

**THE ROLE OF MICROFINANCE IN POVERTY REDUCTION: The Case  
of Specialized Financial Promotion Institute (SFPI)**

**By: Aziza Geleta Dessalegn**

**Advisor: Kidist Gebreselassie (PhD)**

A Thesis Submitted to the School of Graduate Studies of Addis Ababa University in  
Partial Fulfillment of the Requirements for the Degree of Masters of Art in Human  
and Economic Development in Africa.

Addis Ababa University

Addis Ababa, Ethiopia

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**ADDIS ABABA UNIVERSTIY  
SCHOOL OF GRAGUATE STUDIES  
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## **Definitions and Key Concepts**

### **Microfinance:**

Microfinance is an economic development approach that involves providing financial services, through institutions, to low-income clients, where the market fails to provide appropriate services (Maanen, 2004). The services provided by the Microfinance Institutions (MFIs) include credit, saving and insurance services. Many microfinance institutions also provide social intermediation services such as training and education, organizational support, health and skills in line with their development objectives.

### **Micro-credit:**

It is a component of microfinance and is the extension of small loans to entrepreneurs, who are too poor to qualify for traditional bank loans (Meagher, 2002). Especially in developing countries, micro-credit enables very poor people to engage in self-employment projects that generate income, thus allowing them to improve the standard of living for themselves and their families.

### **Micro finance Institutions (MFIs):**

A microfinance institution is an organization, engaged in extending micro credit loans and other financial services to poor borrowers for income generating and self-employment activities (Ledgerwood, 1999).

### **Empowerment:**

Empowerment refers to increasing the spiritual, political, social and economic strength of individuals and communities. It often involves in developing confidence of the individual in his/her own capacities. It has different meanings in different social, cultural and political contexts. It indicates the expression of self-strength, control, self-power, self-reliance, freedom of choice and life of dignity, in accordance with one's values, capable of fighting for one's rights, independence, own decision making, being free, awakening, and capability (Croos, 2003). Empowerment is relevant at the individual and collective level, and can be economic, social, or political.

**Poverty:**

Poverty is a condition in which a person of community is deprived of the basic essentials and necessities for a minimum standard of living. Since poverty is understood in many senses, the basic essentials may be material resources such as food, safe drinking water and shelter, or they may be social resources such as access to information, education, health care, social status, political power, or the opportunity to develop meaningful connections with other people in society(Maanen, 2004:34).

According to the World Bank's (2003) definition of poverty, "A condition of life characterized by malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency".

**Extreme Poverty/Absolute Poverty:**

Extreme poverty is the most severe state of poverty, where people cannot meet their basic needs for survival, such as food, water, clothing, shelter, sanitation, education and health care. Eradication of extreme poverty and hunger by 2015 is a Millennium Development Goal set by UN(Maanen, 2004). To determine the number of extreme poor people around the world, the World Bank characterizes extreme poverty as living on the daily income of US \$1 or less. It has been estimated that around 1.1 billion people currently live under these conditions(World Bank, 2006).

**Moderate Poverty:**

It indicates the condition where people earns about \$ 1 to \$2 a day, which enables households to just barely meet their basic needs, but they still have go for many of the other things – education, health care –that many of us take for granted(Maanen, 2004).

**Relative Poverty:**

It means that a household has an income below the national average income.

## **List of Acronyms**

<b>AEMFI</b>	Association of Ethiopian Micro Finance Institution
<b>FGD</b>	Focus Group Discussion
<b>GDI</b>	Gender related Development Index
<b>HDI</b>	Human Development Index
<b>HPI</b>	Human Poverty Index
<b>IMF</b>	International Monterey Fund
<b>KIIs</b>	Key Informant Interview
<b>MDG</b>	Millennium Development Goal
<b>MFIs</b>	Microfinance Institutions
<b>NBE</b>	National Bank of Ethiopia
<b>NGO</b>	Non-Government Organization
<b>PASDSP</b>	Plan for Accelerated and Sustainable Development Program
<b>PRSP</b>	Poverty Reduction Strategy Paper
<b>SFPI</b>	Specialized Financial Promotion Institute
<b>UN</b>	United Nation
<b>UNDP</b>	United Nation of Development Program
<b>WB</b>	World Bank
<b>WDR</b>	World Development Report

## **Abstract**

*Since the 1970s there has been a strongly growing interest in considering micro financing as a viable strategy for the poor. Similarly speaking, Microfinance can be a critical element of an effective poverty reduction strategy especially for developing countries. More than ever after the success of the Grameen Bank, the system has been duplicated in the different parts of developing world. Ethiopia is also one of the countries where microfinance has been given due consideration as a safety net for the poor to help them overcome the adversities of poverty. The services provided by microfinance institutions is desired to enable the poor to smoothen their consumption, manage their risks better, build their assets gradually, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life.*

*Microfinance institutions, as mentioned above, are basically set up with the goal of poverty reduction. Subsequently, in order to investigate the above premises, this study has undertaken empirical evidence in Specialized Financial Promotion Institute taking a sample of 120 clients from four branches of Addis Ababa to discern its contribution towards poverty reduction. Consequently the objective of this study is to find out the impact of microfinance towards poverty with a particular reference to Specialized Financial Promotion Institute. With the above objectives in mind, the research work employed questionnaires, key informants; focus group discussions, and observations to obtain primary data. In addition, secondary sources of data have also been collected from different literature and SFPI annual progress report. In deed the research is both quantitative and qualitative by its nature.*

*The contribution of Microfinance is analyzed based on income, living condition, asset accumulation, saving, decision making power, self-esteem, self-confidence, business management skills along with the strength and weakness of the institution among others. The finding indicates that SFPI scheme has made positive contribution to the clients in relation to observed variables. Nevertheless significantly higher number of the clients complained about the institutions high interest rate, too small loan size, repayment policy, problematic group dynamics. Therefore, as a pointer to future endeavors, the current services of SFPI need to amend the loan size and reduce the interest rate in order to resolve the issues at hand and to fit the financial problem of the poor in the sector*

**Key Words:** Microfinance Institutions, Microfinance, Microcredit, Poverty, Poverty Reduction

## **Chapter One**

### **1.1 Introduction**

Wide-spread poverty, with all the problems that comes with it, is the greatest challenge of our time. One of the identified constraints facing the poor is lack of access to formal sector funds to enable them to take advantage of economic opportunities to increase their output, thereby move out of poverty(Sumner, 2007). Traditional aid has not helped in solving this problem(Meehan, 1999).Microfinance has been identified as one of the influential development efforts towards promoting financial sustainability for poor individuals in the society (Lindvert, 2006). The microfinance revolution has changed attitudes towards helping the poor in many countries and in some has provided substantial flow of finance, often to very low-income groups or households, who would normally be excluded by conventional financial institutions (Kurmanalieva *et al*, 2003).

Microfinance has proven to be an effective and powerful tool for poverty reduction (Morduch and Haley, 2001).As a result, in recent years, microfinance has been considered as an integral component of poverty reduction strategy by many governments, international organizations and donors. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, gradually build their asset base, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life.Like many other development tools, however, microfinance has insufficiently penetrated the poorer strata of the society. The poorest still form the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance(Irobi, 2008).

Ethiopia has an estimated population of more than 80 million with about 85% of the country's population living in rural area. The country's dependence on subsistence agriculture (making up 55% of GDP and 85% of total employment) left the economy to shocks and unable to feed its citizens (Wiss, 2005). Consequently, widespread poverty has become the country's main feature both in the rural and urban areas (Tsehay and Mengistu, 2002). Poor economic growth, low technological base, periodic drought and famine, and internal conflicts and displacement have continued to exacerbate

poverty in the country (Yohannes, 2007). These and other complex factors have caused slowdown in the pace of economic growth of the country and deterioration in the living condition of its people. The Ethiopian government implemented policy measures such as Agricultural Development led Industrialization (ADLI), Food Security Strategy, Poverty Reduction Strategy Paper (PRSP) and Plan for Accelerated and Sustainable Development Program (PASDEP) to increase productivity and reduce poverty (Alemayehu, 2008). Delivery of microfinance services has also been considered as one of the policy instruments of the government and non-governmental organizations to induce the adoption of new technologies and enable poor households increase their productivity and income, and reduce poverty. The establishment of sustainable and profitable microfinance institutions that reach a large number of poor households who are not served by the conventional banks, such as commercial and development banks, due to their institutional and structural problems, have been a prime component of the new development strategy of Ethiopia i.e. poverty reduction (Wolday, 2000).

## **1.2 Statement of the Problem**

Poverty is a harsh and undesired phenomenon in mankind. The need for reducing and if possible eradicating it is unquestionable. Based on the evidence on the role of microfinance in socio-economic development and poverty alleviation (Zeller and Meyer, 2002) microfinance programs have increasingly been considered as a component of the main instruments in poverty reduction in recent development agenda.

The Ethiopian government's recent development strategy, the Poverty Reduction Strategy Paper (PRSP) and the most recent Plan for Accelerated and Sustainable Development Program (PASDEP), among other documents, considered microfinance as a good entry point in achieving development objectives as well as in restraining the dangerous trend in poverty and meeting the Millennium Development Goals (Gobezie, 2008). Microfinance intervention has been said to register substantive results in view of making participatory development activity realizable (Wolday, 2000). Therefore, the Ethiopian government has been paying increasing attention to the microfinance sector as a crucial element to meet the poor peoples' needs and to alleviate poverty.

In line with this it is indicated that addressing urban poverty issue is a necessary step towards making our urban centers effective centers of development (Befekadu, 2008). Various studies have been conducted in the area of microfinance in Ethiopia. One of the earlier studies by Wolday(2000) reviews the development of microfinance in Ethiopia, the regulatory frameworks of the industry, the performance of the institution in terms of financial sustainability and outreach. A good number of previous studies of microfinance institutions in Ethiopia focus on performance analysis in terms of financial sustainability and outreach (Befekadu, 2008) rural service delivery issues (Assefa *et al.* 2005), the nexus between commercial and social objectives of the institutions (Getaneh, 2008), reconciliation of financial sustainability with poverty alleviation (Tsgaye, 2005) and access to microfinance in rural Ethiopia (Yaron, 1994 and Assefa *et al.* 2005).

Most of the aforementioned studies have much of their focuses on microfinance institutions rather than on program targets. In the event of addressing program beneficiaries, they are pre-occupied with investigating whether or not the poor are being reached. A few other studies dealt with the impact of microfinance institution on poverty reduction. These include study by Asmelash (2003) which looks in to microfinance program impact on poor rural households. The study does not consider urban poverty which has peculiar characteristics distinct from rural poverty. Another study by Mebratu (2008) assesses the impact of microfinance program on poverty alleviation among microfinance clients by exclusively focusing on urban poverty. However, the study reports the current poverty status of the clients and gives no idea on the conditions of these clients before they started to use microfinance services. Consequently, it fails to give some account to the extent of change in the lives of households of the respondent clients by comparing the situations before and after the program. Other studies consider the impact of microfinance on the general poverty situations of the clients rather than looking into the constituents (Gobezie, 2008) or confine themselves into one or two of the constituents (Solomon, 1996).

The purpose of this paper is therefore to assess the role of Microfinance institution beneficiaries living condition (as measured by income, saving, asset accumulation, decision making power and self-esteem) by paying attention to both the before- and after- program situations. Moreover, the study assess the role of microfinance institutions on poverty reduction by taking a case study of

Specialized Financial Promotion Institution(SFPI) which has not been given due focus by many of the previous works on the role of micro-finance.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective of the Study**

The general objective of this research is to analyze the role of MFIs on poverty reduction in the urban Ethiopia. It explores the benefits gained from applying micro-financing as a mechanism to reduce poverty and pave ways to meet MDGs in the country.

#### **1.3.2 Specific Objectives**

The specific objectives of the research are to:-

- Assess the role of SFPI performance in terms of outreach,
- Investigate the role of microfinance products of SFPI on the economic status of the clients in terms of income, saving and asset holdings,
- Examine the role of SFPI micro-financial service on the psycho-social empowerment of clients in terms of participation in decision making power, self-esteem, and business management skill and
- Investigate participants view regarding the strengths and limitations of SFPI micro-financial service provision.

### **1.4 Significance of the Study**

The research is believed to generate data about SFPI and the role it may play in improving the lives of the clients. It will also be important to provoke a discussion on whether SFPI can reduce poverty in countries such as Ethiopia where poverty is chronic.

The research will serve policy makers, donors, program managers, NGO personnel, researchers and practitioners of micro-finance service to acquire the understanding about the process of intervention, the level of contribution of SFPI service in reducing poverty. The result also gives insight into the limitations and challenges of SFPIs in their effort to address issues of poverty and see relevant areas of interventions to increase their effectiveness. In addition, the research may serve as a pointer towards needs for further study in the area.

## **1.5 Limitation of the Study**

This study is limited to selected household in Addis Ababa who are participating in the microfinance scheme of a selected SFPI branch. The rationale behind this is that conducting a research up on all of the nine branches will be time taking and financially constraining. Together with this the researcher particular interest is to focus on urban poverty which is most of the time seen as elapsed issue. Therefore, it may not have a scientific justification to assure the reader that the final conclusion coming out of this paper is representative and applicable to all beneficiaries who are participating in microfinance and SFPI programs throughout the country.

## **1.6 Conceptual Framework**

Economic conditions in many developing African countries have continued to deteriorate over time pushing more and more people into deeper poverty levels. The poor in these countries have often been at a disadvantage in accessing basic livelihood services. However, successful implementations of poverty alleviation strategies like micro-finance development backed by accessible microcredit have attempted to improve the situation (Zaman, 1999). Microfinance has initiated the belief that little money can be put to work. Indeed, in what has been described as a “revolution in microfinance,” a new banking technology has emerged that differs from the traditional non-inclusive banking (United Nations, 2005).

