionally, by using human power rather than an animal driven plow.³

2.2. Microfinance: Conceptual Framework

Though the concept of microfinance is not new, it is in the last three decades that it appeared in its modern form. It has long been preceded by informal financial institutions that have been operating throughout the world. The term Microfinance is defined in different sources in a similar way. Microfinance in its broader sense refers to:

² Specifically, in Enata Kebele where the fieldwork was carried out, the average landholding per household is not more than a hectare.

³ Farming in the study area is carried out using the traditional implement called *maresha* (digging stick).

Small scale financial services - primarily credit and saving- provided to people who farm, 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 commission; who gain income from small amounts of land, a vehicle, draft animals or machinery and tools; other individuals or groups at the local level of developing countries, both rural and urban (Robinson in Narayana, 2007: 8-9).

Another broader but more specific than the above definition is, “microfinance is a term used to describe financial services to low income individuals to those who do not have access to typical banking services.” (<http://www.cgap.org>).

Breaking down the above general definitions, microfinance could be understood looking at it from specific perspectives. From the perspective of the service it renders and its target group, “microfinance is the supply of loans, savings and other basic financial services to the poor.” (ibid.). Hence, poor households are the main targets of microfinance services.

From the entrepreneur’s perspective, “Microfinance involves providing financial services to the entrepreneurial impoverished, to help them establish or expand a small, self-sustaining business” (<http://www.amifi.org/index.php/en/news>). Similarly, the World Bank defines microfinance as, “small loans that help poor people who wish to start or expand their small businesses but are not able to get banks to lend to them.” (<http://www.globalenvision.org/liberary4/10501>). So, the impoverished entrepreneurs are those people who are identified having the potential of generating income and lifting themselves from poverty if there are served by credit access. From development aspect, microfinance is also treated as constituent of development finance (rural or urban) focusing on specific groups of people who are in the lower strata of society (<http://www.cgap.org>). Such services are given by MFIs, being non-profitable; it can be an organization in the form of credit union, down-scaled commercial bank, financial NGOs, or credit cooperative (ibid.).

All in all microfinance revolves around the rendering of small scale financial services (mainly providing microcredit and saving) purposively to the poor or low-income society. The poor may be in urban or rural setting recognized potential of lifting themselves out of poverty if they are given the opportunity to access financial services compatible to them.

The poor may be impoverished entrepreneurs, smallholder farmers, and poor women, and poor self-employed and unemployed sections of society. Such groups of people are denied access to formal banking because they require high guarantees the poor cannot afford. Besides, albeit the informal financial sectors like private money lenders have long been operating in developing countries, they demand a high interest rate and are exploitative. Thus, by taking into account these financial obstacles that the impoverished society faced, the objective of MFIs is to offer optional financial services to the poor to help improving their living conditions. “The objectives of MFIs are quite similar across organizations. They focus on reducing poverty and vulnerability of poor households by increasing agricultural productivity and incomes, diversifying off farm sources of income, and building household assets.” (Sebstad, 2003: 6).

2.3. Microfinance: Its Evolution

The evolution of microfinance in its modern form is preceded by many developments that eventually give the birth of the contemporary MFIs. It was since the 1970s, that microfinance emerged in its modern form with its renewed interest that recognizes the poor households have various demands for financial services (Narayana, 2007: 8).

For several centuries, informal saving clubs and burial societies have been operating throughout the world which still characterizes the financial landscapes of developing countries (ibid.). Similarly, saving and credit groups like *Susus* of Ghana, *Chit Fund* in India, *Tandas* in Mexico, *Arisan* in Indonesia have been functioning for several centuries (<http://www.microfinanceinfo.com/history-of-microfinance/>).

Formal credit and saving institutions that provide small loans to the poor who are excluded by the formal banks were also initiated in the 1700s and mushrooming in the 1800s particularly in Ireland. In the 1800s, several larger and more formal types of such institutions emerged in Europe primarily organized among the rural and urban poor. People's Banks, Credit Unions, Saving and Credit Co-operatives were the names given for the credit and saving institutions (ibid.).

In the 1900s, with different adaptations approaches, the credit and saving institutions were applied in rural Latin America envisioning particularly modernization of the agricultural sector by mobilizing savings and increasing investment through credit, and discarding oppressive feudal relations that were enforced through indebtedness. The attempt ended up without fruit as a result of inefficiency and abusive (ibid.).

In the 1950s and 60s, aiming at raising agricultural productivity and incomes, governments and donors in various developing countries attempted to offer subsidized agricultural credit to poor and marginalized farmers. However, in the 1970, this instrument was found unproductive because the agricultural subsidized credit was challenged by high administration costs, poor repayment discipline, and misdirection of credit to wealthy farmers rather than to targeted poor (Narayana, 2007: 9).

This historical situation paved innovation of financial alternative that could facilitate agricultural productivity by overcoming the diverse financial demands of rural poor households. In 1970s, experimental programs were launched in Bangladesh, Brazil, and other countries that offer small loan serving specifically poor women that is exclusively invested on income generating micro-business. This model was known as ‘microenterprise lending’ applied on solidarity group in which every member of a group guaranteed the repayment of all members. This model became successful and it resulted in the emergence of nongovernmental organizations (NGOs) that provided financial services for the poor (ibid.).

Among such experiments that emerged successful and became a model to be applied across developing countries in the subsequent years was the Grameen Bank, founded by Professor Mohammed Yunus.⁴ Yunus, a Bangladeshi economist who believed microcredit services backed up by supervision and regulation, can improve livelihood of poor households particularly women. Consequently, he came to establish the Grameen Bank. How Yunus come to establish the Grameen bank, Bamlaku (2006: 4) provides the following description:

⁴ Pioneering of modern microfinance is credited to Yunus. In his attempt of experimenting with micro lending to poor women in Jorba, Bangladesh in 1970s, he found that the women were successful and subsequently he founded Grameen Bank in 1983 and for his achievement, he was awarded the Nobel Peace Prize in 2006(<http://globalenvision.org>)

While he was on a fieldtrip to an impoverished village with his student, he met a woman and interviewed her. She was making a living from the sale of stools (prepared from bamboo). From the interview he understood that the woman would raise herself above subsistence level if she were given the loan with a more advantageous rate: then he did it from his pocket. Then he formally established the Grameen Bank in 1983.

In 1980s, microcredit programs expanded throughout the world, and improved their lending methodologies. Consequently, the clients were able to repay the loan with interest rates that enabled the institutions to cover their operational cost.⁵ In the 1990s, “many of these institutions transformed themselves into formal financial institutions in order to access and on-lend client savings, thus enhancing their outreach.” (<http://www.cgap.org>). Thus, in the mid, 1990s the term “microcredit” was replaced by “microfinance” wishing it embraces a range of financial services, in addition to credit, it also offers saving, insurance, money transfer and other services.⁶

In the 1990s and subsequent years, microfinance was increasingly recognized as anti-poverty tool and MFIs and clients showed a remarkable growth.⁷ According to Daley-Harris (2006 in Hermes and Robert, 2007, 462), between the years 1997 and 2005, the number of MFIs drastically rose from 618 to 3,133. And the people who accessed MFIs rapidly increased from 13.5 million to 113.5. Various important developments played a pivotal role in galvanizing the international community and governments, donors that thought microfinance is better alternative to lift up the poor households from poverty track by offering diverse financial services compatible to them. Among the important events were the Global Microfinance Movement,⁸ Microcredit Summit Campaign (MCSC)⁹, and the launching of the International Year of Microcredit in 2005. (Narayana, 2007: 11).

Furthermore, the awarding of the Nobel Peace Prize 2006 both for Mohammed Yunus and Grameen Bank heralded wider recognition and acceptance of microfinance as strategy for

⁵ <http://www.globalenvision.org/library/4/1051/>

⁶ *ibid.*

⁷ <http://www.microfinanceinfo.com/history-of-microfinance/>

⁸ Initially, started with microcredit in few countries aimed at expansion of microfinance, it eventually enabled to galvanize the involvement of many countries and multilateral institutions. This movement culminated in the evolvment of the International Year of Microcredit in 2005.

⁹ Commenced in 1997 with the involvement of charitable foundations, policy makers, and practitioners and it was adhered that microfinance is one of the key strategies in reducing poverty.

poverty alleviation (Wolday and Naryana, 2007: 4). It also trusted by the global community as one important instrument to achieve Millennium Development Goals (MDGs) (Narayana, 2007:10).

2.4. Impacts of Microfinance on Poverty

In the last three decades, microfinance with its broader objective of alleviating poverty, it envisioned reducing poverty and vulnerability of poor households by increasing agricultural productivity and incomes, diversifying off farm sources of income, and building household assets (Sebstad 2003: 6; and Kejela et al, 2008:3). With the rigorous application and expansion of the MFIs, one of the important issues that have been emerging is whether or not microfinance played significant role in poverty reduction. Consequently, the impact issue remained debatable and hence, researchers in the area developed both pessimistic and optimistic views in impacts of microfinance on the livelihood of poor households.

Adherents of microfinance can significantly reduce poverty stress that credit access allows poor people to have better economic opportunities; credit also serves important basis for planning and expanding business activities; by reducing vulnerability and increasing earnings and savings, microfinance services permits poor households to make the transformation from "every-day survival" to "planning for the future."; by increasing earnings and diversifying income sources, microfinance ensure education, better nutrition and better living conditions (Bamlaku, 2006:8)

Poor people, with access to savings, credit, insurance, and other financial services, are more resilient and better able to cope with the everyday crises they face.microfinance can smooth consumption levels and significantly reduce the need to sell assets to meet basic needs. With access to micro insurance, poor people can cope with sudden increased expenses associated with death, serious illness, and loss of assets (<http://www.cgap.org>).

In Bangladesh, Bangladesh Rural Advancement Committee (BRAC) clients increased household expenditures by 28% and assets by 112%. The incomes of Grameen members were 43% higher than incomes in non-program villages; the weekly income of FINCA clients, in El Salvador increased on average by 145%; half of SHARE clients, in India came out of poverty; in Ghana, 80% of clients of Freedom from Hunger had secondary

income sources, compared to 50% for non-clients; Save the Children clients in Vietnam, reduced food deficits from three months to one month; the average income of Bank Rakyat Indonesia (BRI) borrowers, in Lombok, Indonesia, increased by 112%, and 90%(<http://cgap.org>)

The success of microcredit can be compromised in several situations. Hence, microcredit may be inappropriate in some conditions such as geographically dispersed populations, an area with high incidence of disease like HIV/AIDS, dependence on single economic activity or single crop are susceptible to failure. In these cases, grants, infrastructure improvements or education and training programs are more effective. For microcredit to be appropriate, the clients must have the capacity to repay the loan under the terms (ibid.).

2.5. Microfinance Institutions Lending Models

MFIs use varied lending methodologies: group and individual lending; village banking, rotating fund; and solidarity group /non-traditional collateral (Berhanu and Thomas, 2000: 14). Among these, individual and solidarity lending are widely practiced ones. Concerning the individual lending, microloans are given directly to the individual borrower and it does not require the formation of groups, or generating peer pressures to ensure repayment (Kejela et al., 2008:44). “The individual model is, in many cases, a part of a large ‘credit plus’ where other socio-economic services such as skill development, education, and other outreach services are provided.” (ibid.).

In the case of the solidarity group based lending approach, generated from the Grameen Bank in Bangladesh, MFIs require the formation of a group to offer a credit. The aim of the lending approach is minimizing transaction costs, ensure repayment, and overcome the problem of physical collateral requirements of conventional banks, by collectively addressing the loan needs of clients. To provide loans, MFIs applied this approach and requires members to form a group consisting members of five to eight ¹⁰and then, a group cross -guarantee one another’s borrowing, as they are believed to have reliable personal knowledge of their fellow group members. If a borrower defaults his/her loan, the entire

¹⁰ In the study area, Omo microfinance institution has the same approach, a group consisting from five up to ten. In most cases in a group there are five members.

group is going to be penalized. Besides, cross-guarantees from the member of the group provided towards one another ensure repayment, this approach also demand compulsory saving (Wolday, 2007: 29-30).

2.6. The Emergence and Development of Microfinance in Ethiopia

Formally, MFIs started its operation in Ethiopia lately compared with its emergence as promising antipoverty development tool in the 1970s. The modern microfinance in Ethiopia like elsewhere is also preceded by the traditional/informal financial landscape. Tradition saving and credit sources like *Iddir* and *Equb* have been serving as important credit and saving sources which are still functioning throughout Ethiopia. However, the informal sources have many drawbacks. In first place, they do not offer sufficient and affordable finance for business to trigger economic development. Besides, the individual money lender (*Arata Abedari*) demands high interest rate and is only preferred in the absence of any better alternative (Getaneh, 2005: 8).

To offer better financial service that could serve the interests of poor rural households and impoverished entrepreneurs, Ethiopia witnessed the first microfinance service in 1994/5 (ibid.; and Bamlaku, 2006: 5). Microfinance was seen as an economic facilitator tool in Ethiopia, when the Relief Society of Tigray (REST) attempted to rehabilitate drought and war affected people through rural credit approach became successful. This success was followed by formulation of the legislative framework that regulates the establishment and operation of MFIs in Ethiopia (Berhanu and Thomas, 2000: 15).

Accordingly, Microfinance institutions are legally established and regulated under Licensing and Supervision of Microfinance Institutions Proclamation No. 40/1996. MFIs established in line with this proclamation are allowed to access deposits and make micro-loans. Besides, it also provides for regulation and supervision of MFIs and The National Bank of Ethiopia (NBE) is given the authority to license and supervise MFIs in Ethiopia (Getahun, 2000: 74). This proclamation bared the involvement of international organizations/NGOs in the micro-financing business, they rather establishes MFIs by being shareholders and gave nominal shares to individuals working in the mother NGO and affiliated institutions (Wolday 2008 in Deribie et al, 2013:13).

Following the issuance of the proclamation, microfinance schemes have been expanding in Ethiopia during the past ten years, including rural villages, where the majority of the people are engaged in small-scale agriculture (Getaneh, 2008: 117). As Deribie et al. (2013: 10) described, “The Ethiopian microfinance sector is characterized by its rapid growth, an aggressive drive to achieve scale, a broad geographic coverage, a dominance of government backed Microfinance Institutions (MFIs), an emphasis on rural households, the promotion of both credit and savings products, a strong focus on sustainability and by the fact that the sector is Ethiopian owned and driven.” According to Wolday (2007: 1), in June 2005, the twenty six deposit taking MFIs had an active loan portfolio of about 1.5 billion birr (58 million USD) provided to 1,211, 305 active clients. After six year in 2011 MFIs operating in Ethiopia reached 31; the client being served are over 2.4 million; and credit disbursement is 6.9 billion Birr (Deribie et al., 2013: 13). Microfinance institutions are non-profit oriented centered on alleviating poverty and provides uniform credit and saving products to all clients. Most of the clientele served by the MFIs in Ethiopia are the rural poor and about 38 percent of the clients of the MFIs are female (Wolday, 2007: 16).

By imitating microfinance approaches in other parts of the world, MFIs in Ethiopia focus on group-based lending and promote compulsory and voluntary savings (Sebstad, 2003: 6; and Berhanu and Thomas: 15). Because the poor lacks high collateral, MFIs uses joint liability, social pressure, and compulsory savings to avoid default (Sebstad, 2003: 6). In the case of compulsory saving, clients have the obligation to deposit a certain percentage of the credit as saving in the first days of credit withdrawal and monthly, while in the voluntary saving, the client is given the freedom to save whatever amount he/she wants (Berhanu and Thomas: 15). “MFIs in Ethiopia provide both non-agricultural and agricultural loans. While both types of loans are provided through group lending methodologies, the agricultural loans generally require a one-time or balloon payment at the end of the loan term, while other loans typically are paid on a weekly or monthly basis” (Sebstad, 2003: 6).

Table 3.1. Performance trends of microfinance institutions in Ethiopia, 2011

No	Microfinance Institutions	No. of borrowing clients	Amount of loans provided (Birr)
1	Amhara Credit and Saving Inst (ACSI)	694,993	1,940,827,401
2	Dedebit Credit and Savings Inst (DECSI)	396,648	1,849,942,011

3	Oromia Credit and Savings (OCSSCO)	503,000	1,280,000,000
4	Addis Credit and Savings Inst (ADCSI)	156,148	566,826,000
5	Africa Village Financial Services (AVFS)	17,359	14,974,452
6	Aggar Microfinance	5,854	19,130,224
7	Benishangul Gumuz Microfinance	28,874	51,762,087
8	Buusaa Gonofaa Microfinance	48,908	76,548,872
9	Digaf Microfinance	1,270	1,334,920
10	Diredawa Microfinance	5,923	16,285,631
11	Dynamic Microfinance Inst	261	2,224,932
12	Eshet Microfinance	24,116	40,588,029
13	Gambela Microfinance	880	1,173,831
14	Gasha Microfinance	6,991	14,736,312
15	Ghion Microfinance	233	286,268
16	Harar Microfinance	2,706	7,101,769
17	Harbu Microfinance	17,984	23,808,751
18	Lefayeda Credit and Savings	303	623,441
19	Letta Microfinance	925	4,790,020
20	Meket Microfinance	2,959	2,329,562
21	Meklit Microfinance*	14,224	23,029,053
22	Metemamen Microfinance *	10,218	8,720,938
23	OMO Microfinance ¹¹	327,888	585,102,740
24	PEACE Microfinance Inst	17,206	45,507,171
25	Shashimene eddir yelimat Agar (SEYAMFI)	4,144	10,959,365
26	Sidama Microfinance	47,810	28,334,552
27	Specialized Financial & Promotional Inst (SFPI)	33,342	50,807,161
28	Tesfa Microfinance	162	203,576
29	Wasasa Microfinance	53,981	113,970,892
30	Wisdom Microfinance*	45,331	101,205,955
31	Somali Microfinance	-	-
Total		2,470,641	6,883,135,916

Source: National Bank of Ethiopia, 2011.

* Besides Omo Microfinance, these MFIs have braches in Cheha *Woreda* and both rural smallholders and dweller are interacting with them.

