

**SOCIAL CAPITAL AND GROUP BASED
MICROFINANCE: A CASE STUDY ON DEDEBIT CREDIT
AND SAVING INSTITUTION IN MEKELLE ZONE OF THE
TIGRAY REGIONAL STATE**

**BY
MULUGETA ABAY**

A thesis submitted to the School of Graduate Studies of the Addis Ababa University in partial fulfillment of the requirements for the Degree of Master of Arts in Regional and Local Development Studies



JULY 2006



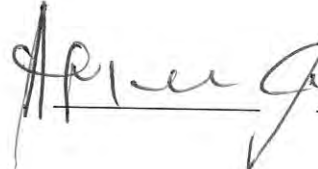
ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES
REGIONAL AND LOCAL DEVELOPMENT STUDIES

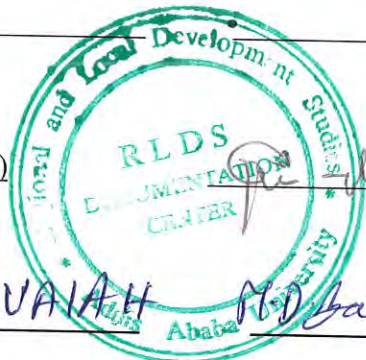
SOCIAL CAPITAL AND GROUP BASED MICROFINANCE: A CASE STUDY ON
DEDEBIT SAVING AND CREDIT INSTITUTION IN MEKELLE ZONE OF THE
TIGRAY REGIONAL STATE

BY
MULUGETA ABAY

Department of Regional and Local Development Studies

Approved by Boar of Examiners

Name	Signature	Date
1. _____ Chairperson	_____	_____
2. <u>Taye Negussie (ph.D)</u> Advisor		<u>July 31, 2006</u>
3. <u>Dr. M.D. BAUAYAN</u> Internal examiner		<u>31/07/2006</u>
4. <u>Ayisew Gebre</u> External examiner		<u>31/07/06</u>



Acknowledgement

First, I would like to express my sincere and special gratitude to my advisor Dr. Taye Negussie for his constructive comment and constant guidance from the onset of proposal development to the Thesis write-up stage. I would also like to thank to the Graduate School of the Addis Ababa University for its financial support to undertake this study.

Many thanks are also extended to all my family members for their moral back up right from the inception of my plan to pursue further education up until the end of it. Special thanks also go to my dear friend Hadush Tesfa of the Mekelle University for his material and moral support. My friends here in the Addis Ababa University, most remarkably Andom, Guad Tsegu, Bihon, Getu, Girmay and Solomon have not been friends just for mere academic pursuit but to be relied upon during difficulties and for happy social hours as well.

My former colleagues at the Tigray region Emergency Recovery Program also deserve thanks for their all rounded support during the data collection stage. Especially I am highly indebted to Ato Hagos Adhana for his kind support in designing my bulky questionnaires in to the SPSS program and Ato Zemichael G/Medhin for his true facilitation during my entry to the data collection stage.

Last but by no means the list, I would like to extend my thanks to the DECSI staff and my respondents at Mekelle for the cooperation and hospitality they showed to me throughout my stay in the study area.

List of Acronyms

ACORD	Agency for Cooperation Research and Development
AEMFI	Association of Ethiopian Microfinance Institutions
CSA	Central Statistical Authority
DECSI	Dedebit Credit and Saving Institution
E.C	Ethiopian Calendar (it lags seven to eight years behind the Gregorian Calendar)
EEA	Ethiopian Economic Association
EWDF	Ethiopian Women Development Fund
FDRE	Federal Democratic Republic of Ethiopia
GBMF	Group based Microfinance
REST	Relief Society of Tigray
ROSCAs	Rotational Saving and Credit Associations
SEEP	Small Enterprise Education Promotion
USAID	United States Agency for International Development

Glossary of local Terms

Birr	Ethiopian Currency
Equb	Rotating saving and credit groups established among people who trust each other
Dehub	South
Gugile	Group
Iddir	An Informal institution in Ethiopia predominantly established for burial purpose
Kushet	The lowest administrative unit below Tabia
Mahber	Religious association usually formed for observing religious ceremonies in a fixed periodic meeting among Orthodox Christians (in this particular study).
Ritban	Local level financial support to financially troubled person
Semen	North
Suwa	Type of local beer in Tigray
Tabia	An administrative unit below district in Tigray

DEDICATION

This study is dedicated to my parents Adey MIHRET KAHSAY and Ayay ABAY YOHANNES for their enduring encouragement and prayers through out my long journey for the pursuit of academic ambitions.

Table of contents

Acknowledgement	i
List of Acronyms	ii
Glossary of local Terms	iii
Dedication	IV
List of Tables	ix
List of annexes	xi
Abstract	xii

CHAPTER ONE

1. INTRODUCTION	1
1.1. Background of microfinance institutions	1
1.2. Statement of the problem	3
1.3. Research Objectives	6
1.3.1. General	6
1.3.2. Specific objectives	6
1.4. Research Questions	7
1.5. Justifications and Significance	8
1.6. Background of the Study Area and Policy Framework	9
1.6.1. Background of the study area	10
1.6.2. Review of policy Framework	11
1.6.3. Background of Dedebit Credit and Saving Institution	11

1.7. Scope and Limitations of the Study	14
1.8. Organization of the paper	15
CHAPTER TWO	13
2. METHODOLOGY OF THE STUDY	16
2.1. Sources of primary data	16
2.1.1. Survey Research	16
2.1.1.1. Survey instruments	17
2.1.1.2. Population and Sampling Techniques	17
2.1.2. Personal Observation	18
2.1.3. Focus Group Discussion	18
2.1.4. Individual Interviews	19
2.2. Data Type and Analysis	20
2.3. Sources of Secondary Information	20
CHAPTER THREE	21
3. LITERATURE REVIEW	21
3.1. Literature on social capital	21
3.1.1 Early thinking about social capital	21
3.1.2 Conceptual Definition of Social Capital	22
3.1.3 Social capital in development discourse	24
3.1.4 Dimensions of social capital	25
3.1.5 Measurements of social capital	27
3.1.6 Instances of social capital benefits	29
3.1.7 The 'down side' of social capital	31
3.1.8 Conceptualization of terms	32
3.1.9 Conceptual Framework for the study	35

3.2 Literature on social capital and group based microfinance	35
3.2.1 Models of Group Lending	35
3.2.1.1 The Grameen type of group lending	36
3.2.1.2 Other model of GBMF	37
3.2.2 The Rotational Saving and Credit Associations	38
3.2.3 Social capital and GBMF	38
3.2.3.1 Social capital as an input for group based finances	40
3.2.3.2 Social capital as a useful byproduct of GBMF	42
3.2.4 Some drawbacks of the GBMF program	43
CHAPTER FOUR	47
4. DATA ANALYSES AND DISCUSSION	47
4.1 Demographic and Socio-economic Characteristics of Respondents	47
4.1.1 Age and sex	47
4.1.2 Marital status and Religion	48
4.1.3 Education and current occupation	50
4.1.4 Sex and occupation.	51
4.2 Relationship between Borrowers	54
4.2.1 Group formation	55
4.2.2 Local level social capital	61
4.2.3 Sources of Information about DECSI	68
4.2.4 Source of finance before DECSI	69
4.2.5 Trust and Reciprocity	71
4.2.6 Group Norms and Sanctions	79
4.2.7 Group Decision Making, Solidarity and Collective Action	86
4.2.8 Attitudes on group based microfinance and clients' quitting	91

4.2.8.1 Attitudes on Individual and Group Based Credits	91
4.2.8.2 Group disbandment and clients quitting of the program	94
4.3 Lender- borrower relationships	98
4.3.1 Non-credit support	98
4.3.2 Institutional trust	101
4.4 Social Capital as a useful byproduct of GBMF	104
4.4.1 Additional benefits as a result of membership to credit group	105
4.4.2 Civic Engagement	107
4.4.3 Belongingness to groups other than the credit group	109
4.5 Conflicts Among Credit Group Members	110
CHAPTER FIVE	113
5. Conclusion and Policy Recommendations	113
5.1 Conclusion	113
5.2 Policy Recommendations	116
REFERENCES	120
Printed sources	120
Electronics Sources	126
Annexes	127

List of Tables

Table 1: Distribution of Respondents by Age and Sex	48
Table 2: Distribution of Respondents by Marital Status and Sex	49
Table 3: Distribution of Respondents by Level of Education and occupation	51
Table 4: Distribution of Respondents by Sex and type of occupation	52
Table 5: Distribution of Respondents by Reason for Becoming DECSI's Client	52
Table 6: Distribution of respondents Membership by membership to Formal and Informal Associations	62
Table 7: Distribution of Respondents by "Knowing" each other	65
Table 8: Distribution of Respondents by How They Happen to Know each other	65
Table 9: Distribution of Respondents by Source of Information about DECSI's Credit Program	69
Table 10: Distribution of Respondents by Sources of Finance Before Joining DECSI	71
Table 11: Distribution of Respondents by Level of Trust and Category Of Clients	72
Table 12: Distribution of Respondents by Source of Trust	74
Table 13: Distribution of Respondents by the Type of Assistance They Seek in Times of Repayment Problem	77
Table 14: Distribution of Respondents by Actions Taken against Defaulters	83

Table 15: Distribution of Respondents by Mode of Decision Making in a Group	87
Table 16: Distribution of Respondents by Level of Group Solidarity	88
Table 17: Distribution of Respondents by Collective Actions Taken	90
Table 18: Distribution of Respondents by Reason Why They Preferred Individual credits	92
Table 19: Distribution of Respondents by the Amount of Loan Cycle they have taken	95
Table 20: Number of Disbanded Clients by Sex	96
Table 21: Distribution of Respondents by a Type of Support from DECSI	100
Table 22: Distribution of Respondents by Their Attitude To DECSI Staff	102
Table 23: Distribution of Respondents by Additional Benefits	106
Table 24: Distribution of Respondents by Whether they have talked to Local Authority	107
Table 25: Distribution of Respondents by Participation to Address Common Issues	108
Table 26: Distribution of Respondents by Their Belongingness to Groups other than the credit Group	110
Table 27: Distribution of Respondents by the Frequency of Incidence of Conflict	111

List of annexes

Annex I: Survey instrument	127
Annex II: Questions addressed to ex-clients	135
Annex III: Questions for focus group discussion	136
Annex IV: Questions addressed to regional office of DECSI	137
Annex V: Questions addressed to sub branches and field officers of DECSI	138
Annex VI: Research processes and challenges encountered	140

Abstract

The **purpose** of this study is to assess the relationship between social capital and group based microfinance. Earlier studies have predominantly focused on the impact of microfinance schemes on the livelihoods of the participants. Much attention was not paid to the social processes underlying the group based microfinance. Therefore, this research has been initiated to fill the knowledge gap that exists in this particularly important area of development. The research was conducted by taking the activities of Dedebit Credit and Saving Institution at Mekelle zone of the Tigray regional state. This microfinance institution is one of the pioneers on the practice of group based microfinance in Ethiopia.

The **objective** of the study was to examine different dimensions of social capital as they pertain to the group-based microfinance. Specifically, it was aimed at studying the social relationships that may exist between the borrowers themselves (before, during and after their involvement in the microfinance institutions) on the one hand; and the lender-borrowers relationship on the other hand.

In order to undertake this research, data collection has involved **methodological** triangulation or a combination of different methods. However, the major research method employed for this study was interviewer-administered survey research. To augment this method, individual interviews, personal observations and focus group discussions were included. Relevant literature and essential documents were also extensively consulted as sources of secondary information.

The **finding** of the study shows that people belong to a number of local level associations and know each other a great deal. These are the major sources for people to form microfinance groups. It also indicates that the microfinance institution does not pay much attention to the local level associations by way of introducing them in to its own program. The other major finding of this study is that social capital- in the form of trust and reciprocity; group norms and sanctions; and collective decision making- is found to be important resource in maintaining the

group based microfinance. It was also found out that despite the presence of large stocks of social capital between members, overwhelming number of the respondents have favored the individual system of credit delivery.

With regard to the lender- borrowers relation, majority of the respondents have indicated that they rarely get the necessary noncredit support, nevertheless they have a trust in the institution for its transparent way of doing things.

The **conclusion** of the study is that the Group Based Microfinance in DECSI could be more viable option to the poor when it is complemented with taking full advantage of social capital elements at group formation stage and the necessary lender's support to clients after groups have been formed.

Key words: Social Capital, GBMF, DECSI, Group, trust, norms

CHAPTER ONE

I. INTRODUCTION

1.1 Background of microfinance institutions

Agriculture is the mainstay of the Ethiopian economy and about 84% of the country's population lives in rural areas. Based on the 1994 population and housing census, population projection has been made by the Ethiopian Central Statistical Authority. Accordingly, the population of Ethiopia is expected to reach 73 million by July 2006(CSA, 2004b).

About 50 percent of the population is estimated to live below absolute poverty. Furthermore, the country faces multiple problems including unemployment, high population growth, and low level of productivity, inadequate and absence of basic supply of social services (Michael and Mulat 2001).

In order to tackle these developmental issues, the country has been pursuing different strategies at different times and regimes. According to Wolday, (2000) the establishment of sustainable and profitable microfinancial institutions that reach a large number of the poor has been a prime component of the new development strategy of Ethiopia, which predominantly focuses on poverty reduction.

After recognizing the importance of microfinance to the poor, the current Ethiopian government has issued a proclamation that has established the framework for licensing and supervision of

microfinancial institutions in July 1996. According to Wolday et al (2001), all microfinancial institutions are to be registered by the National Bank of Ethiopia and nearly all the microfinancial institutions registered by the Bank share the vision of poverty reduction.

The major reason as to why the provision of financial services to the poor is taken as a prime component of poverty reduction is related to the fact that the formal financial sector does not cater this service to the poor. This in fact has many reasons including lack of collateral, physical remoteness from financial institutions, and lack of applicant's information. As a result, poor people resort to the use of informal sources of finance such as family, friends, moneylenders and the like to finance their operations.

To make these microfinance institutions sustainable, the group-based Grameen type-lending methodology has been widely pursued¹ (Mulat and Micheal, 2001). Of course the group-based microfinance has become one of the most talked about development tools not only in Ethiopia but also in most developing countries around the globe (Taye, 2004; Olomola, 2002). The whole idea of this GBMF is to enable individuals and households improve their well being through involvement in social networks i.e. to use social capital as development vehicle (Olejarova et al, 2003).

This particular research focuses on one of the microfinancial institutions in Ethiopia. Specifically it has been conducted on the activities of Dedebit Saving and Credit Institution (hereafter referred to as DECSI for short) in Mekelle town.

¹ The group based lending methodology was introduced to Ethiopia in 1993 under the "Market Town Development Project." See Solomon Damte (1996)

1.2 Statement of the Problem

For the World Bank and other international development agencies, the challenge of managing the production and dissemination of knowledge and information is a major development impediment. But the poor have networks, information, and knowledge about each other and thus less developed countries have to do every thing to tap into the reservoir of knowledge and network deposited among the poor (Ito, 2003). To this effect, development planners and practitioners are recognizing social networks and associational lives as means for fueling development from bottom. This is witnessed by policy makers' increasing reliance on theories of social capital to design development intervention that mobilizes local social networks in an endeavor to alleviate poverty (Rankin, 2002).

Probably more than any other thing microfinance is an area in which social capital has been given a considerable attention. Because by tapping into the information that group members have about each other, these schemes rely on social capital to overcome information deficiencies, reduce transaction costs, and minimize risks to prospective lenders (Ito, 2003). This is from the viewpoint of agencies or institutions that render financial services to the poor. Seen from the view point of the poor themselves, GBMF models are considered as innovative approaches to development for they would enable the poor to receive credit on the basis of membership in self-regulating 'solidarity group' (Todaro, 1995; Rankin, 2002).

What has been stated so far is more of theoretical underpinning explaining the significance of social capital. From the standpoint of this paper, the major interest is to see the claim of the above social capital theory and its practical manifestations in the Dedebit Credit and Saving Institution.

Are there locally tapable social resources at all? How serious is the institution with regard to putting them into practice? These and other practical questions have important roles to play in initiating this research. Equally important is to see how clients of the institution have acquired information about the institution and how the process of group formation takes place.

Another reason as to why group lending – for socially connected people – is advocated has been related to the norms and social sanctions associated with it. Under individual lending, what the borrower has to fear in times of default is penalty a lender may impose. On the other hand, under group lending social penalties serve as important devices in mitigating any negative effect from group lending. Because in times of default social penalties take the form of: (a) strong admonishment from group members; (b) reporting such behavior to the wider community to augment group admonishment; and (c) reducing cooperation with defaulter specially in times of trouble. These are very strong forces to discipline individual behaviors. However, these sanctions are very rigorous in rural areas where social connectedness among communities is typically high (Besley and Coate, 1995). While taking responsibility for others and the subsequent application of group pressure to prove good practice is the core of group lending methodology, a study conducted by Asmelash (2003) in Ganata Afeshum Woreda of eastern Tigray has shown that it is the most disliked arrangement. In fact, the attitude that borrowers hold on the system (like or dislike) is one thing; whether or not there are strong social resources (especially in urban areas) that serve as powerful devices in maintaining the group based lending approach is another thing. This practical question has an important role in initiating this research.

Not only norms and sanctions but also the level of trust and reciprocity; the mode of group decision-making and collective actions taken within groups are worth examining. Additionally the preference of clients either for individually or group credit and the subjective reasons behind these preferences deserve proper research attention.

Those ties or a positive aspect of social relationships that evolve between microfinance institutions or their staffs on the one hand, and borrowers on the other hand is also incorporated into the concept of social capital. When there is trust between lenders and borrowers, the group lending methodology works very well (Ito, 2003). Similarly, Olomola (2002) has indicated that if credit clients consider the strategy of providing credit as a 'negative sum game' the motivation to exercise social control for ensuring improved repayment performance may be constrained. In effect, "it is the vertical relationships (between lender and borrowers) that make the horizontally arranged GBMF scheme work" (Ito, 2003: 330).

What are the realities in DECSI in this regard? Information in this area is undoubtedly important but unfortunately scanty. Tesfay (2003) in his study of DECSI's impact on poor women in Eastern Tigray has tried to explore into the issue. But he has taken the institution's services, and not the social relationships, as proxy measure to understand borrowers' relation with the lender. This research has tried to fill this gap.

Whether or not the practice of GBMF strengthens or creates social capital among borrowers is another issue of great interest to this research. According to Locker et al (2002) eventhough the enhancement of social capital is not the primary objective of microfinance institutions, those that employ group lending and group meeting techniques have the potential to strengthen social capital of a community concerned. There are also some evidence that group based lending erodes social capital because the collective responsibilities for credit management causes tensions, conflict and at times physical assaults among group members (Rahman, 1999; Ghatak and Guinnane, 1999; Molyneux, 2002). This is an antithesis to the concept of social capital, which is related to cooperation, mutual support, trust, and reciprocity. Woldeab et al (2005), on their study of DECSI, have indicated the presence of conflict among group members, owing to the collective responsibility for loans. Why are these occurring? How serious are they? This deserves a thorough study.

1.3 Research Objectives

1.3.1 General

The general objective of this paper is to study social capital in relation to group based microfinance by taking the activities of Dedebit Credit and Saving Institution as a case in point.

1.3.2 Specific Objectives:

The specific objectives of this research are to:

1. Study how borrowing groups are formed;
2. Assess the role of different components of social capital in the functioning of group based microfinance;

3. Assess the relationship between borrowers and staff of the microfinance institution;
4. Examine if social capital is strengthened or created due to borrowers' involvement in group based microfinance;
5. Explore possible conflicts among group members that may arise from the collective responsibilities for common credit management and
6. Propose some policy recommendation on the group based microfinance

1.4 Research Questions

This study attempts to see the relationship between social capital and group-based microfinance. To this effect, the two main complementary research questions are “what is the role of social capital in the functioning of group based microfinance and how is social capital in turn affected by group based microfinance.” The sub questions of these grand questions are:

1. What are the mechanisms used for forming groups in Dedebit Credit and Saving Institution?
2. What roles do different components of social capital play in ensuring the functioning of group based microfinance?
3. How does the borrowers- lender relationship look like in Dedebit Credit and Saving Institution?
4. Can social capital be strengthened or created as a result of borrowers' involvements in a group based microfinance?
5. Is there any incidence of conflict or friction among credit group members?

Therefore it is hoped that by answering these questions, it may be possible to tackle the specific objectives of this research.

1.5 Justifications and Significance

Eventhough this is not with in the scope of this paper to exhaustively discuss all the studies conducted on microfinance institutions in Ethiopia, it is important to look at the themes of a few of them on a bid to see the attentions of previous researchers. By doing so, it may be possible to see the justification and significance of this research.

Teferi (2000) has undertaken a study on the impact of DECSI's intervention in reducing poverty in Tigray. Similarly, Tesfay (2003) has conducted a study on DECSI's women clients and their poverty situation after involvement in the program. Level of income and diversification of sources of income, change in house repair and expansion, and changes in social position of women were taken as major indicators of change in welfare.

Asmelash (2003) has also conducted a study on the impact of microfinance on beneficiaries' lives by taking DECSI's activity in eastern Tigray as a case study. The major variables taken to conduct the impact assessment were change income and household asset, housing improvement, access to education and medication, diet improvement, capacity to cope with difficulties and women's empowerment.

Bamlaku (2004) has also undertaken a study on Amhara Credit and Saving Institution. The objective of his research was to evaluate impact of the program on the lives of beneficiaries. The study focused on changes in the welfare of beneficiaries, the program's performance in terms of outreach and sustainability and client's opinion about the program. Argaw (2004), on the other

hand, has undertaken a study on the institutional capacity of microfinance institutions in Addis Ababa.

Eventhough these studies may not fully represent the numerous researches devoted to the activities of microfinance institutions, they may suffice to observe the attention of researchers. In this regard, it is possible to see that the interface between social capital and microfinance programs has not been given due focus. Whereas most microfinance institutions in Ethiopia deliver loan to the poor using social collateral as a basis for social capital, studies on microfinance and social capital are scanty. Are microfinance programs properly identifying locally available networks? Are they harnessing them into their programs? What norms social penalties or peer control play a role in correcting defaulters? Are trust and reciprocity significant forces in maintaining the common credit? Do clients of the institution favor or reject the group credit and why? Generating information and seeking full or partial answers to these and other questions is of paramount practical importance. To this end the research my shed light on the understanding of policy makers, researchers and practitioners of microfinance institutions.

1.6 Background of the Study Area and Policy Framework

The following section briefly discusses background of the study area, the necessary policy framework that led to the development of microfinance institutions in the country and background of the microfinance institution under study.

1.6.1 Background of the study area

Tigray is a region with a total population size of about 4,216,350 and an area of 50,078sq.kms. Out of this figure, female and male population accounts for 2,176,369 (52%) and 2,039,981(48%) respectively. With regard to the population settlement of the region, 3,484,210(83%) live in rural areas and the remaining 732,140 (17%) dwell in urban centers (CSA, 2004a).

For administrative purposes, the region is divided into five zones and 34 woredas (FDRE, 2003). The region has a number of urban centers. Mekelle serves as a regional capital. According to the recent administration setup (held in 1994 E.C), the town of Mekelle consists of four areas: the old town of Mekelle; the town of Quiha; the town of Aynalem; and small villages on the outskirts of the town, which were incorporated into the town administration recently. By the year 2004, the total population of the town was estimated at 207,308. By 2010, this magnitude is expected to rise to 306,189(Mekelle Town Plan Preparation Project Office, 2005).

With regard to the socio economic condition of the population, proportion of the town dwellers living in absolute poverty (taking a combination of food and non food indicators) in the years 1995/96 and 1999/00 was 41% and 43% of the total households respectively. As per a study conducted by the town's municipality in 1997, unemployment rate was estimated at 21%. The high level of unemployment and poverty in the town is a combination of several natural and man made factors: high urban population growth rate; the influx of agricultural labor to the town; and recently the arrival of large number of deported and displaced persons from Eritrea due to the Ethio- Eritrean border war (Mekelle Town Plan Preparation Project Office, 2005).