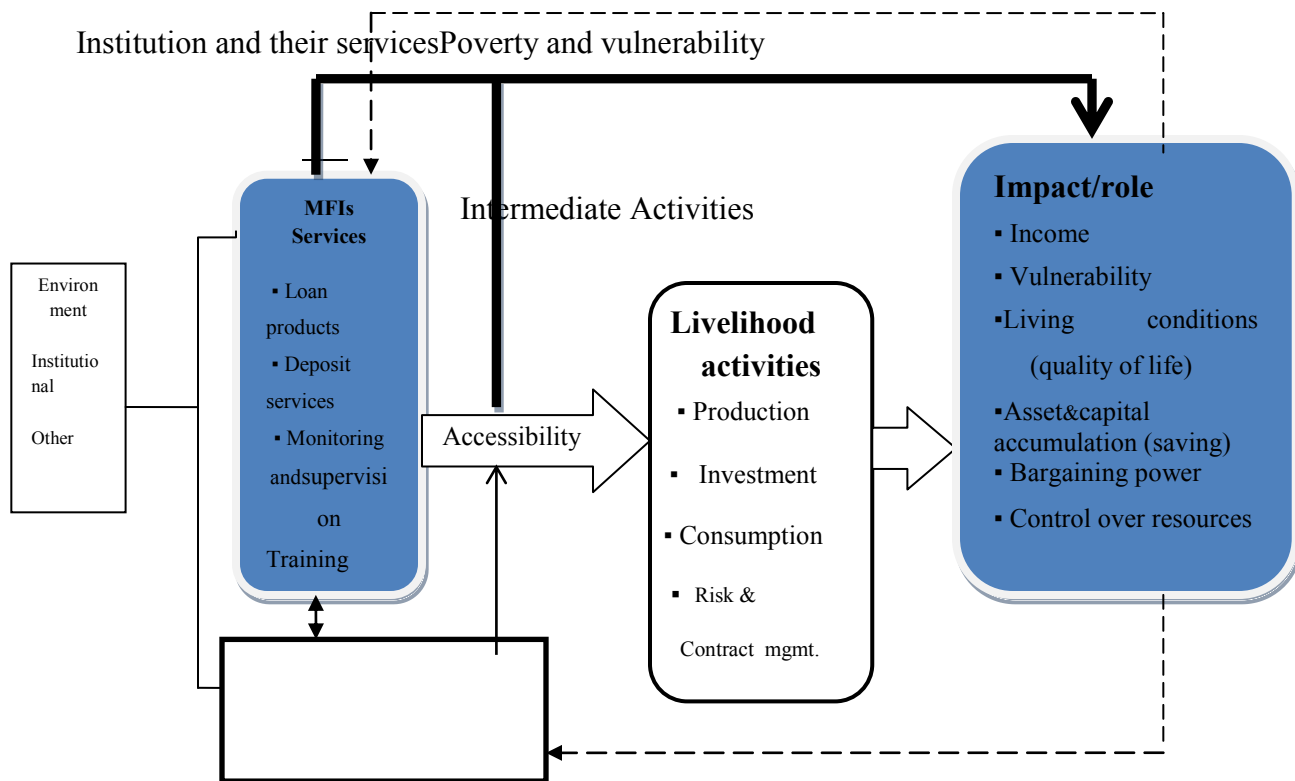
According to Johnson and Rogaly (1997), development policy analysts and NGOs have started considering micro financing as an effective means of poverty reduction since the 1990s. In Ethiopia too, the government and NGOs started providing financial and technical support to informal sectors. As a result, micro financing has been considered a viable tool to reach the poorest segment of the population (Bekele, 1996 and Solomon, 1996). The development of microfinance institutions in Ethiopia has started very recently. It was after the issuance of Proclamation No 40/1996 that twenty three microfinance institutions (MFIs) have been legally registered by the National Bank of Ethiopia

(NBE) and started delivering services. Since then the industry has shown a remarkable growth in terms of outreach (Wolday, 2000).

Although microfinance programs and institutions have become increasingly important safety nets for the poor, knowledge about the achievements of these strategies remains only partial and controversial. According to Yaron (1997), there are two major schools of thought that are prominent in impact assessment of microfinance. The first one focuses purely on changes in the organization and its operations. While the second approach, which is currently gaining prominence is the one, which focuses on clients' needs rather than on the organizations financial services delivery.

The impact assessment methodologies applied in this case is therefore, a combination of the above two approach which focuses on both organizational outreach performance and clients' so as to assess the impact of MFI/SFPI on its clients. This approach is believed to produce a fuller picture of overall impacts of microfinance activities on poverty alleviation. The rationale for using this consideration is that for an organization aiming at providing financial services towards alleviating poverty, its end result is fully measurable only in direct relationship to the lives of human beings. Human beings are part of the household, the society or the community in which they live. These elements would, in one way or the other, be influenced by the actions or activities of the micro financial institution (Tsehay and Mengistu, 2002).

The result of this kind of assessment would enable Specialized Financial Promotion Institute as well as other organizations towards taking appropriate decisions on the way to build their strengths and strive to concentrate on areas of clients' needs that call for much improvement (Tsehay and Mengistu, 2002). The aim of SFPI is to reduce poverty by targeting poor people to improve the clients' welfare and standard of living.



Individuals, households, and communities operate in a broader environmental context which includes MFI/SFPI, other financial institutions, as well as market, policy and sociocultural milieu. The proper functioning and accessibility of these factors is alleged to have a probable influence on the operations of the diverse livelihood activities (such as production, consumption, risk and contract management) of individuals, households, and communities. For instance, microfinance institutes' services allow a certain beneficiaries to engage in various types of livelihood activities which are expected to contribute towards improving the economic and psycho-social empowerment of its beneficiaries. This constitutes the focus of the study along with analyzing the program outreach i.e. the link depicted by dark arrows. By way of looking into the accessibility as well as role of microfinance, the study covers the supply side (outreach) and beneficiaries' side (economic and psycho-social development) performance. The study acknowledges the possible causation running from the grassroots situations to the institutional and other environments because of the possibility for empowered people (economically and psycho-socially) to influence the terms and functioning of the MFI/SFPI and other aspects of the environment although not explicitly analyzed in the study.

---

**Figure 1.** Conceptualizing the Impact of Micro-Finance Institution/SFPI on beneficiaries.

### **1.7 Organization of the Paper**

The remainder of the thesis is organized as follows. Chapter two reviews literature pertaining to poverty, micro-finance and the link between them through reviewing related literature. Research Method and Methodology is dealt with in chapter three. Moreover, chapter four takes in to account the data presentation analysis and discussion of the data. Finally, the last chapter presents the conclusion based on which some possible recommendations are derived.

## Chapter Two

### 2. Review of Issues on Poverty and Micro-finance

This section reviews the basic concepts of poverty and microfinance. The first part is related to concepts and issues of poverty that constitutes an important element of this study. The second part encompasses micro-finance and micro-finance related literature. The third part deals with empirical literature regarding the link between poverty and micro-finance from the context of Ethiopia.

#### 2.1 Poverty

##### 2.1.1 Concepts and Definition of Poverty

Before discussing about the role of any institution on poverty alleviation, it is important to understand the concept of poverty and its relative definitions. The world is characterized by the division of „haves“ and „have not“s. The haves lead a luxurious life while the have-nots suffer from lack of decent, healthful and productive life (Todaro, 1997). There is no clear consensus among development experts and policy makers on how to define measure and eradicate poverty (Meehan, 1999). Also, there is no a single absolute and standardized definition of poverty.

Many authors define poverty in different ways by considering different criteria and indicators of poverty. Some researchers have defined the poor as that portion of the population, that is, unable to meet the basic nutritional needs (Ledgerwood, 1999). Others viewed poverty as a function of education and/or health using the measurement of life expectancy, child mortality among others. Level of expenditure and consumption are other criterion“s used to identify the poor (Meagher, 2002). As Maanen quoted Jan Pronk“sdescription of day to day reality of being poor as follows.

*Poverty cannot be captured in terms of money and income alone. If poverty is seen as a lacks of opportunity to acquire the basic necessities of life water, energy, food, a safety net to eat, rest, sleep, wash and go to school, basic health services and medicine in case of illness. [...]. All the required call for more than money, more than an income, it requires assets or entitlements, the value of which should not be easily estimated in financial terms (Maanen, 2004:34).*

The poor are heterogeneous group which can be categorized into different levels according to their poverty status. In consideration of poverty line, people in countries of the world can broadly be divided into two categories: namely, poor and non-poor. The non-poor are living above and the poor are living below the poverty line and the poor may be further divided into destitute, extreme poor and moderate poor (Sebstad and Cohen, 2001).

Poverty is also linked to lack of access by the poor households to the assets like human capital (access of education), natural (access to land), physical (access to infrastructure), social-political (e.g. such as networks and political influence over resources), or financial (saving, and access to credit) necessary for a higher standard of income and welfare (World Bank, 2000).

In development as freedom, Sen (1999) defines poverty as the deprivation of basic capabilities that provide a person with the freedom to choose the life she/he has reason to value. From this perspective, poverty is a condition with many interdependent and closely related dimensions which can be categorized as (a) lack of regular income and employment, productive assets (such as land and housing), access to social safety nets, and command over economic resources; (b) lack of access to services such as education, health care, information, credit, water supply and sanitation; and (c) influence on decision-making that affects one's life. Generally it seems accepted that poverty should be understood in a holistic way including economic, social and political dimensions.

Poverty is a complex problem and reducing it depends up on many interconnected factors, that is, why poverty cannot be attributed to one main cause nor its reduction based on one main strategy. Economic growth is just one strategic element among many others related to poverty reduction (Narasaiah, 2007). According to Johnson and Rogaly (1997) poverty is conceptualized in terms of lack of (a) income; (b) vulnerability (i.e. defenselessness and security linked with assets, such as health and education, houses and domestic equipment, access to infrastructure and the likes ; and risk to which they are exposed, including illness and death among other.); and (c) powerlessness with in household and community due to differences in caste, ethnicity, gender, age, and wealth. Poverty should therefore be understood in broader context which includes empowerment, access to power, and the opportunity to participate in social and political activities.

According to Sachs (2005) as a matter of definition, it is useful to distinguish between three degree of poverty: extreme (or absolute poverty), moderate poverty, and relative poverty. Extreme poverty means that households cannot meet basic needs for survival. They are chronically hungry, unable to access health care, lack of amenities safe drinking water and sanitation, cannot afford education for some or all of the children, and perhaps lack basic shelter- a roof to keep the rain and of the hut, a chimney to remove the smoke from the cook stove and basic articles of clothing, unlike moderate and relative poverty, extreme poverty occurs only in developing countries. Moderate poverty generally refers to conditions of life in which basic needs are met, but just barely. Relative poverty is generally construed as a household income level below a given proportion of average national income. The relatively poor, in high- income countries, lack access to cultural goods, entertainment, recreation, and to quality health care, education, and other perquisites for upward social mobility.

Absolute poverty is measured by defining poverty like: a minimum level of income, consumption or in a broad sense, access to goods and services necessary for an individual's survival. So, those who do not have this they are said to be living below the poverty line. This means that the poverty line represents a minimum level of acceptance in a society at a particular time period (Smith, 2006). Some of the basic issues that surround poverty measurement are over all expenditure, absolute/relative and household or individual (Smith, 2006). Since urban poverty is part and parcel of this study we should also have a crystal clear view about urban poverty. Subsequently, urban poverty has various manifestations and characteristics such as inability to acquire adequate income, productive assets, poor access to basic services, networks, social discrimination, exclusion, and poor access to decision making power (Dube, 1999).

Urban lending through modest in amount has had a significant impact on the way urban issues are being analyzed and the solutions formulated and implemented (World Bank, 2006:99). Urban poverty is much influenced by commodity markets – especially the extent to which, and the amount which, urban dwellers have to pay for food and non-food essentials. For most urban residents, there are few if any opportunities to secure outside the market such essential goods and services as access to water,

sanitation, housing (whether rented, purchased or self-built), transport and often health care and school (Rao and Bavaiah, 2005).

### **2.1.2 Approaches in Analyzing Poverty**

The meaning and measurement of poverty has changed from the 1960s, when poverty was economically determined and standards of living were measured as income per capita. Then the capability approach emerged, and later the concept developed into today's view that is a multidimensional view on poverty. Multidimensional poverty refers to the idea that poverty is more than insufficient income or the deprivation of material resources, and also covers the lack of opportunity to access an education, basic healthcare, clean drinking water or to influence political processes and other factors that matter to people (UNDP, 2009).

The most significant criteria for a poverty indicator are that it should be user friendly, cheap and easy to collect and not easily manipulated, be based on universal perception of poverty, and be a simple, direct, measurable and unambiguous proxy. Today's concept of poverty is multi-dimensional, and the key indicators are the Millennium Development Goals (MDGs), which are a part of the Millennium Declaration, developed by the UN in 2000. However, even though the concept of poverty today is multidimensional, monetary measures of poverty still maintain the key position in development indicators and policy (Sumner, 2007). According to Sumner the perception among policy makers is that economic measures of poverty are more objective or exact, and that this is why they still dominate in poverty measures. In an economic approach the poverty line is widely used while in a capabilities approach human development indexes are used to measure poverty, thus both approaches will be reviewed.

#### **2.1.2.1 The Poverty Line**

A central indicator in income and consumption measures of poverty is the poverty line, the critical value below which an individual or household is determined to be poor. Poverty measures based on an international poverty line attempt to hold the real value of the poverty line constant across countries, as is done when making comparisons over time. However, countries set their poverty lines at different thresholds, making consistent international comparisons of poverty difficult. In order to compare poverty across countries, a consistent international poverty line must be used to measure

poverty. Such a universal line is generally not suitable for the analysis of poverty within a country. For that purpose, a country-specific poverty line needs to be constructed, and the poverty line may need to be adjusted for different locations within a country (UNDP, 2006).