2.7. Empirical Studies on Microfinance in Ethiopia

Since 1996 when the establishment of MFIs got legal ground, the sector showed a rapid growth in terms of number of institutions and interacting households. Though not sufficient, along with the outreach and developments of MFIs, studies have been conducted with various contents. The studies conducted so far mainly emphasize on impact and role of microfinance on women empowerment. Besides, there are studies which are concerned with the outreach, loan repayment, and challenges MFIs face.

¹¹ OMFI is the pionner MFI in Cheha *Woreda*. It is established in 1997 and today it outreached nineteen rural *Kebeles* in the *Woreda* and has active clients of over 2000 smallholder farmers.

2.7.1. Impact on Poverty

Among studies on impacts of microfinance on poverty is the one conducted by Fiona (2000), carried in the case of DESC (Dedebit Credit and Savings Institution) in Adigudom, Tigray. Informants both from urban and rural surroundings were taken and the study employed both a qualitative and quantitative approach. The study found:

Credit provision had a significant impact on increasing agricultural production, through build up of production assets, particularly draught oxen, and increasing the amount of land framed by clients who were able to retrieve land previously rented out and farms it by them. Some clients were able to rent in more land. Trading activities increased in scale and female clients, particularly, were able to take on trading activities which had previously has been inaccessible to them due to lack of capital. The increased income generated by the credit had positive impact on household food supply, education provision for children as well as clothing and other basic necessities (ibid.: 109).

The positive impact, however, is determined by regular access and the sustainability of the success is challenged by high level of economic vulnerability, particularly in rural areas, where economy is based on rain fed agriculture.

Bamlaku (2004), in his study “*Microfinance and Improvement in Living Standards: A Pathway Out Of Poverty: the case of Enemay Woreda, Eastern Gojjam, Amhara Regional State*” attempts to answer three questions: how well ACSI (Amhara Credit And Saving Institution) has been working regarding repayment and outreach; what welfare difference ACSI has brought on the clients and what opinion the clients have regarding the services provided by ACSI. In addition to secondary sources, data were collected through questionnaires, key informants, focus group discussions, and observations to obtain primary data. By employing qualitative and quantitative analyzing tools, the study shows that ACSI has brought positive impacts in income, consumption, asset building (particularly in urban areas) and decision making in household activities.

Another impact assessment study was the one conducted by Abebe (2006). Abebe in his work strives to find out “whether the provision of microfinance services of MFIs in Ethiopia has brought changes on the living standards of clients.” For analysis by employing an analytical approach, data was collected through structured questionnaires, focus group discussions and key informants. The study found that SFPI(Specialized Financial and

Promotional Institute) program has made a positive impact on households' income, housing conditions, asset ownership, expenditure, and diet conditions, personal savings and women empowerment; SEPI increased the enterprise production capacity; it creates employment opportunity and net profit. Thus, the study recognizes the significant share of MFIs poverty reduction and improved livelihood at household level. Moreover the study concludes that, "Strengthening the development of MFIs in Ethiopia is an appropriate and appreciated policy instrument to realize the objectives of the Poverty Reduction Strategy of Ethiopia." Syed (2007), by adopting multi-stage sampling technique, attempts to see the impact of WMFI's (Wisdom Microfinance Institution) loan on income and employment from the perspective of capital formation, asset building, saving, food security and coping up with difficult situations. The study found that MWFI service has positive effects on income, saving, asset building, food security and coping with difficult conditions. According to the study "the investment of one birr in different has generated income of 0.74 Birr; the household income increased from Birr1739 to 3674 Birr per year; the value of assets increased from 3769.45 Birr to 6652.45 Birr." To alleviate poverty and unemployment, in Ethiopia, particularly in Oromia region, the study recommended the establishment of new MFIs.

Kassa (2008), studies to check whether or not "microfinance is a good poverty reduction strategy." By taking two MFIs cases: AdCSI (Addis Credit and Saving Institution; and Wisdom) analysis is made based on design, outreach, financial performance, sustainability and impact. While the study found AdCSI efficient, profitable and sustainable MFI in the business approach, it is less efficient in the regions. In the case of Wisdom, it is found financially less efficient, productive and sustainable, but better in its development objectives. The study concluded that "Microfinance is indeed a strategy for poverty reduction in Ethiopia." Since microfinance alone can't defeat poverty, the study recommended that it needs integration with other development interventions.

By taking Addis Credit Saving Institution in Kirkos Sub City, Addis Ababa, Ayelech (2010) conducted study on "*An Assessment of the Role of Micro Finance institution in urban poverty reduction.*" The research was both qualitative and quantitative in nature. The used descriptive analysis revolved on contribution of microfinance on income which in

turn has effects on nutritional status, education fee, medical facilities, employment generation, and empowerment. The finding indicates that AdCSI program has made positive impact on the clients. The study concluded that “strengthening the existing operation with other support means of income generating mechanism would be appropriate to address the problem of urban poor.”

2.7.2. Impact on Women’s Empowerment

By focusing on ACSI, Kobo *Woreda*, Amhara region, Haimanot (2007) conducted a study on *Impact of Micro-Finance on Women’s Economic Empowerment*. Data was collected from rural women consisting of matured clients, incoming clients, and dropouts (ex-Clients) in ACSI program areas; and non-clients in program. Analysis was conducted by using both descriptive statistics and Binomial Logit regression analysis. The study showed ACSI’s has a positively impacted the living condition of its clients. Particularly, it enabled its permanent members to improve their household incomes, increased asset possession, and saving. Thus, the study indicated these positive aspects contribute for women economic empowerment which in turn enhances women participation in household decision-making.

A similar investigation of microfinance on women empowerment is undertaken by Muleta (2008), by emphasizing on OCSSCO, Hitosa *Woreda*, Arsi Zone. he used both qualitative and quantitative approaches; in the qualitative method the case study, FGD, Key informant and direct observation were used whereas in the quantitative method the household survey was used. The study revealed that OCSSCO has a significant role in terms of empowering women clients by increasing their control over resources, self-esteem, change in social position and increased community participation. According to the study, “OCSSCO’s programs have enabled its clients to build resilience against vulnerability to unintended risks and shocks and undesired livelihood outcomes through introducing coping mechanisms such as intensification and diversification of livelihood activities.”

2.7.3. Loan Repayment

By focusing on OCSSCO in Kuyu, Jemale (2003) conducted a research aimed at analyzing the factors that influence microfinance loan repayment, evaluating the loan rationing

mechanism and also assessing the impact of the program on the livelihood of borrowers. After collecting data through structured questionnaire he analyzed the data by using descriptive and probit model. The result reveals that “education, income, loan supervision, suitability of repayment period, availability of other credit sources and livestock are important and significant factors that enhance the loan repayment performance, while loan diversion and loan size are found to significantly increase loan default” (ibid.: x). Besides, the study found female borrowers were good in loan repayment.

2.7.4. Challenges of MFIs in Ethiopia

Shimelles and Zahidul (2009: 7) identified three obstacles in broader aspect that users and providers face in accessing and rendering microfinance services in rural Ethiopia. These are high transaction costs, higher risks, and social factors. High transaction cost is emanated from the fact that the rural Ethiopia is characterized by poor rural infrastructure, inadequate communication and information technology, far distance of rural areas, small loan, and small saving in rural Ethiopia. Concerning higher risks, since the incomes of the rural households depend on seasonal rain fed agriculture that is susceptible to natural disasters (such as flood, drought, plant diseases, fluctuating weather) makes rural credit risky. The social factor related with higher illiteracy rate prevalent in rural areas that impedes rural household to manage their credit risks and profitability, and MFIs working in rural Ethiopia lacks motivate and trained staffs.

Befekadu (2007, 26-27), in his study found the presence of several challenges that limit the efficiency of MFIs in Ethiopia. Some of the challenges according to the representative sample MFIs are: less saving habits, limited loan products, absence of legal title of assets in rural areas, easy dissemination of bad mouthing (some clients are not visionary; they opt for immediate benefits in illegal way), shortage of experienced human resources, and shortage of logistics in rural areas such as road, telephone, etc.

Muleta (2008), in his impact studies of OCSSCO on its clients Hitosa Woreda, Arsi Zone, despite positive impacts brought by OCSSCO, the study also indicates challenges that compromised the success of OCSSCO. These are poor infrastructure, land shortage and infertility, lack of information, low literacy, low competency, lack of hardworking and

commitment, business failure, inflexible repayment schedule and inadequacy of group lending policies etc.

Getaneh (2005), concerning lending methodologies, notes that replications of the same method primarily the Grameen approach, shows little effort to contextualize it to local realities. Among the user of microfinance services in rural Ethiopia, he also witnesses low skill achievement in business development; and they don't engage in non-traditional activities. Deribie et al. (2013) identifies that because of inaccessibility for foreign capital, MFIs in Ethiopia are offering limited types of services. Due to Lack of clarity in ownership structures in some MFIs, albeit private investors are shareholders, they are not the real owner of the MFIs. Moreover, "Lack of skilled personnel is the common problem in Ethiopian Microfinance institutions. This situation is more exacerbated by high turnover of experienced personnel either for the need of better jobs or hate to work in rural areas with minimal facilities provided as compared to urban areas which offer better living conditions." (ibid: 13).

CHAPTER THREE

BACKGROUND OF THE STUDY AREA

This chapter endeavors to give a general description about the Gurage in general and the Cheha Bête Gurage in particular. After giving a brief general description about the Gurage, it turns to give a highlight about Cheha *bête Gurage* (district), location, topography, climatic condition, the origin of the people, political and socio-economic conditions.

3.1. The Gurage People: A General Description

The Gurage are an ethno linguistic group living in the area to the southwest of Addis Ababa, the capital of Ethiopia that lies 37:30' and 38:50'E; and 7: 46' and 8:45' N (Dinberu et al., 1995:5). The Gurageland is surrounded by Hadya in the south, Silte in the east, Oromia region in the north and south east, and Yem special *woreda* in the west (Gurage Zone Culture, Tourism and Communication Affairs 2012:2). The zone covers an area of 5,593 km² and its administrative city is Wolkite which lies 155 km south west of Addis Ababa (ibid.) According to the census of 2012 by the central statistics authority of Ethiopia, the populations of Gurage *zone* is about 1,486,109 of which 723,140 are male whereas 762,969 are female.

Concerning the origin of the Gurage people different explanations have been forwarded by different scholars and oral traditions. Hence, there is no commonly agreed unanimous view on the origin of the Gurage. One explanation which has been circulating both from oral traditions and written sources is that the Gurage came from northern parts of Ethiopia particularly from Gura¹², Tigray with military expedition aimed at conquering the then Gurage province during the reign of King Amde Sion (1314-1344). Adherents of this view, further explain that *Azemach* Sebhat who led the army from Gura, after conquering the area, with his armies established a permanent settlement that eventually became isolated from northern Ethiopia (Dembiru et al., 1995:17; and Tekla, 2005:6). Hence, according to this

¹²Gura- in Gurage language it means left side and hence, the name Gurage is derived. Gurage refer both to the land and the people.

argument, the Gurage are descendants of Sebhat. Elders in the study area are in favor of this explanation¹³.

The other explanation is the one which fervently opposes the above assertion that traces the origin of the Gurage to Gura of Tigray. This group like (Barnal and Lapeso in Tekla 2005:7) argues that the Gurage are not migrants of Tigray rather they are native to the area as many people in the southern parts of Ethiopia.

The third explanation is the one which recognizes the mixture of the Gurage which is made possible by migration and military events. By recognizing the presence of native Gurage in the present day Gurageland, inevitably in different times people from northern, southern (particularly the Sidama) and eastern Ethiopia typically the people from Harar came to Gurageland and they intermarry with the indigenous Gurage in the area (Tekle, 2005:8-9). So according to this view, the Gurage are partly native and partly mixtures.

On the basis of linguistic aspect, the Gurage are divided into three groups: Western Gurage, Eastern Gurage, and Northern Gurage (Getinet, 2009:617). The western Gurage are known as the *Sebat-bet*³ (lit. seven houses to refer the seven tribes that forged a confederation). These seven tribes that form the *Sebat-bet* Gurage are: Cheha, Gumer, Muher and Aklil, Enmor-ener, Geto, Meqorqor and Endegagn (Tekela, 2005:24). Each of these tribes (*Bête-Gurage*) has their specific dialects and today they form their own administrative *Woreda* though they are commonly related in history, culture and economy. The northern sub-groups are referred by the name Kistane or Sodo Gurage and the Eastern sub-group is represented by Siltie-speaking cluster (Getinet, 2009:617). Today, the Siltie are no more categorized under Gurage umbrella, they asserted their own non-Gurage identity and established their own new politico-administrative unit at equal status with the Gurage *Zone* in the SNNPR after a referendum held in 2001 (ibid. and Tekle 2005:9).

3.2. Cheha of the *Sebat-Bet* Gurage

Cheha is one of the *Bête-Gurage* that formed the *Sebat-Bet* Gurage. As elders in the study area account, these *Sebat-Bet Gurage* are descendants of the seven sons born of the first

¹³Elders like KI01, KI03, and KI05 whose age is 69, 85, and 77 respectively in study area, Enata Kebele of Cheha *Woreda* assert that they are descendants and in blood one people who come from Gura.

Cheha *Woreda*'s elevation contrasts between 1710-2650 above sea levels. The landscape comprises of 60% plain and 40% mountainous. Based on the varying topography of the land there are different seasons and climatic conditions in the *Woreda*. Traditionally, three agro-ecological zones are found in the *Woreda*. These are 71% mild wet (*Weyna dega*), 20 % wet (*dega*), and 9% dry (*Kola*). Cheha land has a single principal rainy season (*Zer*) from early June to mid September. The rain fall is between 26ml-15 ml. The average annual temperature in the *Woreda* is from 26-15⁰c (ibid.).

3.2.2. Political Aspect of Cheha *Woreda*

Concerning the interaction of the Gurage people with the central Ethiopian government, the history goes back to the reign of King Amde Sion (1314-1344). Beginning from this time, Gurageland was a tributary province to the central Christian highland kingdom. Finally, it was incorporated into the modern state of Ethiopia in 1889 during the reign of King Menelik II. Under the Derg regime (1974-1991), Cheha *Woreda* was like other parts of Ethiopia, under the socialist system and the unitary state (Tekle 2005:9-10; Dembiru et al., 2005:14).

During the Italian military occupation (1935-1941), one segment of the Italian troops made its station in Emdibir, and Chaha served as a center to conquer and control east Gurage; and other *bête-Gurage* were supervised from this main center. During this time some administrative institution like postal office, police station, court, schools, etc were created in Emdibir aimed at facilitating the Italian administration (Dembiru et al., 2005:23-14). These institutions are still standing in their initial area and they have been giving services to the society.

With the coming to power of the EPRDF in 1991 and the establishment of federal structure, government gave Cheha *Bête-Gurage* self-governing rights. Hence, the legislative, executive and judiciary organs of the Federal Government descended into *Woreda* level and to grass roots, *Kebele* level. So, the administrative structure and organs of the government in Cheha are not different from other parts of Ethiopia under the jurisdiction of EPRDF. Like other parts of Ethiopia in general and Gurageland in particular, a feature of Cheha *Woreda* is that traditional institutions operate side by side with the structures of the modern

settler in the area. Each of them after generations becomes a tribe which in turn embraced numerous clans. Concerning those seven Gurage tribes came to forge a confederation, (Tekela, 2005:12), it was aimed at commonly defending themselves against the military attacks from their surrounding people and settling conflicts between/among them. There is no agreement among scholars on the specific time when the confederation happened.

The name Cheha originated with the people who are said to come from the northern parts of Ethiopia as the same story which is given to explain the origin of the Gurage people. The proponents of this naming make their argument concrete by creating linguistic connection (Semitic language spoken by the Gurage) and the presence of *Kebeles* named “Shaha” in Akale-Guza, Eritrea and Gondar (Dembiru et al, 2005:74).

3.2.1. Location, Topography and Climatic Condition of Cheha Woreda

Cheha *Woreda* is a province inhabited by western Gurage which is part of the *Sebat- bet*. Cheha is one among the thirteen *Woredas* and two reform city administrated under the Gurage zone in SNNPR. Its capital city is Emdibir- it is far from the capital city of Ethiopia- Addis Ababa by 188km; from the regional capital city-Hawassa by 469 km; from its zonal administrative city–Wolkite by 30km. The relative location of Cheha *woreda* from its neighboring *Woredas* is identified south of Ezha, north of Enemor-Ener, south east of Oromo, north-east of Abshega, west of Gumer *woreda* (Statistical Office of the *Woreda*).

As the data from the Statistical Office of the *Woreda* reveals, as of the year 2012, the total population of Cheha *Woreda* was 126,298. Of this figure 643, 798 are female and 517, 500 are male. From the total population of Cheha, 116, 831 people live in rural area, where as 9767 people settled in rural towns of Cheha. Population growth rate of Cheha is 2.9% and population density is 252.2 people per KM².

Cheha *Woreda* covers an area of 44072 hectare. Of this, 22710 hectare of land is cultivated; 1465 hectare of land is reduced for grazing; 5198 hectare of land is covered by manmade tree; 679 hectare of the land is covered by natural forest; 4058 hectare is reduced for residence; water bodies take their share by covering 199 hectare of land. Other portion of the land is being covered by governmental and non governmental institutions (clinics, hospitals, schools etc.), religious institutions and others (ibid.).

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state agencies to administer the affairs of the society. Traditional institutions have a long history compared with the modern ones which were introduced to Gurageland since its incorporation into the central Ethiopian state in 1889 (Getinet, 2009:617).

The traditional institutions which are well entrenched in the Gurage society have contributed in setting and enforcing rules and norms that regulate and govern the socio-economic and cultural lives of the society; and the institutions take organizational forms based mainly on councils of elders established at different levels from neighborhood/village to clan/tribal levels (ibid.). There are six well known customary laws applicable by the Gurage people. These customary laws in their corresponding area are *Yeguragekitcha*-Sebat-bet Gurage; *Yegordena Sera*-Sodo and Wolene bête-Gurage; *Yeferagezenge*-Meskan bête- Gurage; *Yesenano sera*-Yedobi bête-Gurage; *Ogot*-Kebena; and *Mitte and Hafendumicho*-Mareko (Gurage Zone Culture, Tourism and Government Communication Affairs, 2012: 27).