1.6.2 Review of policy framework

Having recognized the importance of microfinance institutions for both the urban and rural poor, the current Ethiopian government has issued a proclamation to regulate microfinance programs in the country. It is issued as proclamation number 40/1996 and aims at establishing the framework for licensing and supervision of microfinance institutions. The National Bank of Ethiopia was given the power to register and regulate the activities of microfinance institutions in the country (FDRE, 1996; Wolday et al, 2001; Teferi, 2000).

In view of the interest of this paper the following points- which are incorporated in the proclamation are- worth mentioning:

- Group guarantee is considered as a mechanism whereby a group of borrowers undertake to be liable jointly or severally to defaulted loan of any one of them;
- With regard to the duty of microfinance institutions, providing counseling to clients, encouraging income generating projects for urban and rural micro operators and rendering different advices to clients are considered as some of the most important tasks;
- The significance of promoting local social networks such as Equib in order to benefit low income groups has been emphasized; and
- Implementing the policy of substituting group guarantee in place of property collateral to reach the poor with financial services is considered as a core issue (FDRE, 1996).

1.6.3 Background of Dedit Credit and Saving Institution

In 1993, the Relief Society of Tigray (REST) conducted a study on rural poverty in Tigray. The study revealed that formal financial institutions were inaccessible to the poor and hence lack of

credit was a constraint in the rehabilitation and development effort of the region. Based on this finding, REST created a Rural Credit Scheme in Tigray in 1994 with the aim of catering financial services to the rural poor (Teferi, 2000; Woldeab et al, 2005).

After the promulgation of proclamation 40/1996, the Rural Credit Scheme was renamed as Dedebit Saving and Credit Institution (DECSI) and was formally registered as microfinance institution in March 1997. After its establishment, the development of DECSI was relatively fast. This was owing to the local and international support it received (Woldeab et al. 2005). Today it is owned by shareholders: the Tigray Women's Association; Tigray Youth Association; Tigray Farmers' Association; Relief Society of Tigray and the Regional Government.

The institution delivers financial services to the poor people in rural and urban areas of the region. As of December 2005, DECSI had nine branch offices, ninety-eight functionally decentralized sub branches and eleven microfinance offices throughout the region (DECSI, 2005). The sub branch is the basic organizational and operational unit. Group loan, which is the focus of this research is processed, approved, disbursed, and followed up at sub branch level.

The major objectives of DECSI are to: help small producers become financially independent; enhance the productive capacity of small producers; provide saving facilities and there by foster thrift; create employment and raise the standard of living of clients and their families (DECSI, 2002).

With regard to products /services of the institution, consultation of DECSI's documents and information obtained through interview indicate that it has four basic products:

- (a) Loans, which is further divided into Regular Loans, Agricultural input Loans, Household Package Loans, and Micro, Small and Medium Enterprise Loans;
- (b) Saving which is composed of compulsory deposits of group and center savings; and voluntary deposits from clients and the public;
- (c) Pension payments; and
- (d) Local money transfer services (DECSI, 2005; DECSI, 2002).

DECSI has been implementing some reforms since the year 2003. Based on this, it has recently introduced the following reforms:

- Reduction of the minimum group size of borrowers from five to three per group;
- Adjusting the repayment period from one year to more than one year depending on type and purpose of loans;
- Property collateral lending system for individual borrowers;
- The introduction of food security loan aimed at diversifying the income sources of the rural poor as well as small and medium enterprise loan to support activities of the urban unemployed (DECSI, 2005).

With regard to its performances, DECSI has registered remarkable achievements in outreach and saving mobilization. As of December 2005, it has reached 419,052 loan clients and 227,659 saving clients. DECSI's total loan disbursement for the same period amounts to Birr 97.6 million for regular loan, 551.7 million for household package loan, 5.2 million for agricultural input loan and 24.7 million for Micro, Small and Medium Enterprise loan. This totals to Birr 679.2 million Birr. Saving is also an important service of the institution. The level of net saving as of December 2005 amounts to Birr 189.9 million, of which 85% of it is from borrowers and the remaining 15% is

from local level organizations including churches, Iddirs, Associations and the like (DECSI 20005, and interview with staff, March 2006).

The Institution is also planning to introduce an urban package loan. This package benefits households that are under severe urban poverty: having a family size of five and above; a monthly income of less than 150 Birr and living in rented houses. The interest rate is lower than the group based approach and is to be delivered individually.

Inorder to alleviate the high level of poverty and unemployment, DECSI started operation at the town of Mekelle in the year 1997. In Mekelle town, there are two sub branch offices, which are functionally decentralized to process, approve and disburse group loans and follow up their utilization. According to the sub branch heads, from program commencement up to the end of February 2006, it has reached 13,059 loan clients. This represents about 3% of the total DECSI client at regional level. Regular loan disbursement up to the same period amounts to Birr 57,412,950. Saving is also mobilized from clients, governmental organizations such as schools and civic association

1.7 Scope and Limitations of the Study

The scope of this paper is limited to an assessment of the dynamics of groups in the microfinance institution under study. It has discussed the interplay between social capital and GBMF. However it has not gone into the details of studying the group social capital along with the economic impact assessment. The horizontal and vertical social capitals (in the form of knowing one another, trust, reciprocity, norms and sanctions etc) serve as important inputs to ensure the functioning of GBMF. At this stage, one may ask if ensuring the functioning of GBMF is an end

in itself- the end being economic and social well being of the borrowers. However, it is also equally important that the means (relationships of participants) deserves a thorough study. By doing so, it may be possible to identify strong and weak sides, which would ultimately contribute to the achievement of the desired ends.

With regard to limitations of the study, it has focused on Mekelle zone despite the vast presence of DECSI all over the Tigray region. Thus, it may not have a scientific justification to assure the reader that conclusions drawn out of this paper can be representative or applicable to clients of GBMF all over the region leave alone the country. Some of the other major shortcomings of this paper are:

- The time allocated to undertake the study was short;
- The financial shortage forced the researcher to limit the sample size and scope of the study;
- The study was limited to urban area only;
- Limited data sources, especially DECSI's manuals and guiding principles could not be accessed by the researcher and
- Shortage of reference materials as pertained to Ethiopian context.

1.8 Organization of the paper

This paper has five chapters. The first chapter discusses the introductory part of the paper. In the second chapter, different research methods used for data collection are briefly discussed. The third chapter discusses relevant theoretical and empirical literatures which are believed to serve as a firm bases for the study. Data presentation, analyzes and discussion is indicated in the fourth chapter. The last chapter recapitulates the paper by way of providing the concluding remark and policy recommendations.

CHAPTER TWO

2. METHODOLOGY OF THE STUDY

Data collection has involved methodological triangulation or a combination of different methods and data sources. The combined use of these methods in this research helps in collecting intensive information from interviews and focus group discussion and extensive information from survey respondents. To this end, the following methods have been employed as tools of data collection.

2.1 Sources of Primary Data

2.1.1 Survey Research

As GBMF and social capital entails tracking the notion of change overtime, in terms of earlier stages of group formation, and process of members' relations in due course of staying together, the best survey design would have been longitudinal survey. Nevertheless, it has some pitfalls, i.e. even if it produces rich information it is not time and cost effective. Hence, the researcher has approximated longitudinal survey with cross sectional survey. In this case, survey respondents have furnished information of the past (pre involvement in GBMF, during group formation stage etc) and necessary information pertinent to their current situation after involvement in a GBMF. That is why it is referred to as approximation of longitudinal survey using cross sectional survey design.

Senior students from Mekelle University who have had a considerable exposure to survey research and able to speak the local language (Tigrigna) were recruited as data collectors for the study. Half a day orientation was also given to the data collectors. The questionnaires were

mainly filled in two places: at sub branch offices where clients come to repay their loans; and at market places where the respondents perform their business activities. The researcher checked the accuracy of data collection both on the spot and at the end of every day. Accordingly, the necessary feedback was communicated to the data collectors.

2.1.1.1 Survey instruments

In this research, both standardized and open-ended question items were included in the survey instrument prepared for this purpose. The question items were prepared in such a way that they enable to gather information related to: individual level basic data; the formation of credit groups; group process and relations with in group; client-staff relations; possible conflicts and frictions with in groups and the like.

The questionnaires were prepared in English. However, for clarity, timeliness, and convenience during data collection stage, they were converted to the local language (Tigrigna). A pilot study (pre-testing) has also been conducted on five individuals at the loan collection centers to test for reliability and relevance of the question items to the objectives and research questions of this paper. Accordingly, vital feedback was obtained and necessary amendments made on some of the questions before the commencement of the actual data collection date.

2.1.1.2 Population and Sampling Techniques

SEEP (2002), a manual prepared by USAID to guide microfinance practitioners, stipulates a rule on how to select sample in GBMF. The guideline indicates first to sample groups and then to sample the individuals with in the selected groups and to use simple random sampling in both cases. The writer of this research has adopted this guideline except that the sampling design was

systematic sampling. This is due the familiarity of the sampling design to this researcher. To this effect, there were two sampling units (element or a set of elements considered for selection in some stages of sampling) in this research: a list of credit groups and a list of individuals with in the selected groups, which were used as survey population. The researcher has selected both the groups and the individuals with in the groups using systematic sampling.

Based on the lists obtained from Mekelle Dehub and Semen sub branch offices of DECSI, this research has employed a two-stage cluster sampling design to select the respondents. During the first stage out of 2,215 groups, only 111 groups were selected. The selected groups consisted of 366 members of which 120 clients were selected at the second stage. In both cases, a sampling interval was produced by dividing the survey population to the sample size. Following that, the starting number was picked using lottery method and the next respondents were selected by adding the sampling interval to subsequent numbers starting at the initially selected individual.

2.1.2 Personal Observation

Personal observation was also used to learn about relationships in a GBMF. Two places were particularly important for this task: the sub branch offices where clients gather for credit and saving related issues; and two market places in Mekelle where they are largely concentrated to carry out their businesses.

2.1.3 Focus Group Discussion

Focus group discussions were conducted to elicit additional information as it pertains to the specific objectives and research questions of this paper. The focus group discussions were held on four groups, of which three were female groups and one was male group. Based on the

consultation with DECSI staff, discussion was held with strong and weak groups. Length of stay in the program, repayment performance and the management of group matters collectively were taken as yardsticks for the strength and weakness of groups. By implication, the selection of groups for focused discussion was made purposively.

2.1.4 Individual Interviews

Interviews were also conducted with DECSI staff, active clients, and ex- clients of DECSI. To achieve this objective, a list of questions were prepared in order to guide the interview with staff members of the institution and ex clients. To this effect, the Operations Manager at the regional office, sub branch heads of Semen and Debub Mekelle and two field officers from each sub branch were included in the study. Whereas questions addressed to the Operations Manager were more of policy related ones, questions forwarded to the sub branch heads and the field officers were aimed at grasping practice related issues. Ex-clients were also included in order to obtain information on their experience with both DECSI and former group members. Since the objective was to add information to the main survey, only five ex clients were included in the interview. They were purposively selected based on two criteria: those who had some problems related with repayment of their loans and those who had no repayment problem but quitted DECSI for different reasons. The five ex-clients were contacted through the help of field officers of DECSI who had information about their whereabouts. (For the details of research processes and challenges encountered, refer to Annex VI of this paper).

2.2 Data type and Analysis

The data gathered for this study includes both qualitative and quantitative. The quantitative data has been generated using the survey research as it was indicated above. The qualitative data, on the other hand, was collected through individual interviews, focus group discussion, and personal observations.

After data collection, the questionnaires were analyzed using the SPSS program. The data are tabulated using numerical value and percentages. In addition, the analysis is predominantly based on descriptive methods such as percentages and frequency distributions followed by qualitative analyses. Information obtained through focus group discussions and individual interviews are also included in the form of in-depth case stories to support major discussions.

2.3 Sources of Secondary Information

Documentary research-the systematic use of printed or written material for investigation - has been employed as a source of secondary information. This is aimed at supporting the survey research using scrutiny of documentary research. To this end, the researcher has used international research publications, books, national publications (specially published by AEMFI and EEA), pertinent Ethiopian government documents, and previously written thesis as sources of secondary information.

CHAPTER THREE

3. LITERATURE REVIEW

This chapter contains two broad sections. The first part deals with reviewing the literature on social capital. The second part discusses social capital as it pertains to group based microfinance.

3.1 Literature on social capital

In this section, the origin of social capital, its conceptual definitions, its dimensions and measurements and some instances of its benefits and costs are briefly discussed. Towards the end of this section, important terms and phrases are conceptualized as they relate to the objective of this paper.

3.1.1 Early thinking about social capital

The study of the emergence of social relations has a long intellectual history. In fact tracing back the intellectual origin of the concept of social capital does not yield in the same result. Policy Research Initiative (2003) as cited by Tseyey (2005) locates the first use of the term social capital, as it is used to date, to the writings of Lynda J. Hanifan in 1916. Fine Ben (1998) on the other hand relates the concept to the relationship between the state and civil society as development proceeds. In this regard Fine's conception of social capital dates back to the mid 19th century.

Eventhough it may be difficult to trace back the exact date of its emergence, the more recent and more influential origin of social capital is derived from the works of James Coleman. For Coleman the family or other aspects of the micro social environment determine individual's possession of social capital. In fact, Coleman is responsible for bringing the term social capital into wider use in recent years (Fukuyama, 2001).

The next stage in the evolution of social capital is the passage from Coleman to Putnam. According to Fine (1998) Putnam's contribution, from a conceptual viewpoint, is by far less than the success of popularizing the concept in the areas of politics, state and development.

Today the most notable thinkers in social capital theories are James Coleman, Pierre Bourdieu and Robert Putnam. They have understood social capital as a resource for collective action. Nevertheless, they differ in their perceptions on the outcome of social capital. As cited in Stone (2001), for Bourdieu (1993) the out come is economic well being; for Putnam (1993) it concerns with democracy at nation state level; and for Coleman (1988) the outcome is acquisition of human capital in the form of education.

3.1.2 Conceptual definition of social capital

There is substantial debate surrounding the precise definition of social capital. While it has been given a number of definitions, many of them refer to the manifestations and/or functions of social capital than social capital itself (Fukuyama, 2001; Grant, 2001; Elinear, 2003).

Next, let us see how different theorists and authors have defined social capital. For Putnam (1993) as sited in Rankin (2002) social capital denotes to features of social organization such as

social trust, norms, and networks that facilitate coordinated action and cooperation for mutual benefit.

Also for some authors like Abom (2004) the concept of social capital goes far beyond norms of cooperation and coordination at a smaller scale. It is rather perceived as a critical resource for societies to be empowered from below and development to be sustainable.

There is also a tendency among many theories to conceive social capital as the ability to secure benefit because of membership to a certain group(s). Taking a few definitions developed by different theorists can strengthen this argument.

For Frank and Yasumoto, (1998) social capital is defined in terms of resources that actors may access through social tie. Silvery and Elmhirst (2003) have also provided a more or less similar definition. For them, social capital stands for the ability of actors to secure benefits by virtue of membership in social networks, groups or other structure.

On the other hand Ito's (2003) view of social capital resembles that of Putnam's. The former has understood it to mean those norms and social relations embedded in the social structures of a society that enable people to coordinate action to achieve mutually desired benefits.

Similarly, Coleman (1988) defines social capital by its function. For him social capital is not a single entity, but a variety of different entities, with two elements in common: (a) they all consist of some aspects of social structure; and (b) they facilitate a certain actions of actors- whether person's or corporate actors-within the structure.

3.1.3 Social capital in development discourse

Before the 1990s, major theories of development held rather narrow views of the role of social relationships in economic development. The modernization theorists- dominant in the 1950s and 60s- regarded traditional social relationships and ways of life as impediments to development. These theorists advocated doing away with traditional relationships. Similarly, the argument of dependency and world systems theorists held a view that social relation among corporate and political elites to be a primary mechanism for capitalist exploitation (Webster, 1990).

Similarly, neoclassical and public choice theories- the most influential in the late 1980s and early 90s- assigned no distinctive properties to social relations per se. These perspectives focused the strategic choice of rational individuals (Woolcock and Narayan, 1999).

Unfortunately neither the policy prescriptions nor the theoretical discussions of these perspectives match to realities on the ground. Poverty, unemployment and other social ills did not show an improvement. In the persistence of market and state failures the need for the incorporation of social capital theories in order to have a full comprehension of development needs became unavoidable. It was in response to this need that the concept of social capital became part of the development discourse. Of course after the 1990s the concept of social capital was championed by development institutions such as the World Bank and has been announced as a “missing link” or a “magic bullet” with a power to correct state and market failures (Silvey and Elmhirst, 2003; Fine, 1999; Rankin, 2002; Woolcock and Narayan, 1999).

What made this concept appealing in the main development discourse? According to Silvery and Elmhirts (2003), Oljerova et al (2003) and Malyneux (2002) social capital has become important in development thinking and practice for the reasons that:

- It is understood as those aspects of social relations that can be converted into other forms of capital (economic or cultural) and analysis of it is therefore helpful to explain how individuals can improve or maintain their positions in society;
- The concept is argued to have much to offer in directing attention towards aspects of development other than economic growth;
- It is viewed as useful because of its perceived role of civil society in addressing problems beyond the reach of the market and state; and
- The concept seems to help explain various social and economic phenomena, hitherto poorly explained by other theories.

3.1.4 Dimensions of social capital

Distinguishing different dimensions of social capital within and between communities is useful for understanding problems faced by the poor and the importance of social networks in ameliorating those problems (World Bank, 2000).

To this effect, it is imperative to configure social networks that form the basic component of social capital. Many authors have tried to distinguish different types, levels and performance outcomes associated with different combinations of dimensions of social capital.

Grant (2001) has identified different alternatives for distinguishing dimensions of social capital. Accordingly, social capital can be seen as comprising both horizontal relationship between

members of community, family or household; and vertical relationship between communities on the one hand and institutions (such as government bodies) on the other hand. Alternatively, the same author has distinguished structural component and cognitive component of social capital. Whereas the former refers to the composition, practice, networks, and linkages of local level institutions (both formal and informal), the latter is used to indicate the values, beliefs, attitudes, social norms, solidarity, and reciprocity.

However, the most common distinctions established by many authors when discussing about dimensions of social capital are bonding, bridging and linking social capitals. Let us look at each of these in brief:

Bonding social capital

This dimension of social capital exists among kin or extended family or work members. This is a strong tie, which connects family members, neighbors, close friends, and business associates. In effect, these ties connect people who share similar socio-economic background (World Bank, 2000; Abom, 2004).

Bridging social capital

This dimension of social capital refers to the 'weak horizontal tie' Connecting individuals of comparable economic status and political power (World Bank, 2000). Unlike bonding social capital, bridging social capital is a tie that exists among distant friends, associates and colleagues and cuts across different communities or group (Grant, 2001). According to Putnam (2000), as cited in Office for National Statistics UK (2001), bonding social capital is good for "getting by" while bridging social capital is crucial for "getting ahead."

Linking social capital

This third dimension of social capital refers to a vertical tie that may exist between poor people on the one hand and people in position of influence in formal organizations on the other hand. This dimension captures vitally important component of social capital because it is all about connecting the poor to places or institutions where major decisions related to their welfare are made (World Bank, 2000).

Also, according to Taye² (2004) and Rankin² (2002) social capital manifests itself at both micro and macro levels. At micro level social capital consists of intra community tie, which is called integration and extra community networks or Linkage. At macro framework, responsiveness to civil society is referred to as synergy; and competence and institutional coherence of institutions as organizational integrity.

3.1.5 Measurements of social capital

One of the weaknesses of the concept of social capital is the absence of consensus on how to measure it. This is due the presence of major difficulty in designing a generally acceptable tool to measure it.

According to Krishna (2001) the concept of social capital does not lend itself to measurement. This is because “social capital is not directly observable; people carry it inside their heads. What one can observe and measure are some manifestations of social capital”(Krishna, 2001:940).

² Both authors adopted a typology developed by Michael Woolcock, a World Bank sociologist, in a work titled as “Social Capital and Economic Development: Toward a Theoretical Synthesis”

However, this does not mean that efforts have not been done to come up with empirical measurements of social capital. Several researchers and theorists of social capital have exerted a considerable effort towards this end. Despite these efforts, empirical measurements on social capital have not been developed, hence many researchers resort to eclectic approaches.

Let us look at some of the approaches used by different researchers to measure social capital. Oljerova et al (2003) in their study of “Microfinance, Social Capital Formation and Political Development in Russia and Eastern Europe” employed trust, voluntary involvement and political participation as indicators of Social capital. Olomola’s (2002) study on “Social Capital, Microfinance Group Performance ... in Nigeria” used social homogeneity index ³ and coefficient of variation of membership plurality ⁴ as proxy measures for social capital.

Fukuyama (2001) on the other hand indicates two broad approaches to measure social capital in a given society: Conducting a census of groups and group memberships; and using survey data on levels of trust and civic engagement.

Abom’s (2004) study, which focused on “social capital, NGOs and Development in Guatemala” has employed norms of civic participation, cooperation, collective action, social networking, trust and reciprocity, as proxies for social capital. Also Elinear, (2003) in a study of Jamaican experience on social capital, sited more or less similar indicators: density of participation in

³ Composed of religion, membership to same community, belongingness to the same ethnic group, cultural affinity, common neighborhood and consanguinity

⁴ The number of memberships simultaneously held by a group member

networks and associations; a sense and a practice of reciprocity among people; trust; and social norms that serve as forms of informal social control.

Kennedy et al (1998) in their study of the "Role of Social Capital in the Russian Mortality Crisis", they employed civic engagement, trust in government and social cohesion as indicators of social capital. Krishna (2001) on the other hand conducted study on stocks of social capital in rural India and used participation in informal networks, as proxy measure for social capital.

3.1.6 Instances of social capital benefits

As it was indicated above, social networks and organizations are key assets in the list of resources drawn by the poor people to manage risks and opportunity. This section briefly discusses the significance of social capital as a resource for the poor. In order to illustrate instances of its usefulness, research outcomes conducted in many countries are cited as evidences.

Elinear (2003) indicates that as social capital grows in any communities, people begin to fill wanted and respected in their respective community. Similarly, Rankin (2002) argues on the significance of social networks in the enhancement of social opportunity. Social networks are important to succeed in business, in the job market, in academia and in human well-being.

In terms of empirical studies, the World Bank (1997) in Abom (2004) conducted a research in Kenya. The research was aimed at comparing social capital measures vis-à-vis village income. Researchers came up with a conclusion that villages with higher level of social capital tend to have higher overall village income. Because they were able to communicate and cooperate more

easily, which led to economic benefits such as sharing information and reducing cost of transaction. Another study conducted in South Africa by Maluccio et al (2000) has come up with similar outcome. The study was aimed at observing the relationship between social capital (as measured in terms of group membership) and household welfare. The research found out a positive and significant impact of social capital on household welfare.

Research has also been conducted to see the role of social capital on human health and mortality. Kennedy et al (1998) have found out that social capital as measured in terms of trust, reciprocity and engagement in civic and voluntary associations reduces crime rates, divorce rates and conflict in work places. These in turn, have strong positive association with mortality and life expectancy.

The importance of social capital has also been researched in the area of job creation. Silvey and Elmhirts (2003) indicated that rural urban migrants in Indonesia used urban networks to obtain jobs. Similar social network has been established with families back in their village. This network benefited the migrant workers as a safety net in times of unemployment and lay off and their families obtained remittance through the established network.

Also Oljerova et al (2003) and Kennedy et al (1998) indicated the significance of informal social networks in dealing with social security problems in Russia. In their research they found out that

half to two-third of Russians depend on friends and relatives to borrow money in time of financial trouble⁵.

3.1.7 The 'down side' of social capital

There is a widespread optimism that social capital has both beneficial and positive outcomes. However, this deterministic relationship between social capital and development has been challenged by many researchers. Researchers used such phrases as the 'down side', 'dark side' or 'costs' of social capital to capture its negative sides. Whatever the wording may be, it is now widely recognized that social capital has both desirable and negative outcomes.

Mayoux (2001) outlines the following dimensions of the potential down sides of social capital:

(a) social networks, which provide people with access to markets through reputation and repeated transactions can exclude new entrants.