In 1990 the World Bank implemented a standard poverty line to measure extreme poverty in the developing world. In an attempt to define poverty operationally, the measure was set at \$1 a day for poor countries, known as the „dollar-a-day“ poverty line and this measure is widely used today (World Bank, 2006). However, an important notion to take into consideration is that one dollar in 1990 is not one dollar in 2013.

Consequently, the poverty line needs to be used in a precocious manner, and the dollar value applied has to be carefully clarified. Another discussion is about the differentiation of people living under \$1 or \$2 a day. Evidently this will give different results, and for poor people living on \$2 instead of \$1 a day can make a huge impact on their lives, thus using a \$2 poverty line gives a more imprecise statement of poor people. In practice, like the definition of poverty, the official or common understanding of the poverty line is significantly higher in developed countries than in developing countries. International poverty estimates are available for low and middle-income countries only. Some high-income countries also report poverty indicators, but a dollar-a-day poverty line is not relevant, thus not applicable for high-income countries (UNDP, 2006). Such a poverty line corresponds to the value of the poverty lines used in some of the poorest countries, and is useful for producing global aggregates of poverty since it tests for the ability to purchase a basket of commodities that is roughly similar across the world (Sumner, 2007). Still, the poverty line is based on prices of commodities that are not representative of the consumption baskets of the poor, so they may not fully reflect the comparative cost of goods typically consumed by the very poor. As a result, there is no certainty that an international poverty line measures the same degree of need or deprivation across countries. Altogether, this indicator may have been convenient for practical purpose, but it has not proved to be of continuing value (UNDP, 2006).

#### **2.1.2.2 The Capabilities Approach**

The capabilities approach arose as a result of growing criticism to the monetary approach of the 1980s, and is about much more than the rise or fall of national incomes. The belief is that development is about expanding the choices people have to lead lives that they value, thus it is about

much more than economic growth (Sen, 1999). The work of Amartya Sen and others established the foundation for this approach, which can be explained as a way of enlarging people's choices and enhancing human capabilities, and poverty is understood as capability deprivation. Nussbaum (2000) frames basic human principles in terms of ten capabilities, which she argues should be supported by all democracies on the route to improve development.

The capabilities approach has inspired the creation of the UNDP Human Development Report (HDR) that has since its launching developed four main human development indices. The three most recognized poverty indices the Human Development Index (HDI), the Gender-related Development Index (GDI) and the Human Poverty Index (HPI), were first published in the first Human Development Report in 1990. The HDI measures the average achievements in a country in three basic dimensions of human development: a long and healthy life, knowledge and a decent standard of living. The GDI is an index that measures human development in the same dimensions as the HDI while adjusting for gender inequality in those basic dimensions. The HPI is divided into the HPI-1 and HPI-2. The HPI-1 measures human deprivation in the same aspects of human development as the HDI for developing and transition countries and the HPI-2 includes, in addition to the three dimensions in HPI-1, social exclusion. The human development indices evolved as alternatives to income as a measure of human well-being, but to measure the capabilities in order to decide whether who's poor or not has proven hard, especially with regard to which capabilities to measure as well as how to make them suitable for aggregation. Consequently economic measures are still widely used, but in relation to the 20 years anniversary for the HDR, the indices are under revision to be consistent with the multidimensional view on poverty (UNDP, 2009).

### **2.1.3 The Vicious Circle of Poverty**

Poor people live without fundamental freedoms of action and choice that the better off take for granted. The poor often lack adequate food, shelter, education, health and deprivations that keep them from leading the kind of life that everyone values. They also face extreme vulnerability to ill health, economic dislocation and natural disasters. Moreover, they are exposed to ill treatment by institutions of the state and society, and powerless to influence key decisions affecting their lives (WDR, 200/2001).

Poor people everywhere continue to suffer from unacceptably low social conditions and lack of access to services. Economists assume that peoples' willingness to save for future consumption grows with their incomes. In poor countries most incomes are mostly spent to meet current needs rather than transferring to future needs. It tends to lower national saving rates (Sumner, 2007). In combination with the small size of poor countries' economies, lower saving rates account for a much smaller pool of savings available for desperately needed domestic investment in both physical capital and human capital. For example, Sub-Saharan Africa consistently has the lowest saving rate and the smallest pool of saving. High-income countries' pool of saving was about three times as large as all the savings of developing countries combined (WDR, 2001).

Productivity can be increased through innovation and expansion. Without new investment, productivity cannot be increased and incomes cannot be raised. Thus, income, savings, investment and productivity are the integrated component, which made the vicious circle of poverty or disconnect the vicious circle of poverty. If the components are improved, the circle may be disconnected. Otherwise the vicious circle of poverty continues.

Moreover, the poor in Ethiopia have low income that leads to low saving and in turn leads to low investment. Without new investment, productivity may not be improved and this will result in low income. Access to institutional credit that contributes to an increase in investment and disconnects the vicious circle of poverty is very limited in Ethiopia. The majority of the poor get access to financial services through the informal channels (Wolday, 2000).

#### **2.1.4 Poverty Reduction**

The problem of poverty is more deep-rooted with several interlocked characteristics in developing countries. Poverty alleviation has remained a very complex and critical concern among third world countries for a long time. It has been at the top of the agenda for policy makers and development workers. Thus, a large number of governmental and non-governmental organizations and international funding agencies all over the world have been engaged in attacking poverty using several strategies and instruments (Rao and Bavaiah, 2005).

The approach to reduce poverty has evolved over the past 50 years in response to understanding of the complexity of development. In the 1950's and 1960's, many scholars considered large investments in physical capital and infrastructure as the primary means of development. In the 1970's the shift of emphasis grew that physical capital was not enough for development but also health and education were important not only in their own right but also to promote growth in the incomes of poor people. In 1980's another shift of emphasis was developed on improving economic management and allowing greater role for market forces, promoting labor-intensive growth through economic openness and investment in infrastructure, and providing basic services to poor people in health and education . In 1990's the paradigm shift moved towards improving governance and institutions to address poverty with consisting of three ways to attack poverty, promoting opportunity, facilitating empowerment and enhancing security (WB, 2001).

The overall economic growth and equity are crucial in the effort of reducing poverty. In this situation the role of the state is greater to support the buildup of human, land and infrastructure assets that poor people own or to which they have access. Strengthening the participation of the society, particularly the poor, in political process and in decision making, removing the social and instructional barriers that resulted from distinctions of gender, ethnicity and social status and also establishing sound and responsive institutions are important to bring the overall growth and benefit to the poor. Reducing vulnerability to either natural or man-made hazards enhances the well-being of the people and encourages investment. This can be done by building the assets of poor people, diversifying household activities and providing a range of insurance mechanisms (WDR, 2001).

The multidimensional nature of poverty leads to greater complexity in poverty reduction. Thus, there is no universal blue print instrument in poverty reduction. Developing countries need to prepare their own policies to reduce poverty on the basis of national priorities and local realities. Their choice may depend on the economic, political, social, structural and cultural context of the countries. But action at national and local levels may not be enough for rapid poverty reduction. International cooperation is required to ensure gains to poor countries and to poor people within developing world through debt relief, material as well as technical assistance, loan and providing market opportunities (UNDP, 2009).

Even if developing countries have coherent and effective homegrown policies in poverty reduction, rich countries and international organizations have an important role in promoting global financial and environmental stability, lowering market barriers to the products and services of poor countries. Simultaneous actions to expand opportunity, empowerment and security can create a new and dynamic change. If the developing world and the international community work together by combining real resources, experience, knowledge and imagination, there will be a rapid progress in poverty reduction in new millennium (WB, 2001).

The world development report (200/2001) reviewed seven themes for change, which needs urgent priority for poor people around the world. They are change from:

- Material poverty to adequate assets and livelihoods
- Isolation and poor infrastructure to access to services
- Illness and incapability to health, information and education access
- Unequal and troubled gender relations to equity and harmony
- Fear and lack of protection to peace and security
- Exclusion and impotence to inclusion, organization and empowerment
- Corruption and abuse to honesty and fair treatment

Poverty reduction strategies are the outcomes of the insights and lessons drawn from the liberalization drive of structural adjustment programs experienced by the IMF, the world bank and the world community at large during the 1980's and 1990's. In this approach, growth has never sufficiently trickled down to reduce poverty. The two institutions reached to an agreement that country owned poverty reduction strategies be the basis for World Bank and IMF concessional lending and guide the use of resources freed by debt relief under the enhanced HIPIC initiative. This was the genesis of poverty reduction strategy at the global level (MOFED, 2002). World leaders agreed to a set of time-bound and measurable goals and targets for combating poverty and hunger, disease, illiteracy, environmental degradation and gender inequality. This is called millennium Development Goals (MDG).

The Millennium Development Goals endorsed by all members of the United Nations set out eight specific crosscutting and interrelated goals that are essential to reduce poverty by 2015 and they address income poverty, hunger and disease, lack of education, infrastructure and shelter, gender exclusion and environmental degradation (United Nations, 2005). Accordingly the first seven goals focused on the duties of poor countries to meet the goals. The eighth goal is aimed at the rich countries and their commitment to respond to developing countries political and economic reforms with increased economic assistance, lowered import barriers and the reduction or elimination of unsustainable debt (UNDP, 2003). It has been stated that while the MDGs do not formally set targets for financial sector access, low income countries need microfinance to achieve the MDGs (United Nations, 2005). This is because microfinance underpins the achievement of many MDGs and plays a key role in many MDG strategies. Microfinance fosters financially self-sufficient domestic private sectors and creates wealth for low income people

The main precondition for achieving the millennium goals is sufficiently fast and equitable economic growth in developing countries to provide the material resources for reducing all kinds of poverty including human poverty. The governments of developing countries are the most important actors in the development process. No amount of foreign aid can be effective in any country where the government is corrupt or fails to implement good policies. Formulating comprehensive national development priorities and coordinating their achievement is a crucial task that can never be entrusted to the private sector or to any foreign aid providers (WB, 2003).

## **2.2 Microfinance**

### **2.2.1 The Concept of Microfinance**

According to Patrick Meagher, microfinance is defined as „lending small amounts of money for short periods with frequent repayments“ (Meagher, 2002). However, this definition equates the concept with micro-credit, which is rather a part of microfinance service. For Van Maanen, „microfinance is banking the un-bankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral“ (Maanen, 2004).

In broader understanding, financial services are generally conceived to include savings and credit; however, some MFIs also provide credit cards, payment services, money transfers, and insurance services. Besides, many MFIs undertake social intermediation services such as group formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus, the concept of microfinance often includes both financial and social intermediations (Ledgerwood, 1999).

### **2.2.2 The Need for Micro-Finance**

Although there has been much discussion and debate about microfinance in the last few years, microfinance is not new. Despite the sudden surge in donor funding and media interest, it has existed for hundreds of years. Poor people have always had their own traditional financial systems, such as moneylenders, and the concept of microfinance as a development intervention is not new (Harper, 1998 and Seibel, 2005).

Today the term „microfinance“ conjures up images of donor funded NGOs, providing small loans to low income households, to finance economic activity. What has generally come to be regarded as microfinance, started in the 1970s and was focused on the provision of credit to the poor in order to reduce poverty and instigate social change (Yohannes, 2007). The process was driven by NGOs and came to be known as the „microcredit revolution“. It is often associated with Muhammad Yunus and the founding of Bangladesh’s Grameen Bank. “Powered by donor support and international publicity, Grameen Banking became the new model of microcredit, its founder the prophet of the microcredit movement” (Seibel, 2005). The push to „microfinance“ came with the recognition that households can benefit from access to a broader range of financial services, especially savings. Microfinance as described above now includes a whole host of other financial services, including payment services, remittances and insurance. The „microcredit revolution“ had thus been transformed into the „micro-finance revolution“ (Seibel, 2005).

It has been estimated that there are more than 500 million economically active poor people in the world operating micro enterprises and small business (Women’s World Banking, 1995, cited in Ledgerwood, 1999). Most of them do not have access to financial services. In many countries, the

low income population is not a beneficiary of the formal financial institutions (Banks). The banks consider the poor non-bankable. Factors such as too small amount of loan requirements for business, lack of information about clients, too far to visit clients among others make formal financial institutions (Banks) less attracted to invest on tiny informal businesses. This implies that low income men and women face formidable barriers in access to formal financial institutions (Banks) (Abadi, 2007). The involvement of microfinance institutions is to fill the gap created by poverty, illiteracy, gender and remoteness (Ledgerwood, 1999).

Microfinance institutions are expanding and growing throughout the world with the aim of diversified, trustworthy and timely financial services to the economically active poor plus mobilization of savings for financial intermediation as well as employment opportunities creation, along with providing real avenues for the administration of the micro-credit program of government and high net worth individuals together with both providing payment services such as salaries, gratuities and pensions on behalf of various tiers of government and facilitation of the engagement of the poor in the socio-economic development of the country.

Microfinance institutions have improved the welfare of the poor (Schreiner, 2002). They are considered as developing organizations to serve the financial needs of those unbanked poor men and women (Ledgerwood, 1999). This means that typical microfinance client is the one deemed unbankable by the traditional banking system i.e. is too poor to be eligible for regular banks, but capable of generating some income and reimburse loan. Therefore, the ability to work is a key requirement for microfinance eligibility (Robinson, 2001). Robinson distinguishes between the “economically active poor” and the “extremely poor” by their ability, or not, to work. Another terminological differentiation between poor enough and too poor is creditworthiness. Here, someone who would be unable to produce some income could not possibly reimburse a credit. Therefore, s/he would be deemed non-creditworthy and remain unbanked. This is the case for the “badly malnourished, ill, and without skills or employment opportunities” (Robinson, 2001).

Consequently, poor men and women that are excluded from formal financial services can be addressed through small loans and savings provided by microfinance institutions. Access to credit

and deposit services is a way to provide the poor with opportunities to take an active role on their respective economies through entrepreneurship, building income bargaining power and social empowerment among poor women and men(Schreiner, 2002).