3.2.3. Socio-Economic Aspects

3.2.3.1. Economic Activities

Most agriculturalists in Gurage live in the rural Gurageland, settled in kin group villages, while a number of them are engaged in various petty-trade and small to large business ventures in other parts of the country (Getinet, 2009: 617). Gurageland is one among the densely populated areas in Ethiopia and hence it couldn't accommodate all its population. The average plot of land per household is not more than two hectare. Owing to this fact, today, the Gurage are dispersed throughout Ethiopia and abroad to engage in differ trade activities that varies from petty-trade, medium size to big business (Tekla, 2005:3). As Tekla indicated, particularly the youth group who engaged in trade activity out of the Guraga region is estimated 96.6%-99.5%.

The Gurage are well known for their industriousness, helping each other, (ibid.: 3-5 and Dembiru et al, 1995:10). This is manifested in the formation self-helping tradition institutions like *equb* and *iddir* which dispersed all over Ethiopia. These institutions are said to be originated in Gurage (Dejene, 1993: 80).

Like other Bête-Guraga of rural settler, subsistence agriculture is the back bone of Cheha *Woreda's* economy and the area is well known in its *asat*¹⁴ production which is the staple food of the Gurage diet. In *enset* cultivation and other traditional agricultural activities, the important agricultural implement is *maresha* (to leg digging stick). *Enset* is very much integrated into almost in all aspects Gurage life and serve as a status symbol for the rich. Owing to this, the most arable land of the Gurage is reserved for *enset* growing. Besides serving as a staple food, it has diverse economical and social-cultural significances. Concerning the multipurpose of *esset*, lesalu (1969:283) observed that:

It is the *asat* that becomes the *wasa*¹⁵. It is the *asat* that becomes the porridge of the *atmet*-juice. It is the *asat* that becomes the fibre and the rope. It is the layer and the leaf of the *asat* with which one wraps the butter and cheese. It is the *gwariya* kind of *asat* with which one feeds a sick person. It is the *astara* kind of *asat* with which ones makes pus come out from a per-son's boil. It is the central part of the leaf of the *astara* with which a cow that has refused to be milked is made to give milk. It is with the *asat* that a weak cow is fed. It is with the flower of the *asat* that a child is amused. It is the leaf of the *asat* that becomes a *chefat* with which the people carry wood. Indeed, it is the *asat* which is the soul of the Gurage.

Along with *enset* cultivation, cereals like wheat, barley, and *teffee* (particular in dry/*qola*) are growing in all agro-ecological zones of Cheha *Woreda*. Vegetables and fruits such as cabbage, carrot, and banana, tomato, orange, and lemon; among root crops, potato is important as summer season supplementary food in Cheha *Woreda*. *Chat* (stimulant green plant) and coffee are the important cash crops of the Cheha agriculturalists.

Animal husbandry is important in the economic life in rural Gurage. Goats, sheep, poultry, cattle are reared livestock throughout Cheha *Woreda*. Cattle are of paramount important for *enset* growing people of the Cheha or the Gurage in general because their dung is important natural fertilizer for *enset* and other crops. The productivity of *enset* largely depends on the dung. Besides, their products like butter, cheese, and milk comprise the protein diets of the people. In most cases livestock per household is not more than three in average as observed in particularly research area, Enata *Kebele*.

¹⁴ *asat* is Cheha's dialect for *Enset* (false banana) in Amharic

¹⁵ *wasa* is the local bread which is one of the final products of *esset*; it is particularly for *wasa* that the Gurage cultivate *esset*; and it is because of *wasa* that *esset* is said the staple food of the Gurage diet

Next to agriculture, trade is an important source of income in Cheha: Agricultural products, cattle and their products; and manufactured goods are sold in regular small and big markets within and out of the *Woreda*. Both males and females participate in trade activities. The female particularly are involved in selling and buying agricultural products like coffee, grains like wheat, barley; household and food items and pottery products, where as males typically are involved in selling and buying cattle and agricultural implements.

3.2.3.2. Religion and Festivals

Christianity with its three categories (protestant, catholic and orthodox) and Islam are the two major religions which are practiced in Cheha *Woreda*. These religions are preceded by traditional religious beliefs like *waq* (stands for god and goddesses of war), *demuamit* (stands for female deity of fertility), *bozde* (represents the thunder god). Though they are weakened with the spread of Christianity and Islam, they still have followers who practice syncretism⁵. Different religious festivals are held to honor the aforementioned deities in Cheha: *nepoare-bozde*, *cheshet-waq*, *senche- demuamit* in different times particularly rally in sacred places.

Cheha *Woreda* is among the Gurage areas where the catholic missionaries penetrated and established their stronghold. Along with evangelism, they constructed modern schools which contributed in producing pioneer Gurage scholars (Dembiru et al., 1995:13). Today, Chaha is leading among the *sebat-bet* Gurage where the Catholics have established firmly and pursue significant converts though they are exceeded by protestant, orthodox and Muslims in Cheha in terms of number of followers.

Cultural and religious festivals are warmly celebrated among the Gurage. Among these, the most popular is *Mesker* (to commemorate the finding of the true cross) is religious and cultural festival celebrated with great pomp. Christianity followers of all denominations: orthodox, protestant, and catholic annually come to celebrate *Mesker* with their families and relatives. After a great preparation, *Mesker* is observed boldly in the second and third week of *yedar* (September). Among the Muslim Gurage of Cheha *Woreda*, *Arefa* (Ed-Aldeha) is warmly observed annually based on the Islamic calendar. At the times of *Mesker* and *Arefa*, the Gurage natives who engage in various business activities come home from

different parts of the country, even from abroad, to celebrate the festival with their families and relatives.

3.2.3.3. Labor Division and Class Formation

During my stay in fieldwork in Enata *Kebele* of Cheha *Woreda*, I observed that some activities are entirely reserved for females, others for males and some other activities are commonly undertaken by both sexes. The day to day activities of females lie in the domestic sphere; nurturing infants, baking *wesa*, boiling coffee, cleaning the house and animal barn, fetching water, preparing meals, are performed by women. Young females can perform all these activities or they can participate in helping their mother. Besides the reproductive role of women, they also participate in agricultural duties (in harvesting, weeding, transporting and storing grains), animal husbandry, and trade activities. Agricultural and other activities that are performed by men and young males are plowing agricultural plots, constructing houses, fencing homestead compounds and farm land, cutting and splitting firewood and fencing wood, sowing grain, planting and replanting *enset*, and grass cutting for animal. Young males after school can participate in all these activity along with their father or /and with their peers.

As far as social groups in Cheha Bête-Gurage are concerned, today, it is difficult to put a clear cut boundary among the people except the “caste” - groups. But based on informants’ perception about themselves and others and what is explicitly going on in the research site, two social groups which in turn have sub-groups can be identified. These are “pure” (upper and lower) and “impure”/“unclean” (upper and lower). As elders said the respected groups of the society are those who have better socio-economic status; those who possess large plots of land, large quantity of *enset*, livestock, large trees and good financial capacity, and being clan leaders. The lower class among the so-called “pure” are those who are indentified as economically poor who at least have failed to cultivate sufficient *enset*. Among the so-called “unclean” the *Fake* (tanners, potters, and craftsmen) are one group. They are perceived by the society as “unclean” because they are said eating dead animals. Whatever the perception of the society, they are hardly differentiating them from the rest of the society in all aspects (physically and socio-economically). They participate in all socio-

economic and political activities except from marriage with the “pure”.¹⁶ The Fuga takes lowest social group among all the groups in Gurage and they are hunters, artisans, and ritual experts. Unlike the *fake* they can be physically identified-they are black. This group are firmly prohibited to make marriage with the “pure”. While speaking the language of the group among which they live, they have a language of their own. They occur in all the tribal areas of Gurage.

3.2.3.4. Marriage

Marriage is one among the warmly celebrated social event throughout Gurageland. Families and relative, village members rally in marriage event. Families and relatives come with gifts in cash and kind which will be reciprocated. The legally accepted and recognized marriage by the society has to take into account many things. The mate should not be from one’s own patrilineage and matrilineage. A family also makes a serious investigation whether or not the mates are related by kin and a mate from the “pure” is not recognized to marry from the “caste” groups.

As elders of the study area reveal, there is a dramatic change in marriage in Cheha. Until recent times, mate selection has been the affair of parents who disregard the interests of mates. In recent time with different dynamics like secular education, modernism, and urban contact, the role of parents in mate selection is minimized; in large extent most marriages are being formed by mutual love and agreement of the spouses. Abduction is seriously forbid among the Cheha bête- Gurage, however in pervious times it had been rarely occurring.

The other important change in marriage in Cheha is the way the marriage ceremonies take place. In former times, the marriage event was the leading social event that needed great preparation and a huge sum of money. In such case the bride and the groom were to be accompanied by many girls and boys. The bride with his accompanies had to stay two days in groom’s house, and vice-versa. Today marriage ceremonies are simplified as much as possible to avoid extravagancy and to prevent HIV /AIDS. After a mate has sent his

¹⁶ Today this exclusion has facing a crack with Christian teaching and expansion of secular education. As informants told me during the fieldwork, in recent times love and marriage are happening between the “pure” and the *fake* particularly among the strongly biblical teaching advocators.

parents to the girl's family, to win their willingness and then an appointment is fixed to lastly legalize the marriage and at the same day the marriage event is carried out. Such event is what I observed in Enasara, one village in Enata while I was in the field work. Though such arrangement has become the aspect of present day marriage in Cheha, there are still families following the previous order.

3.2.4. Informal Financial Institutions

Before we directly turn to see the interaction between smallholders and Omo Microfinance, it is better to have a look at the informal credit and saving institutions among Gurage smallholder farmers in Cheha. Doing so helps us to gain a picture about the informal financial environment in the study area. Moreover, it will help in clarifying the next two chapters; I continuously mentioned the ICSIs (Informal Credit and Saving Institutions) in the discussion of OMFI (Omo Microfinance Institution) and smallholders in Cheha on which the society still sticks.

The role of informal financial institutions is indispensable in rural agrarian societies by offering a varied amount of credit to overcome important daily socio-economic problems. Countries like Ethiopia, where the bulk of its poor population is situated in the countryside, and formal financial institutions are not yet operating at desirable scale there, still the majority (urban and rural) stick to IFIs (Informal Financial Institutions) (Dejene, 1993: 77; Worku, 2000: 115; and Kejela et al., 2008: 31). There are reasons why Ethiopia's rural population and even urban dwellers are tied to informal institutions. One reason is that since the formal financial institutions are transplanted from developed countries, they are not accustomed to Ethiopia realities, particularly poor households (Dejene, 1993:77). This is reflected in their requirements like complex bureaucratic procedures to render services, elaborate paper work, and high collateral requirement. In contrast with this, Ethiopia is dominated by illiterate poor household who cannot afford collaterals and cannot perform the complex bureaucratic procedures. Besides, for a long time, formal banks suitable and accessible for poor households were not opened in rural Ethiopia (Kejela et al, 2008: 31). On the other hand, informal institutions are preferred by poor households in Ethiopia that are easily accessible, flexible, cost effective etc. (Dejene, 1993:77).

Because of these and others reasons, Ethiopia's rural financial landscape has been dominated by IFIs. The case of the Gurage is not different from this; rather the informal landscape is deep rooted and some of the IFIs like *iddir* and *iqub*¹⁷ that widely distributed throughout Ethiopia are originated from the Gurage. Main sources of informal credit and saving institutions in Enata Kebele are *idir*, *equb*, relatives/friends, money lenders, traders, self-help cooperatives, and cashiers.

Iddir: it is a social and traditional financial organization established to provide assistance at times of mourning. A better explanatory definition of *iddir* is given in (Murai, 1987 in Dejene 1993, 78): "An association made up by a group of persons united by ties of family and friendship, by living in the same district, by jobs, or by belonging to the same ethnic group, and has an object of providing mutual aid and financial assistance in certain circumstances." Hence, *iddir* is a local insurance programme forged and run by the community or a group to address specific emergency situation.

The origin of *iddir* which is said to be indigenous to Ethiopia has been traced particularly to Gurage people and has expanded during the period of the Italian Occupation (Salole, 1986 in Dejene 1993:80). According to Levine (1972: 277) "the *iddir* is said to have originated among the Gurage and to have become more widely adopted during the Italian invasion, when many people were killed and had no relatives to bury them." Elders in the study area similarly identify their ancestors as founders of *iddir*. Concerning the purpose, informants similarly indicate that burial of the dead is the original concern of *iddir*. Eventually, however, the services are diversified to offer financial services beyond burial of the dead; today they provide material and financial services to members in times of mourning and in case of fire.

Concerning types of *iddir*, Dejene indicates four types: community / territorial, work-place, friends', and family *iddir* (ibid.). Besides these, in the study area, there are clan based *iddir* (*yetseb iddir*) and religion based *iddir*. The most common and long lived *iddir* are community *iddir* and clan based *iddir* as informants like K101, K103, and K105 state. A community *iddir* is formed at village level. Accordingly, in Enata Kebele, there are four distinguished villages, and hence four community *iddir* are there.

¹⁷ *Iddir* and *iqub* used in the gurage language resembling the same term used in Amharic language

Generally, the services the above mentioned *iddir* provide include funeral expenses, financial assistance to families of the deceased, and, in some cases, house loss due to fire. The service offered by Community *iddir* (*yegen iddir*) is more diverse than other types of *iddir*. These *iddir* members offer to deceased family and looser of a house due to fire a fixed amount of money, coffee and contribute wood and free labor to reconstruct the fired house.

While clan based *iddir* is exclusively for people belong to the same clan, community based *iddir* crosses all clans and all socio-economic statues in a village. Religious based *iddir* is exclusively opened for followers of the same religion. In Enata *Keble* different religious *iddir* are there. The protestant who make the majority of the study area have their own *iddir* in their local churches which offers funeral expenses to deceased families. Other religious followers do the same. Moreover, *iddir* is also arranged to honor of religious festival. Among such cases, *Yerporeye* (this is to honor, the *Bodje*-thunder god), *yemeskeryae* (to honor the finding of the true cross), *yegena* (to celebrate Christmas). Besides sharing what they saved when the festivals arrive, such *iddir* offers credit to their member with fixed interest rate.

Equb: is a form of rotating saving in which members come together to save in cash or in kind on a regular basis. Members contribute a fixed amount of cash, or in kind¹⁸ weekly, two times per a week, or monthly, and lots are drawn in each meeting to determine the winner that gets the whole sum and the process continues until every member in a *Equb* receives his/her share. The origin of *Equb* is associated with Gurage and today it is practiced throughout Ethiopia including in big cities like Addis Ababa ((Dejene, 1993: 80).

In Enata *Kebele* of Cheha, *equb* has long been practiced and still it is going on. There are various types of *equb* there: work-place *equb* (among those who engage in the same work), *equb* exclusively for women and *equb* in which every interested and capable person can participate. According to key informants, *equb* is highly needed during harvest time and among those who engage in trade activities. The amount of *equb* varies across groups: for instance, one in exclusively women involved *equb*, they weekly collect 90 birr among its

¹⁸ In the study area, the long practiced rotating saving in kind is butter and milk. It is this practice by women that eventually brought today's *equb* in cash practiced even in big cities of Ethiopia like Addis Ababa.

30 members, whereas, in the same village one of inclusive *equb*, collects 3000 birr every Sunday. While in the women's case it is particularly aimed at overcoming small household issues, the inclusive one is targeted towards starting or expanding a small business, or for other social occasions like marriage, and to cover expenses of big festivals like *Mesker* (the Finding of the True Cross).

Private Money Lenders (*Aratsa Abedare*): These are individuals who emerged as financial important figures because of trade and agriculture. Once they had secured a good sum of money that can be provide as a credit with interest rate, the lenders take it as a business which contributes to their wealth. Money lenders offer credits varying from small amounts (50 Birr) to thousands (in some cases more than 10,000 Birr). As informants and the two money lenders in Enata told me, they give credit without signing a contract and in most cases, the interest rate for 1 birr for 10, 10 for 100, 100 for 1000, 1000 for 10, 1000 Birr...etc. per month. There are four distinguished important money lenders in Enata who can be accessed at any time. Among the interviewed smallholders a majority goes to the money lenders at least two times a year. The frequency for accessing credit from private money lenders varies depending on household facing serious problems.

Unless options are narrow, credits from money lenders' is not liked by people in the study area. The reasons are economical, social and psychological. Economically, the interest rate is high which ignores the local reality and hence, is exploitative. Socially, if a borrower fails to repay the credit and interest rate at the fixed time, the borrower may be required to offer unpaid labor services, and he/she is threaten to be taken away some assets. Psychological, money lenders are indentified as intolerant and insult borrowers in times of failure to repay the credit on time. Hence, borrowers and their family get stressed and feel insecure of their properties. Some of the studied smallholders had this kind of experience and want to free themselves from such condition. so, they deliberately enter into Omo Microfinance to repay the debt from local lenders.

Women Self-Help Groups: Another sources of informal credit and saving in the study area is the recently emerging exclusively women SHGs. Aimed at empowering women economically and socially by overcoming problem they encountered in their household through regular saving plus training given by NGOs. In Enata, there are three SHGs, having members over 20 women each as the *Kebele* head reported to me. One of such SHG started

by saving 0.50 cent per week evolved today the member saves two Birr weekly. Now the SHG exhibited more than 50,000 as the cashier told me and they got the attention of NGOs which helped them by giving 100, 000 birr and now they turned to cattle fattening. These SIIG renders its member credit access with interest rate lower than the money lenders require.

Friends, Relatives, and Neighbors: These are one of the most important sources of credit for smallholder households to address the day to day emerging expected and unexpected problems. Particularly to address problems that need to be solved secretly, smallholders' consult their friends, relatives and family members. Friends who work together, who have a strong bondage in different situations offer credits to friends in different cases free of interest rate and are more flexible than any other sources of credit. Even in some cases, a friend or relative cancels the credit they offered to a friend or a relative or it may be reciprocated by materials as Enata demonstrates.