(b) Community pressure may be harmful to individuals as tradition can hinder individual freedom and creativity and members who do not abide by norms of a group may be ridiculed. Silvey and

Emhirst (2003) have also outlined a number of potential costs of social capital:

- Relation of trust and solidarity may bring unwelcome obligations and claims;
- Economic mobility of individuals may be hindered as community norms constrain the development of ties outside close-knit networks;
- A process of solidarity formation may imply social exclusion, which can lead to disadvantages for those who are located outside of a particular network.

⁵ Kennedy et al (1998) have quoted Russians as saying "In an inflationary era, 100 friends are worth far more than 10 million Rubles" to imply the significance of informal networks in times of crisis.

3.1.8 Conceptualization of terms

Concepts in social science fields may not have universally accepted definitions. The wide variation in the understanding of concepts among different researchers and theorist is witnessed by various definitions given to social capital as indicated above. Manipulations and understanding of terms and concepts may vary according to situations. This, therefore, calls for the conceptualization of terms as they pertain to a particular research. This enables both the readers of a piece of research report and the researcher to have similar mental image on the particular concept(s) at hand.

Having this in mind, this research defines some important concepts and variable that may appear throughout this paper in the following ways:

Social capital: For the purpose of this research social capital represents to groups, norms, trust, reciprocity and knowing one another that are useful to act together in pursuing shared objectives among participants of GBMF. This research pays attention to both the structure of groups (how they are formed, their size, vertical and horizontal relationships) and to the content and quality of relationships in group (norms, reciprocity, trust) that operate within groups in the microfinance institution under study.

Furthermore different sources indicate the existence of social capital macro, meso and micro level. Macro level view of social capital associates it with the relationship between different actors at nation state level (Woolcock and Narayan, 1999). Messo level treatment of social capital associates it with local and community networks (Stone, 2001). The narrowest view of social capital relates it to social skills of individuals- one's propensity for cooperative behavior, tolerance and the like- and to the relationships at the level of family institution (World Bank,

2000; Coleman, 1988). This research focuses at the meso level view of social capital, since it studies relationships of participants at a micro financial institution who are drawn from similar locality or community. Further more the studies of social capital need to be as comprehensive as possible in the coverage of its core components (Office for National Statistics, 2001). Based on this direction, this research has tried to include as many components of social capital as possible. Particularly the following are taken as important ones and need further definition.

Trust and reciprocity: They are core components of social capital (Stone, 2001). Francis Fukuyama is most notable for illustrating the relationship between social capital and trust. For him all groups embodying social capital have a certain *radius of trust* - a term used to denote to “circle of people among whom cooperative norms operate” (Fukuyama, 2001:8). Also Coleman (1990) as cited in Frank (1992) has indicated that trust is closely linked to situations that involve risks. In this regard, the risk one takes depends on the performance of another actor. That is why people do not readily trust each other for it takes time to weigh the performance of another actor with regard to trustworthiness.

Broadly speaking three main types of trust are identified: trust to familiar people; generalized trust extended to strangers; and institutional trust which refers to the basic trust to a system of certain institution- including its transparency, regulations and if it can be relied up on (Stone, 2001).

All the three types of trust are considered in this study. And trust is used to indicate a confidence among participants of GBMF that one will not act against the interest of the other group members.

Reciprocity: According to some researchers like Krishna (2001) the trustworthiness of social environment is crucial to the proper functioning of such important practices as reciprocity, obligations and expectations. To this effect, reciprocity is seen in conjunction with trust in this paper. It refers to the kind of give- and- take relations among group members.

Trust and reciprocity are considered inalienable because the trust that emerges from common understanding among group members in turn generates the confidence and willingness to take risk through reciprocity with one another.

Norms and Sanctions: norms in this research refer to unwritten but commonly understood set of expectations and guidelines that serve as informal social control in the GBMF. Eventhough it is widely believed that norms reduce the need for more dependence on formal and institutionalized legal sanctions, not all norms constitute social capital. According to Fukuyama (2001) there are norms of cooperation among some people that are primarily aimed at achieving their own selfish ends. Thus, norms that lead to cooperation-for common benefits- in the GBMF under study are considered in this research.

Sanction, on the other hand, denotes to the application of both formal and informal punitives against those who flout their responsibilities in the GBMF.

Group Based Microfinance: This refers to a program of providing credit/loan to individuals using a group as facilitator and guaranteeing mechanism. Group lending has also been used as short form.

Frequent clients: This refers to clients of the institution under study, who stayed for more than two years in the program.

New clients: This refers to clients of the institution under study, who stayed for less than two years in the program.

3.1.9 Conceptual Framework for the study

A number of studies present social capital as independent variable and ask questions about how social capital influences other variables⁶. Other studies aim to determine what it is that leads to the decline or growth of social capital as a dependent variable⁷. Still others adopt measurement designs, which see social capital as both independent and dependent variable in their model. This research has adopted the third method for the reason that social capital is both an independent variable affecting the functioning of groups in the micro financial institution under study and a dependent variable being enhanced or depleted by GBMF.

3.2 Literature on social capital and group based microfinance

3.2.1 Models of Group Lending

The literature on GBMF reveals that there are two broad models of credit delivery: (a) the Grameen style credit delivery where microfinance institutions directly lend to individuals using the group as guarantee and (b) another way of lending approach where group is used as a single entity (Ghatak and Guinnane, 1999; Harper 1998). Two of them are referred to as development

⁶ The survival mechanism of vulnerable children, the acquisition of human capital and the achievement of Community Development by Tsedey (2005) Coleman (1988) and Grant (2001) respectively.

⁷ For Woolcock and Narayan (1999) it is affected by political and legal environment.

induced group-lending approaches. The following section discusses each of these at some length with special focus on how group is used in each of them.

3.2.1.1 The Grameen type of group lending

The most widespread method of delivering credit to the poor today is through groups organized by external development agents. One way of using groups is through the Grameen Bank type of group lending where loan is extended to individual clients using the group as a facilitator and guaranteeing mechanism. The pioneering institution is the Grameen Bank⁸ of Bangladesh. This is a rural bank that provides credit to the poor particularly women who own a land less than an acre of land or whose assets do not exceed the value of one acre of land. Probably the most interesting thing from the point of view of social capital is the fact that the Bank's loans are secured using social collateral, in place of physical collateral, for catering services to those who are left out of the conventional banking system.

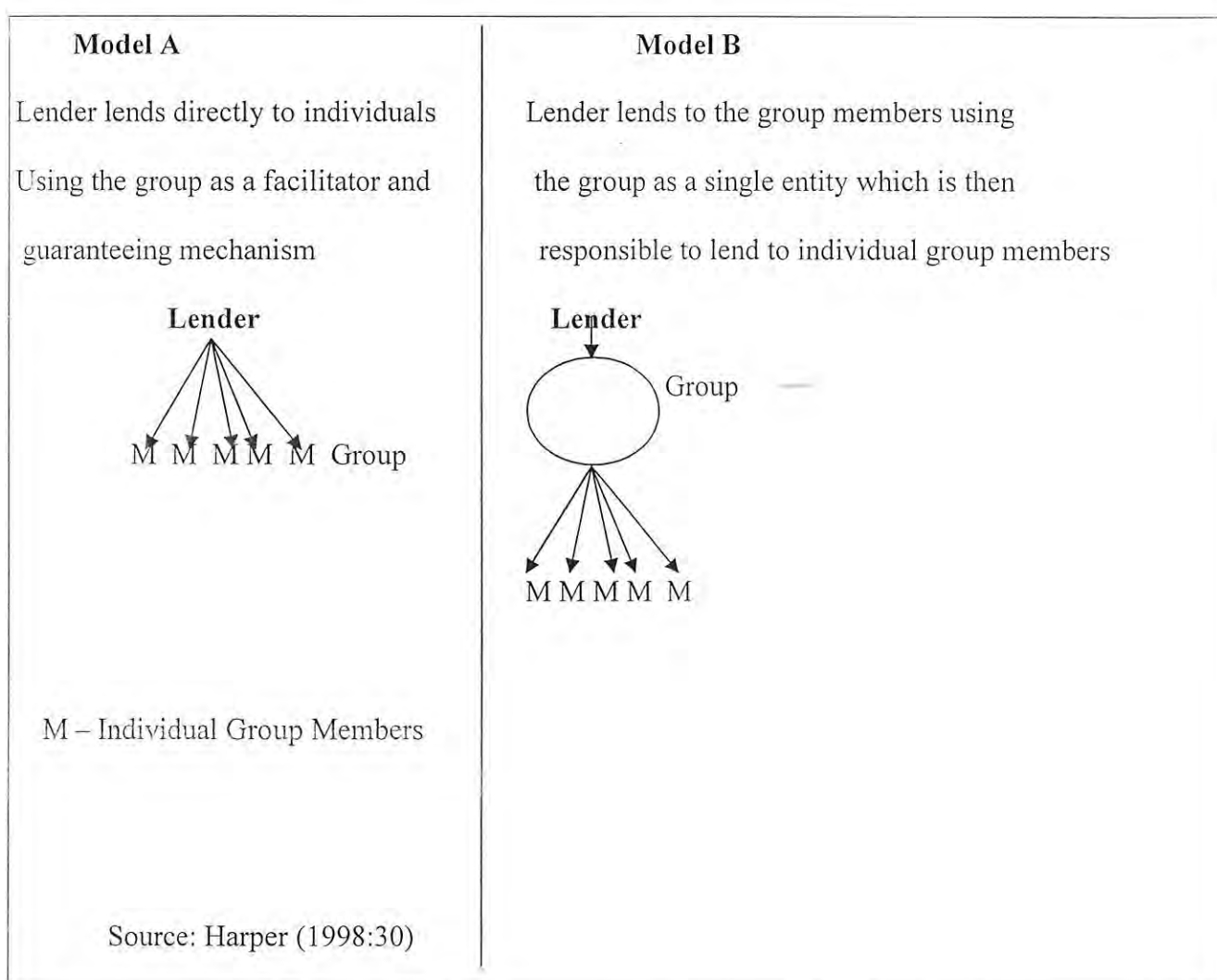
The Bank is one of the most internationally acclaimed organizations engaged in this sort of practice. To this effect the microfinance scheme of this Bank became a demonstration of successful, equitable and sustainable development initiative. In fact the activities of this Bank have been imitated in several other countries, thus the impact of this form of lending goes far beyond Bangladesh (Ghatak and Guinnane, 1999; Hassan and Tufte, 2001). Similarly many microfinance institutions in Ethiopia have adopted this model of credit delivery.

⁸ It was initiated by Muhammed Yusuf as a research project in 1976 on rural economic program to help poor farmers. See Bekele (1996). His noble idea of replacing physical collateral by social collateral has been implied by his famous say: "To argue that banking cannot be done with the poor because they have no collateral is the same as arguing that men can not fly because they do not have wings" See Ghatak and Guinnane (1999).

3.2.1.2 Another model of GBMF

According to Harper (1998), even though the success of the Grameen Model is widely recognized and largely undisputed, it is not the only way in which groups are used to deliver Credit to the poor. There is another model where lender lends to a group as a single entity, which then lends it to individual group members. This model, according to Harper, has been widely practiced in rural Pakistan (See the details on the following Figure).

Fig.: The Two Models of Group Based Microfinance



With respect to Ethiopia's experience on this issue, a non-governmental organization called ACORD Ethiopian has practiced similar model of credit delivery in the eastern part of the country. The organization, in its program at Dire Dawa town, utilizes Iddirs to select borrowers and channel and control financial resources (Michael and Mulat, 2001; Taye, 2004).

3.2. 2 The Rotational Saving and Credit Associations (ROSCAs)

According to Kimuyu (1999) and Ito (2003) ROSCAs are found in most parts of the world under different management structure and labels⁹. Although owing to the shallowness of the financial market, they are widespread in less developed countries, they are also found among minority groups in industrialized countries too.

Both the group lending and ROSCAs are group based informal credit institutions that exploit information and enforcement advantage of close-knit social networks (Ghatak and Guinnane, 1999). But one should not also overlook the major differences between them. To mention some whereas local people form groups on their own accord in ROSCAs, in a group lending approach, development agents (such as banks, microfinance institutions etc) organize borrowers into groups. They are also different in financial sources and in the nature and distribution of liabilities among members (Kimuyu, 1999; Ito, 2003; Ghatak and Guinnane, 1999).

3.2.3 Social capital and GBMF

General

How are the links between social capital and GBMF established? According to Oljerova et al (2003) people who are willing to engage in small business but are too poor to put up physical

⁹ ROSCAs are referred to as Chit Funds in India, Sutu in West Africa, Kye in Korea, Equb in Ethiopia, Chetu in Sri Lanka, among others. See Kimuyu (1999).

collateral for loans and are enabled to access loans by virtue of their membership to a certain group implies the link between social capital and GBMF. In this regard, membership to a credit group is considered to be part of social capital. This conception conforms to many theorists (discussed in the preceding sections of this paper) who asserted that social capital is nothing but securing benefits because of membership to a certain group.

Unlike the claims of Oljerova et al (above) Olmolla (2002) views it not only from the standpoint of borrowers but also from that of lender's side. For him social capital in GBMF is sought for the reason that it bears great benefit to both lenders and borrowers. To the borrowers it enables them to have access to credits; to the lender it reduces transaction costs and ensures high repayment rate through the exercise of enforceable trust among the members

Harper (1998) has more or less similar view to Olomola (2002) with respect to the link between social capital and GBMF. For Harper providing the poor with access to micro scale financial service is an increasingly popular strategy for sustainable development. Moreover, the major reasons as to why this service is provided through the intermediation of groups are the following:

- Firstly, the problem that the poor face (providing collateral) can be overcome through using joint liability as a loan guarantee;
- Secondly, as group members know each other they are ideally placed to appraise one another's loan;
- Thirdly, costs can be reduced for the lender by dealing with a member of borrowers simultaneously;

- Fourthly, group formations can empower marginalized communities by building their awareness of the potential for collective action.

Yet for some authors like Mayoux (2001) and Hassan and Tufte (2001) the existence of social capital in the form of indigenous networks and norms of association and the use of these assets for microfinance group formation show the link between the two. In addition, this has broader objective other than reduction of transaction costs: empowering clients; better poverty targeting; and achieving financial sustainability for the lenders.

With regard to the explicit relation between social capital and GBMF, there are at least two important views: Social capital as an input (e.g. Olomola, 2002 and Ito, 2003); and social capital as a useful byproduct of GBMF (Locker et al, 2002; Michael and Mulat, 2001). These being the general overview of the interface between social capital and group-based microfinance let us see at each of them in same detailed manner in the following section.

3.2.3.1 Social capital as an input for group based finances

The literature on GBMF depicts the importance of two types of social capital for the success of GBMF: horizontal social capital and Vertical social capital (Ito, 2003).

Horizontal social capital

This type of social capital exists within horizontal social structure among the borrowers. Social capital theorists argue that borrowers have information about each other. Tapping into the information that group members may have about each other is considered to be important. For Ito

(2003) GBMF rely on social capital to overcome information deficiencies and the associated risk to potential lenders. Thus underlying the entire notion of horizontal social capital is the idea that those individual borrowers because of shared location and other social ties know a great deal about one another. This in turn enables them to have an informed choice of group members and an additional benefit of observing one another's day- to- day business activities. Because of this, microfinance initiatives are encouraged to use pre-existing social capital as an input for the success of their activities.

Vertical social capital

Olomola (2002) has also noted the importance of hierarchal relationships, which mainly include the relationship among borrowers and lenders as an input for the operation of lenders. This relationship becomes personal through regular meeting

Similar observation has been made by Ito (2003:324) and asserts this: "almost all financial transactions, successful or otherwise, involve some elements of vertical social capital." The World Bank's, website on poverty as indicated in Ito (2003) has the following important remarks on vertical social capital or relationship between borrowers and lenders:

The formation and maintenance of social capital between staff and borrowers is crucial to identify and train borrowers, select and approve loan proposals, negotiate solution when problems emerge (e.g. the death of a group member, crop failure etc) and fend off criticism- even hostility- from skeptics, money lenders and some religious leaders (Ito 2003: 327)

3.2.3.2 Social capital as a useful byproduct of GBMF

A considerable number of research findings have shown that microfinance groups extend to other form of organizations (formal or informal) that are meant to benefit members. A research conducted by Oljerova et al (2003) in Eastern European countries of Slovakia, Romania and Russia has indicated the formation of many informal ties by clients that were established to ensure mutual benefit to members. The research further revealed that for both individual and group clients “the scope of social capital goes beyond membership in borrower group” (Oljerova et al, 2003:119).

Mayoux’s (2001) research on women’s microfinance groups in Cameroon has also reached at a similar conclusion. The research indicated that the GBMF not only has financial significance but also changes the attitude of borrowers towards cooperative work. To this effect a strong cultural value has been placed on cooperation as a desirable thing in itself. Because of this, even where profits from group activity were no higher than individual activity, women were keen to engage in a range of collective work to increase their access to networks and support. Their networks helped members to negotiate and overcome problems.

Locker et al (2002) on their part have conducted a worldwide survey research on the wider impacts of microfinance programs with especial focus to its impact on social capital. The survey raised several questions, of which respondents were asked to site the most important impacts obtained as a result of credit and other financial service provisions. The result revealed that 50 percent of all microfinance organizations listed improvement in social cohesion (the degree to which participants in microfinance programs feel united) as one of the most important impacts

they felt their financial service provided. Of these, 35 percent of them felt that it was the first or second most important impact of their programs.

Rankin (2002) also indicates that participation in a GBMF yields not only economic payoff but also empowerment payoff due to the formation of new bridging and linking social capital. Because experience in Bangladesh has shown that “center meetings (during which borrowers gather to repay their loans) facilitate their ability to establish and strengthen networks outside their kinship group and living quarters” (Rankin, 2002: 12).

Research on whether GBMF enhances social capital in the Ethiopian context is scanty. Nevertheless, one important study conducted on ACORD Ethiopia by Taye (2004) is worth mentioning here. According to the findings of the research, cooperation and group solidarity has been substantially enhanced among community members. This, mainly, is owing to the frequent interaction of borrowers in meetings and training sessions. As a result, the following manifestations of social capital, among other things, were observed: (a) participants in micro credit program spent much time interacting with persons outside their immediate family; and (b) groups served as places of information exchange pertinent to economic, social and community affairs.

3.2.4 Some drawbacks of the GBMF program

In many literatures, it is indicated that there are some negative instances of the group-lending model. Broadly speaking these limitations are the results of several factors: problems inherent in the system itself; shortcomings from implementers' side and some unintended consequences of

negative out comes. Instances of these problems- as revealed in different research out comes both from abroad and Ethiopia -are shown in this part.

Another study on the Grameen Bank by Yonus (1999) as sited in Rahman (1999) has also indicated that at the grass roots level of credit operation, bank workers and peer group members put an intensive pressure on borrowers for timely repayment rather than working to raise collective responsibility and borrower's empowerment as originally envisaged by the Bank.

On the other hand the adoption of peer pressure along with institutional and moral coercion on borrowers in order to ensure high repayment rate has negative consequences. This has been researched on Grameen Bank. Rahman (1999) and Ghatak and Guinnane (1999) have found out that the expansion of group based credit programs and the exercise of social collateral contributes to the escalation of verbal aggression and physical assault both at loan centers and at borrowers' household¹⁰. The presence of some unequal power structure among group members is also another limitation. Rahman (1999) has noted that one or two influential members had a real control over the decision-making processes of the centers at the Grameen Bank. On the other hand, Mayoux's (2001) research on GBMF programs in Cameroon indicated the presence of inequalities within groups.

More generally, group lending derives its effectiveness from the social ties among potential group members. If these ties are weak, or if members are unwilling to sanction one another in times of

¹⁰ In some case actions against defaulters reach the extent of seizing defaulters' assets or tearing down a house. See Ghatak and Guinnane (1999). In addition, at household level men assaulted women for their challenge against men's proposal of using their loans. See Rahman (1999).

default, the mechanism will not work. These problems have been witnessed more in developed countries where society is characterized by social and cultural heterogeneity. As a result, individuals do not derive more of their identity from membership in a group such as the family¹¹ (Wold, 2002). Another most frequently cited problem related to group lending is its contribution towards perpetuating inequalities between men and women in society (Mayoux, 2001; Rankin, 2002; Molyneux, 2002).

According to Mayoux (2001) existing social institutions, organizations, networks or rules of association may be highly unequal. When microfinance programs use existing forms of social capital to achieve their own ends, (e.g. reduction of transition costs) “inequalities may be exacerbated rather than reduced by the injection of capital through microfinance”(Mayoux, 2001: 459).

Malyneux (2002) has indicated the experience of Latin American countries. Accordingly the author acknowledges that micro- credits are good instances where networks of the disadvantaged (such as that of women) are used as a means to channel credits to the poor.

However many microfinance project far from creating and sustaining social capital may instead serve to “undermine social solidarity, fail to foster cooperative relation among members and create a socially corrosive competitive individualism” (Malyneux, 2002: 182).

¹¹ The “Good Faith Fund” of rural Arkansas group based credit in the USA did no work because of racial and religious difference among members. This was also attributed to American’s emphasis to individual rights at the expense of community obligations, which leads to lack of social capital. See Ghatak and Guinnane (1999) and Wold (2002).

As far as Ethiopian experience is concerned, a research by Woldeab et al (2005) on Debebit Saving and Credit Institution reveals the existence of “plenty of instances of friction, conflict and resentment arising from the collective responsibility for loans”(: vi). Similarly a study on the performance of the Ethiopian Women Development Initiative Project-a Project established all over the regions of Ethiopia to benefit poor women through group based business activities -has indicated the prevalence of disagreements and conflicts among group members in the management and operation of group activities (EWDF, 2006).

CHAPTER FOUR

4. DATA ANALYSES AND DISCUSSION

4.1 Demographic and Socio-economic Characteristics of Respondents

Demographic and socio economic characteristics of respondents, which include age, sex, marital status, religion, type of current occupation and level of education are vital demographic and socio-economic variables that deserve proper analyses.

This is because microfinance institutions are known to be gender sensitive. Furthermore some studies indicate the significance of religion in determining participation of the poor in interest involved financial transactions. Similarly, the level of educational attainment is said to affect the utilization of loans among clients of microfinance institutions. This section duly discusses these important issues in relation to clients of DECSI.

4.1.1 Age and sex

Categorizing the number of respondents into different age groups indicates that 39(32.5%) of them fall under the category of 36-42 years. This is followed by the age group 29-35, which accounts for 27(22.5%) of all the respondents. The age groups 43-49, 22-28, and 50-56 represent 14.2%, 12.5%, and 9.2% of all the respondents, respectively. In fact, the upper age groups constitute only small proportion of the total survey respondents. The survey results indicate that the age groups 57-63 and 64-70 represent 5.8% and 3.3% of all the respondents respectively.

From the Table shown below (Table 1), it is quite clear that most of the respondents are in their active and productive ages. On the contrary, as one goes up the ladder of age, participation in the

microfinance program seem to be limited. DECSI's policy with regard to this issue stipulates the minimum age limit to be 18 years. However, a consultation of the institution's available documents does not reveal any explicit indication of a maximum age limit. Then why is this trend observed in DECSI? To provide complete answer to this question, it may need some investigation into the structure of the population of Mekelle town visa-a-vise age and poverty profile and then referring it back to participations in a group credit at DECSI.

Table 1: Distribution of Respondents by Age and Sex

Age group	Sex		Total	Percentage
	Female	Male		
22-28	8	7	15	12.5
29-35	13	14	27	22.5
36-42	23	16	39	32.5
43-49	13	4	17	14.2
50-56	8	3	11	9.2
57-63	4	3	7	5.8
64-70	1	3	4	3.3
Total	70	50	120	100

Source: Survey Results

A look at the age-sex category also reveals that the respondents are fairly equally distributed along the different age categories except in the category of 43-49 where we see a concentration of female respondents.

4.1.2 Marital status and Religion

When one looks at marital status of respondents in relation to their sex, it is possible to observe that the majority (72%) are married. Those reported to be widowed account for 15 (12%) of all

the respondents. Respondents who fall under the category of Divorced/ separated and single account for 7% each.