### **2.2.3 Major Characteristics of Microfinances**

Microfinance gives access to financial and non-financial services to low-income people, who wish to access money for starting or developing an income generation activity. The individual loans and savings of the poor clients are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be „bankable“, that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs ( Yaronet al. 1998). Microfinance has created financial products and services that together have enabled low-income people to become clients of a banking intermediary. Microfinance services are expected to address the poor because they deal with small loans and savings, short term loans, frequent loans, installments and deposits, simple loan procedures, collateral free loan activities (Yaronet al. 1998).

### **2.2.4 Micro-financial institutes Products and Services**

Since the 1970“s, microfinance has much expanded and now includes a wide range of financial products and services Similar speaking, Ledgerwood (1999) have stated that there are four broad categories of products/ services that may be provided to microfinance clients namely,

- (i) *Financialintermediation* or the provision of financial products and services such as savings, credit,insurance, credit cards and payment services,
- (ii) *Social intermediation* or the process of building the human and social capital required by sustainable financial intermediation for the poor,
- (iii) *Enterprise development services*, non-financial services that assist micro entrepreneurs include business training, marketing and technology services, skills development and subsector analysis;

(iv) *Social services or non-financial services* that focus on improving the wellbeing of micro entrepreneurs include health, nutrition, education and literacy training. However, the degree to which MFI provides each of these services depends on whether it takes a minimalist or integrated approach. Many MFIs provide savings and credit services without getting involved in related development activities. However, many scholars argues that integrating financial with non-financial services is usually seen as essential in addressing the causes of poverty identified in a particular area or by a particular group of people; it is rarely the case that savings and credit activities alone will reduce poverty (Harper 2003; Johnson and Rogaly 1997; Ledgerwood 1999).

### **2.2.5 The Role of Micro-finance for Poverty Reduction**

Rigorous empirical analysis on the issue of statistical role of microfinance began in the 1990s. Although highly proactive, such studies so far remain few. The first school of thought questions the relevance of microfinance as a poverty reducing policy in the first place. Adam & Von Pische(1992) argued that “debt is not an effective tool for helping most poor people enhance their economic condition be they operators of small farms or micro entrepreneurs”. They assert that there are other more important constraints that face small urban households which include product prices, land tenure, technology, market access and risk. Also, forGulli (1998) credit is not always the main constraint for micro enterprises’ growth and development, and that poor people demand a wide range of financial, business development and social services for different business and household purposes. In a close rejoinder Mayoux (2002) argues that the logical assumption of virtuous spiral of economic empowerment to the household due to microfinance does not in reality exist. This is particularly so in the context of gender relations in societies in relation to loan uses; a scenario that often leaves poor women borrower“s highly indebted and not much wealth to show for it (Mayoux,2002).

Rigorous studies have shown that micro entrepreneurs below the poverty line experience lower percentage income increases after borrowing than those above the poverty line (Sumner, 2007). Studies have also demonstrated that households below the poverty line tend to use the loans for

consumption purposes to a greater extent than households above the poverty line; thus their income should be expected to increase less (Gulli 1998). Empirical findings that poor households are likely to use microcredit loans for consumption purposes yet their loan repayments rates are higher than repayment rates for the formal financial institution, which are normally used by the well off in society (Ghatak *et al.* 1999) is quite intriguing.

To counter the arguments against the impact of microfinance on poverty reduction, other studies have found that microfinance is relevant to poverty reduction, schooling, asset building, vulnerability, income generation, and control over resources, among others.

It is indicated that microfinance plays a role in poverty reduction not just for the beneficiaries but also for the rest of the community through the positive spillover effects (Khandker, 2006). In his study Khandker (2006) uses a panel household survey from Bangladesh and observes that access to microfinance contributes to poverty reduction, especially for female participants and to the overall poverty reduction at the village level. In addition, Khandker (1998) used the assumption of perfect targeting and estimated that for every 100 taka lent to a woman and a man, household consumption increased by 18 taka and 11 taka respectively in Bangladesh. He also explained that moderate poverty and ultra-poverty reduced by 15% and 25% respectively for households in BRAC. The rate was even lower for old borrowers than new ones which suggests that the number of loans accessed are important. The argument on the importance of the number of loans accessed for favorable impacts on poverty (Khandker 1998) is also supported by Montgomery *et al.* (1996, cited in Zaman, 2001), who found that third time borrowers generated higher incomes and register growth in their enterprises. In addition, Mustafa *et al.* (cited in Zaman, 2001) pointed out that older borrowers were found to have greater asset values and household expenditures on average than new borrowers.

In deed another study conducted by Pitt and Khandker (1998) indicated that microfinance has brought positive marginal impacts on consumption and male schooling in Bangladesh. They showed that microfinance has become a promising strategy in shielding the poor from vulnerability through consumption smoothing as well as building assets which led to their

argument that microfinance and investment in human capital are positively related. At the same time, these studies pointed out that the micro-finance has increased the program clients towards reproductive health. On the other hand, they found that microfinance has negative impacts in labor supply in Bangladesh.

As far as targeting is concerned, Khandker (2003) found out that microfinance is serving a useful purpose in benefiting the poorest segment of the program clients and in reducing poverty in Bangladesh unlike what Hulme and Mosley (1996). He also indicated that females are found to benefit more than males from microfinance services. But, the poor are found to spend much on food, not on other income generating activities. Therefore, Khandker (2003) suggested that enhancing the skill of the program clients is very important in addition to providing them with credit. Here, one can clearly observe that the impact of microfinance is not sustainable unless the poor are engaged in activities that are income generating. Therefore, it can be said that studies on the role of microfinance on consumption and food are largely evaluate the benefit of microfinance from the perspective of addressing people's immediate problems.

As far as income generation is concerned, Hossain (1998, cited in Khandker, 2003) indicated that micro-financing of the Grameen Bank has helped the poor in terms of job creation, income generation and social upward mobility, especially for women. In addition, Rahman (1996); Hashemiet al. (1996) and Schuler and Hashemi (1994) showed that microfinance has brought positive impacts on program clients although they did not clearly indicate the cause-effect relationship. Zaman (2001) also indicated that micro-credit has brought greatest effects on females' control over and access to resources and assets. He showed that micro-credit could reduce vulnerability through strengthening crisis-coping mechanisms, building assets and empowering women. The result of Zaman's study contradicts with what Khandker basically argues in that evidence from Zaman's study suggested that micro-credit is not benefiting the extremely poor section of Bangladesh. This is because the poor fail to invest "*the loan in a high-return activity*", as they have fewer income resources and worse health and education condition.

The foregoing discussions clearly indicate that the existing evidence on the impact of microfinance on poverty can be said to be inconclusive. On the one hand, there are empirical evidences which suggest that access to micro-finance has the potential to significantly reduce poverty (Khandker, 1998 and 2003; Khandker and Pitt, 1998). On the other hand, it is argued that microfinance has insignificant role in reducing poverty (Morduch, 1998).

In a reconciliatory view, Aghion and Morduch 2005, observe that microfinance can make a real difference in the lives of those served, but microfinance is neither a panacea nor a magic bullet against poverty, and it cannot be expected to work everywhere and for everyone. Much as there have been mixed statistical impacts of microfinance, there also has been no widely acclaimed study that robustly shows strong impacts, but many studies suggest the possibility of good welfare impact (Aghion and Morduch 2005). In line with this, an issue concerning studies on the role of microfinance is the variation of the results based on the specific method applied. For example, Morduch conducted a study on the impact of microfinance in the same year and place as Khandker's (1998). However, using the same data as Khandker did, Morduch (1998) did not find the same result. Because of believing that Khandker's eligibility threshold was flawed and suspecting the prevalence of selectivity bias, Morduch (1998) used an alternative approach and corrected for the selectivity biases. Eventually, he did not find an evidence to suggest that microfinance can reduce poverty *per se*. Rather, using the difference-in-difference technique, he found out that microfinance can be a viable tool towards reducing vulnerability showing that consumption variability was 47%, 54% and 51% lower for eligible Grameen, BRAC, and BRDB households respectively. However, he indicated the difficulty he faced to show whether microfinance could increase consumption levels or schooling as compared to control groups unlike what Pitt and Khandker argued. More research should therefore be conducted on the area and towards identifying a broader impact analysis.

#### **2.2.6 Lending Methodology of Microfinance**

Majority of the microfinance institutions offer and provide credit on a solidarity-group lending basis without collateral. There is also a range of other methodologies that MFIs follow (Abadi, 2007). Some MFIs start with one methodology and later on move or diversify to another methodology so

that they do not exclude certain socio-economic categories of clients. So it becomes important to have a basic understanding of methodologies and activity of MFIs. Subsequently, Robert Cull *et al* (2007) stated that there are numerous lending methodologies around the world's micro financial institutes. Nevertheless the three methodologies listed below are more popular around the world.

### **2.2.6.1 Group Lending**

Group based lending is one of the most novel approaches of lending small amounts of money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between four to eight members. The group self-selects its members before acquiring a loan. Loans are granted to selected member(s) of the group first and then to the rest of the members (Morduch, 1999). Most MFIs require a percentage of the loan that is supposed to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other's loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter. The creditworthiness of the borrower is therefore determined by the members rather than by the MFI. One of the best-known institutions for lending and savings money, in Bangladesh, is the Grameen Bank. Grameen Bank mainly targets women (98% of their clients are women) on the basis that women repay their loans better than men.

### **2.2.6.2 Individual Lending**

This is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups, or generating peer pressures to ensure repayment. The individual model is, in many cases, a part of a larger 'credit plus' programme, where other socio-economic services such as skill development, education, and other outreach services are provided.

### **2.2.6.3 Credit Unions**

A credit union is a unique member-driven, self-help financial institution. It is organized by and comprised of members of a particular group or organization, who agree to save their money together

and to make loans to each other at reasonable rates of interest. The members are people of some common bond: working for the same employer; belonging to the same church, labor union, social fraternity, etc.; or living/working in the same community. A credit union's membership is open to all who belong to the group, regardless of race, religion, color or creed. A credit union is a democratic, not-for-profit financial cooperative. Each is owned and governed by its members, with members having a vote in the election of directors and committee representatives.

## **2.2.7 Measurement of Micro-Financial Institutes Performance**

The tools to measure the performance of microfinance institutions such as outreach in breadth, financial performance and financial sustainability are found to be effective measurements in order to investigate the structure of institutions and their use for the community (Lafourcade, 2005).

### **2.2.7.1 Outreach**

Efforts to extend microfinance services to the people who are underserved by financial institutions are classified as outreach. It is therefore linked to the mission of MFIs and defines the targets and objectives to be achieved (Nirmar, 2010). Outreach is central in microfinance activities because it defines the visions of microfinances in eradicating poverty.

According to Anne-Lucie (2005), Microfinance developed to serve the poor people who are excluded from the financial institutions. The performance of the institutions can be measured in terms of breadth (number of clients served). The performance of microfinance institutions in breadth has its own sub measurements in terms of types of the financial service offered, number of branches established, the amount of loans disbursement to clients, number of female clients, targeted population served and the range of financial and non-financial services. Therefore, this research adopts the approaches of Anne-Lucie to analyze the outreach performance of Specialized Financial Promotion Institutes micro financial provision program.

### **2.2.7.2 Financial Performance**

MFIs earn financial revenue from loans and other financial services in the form of interest fees, penalties, and commissions etc. Financial revenue also includes income from other financial assets, such as investment income. MFI's financial activities also generate various expenses, from general operating expenses and the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable institutions earn a positive net income (operating income exceeds total expenses). To measure the overall financial performance, financial revenue and expense indicators as well as returns can be compared against the institution's equity and assets (Lafourcade *et al.* 2005). Efficient institutions reach large number of poor people with minimum costs of delivering services (Dunford 2006, Cull *et al.* 2007).

### **2.2.7.3 Financial Sustainability**

The other indicator for the performance of MFI is its financial sustainability. Meyer (2002) noted that the poor needed to have access to financial service on long-term basis rather than just a onetime financial support. Most literature in microfinance industry refers to two levels of financial sustainability: operational self-sufficiency and financial self-sufficiency (Meyer 2002, Ledgerwood 1999). Operational self-sufficiency is generating enough revenue to cover operating expenses (administrative costs, interest on deposit among other), financing costs (cost of borrowing money) and loan losses (cost of bad debts). Operational self-sufficiency therefore, indicates whether or not enough revenue has been earned to cover the MFIs' operating expenses. Financial self-sufficiency indicates whether or not enough revenue has been generated to cover operating expenses, including financing costs, provision for loan loss, and indirect costs including the adjusted cost of capital (Ledgerwood, 1999).

There are some disputes on the link between financial sustainability and outreach to the poor. According to some (Christen *et al.* 1995; Otero and Rhyne 1994; Meyer 2002), outreach and financial sustainability are complimentary; this is because as the number of clients increases MFIs enjoys economies of scale and hence reduce costs which help them to financially be sustainable. On the other hand, Hulme and Mosely (1996) argued that there is inverse relationship between outreach and financial sustainability.

## **2.3 Poverty and Microfinance in Africa**

### **2.3.1 Poverty Situation in Africa**

Poverty remains a matter of growing concern in many developing countries of the world. Today, as other continents continue to register sustainable economic growth and development, Africa is not only lagging behind but is trapped in a vicious circle of borrowing and donor dependency syndrome which some critics point out as one of the causes practically sabotaging real development. Africa has perpetually failed to focus its development efforts on the optimum utilisation of the immense natural resources that many countries are endowed with to turn it into wealth to propel their economies and people towards a high level of economic and social development and as a consequence eliminate pervasive poverty. Although Africa is not the only poorest continent, it is the only region where poverty is constantly on the increase. As a result millions of people live each day in abject poverty. Children go without food, their bodies stunted by malnutrition which is wide spread. As a result of this condition the lives of the majority of Africans to be deplorable and an insult to their dignity. Therefore, there is need to change these conditions in order to make poverty history in Africa (WB, 2000).