Traders: though agriculture is the main activity of the rural Gurage, trade is important in generating some income. Some engaged in regular trade and have a better economic status. Though they are not regular money lenders, they sometime render credit with or without interest rate for the people with whom they have strong relations. Some of such personalities engaged in cereal trading, merchandise, and livestock trading, crafts men, carpenters and having shops in rural markets.

Cashiers: the different *iddirs*, *Equbs*, the women SHGs, and other associations have their own cashiers who are chosen for their trustworthiness. Since they keep money in traditional way (keeping it in box or other mechanism) those people who face critical problem and know the cashier, go to them to access credit. Such interaction is taking place informally and there is no interest rate in such cases. And the cashiers also give credit only for those whom they believe they will repay.

The above listed are some of the long practiced and widely known informal financial saving and credit sources. These have possessed both positive and negative sides. Among the advantages they have, the scale of operation, and transaction cost is low and the credit rendering informal institution or private money lenders can have firsthand knowledge about their client (Dejene 1993: 77). Besides, they can be accessed at any times and beyond the

credit, they are culturally important. Of the disadvantages, some for instance, money lenders are expensive with exploitative interest rate and they offer small amount that may not be sufficient to start or expand a business. In other hand, the formal financial institutions like commercial banks excluded the poor in general and smallholders in particular from serving them because they lack collateral the banks request.

To reverse these situations, Microfinance instrument is established to serve the poor by offering microcredit with low interest rate and without collateral. However, since MFIs don't offer credit every day, in ever instances, rural households may not approach MFIs at all times in all situations. Still the rural farming households are highly tied with informal financial sources. This being the fact, the rural setting is introduced a formal financial institution which is typically designed and operating to serve poor households. This is innovative financial service which offers microcredit and saving plus training and other services compatible to poor households is called microfinance. Through its institutions, MFIs are mainly concentrated in rural areas where it is dominated by poor farming households. In the next chapters, the discussion on smallholders and microfinance. I explored and discussed the interaction between smallholders in Enata and Omo Microfinance.

CHAPTER FOUR

OMO MICROFINANCE AND SMALLHOLDERS LIVELIHOOD

Commencing from its establishment in 1997, Cheha sub-branch of OMFI has been interacting with rural smallholder agricultural households. It has able to reach nineteen rural *Kebeles* so far and today there over 2000 active smallholder farms being served by this institution. Enata *Kebele* is one among the rural *Kebele* that is highly influenced by OMFI: there around 140 households that are currently interacting with Omo; over 7000,000 Birr is disbursed to Eanta smallholders; and the average credit per smallholder is 5000 Birr as of the year 2012. This section presents issues that revolve around in the interaction between smallholders and Omo Microfinance in the study area. It explores issues like factors for smallholders' microcredit request, recruitment to Omo Microcredit access, and usage of the borrowed money among smallholders and the repayment situation.

4.1. Reasons for Smallholders' Microcredit Request

Targeting on poverty, the objectives of MFIs are quite similar across organizations (Kejela et al, 2008:3). In their interaction with rural agrarian societies where MFIs are highly concentrated, they envisioned reducing poverty and vulnerability of poor households by increasing agricultural productivity, diversifying sources of income, and building household assets (Sebstad 2003: 6). To attain this grand objective in the agriculture sector, MFIs offers microcredit for smallholders that will help them to buy agricultural inputs like fertilizer, high yield seeds, heir workers, etc. to invoke agricultural productivity. Besides, to diversify their income, MFIs supply loans for those who want to engage in agro-enterprises and non-agricultural activities related to agricultural environment.

Theoretically, the underlining reasons that motivate user of microfinance in the rural setting should emanate from the aforementioned objective perspective. The case of Omo MFI is not different from this fact. As the manager of OMFI, Cheha sub-breath said, improving the livelihood of smallholder farming by attaining agricultural productivity and widen their income sources through credit plus giving regular training and supervision. In addition to this, Omo like other MFIs wants to liberate the poor households from the exploitation of private money lenders by providing microcredit with low interest rate and with a period of

annual repayment. OMFI gives credit for agricultural and non-agricultural purpose business/trade. While the agricultural credit is given wishing smallholder will raise their agricultural productivity by using fertilizer, bring more land for cultivation, quality seeds, buying other inputs, the credit for non-agricultural purpose is to widen sources of income. So to fit with these purposes, smallholders come up with various reasons related with agriculture and non-agricultural income generating activities.

While the above mentioned are in principle, in reality, the users of microfinance may not always have actual factors that fit with the intended purpose of MFIs. Particularly there may higher deviation in rural settings where the clients and the MFIs have distance because of infrastructural and communication gaps. This study in Enata *Kebele* demonstrates the actual factors of smallholders' quest for microfinance deviates from the intended purpose of microfinance in agricultural environment. Though there are few smallholders whose actual factors for accessing credit from Omo fits with the intended purpose of microfinance, the majority access credit with intention of addressing off target socio-economic issues. Such smallholders presented false factors so as to make resemblance with predetermined areas of accessing microcredit. While in table 4.1 are the factors smallholders in study area bring to Omo to fit with the predetermined income generating activities, in table 4.2 are the actual socio-economic factors that lead smallholders procure loan to address household problem.

Table 4.1. Reasons that smallholders theoretically used to get loan from OMFI

Reasons	Male	Female	Total Respondents	Percent	
Agricultural purpose	6	3	9	25%	
Non-agricultural purpose/business	Livestock trade	2	0	2	5.6%
	Cereal trade	0	2	2	5.5%
	open a merchandise shop	1	1	2	5.5%
	Cattle fattening	10	6	16	44.4%
	Cloth trading	4	1	5	13.9%
Total	23	13	36	100%	

Source: Own fieldwork, 2013

Table 4.2. Actual socio-economic reasons that primarily motivate smallholders to access Omo Credit

Reasons	Male	Female	Total respondents	Percent
Construct a home	10	6	16	44.4%
Repaying former debts	1	2	3	8.3%
expenditures for social events	1	2	3	8.3%
To fatten cattle	4	1	5	13.9%
For trade purpose: close trading, livestock trading, opening small shops in the local setting	5	2	7	19.4%
For agricultural purpose	2	0	2	5.6%
Total	23	13	36	100%

Source: own fieldwork, 2013

The six reasons listed under table 4.1 are what smallholders in Enata bringing to Omo to fit with the predetermined purposes of the institution. As already mentioned these factors are more of theoretical than applied actual socio-economic factors that motivates /push smallholder to access Omo credit. As we can see from the above tables, there is great deviation in the theoretical and actual factors. The leading actual factor for smallholders in Enata credit request is basically with intention to build new residential house, while in the theoretical case it is for cattle fattening. As table 4.2 displays only fourteen (which is to mean 38.9%) out of the 36 smallholders theoretical and actual factors matched with the intended purpose of microfinance. These factors that fit with Omo plausible income generating areas are to fatten cattle, for agricultural purpose, and trade. Even among the few smallholders whose actual factor fit with the intended purpose, the entire credit does not used without fraction (this issue is discussed in detail under the sub-topic, usage of accessed loan). The majority, 22 (to mean 61.1%) out of the studied 36 studied smallholders actual factors are non income generating /off target of using microcredit that eventually contributes for ineffectiveness in achieving the desired livelihood improvement.

Be the reasons on target or off target from the perspective of MFIs objectives, smallholders have various socio-economic reasons that push them to look microfinance institutions as a better credit rendering institutions. Based on the intended purposes of microfinance in rural agricultural society and the actual needs of smallholders as the data reveals in the field, we can classify the factors as factors for on a target purpose and factors for off target purposes. Here under is detail discussion on the factors that lead smallholders to access microcredit from OMFI of Cheha-sub branch. While the first three: agricultural perspective, commencing or expanding a business and cattle fattening are on target/ intended purpose, the rest three: constructing a home and buying household material, repaying former debts, and expenditure for social events are off target/ off intended purposes.

4.1.1. Agricultural Perspective

Even though Cheha *Woreda* is a rural area where agriculture is the basis of livelihood, farmers' actual quest for credit to raise agricultural productivity is insignificant as it can be seen from the above table 4.2, only two smallholders, sharing 5.5% of the actual factors among the total studied smallholders. Hence, one of the leading objectives of Omo in Cheha smallholder agriculture that envision facilitating agricultural productivity is under challenge. Smallholder in the study area, Enata *Keble* responded in the FGD and independent interview why they are not in favor of taking credit for agricultural purposes. The reason they forwarded are, firstly their land is small and fragmented and hence, agriculture production for cash is not effective. Farming within the available small land by using fertilizers and high yields seeds for market is not profitable in the area. This is because as discussants said, the expense exceeds income gained due to the fact that traditional way of farming prevails in the area. They used human power by using *marsh* (digging stick) instead of animal driven agriculture which is the case in other parts of Ethiopia that is cost effective compared with entirely human power based farming and harvesting.¹⁹ one among the focus group discussant, aged 55, in telling his experience to the

¹⁹ As I observed throughout the fieldwork, agricultural activities are done by using traditional implements; Rather than being animal driven, the cultivation of *enset* and preparing farms for other crops is centered on human labor which is tied largely with *maresha*. Not only farming, also harvesting and threshing of crops are done by labor with stick. The area is little integrated into using animals for assisting farming. Cattle are valued for their dung and products for family diet than serving as driving force for farming. This has its contribution to the subsistence orientation of the economy in the study area.

group said that his credit used to wheat production ended up in bankruptcy albeit he used fertilizer and advises of agricultural professionals due to the high cost he incur for fertilizer, to hire labor both in preparing the farm and for harvesting. Thirdly, even though they have free uncultivable land, they are hesitant to farm it, because of the great value they owe to livestock for their dung and products; they left a good proportion of cultivable land for grazing and generating grass for their livestock. So owing to these reasons, smallholders' actual credit motivation for agricultural purpose is small. Among those who attempted to actually use credit for agricultural ended up with failure. Two smallholders told me that Omo credit used to produce wheat ended up with a bankruptcy. Let alone profit, the attempt does not even covers the cost of farming which is done from the beginning to the end with human power with traditional agricultural implements. Below are figures that illustrate the agricultural and harvesting activities that are performed by human labor with tradition implements that contribute to the subsistence production.



Fig 4.1. Preparing a farm for potato

Fig 4.2. Young boys digging land with *maresha*

Source: Own photograph from fieldwork



Fig 4.3 Young boys threshing wheat with stick (the first from the left side is the researcher)
Source: own photograph from fieldwork, 2013

4.1.2. Commence or Expand a Business

Since the small plot of smallholder's land cannot generate sufficient income to sustain life, engaging in supplementary activities is obligatory at least to survive. As I observed in the research site, among the *Enset* culture people of Enata, there is no household where its livelihood is entirely dependent on agriculture. Particularly when we look the Gurage in Cheha, their plot of land per household is very small¹ and it is fragmented. Moreover, a good and the most arable portion of the land is reduced to cultivate the Gurage's life sustaining crop-*enset*, perennial crop that serve mainly for subsistence than cash generating. Therefore, engaging in supplementary non-agricultural activities is unquestionably needed by a smallholder to diversify sources of income to fulfill basic needs of his/her families like cloths, school expenses, holydays expenses. This is what practically happened among the Gurage who engaged in trade activities that range from petty, medium to large business within and out of the Gurage district. Particularly, the youth group who engaged in trade activities out of the Gurage, which is estimated 96.6%-99.5% (Tekela, 2005:3). That is why the Gurage people are identified as businessmen.

So when a smallholder needs to engage in some trade activities or expand the existing one within or out of the locality, today he/she has an option to go to the locally operating microfinance institution. One of the major objectives of microfinance operating in rural

Ethiopia is, in fact, serving this purpose. Understanding crop cultivation on small plot of land could not generate sufficient income that challenges rural poverty; microfinance institutions believe that it should be supported by incomes generated from micro-business. As the manger of the Omo Microfinance in Cheha Sub-branch said, the quest of credit particularly for business affairs is the first positively responded agenda in their office.

As the independent interview with clients of Omo Microfinance in Enata displays, there are smallholder farmers (seven, 5 men and 2 women out of the studied 36 smallholders) who accessed Omo microcredit to engage in different trade activities in the locality and in different towns and cities of Ethiopia. Credit offered by Omo has attracted them for many factors. These are the low interest rate; relatively good sum of money to start or expand business; and relatively long time (a year gap) to repay and to borrow again in regular basis. All these are advantageous over the local informal saving and credit institutions and the exploitative local money lenders.

Among the business activities they local involved are locally working small merchandise shops, and livestock trading. Besides these, there are household head smallholders who borrowed loan from Omo Microfinance to engage in trade activities out of their homeland particularly in cities and towns like Addis Ababa. They engaged in petty trades like selling secondhand and new cloths. Most of such clients are married who left the home and agricultural activities to be headed by their wives. The following case study illustrates the fact that smallholders are pushed to accesses microfinance to start business and who actually used the money for its intended factors.

Case study one

I am a smallholder who lives in Enata *Kebele* of Cheha *Woreda*. I am married and have five children; two are married and three are living with the parents. Along with her household activities, my wife engages in selling coffee pots (*jeben*). Like most of the residents of the area, my land is not more than one hectare. While *enset* covers the largest proportion of my land, the rest is covered with grown trees, and still a good proportion is left for grazing and generating grass for my two cows.

I have a dearth of land that can be farmed to produce other crops like barley, wheat and teff to generate sufficient income. Except for food purpose, our *enset* cultivation doesn't earn income I need to provide cloths and other materials for my

children; to cover expenses of the different warmly celebrated festivals like *Mesker*. So for long I have been engaged in trade along with the agricultural activities.

While leading my life with the income I got from the trade in selling locally woven products, my house was burnt due to a thunder storm in heavy rain in summer season seven years ago. The money I had went for the construction of a new house. So to restart my ceased trade activity, I requested a credit from Omo Microfinance and in 2007, I withdrew 5000 birr for this purpose and in the next year after I repay, I again withdrew 7000 aimed at opening a small merchandise shop in the village. Today, the small shop serves as one of the few shops to sell important commodities in the village. It also gives services of providing tea and bread for local people. I still engaged in trade and continued as one of the customer of Omo Microfinance.

4.1.3. Cattle Fattening

Cattle fattening is one of the areas where smallholders are interested to engage in by accessing credit from Omo. Smallholders consider this area as a profitable activity in many ways. Firstly, the dung is badly needed for *enset* cultivation. Particularly cows are very important, besides their dung and calves, they also diversifies the family diet in rearing children by giving products like milk, cheese and butter. If a farmer has a relatively wider land, the livestock rearing as informants says, it is profitable. This is one of the areas the Omo Microfinance envisioned as income generating activity and credit request is positively responding. Though there are clients who borrow microcredit theoretically for this purpose (almost around half 44.4%), only few of them are actually interested to engage in fattening cattle, particularly cows, 5 smallholders or 13.9% have actually tried to engage in the activity and only two smallholders could report their success. Albeit viewing profitable among smallholders, as informants in FGDs and in independent interview told me, cattle fattening is also risk prone. As they present experiences of their own and their neighbors, there are cases where cows or sheep bought by Omo Credit died and were eaten by hyenas. So, despite their recognition that the cattle fattening can be productive, the risks create fear not to determine to actually engage in the activity.

4.1.4. Constructing a Home and Buying Household Materials

Even if giving credit for home construction is not the intended objective of microfinance, the majority of informants (44.4%) in Enate *Kebele*, tell that their actual factors to access

microfinance are connected with intention of building a new house. Actually, the smallholders' need to build a house does not emanate with the simple wish to have a new one. In most cases, the house issue becomes pressing among the Gurage. The cultural Gurage house (*ser-bet*) is encountering by many challenges. Since its roof is covered by grass, it demands a continuous change particularly to prove water in the rainy season. Besides, it is exposed and easily consumed by fire in the dry seasons. Because of these factors, when a smallholder's house is damaged either by fire or became old, it needs immediate reconstruction. To accomplish this, recently the expenditure is very high due to inflation and smallholders don't want to build the same house (grass roofed) rather they want to build modern house, roofed with tin sheet (*korkoro bet*).

Since smallholders' livelihood is subsistence, they have little or no cash to cope with such emergencies. So looking for credit is inevitable to quickly respond the house issues. Besides, the credit they got from informal financial sources are small, may not be accessed at any time, and the loan from lenders is hated for its high interest rate. Nowadays smallholder in the study area reveals that Omo Microfinance is the best credit source to replace the fired house or any other emergencies that happen.

Because fire broke out two times in two different dry seasons (*abare*) which demolished two dozen of homes, six among the studied smallholders in Enata interaction with Omo Microfinance is pushed by the intention to reconstruct a home. One case here under elaborates the issue.

Case Study Two

I am a farmer in Enata *Kebele*. I am married with two children: one married who lives in town while the twelve years old son is schooling. I possess half a hectare land. Along with cultivating my plot of land, I support my family livelihood with the income I get by hiring my labor on a regular basis. Besides, my wife, in addition to her role as house wife, sells *areqi* (local alcohol).

While leading our life, the small hut (*ser-bat*) became so old that it needed to be replaced by a new one, if not, the rainy summer season would become a headache. So in 2006, I started to build a new house after collecting the necessary material and some amount of money got from relatives. But, I felt insecure of the money at my disposal to realize the house. Then, I decided to request a credit from Omo and hence, I took 2500 Birr. Finally, I built a new attractive *ser-bet*. Being unfortunate, this new house built with great ups and downs was demolished by a fire that broke

out in one winter night. To avoid the same incident in the future I decided to build *korekoro-bet*. Again in 2008, I took 5000 Birr from Omo.



Fig. 4. 4.The Gurage hut/ *sere-bat*

Fig 4.5. Small hut with tin roofed house

Source: own photograph from fieldwork, 2013

In addition to constructing a house, a few smallholders' access to credits is primarily motivated for buying household materials. Though it is off the purpose of microfinance, it is one aspect clients actually request from Omo, as the case Enata displays. This case goes particularly to the female. My interview with women informants displays two cases where they are primarily motivated to buy new household materials. So when a woman faces a dearth of household material, or the need to buy a material for a newly built house, they forged a group in their village with the intention to take a loan for this purpose. In such case, the amount of the loan is small compared with other pushing factors to access a microcredit. For instance, a 37 years old housewife reported to me in her first time of credit access was only 500 birr; today she has 10, 000 Birr credit from Omo in this year.