Table 2: Distribution of Respondents by Marital Status and Sex

Marital status	Sex		Total	%
	Female	Male		
Married	44	43	87	72.5
Widowed	15	0	15	12.5
Divorced/Separated	8	1	9	7.5
Single	3	6	9	7.5
Total	70	50	120	100

Source: Survey Results

From the view point of social capital literature, the fact that majority of the respondents are married and have families of their own is very interesting. According to the World Bank literature on social capital as cited in Mayoux (2001), the family serves as a first building block in the generation of social capital for larger society. Relationships within the family foster the development of trust, reciprocity, and emotional support among family members. These elements of social capital at family level can be carried on to relations at community level. In this regard, the fact that majority of the respondents of this study are married may mean that they can establish durable links with group members at the DECSI microfinance program in order to achieve a common good. On the other hand, the proportion of respondents whose families have been dissolved due to divorce, separation or death of a couple is not negligible, as this constitutes some 20 % of all the respondents.

With regard to religion, overwhelming number of respondents have indicated that they are Orthodox Christians. Of all the respondents, 116(96.7%) are Orthodox Christians and the

remaining 4(3.3%) are Muslims. With respect to the low participation of Muslims, the researcher has held a discussion with DECSI regional and sub branch staff. The discussion was aimed at investigating if religion has any prohibiting role against the active participation of Muslims in Mekelle in particular and the region in general. During the discussion it was revealed that both in Mekelle and in other parts of the region, Muslims are active and good performers in the DECSI program.

4.1.3 Education and current occupation

Discussing respondents' level of education completed and current occupation, as important socio-economic variables, is also of a paramount importance. When we see the respondents along the variables of education and occupation, 50 (41.7%) are engaged in petty trade. Relating occupation with education indicates that those that reported illiterate and those who attained second cycle primary school (grade 5-8) are heavily concentrated in petty trade. The second most important occupation, as per the report of survey respondents, is cloth trading. This type of occupation accounts for almost one fourth (24%) of all the respondents. In this particular venture, those who completed primary and secondary schools have relatively higher participation as opposed to the "illiterate" and "read and write". Grain trade and urban agriculture (animal fattening and selling of animal products) are also important occupations for the respondents.

Such activities as small restaurant, butchery, shop keeping, livestock trading, wood and metal work shops, sale of local drink called 'Suwa' and the like are categorized under the label "others" (for the details of education and occupation see Table 3 below).

With regard to educational attainment, 37(30.8%) of the respondents have reported that they have attained second cycle primary school. There were also considerable number of respondents who reported that they cannot read and write. This accounts for 33(27.5 %) of all the respondents. The number of respondents who reported first cycle primary school attainment is 28(23.3 %) of all the sample survey. Only a tenth (10.8%) of all the respondents have claimed secondary school attainment.

Table 3: Distribution of Respondents by Level of Education and Current Occupation

Current occupation	Level of education completed					Total	%
	Illiterate	Read & Write	Primary school (1-4)	Primary School (5-8)	Secondary school		
Petty trade	20	3	6	18	3	50	41.7
Grain trade	3	1	4	4	1	13	10.8
Cloth trade	0	2	10	10	7	29	24.2
Urban agriculture	4	1	2	2	0	9	7.5
Other	6	2	6	3	2	19	15.8
Total	33	9	28	37	13	120	100.0
Column %	27.5	7.5	23.3	30.8	10.8		

Source: Survey Results

4.1. 4 Sex and occupation

When one observes the distribution of respondents by sex and types of occupation, it is possible to observe that female respondents are engaged heavily in petty trading. Well over half of them (57.2%) are engaged in this business. This business involves the sale of many commodities simultaneously. On the contrary, male are heavily engaged in cloth trading. This includes the sale of readily made and locally tailored cloths. The heavy concentration of men in this venture could be related to the fact that sewing and selling of ready-made cloths is a venture traditionally left to

men. The detail of other occupations in relation to male and female respondents is indicated on Table 4 below.

Table 4: Distribution of Respondents by Sex and type of occupation

Types of Occupation	Sex				Total	
	Female Frequency	% Of Female	Male Frequency	% Of Male	Frequency	%
Petty trade	40	57.2	10	20.0	50	41.7
Grain trade	7	10.0	6	12.0	13	10.8
Cloth trade	4	5.7	25	50.0	29	24.2
Urban agr.	8	11.4	1	2.0	9	7.5
Other	11	15.7	8	16.0	19	15.8
Total	70	100.0	50	100.0	120	100.0

Source: Survey Results

Respondents were also asked to indicate why they wanted to take credit from DECSI. The result reveals that over three fourth (75.8%) of the respondents needed credit from DECSI for the expansion of existing business. The second important reason as to why respondents became DECSI's clients is related to their desire to start new business for the first time. This accounts for 21(17.5) of all the respondents. About 8(6.7%) of them indicated other reasons: plans to start new business and expand existing one; to shift from informal activities such as selling 'Suwa' to other formal businesses such as opening small restaurant and the like.

Table 5: Percentage Distribution of Respondents by Reason for Becoming DECSI's Client

Reason for becoming a client	No of Respondents	Percentage
To expand existing business	91	75.8
To start new business	21	17.5
Other	8	6.7
Total	120	100.0

Source: Survey Results

From the above findings one can come to the conclusion that majority of the respondents had some kinds of business activities before joining DECSI. It is only to augment the existing activities that they joined the institution. As a general remark, the respondents have used their group membership as a means to get credits for the expansion of their businesses or to begin new activities.

To recapitulate the issues that have been discussed so far, it would be imperative to mention what Babbie (1973) has said regarding survey samples and the population from which they are drawn. Accordingly, survey samples are almost never conducted for an objective of describing the particular sample under study. Rather they are conducted for a purpose of understanding the population from which the sample was initially selected. In this regard, it is not the hundred and twenty samples, which should attract the attention of both the readers and the writer of this paper. In other words, the generalization from the sample to the population of DECSI clients at Mekelle program is of a paramount importance.

Viewed in this regard, the following basic generalizations can be made from the above discussions: that large number of the clients are in their active and energetic age; that clients of the DECSI program are predominantly engaged in petty trade; a considerable number of them cannot read and write; there are difference in the types of occupations among female and male respondents and majority of them have joined the microfinance institution to expand already existing business.

4.2 Relationship between borrowers

This part is the broadest section of the data analyses and discussion chapter. It predominantly discusses the major findings of this paper. This sub chapter is organized in such a way that it gives answers to the research questions and specific objectives of this paper:

(I) Group formation

In this part policy of the microfinance institution, practices associated with group formation and opinions of the respondents on the group related policies are duly discussed;

(II) Social capital considerations during group formation

This part discusses results of an approximated longitudinal survey using cross sectional survey. Specifically it focuses on the forms of social capital that respondents have paid attention to during group formation. That is why it is called an approximation of past information using current survey. Here three major indicators of social capital are discussed: membership to local level associations and knowing one another's behavior; source of information about DECSI; and financial sources before respondents' involvement in DECSI;

(III) Social capital as an input for group functioning

This part focuses on group processes and relationships among members once the groups have been formed. Here the focus is on such core components of social capital including trust and reciprocity; group norms and sanctions, group decision making, solidarity and collective

actions¹². This part predominantly focuses on how these forms of social capital are used to ensure the functioning of group-based microfinance;

(IV) Attitudes on group based microfinance and clients quitting of the program

This last part mainly focuses on two major issues: the attitude of respondents on group based credits, their preference on individual and group credits and the subjective reasons behind those preference; and clients' quitting of the microfinance program.

4.2.1 Group formation

The formation of credit groups in DECSI follows certain procedures. From an interview with both the Regional Staff and the Sub Branch Heads at Mekelle, eligibility for DECSI credit is supposed to fulfill two basic criteria:

Individual criteria

In order to qualify for DECSI credit, an individual should be free of any unpaid loan and not known for default. Furthermore, potential borrower is supposed to be: a permanent resident of certain Tabia administration; willing to engage in some gainful activity; responsible citizens; and willing to take loan in a group based approach or 'Gujile'

Group Criteria

In order to form a group, the following criteria are of great importance: (a) in as much as possible potential members of a group should be of similar socio-economic status and occupation; (b)

¹² These components of social capital are used by many researchers of social capital with some refinements on account of local realities. See for example Krishna's Study (2001) titled as "Moving From the Stock of Social Capital to the Flow of Benefits: The Role Agency"

persons who trust each other and willing to form an autonomous group; (c) in as much as possible, members should fill both individual and group responsibilities in managing loans; and (d) should be residents of the same Tabia or Kushet.

Of all these group criteria, there is a complaint by some clients of DECSI that the institution does not allow the formation of groups among people who do not belong to the same Tabia but are well acquainted and trust each other. Because group formation is limited only to potential clients who are residents of the same Tabia. By implication the policy does not give a room for the incoming clients to form a group of which members belong to different Tabias but are familiar and trusting to each other. This limits the horizon of group formation only to a Tabia level. That is why some of the respondents have a complaint on this particular policy.

DECSI's rule with regard to group formation further stipulates that group members to be of the same sex and not members of a nuclear family. During an interview with DECSI staff, the policy for the formation of separate male and female groups has been a point of discussion. According to DECSI's regional staff, one of the major reasons as to why females and males form separate groups is related to the objective of a better poverty targeting. In this regard, according to the claims of the regional officials, priority is given to women. However an investigation into the details of the number of active clients and those who quitted DECSI at the Mekelle branch office (by taking sex as a point of comparison) until the end of February 2006 indicates that 62 % were female and the remaining 38 % male clients (See the Table on annex VI and Table 20). Does this corroborate with the claim? It is debatable. However, the main interest of this section is not to debate this issue. It rather is aimed at elaborating the policy as to why men and women form

separate groups and the corresponding attitudes that the clients of DECSI hold with regard to those specific policies.

The other important reason, as per DECSI's policy, related to this is that men and women have different proposals as far as loan utilization is concerned. This creates a major difference in the amount of loan they need from DECSI. This is to some extent corroborated by Table 4(above), which shows the distribution of respondents by sex and type of occupation. In that specific discussion it was indicated that women are heavily involved in petty trading while men are mostly involved in cloth trading. However whether cloth trading involves traveling long distance is not clear. Nevertheless the major point with regard to the formation of separate male and female groups on account of differences in occupational types seem to be related to an important concept of social capital. That is, similar type of occupation is one medium by which people know each other, weigh each other's character, and hence are encouraged to form similar credit groups.

According to information obtained from DECSI regional staff, the third reason as to why women and men form separate groups is related to the claim that women do "know" each other better in the community. Because of this, they can perform well as members of the same group than when men and women are mixed together in a group formation¹³. Fourthly, DECSI wants the

¹³ The performance of women in repayment rate is by far better than that of men. Whereas the number of women clients is higher than that of men in the Mekelle program, the amount of arrear created by men is by far higher than that of women clients'

traditional male dominance in the society not to prevail in credit groups. The formation of separate male and female groups seems to be accepted by the clients.

On the part of DECSI, the policy of group formation among nuclear families is not supported. This is because firstly, it wants to include as many families as possible in its program. Secondly, the economic activity of clients (especially rural clients) is susceptible to different natural factors such as the availability or absence of rain.

When there is a failure in agricultural production, the whole family may be in default. This will in turn jeopardize the institution's program for better outreach and sustainability. Thirdly, when groups are formed among family members the possibility to sanction each other for a better repayment is expected to be weaker.

Nevertheless, there is a complaint on the institution's policy of prohibiting group formation among nuclear family member¹⁴. A considerable number of clients favor group formation among family members because of their presumption that: they trust each other better; it can enable them to pursue joint business activities; and in times of default it is better to take responsibility for a family member than for some one who is out side the family.

In view of the writer of this paper, these important opiuiions from clients are not things to be overlooked. One should give due regard to the opinion of respondents given the fact that risks associated with the assumption of responsibility for others is a reality poor people in GBMF are

¹⁴ DECSI's policy does not allow the formation of groups among brothers, sisters, father and sons, and mother and daughters.

living with. Rather these opinions deserve due weight especially in light of the fact that trust is at the center of group-based microfinance and the pooling of resource for better results is important means of improving livelihoods.

The Saving and Credit Committee¹⁵

According to DECSI (2005) Loan and Saving Committee is the institution's important body, which is heavily involved in the task of organizing borrowers. The committee extends from region down to the Tabia level. With regard to the approval of loans and follow up of its repayment progress, Tabia committee is the key structure. The Committee has the responsibility to screen "non creditworthy" individuals from "genuine" members of the community who desperately need credit support.

Members of the Loan and Saving Committee at urban Tabia level include: Tabia chair person; Tabia culture and information head; Tabia trade and industry head; Tabia women's association; and representative of DECSI at Tabia level (DECSI pamphlet, undated). These are by implication members of the Tabia Administration. As a local level organization, the Committee members are believed to know members in the local community more than any organization. With respect to the specific duties and responsibilities of the Tabia Loan and Saving Committee, discussions held with sub branch heads reveal that it is in charge of:

- Making public mobilization with regard to loan and saving
- Selecting eligible borrowers based on DECSI's rule;

¹⁵ Eventhough the issue of Saving and Credit Committee and its relations with respective borrowers is not as such part of the relationship between borrowers, it is treated here on a bid to give full picture to the exercise of group formation in DECSI.

- Selecting, scrutinizing and approving of loan proposals;
- Follow up of repayment performances and pressurizing poor performers, and
- Evaluating and sending performance report to Woreda Loan and Credit Committee.

The group applies its loan proposal to the Tabia's Loan and Credit Committee in a written form. The proposal, among other things, is composed of a list of members, the amount of loan each member needs, and the type of occupation members are interested to engage in.

The committee, based on the proposal, looks into the detail of applicant's character both as a group and individually. Among other things, their socio-economic status and need for finance, applicant's character vis-à-vis trustworthiness and hard working behavior and applicant's permanent membership to the respective Tabia are given due regard.

Furthermore, new clients have to form a group of three or more and have to get an approval by the Committee before being recognized by the sub branch managers and accepted into the program. Once they have been recognized by both the committee and the sub branches, orientation is given to the members both by the Credit Committee and field officers of DECSI. The provision of orientation predominantly focuses on proper utilization of loan, repayment processes, members' shared liability for each other's loan and the like. Here the role and autonomy of clients in the process of group formation and their relations with the Loan and Credit Committee is worth examining. Because this is an important dimension of social capital, as indicated in the literature review, which captures the relationship that may exist between poor people on the one hand and people in position of influence in formal organizations on the other hand. According to the World Bank (2000), the poor are in most cases excluded -by

discrimination or lack of resources -from the places where major decisions related to their welfare or life chances are made.

When one sees DECSI's clients in relation this background, participation of members in group-based microfinance is to be expressed in terms of their autonomy to form a group of their choices. Viewed in this regard, individual interviewees, survey respondents and focus group participants have indicated that they are free and autonomous to form groups of their choices. But a few have indicated about their placement in credit groups by the Tabia loan and credit committee. Further reference on this issue can be made from the forthcoming section that deals with trust and reciprocity.

4.2.2 Local level social capital: membership to associations and “knowing” each other

Membership to different local Associations

As it is indicated in the literature review of section of this paper, one important measure of social capital is membership to formal or informal associations. Here one should bear in mind that membership to formal or an informal organization is context specific. In one context membership to formal organizations could be more relevant to measure social capital. In another situation involvement to non-formal association could best measure social capital of a certain community (e.g. in rural areas). In this particular study, membership of respondents to both formal and informal associations has been studied as the urban area where the study is undertaken makes the query more relevant. The result obtained from this inquiry is shown below:

Table 6: Membership to Formal and Informal Associations

Type of Membership	Responses			
	Yes	%	No	%
Equb	53	44.2	67	55.8
Iddir	70	58.3	50	41.7
Mahber	83	69.2	37	30.8
Women's Association*	49	70.0	21	30.0
Chamber of commerce	27	22.5	93	77.5
Other	4	3.3	116	96.7

Source: Survey Results

*Applies only to female respondents

As it can be observed from Table 7, (above) a considerable number of respondents belong to local networks. Membership to Women's Association (applicable only to women respondents) is as high as 70%. Of all the respondents, 69.2% of them indicated that they belong to different religious associations or Mahbers. Iddir membership is also as high as 58.30% of all the respondents. Some 44.2% of all the respondents have also indicated their membership to Equb. In fact membership to the formal organization of Mekelle chamber of commerce is only 22.5%. There are also some memberships to the Youth Association, to the Association of Disabled people and to Rehabilitation and Recovery Committee. All these added together form only 3.3% of all the respondents. Here one can say that membership to the chamber of commerce is very minimal compared to the non-formal networks.

This is in line with the assertion of Woolcock and Narayan (1999) that the poor people may have a close-knit and intensive stock of bonding social capital that they leverage to "get by", but lacking the more diffused and intensive bridging social capital to "get a head".

The discussion of respondent's membership to local level associations is not done for its own sake. It is rather aimed at relating it to one of the central objectives of this research: whether or not DECSI is intentionally tapping associational memberships [as one aspect of local level social capital] into its own programs. Because both practice and theories of development have indicated that tapping local level social capital is worthwhile in an endeavor to alleviate poverty.

To this effect, research findings both in Ethiopia and abroad have indicated that incorporating already existing social institutions or associations into the system of microfinance institutions not only empowers the poor but also enables the financial institutions to achieve financial sustainability and greater outreach.

When one evaluates DECSI against this background, eventhough high stoke of social capital is displayed in the form membership to local level associations, no member of the above mentioned associations is introduced into the Saving and Credit Committee in the process of group formation, selection, and organization of potential clients except the Women's Association (refer to members of the Committee in the preceding discussions). The introduction of Iddirs or Mahbers could reduce the widespread dislike and doubt that is currently prevailing on GBMF. In fact the clients are utilizing these memberships as resources in the formation of groups. Subsequently they have indicated that a co-membership to credit groups and to one or more of the above associations serves as a source of trust between members. It has also been indicated by the respondents that membership to local associations serves as a sources of information about DECSI. This is thoroughly discussed in the forthcoming sections. Given these facts, deliberate

tapping of these resources by DECSI could have better results in maintaining the GBMF. The following section under the heading “knowing” each other adds a lot to this.

“Knowing” Each Other

In the literature, many authors have stated that potential borrowers of microfinance institutions need to have information about each other’s behavior. This preexisting knowledge about one another is mutually important both to the borrowers and the lender. The borrowers benefit out of shared location and other social ties because, due to prior knowledge about each other, they are in a position to avoid group formation with individuals whose behavior is not trustworthy. The lenders do also benefit because they are not supposed to gather information about each and every potential client, as the clients themselves do this. For lenders this eventually reduces transaction cost and ensures higher repayment rate after carefully selected groups have been formed. Therefore microfinance programs are advised to take full advantage of the social capital available in the practice of “knowing” a person’s character and trustworthiness. One way of knowing one another is the associational membership as indicated above, but it is not the only way for people to know each other’s behavior.

To this effect different dimensions of “Knowing” one another among clients of DECSI has been studied in this research. Accordingly, eight in any ten of the respondents (82.5%) have stated that they knew all their group members before becoming DECSI client. Those who stated that they knew majority of their group members stood at 10(8.3%). On the other hand, those who reported that they knew only some of their group members accounts for 11(9.2%) of all the respondents.

The survey result is summarized as follows:

Table 7: Percentage Distribution of Respondents by “Knowing” each other

Responses	No of Respondents	Percentage
Yes, I knew all of them	99	82.5
Yes, I knew majority of them	10	8.3
Yes, I knew some of them	6	5.00
I knew none of them	5	4.2
Total	120	100.0

Source: Survey Results

Here one may ask as to what “knowing” group members mean. Focus group participants and individual interviewees have indicated the judgment of some one else’s character as knowing him/her. This means that he/she possesses such characteristics as: not deceiving others; doing what he/she says he will do; always seen not roaming; gets on well with other people and consistently acts in a trustworthy manner. Survey respondents were also asked about how they happen to know each other. The result to this question is shown in the Table that follows:

Table 8: Distribution of Respondents by How They Happen to Know Each Other

Responses	No of respondents	Percentage
Neighbors	75	62.5
Similar occupation at market place	21	17.5
Same Mahber and neighbors	5	4.2
Neighbors and same occupation	4	3.3
Other	10	8.3
Missing	5	4.2
Total	120	100.0

Source: Survey Results

As it is shown on the Table above, a large number of the respondents (62.5%) have indicated that they knew their group members as their neighbors. The second important means for group members to know each other is the work place. Of all the respondents, 21(17.5%) have indicated the work place environment as a place to know each other before becoming DECSI group members. Those who said the same Mahber membership and neighborhood, and the same occupation and neighborhood as means to know each other are 4.2% and 3.3 % of all the respondents, respectively. In fact respondents under the label “others” is also considerable. This accounts for 10(8.3%) of all the respondents and includes such responses as “long term friendship, relatives and members of the same Iddir”.

From the responses it is possible to see that people form groups with individuals whom they had prior networks in the form of neighborhood, similar occupation and work places, membership to informal associations such as Equb and Iddir and the like. In the absence of such social capital considerations before credit group formation, the consequences could be grave to microfinance participants. The following story, about unsuccessful women group, strengthens this claim:

Case One: A story of unsuccessful female group

“My name is Lemlem Hagos. I have been an established client of DECSI, right from the start of the program up until now (1989 to 1998 E.C). I am 49, married and a mother of 9 children. My husband is a pensioner with a monthly income of Birr 100. In order to support my family, I became DECSI client nine years before. During my stay with DECSI, I was engaged in petty trade and have registered a meaningful change in the lives of my family: built a house, sent all my children to school, installed electricity and water supply to my house and fed my children very well.”

"My name is Abrehet Araya. I am a group member of Lemlem Hagos (discussed above). I am 42 years old, widowed and a mother of three children. I, along with my children, were deported from Asab (Eritrea) in 1993 E.C. Just upon our arrival at Mekelle, we received a rehabilitation fund of Birr 4,500 from a regional office called the "Emergency Recovery Project". Eventhough the fund was given for rehabilitation and resumption of a new productive life, I spent it on school fees, food consumption and house rent. Then I joined DECSI in early 1997 E.C and took Birr 5,000."

Shewit Berhe is third member of the group. She left for Adigrat (a town some 120 km east of Mekelle) before the data collection session. Hence no further information was collected about her.

Group Information

These three women formed a group following an announcement made by the Bureau of Trade and Industry of Mekelle Zone. Lemlem Hagos left her original DECSI group and regrouped herself with these women. This was done in order to have access to an improved ceiling on the loans. The other two members were just new clients. Group members have not assessed each other's behavior before forming a group, they only shallowly knew at the marked place. The most important thing they paid attention to was the better ceiling of receiving Birr 5,000 each as a loan.

Group members stayed together for a year paying their installments as per the schedule. A problem emerged when Shewit left for Adigrat (for a reason the other members do not know). Abrehet's business also went wrong, because of market problems and spent all the seed money for consumption. Now she is in a total destitution with no means of earning income and with no shelter to live in, for she cannot afford to pay a house rent.

Lemlem on the other hand kept on doing well as usual. But as per the agreement reached with DECSI at the initial stage (one member to be responsible for another) she is not only responsible for her own loan but also for her group members'.

Now she does not know what to do. If DECSI cannot allow her to repay only her own loan, the only option is imprisonment. But the blame is not on DECSI, she says, it is rather her own failure to form a group with individuals whom she did not "know" much. "We are neither neighbors nor related in blood, our knowledge of each other is limited to the mere market place meeting," she said.

N.B: The names are fictitious for confidentiality

April 16, 2006

4.2.3 Sources of Information about DECSI

According to Coleman (1998), one important form of social capital is the potential for information that inheres in social relations. Information is important in providing a basis for action. But acquisition of information is costly and one means by which information can be acquired is by use of social relations that are maintained for other purposes. Based on this, respondents were asked to indicate their sources of information about DECSI program.