### **2.3.2 Microfinance in Africa**

#### **The Evolution of Microfinance**

Microfinance has existed for centuries in Africa. Everyone, no matter how poor, needs and uses financial services all the time. Many people use moneylenders that usually charge high interest rates on loans. There are many global examples of the history of microfinance, ranging from informal, small-scale, rotating savings-and-loans clubs in England, Ireland, and Germany during the eighteenth century to savings and credit cooperatives in Indonesia in the nineteenth century. In Nigeria, microfinance goes back to the fifteenth century and was carried from there to the Caribbean by slaves. The original Yoruba term, susu, for the practice is still in use today. In Africa, mainstreaming, formalization, and recognition of microfinance as part of the formal financial sector began to gain momentum in the late 1990s (UN,2005).

### **2.3.3. The State of Microfinance in Africa**

Since early 1990s, African countries have been enjoying positive economic trends, with higher economic growth becoming more widespread and more robust over time, as an increasing number of

countries share in the impact of improved macroeconomic management and governance, a more conducive environment for the private sector, more open economies and higher commodity export prices, for sustained periods.

Despite the positive momentum in economic performance, the incidence of poverty remains a critical issue in most African countries, and many may fail to meet the Millennium Development Goals towards reducing the incidence of poverty and addressing its consequences by the target date 2015. Furthermore, the slowness of economic prosperity to trickle down and lift the masses in poverty is creating a dangerous inequality divide that could eventually fuel instability and threaten progress on the economic front (UNDP, 2009).

Moreover, small enterprises and most of the poor population in African countries have limited access to deposit and credit facilities and other financial services provided by the formal financial institutions. This lack of access to financial services in the formal financial system is quite striking considering that in many African countries the poor represent the largest share of the population and that the informal sector is an important part of the economy.

In this context, there is renewed interest in access to financial services for the poor. In this regard, while there may still be some skeptics concerning the ability of microfinance to reduce poverty, there is ample evidence to show that the benefits of microfinance outweigh the costs. Many development experts now agree that microfinance can economically empower individuals and microenterprises and enable them to contribute to and benefit from economic development by helping them to acquire capital to undertake investments, integrate into the economic systems of their countries and increase their incomes; ensure the creation or improvement of human capital through better education, nutrition and health; and, through insurance and pensions, smooth their incomes, protect themselves against economic shocks and better manage their enterprises and financial situations. In addition, microfinance can be combined with other social programs resulting in mutual enhancement of their cost-effectiveness (Anne, 2006).

There is also evidence that microfinance is more sustainable and has greater impact than other poverty reduction interventions such as targeted food interventions (Otero *et al.*2004). Beyond the economic benefits, microfinance also contributes to the poor's involvement in economic development by

increasing political awareness and social organization, increasing social empowerment and community participation, and reducing gender biases in the empowering of the poor. In sum, then, while microfinance may not be a miracle solution, and no single intervention could be, it can combine very well with other economic and social programs, in a holistic approach, to meet the diverse needs of the poor. Therefore, microfinance merits attention by those concerned with Africa's development and poverty situations.

## **2.4 Poverty and Microfinance in Ethiopia**

### **2.4.1 Poverty Situation in Ethiopia**

Ethiopia is one of the poorest countries in the world, with an annual per capita income of US\$170. The United Nations Development Programme's Human Development Report for 2007-2008 ranked Ethiopia as 169<sup>th</sup> out of 177 countries on the Human Development Index. The average life expectancy after birth is only 48 years. Infant and maternal mortality and child malnutrition rates are among the highest in the world. While access to education has increased in recent years, the overall adult literacy rate is low compared to the sub-Saharan African standards. Only about 30 per cent of the population has access to potable drinking water and about 80 percent have no access to improved sanitation. About 47 per cent of children under the age of five are underweight and over 12 million people are currently chronically or transiently food insecure. HIV/AIDS constitutes a major threat to sustained economic growth, with about 6 percent of adults estimated to be HIV-positive. Combined with malaria, the epidemic poses a serious challenge to achieving the MDGs. Roughly 44 per cent of the population lives below the national poverty line. However, there are marked differences between rural and urban areas (UNDP, 2009).

### **2.4.2 Microfinance Institutions in Ethiopia**

In Ethiopia, though savings and credit programs were operated for a number of years by NGOs, microfinance operation in a regulated form is a relatively new phenomenon. The operation was for the first time undertaken by the Market Town Program of the World Bank. This program was implemented jointly with the Development Bank of Ethiopia and the Bureaus of Trade and Industry in what was then called: Market Towns in phase one and then spread to all the major towns of the country. Most of the borrowers were women, (Tsehay and Mengistu,

2002). Microfinance services were introduced after the demise of the Derg regime following the policy of economic liberalization. Microfinance is taken as a shift from government and NGO subsidized credit programs to financial services run by specialized financial institutions. With this shift some NGOs and government microcredit programs were transformed to microfinance institutions (Degefe, 2009).

Microfinance institutions started proliferating following the issuance of proclamation No 40/1996 which regulated the business of microfinance in the country. The National Bank of Ethiopia, that is the licensing authority, has since been issuing a number of guidelines that underpin the operation of microfinance in the country (Teshay and Mengistu, 2002). The regulatory framework was put in place as part of government's effort to liberalize the financial sector and lay down an alternative institutional framework to provide financial services mainly to the rural poor to boost agricultural production enable food self-sufficiency and reduce poverty. Most importantly experts observing the unsound financial practices of NGOs, and government agencies recommended the regulatory framework to promote more systematic financial service provision and bring microfinance in the country within the existing financial system (Degefe, 2009).

Currently, there are 29 MFIs in the country, of which 12 are licensed to operate in regional states and the rest are licensed to operate nationwide (Haftu, *et. al.* 2009). They provide financial service, mainly credit and saving and, in some cases, loan insurance. Almost all microfinance institutions in the country have poverty alleviation as an objective. They are thus meant to address the lower strata of micro-entrepreneurs including those engaged in activities that are started and operated just for survival.

However, most of the microfinance institutions in the country are relatively young. They seem to replicate each other instead of innovating their own approach. Their financial products are almost the same with the exception of a few microfinance institutions that have recently started adding some new products. The loan sizes of most of the microfinance institutions are too small that some of their clients outgrow it very quickly. Some of the causes for high client drop out in both rural and urban areas seem to be small loan size, lack of product diversification on the part of the MFIs, lack of

flexibility in approach among others (Haftu,*et al.* 2009). The Nation Bank of Ethiopia directive issued in 2006(MFI/18/2006) allows MFIs to provide larger loans to individuals using appropriate collateral, subject to single borrower limit of 1% of their capital. On the bases of this framework, some MFIs started extending relatively larger loans for working capital and for investment in cases where government agencies like Micro and Small enterprise development agency are involved in the recovery of loans through different linkage mechanisms. Relatively bigger amounts of working capital loans are extended to those who have established businesses or can offer collateral in fixed asset form (Haftu, *et al.* 2009).

The potential demand for microcredit in Ethiopia is enormous. However, there is very limited supply of financial services to the poor household (Wolday, 2002). The major sources of loan or financial service in Ethiopia are; formal banks, Microfinance Institutions, Cooperatives, NGOs which are involved in the delivery of financial services, government projects and programs involved in providing loans, semi-formal finance( Iqub, Iddir, Mahiber) and, informal finance( private money lender, traders supplier credits, friends, and relatives) The conventional banking sector in Ethiopia has been too weak to serve the needs of poor people due to limited branch and high collateral requirements. Moreover, the formal bank sector considers the poor as credit risks (Haftu,*et al.* 2009).Access to institutional credit that contributes to an increase in investment is very limited.

The majority of the poor get access to financial services through the informal and semi-formal channels such as private money lenders, Iqub, Iddir, friends, relatives, traders, among other ( Wolday and GbereHiewot,2006). The informal lenders such as the money lenders, traders, friends and relatives enforce loan contracts and their loan recovery rate high and the loan terms are flexible. However, the interest rates are very high. The semi-formal lending institutions such as Iqub and Iddir are the dominant and sustainable traditional institutions which meet the financial and social needs of the poor. Iqub is the dominant form of saving and credit cooperatives in Ethiopia which is popular in both urban and rural areas, Iqub is not a permanent club; it could be continued or dissolved after its members have a turn (Wolday, 2002).

The conventional banking sector in Ethiopia has been too weak to serve the needs of poor people due to limited branch and high collateral requirements. Moreover, the formal bank sector considers the poor as credit risks. As a result, The Formal Bank of Ethiopia do not have mission of financing the poor in micro and small Enterprise sector (Wolday, 2002). Thus, MFIs and savings and credit cooperatives should be designed to respond to the failure of the conventional banks to serve the financial needs of small farms and micro and small enterprise operators in urban areas. Thus, delivering financial services to the poor requires financial systems that reach the poor and an innovative targeting methodology and credit delivery mechanisms that helps identify and attract only the poor who can initiate and sustain productive use of loans.

### **2.4.3 Microfinance and Poverty Reduction in Ethiopia**

In a country where almost half of the population barely survives on less than a dollar a day, microfinance offers poor people a unique opportunity to engage in small businesses or improve their livelihood production (Degefe, 2009). With the support of national and international organizations, many institutions across the country extend small loans to poor people in urban areas to help them improve their incomes and overcome poverty. Accordingly, microfinance programs have recently been considered as an important instrument to attain the poverty reduction objectives. Wolday (2001) argued that even though microfinance is not a panacea for poverty and development related challenges, it is nonetheless an important tool in the poverty reduction programs. Cognizant of the advantages it offers, development practitioners and donors have in recent years given considerable emphasis to microfinance activities as a tool to empower the poor and provide them with the financial means to increase access to social services and reduce poverty. This is so because having access to microfinance services means having access to productive resources through loan and saving products. In addition, from socio-political point of view, being a member of a microfinance institution or urban credit association means accepting the existing institutional social structure in place to undertake the given activities, which in turn can lead to attitude changes in daily life (Birgit, 2001).

On the same issue Wolday (2001) also argues that, microfinance alone cannot provide roads, housing, water supply, education and health services, it can certainly play an important role in making the

above interventions realized. It also empowers the poor and provides them with the confidence, self-esteem and financial means to increase income and access to social services (Abdi, 2007).

Providing the poor with access to financial services is one of many ways to help increase their incomes and productivity. Since, traditional financial institutions have failed to provide this service, in many countries, microcredit and cooperative programs have been developed to fill this gap. Their purpose is to help the poor become self-employed and thus escape poverty. Many of these programs provide credit using social mechanisms, such as group-based lending, to reach the poor and other clients, including women, who lack access to formal financial institutions. With increasing assistance from the World Bank and other donors, microfinance is emerging as an instrument for reducing poverty and improving the poor access to financial services in Ethiopia in particular and low-income countries in general (Yaron, 1994).

#### **2.4.4 Empirical Microfinance Role Studies in the Ethiopian Context**

Despite the growing importance of microfinance provision to the productive poor people, there are only a few studies conducted in the area, particularly on microfinance impact assessment, in Ethiopia. Moreover, many of the studies conducted are focused on the impacts from the supply side perspective, i.e. performance from the perspectives of lending institutions. Wolday (2002) also studied the challenges and prospects of new product development in the microfinance industry in Ethiopia. His results showed that products of microfinance institutions were not produced based on market assessment to meet the need and preference of the clients while keeping the financial institutions profitable. This has consequently affected dropout rates, outreach, and long-term objectives of the programs.

As far as microfinance impacts are concerned, various researchers have been recording some positive results. For instance, Mengstu (1998) conducted a study on credit service administration under the microenterprise project. He noted that the increase in the number of program beneficiaries was an indicator of the assistance of the program to employment creation. He also

indicated the increase in the level of credit ceiling as well as the use of saving accounts as indicators of the growth of microenterprises towards the formal sector.

With respect to loan repayment, Mengstu (1998) found out a rate as high as 92%. Also Solomon (1996) conducted a survey on 65 beneficiaries of microenterprise financing scheme of Development Bank of Ethiopia, at Debre-berhan branch. His objective was to evaluate Market Town Development project (MTDP) by focusing on the performance of loan status under group liability and impact on income in general. He found out a loan recovery rate of above 93%, which is remarkably high. On the other hand his preliminary impact evaluation showed that only 49% of the sample households have experienced an increase in income level whereas the rest experienced no change (32%) and decline (19%) in income as a result of the credit.

Similarly, based on a case study of POCSSBO in Addis Ababa, Berhanu (1999) found out that microfinance intervention has a positive effect towards poverty alleviation. He also showed that loan repayment is mainly affected by factors like type of activities, gender differential, wealth differential, availability of other sources of income, beneficiaries' attitude towards loan repayment, educational level of the beneficiaries, and size of the loan. .

Another case study of Dede-bit Credit and Saving Institution (DECSI) by Meehan (2002) analyzed the impact of microcredit provision at household level in rural Tigray. The study came up with the finding that credit provisions have had a positive impact on alleviating poverty in the study area. The impact was absorbed at least in the short term by increasing economic activities and income levels of the beneficiaries but diminishes to sustain a long run positive impact. Therefore, positive impact at household level appeared to be highly correlated with the continuous access to credit. Sectorally she found that though rural clients were recorded as better off than urban clients initially, they were less likely to maintain it over time than the urban clients. Again, the study identified important factors determining effectiveness of the programs such as differential in the initial income, type of economic activity in which the clients are engaged, sex and dependence on vulnerable agriculture.