4.1.5. Repaying Former Debts

There are both men and women whose first entrance into the microfinance credit service is due to the pressure exerted on them by private money lenders. To overcome critical socio-economic problems, rural societies inevitably look for sources of credit. Among other things, the private money lenders who live within the society take money lending as a

business. Though the interest rate the lenders levy is high, socio-economic exploitation is also extreme, in some critical instances; smallholders are left with no option except going to them. A smallholder may fail to repay the borrowed money and the interest rate on time. In such cases as informants told me, they eventually found themselves under serious social, psychological and economic enslavement. Lenders threaten the borrower by insulting, taking assets like cattle, request a borrower and his children to offer free labor services etc. Smallholders who are under such conditions look at the microfinance institutions as a better credit option to get their freedom from the lenders by repaying the credit obtained from Omo. People in such condition prefer the credit from Omo microfinance (locally called *yemegest birr*²⁰) for many reasons. The reasons they forward are, the low interest rate and Omo Microfinance's annual repayment period which gives a relatively sufficient time to prepare for repayment, and personality is respected.

IF25, 35 years old house wife and who exhibited six years mature clients of Omo, explained how she is pushed to access loan from Omo due to the situation being under the pressure of money lender's debt saying that:

For one thing the interest rate is very high compared with Omo and the lender may come at any time to take his/her money, if you don't pay back the interest rate and the credit on time, they insult you and frightening you by frequently saying "I will take you cow." I myself was in such a situation before six year because of 200 birr I borrowed from one *Dengene* women money lender. Because I failed to repay the money, I was forced to assist the woman by spending some time in her house. I eventually felt that I am a slave of the woman due to the fact that I was unable to repay 200 birr. Finally I decided to repay the debt I took by borrowing credit from Omo in 2007. From this time onward, because of this situation, I am client of Omo.

4.1.6. Expenditures for Social Events

There are smallholders in Enata whose actual situation has led them to access microcredit to overcome expenses of social occasions like marriage and important holidays. Though marriage expenses presently are simplified to a minimum, as the informants said, even in

²⁰ The local term "*yemengest birr*" means government's money. As informants said, they considered Omo Microfinance as owned by the government of Ethiopia though the institution is not totally government owned; it is a share company where the government take 85%, where as 15% private.

such instances, it consumes large sums of money. Omo Microfinance clients who borrowed a loan for such an issue are those who have no supporter or have no remittance from their children. Two cases are identified whose entrance into Omo Microfinance is primarily caused by credit access to expenditures for social events. Two women and one man borrowed loan for marriage and celebration of festival purpose respectively. Discussants in FGD mentioned that are smallholder who took credit for such purposes in their *Kebele* and surrounding.

4.2. Recruitment to Microcredit Access

Once smallholders have identified socio-economic problems to be addressed by credit, the problems be on target or off target, the next step is applying for a credit in the form of a request. Theoretically not all smallholders are legible to access Omo Microcredit. Only those who fulfill the preconditions are welcome by the OMI. As the manager of the OMI in Cheha sub-branch said, precondition in rural and urban area are different. To provide credit for rural clients/smallholder, the applicant should fill the application form; both husband and wife should put their signature in the application if the applicant is married; forge a group comprising a member of 3-10; the client should be free from debts from any other credit offering MFIs in the *Woreda*; an applicant should have the capacity to repay the credit to be offered and hence he/she should have to have some assets like cow, sheep, goat, chicken, plot of land etc. to get confident of the borrower for repayment.

The recruitment process commences from the *Kebele*. The *Kebles'* administrative body (cabinet) serves as an intermediary in the process. After the clients forge a group, they go to the *Kebele's* office to fill the form. In the form which is written, an applicant fills all his important assets. After all potential Omo microcredit demanding applicants are collected, and then *Kebele's* administrative body/cabinet assesses the potential legible applicants among those who apply for credit and decides about the amount of credit an applicant actually should borrow. This implies theoretically, not all applicants can borrow the amount of money they request. Such responsibility of screening potential applicants is decided to descend to the grassroots level due to the fact the *Kebele's* administrative body due to day to day contact, is believed to have firsthand information about farmers (*arswader*) whom they serve.

Once the *Kebele* administrative body screens out the potential credit users, they send it to Omo Microfinance Cheha sub-branch to Emdibir for approval. Then, OMFI after giving orientation on how the clients should use the credit, the saving, repayment and other issues it then goes to loan disbursement. This is what Omo microfinance's rural client selection the procedure roughly seems.

Looking critically the recruitment process of OMFI of Cheha sub-branch, there are problems. "Prior to the approval of any loan application, it is essential to conduct a critical analysis/evaluation of the credit worthiness of the applicant. In credit analysis one should give due attention to the quality of information on which the analysis is based" (Hailu, 2000: 5). Looked from this perspective, the requirement process in the study area has critical problems that have a serious impact in the repayment process.

As I already mentioned above, Omo has given the responsibility of client requirement process mainly to the rural *Kebeles'* administrative. This is made above all to prevent defaults and to reduce transaction costs. To attain this, the requirement process has the intention of excluding the core poor to prevent default. Though this is a paradox from the perspective of objectives of MFIs, on the ground however, in Enata *Kebele*, no applicant so far has been excluded from accessing credit from Omo as the head of the *Kebele's* reported to me. Even if there are smallholders who are not to be served by MFIs because of they are potential indentified as unable to repay, the case in Enata where smallholders interact with Omo is different. For instance, through my independent interview and observation of clients' farm and house, farmer having no cattle, goat, hen, chat, etc. they fill the form as if they had all this. This problem is pervasive as the independent interviews with clients and the *Kebele's* administrative body explicitly exposed. Applicants deliberately commit this because if they reported what they actually have, they fear they are not qualifiers of requirement of credit accessing and hence, they would be excluded. Surprisingly, both the group members and the *Kebele's* administrative body know applicants filling wrong information into the form, but both parties keep this issue silent. Concerning why group member do such things, informants forwarded that since the group members are closely related by bondages of relatives and neighborhood, they hardly determined to exclude an applicant from their group. On the part of the *Kebele*, why they approve wrong information presented by applicants, the head of Enata *Kebele* informed me in the following way:

We know everything about the Omo Microfinance clients in our *Kebele*. What they fill in the application form is mostly wrong. Even the applicants themselves know what they are doing. We leave things silently, because if we expose the reality, many applicants will be excluded from credit access. If this is the case, the applicants will be left in a serious crisis. For one thing, the farmers request for credit for serious issues. Secondly, since clients mostly repay the previous credit of Omo borrowed from the local money lenders. The great majority of all current clients of our *Kebele* repay their loan from Omo by borrowing from the local few money lenders. Such trend is the situation in our Keble. So, knowing this case, we tolerate things because if we halted farmers from the credit access, they quickly would find themselves under a serious exploitation by the lenders. Surprisingly, the interest rate for 1000 birr is from 60-100 birr for three days. You can imagine what will happen if a farmer fails to repay the loan from a lender within three days. This is the reason why we knowingly approve the false information applicants' bear.

Whatever the information the applicant presents about himself /herself and the *Kebele* forwards to OMFI, it is the responsibility of the credit offering institution to check the reliability of information presented both by applicants and applicants respective *Kebele*'s administrative body. MFIs are required "to make sure that the borrower is well aware of the requirements, obligations, terms, conditions, and relationships surrounding the credit. They expected to know their customers and the business, mainly through actual visits to provide credit and for credit sanction (Hailu, 2000: 4-5). Let alone the visit, Omo Microfinance in the study area does not make a critical evaluation of applicants. The manger of OMFI said, "We trust the *Kebele* and to carry out intensive investigation we have dearth of staffs and distance of where clients live is the other obstacle we faced." This weakness from the very beginning has a serious consequence on the smallholders' livelihood. Because this paved the way to the flow of credit to smallholders who has no potential to payback on fixed repayment schedule, the smallholders restored to reduces their available few assets and engage in exploitative bondage with money lenders for repayment. This issue is discussed in detail in the next chapter under impacts assessment.

4.3. Usage of the Accessed Loan

As dictated by the socio-economic factor, they may fit or deviate from the intended purpose of the microcredit, smallholder access loan from MFIs. The success of the credit is highly determined by the way the clients use it. The loan should be engaged in activities that can generate income in a brief period of time and can change the livelihood of a household eventually. Hence, "Loan should be given for activities that could bring impact within short period of time and gradually expand to long term business" (Hailu, 2000: 5).

As far as the usage of smallholders' accessed loan in the study area is concerned, many things revolve around it. Not only had the majority used the credit off the intended purpose, but also they fractioned the credit into many parts to address various small and large household socio-economic issues. Even among the few households who used the credit for its intended purpose, they also do not use the entire loan for one purpose. A lack of business plan and control from OMFI, smallholders use the credit for unnecessary wastage that has devastating consequences on their livelihood.

A high degree of wastage happens in the first week of the credit withdrawal. Virtually all smallholders in Enata use a portion of the borrowed money for unnecessary expenditures. Some group themselves to slaughter a sheep or buy meat from market and other expenses for entertainment. Such is particularly witnessed among in-coming clients.

There is gender difference as far as the immediate usage of the borrowed money is concerned, since women cover most of the daily household needs and hence, they are encountered by many household socio-economic issues. Thus, the credit is subject to much more fraction than in the men's' group. Some portion of the money is spent to buy new household materials; they also want to satisfy their family by preparing delicious food on the day of the accessed credit; some spend the borrowed money to repay their debts from neighbors, money lenders, *iddir*, etc. that are incurred in different times in different situations; some use the whole sum of the credit or a portion to overcome social occasions.

The male group too uses the credit for different purposes. Few of the male smallholders use the credit for its intended purpose, like trade, fattening cattle, agricultural purpose. However, even among the few smallholders, not the entire credit goes to the intended purpose. They use a fraction for buying cattle, for agricultural purpose like buying fertilizer

and other parts go for other off the target of the credit given. The majority, besides using it off the target, also fractioned the credit into various parts; a part of the credit is used for maintain or constructing a house; to repay debts of local people, to address social occasions, etc.

There are smallholders whose borrowed money never goes to any important socio-economic activities. There are smallholders where the largest portion of the borrowed money is wasted by drinking *areqi* (local alcohol). This is particularly the case among heavy alcohol takers.

Case Study Three

I am a 37 old married woman with five children so far. I engaged in *Jebena* trading as is the case of women in the village. The daily expenses are covered mainly from the income earned from this activity. Though my husband is a farmer, and goes some income by hiring his labor, his contribution to the family income is very insignificant. Most of the income he gets is spent for drinking *areqi* with his friends. Because he drinks heavily, the time he spends for agricultural activities is insignificant. As you can observe our land, largest portion is uncultivated. Owing to this, even though we have fertile land to cultivate *enset*, we don't have sufficient *enset* and hence, we are not food sufficient²¹ Shamefully, still I bought *wesa* from the market.

For worst, pushed by his friends my husband took *yemengest Birr* (an Omo credit) in 2007 in the name of fattening cattle. The Credit was used not for buying cattle; rather it was wasted within a week by drinking alcohol and using it for unnecessary issues. The repayment schedule arrived even without preparing the annual interest rate. We have nothing at hand to enable us to pay back the credit. We are left without option, except going to the hated money lenders to repay the Omo credit to replace the money lender's credit within three days.

We continued in such trend for three years and we found themselves indebted with 5000 Birr. Understanding, being exploited from two sides: Omo and the money lender, we decided to withdraw from Omo by repaying the credit at the costs of reducing our most important asset. The only thing to be sold was a mall plot of land and we decided to sell one fourth of our land. By doing so we withdrew from Omo.

²¹ As I visited the land, *esset* covers very small plot of land and the largest proportion remained uncultivated. Among the Gurage, as elders said, a farm who is unable to cultivate sufficient *esset* and who is unable to feed at least his family is considered as *dekama* (weak/useless). Hence, such individuals are hardly got respected by the society.

5.4. The Repayment Situation

As a principle microfinance loan is given for those who are able to repay it by engaging in income generating activities within a short period of time. For a microcredit to be appropriate, the clients must have the capacity to repay the loan under the terms (<http://www.yearofmicrocredit.org>). In practice, because of problems in client selection, credit may be given for those smallholders who can't repay. Even in such a case, microcredit is not a philanthropists', they should have to repay at all costs. Whoever the client is and in whatever respect the client spends the borrowed money, the repayment is mandatory. Whether smallholders use it for intended purpose or not, they make profit or failed to do so, whether they face disaster like a fire incident, or bought cattle from the credit died, or the agricultural production failed because of poor rainfall or other disasters, no one is excused to miss the repayment deadline schedule.

The loan period in Omo, as is the case of all MFIs operating in rural agricultural settings in Ethiopia, is for one year. There is a monthly compulsory saving; which is 10 birr regardless of the amount of credit clients accessed. Concerning the repayment rate, in Omo microfinance in Emdibir branch, surprisingly is said to be over 99% so far. When we look at the study area, in Enata the repayment rate is 100 % as the Keble administrative head and OMFI in Emdibir branch reported to me. This seems paradox because the impact assessment as presented below inclines more to the negative. There are factors that contributed for the good repayment performance among the studied smallholders.

One of the important factors that contribute to ensure a good repayment is that smallholders are well informed the consequences of failing to repay on the specified repayment time. When they are given credit, they are heavily told by Omo that the failure to repay the credit will be dealt seriously. As informants told me, the uncompromising issue of repaying the credit on time is a must and if not, the consequence would be hazard. Since Omo is owned by the government, there is no reason to be exempted in times of default. Concerning what will happen to them if the loan is unpaid as per schedule, the smallholders in Enata similarly holds the idea that it results in the closing of the residential house, the property of a client like cattle, land, and any other important assets that will automatically fall under the control of the institution. More than these smallholders similarly hold what they are

warned from Omo microfinance: “if a farmer died without repaying credit, family should manage first to repay the credit before the corpse goes to burial.”

Secondly, smallholders learnt from the different cases they observed and heard in their surroundings. As informants told me many serious measures were taken by Omo on those who failed to repay their credit on time. Even in their Keble, a residential house was closed when a farmer failed to repay credit on fixed schedule and it is only opened after a sister intervened to pay back the credit. They also mention many cases that are gonging in different places in their communication with people in market, mourning places, and in other relation. They talk about even the suicides committed in two surrounding *Kebels* when smallholder failed to repay credits.

Thirdly, smallholders well informed about the issue of group case. Since, smallholders lack collaterals, their social solidarity (giving credit in group) is taken as a better method to ensure repayment and control default. The social solidarity puts the whole group to take the responsibility of any of its member who fails to repay the credit within the group. This is the major weapon applied by MFIs working in rural areas to control defaults.

Knowing all these costs of failing to repay the credit and smallholders made all the necessary preparation ahead of the repayment deadline. If a smallholder wants to withdraw from Omo, he/she repays the credit by selling assets, mostly land and cattle. Whereas those who have children in the towns, they shoulder the burden of repaying parents' misused credit.

Table 4. 3. Repayment Situation among five withdrew Smallholders from Omo

Name	Sex	Age	Initially Borrowed	The Repaid Debt	The situation credit repaid
WFGD1	F	40	500	2500	selling a cow
WFGD2	M	41	1000	6000	Selling a milk giving cow
WFGD3	M	47	1000	4500	Selling land
WFGD4	M	43	2000	7000	Selling land
WFGD5	F	50	3000	15,000	a child working in Addis Ababa repaid

Source: Own fieldwork, 2013

The Great majority of the studied smallholders, who continue as clients, are repaying Omo Credit by exploitative the bondage they formed with the local money lenders. Because the credit is misused or failed to generate the expected profit, smallholders make contact and agreement with the lenders when Omo repayment arrives, in many cases the contact and agreement is made a week ago so that smallholders feel secure of the Omo credit repayment. Hence, in most cases only in the first year of time of credit access, in the remaining time though they continued as a customer, they do not use it in for any economic activity, rather the credit goes to the money lender, from the money lender to Omo, and this vicious circle continues until they decided to withdraw by selling their assets or convinces their children in town to help them to get freed from this exploitation. The agreement, as they told me, is on the amount of loan they need, the interest rate the lenders levy on them and the repayment time. Such agreement is made mostly for less than a week. This means that smallholders borrow from the lender one day a head of repaying it for Omo and after repaying, they withdraw a new credit from Omo to replace the credit of the lender. Such a transaction is done in four days. Hence, in most cases only in the first time of credit accessed, smallholders use the credit for some socio-economic activities, in the remaining time, even though they continue as customers, the credit goes to a lender and from a lenders to Omo, and vicious circle until they decided to withdraw by selling their assets or convinces their children in town to help them to freed them for the exploitation.

Thus, rather than liberating smallholders from money lenders, in study area the microcredit enhanced the exploitation and it brought a new form bondage formed between money lenders and smallholders. This forced smallholders to engage in double interest rate (for Omo Microfinance and the money lender. Besides enhancing the vicious poverty cycle, the bondage forged with money lender is by far more exploitative than before. Here under is a case study, how one woman yearly repays her Omo credit by buying money from the local money lenders.

Case Study Four

I am 34 years old, married with four children. While the two sons are engaged in petty trade in Addis Ababa, the one daughter and the youngest son live with us. The responsibility of covering the daily meal and other necessities goes to me, while the expenses of holidays are to be cover by the two children working in Addis. Even if

we have one hectare land, its largest portion of the land is uncultivated. My husband is physically disable and spent most of the time in the house.

With the aim of buying a cow, I withdrew 2000 Birr from Omo in 2007. However, the money was wasted in different socio-economic activities without buying a cow. The inevitable repayment time came being unprepared. Finally, I approached one money lender and he agreed to borrow me 3000 Birr at the interest rate of 100 birr per 1000 Birr for only four days. I requested 3000 Birr because I am expected to pay the credit (2000 Birr) plus its annual interest rate (300). Then I took the money from the lender as per the agreement terms and I repaid it to Omo Microfinance. After filling credit the application form, I again borrowed 3000 birr from Omo to replace the local lenders loan.

In such trend I continue till today, in 2012, the credit reached 9100 Birr. In this year too, I still unprepared to withdraw and I have no choice of repeating the previous trend. I am going to borrow over ten thousands Birr from money lender to repay Omo credit with its anticipated interest rate and the expected money buying from money lender.