Accordingly, it was found out that family members, friends or neighbors served as sources of information about the program. The fact that 61(50.8%) of all the respondents have indicated networks of families, friends or neighbors as primary sources about DECSI may indicate the importance of social networks as sources of information. The second important source of information about DECSI's program is the Tabia Administration. This accounts for 36(30%) of all the respondents. In fact such formal local networks as women's association also play as important sources of information for their members. Of all the respondents, 11(9.2%) claimed women's association as their first source of information about DECSI. The number of respondents who reported the media (Radio or TV) as a source of information is very negligible. because this accounts only for 3(2.5%) of all the respondents.

Table 9: Distribution of Respondents by Source of Information about DECSI's Credit Program

Source of information	No of respondents	Percentage
Family member, a friend or neighbor	61	50.80
DECSI's announcement	9	7.50
Tabia Adm. Announced	36	30.00
Women's Association	11	9.20
Radio or TV	3	2.50
Total	120	100.0

Source: Survey Results

4.2.4 Source of finance before DECSI

Respondents were also asked to indicate the financial sources they used to back up their activities before becoming DECSI clients. This question was framed to elicit information on locally available social capital with regard to getting financial sources for the poor.

The result indicated that 74(61.7%) of all the respondents never borrowed from any source to finance their activities. This may show that respondents have not been able to convert their stocks of social capital indicated in the form of associational membership and knowing one another (revealed above) into flow of benefits in the form of securing finance for their business operations. The second frequent response as a source of finance is rich merchants, which accounts for 20(16.7%) of all the respondents. Here it is possible to observe a very important bridging social capital, which exists between the poor and the rich people in the town of Mekelle. Respondents of this research have indicated the practice of taking goods from rich merchants in order to sell them in the market as an important part of their livelihood. From the viewpoint of social capital this is an interesting issue, because no formal agreement is reached between the poor and the rich merchants. Yet, the rich merchants distribute large quantities of goods worth of considerable amount of money to the petty traders. The petty traders (in

this case respondents of this research) benefit from certain proportion of the profit generated. The rich merchants in turn benefit from wider penetration into the market via the activities of the small traders. This clearly indicates an act of mutual benefit between the rich and the poor, which solely depends not on formally signed agreements but on mutually perceived trust between the two parties.

Probing into what happened to this relationship after joining DECSI is of paramount importance. Individual interviewees and focus group participants have indicated two important scenarios: there are some individuals who have given up taking goods from rich merchants after joining the DECSI program; while some have kept on their relations with the rich merchants. Those who have kept on the relations have reported that they want to remain anonymous of their involvement in DECSI. This is because rich merchants will not let them take goods as they used to do so. Because they fear that their partners (petty traders) who involve in DECSI credit may shift the money to pay their loans with DECSI. Of course, there are some instances of shifting resources from the sale of goods of the rich merchants to repay loans with DECSI, as focus group participants indicated.

To this effect, one informant in the Adihaki market area has reported that he is both a DECSI client and takes goods from the rich merchants. Both of them are his sources of finance. He further noted that he wants to remain unknown about his DECSI program involvement lest it jeopardizes his relationship with rich merchants. *"It is you (the researcher), my group members at DECSI and my family members who know my involvement in the program,"* he reported.

One defining feature of many of the poor people is having abundance of bonding social capital but a deficit of bridging social capital to link them to additional resources. Viewed in this regard, jeopardy to the meager bridging social capital available to the poor may greatly affect their livelihoods.

The other important source of finance, as revealed by respondents, is family members, relatives or neighbors. This holds true for 19(15.8%) of all the respondents. The bank as a formal source of finance is very negligible for the respondents. It only served for 2.5% of all the respondents. Given the preconditions to put up physical collateral and the inability for majority of the poor to do so, this is justifiable. In fact, the informal moneylenders are also less important sources for the respondents. This finding is rather different from the conventional knowledge about the source of finance for the poor. The literature depicts that the informal moneylenders play important role. However, in this research it is found to be less important. This could be related to the major limitations of the sector: exorbitant interest rate and scarcity of loanable funds.

Table 10: Distribution of Respondents by Sources of Finance Before Joining DECSI

Response	No of respondents	Percentage
Never borrowed	74	61.7
Local money lenders	2	1.7
Family members, relatives or neighbors	19	15.8
Rich merchants	20	16.7
Bank	3	2.5
Missing	2	1.7
Total	120	100.0

Source: Survey results

4.2.5 Trust and Reciprocity

Trust: Trust is an important part of social capital. People that have high level of trust among each other are said to be successful because they can reduce transaction costs (costs associated with doing formal business) and the need for formal procedure. In this research, an effort has been made to capture the level of trust between group members by framing a question that was believed to assess the level of trust among group members. The result of such a question is summarized below,

across the frequent and new clients of DECSI. This is done based on a manual developed by USAID to guide microfinance practitioners. The manual proposes two categories of clients: (a) frequent clients, who stayed for more than two years in a specific microfinance program; and (b) new clients, who serve as a comparison group and a proxy for non-clients (SEEP, 2002).

Table 11: Distribution of Respondents by Level of Trust and Category of Clients:

Responses	Categories of clients					
	Frequent		New		Total	%
I trust all of them	48	76.2	44	77.2	92	76.7
I trust majority of them	4	6.4	8	14.0	12	10.0
I trust some of them	7	11.0	2	3.5	9	7.5
I trust none of them	3	4.8	3	5.3	6	5.0
Missing	1	1.6	-	-	1	0.8
Total	63	100.0	57	100.0	120	100.0

Source: Survey Results

Overall, more than three-fourth of the respondents (76.7%) have responded that they trust all their group members. The number of respondents who stated that they trust majority of their group members stands at 12(10.0%) of all the respondents. Thus large number of the respondents have stated that they either trust all or majority of their group members. The proportion of those who stated they trust none of their group members is as low as 5% of all the respondents.

However small the number may be, probing into why they do not trust their group members is important. They have reasoned out that they formed groups with whom they cannot be sure of trusting them. This is done in order to satisfy urgent financial needs. One informant at the Adihaki market center stated that instead of sitting idle until he finds trustworthy members, he opted for forming group with people whom he is not familiar with. Another woman in the same

market area stated that she formed a group with people of the same Tabia. She has never known her group members before. It was at the Tabia meeting that she saw them for the first time. In her own words she stated the situation as “*kisab etlamed mariam-mariam tibl*”, which means “until I get accustomed to members’ behavior, I beg St. Merry to protect me”. This represents a suspicion created as a result of lack of trust between members.

When we look at the two categories of clients, the proportion of frequent and new clients who stated that they trust all their group members is 76.2% and 77.2% respectively. Thus taking the percentage proportion as an indicator, there is no meaningful difference between the two groups. In fact the proportion of respondents who stated that they trust majority of their group members is higher for the new clients. Oddly enough, the proportion of frequent clients who claimed that they only trust some of their members is a bit higher than that of the new clients. This is somehow different from the claims indicated in literature. In the literature, it is indicated that for the formation of trust between people, an investment in time is highly crucial. This is because in the process of tending to know others, there is a growth in sympathy and other emotional bonds between people which causes trustworthiness to rise overtime for a given relationship (Frank, 1992). However, the findings of this paper on trust goes against the assertions in the literature. This is because the proportion of those clients who stayed together for a longer time (frequent clients) have reported less of “I trust majority” and more of “I trust some”

In order to elicit further information on the source of trust between group members, an open-ended question was provided for respondents to indicate why they trust all or majority of their group members. The distribution of respondents by the major sources of trust are summarized below:

Table 12: Distribution of Respondents by Source of Trust

Reason for trusting all or majority of group members (N=104)*	No of Respondents	%
Neighborhood and being relatives	12	11.6
Work in same market place, neighbors, hard working character, and repayment on time	8	7.6
Neighborhood, hardworking character and visible job	12	11.6
Neighborhood and similar occupation at similar places	10	9.6
Work in the same market place	12	11.6
Membership to the same Mahber, Equb, or Iddir	16	15.4
Long term friendship, similar occupation and visible job	10	9.6
Other	24	23.0
Total	104	100.0

Source: Survey Results

*Applies to those who responded, “I trust all” and “I trust the majority” (Table 11)

As it is depicted on Table 12 above, of all the respondents who stated they trust all or majority of their group members, 12 (11.6%) indicated neighborhood and being relatives as reasons for trusting their group members. The fact that they work in the same market place, they are neighbors, their members have a hard working character and are good at repaying their installments on time are also cited as important reasons for trusting group members. This accounts for 8(7.6%) of all the respondents who stated that they trust all or majority of their group members. Neighborhood, hard working character and the presence of visible job are also stated as other sources for trusting group members. This represents some 12(11.6%) of all the respondents who stated that they trust all or majority of their members. Neighborhood and similar occupation at similar working places are also considered as ways by which members trust each

other. The fact that people are working in the same market places is again important source for the proliferation of trust among members. Indeed co-membership to such local networks such as Mahber, Equb and Iddir on the one hand and long term friendship, similar occupation and the fact that members have visible jobs on the other are also crucial sources. The number of respondents under the label “other” is little lower than a quarter of the respondents (23%). The major reasons for trusting all or majority of their group members are because:

- They help each other at business
- They have not encountered any problem with regard to group repayment
- They have registered a meaningful change in their lives since becoming group members
- Their group members have firm stand (do not change their minds now and then), they are hard workers and exchange advice among each other
- Members are honest, senior citizens, and do not wish to take any thing that does not belong to them.
- They have the experience for helping each other when problem emerges and long-term experience on give and take relations.

Case presentation Two: a story on the manifestation of trust between group members

“My name is Akberet Haile. I am 39 years old, married and a mother of four children. Before becoming a DECSI client, I was unable to participate in any business activity because of financial constraints to do so. Then I became a client of DECSI six years ago. Currently I am engaged in selling household utensils. My group consists of five members and we knew each other as immediate neighbors before joining DECSI. All of us have remained together for the past six years with no problem whatsoever on repayment. The source of our group strength is the trust between each of us and hard working character of each member. In our group, members appraise each other’s loan size. Accordingly, my group members have approved me to take 5,000 Birr in my latest loan, while the other members have withdrawn only 2,000 Birr each. To me, this*

is a good manifestation of trust prevailing between us. Before joining DECSI, I was only involved in Iddir in my locality. Now I am a member of both Equb (daily and weekly) and Women's Association. I have also registered a meaningful change in the lives of my family (better income, better food consumption, sending children to school etc.) and this is attributed to my involvement in DECSI. "

*Her real name, based on her consent, April 3,2006

In relation to the above issue, James Coleman (1988)-one of the founding fathers of social capital theories- has distinguished between simplex ('sparse') and multiplex ('dense') relations. Where relations are multiplex, persons are related in more than one context. Seen in this regard, findings of this research indicate that respondents are linked to each other in more than one social context. Social capital in the form of neighborhood, market networks, similar occupation, and co-membership to local networks are common among them. These may have served as sources for trusting each other.

Reciprocity: Reciprocity is another important indicator of social capital. There are two types of reciprocities: Specific reciprocity and diffused reciprocity. The former refers to the simultaneous exchange of items of roughly equal value whereas the later denotes to continuing exchange relationships irrespective of the value of items exchanged (Coster, 1976). To find out if reciprocity takes place between group members, respondents were asked to indicate *whom they will first turn to for assistance in times of repayment problem*. The proportion of respondents who said they ask the assistance of group members if they face difficulty in repaying their loans is by far larger than other options. This accounts for 50 (41.7%) of all the respondents. On the other hand, the number of respondents who indicated family members as their first choice to turn to for assistance is 26, which represents 21.7% of all the respondents. Other sources of assistance sited

as important means they rely to are: friends, co-workers, and a combination of group members, relatives and friends. In fact respondents who said they would rely on their own assets are also considerable.

Table 13: Distribution of Respondents by the Type of Assistance they Seek in Times of Repayment Problem

Response	No of respondents	%
Group members	50	41.7
Family members	26	21.7
Neighbors	4	3.3
Others	40	33.3
Total	120	100.0

Source: Survey Results

From the point of view of practice, repayments at DECSI are scheduled every month. During a focus group discussion and individual interviews, informants indicated that they, some times, face some kind of financial shortage due to different causes.

As a result of these, either they totally lack the money to repay their monthly installments, or manage to have only a certain proportion of the monthly installment. Thus group members will cover each other's deficits and make the group repayment as per the monthly schedule. This enhances performance of the group in general. The researcher probed further as to why one should cover, fully or partially, the monthly installment of another member. The response was that members trust each other and exchange reciprocities. If a group member has received favor today from other group members, the members not only expect him/her to repay his/ her loan but also to reciprocate the same at times when others are in financial trouble. One can see that some

kind of balanced reciprocity is taking place between members. These practices of reciprocity are usually backed up by group norms. The next section discusses this issue thoroughly:

Case presentation Three: A Case Story of Successful Female Group

General Information

Name*	Age	Marital Status	Occupation	Loan cycles taken	No. Of years as DECSI client
Abrehet Rada	40	Married	Restaurant	9	9
Kiros Mesfin	45	Widowed	Food and Suwa	9	9
Meaza Tesfay	64	Widowed	Spices trading	9	9
Letebirhan Meresa	35	Widowed	Suwa selling	9	9

This group of female clients was formed some 9 years ago. Originally the number of group members was seven. Three members, through the course of time, withdrew from the group. The four women are not only residents of the same Tabia but also neighbors and engaged in similar occupations.

The group has norms that govern repayment mobilization. Every member delivers monthly installment four days ahead of the repayment schedule to the group leader. They all abide by this norm.

Asked if they had any conflict between members, they all responded that no such problem occurred in their group. They rather support and help each other. But the members had some divided view on whether they prefer individual or group credit. Two members favored individual credit and another two preferred group credit. Those who favored individually indicated, that if some misfortune happens to a group member, the remaining members would shoulder the responsibility. On the other hand, those who favored group credit stated that the system enables them to support each other both in credit management and in other spheres of life. Asked about how they kept on the same group membership nine years down the road, they indicated similar objective to win life, trustworthy behavior of all members and exchange of moral and material

support among each other as major reasons. But all of them indicated that they do not like to pursue business cooperative for it causes some conflicts.

They were also asked to indicate if they belong to a group other than their credit group. They all replied that they belong to Women's Association in their Tabia. In fact one of them is a chairlady to the Kuset Women's Association. As members of the Association, they perform a lot of social duties, which include paying a visit and encouraging HIV positive persons in their respective Kuset. Further more, three of them belong to the same Equbs (note that they have two types of Equbs: daily and weekly).

With regard to the changes in their lives, they indicated that there are meaningful positive changes: sending their children to schools; buying house furniture; paying house rent; and covering medical expense if necessary. Apart from that, they are now able to fulfill social obligations, which include helping the sick and showing up for invitations.

Above all, two of the group members were deported from Eritrea- in 1983 E.C- leaving all their belongings behind them. Now they are grateful of DECSI's credit services because it has enabled them to resume normal and productive life. One of them said, "DECSI is more than a mother, because even a mother can sometimes be fade up with her children"

** Real names based on their consent*

April 16, 2006

4.2.6 Group Norms and Sanctions

Group norms: Norms are important components of social capital. Usually group membership is linked with group norms because they govern relations between members in a group. According to Frank (1992) group norms are important forces to impose sanctions on free riders. Studies in GBMF have also indicated that clients develop their own internal norms to govern relationships between members. Predominantly norms are developed to make members better manage their

common credit. Of course these norms augment the rules and regulation of the microfinance institutions and are not meant to replace them. Keeping this idea in mind, respondents were asked whether they have developed an internal norm at all. The finding indicates that only 55 (45.8%) of all the respondents have claimed the presence of internally developed norms. However, almost half or 59 (49.2%) of the respondents indicated the absence of norms in their group. And only 6(5%) indicated that they do not know whether there are norms or not.

Asked as to why they do not have internal norms, the most frequent response was: *“we already trust each other. We have tested each other’s conduct during our stay as group members. So why should we develop norms?”* This response raises another question as to the relationship between trust and norms. Are norms important only to those group members who do not trust each other much? This needs further investigation.

Perhaps more than the classification of respondents by the presence or absence of norms in their groups, it is important to see the essence of these norms. In focus group discussions and individual interviews, respondents have indicated the importance of *‘sirit’* or *‘Memhaderi Denbi’* (which means norms or governing rules) in regulating members’ relationships and behavior in a group. In general, the norms were established to encourage monthly repayment of loans from each member. According to the informants, the norms are strictly adhered to because when group members fail to meet monthly repayment schedules, they will face financial punishment from DECSI. It also delays further access to credit in the future. For this reasons, a considerable number of group members have developed internal norms that are meant to regulate repayment schedules. Some of the commonly stated internal norms include: (a) when a member faces temporary financial shortage to pay monthly installment he/she informs the situation, five days

head of repayment date, to group members so that they will take care of it; (b) collection of installments from each member two or three days a head of the actual schedule with DECSI; (c) collection of monthly installments on a daily basis. For example if each member is expected to repay 120 Birr per month, then members agree to collect 4 Birr per day. This will be gathered in the hands of one member who eventually will pay it to DECSI during the actual repayment date; (d) in order to save time, members agree to commit monthly repayments turn by turn. But in most cases their internally developed norms stipulate the group leader, or younger members to spend their time repaying monthly group installments. What will happen when either group norms or DECSI rules or both are not duly observed? This is related to sanctions against defaulters. The following section is, thus, devoted to another issue of social capital: sanctions among group members.

Sanctions among Group Members

In order to grasp the level of sanctions and measures taken against defaulting members, two closely related questions were raised to respondents: What measures they would take when there is an individual in their group who is **unable** to repay his/her loan; and what measures they would take when there is an individual who is **unwilling** to repay his/her loan

Inability or unwillingness to repay loans

It was found out that 23(19.2%) of the respondents have encountered a member who was not able to pay his/her loan (including themselves). As many as 97(80.8%) of the respondents have indicated that a problem of this sort has not occurred in their groups. The major reasons for

members' inability to repay their loans were indicated as business problems, serious sickness or death of a member, or change in residential address for different reasons.

The usual mechanisms for solving such problems depend on the seriousness of the issue. If a member is dead or permanently sick, the only option is for the other members to pay it on his/her behalf. Of course, informants have indicated that they ask close family member or relatives to pay the loans of a deceased person. They also try to assess if there are marketable assets left behind the deceased person.

Apart from this, if the problem of a group member is a temporary one, the usual mechanism is that the remaining group members contribute to cover the deficit. Following that, the concerned individual repays the loan from his/her business or seeks for other options. If the individual, in any way, cannot recover from financial trouble there is mechanism called 'Ritban'. Focus group participants have indicated "Ritban" to be a last resort for financially troubled person. This is a form of local social capital where the person in financial problem calls up on relatives, friends or neighbors to make financial support. The person in need of help fixes the date and place where potential supporters will come to extend their support. Usually the individual who needs the support prepares some local drink (Suwa) and roasted grain. This is simply meant to welcome the visitors, otherwise people do not come to eat or drink. Up on their arrival, invited persons make financial contributions as much as they could and their names and amount of cash contributed is usually registered for possible reciprocities in the future. In all these processes, members of the credit group play important role by suggesting the idea, by facilitating invitations and welcoming supporters. This is done as part of sympathy for the group member in financial trouble and partly to boost the performance of their group.

How widespread is this practice? The writer of this paper cannot tell unequivocally. However, focus group participants have indicated the practice as important one for those who cannot repay their loans for different problems. But as a general remark, members tend to be willing to help those who are unable to meet their installments when serious illness or other problems affect their financial situation.

On the other hand, the mechanism for solving a problem when some one in a group is unwilling to repay his/her loans is different from that when he/she is unable to do so. In this regard, respondents have indicated not only their experiences but also possible measure they think is appropriate for such occasions. A tabulation of measures respondents would take if they encounter a person who is unwilling to fulfill his/her obligation (actual or hypothetical) is summarized as follows:

Table 14: Percentage Distribution of respondents by Actions Taken against Defaulters

Possible Action	No of respondents	Percentage
Direct legal action	18	15.0
DECSI and Tabia enforcement then legal action	14	11.7
Group members' and social enforcement no legal action	25	20.8
First social /or group members enforcement then legal action	32	26.7
Cannot comment	29	24.1
Missing	2	1.7
Total	120	100.0

Source: Survey Results

Table 14(above) indicates that the most widely employed means which respondents have indicated for enforcing unwilling group members is a combination of social, group and legal actions. First group members would try to persuade a member to repay his/her loan. If that does not prove to be feasible option, members would go for social enforcement through the mediation of the defaulter's family members, friends and relatives. At this stage, they employ the influence of elderly and locally respected personalities. In the absence of any positive result, members would use legal action as a last resort. Those who said this is the best option account for more than a quarter of the entire respondents (26.7%).

One in any fifth person (20.8%) of all the respondents have the opinion that it is the influence of both the members and other persons (elderly people, friends, families of the defaulter) which they would opt for. Otherwise they cannot afford to sue the person in court, for it takes a great deal of their time. On the other hand, 18(15%) of all the respondents are on the opinion that they will take direct legal action by suing the person concerned. The use of DECSI staff and Tabia administration as enforcement mechanisms and then going for legal measures has been mentioned by some 14(11.7%) of all the respondents. Of all the respondents, some 29(24.1%) of them have refrained from providing any comment. These groups indicated that since they have not encountered any problem related to unwillingness of group member, it is difficult to speculate what measure they will take.

Whether or not the social sanction in urban centers like Mekelle (where a social connection between people is expected to be weaker compared to rural areas) is strong enough to correct defaulting members has been one of the central questions of this paper. This is because of the fact that the group lending methodology derives its effectiveness mainly from the strength of social

ties among potential group members. However, according to Coleman (1988) urban areas are marked by some degree of social disorganization- or in other words lack of social capital. Frank (1992) has also made similar assertions and has indicated that residents of large urban areas lack closely linked networks of personal relationships. Accordingly it was asserted that closely linked people could mount effective sanctions against norm violators.

Having this question in mind, the researcher has held a discussion with DECSI staff both at regional and sub branch level. Furthermore a performance report (taking repayment rate as an indicator) of rural and urban areas was compared. Result of the investigation indicates that urban centers perform well over than the rural areas. The performance of Mekelle branch alone has never been below 98%, according to the Regional Operations Desk Head. This is higher than the regional average, which is close to 96% from program commencement up until this research was done (March 2006). This was not within the expectation of the researcher. But, this according to the staff of DECSI, is attributed to: first, the activities of rural clients are vulnerable to natural problems such as drought; secondly, the human capital element of urban clients in terms of entrepreneurship and business experience is better than their rural counterparts; and thirdly the urban clients are as socially close to each other as the rural ones. From the view point of this paper the third reason was very appealing. But survey result on membership to different local networks and the discussion with DECSI staff disclose that the urban DECSI clients are connected in many social spheres than in one or two. (See Tables 6, 8 and 12 of this paper).

Therefore corresponding with the literature review, the mode of social sanctions against a defaulter is a combination of admonishment from group members; reporting such behavior to the wider community to augment group admonishment; and then reducing cooperation with

defaulter. These are very strong forces to discipline individual behaviors. For example in all the cases, respondents have indicated that they not only will expel the individual who defaults intentionally but also tell others not to form any group with him/her. Given the significance of small informal groups for the lives of the poor, this is not a simple punishment.

4.2.7 Group Decision Making, Solidarity and Collective Action

Group decision-making

It is argued that the decision-making procedures of a group affect its successes. Groups that follow a participatory pattern of decision-making are more successful than others. In group-based microfinance, the fact that members are responsible for managing their credits in a group requires some kind of group decisions. Issues that require group decisions among DECSI clients include mobilization of repayment, passing of decisions on poorly performing members and approaching the institution on matters that concern group members. In this regard, the issue of participation of group members on matters of group concern has been raised to respondents. Responses provided to the question are classified by taking sex as a variable.

In both male and female groups, the possibility for a group leader to decide alone is very minimal. In fact the possibility for a group leader to consult members and then ultimately decide him/her self is considerable. Some 40.4% of males and more than a quarter of females (25.7%) have indicated the presence of such a scenario in their groups. More than half of the male respondents (53.2%) and nearly seven in any ten of their female counterparts (67.1%) have indicated holding group discussion and ultimately deciding together to be the common mode of decision making in their groups.