In addition, a few other studies looked at the gender dimensions of microfinance impacts in the Ethiopian context. Based on a case study of different MFIs, Tsehay and Mengistu (2002) found out that microfinance interventions have brought improvements in economic status and empowerment of poor women microfinance participants. Similarly Tesfay (2003) found, micro-finance has played an immense role towards better the position of women in terms improved attitude and respect of their spouses on a case study of Dedebit Credit and Saving institution.

Generally, most of the studies with the exception of Meehan (2002) and Tsehay and Mengistu (2002) employed similar approaches in investigating the effectiveness of microfinance institutions. That is, they evaluated the impact of MFI's from the supply side- that high loan recovery rate was considered as a sign of sustainability and indirectly implied welfare improvement. However, some of the above studies show that the rise in income as a result of the microfinance intervention was not significant (Alemayehu, 2008); voluntary savings did not expand accordingly; sustainable increase in income was recorded in urban than in rural and that wealth, gender and activity differentials are important for the effectiveness of the programs was (Meehan 2002), and so emphasized in all of the results of impact assessment studies.

#### **2.4.5 An overview of in Specialized Financial and Promotional Institution in Ethiopia**

Specialized Financial and Promotional Institution (SFPI) is one of the micro-financial institutions in Ethiopia established in accordance with proclamation No. 40/1996. It is registered as a share company by liability on November 25, 1997. It started operations in the second half of the 1998. It is an active member of AEMFI which is formed by shareholders from governmental organizations, non-governmental organizations and the private sector. The seven shareholders in SFPI are commercial Bank of Ethiopia, Dashen Bank, Agri-service Ethiopia, Projynist Ethiopia, Addis Ababa Women Entrepreneurs Association, and Ethiopian National Association for the Blinds and Ato Hailu Wondafrash (SFPI, 1998). Among these, the largest share is owned by commercial Bank of Ethiopia. SFPI is administered by board of directors, which are composed of five members elected by the General Assembly. The General Assembly of the shareholders is the highest governing body of the institution.

The operational department has started by opening two branches in the year 1997 following this in the year 2004 the number of branches has reached four. Apparently speaking by the year 2013 the number of the branches have arrived at nine branches (namely Shola, Cherkos, Merkato, Akaki, Holeta, Debrezit, Adulala, Sheno, Woliso, Fiche and Debremarkos) with basic operational units in the structure; such as branch managers, credit officers, accountant, cashier, guards and janitor(SFPI,2012). Four branches are located in urban area and five branches are located in rural area. However, all branches have rural and urban program outlet. As indicated in the institution's document, the vision of SFPI is to see poor people especially women, to fully access the institutional credit for self-employment, to reduce poverty both in urban and rural Ethiopia, and to promote emergence of self-reliant and business minded generation. The institution's mission is working towards the socio-economic empowerment of the active poor both in urban and rural Ethiopia by assisting them in creating and running viable business through provision of financial and non-financial services(SFPI, 2004).

On the basis of the organization objectives, SFPI targets poor individuals who shall organize themselves into groups of three to five members, who may come up with production oriented and viable project ideas, and cooperatives with legal entity. More attention is given to the poor female headed households. The main activities performed by SFPI are carryout micro-financing activities both in urban and rural Ethiopia, promoting savings, mobilize resources from various sources, promotional counseling and training services and plough back profits generated from operation(SFPI, 2004).

## **Chapter Three**

### **3 Research Methods and Methodology**

The purpose of this section is to provide an overview of the research methods, data types and source, study area, population, sampling frame and sample size , the data collection techniques and data analysis processes employed in meeting the objectives of the research.

#### **3.1 Research Methods**

In order to acquire the best results, the researcher used the way of triangulation. A combination of both qualitative as well as quantitative method was employed in this research. The researcher believes that using these two methods simultaneously enables him/her to tackle the research problem under study. According to Tashakkori and Teddlie (1998) (cited in Degefa, 2005), the use of multiple methods can abandon some of the drawback of certain methods; since both qualitative and quantitative methods have their own innate weakness.

*Mixing different methods can strengthen a study; it will be a great advantage when the findings of one are corroborated by the other (Creswell et al. 2003; cited in Degefa, 2005). A complex social phenomena are best understood through different methods; some phenomena have multi-dimensions and have linkage with a range of variables, the understanding of which should be based on a mix of divers method (ibid; 2005).*

This shows that the blending of the two techniques is more effective data collecting method than independent.

#### **3.2 Data Types and Sources**

Primary data were collected to attain the research objectives regarding the role of SFPI service for the economic status of clients, its contribution on empowerment of client"s as well as participants view of the strength and limitation of SFPI by using Survey/questioner, FGD, and Key informant interviews using checklists. In order to address the objective of outreach performance of Specialized Financial Promotion Institutes secondary data source is obtained from published and unpublished SFPI documents as well as Key informant interview with SFPI coordinators and project staffs (see Table 1) besides other international sources like UNDP and World Bank is used to gather more information

**Table 1. Links between specific objectives and methods to achieve them**

No	Specific Objective	Indicator/ Type of Data	Source of Data / Unit of Analysis	Data Collection Method	Method of Data Analysis
1.	Assess the role of SFPI performance regarding outreach	No. of participants (male, female) over time, Loan disbursed over the years, Number of branches.	SFPI coordinators / project staff	Key informant interviews, SFPI annual Progress report review	Count, %, SFPI document analysis, synthesis of interview results
2.	Examine the economic role of SFPI on the beneficiaries	Income, saving, assets accumulation	SFPI beneficiaries SFPI coordinators / project staff	Survey, FGDs, key informant interviews	Descriptive statistics (percentages, Bar graphs, Pie-charts, regression frequency distribution, etc.), synthesis of the Survey , FGD and Interview Results
3.	Investigate the role of SFPI for psycho-social empowerment of beneficiaries	Decision making power At household level, self- esteem and self-confidence, business management, Training received Monitoring and supervision	SFPI beneficiaries	Survey, FGD, Key informant interviews	Descriptive statistics (percentages, charts ), synthesis of Survey, FGD and Interview

					results
4.	Investigate the strength and weakness of SFPI micro-financial service	<ul style="list-style-type: none"> <li>▪ clients view of the strength and limitation of SFPI</li> </ul>	SFPI beneficiaries	Survey, FGD and Key informant interviews	Descriptive statistics (percentages,) synthesis of FGD and Interview results

### 3.3. Study Area, Population, Sampling Frame and Sample Size

**Study area:** Although microfinance institutions are distributed throughout the country, due to limitation in time and financial resources, the study is carried out on Specialized Financial Promotion Institute. The institution has a total of nine branches of which four are found in Addis Ababa and five are found outside of Addis Ababa. However, this particular study will be on the four branches of SFPI (namely Sholla, Merkato, Akaki and Kirkos branches). The rationale behind this is that first and foremost as has already been mentioned time and financial constraint has been encountered as a restraining factor to carry out the instruments on all nine branches of SFPI. In addition to resource constraint the Addis Ababa branches were selected because they have large numbers of urban clients with access to microfinance services and who are actually using the services. Again it helps to incorporate urban area clients in four branches which contribute for capturing some diversity in specific activities and achievements across different branches.

**Population:** Refers to the set of people or entities to which findings are to be generalized (Crooks, 2003). In analyzing the role of microfinance institutions on poverty reduction, focus has been given to households which had access to and are using microfinance services from SFPI. This population is given priority due to the need of getting empirical evidence. In deed the total size of the population is 1065 consisting of both male and female clients who are permanent resident in Addis Ababa.

**Sampling Frame:** the sampling frame consists of the list of households in the study areas which was generated from the selected microfinance institutions (SFPI). The rationale behind this is that every client will have equal chance of being nominated for the study which at the same time reduces biases arising out of probability sampling.

**Sample Size:** For various reasons such as time, cost and energy, census for all clients was impossible. Hence, sampling technique was employed to select the sample population. Accordingly, 120 clients from the total of 1065 were selected through simple random sampling procedure. Based on this, the researcher adopted a simple mathematical formula that suggested by Solomon(1996) for determining sample size.

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

Where, N is the total SFPI clients in

Addis branch

e is the error or confidence level

Using the total population of 1065 and error margin of 0.086, the sample size was calculated as follows.

$$n = \frac{1065}{1 + 1065 (.086)^2}$$

$$n = \frac{1065}{1 + 1065 \times 0.007396} = 119.99 \approx 120$$

Once sample size is determined, the survey beneficiaries are randomly selected from the population of SFPI service user. On the other hand, the participant of Key informant interviews and FGDs were purposively selected. The selection criterion includes knowledge of micro-finance issues and beneficiaries economic, social situations prior to SFPI services, or are currently using SFPI services.

### **3.4 Data Collection Techniques**

Data for this study has been collected through Documentation, Survey/Questionnaires, Focus Group Discussion (FGD), Key Informants Interviews (KIIs) and direct observations.

**i.Documentation:** involves collecting information and data from existing surveys, reports and documents of SFPI and AMFIs as well as any relevant Publications.

**ii.Survey/Questionnaire:** This has been used to collect information from SFPI beneficiaries. For this purpose structured questionnaires have been developed and administered that enabled obtaining quantitative data on issues regarding the role of micro-financial services on poverty reduction based on selected indicators.

**iii. Focus Group Discussion (FGD):** is done to complement the survey data. The main purpose of FGD was to draw upon beneficiaries' attitudes, feelings, beliefs, experiences and reactions. FGD participants were selected purposively for each of the selected branches. a total of 8 FGDs were conducted each consisting of 5 to 15 participants. All the FGD employed the funnel approach (This approach involves the use of broad questions followed gradually by more narrow questions) in collecting information (Regally, 1996).

**iv. Key Informants Interviews (KIIs):** Key informants were purposively selected because they are knowledgeable about issues related to micro-financing and clients prior economic as well as social conditions. Key informants interviews are conducted with SFPI officials, MFIs officials/coordinators, and some of the current beneficiaries of microfinance services. Overall, four key informant interviews have been conducted in the sampled areas. For this purpose interview guides were prepared that elicit responses on various aspects related to the role of microfinance on poverty reduction based on selected indicators. In conducting the survey, interviews and FGDs, the researcher met most of beneficiaries at places of convenience, i.e. at the centers and branches when they were visiting the institute for installments of credit and depositing of saving. As planned interviews lasted for about an hour and they have lasted accordingly. With the informed consent of the participants an attempt was made to

audiotape record all interviews except in cases where some key informant interviewees requested otherwise for which the research had to really on taking detailed notes of the responses of the informants.

**v. Observation:** During the fieldwork observation was made mainly to probe issues beyond those covered in the questionnaires, interviews and discussions. It was also useful to obtain some practical examples of what has been discussed during the key informant interviews and FGDs. Along with this some photos were taken on sites of selected beneficiaries business operating areas based on the genuine invitation made from the beneficiaries to the researcher so as to allow the researcher to verify what they are saying is really true.

### **3.5 Research quality issues**

Various techniques were employed to ensure data reliability and validity.

**Reliability:** In order to collect reliable data, the researcher designed the key informant interview guides, FGD guides and questionnaires through an elaborated procedure which involves a series of revisions under the guidance of the research supervisor/advisor to enhance data quality. Also quotes from interview and statement from questionnaires were used as references to ensure reliability. The researcher has used checklist of questions when making personal interviews with respondents so as to achieve data consistency and completeness.

Furthermore, research assistants/enumerators (3 Masters of Art students) were trained for two days on administering the questionnaire, interview and discussion guides on recording of any other useful information they came across within in the field. Field notes were made and edited immediately after data collection on a daily basis.

**Validity:** To ensure validity the study has applied the triangulation technique by using questionnaire, key informant interviews, FGDs and secondary data sources concurrently. In addition, data collection instruments were presented and refined to ensure lucidity of contents in context of aim of each question. Whereas the quantitative data collection instruments focus on objective responses, qualitative

datacollection instruments are designed in such a way that they measure attitudes and opinions of respondents to the maximum degree possible.

In addition, before data entry into computer a series of pretest has therefore been conducted. The data scanning and scrutiny technique has also been employed from available questionnaires from respondents to examine and validate the survey instrument so as to ensure content validity and reliability.

### **3.6 Ethical considerations**

The researcher considered the research values of voluntary participation, confidentiality, anonymity to ensure protection of respondents from any possible harm that could arise from participating in the study. Thus, the researcher clearly introduced the purpose of the study as a partial fulfillment of a Masters“ study programme and requested the respondents to participate in the study on a voluntary basis such that refusal or abstaining from participating was permitted. The researcher also assured the respondents confidentiality of the information given and protection from any possible harm that could arise from the study since the findings would be used for the intended purposes only. The respondents were promised to be provided with feedback about the findings of the study.

### **3.7. Data Analysis**

Data is analyzed both quantitatively and qualitatively by making use of gender disaggregated data. The comparison is made on outcome variables such as: income, saving, assets accumulation, decision making, self-esteem and self-confidence among others. Quantitative data is analyzed by using frequencies, percentage (by using tables, graphs and chart) and regression analysis with the help of Stata Software. Qualitative data is analyzed by using document analysis, case stories and synthesis of FGD and interview result.

## **Chapter Four**

### **4. Analysis, Results and Discussion**

In this section, data collected through survey questionnaire, document analysis, key informant interview, FGD and observation is systematically presented, analyzed and discussed in line with addressing the specific objectives.

#### **4.1 Institutional Profile and Outreach Performance of SFPI**

##### **4.1.1 Institutional Profile of SFPI**

###### **i. Vision, Mission and Goals**

The vision of Specialized Financial and Promotional Institution (SFPI) is “to see poor people especially active poor to have full access to institutional credit for self-employment along with eradicating poverty both in rural and urban Ethiopia and also to see the emergence of self-reliant and business-minded generation”(SFPI,2012).SFPI has a mission “to facilitate the socio-economic empowerment of underprivileged people both in rural and urban Ethiopia plus to promote research, policy and practices that encourage the improved access of poor people to support services such as training, credit, technology, information, professional and technical advice, along with ensuring its operations as well as that of its clients to be financially and economically viable and sustainable”.The Development objective of SFPI is to enhance the socio-economic empowerment of disadvantaged people especially women, through increasing their access to support services such as training, credit, saving and technical assistance (SFPI, 2003). Furthermore, the overall goal of the company is to make need based and sustainable micro-financial services accessible to the active poor in urban and rural areas through cost efficient methodologies. It also works to create self-employment as well as to improve and strengthen client’s asset base to help attain sustainable economic development.