CHAPTER FIVE

IMPACT, CHALLENGE, AND ATTITUDE ASSESSMENT

5.1. Positive Impacts of Omo Credit on Smallholders

Compared with the negative impacts, there are only few success stories of Omo Microfinance on its smallholder clients of *Enata Kebele*. Because of various related factors or challenges the smallholders in Enata talk more about the negative consequences of Omo Credit than about positive changes the credit brought in their life. Only a few smallholders stress the positive impact Omo brought in their household. Positive impact is witnessed from those smallholders who somehow attempted to use the credit for an intended use particularly for trade activities in towns and cities and few smallholders who bought cattle to fatten and gave due emphasis to productivity.

Since most smallholders in the study area possess a land less than one hectare, no doubt the life of smallholders cannot be sustained solely trusting the seasonal rain based traditional agriculture. Every household in the study area supplements its agricultural activity either by hiring daily labor or/and engaging in petty trade. One of the features in the Enata as in other *enset* culture Gurage societies is nowadays that many households have a division of labor: the husband works in towns and cities by leaving the responsibility of managing agricultural activities to children and wives.

Among those who are positively impacted are those who access an Omo credit to start a new trade or expanding the existing one. The things that contribute to the positive result, as they say, is the Omo credit has very low interest rate compared the exploitative money lenders, the relatively good amount of money to start or expand a small business, and the relatively long duration (a year's span) to repay the credit and the low credit costs. So there are smallholders who engage in small scale trade after accessing the credit from Omo Microfinance.

In the case of those who regularly engaged in trade activities, the credit help them to generate income and building assets like building a new house, increasing their cattle and cultivating more land than before. Besides this, they are repaying the credit with the income

they earn and without making the bondage with local money lenders. They prepare the repaid credit by saving in *equb*.

Case Study Five

I am a married farmer with five children. I engage in trade activities in Addis Ababa by leaving the management of agricultural activities and rearing children to my wife. I regularly return home in times of important holidays like *Mesker*, Easter, and Christmas. Besides covering the expenses of these and other holidays celebrated in the area, fulfilling cloths requirements of my family, covering school expenses of my children, I also regularly sent money for the daily household expenditures.

While continuing in this manner, I faced illness and my trade got into bankruptcy. To start it again after recovering from illness, I borrowed 5000 Birr from Omo and I once again become successful in selling second hand cloths. In addition to sustaining my family by covering household expenses and fulfilling the necessary needs, I was able to repay the Omo credit with the income I got from *equb* which I had deliberately joined for this purpose.

After repaying the first credit, I took 7000 Birr to further expand the business. I became successful in generating additional income and I was able to build a new 120 tin sheet roofed modern house. I saved repaid money for this year. In the future I am planning to withdraw from Omo after I have secured enough money to continue the business.

Even among those who used it off the intended purpose, it helped them to address some critical problems on time. For instance among those who lost their house because of fire in two different times, many of affected smallholders went to Omo and it helped them to build a new house within that year. After building a new house few smallholders are managed to repay the credit without entering into exploitation of money lender or selling their assets. Such smallholders are in fact are those who relatively better socio-economically and highly supported by urban remittance, whose agricultural activities are somewhat diverse. Besides cultivating mainly *enset*, few smallholders in the study area cultivates *chat*, coffee, and have relatively more than four livestock. These assets help them to overcome problems in a brief time. The following is the case of IF05 that explains Omo credit helped him in his effort to rebuild his fired house.

Case Study Six

Unexpectedly fire broke out in the village starting around midnight and demolished twelve houses including mine. To build a new house, I had no cash at the time except the community *iddir* which was not more than 1000 Birr. In addition to this, the *Kebele*'s descendants who work in different towns and cities collected money to help the victim households. Besides, my two children who work in Addis Ababa send to me a good amount of money. Having all this, I started to build the house. However at the middle of the activity, I faced money shortage. So he decided to access 3000 Birr of loan from Omo. Thus, with this credit I finalized constructing the house. After finishing the house, I focused to repay the money within a short time. I focused on fattening one of the cows for this purpose. However, by giving attention, my two children who are in Addis Ababa sent money for the repayment and the credit was repaid within a year.

I can say I benefited from the credit, because if I did not borrowed from Omo, no doubt, I would have been borrowed from local lender where the interest rate is very high and loan duration is very short. The Omo credit saved me from the exploitation of money lenders.

5.2. Negative Impacts of Microfinance on Smallholders

“It is not the amount of money lent by Microfinance institutes that matters most. What matters most is the change in the lives of the poor and in fact the poorest of the poor.”²² In the study area, the great majority similarly clamored the negative impact Omo Microfinance brought in their household and also in their *Kebele* at large. Excluding the staff of the OMFI sub-branch in Emdibir, various groups like smallholders in the *Kebele* who are mature clients, in-coming clients and even those who withdrew; the *Kebele*'s administrative bodies, children of parents living with them and outside home in Addis Ababa unanimously stress the problem brought in their household and *Kebele* than the positive change the credit brought. My data from observation, FGD, case studies, in-depth interviews, and ethnographic observation displays more of negative aspect than positive impacts of Omo in the studied *Kebele*'s smallholders. Here under is a detail discussion on the assessed negative impacts.

²² Wondwossen, 2006. <file:///C:/Users/user/Documents/MICRO-OMO3.htm>

5.2.1. It Reduced the Assets of Smallholders

Theoretically microcredit is provided for poor households with the objective of improving their livelihood. "Microfinance facilitates the poor and their enterprises to use financial services to raise income, build asset and cushion against external shocks." (Narayana: 2007: 7). Against this, in Enata, as I tried to discuss how the borrowed money is used, most smallholders used the money off the intended purposes of microfinance. Besides, the credit, rather than serving one agenda, it subjected to fractions into many parts and used for unnecessary activities. Even some smallholders finished the credit without incurring the money in any economic activity as is the case with alcohol drinkers. Thus, these things interact to end up the credit without generating income to repayment.

On the other hand, since the credit demands repayment according to a fixed schedule, the smallholders or any clients are forced to look for any means to repay. Those who don't want to continue as clients by the exploitative bondage with local money lenders, in most case repay the misused credit by selling two most important assets of smallholders - livestock and land. Though selling and buying of land is illegal in Ethiopia, my interview with informants reveals, there are smallholders who finally repay the Omo credit by selling a portion from their small plot of land. Among the studied smallholders in Enata, I identified three cases that passed through such experience. Actually as informants told me, the only important asset they look for if they fail to repay a credit is in the expectation of selling their land.

Another case is repaying an Omo credit is the selling of livestock. Among those who lack urban support or remittance, have little daily income, smallholders in Enata are forced to repay the misused Omo credit by selling one of the most important thing for their livelihood -cow. Besides the many stories local people mention in their locality and in the surrounding areas they know, I indentified four cases among the studied smallholders who sold their livestock for repayment.

Case Study Seven

I am a 51 years old man who initially borrowed 700 Birr from Omo Microfinance in the year 2007 in the name of a trade purpose. But after I actually borrowed the money, I misused it and failed to put it into the original practice. While some portion was repaid for a money lender for a previous credit; some part of the credit

was used for household expenses and some small portion was used to buy fertilizer to plant potato.

Since the potato is for subsistence and I have no activity that generates income beyond household expenses, the repayment period arrived and I had nothing at my disposal and even I was unable to prepare the annual interest rate. So the only option I was left with at that time was to borrow from the private money lenders to repay the Omo Credit. In such condition, I continued for six years and I was still repaying the credit and the debt was increasing all the time. This has created serious stress in my life and disturbed my family. Finally I decided to free myself and the family for once and for all by selling my milk giving cow with its calf. By doing so, I withdrew from Omo last year after serious exploitation.

5.2.2. It causes Conflict Among Family Members

Not all family members are interested to access credit from microfinance institutes. Family members, mostly young children and wives are against the head of the house, in his commitment to access microfinance credit if he is particularly an alcohol drinker. And also children are against their mother and father not to enter into Omo credit at all. These groups have diverse reasons for their opposition in engaging in microcredit. Some fear the credit, because they simply considered it useless (*areba*). Another reason is, because the credit comes from a “government owned institution” and the consequences in times of failure are dealt harshly. Hence, it may reduce or consume the assets they have. Others have developed a very bad attitude towards microfinance because in their surrounding they observe and hear of many smallholders failing to repay their credit and know that the selling of their land and cow will ensue. Selling of land or any other asset, for unable to repay a credit is considered a great shame and it reduces assets that are going to be inherited by children. Hence, they do not want to share the experiences of their neighbor by entering into a very risky credit institution.

Even though such orientation exists in a family, there are instances where parent access credit from Omo without agreement of the family members. Much conflict occurs particularly during credit withdrawing and repayment time. In credit withdrawing times, currently to provide credit either to husband or wife, Omo requires they should sign on the application that they are not going to access credit from other MFIs. Among the cases, one woman standing against her husband went to the *Kebele* administrative body to help prevent her husband continuing accessing Omo credits because he did nothing with the loan

but drink alcohol. One man also told me that he refused to sign his wife's credit application for withdrawing an Omo credit last year. But, when he saw her crying, he signed the credit application understanding that he and his family will be in serious problem if she doesn't withdraw credit to replace the lender's loan. This is because she repaid an Omo credit by borrowing or buying money from local lenders with the anticipation of withdrawing new credit from Omo that will be pay back to the private lender.

The following case is one among the conflicts in a family that are circulated across the whole *Enata*. The case here under is about the conflict that emerged in a family where one widow took a credit from Omo without telling it to her half children.

Case Study Eight

I am a 38 years old widow. My husband died ten years ago. Being a second wife for my deceased husband, I got two sons aging 19 and 16; while the elder engaged in petty trade in Addis Ababa, the young child is living with me and attends school. My three steep children are married live in Addis Ababa.

After my husband died, I took 1000 Birr from Omo to farm my *enset* covered field when my half-children failed to send money for *Enset* cultivation. My steep children were not told of the credit and they remained uninformed until last year. While some portion of the credit was used for farming, other portion was wasted in household activities. So when the repayment time came, I hadn't money. Like most smallholders in the area, I managed to borrow from local lender with expensive interest rate.

I continued being exploited from money lenders and Omo for six years and after six years, the Omo credit reached 8000 Birr last year. After I repaid 8000 Birr by borrowing from the local lender and expecting to withdraw a new credit from Omo to replace the lenders loan, unexpected things happened to me. One of my steep children came from Addis Ababa to prevent me accessing credit because he found the credit is consuming the asset their father left for them. So I found myself and my child in a serious trouble. I even tried to commit suicide one night and my child prevented me to do so.

While I was in great conflict with the steep children, I tried all the necessary means to withdraw the credit to replace it to lender. I was advised by neighbors that since I am the head of the house and having legal land ownership book, by bearing land ownership book to OMFI, I have the right to withdrew credit. With this mechanism I was given credit and I repaid it for the lender. Even if I overcame the crisis for the time being, I am still in conflict with my steep children. Now I decided to withdraw from Omo by repaying the credit and for this purpose, I will go to Addis to beg

money from relatives and other people in the locality to help me liberate from this Virus.

5.2.3. Psychological Stress

In the first time, smallholders found the Omo Microcredit attractive and easy to repay. Its low interest rate, small amount of money i.e 10 birr per month to save and the year gap to repay motivates smallholders to access a microfinance loan. Practically however, the majority is unable to save and repay the interest rate with income they generate from the credit. Once they entered into Omo, smallholders found it difficult to withdraw from Omo, rather they get themselves impoverished through the bondage formed with money lenders to repay the Omo credit.

Case Study Nine

The money lender refused to give me a loan of 8000 Birr to repay the Omo credit last year if I agreed to repay the requested high interest rate and to return the loan after four days of accessing a new credit from Omo. While the repayment period is forthcoming, I and my children were in a serious stress, and I even tempted to commit suicide one day. I don't have good sleep for many days. We have nothing to be sold except one cow and our land is only half a hectare. Having understand my stress, one of my neighbor helped me in convincing the money lender to help her save from this *gude*(shame). And he agreed to offer the credit and I for the time being got some freedom. Though I passed last year in such disguising situation, I not still free of anxiety because we are not yet prepare to the repaid money 10, 000 birr this year. I don't know what will happen in next three months but no option except attempting to get the repaid money from another money lender.

I already presented that how smallholders used credit off the intended targets and fraction the credit into various portions to address different socio-economic issues. So the clients are expected to come up with the repaid money with its interest rate at the end of the day. For those who have nothing at their disposal, the psychological stress is very high. Though as the informants said, they don't feel comfort whenever they think of the money they borrowed from the microfinance, particularly the stress become more serious when the repayment time approaches. As I observed on the faces during interview times, many are stressed and told me that they don't remember the credit issue because it increases their anxiety. Here under is a case that illustrates the stress:

In my informal discussion, the child of the above case study, says that he is in a great stress about his mother condition whenever he thinks of the increasing debt from Omo. It disturbs his education and he is thinking to stop schooling and planning to go Addis Ababa to engage in a trade to save money so that he can repay his mother's debt and liberate them from stress and disturbance.

Most of smallholders are not different from this because they are under the bondage of lender. In the repayment period, smallholders' wanders here and there to get money lender and convince him to give them repaid and replaced loan. Among Enata smallholders, stories of committing suicide because of unable to repay Omo credit, in their surrounding are circulating. The manager, of OMFI in Emdibir told me the one smallholder who hanged himself because of failing to repay credit in one *Kebele* in Cheha.

5.2.4. Further Indebtedness

Let alone the repayment of the credit with the income smallholders generate by effectively using the loan, the majority is unable to save and repay the interest rate at least. And hence, the debt increased from year to year, not because the smallholders' business expanded or farming system changed over time but because of two sides exploitation of smallholders: Omo and the money lenders. To see the debt situation among the studied smallholders, in their first time credit access from Omo, the credit was only from 500-2000 Birr. Currently, after some six and seven years the debt is from 5000-15000 Birr among the studied smallholders in Enata. Ironically as I observed the highly indebted are those poor household whose farm land is less cultivated, and having no or a few livestock than others who are not interact with microfinance. Among the clients of Omo, it is only in the first time of loan accessed is used for some purposes, be it on target or off target from the perspective of microfinance objectives. For the second and next times until the withdrawal of smallholders from Omo, the loan does not directly added to any economic activities. Because of failure in generating income to repay the credit, as already discussed a new bondage with lenders is formed and a new form of exploitation came with Omo.

While the money lenders are business men devoted for profit without bothering the wellbeing of their customers, the irony is in the case of Omo that an institution established

to help poor households escape poverty. The institution envisioned to liberty poor smallholders or from the exploitation of money lenders ironically enhanced the exploitation further. There are reasons for this in the study area. There is no communication between smallholder and Omo which is located some 20 km from the study area; no advise and training is given for smallholders; there is no regulation and monitoring of smallholders on for what actually they used the credit? What does the credit achieved in the smallholder's livelihood? Which smallholder is benefiting and failing and so who should continue and discontinue? With the absence of all this it is hardly possible that MFI can bring the expected positive changes in rural areas while illiteracy and other risky situations are pervasive. Concerning whether the Omo institution in Emdibir knows smallholders are indebted of the credit they offer, misusing and the exploitation of their clients by money lender, the manager said the following in contradicting with the actual scenario in studied smallholders' area:

So far what we know is the farmers are appropriately using the credit and benefiting of the credit. In fact we don't have continues and regular communication with them because of dearth of staff and infrastructural problems. We know that the amount of credit our rural agriculturalists client is increasing year to year. As they told as (the farmers) this happen because they are expanding their business. Because almost all clients repay their credit, we don't know they are repaying it buy buying money from money lenders. If we were informed of this we, we had been stopping credit offering for such farmers.

5.2.5. Migration to Urban Areas

Young children, both male and female, are forced to stop their schooling and to migrate to urban areas so as to engage in petty trades and other activities to liberate their parents from Omo. For instance, in one family a child at the age of 16 dropped out from school and went to Addis Ababa and he engaged in selling secondhand cloths. Another family also told me that, her daughter migrated to Addis to save money to pay back the Omo credit. As they reported, their daughter was able to save 5000 Birr and in this year, they are ready to repay their credit and then withdraw from Omo. In two families, who understand that the credit from Omo is

going huge and posing a serious economic and social problem in their family, decided to send their children abroad to Arab countries for income generation.

5.3. Challenges that Affects the Negative Impacts

5.3.1. The Recruitment Problem

Having obtained little information for whom they give credit, Omo MFI in Cheha rarely denies credit for those who request it. However, the credit should only be given for those who can repay it by making incomes from the credit. So the MFIs should have carefully assessed the potential credit users. As I already discussed under the problems in the requirement, the group members and the intermediary body tolerate false information presented by applicants. The *Keble* and even OMFI in the study *Woreda* is not in a position to check the reliability of the information of the credit applicant. These problems pave the way that credit goes to those who can't appropriately use it and then are unable to pay the credit back with the profit generated from it. Hence, such feature characterizes the majority of the studied rural Omo credit customers.

5.3.2. Inappropriate Usage of the Credit

Only few smallholders use the credit for the intended purpose of the credit. The majority use it for the construction of a residential house and for other non-income generating social issues. However, "Loan should be given for activities that could bring impact within short period of time and gradually expand to long term business" (ibid.). Besides, the microfinance institutions should identify income generating activities prior to credit disbursement." As discussed below, let alone indentifying and guiding smallholders to income generating activities, there is no regular communication and regulation on the part of OMFI, to check whether a client puts into practice the credit for its intended purpose. While the OMFI, is responsible, "Ensuring the loan proceeds are directed to the intended purposes; following up borrowers' financial and business conditions; providing appropriate advice to the borrowers; identifying emerging problems early" (Hailu, 2000: 8), it is unable to do so. Thus, partly because the smallholders use the credit off the intended aim, they face a problem to repay the credit. So the repayment is done at the expenses of assets selling, exploitation by money lenders, and further indebtedness.