Q. When there is a decision to be made in your group how does this usually take place?

Table 15: Distribution of Respondents by Mode of Decision Making in a Group

Responses	No of respondents		Percentage	
	Male N=50	Female N=70	Male	Female
Only group leader decides	1	2	2.0	2.9
Leader asks members what they think and then decide	19	18	38.0	25.7
Group members hold discussion and decide together	25	47	50.0	67.1
Other	5	3	10.0	4.3
Total	50	70	100.0	100.0

Source: Survey Result

An informant at the Mekelle sub branch office indicated that one member of her group could not repay her loan. The member's business had altogether been a failure. In addition she was a mother of seven children. Following her subsequent failure to repay her loan, her group members sued her in a social court. But group members saw that she was too poor to make the repayment. Ultimately all group members discussed the matter and decided to drop the charge against her. Similar group decision was made in another group where a certain member of the group was too sick to work for several months. Members indicted her in court, but later on all group members discussed and dropped the case. This finding is different from that of other research outcomes conducted elsewhere (E.g. in Bangladesh and Cameroon) where researchers reported the presence of unequal decision-making process within microfinance groups.

Group solidarity

In order to see solidarity between group members, certain questions were raised to respondents. The question raised to see solidarity between members was: "In your credit group, is it possible

to conceive of a leader or a member who puts aside his own welfare to concern himself/herself mainly with the welfare of group members?"

The answer to this question was categorized into two by taking the length of years they have stayed as DECSI clients based on the USAID manual on mentioned earlier. The responses given to the question are presented below:

Table 16: Distribution of Respondents by Level of Group Solidarity

Responses	Categories of Clients					
	Frequent		New		Total	
	Freq.	%	Freq.	%	Freq.	%
Not possible	22	34.9	33	57.9	55	45.9
Happens some times	27	42.9	13	22.8	40	33.3
Happens Frequently	14	22.2	8	14.0	22	18.3
Do not know	0	.00	3	5.3	3	2.5
Total	63	100.0	57	100.0	120	100.0

Source: Survey Results

Over all, 45.9% of the respondents have indicated that it is not possible to see a leader or a member who puts his own welfare aside for the sake of other group members. And those who said it sometimes happens in their group are exactly one third of the respondents (33.3%). Those who responded as “frequently happens” are little lower than one-fifth of all the respondents.

When we look this in terms of the length of respondents’ stay in DECSI, 34.9% of the established clients responded as not possible. The figure is significantly higher for the new clients. Nearly six in every 10 persons (57.9%) responded that it is not possible to see a member or a leader who works for the welfare of a group even at the expense of his/her own. The percentage of those who said it happens sometimes is 42.9% for the frequent clients and 22.8% for the new clients.

Whereas more than a fifth of the frequent clients (22.2) claimed the occurrence of such an act as a frequent one, only 14% of the new clients reported so. Taking this question as an indicator for group solidarity, one can say that the group solidarity among frequent clients is better than that of the new clients.

Putting ones welfare a side for the sake of other group members is manifested in terms of sacrifice of time. Individual interviewees at the Adi Haki market area have indicated that there are some group members who spend a great deal of their time collecting monthly installments and submitting it to DECSI office. Informants further indicated that time is a very precious resource for them. Because their livelihood depends on proper utilization of their time both at the market places and at home. Given this fact, there are cases where younger group members frequently spend time paying group installments, relatively less poor group members taking the responsibility to collect monthly installment and eventually repaying it on behalf of the poorer members. In the respondents' own terms they have stated it this way: "*kinikatsets Yebnan*", which means there should not be diffusion of responsibility. One should sacrifice something for the group's sake.

Collective action

A question raised to respondents to capture collective action is as to who will take initiatives to correct group members supposing that there are some individuals who do not abide by group norms and obligations. In the literature it is indicated that the group lending approach derives its effectiveness from the exercise of one important aspect of social capital: sanctioning one another in times of default to achieve mutually desired goal. If members are unwilling to do so, this shows lack of social capital, which leads to the malfunctioning of the group based credit system.

It was in this mental framework that questions were raised to respondents if there were/are some instances of lack of social capital within their groups. To make the question more appealing to respondents, the question was framed this way: *If some group member(s) fail to abide by group rules (e.g. failure to show up at meetings, failure to repay loans on time, etc) who- in the group- takes the initiative to correct these people?* The responses obtained from the inquiry are summarized on Table 17 below:

Table 17: Distribution of Respondents by Collective Actions Taken

Response	Categories of Clients					
	Male	%	Female	%	Total	%
No one	3	6.0	2	2.9	5	4.2
Only group leaders	9	18.0	15	21.4	24	20.0
Every one in the group	31	62.0	43	61.4	74	61.7
Don't know	6	12.0	7	10.00	13	10.8
Does not concern us	1	2.0	3	4.3	4	3.3
Total	50	100.0	70	100.0	120	100.0

Source: Survey Results

Generally, 74 (61.7%) of the respondents have indicated the participation of every group member on such occasions. This clearly indicates borrowers' reliance on collective action (as one aspect of social capital) to fulfill their objectives. Those who said it is the responsibility of group leaders stands at 24(20%) of the entire respondents.

When one observes across male and female respondents, the proportion of those who said that it is the responsibility of every one in a group is almost similar. The figure is 62% for male and 61.4% for female respondents. The proportion of those who stated no body should care is 6% for males and 2.9% for females.

4.2.8 Attitudes on group based microfinance and clients quitting of the program

4.2.8.1 Attitudes on Individual and Group Based Credits

Eventhough the credit delivery methodology of DECSI is predominantly group based, respondents were asked to indicate their preferences between individual and group approaches. This question was framed in order to obtain information on respondents' experiences, attitudes and views on assuming responsibility for others.

Result of the inquiry indicates that tremendous number of the survey participants prefer individual to group method of credit delivery. Of all the respondents, 105(87.5%) preferred individual means of getting credit. Only 11(9.17%) indicated the currently prevailing method of credit delivery. i.e. using social collateral as their preference. The remaining 4(3.3%) stated that it is difficult to decide, or to indicate where their preferences lay.

Above all, what matters most is not the proportion of respondents as to which category they fall. It is rather the attitude people have and subjective reasons behind these preferences that can enable us to learn a lot about the respondents' experiences and doubts.

Accordingly the reasons as to why respondents preferred individual credit to the group collateral system are too varied. However, effort has been made to classify the preferences as indicated on Table 18. Respondents have indicated their doubts on the group based credit delivery methodology based on two major facts: experience of their own; and experience from others in their locality (from what they have heard and seen). Based on this, some 22(21 %) of all those who preferred individual to group credit indicated that they do not like to waste time managing

group credit. Furthermore, they fear that they could be indebted due to others' problems. Thus, the major reasons for preferring individual credits are related to time wastage and fear of indebtedness. The other reason for preferring individual credit is related to the respondents' perception that group members' behavior cannot be predicted fully. So there is an inherent uncertainty on predicting the intention of others. This accounts for 18(17.1 %) of all the respondents. Generally, these groups of people expressed their suspicion to others as follows: "*Wala Menatu Yifelaleyu*" which means "leave alone other people, even twins differ in character". A summary of respondents' preferences and the reasons attached with them are revealed below:

Table 18: Distribution of Respondents by Reason Why They Preferred Individual Credits

Reasons (N=105)	No of respondents	%
To save time, to avoid indebtedness	22	21.0
Uncertainty of other members' behavior (can not be sure of other members intention)	18	17.1
To avoid conflict and resentment with others	13	12.4
To avoid further poverty due to others' debt	18	17.1
To Work hard, avoid free riders or disappearing members	20	19.0
To avoid other uncertainties (sickness, death, imprisonment of a member)	14	13.4
Total	105	100.0

Source: Survey Results

Some 13(12.4 %) of the respondents have stated that the group based system leads to conflict and resentment with others. To avoid this, they preferred individual credit. In addition, 18 (17.1 %) respondents indicated fear of further poverty as a major reason for wishing to avoid group based credit. These groups implied that since they are already poor, if some group members, intentionally or otherwise, fail to repay their own loans they will be accountable for others'

problems. This could lead to further impoverishment because DECSI's rule is such a strict that it could force them to the extent of imprisonment or selling of any property they currently own.

The other important category of reason for wishing to avoid group based credit and favor individual based is more or less related to the interest to avoid free riders and diffusion of responsibility in common credit management. These groups of respondents are of the opinion that hard working may not be a guarantee for success. Because however hard one may work, the presence of free riders or irresponsible persons may nullify one's effort due to the common obligation for the management of group credit. On the other hand, if credit is rendered individually it will enable them to work harder for they are sure that the fruits of their labor belong to them. These categories of respondent have indicated that the group-based credit is causing some sense of disincentives and lack of motivation to work hard.

The last category of respondents who preferred individual to group credit have sited that factors beyond the control of an individual (e.g. prolonged sickness, death, imprisonment etc) may happen to themselves or to their group members. In that case, the remaining members will face the burden.

As opposed to this, there were some respondents who preferred the group approach. Generally they preferred this approach because, apart from the loan services, they get all sorts of other help from each other as well. Specifically, they preferred group approach to individual credit method because of the following three major reasons:

- At times when a group member is unable to repay monthly installment, due to different reasons, the other members will cover his/her share;

- The group credit has positive consequences such as strengthening cooperation and brotherhood among members;
- The cooperative relations may not be limited to the loan participants; it rather strengthens relationships of other family members as well.

The third reason stated above is rather a surprising finding. Because it indicates that the horizon of good relation is not limited to participants of the GBMF. It rather enhances relations among their family members who, otherwise, are not directly involved in the credit system.

Nevertheless, there are major discrepancies between the overall findings of this research and other previous studies with regard to borrowers' preferences of individual and group approaches of credit delivery. For example Mayoux's (2001) study in Cameroon confirmed that participants of microfinance programs placed a strong cultural value on group based credit and working cooperatively as a desirable thing in it self. Similarly Taye's study (2004) on ACORD DireDawa has implied participants' preferences of the group approach. Viewed in this regard, majority of the participants of Mekelle DECSI program have preferred the individual approach of credit delivery for the reasons indicated in the preceding section.

4.2.8.2 Group disbandment and clients quitting of the program

Table 19(below) depicts that respondents have taken from as low as one to as high as nine loan cycles. In fact, the number of respondents who have taken only one cycle is larger than all the other subsequent cycles. This accounts for 29.2% of all the respondents. Those respondents who have taken two, three and four cycles represent 24.2% 12.5% and 8.3% respectively of all the

entire respondents. The general trend shows that as the loan cycle increases, the number of respondents in each subsequent cycle decreases.

Table 19: Distribution of Respondents by the Amount of Loan Cycle they have taken

Number of loan cycles taken	Number of respondents	Percentage
One	35	29.2
Two	29	24.2
Three	15	12.5
Four	10	8.3
Five	6	5.00
Six	5	4.2
Seven	5	4.2
Eight and	13	10.8
Nine	2	1.7
Total	120	100.0

Source: Survey Results

This clearly implies that clients are quitting the program after taking one or two cycles of loans. Probably the most important question to ask now is “why do clients quite programs?” The researcher has forwarded this question to the Mekelle Dehub and Semen sub branch heads, to the field officers and to ex-clients of the DECSI program.

According to the DECSI staff, the major reasons as to why clients quite program are predominantly related to: graduation from program; being unhappy of credit delivery using groups system; the experience of taking responsibility for poorly performing members; unsuccessful business activities owing to market problems and lack of business experience; rejection by DECSI to previously poor performers; and low ceiling of the credit in relation to the demand for more money. Accordingly, from program commencement in 1997 to the end of

February 2006, the number of groups disbanded and clients who quitted the DECSI program in the study area is shown as follows:

Table 20: Number of Disbanded Clients by Sex

Sub branch	Number of groups disbanded			Number of Clients		
	Female	Male	Total	Female	Male	Total
Semen Mekelle	663	253	916	2,650	1,013	3,663
Dehub Mekelle	309	297	606	1,236	1,188	2,424
Total	972	550	1,522	3,886	2,201	6,087

Source: Interview with Sub Branch Heads

Classification of disbanded groups by reason for disbandment would have been very informative. However, the sub branch offices do not have a record of such an important data. However information gathered through discussions with sub branch heads, field officers, focus group participants and individual interviewees indicated that there are some problems associated with group formation. Accordingly, it was indicated that some clients form groups in a hurried situation with little attention to the proper consideration of potential members' behavior. Focus group participants, further, have indicated that there were some individuals who formed groups and joined DECSI under the saying 'amlak yfelit' which means "God knows". This is a typical expression that these sorts of clients are not making risk assessment before group formations and hence form groups that are not based on trust and knowing of one another. According to the informants, instability of groups is closely associated with the initial problem during the formation of groups.

A further discussion with the field officers has indicated that there existed some contradiction among the different actors who participate in the formation of credit groups in DECSI. The administrative bodies and women's association favor the formation of credit groups and immediate disbursement of loans with less attention to the strength of relations between potential members. DECSI on the other hand pays much attention to careful formation of groups. This mismatch might have caused the formation of large groups that easily disbanded in a matter of short period.

As per the information obtained from the field officers, eventhough not widespread in relation to the total clients, there are instances where all or majority members of a group along with their families disappear from town just after they have taken the loans. This has two major negative consequences: increases the number of groups to be disbanded and causes significant widespread of fear on the remaining active clients that this may happen to them once in a time.

Case presentation Four: A case story of an ex- client

“My name is Abrehet W/Mariam, divorced, age 46 and a mother of three children. I was deported from Eritrea in 1984E.C. Then I became a client of DECSI for two consequent loan cycles. I used to sell tea and bread and had a relatively better income. I along with my other two members were paying our loans as per the schedule. Meanwhile one of my group members failed to meet the monthly installment and left for Addis Ababa leaving every responsibility for repayment to the rest of. As a result, I and the other group member were forced to repay the group loan. After repaying the group loan, I quitted from DECSI program. Meanwhile I have spent much time and energy trying to influence the defaulting group member. Now I have no permanent means of income. I eke out my living by baking injera or washing cloths when I am requested to do so by well to do families in my neighborhood. In the future, I may participate in*

taking loans only when it is given individually. With regard to group loan, since it is hard to find trustworthy partner, I do not like to join DECSI with that methodology."

** Her real name, for she has volunteered to be so.*

Interview was held on April 16,2006

4.3 Lender- borrower relationships

A common understanding and trust between borrowers on the one hand and a microfinance institution on the other hand is important. In the presence of mutually perceived goal, the GBMF can function very well. This has been witnessed in many countries. For example in Nigeria, the repayment rate of a microfinance called COWAN has been remarkable over the years and this was attributed to the fact that clients have come to regard the microfinance institution as theirs (Iheduru, 2000). To this effect, understanding the relationship between lender and borrowers is crucially important. This relationship is some times labeled as vertical social capital as it was indicated in the literature review. This, basically, implies a kind of interaction between poor people (the borrowers) on the one hand and people in position of influence in formal organizations on the other hand. To assess this vertical relationship between the borrowers and DECSI, two important indicators are taken in account: the type of noncredit support borrowers may get and institutional trust.

4.3.1 Non-credit support

One way of building trust and making borrowers effective in their credit management could be the provision of different non-credit supports to them. These supports may include training packages, consultancy on business management or the provision of other social services including family planning and dissemination of other pertinent information. These supports are sometimes called non-credit inputs or credit plus.

What does DECSI's policy tell us about this issue? Discussions held with the head offices' Operation Manager indicate that the institution predominantly focuses on credit delivery. However it also equally pays important attention to the provision of proper orientations to incoming clients. The orientations predominantly focus on introducing potential clients about their rights and obligations, rules and regulations of the institution and proper utilization of the credits. This enhances the transparency of the institution in the eyes of its potential borrowers.

In addition to this, DECSI staffs also play some role on follow up of the proper utilization of money for intended purposes. Apart from this, DECSI does not participate in providing training or consultancy to its clients. According to information obtained from the head office, training and consultancy services are the duties and responsibilities of the bureau of trade and industry to urban clients and the bureau of agriculture and rural development to rural clients.

The respondents' view corroborates with what has been stated above. They indicated that orientations on DECSI's rules and regulations were pretty clear from the beginning. But there are complaints on the follow up and continual support they secure from DECSI staff. Respondents indicated that eventhough they were given proper orientation on the rules of the institution, continual advice, follow up, and support is missing. One respondent at a market place called "Kebele 17" stated this situation as follows: *"They made every rule of the institution as clear as possible. But with regard to follow up and continual support, DECSI staff rarely know where our work place is located, leave alone to support us"*.

The researcher further probed into the issue by asking as to who, among DECSI staff, is responsible for providing support to clients. It was learnt that the field officers are supposed to be in charge of rendering the services.

As a matter of enthusiasm to dig into the details of this issue, a discussion was held with two field officers (one from each sub branch). Result of the discussion indicates that the number of clients and field officers in both Semen and Debub sub branches is by no means compatible. For example at the time of data collection, each sub branch had three field officers. On the other hand, the number of active clients at Semen and Debub sub branches was 3,730 and 3,242 respectively (See the Table on Annex VI).

This implies that on average one field officer is to render support to more than one thousand clients. The field officers are of the opinion that this is too huge. And one of the field officers stated the situation as follows: *"We are supposed to supervise and provide advice to large number of clients. This huge responsibility is not backed by transport facilities from our office. As a result we are over stretched, and merely focus on enforcing repayments."* Survey Respondents were also asked to indicate the types of supports they are receiving from DECSI. The responses provided are summarized on Table (21) below:

Table 21: Distribution of Respondents by a Type of Support from DECSI

Types of Support	Frequency	Percentage
Facilitating Loan, Saving and Repayment	91	75.8
Seeking solutions when problems emerge	8	6.7
Loan facilitation and seeking solutions	9	7.5
Other	8	6.7
Missing	4	3.3
Total	120	100.0

Source: Survey results

As it is indicated on Table (21) above, more than three-fourth of the respondents (75.8%) indicated that facilitating loan and saving processes and repayment sessions are the major services they receive from DECSI staff. Of all the respondents, only 8(6.7%) of them stated negotiation of solutions during group problems (E.g. sickness or death of a member) as supports they got from DECSI staff. This includes discussions as to what to do to solve the problem or rescheduling of repayment dates. The magnitude of this category is small. But this could be justified by the fact that all groups to which the respondents belong to my not encounter problems such as the sickness or death of a member. Those who said they received faster loan processing services and solutions during group problems account for 9(7.5%) of all the respondents. From the above discussion one can draw a conclusion that DECSI support to its clients is merely limited to facilitating loan, savings and ensuring repayment rates.

4.3.2 Institutional trust

The trust that clients have on DECSI, its staff and the rules and regulation that govern the two are worth examining. If clients have the feeling that credit group is merely used to mobilize repayment to the institution, the desire to exercise social control to ensure the group-based credit may not be effective. This is because clients will have little trust on the microfinancial institution. Research findings by Ito (2003) and Olomola (2002) in Bangladesh and Nigeria respectively have confirmed these claims.

To explore into the institutional trust, this research has tried to assess the trust of clients on frontline DECSI staff (sub branch managers, field officers, clerks, accountants and cashiers). This is done on the intention that the staff members have a day-to-day interaction with the clients on

matters of mutual concern: saving mobilization; repayment; loan processing; and dealing with defaulters. Furthermore, it is assumed that these DECSI staff can serve as proxy for capturing clients' trust on the institution itself.

Based on this, Likert scale questions were included in the survey instrument. Respondents were requested to indicate their level of agreement to statements that were meant to indicate trustworthiness, cooperative character and concern that DECSI staff may show to the clients. These were taken as indicators of institutional trust. To achieve this objective, a question was framed this way: *DECSI staffs that you have a contact with are generally:*

- *Trustworthy*
- *Cooperative*
- *Concerned*

A summary of the responses provided to the question are given below:

Table 22: Distribution of Respondents on their Attitude to DECSI Staff

	Strongly Agree		Agree		Disagree		Strongly Disagree		Total	%
	Freq.	%	Freq.	%	Freq.	%	Freq.	%		
Trustworthy	100	83.3	18	15.3	1	0.8	0	0	119	100
Cooperative	98	81.6	16	13.3	4	3.3	1	.8	119	100
Concerned	98	80.3	16	13.3	3	2.5	2	1.7	119	100

Source: Survey Results

Generally speaking more than 80% of the respondents have strongly agreed that DECSI staff are trustworthy, cooperative and concerned. This is 83.3%, 81.6% and 80.3% for trustworthiness, cooperative character and concern respectively. Majority of the remaining respondents fall in the "Agree" category, which accounts for 15.3%, 13.3% and 13.3% for trustworthiness,

cooperativeness and concern respectively. Those who disagreed or strongly disagreed are, generally, smaller in number.

Among those who indicated "Strongly Agree" or "Agree" to the statement related to "trustworthiness" they stated that no idea has crossed their mind that DECSI staff will cheat them on their Savings or on the repayment they commit every month. Furthermore they indicated that DECSI is trusted because it has transparent ways of doing things, and its rules/regulations can be relied up on.

Those who "Strongly Agreed" or "Agreed" for the statement related to "Concern" their part mentioned one common point: some DECSI staff have suggested the utilization of credit for the intended purpose. For them this is a sign of concern to the success of their business.

Eventhough their number is small, there were also some respondents who felt that DECSI staffs are neither cooperative nor concerned. They indicated that DECSI and its staff work for their profits and that is why the interest rate of the institution is even higher than that of the bank. Of course the attitudes of DECSI clients on its staff some times depends on the success or failure of the clients on their business and their ability to repay their loans. Those who quitted DECSI due to some failures in their business do not seem to be happy about the DECSI staff. The following story of an ex client strengthens this:

Case presentation Five: A Case Story of an Ex -Client

"My name is Alemash G/Egziabher. I am 37years old, divorced and a mother of three children. I along with my children were deported from Eritrea in 1992 E.C. I was a client of DECSI for 3 loan cycles and a leader in a group of three members. I used to sell Suwa when I was a DECSI client and had a considerable income. But in the middle of this, I lost a certain amount of my seed money somewhere. This has weakened both my business activities and the capacity to repay my loans. Finally I repaid my loan by a support I secured from relatives. With regard to my relations with DECSI staff, I can say that they do not give any support if one does not meet the repayment schedule. For example during my last loan, I could not repay on time. By then DECSI staff humiliated me. They never seek a solution in order to solve temporary problems. For me, what made things worse now is that I cannot get further loan. This is because both the Tabia administration and DECSI staff have turned down my loan proposal due to my earlier problems on repayment. As a result of this, I do not have any permanent means of earning income. Due to this, I am desperate of securing livelihood for my family. My hope is that I will get some loan in the near future from DECSI. My general opinion about DECSI staff is that they should properly supervise clients' activities and provide support and advice."*

** Not a real name*

April 16, 2006

4.4 Social Capital as a useful byproduct of GBMF

Many researchers, as indicated in the literature, have argued that group collateral arrangements for loans create or at least cements social capital. In order to see if social capital has been created or cemented as a result of respondents' involvement in a GBMF program, questions were incorporated into the survey instrument. The questions, more or less, address the following issues:

- (a) If respondents have secured additional benefits as a result of being in a credit group, and to specify those benefits:

(b) In the last 12 months if they have ever:

- Talked to local authority on matters that concern them or their community.
- Participated on issue of common concern in their community
- Belonged to a group other than their credit group;

4.4.1 Additional benefits as a result of membership to credit group

According to Kennedy et al (1998) when a certain organization or a group brought into existence for one set of purpose is appropriate for other additional uses, this constitutes a form of social capital. Taking this as an indicator of social capital, responders of this research have been asked if they have used their credit groups for purposes other than its raison d'être in order to secure additional benefits.

Overall, 84(70%) of the respondents have indicated that they have benefited as a result of being in a credit group. The remaining 36(30%) respondents stated that they have not secured any additional benefits. When this is seen across the new and frequent clients, 51(81%) of all the latter claimed that they have benefited as a result of being in a group. On the other hand, the proportion for the new clients is 33(57.9%). Similarly, 12(19%) and 24(42.1%) of the frequent and new clients, respectively, indicated that they have not got any additional benefit as a result of being in a credit group. They stated that the group merely serves as a means to obtain credit, no more no less.