###### **ii. Financial Resource**

The sources of SFPI financial resource include client savings, loans, donation from Grameen foundation, SOS, FAIM, EU, Save the Children and the share capital owners (SFPI, 2012). Certainly, SFPI has not yet reached financial self-sufficiency. In fact, its financial self-sufficiency was 79 percent. It is slightly better than the average financial self sufficiency of

Ethiopian MFIs, which was 77 percent but it is less than the average of financial self-sufficiency of African MFIs that is 93.7 percent (Tsegaye, 2005).

### **iii. Target Beneficiaries and Beneficiary selection criteria**

SFPI clients are recruited on the basis of the following criteria:

- Economic status: clients should be active poor
- Ability and willingness to work: active poors
- Credit worthiness and good conduct
- Willingness to take loans on peer or group collateral
- Permanent resident of operational area

### **iv. Group Formation**

In order to form a group, eligible individuals of three to five members who know each other form a group of one. In fact the decision is made based on the expected costs and benefit from participation. A center meeting is held once a month for compulsory saving, loan installment and discussion on the economic and social issues of their environment. In addition, SFPI makes capacity building efforts for both the employees and the clients (SFPI, 2008). For clients, they include skill upgrading, introduction of new technologies, business orientation and experience sharing at client's meetings.

### **v. SFPI Service Provision**

The Key Informant Interviews disclose that SFPI provides financial as well as non-financial services to the active poor. The financial services delivered by SFPI are lending and saving services. Whereas Non-financial service provided by the company takes in to account the following: training, orientation service as well as monitoring and supervision.

#### **1. Financial Service**

The financial services delivered by SFPI are lending and saving services. The target clients eligible for its services are the active poor who are willing to engage in income generating activities of their own in rural and urban areas of the country (SFPI, 2008). As mentioned earlier

SFPI provides its services using mostly the group-based methodology. Each self-selected group, which is a central unit of SFPI operation, contains three to five members including their leader. What is more the center has been serving as a core body of clients to make a manageable and direct link with the institution. The center leader is the main contact person to the credit officers through which direct link is made with the institution. As the groups are self-selected, members are expected to know each other, have similar background, enjoy trust and develop confidence. Given that group members are jointly responsible for the loan, they will take the risk if one of the group members fails to repay the loan.

Besides, cooperative and individual based lending methodologies are lately introduced in to the system. The cooperative based loan requires physical asset or capital as collateral. Similarly the individual loan requires property or salary of permanent employees as collateral. In fact, if the client reaches higher level of loan intake he/she will be allowed to operate individually rather than on a group basis. Loan disbursements are made at a sub-branch or branch level. However, cash collections and savings mobilization activities are carried out at the center levels.

## **2. Non-Financial Services**

### **A. Orientation**

Other non-financial services provided by the SFPI include provision of orientation, training, monitoring and supervision. Key Informant Interview with one of the credit officer divulges that eight to ten hours orientation is regularly provided for new clients of SFPI before they join the program. The orientation deals with the services provided, criteria to be a client, method, amount of loan provided, term of loan, and some other relevant information. Business development training about marketing, record keeping, and pricing is delivered for every client on voluntary basis for a month. On -job training is delivered for the staff to build their capacity.

### **B. Training**

The clients especially those engaged in group lending undergo training for about a month about entrepreneurial skills, book keeping, accounting, loan deposits and administration. The training

helps the clients to appreciate what is expected of them with their loans like optimum exploitation of loan use, savings, deposits and loan repayment. Before the initial loan is disbursed, all clients must attend some training which explains the rules of membership, savings requirement and penalties for late payment. In addition, the training will keep going for every six months to equip clients with the necessary tools and knowledge.

### **C. Monitoring and Supervision**

The organization aspires to be able to have a successful and default free clients. Subsequently Specialized Financial and Promotion Institute provides a monitoring and supervision service. In fact the credit officers make assessment on whether the clients diverted the loan they have taken to another purpose or so together with this the organization open a door for helping clients designed forenhanced management of the loan money.

#### **4.1.2 Outreach Performance of Specialized Financial Promotion Institute**

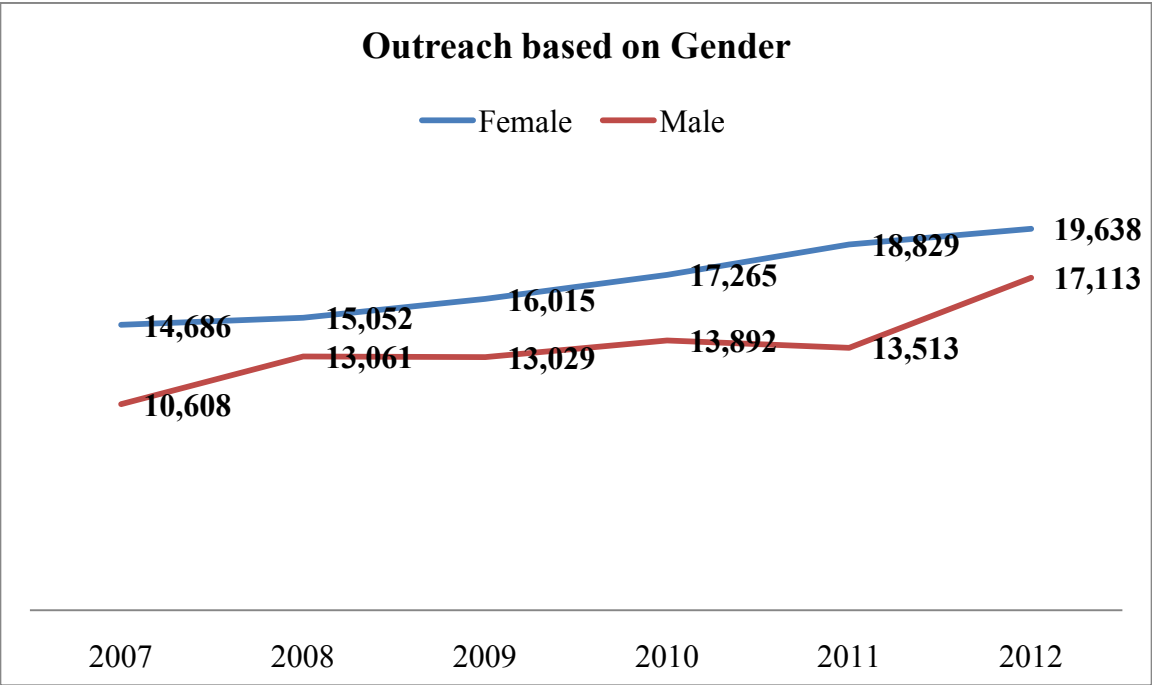
##### **i. The Number of Clients**

In analyzing the effectiveness of microfinance in alleviating poverty, it is crucial to look at the outreaches performance of MFIs. It is argued that microfinance can play an important role in poverty alleviation only if the extent of outreach is reasonably large (Tsegaye, 2005). Conversely, if MFIs are restricted to only few geographical locations or serve only a small fraction of the population or the poor, their importance in poverty alleviation efforts would be limited(Mayoux, 1997). Outreach of microfinance sector can be looked at in numerous aspect among a few are the number of clients outreached and loan disbursed over the years.

The data from both documentary analysis as well as key informant interview reveled that with the prime vision of reducing poverty through making financial services available to the needy and thereby creating a scenario where people could live with all the powerdetermining their future in their own hands, SFPI is operating in various regions in Ethiopia, Addis Ababa, Amhara region, Oromia region as well as SPNN regions. Currently, it has nine branches and

serving a total of more than 37,000 active credit clients. SFPI has shown a remarkable progress in terms of outreach since its establishment as well as these days.

The number of clients has shown increment over a period of 2007-2013 (see figure 2). The number of active clients in the year 2007 and 2008 were 25,294 and 28,113 respectively. However within a year the number reached 29,644. Once more the numbers have continued its progress particularly in the year 2010, 2011 and 2012 the client number reached 31,157, 32,342, and 36,751 respectively. Key informant interview with SFPI official"s shows that the *number of branches has increased from two branches in the year 1998 to nine in the year 2013 with a total of above 37,000 active credit clients.*



Source: SFPI (2012)

Figure 2 Gender based Outreach Indicator

It has been mentioned that SFPI gives women precedence in the provision of loan and saving service. As a result, the total number of women is higher than their male counterpart (see Figure 2). The number of women clients in the year 2007 was 14,686 (58%) whereas that of the male clients in the same year was 10,608 (42 %) male clients.

In 2012, the number of female clients is estimated at 19,638 (53%) and that of male clients is 17,113 (47%). It can be seen that the number of male clients is catching up with that of female clients recently. This shows that the trend in the number of females as a percentage of the total clients is decreasing over time while that of male is increasing. If the trend continues, the objective of giving priority for women will be getting less practical.

**ii. Loan Term ,Size and Disbursement**

**Loan Term :-**In relation to loan terms, a key informant interview with the Merkato branch manager of SFPI avowed that they are established at different levels for different activities with maximum loan period being two year and half i.e. loans are extended for a maximum duration of 30 months. Loan terms are related with maturity of enterprise for which loan is used. Furthermore, the minimum loan term established by Specialized Financial Promotion Institute is three months only.

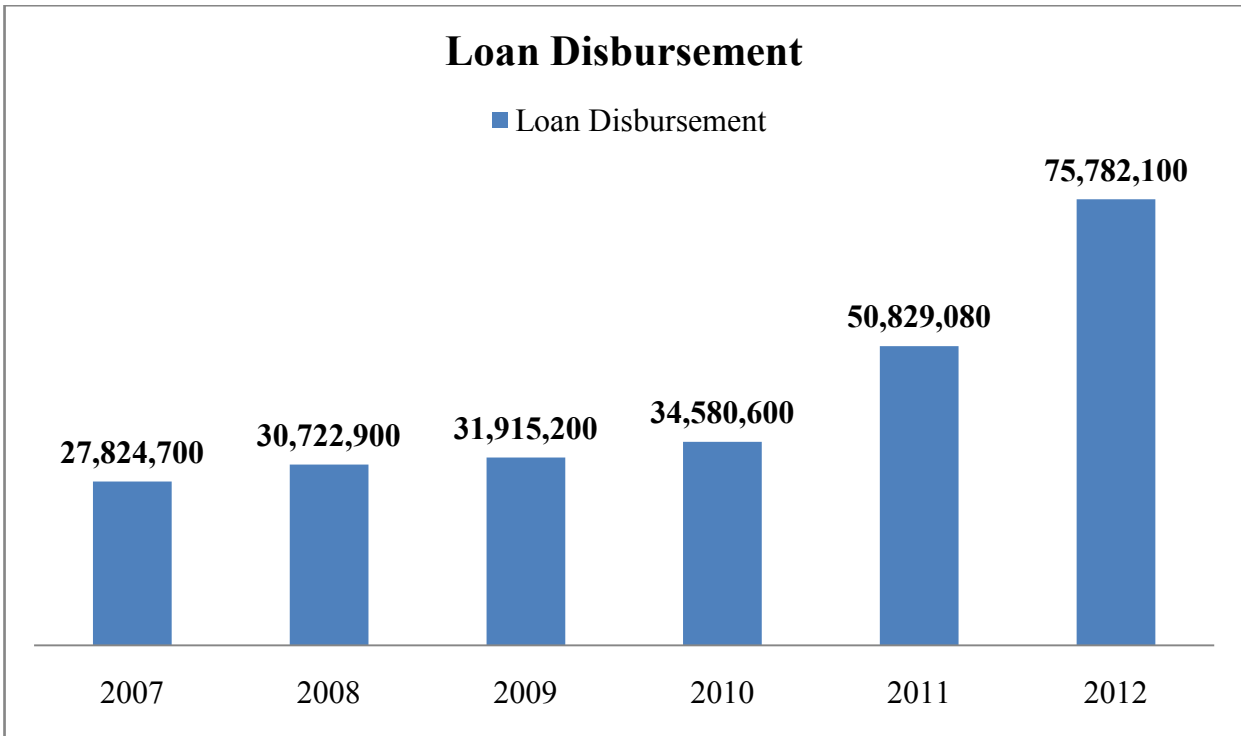
**Loan Size: -** Indeed Loan size is the amount of money that clients are eligible to take as loan in each loan cycle (Yaron, 1997).SFPI average loan size on a group base for the first loan period is 1500 Birr (see Table 2). Nevertheless, this loan is subject to change every year if a loaner continues as a client with SFPI and graduated from one phase to the next. As a result an upcoming client always start with the first average loan amount (1500 birr) and pass to the higher loan size after they settled the first loan. The maximum loan size (5000) was stated by NBE by 40/96 proclamation.

**Table 2. Loan size by loan cycle:**

Cycle	Amount in birr
First cycle	1,500
Second cycle	2,250
Third cycle	3,375
Fourth cycle	5,000
Fifth cycle	5,000

**Source: SFPI (2004)**

## Loan Disbursement of SFPI



Source: SFPI (2012)

**Figure 3. Loan Disbursements as an Outreach Indicator**

As it is demonstrated on the above graph SFPI have under gone an incredible ride in loan disbursement (see Figure 3). Indeed the loan disbursement of SFPI continued to increase from Birr 27,824,700 in the mid of 2007 to Birr 30,722,900 at the end of 2008. Once more this loan disbursement trend showed remarkable progress during 2009 through 2012 reaching to the point of birr 75,782,100. In fact the trend evidenced more than doubling from birr 31,915,200.