5.3.3. Little Mobilization for Savings

Offering credit alone can't ensure the achieving of MFIs objective of lifting up poor households from the poverty track. Rather equal attention should be given for savings. "Saving and credit should be seen as two sides of one coin" (Kejela et al., 2008:45). Though poor households' livelihood is subsistence, it doesn't mean that they are totally ignorant of savings even if the amount they save varies. "There is a lot of evidence that poor people save though their saving methods varies, in traditional form like keeping the money in house/pocket (ibid.: 38). However, Most of the microfinance institutions in Ethiopia emphasize more the credit approach than providing savings though few institutions; in that respect, ACSI is exceptional (Berhanu and Thomas: 15). One thing should be remembered here while discussing about saving. There are two types of savings: voluntary and compulsory. While the compulsory saving is mandatory, the voluntary one is optional. Hence, all MFIs require a compulsory saving. In the case of Omo, all group members are demanded to save 10 Birr each month regardless of the amount of the credit. Moreover, the saving pattern is the same throughout the year. But, smallholders can have better opportunity to save more during harvest times. MFIs who are determined to promote the voluntary saving can achieve better results than those who solely depend on the monthly insignificant compulsory saving.

Among the studied smallholders in Enata, none has reported to me that they have been saving in Omo except the monthly compulsory saving and the initial 5% the credit done in the first day of credit withdrawal. On side of the Omo Microfinance, the manager told me that the saving culture among their client is too poor and only few are voluntary for saving. Recognizing the poor mobilization their institution made so far, in this they are trying to giving emphasis. When we look at the monthly compulsory saving which is 10 Birr irrespective of the amount of credit a client accessed, it means that a client who borrowed 10,000 Birr is expected to save monthly the same amount (10 Birr) as a client who borrowed 1000. Hence, there is no differentiation among clients in their savings; all clients commonly save 120 Birr in a year, while the cumulative interest rate varies across the credit amount clients used. This implies the annual saving of a smallholder does not exceed the annual interest rate. For instance, while a smallholder saves 120 Birr, the interest rate for a

credit of 7000 Birr is 1050 Birr per a year.²³ This implies that a client can save only 11.4% of the annual interest rate and 1.7% of the credit. We can imagine the consequences of this on smallholder agriculture which is susceptible to many risks. In contrast to this, the experience of CARE-Awash demonstrates “saving precedes credit, and credit is a multiple of the amount saved, it encourages the beneficiaries to further save” (Kejela et al, 2008:45).

5.3.4. Absence of Regulation and Communication with Smallholders

To ensure the success of credit provided to achieve its, MFIS are expected to make intimate relationship and continuous communication with their client. “Conducting and up-keeping continuous or regular communications; checking for early warning signals; making scheduled visits to the customer’s sites; providing advice to the customers” (Hailu, 2000: 7). “Information is power in managing credit” (ibid.: 9). Seen from this perspective, the communication between Omo and its smallholder clients in Enata is disappointing. The contact between smallholders and Omo is minimized for two days per year, only when they repay the credit and withdraw a new credit. To pay the compulsory monthly saving, the group members go to OMFI turn by turn only for repayment purposes. So the only time the clients receive advises to appropriately use the credit is given when they withdraw credit. Otherwise, OMFI does assess whether smallholders has used the credit for its intended purpose or not; it does not make field visit to see challenges smallholders encountered and the give advice for them; it does not know who is succeeding and who is failing? Who is repaying the credit from profit and who is from bankruptcy? Who can continue to access credit again and who should discontinue based on impact assessment?

5.3.5. Weak Institutional Capacity

While skilled and sufficient personnel is important to regulate and supervise the usage of provided credits, the dearth of skilled personal is one of the obstacle that hinders the success of microfinance in Ethiopia. “Lack of skilled personnel is the common problem in Ethiopian Microfinance institutions. This situation is exacerbated by a high turnover of experienced personnel either for the need of better jobs or hate to work in rural areas with

²³ The annual interest rate being applied in Omo is 150 birr per 1000 birr (15%). The methodology is similar across MFIs in Ethiopia.

minimal facilities provided as compared to urban areas which offer better living conditions (Deribie et al., 2013: 14). Let alone skill and capacity of personnel, there are only few staff that are currently working in OMFI in Emdibir, Cheha. The available few staff's daily work is mainly confined to undertake activities in office with little visit to the rural clients they are serving. Though the manager of OMFI reported to me that there are supervisors assigned in each *Kebele* they are interacting with, I didn't find any person working in the studied *Kebele* throughout the fieldwork. As informants reported to me, for few months, there is one young boy from the *Kebele* assigned to supervise Omo microfinance activities in the *Kebele*. But he was not professional, after dropped out from high school, he was agreed to serve as supervisor, with some salary. Only after few months, he stopped the activity because of low salary and migrated to Addis Ababa to engage in petty trade as is the case most of the young boys in the area. So, it is obvious that the Omo Microfinance operating in Emdibir is weak. The indicators as this study reveals are many. Above all the negative impacts seen in the studied area is sufficed to indicate the poor performance of Omo Microfinance in Emdibir. As a manifestations of poor institutional capacity, the negative impacts are resulted mainly from unable to critical evaluate potential credit users, lacks of monitoring the of credit usage its client, absence training and advisees given for the smallholders for appropriate usage, unable to evaluate the failure and success of the clients, failure to halt the unsuccessful households from continuing with credit withdrawal, and inability to mobilize voluntary saving are some of the few institution problems.

5.3.6. Socio-Cultural Factors

The traditional way of farming, dependence on seasonal rain fed agriculture, reliance much on single crop production - *enset*, little approach to engage in new microenterprises, subsistence orientation rather than production for market interacts to the incapacitate of smallholders in the study area in terms of income. Moreover, being highly dependent on urban remittance, many households take credit from Omo with the expectation that their children engage in urban surroundings and will help them in the repayment in times of failure. I observed such orientation, because many of them responded that they want to withdraw from Omo by repaying the credit and for this purpose they are waiting for their offsprings to offer the repaid money. This promotes a smallholder for inappropriate usage

of the credit and less concerned about the repayment with dedication to earn income with the credit. Moreover, like most developing countries, the rural Cheha smallholders are predominantly illiterate who lacks preparing business plan and evaluating expenditures and profits a business or agriculture production. "In developing countries, illiteracy rate is higher in rural areas. Poorly educated households find it increasingly difficult to assess the credit risk and profitability of loans and savings (Shimelles and Zahidul, 2009: 7).

5.3.7. Risks in Smallholders' Environment

The rural agricultural sector is encounters by risks. There are cases that illustrate this issue. The first case is of one smallholder who took credit from Omo for agricultural purpose and actually used for the production of wheat which ended up with a failure due to insufficient rain fall. The other case is related with livestock: death due to attack by a wild animal like a hyena and natural death. One smallholder reported to me a sheep bought by the portion of a credit from Omo was attacked a hayne after one year fattening. Also even among those who used the credit out of the intended purpose, smallholders face problems. For instance, one smallholder who used credit from Omo to build a new hut is burnt out of fire.

5.4. Attitudes of Smallholders Towards Omo Microfinance

Smallholders in the study area have exhibited different attitudes towards OMFI with which they are interacting. Through my informal conversation and formal discussion with groups in the study area, varying ideas are circulating concerning the attitudes they have towards Omo Microfinance. Generally, I attempted to categorize the attitudes into three groups. The first groups are those who developed a positive attitude towards MFIs. These are very few and who have such an orientation are those who used the credit for business activities and benefited from the credit. Their adherence to the use, if it is appropriately used, it is a good means address critical problems and then can help to change ones livelihood. According to this group, the low interest rate, the good sum of loan and the yearly gap given for repayment are the important aspects of microfinance that serves the poor households from exploitation by money lenders. They present a positive change in their life.

The second group constituting the majority, has developed a serious hatred in which microfinance for smallholders who are illiterate is no less than an "acid". Such group views

the money that comes from microfinance institution as not productive. According to them in whatever aspect it is used it ends up with bankruptcy by, indicating cases in their *Kebele*. One smallholder discussant in a FGD, said “if you buy a cow to fatten from the credit accessed from microfinance, then it will die. If you buy a sheep then it will die. So *yemengest Birr* is not appropriate. No body’s life was changed from *yemengest Birr*. The only thing the microfinance credits brought to our village are huge debts. Many sold their land and cow to repay the credit.” Such negative attitude has emanated from the situation they observed. For instance, as the informants revealed, a sheep bought by a microfinance loan was eaten by a hyena and there is another smallholder where a cow bought by Omo credit died. They present a series of testimonies that happened in their surroundings.

Besides such risks that happened in their *Kebele*, discussant in FGDs, and other informants present a serious testimony of what has happened in their surroundings. The diverse groups contacted and asked emphasize the psychological stress that is occurring when the repayment schedule times come and the conflicts are emerging among family members. Such smallholders don’t advise anybody else to access credit from MFIs. IF031 a 60 years old man who has been interacting with Omo microfinance for six years says: “Omo credit is really a virus, which weakens and finally kills you. Initially I borrowed 1000 birr. Now after five years I am indebted 8,000 Birr. Though I plan to free myself from this burden, I am unable to do so. I do not know what I shall do. To repay the loan, it is going to claim at least two of the cows that are the financial base of my family life.”

The third group is the moderate one who took a middle position; they recognize the negative and positive aspects of credits from microfinance. If it is appropriately used it can be a good source of credit to change one’s life. But if it is misused and MFIs leave their clients uncontrolled, they boldly speak about the dangerous aspect of microcredit. They recognized that the smallholders’ indebtedness in their locality is the result of misuse and lack of control.

CHAPTER SIX

SUMMAR OF FINDINGS AND CONCLUSION

Summary

This study is carried out to examine the scenario of the interaction between smallholders and microfinance in an *enset* cultivation setting. Focusing on Cheha *Woreda*, one among the seven Gurage tribes (Sebat-Bete Gurage) where the rural setting is characterized by small and fragmented land holding, farming mainly using human power with traditional implements, and dependence on seasonal rain fed agriculture, subsistence production and dependence on a single perennial crop -*enset* which covers the arable and good proportion of smallholders land. For in-depth investigation, the study was confined to examine the interaction of Cheha smallholders with Omo Microfinance with a case study of Enata *Kebele* that embraces one of the largest clients of Omo and an area identified as one of small landholdings prevailing in the *Woreda*.

The informal financial landscape is still persistent in the area and various traditional savings and credit institutions are operating to serve the financial interests of the rural Gurage people. Particularly traditional saving and credit institutions like *iddir*, *equb* are said to have originated among the Gurage and in the study area various types of these have been functioning to offer credits to members to overcome socio-economic bottlenecks. Beside such traditional and informal financial institutions, credit sources like private money lenders, cashiers, traders, neighbors, relatives and friends also have been accessed frequently to address expected and unexpected socio-economic household and other issues. Such informal financial situation is the feature of the Gurage agricultural setting as is the case in other parts of Ethiopia.

Along with these informal financial aspects, the Cheha *Woreda* has introduced a formal financial institution that is purposely providing financial services compatible with the poor households in general and small scale farming societies in particular. The purpose of microfinance in a rural setting is to primarily offer credit for smallholder farmers to help them achieve agricultural productivity and, secondly, diversifying their sources of income by engaging in agricultural and non-agricultural income generating activities.

Smallholders in an *enset* cultivation setting are expected to access and use credit for this predetermined purpose as the case in MFIs is operating in farming environment. However, this study reveals in its point of reference in Enata rural *Kebele*, the actual reasons that lead majority studied smallholders to access microcredit shows deviation from the intended purpose of using MFIs' credit. Being aware of MFIs offer credit for agricultural and non-agricultural purpose like cattle fattening, poultry, cereal trading and other small business activities only, the smallholders attempt to theoretical present factors to make resemblance with intended purpose of microfinance. Rather than using microcredit for income generating activities and provoking agricultural productivity, the majority smallholders in study area access credit with the intention of mainly constructing a residential house, for expenditures of social and repaying former debts. This implies the role of OMFI of Cheha sub-branch is simple serving as an optional credit offering institution for the majority smallholders in the study area.

There are few smallholders who are committed and have actual reason that fit with intended purpose of accessing microcredit. They try to use the credit to start or expand trade activities. Such smallholders took credit from Omo to engage in trade in Addis Ababa and other towns and cities, by leaving the management of family and agricultural activities for their wives. In the local setting, among the few smallholders who attempt to use the credit for the intended purpose prefer to engage in cattle fattening, livestock trading, and opening merchandise shops. Though such smallholders are very few, they are farmers who are in proper users and beneficiaries of microfinance.

Though the studied smallholders are agriculturalist, their credit request for agricultural purpose is little. They prefer to fatten cattle and engage in trade, rather than raise agricultural productivity by buying fertilizer, high-yield seeds, and bring more land under cultivation. Engaging in agricultural activity is found among the studied small holders unproductive. One reason is that the cost of farming by *marsha* with manpower exceeds the income generated from the production. Secondly, the arable and larger portion of smallholders land is covered by the perennial crop that serves as staple food among the Gurage. Thirdly, though still smallholders have cultivable land, they reserve it for grazing and generating grass for livestock highly valued for their dung for *enset* cultivation and

their products for family diet. Hence, smallholders in enset cultivation scene, has little determination to use the microcredit for agricultural activities compared with other agricultural areas of Ethiopia.

After indentifying a problem whether it fits or deviates with the intended purpose of Omo Microfinance, smallholders forge a group and apply for a credit. Though microfinance credit is to be given for those who have the potential to repay credit by engaging in income generating activities, the case in Enata demonstrates that every credit applicant is positively responded by Omo. This situation is the result of many factors. Firstly, since group forming is prerequisite for credit access, smallholders forge group with neighbors, relatives and local people. Hence, because of such bondage, local people rarely excluded a smallholder even if he/she is risky. Secondly, *Kebele* administrative body which serve as intermediary in client selection favors their local people who apply for credit though there are applicants who are identified having no potential to repay. The third reason is the result of absence of evaluation from the side of Omo, by trusting what is presented by the credit applicants and the intermediary *Kebele*, Omo offers credit for anyone who apply regardless of the socio-economic status of smallholder. This ultimately results in the giving of credit for those who can't repay and it also promotes misuse of credit that culminates in failure in improving smallholders' livelihood.

The other important finding in this study is that, even though the majority of the studied smallholders used the credit for off intended purpose, and there is in appropriate use and wastage, the repayment rate in *Woreda* is said over 99% and 100% in Enata *Kebele* particularly. Though such figure stands for good performance, in study area this does not ensure the success of Omo Microfinance in positively impacting smallholders. The good repayment performance scored by the studied smallholders is the result of many factors. Firstly, repayment is made at the cost of asset reduction and further indebtedness. Since many smallholders use the credit off target and inappropriately, when smallholders fail to make repayable money, they resort to sell their cattle and land. Secondly, those who don't decide to sell their assets, expecting a better future, continue as customers by yearly repaying credits by buying money from the private lenders with exploitative. This resulted in a new exploitative bondage formed with money lenders that makes a vicious circle and contributes to credit increment. Thirdly, the smallholders are heavily told by the harsh

measures Omo will take in cases of failing to repay credit on fixed repayment schedule. Fourthly, since smallholders withdraw credit by forming a group, they are well aware of the consequences of failing to repay credit on their group members. Lastly but not least, smallholders learnt from their surrounding from the measures the OMFIs took against those failed to repay on time and they also heard cases like the commitment of suicide by those failed to pay back credit. Threatened by these situations, the studied smallholders make all the necessary preparation to repay credit on time, even if they failed to generate income with the credit.

The impact assessment among smallholders in Enata demonstrates only few success stories. The positive impact is witnessed in examples of a few smallholders who engage in regular trade and attempt to use it appropriately. Such smallholders, by leaving the management of agricultural activities and family to their wives, engage in petty trade in Addis Ababa and in other towns and cities. In the local setting, one smallholder who opened a merchandise shop and one cattle fattening case are reported as successes. In such cases, Omo credit served as sources of loan with low interest rate and a relatively good sum of money to start or expand trade activities. By attempting to use it for its intended purpose, they are generating income to improve their family's livelihood and some reported the credit enabled to make assets like building a new house. Such smallholders are repaying their credit without engaging in bondage with money lenders, which is the case among the majority of Enata smallholders that are compelled to continue as customers.

The majority of the smallholders and diverse groups in the local area reported about the negative impact that Omo brought in their livelihood and *Kebele* in general. The negative impact is manifested by reducing the assets of smallholders to be able to repay the credit and the annual interest rate, conflicts among family member, further indebtedness, and facilitated exploitation of smallholders by money lenders, psychological stress on smallholders and their family. The general scenario of the studied area is more of failure than success; indebtedness than income generation; debt stress than freedom; impoverishment than betterment; enhancement of exploitation by money lenders than reducing it. There are factors that contributed to the negative impacts of Omo Microfinance brought to the studied smallholders. The assessed factors are poor mobilization for saving; absence monitoring, regulation, and supervision on the usage of the credits among

smallholders, poor institutional capacity, risks in the smallholders setting and socio-cultural factors in the study area. Mostly, the negative impacts are resulted from the institutional problems. OMFI of Cheha sub-branch has showed little effort to control and regulate the usage of the loan and assessing its impact on its clients. Despite give microcredit with low interest, this institution is not different from other profit oriented financial institutions

Because the overall situations of the studied Kebele's smallholders are negatively impacted by OMFI of Cheha sub-branch, accordingly the attitude assessment reveals that the great majority in the study area has a bad attitude towards Omo Microfinance. Besides, the data gathered from in-depth interview and FGDs, my frequent informal conversations with young boys, dropouts from Omo after interacting, and family members reveals that they developed a serious hatred of Omo. Some coins microfinance as "virus" and 'acid" to express how much they are affected by it. The diverse informants similarly stress the problem created in their family, the indebtedness it brought, the selling of land and cows and migration of young boys and girls to urban areas by dropping out from school. Virtually all of the studied smallholders have no interest to continue their interaction with OMFI.

Conclusion

While the MFIs have to be very serious on critically assessing for whom they are offering credit, contradicting with microfinance scheme, Omo Microfinance delivers credit to smallholders without taking into account their status. This is not made because the institution is philanthropist devoted to indiscriminately serve everyone, but because of its failure to make a serious evaluation on the applicants to attain its intended purpose. Such problems from the very beginning continue until the end-repayment by contributing to the failure of the credit in achieving the desirable outcome in the studied majority smallholders' livelihood.