From a comparison of the two groups, larger proportions of the frequent clients have claimed that they have got additional benefits than the new clients. This, may be, is due to the fact that the new clients are yet to appropriate their credit group for additional benefits.

What additional benefits have they secured? This is a question worth asking at this stage. The benefits that the respondents claimed to have acquired can be broadly categorized as: social and business related benefits.

With regard to the social benefits, respondents have indicated that it has enabled them to know new friends and secure support from them, if deemed necessary. More specifically they indicated that it has enabled them to "reciprocate among each other materially", and it has enhanced "brotherhood, friendship, and moral support to one another". Some of them also indicated that good relationships between credit group members have not been limited to the group. The relationships have rather expanded to their children and other family members as well. With regard to this issue, one respondent at the "Kebelle 17" market area indicated that when she gets sick, the first persons to visit her house are members of her credit group. To her, this is a sign that members are thinking as if *they belonged to the same family*.

With regard to business related benefit, they have indicated that it has enabled them to get new business ideas, market information and an advice to change from existing venture to a new one when the existing activity is not proved to be profitable. Similarly, some respondents have indicated that they borrow money from each other. When some "extra" money is available on one member and another member is in short of cash to do some urgent business, one borrows from the other. The details are shown on Table 23 below:

Table 23: Distribution of Respondents by Additional Benefits

Apart from credit services do you say you have secured additional benefit as a result of being in a group?	Responses	Categories of Clients					
		New		Frequent		Total	
		Freq	%	Freq	%	Freq	%
Yes		33	57.9	51	81.0	84	70.0
No		24	42.1	12	19.0	36	30.0
Total		57	100.0	63	100.0	120	100.0

Source: Survey Results

4.4.2 Civic Engagement

As indicated in the literature review of this paper, civic engagement is one of the core indicators of social capital. To this effect, many researchers in the area of social capital have also used civic engagement as a major indicator of social capital (e.g. Fukuyama 2001; Kennedy et al 1998; Oljerova et al, 2003; Abom, 2004). This research has used two types of civic engagement, namely talking to local authorities and participation to address common issues as indicators of social capital.

Talking to local Authorities

Respondents' talking to local authorities (e.g. Tabia administration) on matters that concern their community is taken as an indicator of social capital proliferation. The findings are summarized as follows:

Table 24: Distribution of Respondents by Whether they have Talked to Local Authority

Response	Categories of Clients					
	New		Frequent		Total	
	Freq.	%	Freq.	%	Freq.	%
Talked to local Auth.	13	22.8	19	30.2	32	26.7
Not talked to Local Auth.	40	70.2	38	60.3	78	65.0
Do not remember	3	5.3	3	4.8	6	5.0
Missing	1	1.7	3	4.8	4	3.3
Total	57	100.00	63	100.0	120	100.0

Source: Survey results

As shown on Table 24 (above) only close to a quarter of the respondents (26.7%) have indicated that they talked to local authority about matters that concern their community. Greater majority of them (65.0%) have not done so. The remaining 5% do not remember their doing so. Seen across

the two categories of clients, only 22.8% of new clients and 30.2% of the frequent clients claimed to have talked to local authorities.

Those who have not talked to local authorities are 70.2% for the new and 60.2% for the frequent clients respectively. Taking percentage proportion as indicator, one can say that the established clients have taken the initiative to talk to local authorities about matters that concern their communities, eventhough the difference is not as such bigger one. The issues that respondents have indicated as points of discussion with local authorities were water supply problems, crime related issues, and school related matters.

Participation to Address common Issues

Different questions were asked to understand the level and types of participations (if any) made by respondents to address common problems/issues in their localities. Overall, only 44.2% of all the respondents have indicated that they took some participation to solve common problems. 31.7% of them stated that they have not taken any participation. The remaining 21.7% indicated no problem of common concern in their locality that needs their participation.

Table 25: Distribution of Respondents by Participation to Address Common Issue

Response	Categories of Clients							
	New Freq.	%	Frequent Freq.	Total %	Freq	%		
Participated	24	42.1	29	48.3	53	44.2		
No Participated	21	36.9	17	28.3	38	31.7		
No problem	12	21.0	14	23.4	26	21.7		
Missing	-	-	-	-	3	2.4		
Total	57	100.0	60	100.0	120	100.0		

Source: Survey results

When one observes across the different categories of clients, 42.1% and 48.3% of the new and frequent clients, respectively, have participated to address common problems in the last 12 months. Those that have replied that they did not participate are 36.9% for the new and 28.3% for the frequent clients. From this, one can say that the proportion of respondents who have participated to solve common problem or issues in their locality is higher among the frequent clients. This study confirms to the findings of Woldeab et al (2005) where they found out that the proportion of DECSI clients who took the initiative to address common issues exceeded that of its non-client counterpart. Asked to mention the areas that needed their participation, they specified the construction of schools, bridges and small pavements in their localities. In accomplishing these tasks, they indicated that they have contributed financially, materially as well as their labor and time.

4.4.3 Belongingness to groups other than the credit group

Belongingness to formal or informal groups is also one important indicator of social capital. From the viewpoint of practical research works, many social capital researchers (e.g. Elinear, 2003; Krishna 2001; Fukuyama; 2001) have used this indicator as it was shown in the literature review of this paper. This research has used this variable as an indicator of social capital.

To this effect, respondents' belongingness to groups other than their credit group in the last 12 months was included in this study. A finding of the query indicates that only one third of the respondents (33.3%) have become members of other groups. Majority of the respondents (63.3%) indicated that they did not belong to any group other than their credit group in the last 12 months.

When we see this across the two categories of clients, only 28.1% of new clients indicated their belongingness to other groups. The corresponding proportion for the frequent clients is 40.7%. Those who did not belong to any group other than their credit group is 71.9% for the new and 59.3% for the frequent clients (See Table 26 below).

Table 26: Distribution of Respondents by Their Belongingness to Groups Other than the Credit Group

Response	Categories of Clients					
	New		Frequent		Total	
	Freq.	%	Freq.	%	Freq.	%
Belong to Other Groups	16	28.1	24	40.7	40	33.3
Not Belong to other Groups	41	71.9	35	59.3	76	63.3
Missing	0	0	0	0	4	3.4
Total	57	100.0	59	100.0	120	100.0

Source: Survey Results

From the above discussion and data, one can clearly observe that the proportion of frequent clients who belong to groups other than the credit group is higher than that of the new clients. The types of groups they belonged to include several general categories: financial groups such as Equib; membership to parent -teacher committee at schools; and membership to development committee at their respective Tabia.

4.5 Conflicts Among Credit Group Members

Many researchers have found out that credit delivery through the group based approach has some unintended consequences: it produces conflicts among the members. This researcher has raised some questions if respondents have ever encountered any conflict, what the conflict is/ was caused by, and the mechanisms pursued to overcome it.

Overall, more than half of the respondents (55.8%) stated that they have not encountered any conflict what so ever. The proportion of those respondents who indicated that they do not know if there is /was any dispute in their group stands at 23.3%. On the other hand, 1(0.8%) and 20(16.7%) of the respondents indicated the incidence of conflicts "Frequently" and "Sometimes" respectively. Details are summarized below (Table 27).

Table 27: Distribution of Respondents by the Frequency of Incidence of Conflict

Have you witnessed or encountered any conflict among credit group members	Response	Categories of Clients					
		New		Frequent		Total	
		Freq.	%	Freq.	%	Freq.	%
	Yes, frequently	-	-	1	1.6	1	0.8
	Yes, sometimes	9	15.8	11	17.5	20	16.7
	No dispute	35	61.4	32	50.7	67	55.8
	Don't know	13	22.8	15	23.8	28	23.3
	Other	-	-	2	3.2	2	1.7
	Missing	-	-	2	3.2	2	1.7
	Total	57	100.0	63	100.0	120	100.0

Source: Survey Results

In terms of categories of clients, a respondent who said there were/are "Frequent conflicts" belongs to the frequent group. Of course the proportion of respondents who reported that they either encountered or witnessed conflicts "sometimes" is 17.8% and 15.8% for the frequent and the new clients respectively. Thus it is possible to see that frequent clients have either encountered or witnessed conflicts by a proportion slightly higher than that of new clients. This could be attributed to the fact that as members work together in the management of a common credit, the possibility to encounter conflicts may increase. On the other hand, the number of

respondents who indicated that "No conflict" has occurred in their group is as large as 61.4% for the new and 51.6% for the frequent clients.

The major disputing issue, as mentioned by almost all those who witnessed it is the common credit management. This is to mean that some group members have either totally failed to repay their loans temporarily, lacked to meet repayment schedules or came too late to group meetings. These problems caused some kinds of conflicts among members. It is indicated in the literature of this paper that the expansion of group based credit program and the exercise of social collateral contributes to the escalation of verbal and physical aggression among members. Unlike these unfortunate experiences in other countries (E.g. Bangladesh) respondents in DECSI indicated that these conflicts took neither physical nor verbal aggression forms. In the respondents own local words the conflict took a form of '*kim*' '*tizibiti*' or '*kirhinti*' which, generally, means unpleasant feeling about other person for his /her wrong doings. In all the cases, respondents indicated that most disputing issues were solved peacefully through dialogue and discussions among the members. Some of the issues were also solved through the mediation of outsiders. The involvement of 'zemed' (relatives) and 'shimagle' (mediator) were sited as mechanisms called for.

Of course one worst case was reported by a women interviewed at the Semen Mekelle sub branch office. The matter goes like this: A group leader of the interviewee collected monthly installment from all members and used it for her own purposes, which otherwise should have been delivered to DECSI. As soon as members discovered this, they forced her to bring the money back and ultimately expelled her from group membership at the end of the loan cycle. In the mean time, serious conflict was created between her and the rest of the group members.

CHAPTER FIVE

5. CONCLUSION AND POLICY RECOMMENDATIONS

5.1 Conclusion

In DECSI, male and female form separate groups, members are not nuclear family members and should be residents of the same Tabia. However there is complaint that the institution does not allow group formation among family members, and that individuals who are not members of the same Tabia but who trust and know each other are not allowed to form groups for the reason that they do not belong to the same Tabia. Associated with group formation, the Loan and Credit Committee is a grassroots organ which is incharge of approving the loan proposals of clients and serves as a bridge between the borrowers and DECSI. With respect to borrowers' relation with this committee, the result indicates that borrowers are, in most cases free to form a group with a person of their choice and finally approach the committee for loan approval. But there are also a few complaints that they were placed by the committee into groups whose members are not known to them.

It has also been found out that membership to local level associations such as Equib, Iddir, Mahber and Women's Association is dense. However, except the women's association, they have not been incorporated into the system of microfinance in selecting or organizing potential borrowers in the studied microfinance institution. Despite this, respondents have indicated that they use their membership to local associations as sources of information about the microfinance institution under study. Similarly such networks as neighborhood, similar occupation and working in similar market places are the media by which clients of the institution know each other. Despite the fact that people have large stock of social capital in the form of membership to

local associations, proximity by residence and market places, respondents have not drawn up on them to get financial sources before they joined DECSI.

After the formation of credit groups, social capital in the form of trust and reciprocity; group norms and sanctions; collective decision-making and solidarity are important inputs utilized by the respondents in their endeavor to manage the common credit.

However despite the presence of such important manifestations of social capital, most participants do not seem to favor the group based microfinance for different reasons. There are inherent suspicions and doubt in taking loans through the mediation of groups. Another anomalous thing with regard to this is the fact that a large number of clients are quitting the microfinance institution. If people trust their group members and they are free to form autonomous groups, why do they wish to avoid taking loans using group membership? Associated with this, why are a large number of clients quitting the program in a short period of time? This research has tried to go as further as possible but more research needs to be done to draw plausible conclusions.

With regard to clients' relation with the institution, they have indicated that apart from the credit facilities, proper advice and support is missing. Despite this claim, respondents have a general trust on the institution's staff for the reason that they have transparent way of doing things.

On the other hand it is indicated that clients involvement in GBMF has some unintended consequences of both positive and negative outcomes. Among the positive outcomes clients have indicate that they have secured social and economic advantages due to membership to groups,

have participated in civic matters and belonged to groups other than the credit group. Eventhough it is not a widespread problem, a few have indicated the presence of conflicts among members owing to the common credit management. However it is also learned that the group members themselves usually solve conflict internally. But there are some major issues that needed the involvement of mediators outside the credit groups.

To recapitulate what was include in this paper, it is important to note that social capital in the form of trust and reciprocity; knowing one another; the application of group norms and sanctions; collective decision making within the groups and the like are important inputs in maintaining and ensuring the functioning of GBMF at DECSI. To this effect, the Grameen model of group based credit- supported by the social capitals cited above-has become a viable option for the poor. This is because of the fact that social collateral has been employed in lieu of the physical collateral for which the poor are lacking a great deal. Be this as it may, incorporating the following policy recommendations is worthwhile for a better client oriented approach, improved outreach and sustainability of the group based microfinance at DECSI.

5.2 Policy Recommendations

Group Formation

- Considerable number of the respondents have preferred the importance of group formation among nuclear family members. In this regard, it is crucial to note that social capital may exist at different levels: at family, at community, or state- society relations. In this particular study, clients have preferred group formation among nuclear family members for some practical reasons that have a lot to do with better trust of family members, its potentiality for pursuing business cooperatives among nuclear family members and the practicality to support each other during repayment. This may imply that social capital is stronger at the level of family institution than at the community level. Hence there is a need for detailed assessment of the viability of this option.
- Respondents have indicated that even if they trust each other they are not allowed to form a group by the mere fact that they do not belong to the same Tabia. However a mechanism could be arranged where individual who trust each other but are not members of the same Tabia could be allowed to form a group. This needs some form of discussion and arrangement between the Tabia Loan and Saving Committee members. This, however, needs to be recognized by DECSI at regional level.
- Eventhough DECSI's policy allows formation of autonomous groups; there are individuals who indicated that the Tabia Loan and Credit Committee has placed them into a group, which they do not know if they trust the members. As the social capital of trusting is crucial in managing the common credit, this needs proper attention.

Tapping local level social capital

- DECSI has to take full advantage of social capital available in the form of similar places of residence, relations at market places, long-term practices of knowing a person's character and

trustworthiness. The clients have indicated that they have put these resources into practice during group formation and afterward. But the institution has not explicitly spelt out the significance of these resources for its program and the clients. Eventhough orientations are given to potential clients to form groups based on trust among each other, details of what is meant by trusting and its sources do not seem to have been expressed to incoming clients. This is witnessed by the large number of clients who leave the program and the widespread doubts on the group arrangement.

- Membership to different local associations such as Iddir, Mahber and women's association is common among the participants of this study. However except the Women's Association, the other local level social capitals have not been incorporated into the program. Hence these Local level resources need to be marshaled strategically into the microfinance institution. One way of doing this could be enabling leaders of these local associations to participate in the Tabia level Loan and Credit Committee. This may not only enable the institution to pursue more sustainable and bottom up development intervention but also it can lessen the fears that prevail in the group-based microfinance.
- There are both successful and weak cases at individual and group level in DECSI. In line with this, clients have indicated the importance of a group for experience and information sharing. But there are no formal ways by which weaker clients and groups could exchange information and draw lesson from successful ones. Hence there is a need to build on horizontal networks for mutual support. Information exchange between the borrowers- who are more or less similar in terms of backgrounds and problems- may make the session more relevant to the needs of participants. In this regard, Bureau of Trade and Industry of the Tigray Region provides training to DECSI clients. This training is more of external support and technical in its nature. This could be more helpful to borrowers if it is done in conjunction with sessions of mutual information exchange between the borrowers themselves.

- Some group members have stayed together for so many years. Nevertheless they have no interest to engage in pursuing common/ business cooperatives. This practice could have helped them in pooling financial, human, and social resources for a better success in their venture.

Lessening the negative effect on bridging social capital

- The bridge social capital that exists between DECSI borrowers and bigger merchants could be important additional resource for them to “go a head” with their businesses. They have indicated that it enables them to expand and augment their sources of finance and information. However they should not be suspected of trust breaking and indebtedness for the simple reason that they are involved in DECSI. Therefore some kind of trust building between clients of DECSI and the richer merchants, probably by the Tabia administration, is essential.

Diminishing risks related to group Credits

- Majority of the survey participants have indicated that they preferred the individual approach of credit delivery. This emanates from two reasons: (a) Some of them have their own bad experiences on common credit management (paying others' loan or disagreement with group members); (b) The majority have heard the possible risks associated with group based credit. The most widely perceived risks mentioned by the respondents are wastage of much time to manage common credit, getting into debt due to poorly performing group members, getting into conflict with group members, and carrying the responsibility for disappearing and free riding group members. For some of them, these are not distant possibilities rather they are imminent problems that may occur any moment. This clearly shows lack of social capital. Because people are lacking the confidence to assume the responsibility for others, as they are not sure that others will be up to the expectations. Along with the necessary precautions during group formation as indicated above, it

will be of great practical importance for DECSI, in association with concerned government bodies, to consider a policy which makes individual defaulters to incur their costs and to use the group for other purposes.

Borrowers - DECSI relationship

- Clients of the institution have indicated the shortage of continual support and advice on credit utilization. The institution on its part has indicated the shortage of field staff as a major bottleneck. Thus DECSI should consider increasing both the quantity and quality of its field staff so that they can render support to the borrowers.
- Some respondents have the feeling that DECSI works only for its own profits. There is no doubt that the institution should earn profit in order to sustain its activities. But DECSI has both commercial and social objectives (DECSI, 2005). Given this fact, building common understanding is equally important because in the absence of commonly perceived objectives and mutual trust borrowers may refrain from exercising group control to ensure high repayment.

REFERENCES

Printed sources

Abom Bill (2004). "Social capital, NGOs and Development: A Guatemalan case study" *Development in Practice*, 14(3): 342-353, Curfax publishing

Argaw Yimer (2004). The Regulatory Frame Works, Administrative Capacity and Outreach Performance of Microfinance Institutions in Addis Ababa City Administration. MA Thesis in RLDS, Addis Ababa University

Asmelash Haile (2003) .The Impact of Microfinance in Ethiopia: The Case of Ganta Afeshum Woreda in Eastern Tigray. MA Thesis in RLDS, Addis Ababa University

Babbie Earl (1973). *Survey Research Methods*, Wadsworth Publishing, California

Bamlaku Alamirew (2004). Microfinance and improvement in living standards of the poor: A path way out of poverty (the case of Enemay woreda, Estern Gojam, Amhara Regional State). MA Thesis in RLDS, Addis Ababa University

Bekele Tilahun (1996). "Credit for Poverty Alleviation in the Informal Sector" in Mekonnen Taddesse (Eds). *The Ethiopian Economy: poverty and poverty Alleviation*, the Ethiopian Economic Association

Besley Timoty and Coate Stephen (1995). "Group lending, repayment incentives and social collateral" *JOURNAL OF development ECONOMICS*, 46(1995): 1-18, Elsevier science

Coster A.R (1976). *Sociological Theory*, Macmillan publishing, New York

CSA (2004a). Welfare Monitoring Survey 2004, Addis Ababa, Ethiopia

CSA (2004b). Statistical Abstract 2004. Addis Ababa, Ethiopia

DECSI pamphlet (2002). Dedebit Credit and Saving Institution, Mekelle

- DECSI pamphlet (2005). Dedebit Credit and Saving Institution, DECSI Head Office Mekelle
- DECSI pamphlet (undated). Dedebit Credit and Saving Institution S.C (Tigrigna). Mekelle
- Eleanor Wint (2003). "Social capital: red hearing or right on?" the Jamaican perspective" *Development in Practice*, 13(4): 409-413, Curfax publishing
- EWDF (2006). The Ethiopian Women Development Initiative Project. Final Report on Evaluation and Impact Assessment Study of the Women Development Initiative Project
- FDRE(2003). Central Agricultural Census Commission. Ethiopian Agricultural Sample Enumeration (1994 E.C). Results for TIGRAY REGION. Statistical report on livestock and farm implements. Part IV, Addis Ababa
- FDRE (1996). Proclamation number 40/1996 licensing and supervision of microfinancing institutions proclamation, Addis Ababa
- Fine Ben (1998). "The Development State is dead -Long Live Social Capital?" *Development and Change*, 30 (1): 1-19, Blackwell publisher
- Frank Kenneth and Yusumato Jeffrey (1998). "Linking Action to Social Structure within a System: social capital with in and between groups" *American Journal of Sociology*, 104(3): 642-686
- Frank Robert (1992). "Melding Sociology and Economics: James Coleman's Foundation of Social Theory" *Journal Of Economic Literature*, xxx (march 1992): 147-170
- Fukuyama Francis (2001). "Social capital civil society and development" *Third World Quarterly Journal of Emerging Areas*, 22 (1): 7-20, Curfax publishing

- Ghatak Maitreesh and Guinnane Timothy (1999). "The economics of lending with joint liability: Theory and practice" *JOURNAL OF Development ECONOMICS*, 60(1999): 195-228, Elsevier science Ltd
- Grant Emma (2001). "Social Capital and Community Strategy: Neighbourhood Development in Guatemala City" *Development and Change*, 32(5): Blackwell publisher
- Harper Annie (1998). "Group Based Management of Savings and Credit- The Case of AKRSP in Pakistan" *Small Enterprise Development*, 9(2): 29-41
- Hassan Kabir and Tufte David (2001). "The X-Efficiency of a Group-Based lending institution: The Case of the Grameen Bank" *World Development*, 29(6): 1071-1082, Elsevier science Ltd
- Ito Sanae (2003). "Microfinance and Social Capital: Does Social Capital help Create good practice?" *Development in Practice*, 3(4): 323-331, Curfax publishing
- Kennedy Bruce, Kawachi Ichiro and Brainerd Elizabeth (1998). "The role of Social Capital in the Russian Mortality Crisis" *World Development*, 26(11): 2029-2043, Elsevier science Ltd
- Kimuyu Peter (1999). "Rotating Saving and Credit Associations in Rural East Africa" *World Development*, 27(7): 1299-1308, Elsevier science Ltd
- Krishna Anirudh (2001). "Moving From the Stock of Social Capital to the Flow of Benefits: The Role of Agency" *World Development*, 29(6): 925-943, Elsevier science Ltd
- Locker Laura, Anderson Leigh and Nugent Rachel (2002). "Micro credit, Social Capital, and Common Pool Resource" *World Development*, 30(1): 95-105, Elsevier science Ltd
- Maluccio John, Haddad Lawrence and May Julian (2000). "Social Capital and Household Welfare in South Africa, 1993-98" in Baulch et al (Eds). *The Journal of Development Studies*,

Special Edition on Economic Mobility and Poverty Dynamics in Developing Countries 36(6): 55-81

Mayoux Linda (2001). "Tackling the Down Side: Social Capital, Women's Empowerment and microfinance in Cameroon" *Development and Change* 32(50): 435-461

Mekelle Town plan preparation project (2005). Population characteristics of Mekelle city. Mekelle

Michael Seifu and Mulat Mekonnen (2001). "A Critical Review of Studies on Microfinance Schemes in Ethiopia" in Berhanu Mengistu et al (Eds) *International Conference on Public Management, Policy and Development Proceeding, Governance and Sustainable Development*, Addis Ababa

Molyneux Maxine (2002). "Gender and the Silence of social capital: Lessons from Latin Americal" *Development and Change*, 33(2) 167-188, Blackwell publisher

Olejarova Daniel, Mosley Paul and Alexeeva Elena (2003). "Microfinance, Social Capital Formation and Political Development in Russia and Eastern Europe" *IDS Bulletin*, (34): 115-120

Rahman Aminur (1999). "Micro-Credit Initiatives for Equitable and Sustainable Development: Who Pays?" *World Development*, 27(1): 67-82, Elsevier science Ltd

Rankin Katharine (2002). "Social Capital, Microfinance and the Politics of Development" *Feminist Economics* 8(1): 1-24, Taylor and Francis Group

SEEP Network (2002). Learning From Clients; Assessment of Tools for Microfinance Practitioners (Draft Manual), USAID, Washington DC

Sharma Manohar and Zeller Manfred (1999). "Placement and outreach of group based credit organizations: the case of ASA, BRAC, and PROSHIKA in Bangladesh" *World Development*, 27(12): 2123-2136, Elsevier science Ltd