Since Omo Microfinance is working in an area where clients are illiterate and a lack business plan, the control of the usage of the credit is critical on the road to see positive change. What this study uncovers is that the role of Omo is minimized on money lending and collecting it with interest rate by leaving the affairs of using the credit appropriately to the farmers. So, being free from control, the smallholders got the freedom to divert the credit for whatever aspect they want to use it, but have to suffer the consequences when the repayment period arrives on regular basis.

While only few smallholders repay their credit with generated income, the great majority who already used the credit off the target, and inappropriately fail not only to pay back the credit but also the small interest rates. This eventually culminates in the exploitative bondage smallholders forge with money lenders that halted the using of the credit for economic activities and hence, no value is added. While the business of money lenders gets warm and the repayment of Omo is also ensured, the smallholders get indebted, exploited and stressed.

Thus it is hardly possible to expect the desirable success of Omo Microfinance in the livelihood of smallholders in a situation where the institution fails to critically select potential clients, control the usage of the credit and in absence of regular communication and supervision, little mobilization for saving, and have a poor institutional capacity. Uncovering only few successes among those who used the credit for the intended purpose, the scenario of the studied smallholders is characterized by negative aspects and the consequently negative attitude towards the microfinance approach. Rather than facilitating

assets making, like buying more cattle, income generation, liberation from the exploitation of money lenders, and creating good living conditions in a family, the credit ironically results in asset reduction, indebtedness, hastened exploitation by money lenders, conflict among family members and migration of children to urban centers.

Things would have been better, if smallholders were supervised, would be given training on the usage of money, and would be guided to use appropriate in solely income generating areas along with the agricultural productivity. Rather than focusing on these issues which ensure productivity of the credits, Omo Microfinance heavily tells and inculcates in the mind of smallholders the harsh measure it will takes in cases of failure to repay the credit on its uncompromised fixed schedule. More than this, the inculcation and inspiration should be to appropriately use and to motivate smallholders to savings that ensure both the repayment and the big agenda of Omo Microfinance- improving the livelihood of poor smallholders.

This study finally concludes that while the microcredit can be a good credit option for those households determined to engage in regular business activities, the situation of the majority of smallholders will be more disastrous if they do not managed to withdraw early from Omo.

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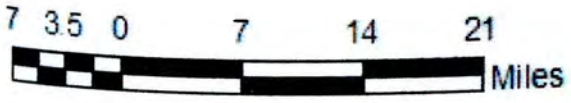
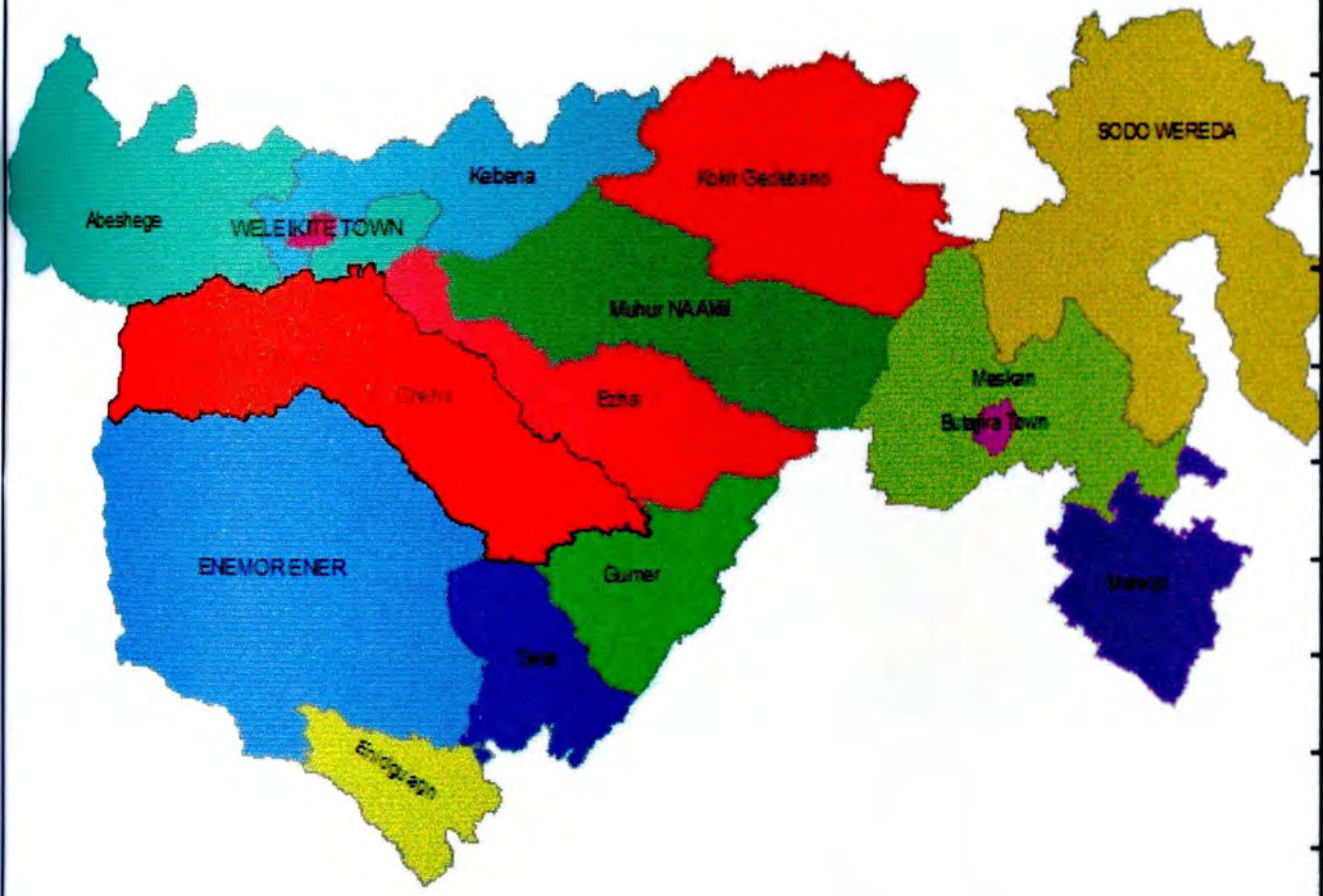
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Annexes

37°30'0"E 37°40'0"E 37°50'0"E 38°0'0"E 38°10'0"E 38°20'0"E 38°30'0"E 38°40'0"E

Geographical location of Gurage Zone

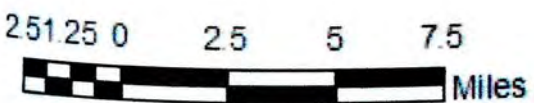


Legend
 Cheha Woreda


Source: Clipped from Ethiopia shape file in ArcGis10 Software

8°50'0"N
8°40'0"N
8°30'0"N
8°20'0"N
8°10'0"N
8°0'0"N
7°50'0"N
7°40'0"N
7°30'0"N
7°20'0"N

Map of Cheha woreda



Legend

 Particular studied kebele

8°25'0"N
8°20'0"N
8°15'0"N
8°10'0"N
8°5'0"N
8°0'0"N
7°55'0"N
7°50'0"N

ANNEX TWO

Research Guiding Questions

2.1. Key informant interview guide line on general socio-economic, political, and related aspects of Cheha Bête-Gurage

Introduction: These guiding questions are prepared with the aim to generate data from knowledgeable key informants in the study area. The data from the informants are needed for an MA work entitled: *Smallholder Agriculture and Microfinance: Interaction in an Ensent Cultivation Setting. The Case of Omo Microfinance in Cheha Woreda, Gurage Zone*. The purpose of the interview is purely academic. Confidentiality of the informant is respected and kept; whatever the information tells, your words and personality will not be disclosed to any third party.

Thank you in advance for your kind cooperation!

Part One: Personal data of Key Informants

Age _____
Sex _____
Marital status _____
Educational background _____
Years of stay in the area _____
Land per hectare _____
Number of livestock _____
Status with MFIs _____
Place and date of interview _____

Part Two: Questions related to the background of the Cheha Bête – Gurage

1. What do you know about the origin of the Gurage people and Cheha –Bete Gurage?
2. What do the Cheha Bête-Gurage share in common with other Gurage descent groups?
3. What distinct features do the Cheha people have in socio-economic and political respect?

Part Three: questions related with socio-economic, political aspects and activities

1. What the political situation in Cheha look like?
2. What is the basis of Cheha people's economy?
3. What means land holding in Cheha?
4. What is the main agricultural production in Cheha?
5. What are the religious believes of the Cheha in time perspective?
6. What are the main religious and cultural festivals in Cheha?
7. What means social grouping in Cheha?

Part Four: questions related with traditional financial institutions

1. What are the main saving and credit institutions in Cheha?
2. For what purpose were traditional savings and credit institutions formed?
3. What advantage and disadvantage do they have?
4. Are they fulfilling the financial needs of smallholders?

Part Five: Questions related with smallholders interaction with MFIs

1. What do you think are the objectives of Omo Microfinance in your setting?
2. For what purpose smallholders access credit from OMFI?
3. Are they actually using the credit for its intended purpose?
4. How is the usage of the borrowed money?
5. How looks the repayment situation of smallholders?
6. How is the impact Omo Microfinance brought in Smallholders in Enata Kebele?
7. What is the support OMFI is giving to smallholders besides giving credit?
8. What attitude do smallholders have towards Omo Microfinance?

Thank you very much for your time and valuable information!

2.2. Guiding Questions for Informants' In-Depth Interviews

Introduction: These guiding questions are prepared with the aim to generate data from knowledgeable key informants in the study area. The data from the informants are needed for an MA work entitled: *Smallholder Agriculture and Microfinance: Interaction in an Enset Cultivation Setting. The Case of Omo Microfinance in Cheha Woreda, Gurage Zone*. The purpose of the interview is purely academic. Confidentiality of the informant is respected and kept; whatever the information tells, your words and personality will not be disclosed to any third party.

Thank you in advance for your kind cooperation!

Part one: Personal data of Informants

- Age _____
- Sex _____
- Marital status _____
- Educational background _____
- Land per hectare _____
- Number of livestock _____
- Status with MFIs _____
- Place and date of interview _____

Thank you in advance for your kind cooperation

Part Two: question related to smallholders interaction with Omo Microfinance

1. Why do you borrow a credit from OMFI?
2. For what purpose do you used the loan?
3. What good and bad things have you experienced in your group?
4. Are you repaying your credit on fixed schedule?
5. How do you repay the credit?
6. What is the impact the credit brings in your livelihood?
7. How looks you contact with OMFI?
8. What attitude do you have towards OMFI?

2.3.Guiding questions for active clients of FGD

Introduction: These guiding questions are prepared with the aim to generate data from knowledgeable key informants in the study area. The data from the informants are needed for an MA work entitled: *Smallholder Agriculture and Microfinance: Interaction in an Enset Cultivation Setting. The Case of Omo Microfinance in Cheha Woreda, Gurage Zone.* The purpose of the interview is purely academic. Confidentiality of the informant is respected and kept; whatever the information tells, your words and personality will not be disclosed to any third party.

Thank you in advance for your kind cooperation!

Part one: Personal data of Informants

- Age _____
- Sex _____
- Marital status _____
- Educational background _____
- Land per hectare _____
- Number of livestock _____
- Status with MFIs _____

Part Two: Smallholders' interaction with Omo Microfinance

1. Why do you borrow a credit from OMFI?
2. For what purpose do you use the loan?
3. How do you repay the credit?
4. Why do you stay as client of Omo Microfinance?
5. What is the impact the credit brings in your livelihood?
6. how looks you contact with OMFI?
7. What are the challenges you faced in effectively using the credit?

8. What attitude do you have towards OMFI?

2.4.Guiding questions for FGD among withdrawal?

Introduction: These guiding questions are prepared with the aim to generate data from knowledgeable key informants in the study area. The data from the informants are needed for an MA work entitled: *Smallholder Agriculture and Microfinance: Interaction in Enset Cultivation Setting. The Case of Omo Microfinance in Cheha Woreda, Gurage Zone*. The purpose of the interview is purely academic. Confidentiality of the informant is respected and kept; whatever the information tells, your words and personality will not be disclosed to any third party.

Part one: Personal data of Informants

Age _____

Sex _____

Marital status _____

Educational background _____

Land per hectare _____

Number of livestock _____

Status with MFIs _____

Part Two: Smallholders' interaction with Omo Microfinance

1. Why do you borrow a credit from OMFI?
2. For what purpose do you used the loan?
3. Why do you withdraw from Omo microfinance?
4. How did you repay the credit?
5. What is the impact the credit brings in your livelihood?
6. How looks you contact with OMFI?
7. What are the challenges you faced in effectively using the credit?
8. What attitude do you have towards OMFI?

ANNEX THREE: PROFILE OF INFORMANTS

3.1. Profile of Key Informants

Code	Sex	Age	Marital Status	Educational Background	Years of Stay In the Area	Date of Interview	Place of Interview
KI01	M	65	Married	-	65	Feb. 15	Enasara
KI02	M	63	Married	-	63	Feb. 19	Engeweche
KI03	M	85	Married	-	85	Feb.14	Engeweche
KI04	M	79	Married	-	79	Feb. 13	Enasara
KI05	M	77	Married	-	77	Feb. 10	Enasara
KI06	F	25	Bachelor	10	25	Feb. 9	Enasara
KI07	F	69	Married	-	43	Feb. 10	Engeweche

KI-Key Informant

3.2. Profile of Informants for In-Depth Interview

Code Name	Sex	Age	Marital Status	Status With OMFI	Socio-economic Status	Date Of Interview	Place Of Interview
IF01	M	42	Married	Active Client	Trader Along With Farming	Feb. 27	Enasara
IF02	M	40	Married	Active Client	Trader Along With Agriculture	Feb. 26	Enasara
IF03	M	26	Single	In-coming client	Farmer	Jan. 3	Engeweche
IF04	M	39	Married	Active Client	Farmer	Jan. 4	Engeweche
IF05	M	47	Married	Active Client	Farmer	Feb. 29	Engeweche
IF06	F	39	Married	Active Client	House wife	Jan. 4	Engeweche
IF07	M	46	Married	Active Client	Farmer	Jan. 4	Enasara
IF08*	M	45	Married	Active Client	Farmer	Feb. 21	Enasara
IF09	F	37	Married	Active Client	Housewife	Jan. 6	Enasara
IF10*	F	38	Widowed	Active Client	Housewife	Feb. 25	Enasara
IF11	M	41	Married	In-coming client	Farmer	Jan. 7	Engeweche
IF12	M	43	Married	In-coming client	Farmer	Jan. 7	Engeweche
IF13	F	34	Married	Active Client	Housewife	Feb. 28	Engeweche
IF14	M	51	Married	Active Client	Farmer	Jan. 9	Engeweche
IF15	F	44	MARRIED	Active Client	Housewife	Jan. 11	Enasara
IF16*	M	51	Married	Withdrawal	Farmer	Jan. 6	Enasara
IF17	M	38	Married	Active Client	Trader Along With Farming	Jan. 10	Enasara
IF18	M	40	Married	Active Client	trader along with farming	Jan. 11	Enasara
IF19*	F	37	Married	Withdrawal	Housewife	Jan. 12	Enasara

IF20	M	37	Married	In-coming client	Farmer	Jan. 19	Engeweche
IF21	M	45	Married	In-coming client	Farmer	Jan. 19	Engeweche
IF 22	M	41	Married	Active Client	Trader along with framing	Jan. 19	Enasara
IF 23	M	43	Married	Active Client	Trader along with farming	Jan. 22	Enasara
IF24	F	42	Married	Active Client	Housewife	Jan. 23	Enasara
IF025*	F	35	Married	Active Client	Housewife	Jan. 2	Enasara
IF26	M	45	Married	Active Client	Farmer	Jan. 11	Enasara
IF 27	M	41	Married	-	Staff, OMFI	Jan. 3	Emdibir
IF 28	M	39	Single	-	Staff, OMFI	Jan, 9	Emdibir

IF- Informant

* also FGD discussant

3.3. Profile of FGD among Withdrawal

Place of Discussion: Enasra

Date of Discussion: Jan. 15

Code Name	Sex	Age	Marital status	Socio-economic status	The situation credit repaid
WFGD1	F	40	Married	Housewife	selling a cow
WFGD2	M	41	Married	Farmer	Selling a milk giving cow
WFGD3	M	47	Married	Farmer	Selling land
WFGD4	M	43	Married	Farmer	Selling land
WFGD5	F	50	Married	Housewife	a child working in Addis Ababa repaid
WFGD6*	F	37	Married	House wife	Selling land
WFGD7*	M	51	Married	Farmer	a child working in Addis Ababa repaid

WFGD- Withdrawal Focus Group Discussant

* also Informant for in-depth interview

3.4. Profile of FGD among Mature Clients

Place of Discussion: Enata

Date of Discussion: Jan. 21

Code Name	Sex	Age	Marital status	Socio-economic status	Years of contact with OMFI
MFGD1	F	40	Married	Housewife	6 Years
MFGD2	M	41	Married	Farmer	7 years

MFGD3	M	47	Married	Farmer	7 years
MFGD4	M	43	Married	Farmer	7 years
MFGD5	F	47	Married	Housewife	6 years
MFGD6*	M	45	Married	Mature Client	6 years
MFGD7	M	51	Married	Farmer	7 years
MFGD8*	F	35	Married	Housewife	7 years

MFGD-Mature Focus Group Discussant

*** also Informant for in-depth interview**

Annex Four: Photographic documentation from fieldwork



The Gurage residential house/*sere-bat*



Tin roofed house (*korekoro-bat*) with /small hut



Partial view of one of the studied villages, Enasara in Enata



A partial view of one of the studied village, Engeweche in Enata



The cultural space in the studied area, Enata



False Banana/ *Enset*



Farming with the digging stick /*maresha*



farmers preparing the fram for potatao crop



Young boys digging with *maresha* (the first from the right side is the researcher)



Adult males threshing wheat with stick (The first from the left side is the researcher)



The researcher interviewing a staff of OMFI, Emdibir

FGD with active clients of OMFI



The researcher interviewing smallholders.