- Silvey Rachel and Elmhirts Rebecca (2003). "Engendering Social Capital: Women Workers and Rural-Urban Networks In Indonesian Crisis" *World Development*, 31(50): 865-879, Elsevier science Ltd.
- Solomon Damte(1996). "Credit To Poor Households: The Case of Financing Micro-Enterprise in Debre Berhan Town, North Shoa. Ethiopia" in Mekonnen Taddesse (Eds). *The Ethiopian Economy: poverty and poverty Alleviation*, the Ethiopian Economic Association
- Taye Nigussie (2004). "Social Capital and Group Based Microfinance Program: Some Lessons from ACORD DireDawa, Eastern Ethiopia" *Ethiopian Journal of Development Research*, 26(2): 27-63
- Teferi Zewdu (2000). *Microfinance and the poor: the case of Dedebit Credit and Saving Institution in Tigray*, MSc Thesis in Economics, Addis Ababa University
- Tesfay Aregawi (2003). *Impact of microfinance on poor women: A case study of DECSI in Eastern zone of Tigray*. MA Thesis in RLDS, Addis Ababa University
- Tesfay W.G (2003). "Microfinance and Poverty Alleviation" *The African Economist* 7(19): 24-26
- Todaro Michael (1995). *Economic Development*. Longman publishing, New York, USA
- Tsedey Asheber (2005). *Social Capital as a Survival Mechanism: The Case of Some Street Children and Youth in Addis Ababa*. MA Thesis in RLDS, Addis Ababa University
- Webster Andrew (1990). *Introduction to the Sociology of Development*, Second edition the Macmillan press Ltd, London

Wold Zemedkun (2002). "Micro-Lending: An Approach to Entrepreneur Development" in Berhanu Mengistu et al (Eds) *International Conference on Public Management, Policy and Development Proceeding, Governance and Sustainable Development*, Addis Ababa

Wolday Amaha (2000). Review of the Microfinance Development in Ethiopia: Regulatory Frameworks and Performance, Occasional Paper Number 2

Wolday Amaha, Mulat Demeke and Berhanu Temesgen (2001). "Access to Finance and the Poor: Institutional Issues, Management, and Governance of Microfinance Institutions in Ethiopia" in Berhanu Mengistu et al (Eds) *International Conference on Public Management, Policy and Development Proceeding, Governance and Sustainable Development*, Addis Ababa

Woldeab T., Gebrehiwot A., Tasew W. and Borchgrevink A. (2005). Marginalized Groups, Credit, and Empowerment: The case of Dedebit Credit and Saving Institution (DECSI) of Tigray, Ethiopia. Occasional Paper number 14, Association of the Ethiopian Microfinance Institutions, Addis Ababa

World Bank (2000). World Development Report 2000/01. Attacking poverty, oxford university press

Electronic Sources

Coleman James (1988). "Social Capital in the Creation of Human Capital" *American Journal of Sociology*. AJS Volume 94 supplement S95-S120. Accessed on March 19, 2006, available at <http://www.jstor.org>

Iheduru Ngozi(2002). Women Entrepreneurship and Development: The Gendering of Microfinance in Nigeria. Presented at the 8th International Interdisciplinary Congress on Women 21-26 July, 2002, Makerere University, Kampala-Uganda. Accessed on March 21,2006 available at www.unCDF.org/english/about_undf/

Office for National Statistics (2001). Social Capital: A Review of the Literature, Social Analysis and Reporting Division. Accessed on March 23,2006, available at <http://www.statistics.gov.uk/socialcapital/downloads/soccaplitrireview.pdf>

Olomola Ade (2002). Social capital, microfinance group performance and poverty implications in Nigeria, Nigerian Institute of Social and Economic Research, (NISER) IBDAD Accessed on 14/11/05 available at www.csae.ox.ac.uk/conferences/2002-UPaGiSSA/papers/Olemola-csae2002.pdf

Stone Wendy(2001). Measuring Social Capital: Towards a theoretically informed measurement framework for researching social capital in family and community life. Australian Institute of Family Studies. Accessed on March 25,2006 available at <http://www.aifs.gov.au/institute/puds/Rp24.pdf>

Woolcok Michael and Narayan Deepa (1999). Social Capital: Implications for Development Theory, Research, and Policy. Final Version Submitted to the World Bank Research Observer. Accessed on March 23,2006 available at <http://www.sais-jhu.edu/programs/i-dev/syllabi/socialcapital.html>

Annex I: Survey Instrument
Addis Ababa University
School of graduate Studies
Regional and Local Development Studies

Questionnaire for survey of the title "Social capital and Group Based microfinance: A case study on Dedebit Saving and Credit Institution in Mekele zone of the Tigray Regional state"

Part One: Introduction

I am a student at the Addis Ababa University particularly in a graduate program in Regional and Local Development Studies. As a partial requirement for the completion of this program, I am currently undertaking a research on a title indicated above. The purpose of this questionnaire is to acquire primary information about social relationships in group based microfinance program at Dedebit Saving and Credit Institution. The result of this research is hoped to help better understand the group based microfinance.

All the questions to be asked are purely for research purposes. Therefore you are kindly requested to feel free in giving your personal opinion to the best of your knowledge. Your opinion and answers to questions indicated here will be kept strictly confidential. Participation in this study is on a voluntary basis.

I thank you for your cooperation

Part Two: Individual level Basic information

1. How old are you?
2. Currently are you...? (1 = Married, 2 = Widowed,
3 = Divorced/Separated, 4 = Single)
3. Sex (1 = Male, 2 = Female)
4. Level of Education Completed
 (1 = Illiterate, 2 = Read and Write only, 3 = Grade 1- 4, 4=5-8
 5 = Grade 9-12, 6 = above grade 12)
5. Religion
 1= Orthodox 3 = Catholic 5 = Other (Specify)
 2 = Muslim 4 = Protestant

6. What type of occupation are you currently engaged in?

7. Are you a member of the following networks?

Network/ Association	Yes = 1	No = 2
iqub		
iddir		
Mahber		
Women's Association		
Chamber of commerce		
Other		

Part Three: Information about group formation

1. How did you know first about the DESCi program?

1 = Family member, a friend or neighbor told me

2 = DESCi announced

3 = kebele administration announced

4 = women's Association announced

4 = Other (Specify) _____

2. Why did you want to become a client?

1 = to start new business

2 = to expand existing business

3 = to expand social ties (to know new friends)

4 = other (Specify) _____

3. Who took the initiative to form a group?

1 = my self

3 = The DECSI staff

2 = other group members

4 = women's Association

5 = other (Specify) _____

4. Did you know all your group members before you join the group?

1 = Yes, I knew all of them

2 = Yes, I knew majority of them

3 = Yes, I knew some of them

4 = I didn't know all of them

5. If "yes" for Q 5 how did you happen to know them?

- 1 = Family members 3 = Members of same equib
- 2 = Neighbors
- 4 = Other (Specify) _____

6. During selection of group members, do you seriously consider the personal quality of your potential members?

- 1 = Yes 2 = No

7. If "yes" for Q7, What personal qualities did you consider?

- 1 = Trust worthiness 4 = Trust worthiness and reputability
- 2 = reputability 5 = Trust worthiness and business minded
- 3 = Business minded 6 = All three combinations
- 7 = Other (Specify) _____

8. If "No" for Q9, why not?

- 1 = lack of time
- 2 = carelessness
- 4 = other (Specify) _____

9. Before becoming DECSI's client, what were your sources of finance when you need to borrow?

- 1=never borrowed
- 1 = Informal money lender
- 2 = Family members, relatives of neighbor
- 3 = Bank
- 4 = Other (specify) _____

Part Four: Information about Group process and relations with in group

1. Do you go to meetings that concern your credit management?

- 1 = Never 2 = Sometimes 3 = always

2. Do you have norms that govern members' behavior in a group?

- 1 = Yes 2= No

3. If "Yes" to Q1, who established them?

- 1 = Group members 3 = A combination of the two
- 2 = Forwarded by DESCI 4= Other (Specify) _____

4. If you have norms, how many members know norms of the group?

1 = All 3 = Some
2 = majority 4 = Few

5. Again if you have group norms, why are they established for?

1 = To Govern repayment 3 = both saving and repayment
2 = To Govern saving mobilization
4 = Other (specify) _____

6. How many members does your group have? _____

7. How many loan cycles have you taken so far? _____

8. For how many years have you been a DECSI client? _____

9. If you have taken more than one loan cycles, have you ever changed a group?

1 = Yes 2 = No

10. If you say "yes" to Q 8 why changing a group?

1 = Dissatisfaction with group members
2 = Dissatisfaction with group leader
3 = Expelled from group
4 = Group disintegrated
6 = Other (Specify) _____

11. If you face difficulty in repaying your loan, who do you turn to first for assistance?

1 = Group members
2 = Family members
3 = neighbors
4 = other (specify) _____

12. Has there been any group member who has been "unable" to repay his/her loan?

(1 = Yes 2 = No)

13. If "yes" how is this usually resolved? _____

14. If you face some one in your group who is "unwilling" to repay his/her loan, what measure do you take? _____

15. When there is decision to be made in your group (e.g. repayment), how does this usually take place?

1 = only group leader decides

2 = Leader asks group members what they think and then decide

3 = Group members hold a discussion and decide together

4 = Other (specify) _____

16. If there is any common problem or an important need to be fulfilled [e.g training], who takes the initiative to approach

Concerned bodies?

1 = No body

3 = Every body collectively

2 = only group leaders

4 = Do not know

17. In your credit group, is it possible to conceive of a leader or a member who puts a side his own welfare to concern himself mainly with the welfare of group members?

1 = Not possible

3 = Happens frequently

2 = Sometimes happens

4 = Don not know

18. If some group member(s) fail to abide by group norms (e.g failure to show up at meetings, failure to repay loans on time etc)Who in the group takes the initiative to correct these people?

1 = No one

3 = every one in the group

2 = Only group leaders

4 = Do not know

19. If you face to choose between taking loans individually or in group, which one do you prefer?

1 = In group

2 = Individually

3 = difficult to decide

20. If you say "individually" why

1. _____ 2. _____

3. _____ 4. _____ 5. _____

21. If you say "in group", why?

1. _____ 2. _____

3. _____ 4. _____ 5. _____

22. How much do you trust your group members?

1. I trust all of them
2. I trust majority of them
3. I trust some of them
4. I trust none of them

23. If you trust all of them of majority of them, what are the manifestations of your trust?

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

Part FIVE: Information about client-staff relations

1. Do you get the following support/service from DECSI staff?

(More than one answers possible)

- 1 = Training on business management
- 2 = advice on business management
- 3 = Orientation about HIV/AIDS
- 4 = Education on family planning/child rearing/home management
- 5 = Other (specify) _____

2. Do DECSI staff, participate in :(More than one answer possible)

- 1= Identifying trainees
- 2 = facilitating loan process
- 3 = Negotiate solution when problems emerge (death, sickness of borrower)
- 4 = other (specify) _____

3. In your opinion, do you think the DECSI staff care about your business success?

- 1 = all of them care? 3 = none of them care
- 2 = only some of them care 4 = do not know
- 5 = other (specify) _____

4. How do you express your relationship with the DECSI staff?

- 1 = Family like
- 2 = Friendly like
- 3 = Other (specify) _____

5. In the last 12 months have you taken the initiative to address a problem or common issue?
(1 = Yes 2 = No 3 = no problem)

6. In the last 12 months, have you talked with a local authority or government organization (e.g. kebele administration) about problems in your community?
(1 = Yes 2 = No 3 = don't remember)

Part Seven: information related to possible conflicts and friction

1. Have you witnessed / encountered any dispute among credit group members?
1 = yes, frequently
2 = yes, sometimes 3 = no dispute 4 = don't know
6 = other (specify) _____

2. If "yes" to Q1 what are /were the major causes?

- 1 = _____
- 2 = _____
- 3 = _____
- 4 = _____

3. Again if there are/were disputes among credit group members, what mechanisms are/were used to resolve them?

- 1 = _____
- 2 = _____
- 3 = _____
- 4 = _____

4. If conflicts occur, what forms do they take?

- 1 = verbal aggression
- 2 = physical assault
- 3 = other (specify) _____

Name of name interviewer _____

Date _____

Interview started at _____ Interview-complet at _____

Name of sub branch (1=Semien Mekelle 2=Debub Mekelle)

Annex II: Questions addressed to ex-clients

- Q1. Name of ex-client _____
- Q2. age _____ Q3. Marital status _____ Q4. sex _____
- Q5. Current occupation _____
- Q6. Have you been a client of DECSI?
- Q7. If "yes" why have you left?
- Q8. if your reason for quitting is relate to you say "problem with group lending" which aspect of group lending did force you to leave?
- Q9. If you say "problems with program policies" what programs did force you leave?
- Q10 do you have a plan to join DECSI?
- Q11 if yes when and in what condition?
- Q12. If "no", why not?
- Q13. what three things do you like most from DECSI
- Q14 what three things do you dislike most from DECSI

A list of possible answers for ex clients

- Q7 1 = problem with group lending
2 = personal reasons
3 = business problem 4 = problem with program policies/ procedures
5 = other (specify) _____

- Q8 1 = Group disbanded
2 = dislike of group pressure
3 = dislike of group established rules
4 = unwilling to attend meetings
5 = conflict with group members
6 = dissatisfied with group leader
7 = any combination (specify) _____

- Q9 1 = bad treatment by staff 2 = personal conflict with staff
3 = too small loans
4 = dislike of repayment schedule
5 = other (specify) _____

Annex III: Questions for focus group discussion

1. General Information
 - 1.1 Names, Age, and Marital Status of Participants
 - 1.2 Types of current occupation
 - 1.3 Current Address (Woreda and Tabia)
2. How was your group formed?
3. During the formation of credit groups, what personal attributes are taken as important to choose a group member?
4. How many loan cycles have you taken so far? For how many years? Have you ever changed a group?
5. Do you have norms that govern relations between members? Would you specify them?
6. Which method of credit delivery do you prefer? (Individually or in a group) and why?
7. What did your group do as a group apart from the credit related issues?
8. Have you encountered any conflict among members? What were they caused by? How were they solved?
9. Apart from group membership in DECSI, do you belong to other groups? If yes, specify the group type? Are your credit group members also members of the other groups too?
10. Before becoming DCSI client, have you ever borrowed money for business purpose? What was/were your sources of finance?
11. Have ever encountered a group member who cannot repay his/her loan? How was in solved?
12. Is there any sense of trust among group members? If yes why? If no why not?
13. Would you specify the changes you have observed in life due to you involvement in DECSI?
14. What support do you get from DECSI apart from the credit provision?
15. Have you ever considered doing business in a group or cooperatively? If yes, specify the types of activities? If no, why not?
16. Specify things that need an improvement on the part of DECSI?

Annex IV: Questions addressed to regional office of DECSI

1. Who are the shareholders of DECSI?
2. What working relations/networks do you have with offices of similar objectives? Could you mention some of these offices please?
3. Why do males and females form separate groups in DECSI?
4. What reasons does DECSI have for prohibiting group formation among close family members?
5. Were/are there any cultural values which prohibit program start ups and eventual expansion? (E.g. Haram for loans with interests among Muslims). If so how does DECSI try to tackle them?
6. Why has DECSI reduced group size from the former "five to seven" to the recent "three to seven" persons per group?
7. The pros and cons of group lending both from the stand point of DECSI and beneficiaries?
8. Is there any non-credit support to beneficiaries (e.g. training, advices or supervision) by DECSI?
9. Performance of DECSI in terms of:
 - Amount of loan portfolio _____
 - Amount of saving _____
 - Average rate of repayment _____ as of which year _____
11. In your view does group pressure play a significant role in ensuring high repayment?
12. Comment on group lending methodology both in rural and urban setting. In which setting is this methodology more practicable and why?
13. How does DECSI work to secure reputability, trustworthiness and respect in the eyes of the public in general and the program beneficiaries in particular?

Annex V: Questions addressed to sub branches and field officers of DECSI

1. What are the major methods of extending loans in your sub branch
2. How much is the interest rate to date?
3. Is there any grace period to incoming clients?
4. How many section or departments are they in your sub branch office? What are they established for?
5. What qualifications do your field offices have?
6. What is the process of group formation? What orientation does your organization provide to incoming clients? Who provides these orientations?
7. What roles do Tabia administration or women's association play in credit group formation? Correction of defaulters?
8. After group formation, how are repayment programs arranged?
9. How many active groups and clients do you have in your sub branch?

Sub branch	Number of Groups			Reference date
	Female	Male	Total	
Dehub Mekelle				
Semen Mekelle				
Number of active clients				

10. Number of groups disbanded in your sub branch by reasons for disbandment

No	Reasons for Disbandment	Number of Groups	Remark (if any)
1			
2			
3			

11. Loan Centers

11.1 Number of loan centers in your sub branch _____

11.2 Number of members in each loan center _____

11.3 What purposes are these loan center established for?

12. IN YOUR sub branch please indicate:

- Amount of loan disbursed from program start: _____
- Amount of saving mobilized: from clients _____ from non clients _____ total _____ as of _____ (date)

13. In your sub branch how many groups have arrears to date? _____. What are the major causes? _____

14. Are there groups, which are highly successful? What is this attributed to? What does your sub branch do to encourage successful groups?

15. What type of support / services does your sub branch provide to borrowers other than the credit services

Annex VI: Research processes and challenges encountered

As an entry to the data collection, I talked to Ato zemichael G/Medhin - my former colleague. He is among the participants who founded DECSI and has traveled to Bangladesh to gain necessary experience for the establishment. After the establishment of DECSI, he served as a board member of the institution. Therefore he is very much familiar with the top level DECSI staff. That is why I tried to take advantage of this relationship in my endeavor to collect the necessary data for my Thesis. As per my expectation, Ato Zemichael communicated with top-level DECSI staff and this paved the way to a relatively smooth period of data collection.

With regard to my startup stages with DECSI, I first contacted the Regional Manager and delivered a letter of intent written by the Department of RLDS. He in turn sent me to the Mekelle branch office of DECSI. Subsequently I was linked to the Mekelle Dehub and Semen sub branch heads and maintained almost a daily contact with them from the commencement up until the end of the data collection period. In fact, I found both sub branch heads very much cooperative and they extended their cooperation until the end of the research.

To begin with the task, I requested the number of borrows in each sub branch. This helped me not only to obtain initial information and familiarize my self with the issue of group based microfinance but also frame some of my question items accordingly. For example, I initial requested to obtain the number of clients under each sub branch. The sub branch heads provided me two types of groups: number of active and disbanded groups. This helped me to raise questions of as to why people do leave the institution. Secondly, they informed me the number of groups by sex, which in turn was essential to raise questions as to why male and female borrowers form separate groups in the institution. In general, the process of learning and familiarizing my self with the practice of group based microfinance took a recurring form where an answer to a question evoked the framing of subsequent ones.

Based on my request for the number of clients and groups in the two sub branches of DECSI, the following information was obtained:

Sub branch	Number of Groups			Number of Clients	
	Female	Male	Total	Female	Male
Dehub	538	289	827	2,088	1,154
Semen	727	661	1388	2,136	1,594
Total	1,265	950	2,215	4,224	2,748

Source: Interview with Sub Branch Heads

As per the information indicated above, I first and for most organized the population of clients into female and male groups separately by taking Sex as stratifying variable. Following that, I selected 111 groups (63 female and 48 male groups) which is proportion to the total number of each as indicated in the above Table. This accounts for 5% of the 2,215 groups that were active at both sub branches during the period of data collection. The total number of members of these selected groups was 366.

The next stage was to determine a sample size for the study. Here it is argued that the greater the sample size the better the possibility to approach the population value from which the sample is drawn (Babie, 1973). Nevertheless, two crucial things associated with increasing the sample size come to the mind of every researcher: time and cost. Hence, with the available time and financial resources, I opted for a total sample size of 120. Of this, 70 are female and 50 are male. These individuals were selected from the 111 groups selected at the initial stage. Thus this research has employed a two-staged cluster sampling design. In both cases, I have employed the systematic sampling design. The reason behind this is that there were 6,972 active clients in both sub branches [See Table above]. Then it was impractical to compile an exhaustive list of all the borrowers. The best option was to compile the list of groups by stratifying them into female and male and sampling of the groups; followed by the selection of respondents from the selected groups.

After the selection of samples, what came to my attention was how to contact those actually selected individuals. This has been a practical problem, which cropped up at this stage. Eventhough I had a Tabia address of most of the selected individuals, it was very difficult to look

for them on a house-to-house basis. This will take a great deal of my time. As an option to this bottleneck, I consulted the sub branch heads and field officers of both sub branches. From their experiences, they forwarded a very promising idea: to use the repayment date [a date when clients convene to sub branch office to pay their monthly installments] to meet the selected persons. They informed me their monthly schedule when group members come to the sub branches to repay group loans. Based on this idea, we identified the repayment dates of those individuals selected for interviews. Hence the interview was coincided with the dates when clients come to repay their loans. However, this practice had some difficulties, i.e. some of those people who come the repayment centers were not selected for interviews but were group members of those selected for interview. To solve this, I made the staff of DECSI send a message to the selected individuals- through their group members- to tell them to come to the sub branch office. Fortunately almost all of them came. The sub branch heads introduced me to the clients. Following that I explained my status and the reason for calling them to the sub branch office and subsequently asked their willingness for interviews. They all volunteered.

Meanwhile other practical problems concomitant to the use of sub branch offices as interview sites became apparent sooner: firstly, clients make their monthly repayments only once a month and I cannot wait until the repayment date for every selected individual is due. Secondly, while making interviews at the repayment centers, [the sub branch offices] I observed that some of them were not free to speak their minds due to the fact that they were asked to comment on their relationships with DECSI staff, policy of the institution, and other issues that call for relative secrecy. Thirdly, some of them were going out of time to give interview to a questionnaire with so many pages. Hence I was forced to change the venue of data collection to areas where the effects posed by the above problems can be minimized.

I communicated this with the staff and consulted them for a better option. At that time, I was informed that a great number of DECSI clients work in two big open markets at Mekelle, namely the Adihaki and kebele 17 market areas. Then I used one DECSI field officer as a guide to places where clients conduct their business activities. Having visited the major market sites, the next day I went with a list of the selected persons. Fortunately enough they knew each other well. I found majority of the selected persons in the market areas. Once I contacted a few, they kept on

showing me the location of others. Only those clients engage in small restaurant, butchery, shop keeping, wood and metal workshops, sale of local drink and urban agriculture were not found in the open market areas. These individuals were contacted at their houses through the aid of field officers and individuals contacted at the market places. Moreover the use of market places as data collection sites offered other advantages- both for the researcher and the respondents: an opportunity to personally observe their businesses: a sense of being at ease to speak what they feel: and a possibility of saving time by doing business and interviewing simultaneously.

Using the above methods the data collection was completed in 13 days. In the period of data collection, I used a method which helped me to track information which otherwise cannot to be gathered through the structured questionnaire. Every time the data collectors were filling the standardized survey questionnaire, I always remained nearby either of the data collectors. This was done for two complementary reasons. First, to assist data collectors while practically filling the questionnaires. This helped me to iron out some of the gaps in the comprehension of the questionnaire and make timely corrections just on the spot. Secondly, by doing so I got information that cannot be obtained through the survey instruments. When a certain question was raised [to the respondents] from the survey instrument, they were provoked to discuss a lot of other relevant information. Thus I kept on capturing this information through the processes of writing, listening, and asking further questions. By doing so, I tried to make up major pitfalls of the predominantly structured survey instrument.

After the completion of the data collection on survey research, I conducted individual interviews with regional staff, sub branch heads, and field officers. Prior to the interview I identified and delivered to them lists of questions. This was aimed at giving them ample time for preparation and obtain a well thought and prepared information. Based on prior arrangements and appointments I conducted an interview with two field officers at the same time, with two sub branch heads separately, and with one regional operations manager.

Declaration

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

Declared by:

Name: Mulugeta Abay

Signature: [Handwritten Signature]

Date: July 31, 2006

Confirmed by Advisor

Name: Taye Negussie

Signature: [Handwritten Signature]

Date: July 31, 2006

Place and date of submission at Addis Ababa University, on

31st 7 July 2006