### 4.1.3 Role of SFPI in Poverty Reduction

#### 4.1.3.1 General Characteristics of Respondents

##### i. Respondents by Sex and Age

Of the sample SFPI clients, 58.3% are female and 42% are male (see figure 3). This reflects the SFPIs focus on serving women clients as indicated in the institutions objectives. Despite the participation of women is more or less superior, there is still a need to encourage more women to be beneficiaries of the service so that they can take a loan and get involved in income generating activities.

**Table 3. Percentage Distributions of Respondents by Sex and Age**

Description		Number of Respondent	Percentage of Respondent
Sex	Male	50	41.66
	Female	70	58.33
	Total	120	100
Age	18-35 Years	87	72.5
	36-46 Years	23	19.16
	Above 46 Years	10	8.3
	Total	120	100

**Source: Survey Data 2013**

As indicated in Table 3, out of the total respondents, 87(72.5%) of them are in the age range of 18-35 years, 23(19.2%) of respondents are in the age range of 36-45 years and only 10(8.3%) of respondents are in the age range of over 46 years. Thus, it can be said that the

overwhelming majority 87(72.5 %) of the respondents classified under the productive age category (18-45). Furthermore only 10 (8.3%) of the clients have an age of over 46 years. Hence, the majority of SFPI clients are in the productive age that they can work to change their lives by using can loan in different income generating activities.

**ii. Respondents Religious Status**

**Table 4. Percentage Distributions by Religious Status**

Description		Number of Respondent	Percentage of Respondents
<b>Religious Status</b>	Orthodox Christian	84	70
	Muslim	20	16.66
	Catholic	4	3.33
	Protestant	12	10
	<b>Total</b>	120	100

**Source: Survey of 2013**

According to the above Table (Table, 4) the majority 84 (70 %) of the total respondents was Ethiopian Orthodox Christians, while 20 (16.66 %) of the respondents were Muslims. And the remaining 4 (3.33 %) and 12 (10 %) were Catholic and Protestants respectively. In almost similar proportion, from a total of SFPI clients, 78% were followers of the Ethiopian Orthodox Christian faith, whilst 14% were followers of the Islamic religion and 2% catholic and 6% are protestant. One observation confirmed by the study is that none of the religions seems to be a deterrent factor for Clients participation in the micro-finance provision programme of SFPI.

### iii. Respondents Status and Family Size

**Table 5. Percentage Distributions of Respondents by Statuses and Family Size**

Description	Number of Respondent	Percentage of Respondents	
Marital Status	Single	36	30
	Married	66	55
	Widowed	6	5
	Divorced	7	5.8
	Separated	5	4.16
	Total	120	100
Family Size	1-4	79	65.83
	5-10	29	24.16
	More than 10	12	10
<b>Total</b>	<b>120</b>	<b>100</b>	

**Source: Survey of 2013**

Of the sample respondents, 36 (30 %) are single, 66 (55 %) are married, 6 (5 %) are widowed, 7 (5.8 %) are divorced and whereas 5 (4.16 %) are separated. This indicates that the mainstream clients / borrowers are married ones and the evidence shows that SFPI gives loan to married clients than single and divorced clients. This may be done by the SFPI to minimize the default rate and maximize the repayment rate. From the demand side, it might also be due to group exclusion of the single or unmarried clients during group formation to minimize risks. With respect to family size, 79 (65.8 %) of clients respondents have a family size in range of 1-4, 29

(24.2 %) respondents have a family size in a range of 5-10 and 12 (10 %) have a family size of more than 10. This shows that almost all SFPI clients do have at least two family members. Family size has implications for the degree of use of loan on income generating activities or other purposes.

**iv . Respondents IGA /Economic Activity**

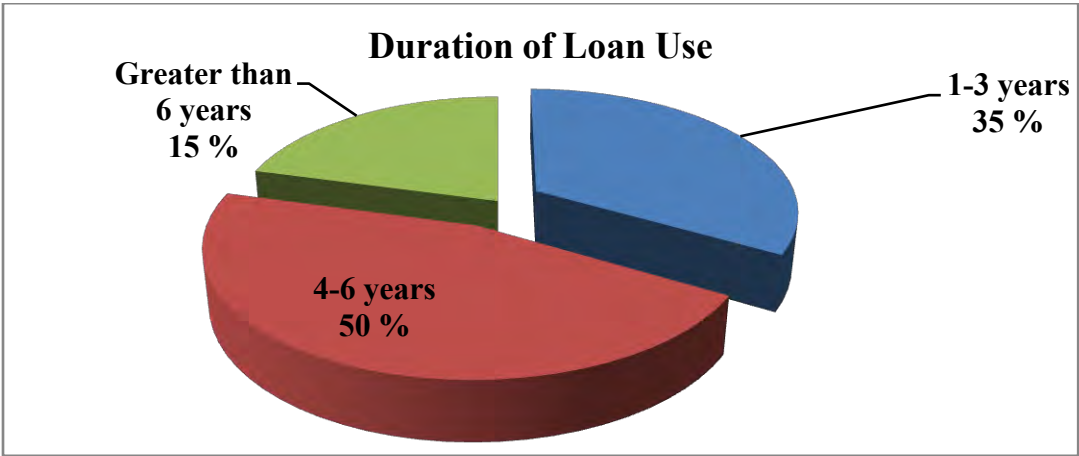
**Table 6. Percentage Distribution of Respondents by Type of IGA**

Description		Number of Respondent	Percentage of Respondents
Type of IGA Activity	Food and drink processing	32	26.67
	Textile sales	25	20.83
	Wavering	5	4.166
	Metal works	6	5
	Tailoring	23	19.16
	Min-shop	25	20.833
	Hair salon	4	3.33
	Total	120	100

**v.Clients Loan History, Duration and Loan Usage**

According to the information obtained from the SFPI Head office, group collateral was the mechanism by which the poor were allowed to get credit. Accordingly, the average group size of the institution during the survey was approximately 3-5 clients. There were nine branches in the study area with 10-15 groups each. Provided that the clients repay the loan on time, there was no upper limit about the number of times an individual could borrow from the institution.

Duration of clientele is an important indicator of the size and frequency of access to loan from the institution. Of the sample respondents, 35% and 50% of the respondents had duration of one to three years and four to six years respectively. Clients of greater than six year and above duration constituted 15% of the respondents. In this regard, a great majority of the respondent clients have participated in the SFPI program for more than three years (4-6 years).



Source: Survey of 2013

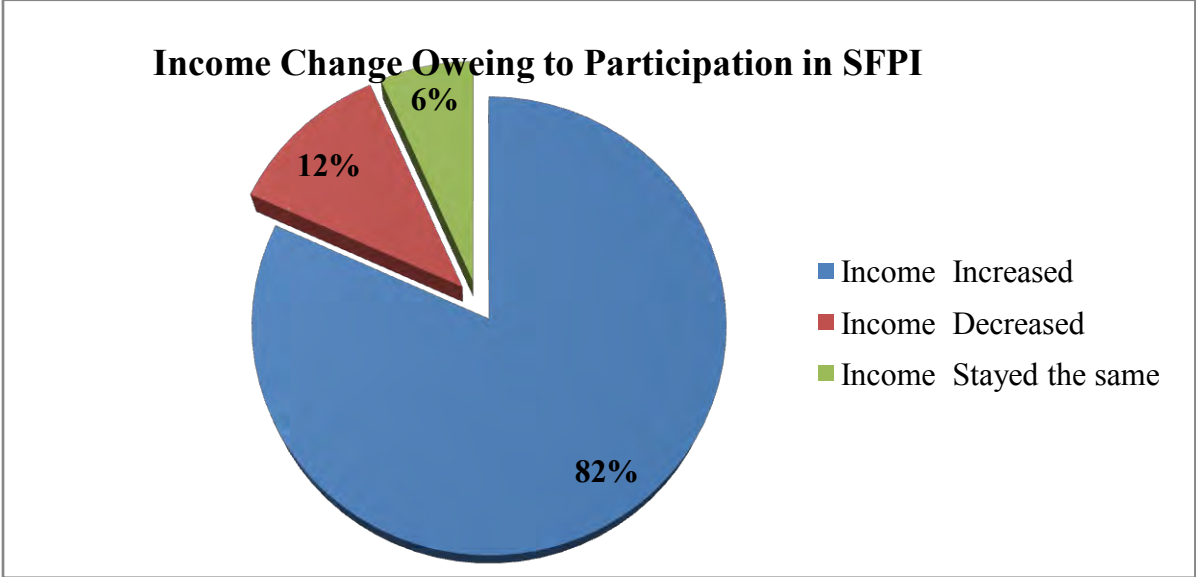
Figure 4. Percentage Distributions of Respondents by Duration of Loan Usage

**4.1.3.2 The Role of SFPI Micro-Finance Provision**

**i. Income of Clients**

Determining whether the benefits of microfinance programs are sustainable and large enough to make a dent in the poverty of participants and society at large is important for guiding policy (Coleman, 2006). This is because an expanded income gives the households many options, increases consumption possibilities, allows the households the possibility of saving for future, reduces the vulnerabilities arising from future income failures and gives the children better educational opportunities. Hence, rising household income has a particular place in all poverty reduction programs including SFPI microfinance programs. Therefore, the role of Specialized Financial Promotional Institute micro-financial provision on the income of its participants needs to be evaluated to see the extent to which microfinance programs have been successful in alleviating poverty. SFPI client respondents have been asked if their income changed as a result

of their participation in SFPI microfinance programs. A Substantive number of households (82 %) indicated that it was indeed the case (see Figure 5). In fact the clients associated the increase in income with the fact that they have managed to expand their business by the credit money received from SFPI.



Source: Survey of 2013

Figure 5. Percentage Distributions of SFPI Client Respondents by Change in Income

On the other hand a smallest percentage of the clients ( i.e. 11.66 percent ) stated that the their income indeed have decreased and associated the lack of increase in income with low sales, high raw material cost and still others allied it with sick family member. Whereas the least small percentage of households (i.e. 6.6 percent) seems to think that there was no change of income as a result of their participation in SFPI microfinance institutions. Nevertheless, the fact that SFPI microfinance programs have enabled 81.66 percent of clients to increase their income is welcome relief given the difficulties that development planners experience in raising incomes of poor people in developing countries owing to a well-known set of constraints.

## Description of Variables included in the Estimation

Table 7. Description of Variables included in Estimation

<b>Variable</b>	<b>Unit/index</b>	<b>Mean</b>	<b>Std. dev.</b>
Income	Amount in Birr	3473.333	2087.849
Saving	1= Increase in saving amount and 0=otherwise	.7166667	.4525062
Decision Making Power	1= Made decision on how to spend loan money ; 0=otherwise	.825	.3815603
Asset Accumulation After the loan	1= Having fixed and moveable asset after the loan; 0=otherwise	.8583333	.35017
Self-Esteem	1= Improved Self-esteem and Self-Confidence; 0=otherwise	.8916667	.3121041
Sex	1= Female Participants; 0=Male participants	.5583333	.4986677
Age	Number of years	33.41667	8.004813
Family Size	No. of household members during 2013	3.958333	2.680135
Educational Status of	Years of formal schooling	4.516667	4.654416

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Respondents			
Loan duration	Number of years since joining SFPI	3.05	2.668994
Marital Status	1= Married ; 0=otherwise	.5666667	.4976134
Loan at first	Amount in Birr	911.6667	1037.465
Current level of loan	Amount in Birr	3658.333	3475.523
Asset Accumulation Before the loan	1= Having fixed and moveable asset before the loan; 0=otherwise	.725	.4483865
Housing Improvement	1= Improved/ build/ renovated housing; 0=otherwise	.9	.3012579
Start business	1= yes; 0=otherwise	.9416667	.2353554

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An attempt has also been made to identify potential effect of duration of SFPI clientele on income of clients. This has been done by conducting regression analysis by controlling for other household variable influencing the income of clients. Regression results have showed that income of clients is negatively affected by the educational status of clients at 10% level of significance. In fact this could be because of the fact that those participants with a better education use the money for more education enhancement. Subsequently one can deduct from the regression analysis the fact that the income of participants with a better education decreases. Furthermore, loan duration was also found as a positive factor affecting income of clients at 10% level of significance probably owing to the fact that as clients stay in the program for long they will be able to accumulate enhanced experience on how to run business, curtail risks and earn a

better income. In fact in order to demonstrate the above fact table 8 has been given for a comprehensive demonstration.

Table 8. Regressions for Income (in Br) of SFPI Clients

<b>Explanatory Variable</b>	<b>Estimated Coefficient (Std. errors)</b>
Sex	-162.20(0.699)
Age	41.69 (0.219)
Family Size	-147.22 (0.131)
Educational Status	-91.94 (0.057) *
Loan Duration	140.57(0.079) *
Marital Status	679.26(0.100)
Loan at first	.010(0.962)
Current level of loan	-.050(0.456)
Intercept	2535.708 (0.007)**
R-squared	0.0898
F	1.37
N	120

Note: Statistical significance is given at the 10% (\*), 5% (\*\*), and 1% (\*\*\*) levels.

## **ii. Saving of Clients**

MFIs are spending much cost on awareness creation among their users so as to mobilize huge amount of saving and made that saving as a source of money for further lending (Meyer 2002). Saving culture of a people can play indispensable role in assuring sustainability of microfinance services.

With more savings, financial capital is accumulated resilience to shocks is improved and the capacity to invest is enhanced. In addition, the need to borrow at high interest rates from private money lenders is reduced and the ability to purchase more productive assets improved. Savings

can be used in case of emergencies, or to finance major purchases, investments or to smoothen out consumption.

Of the total number of clients surveyed, 63% reported that they managed to earn small money and open savings account in the SFPI only after joining SFPI while 18.7 percent of them save in eqqub and women’s associations (see Table 9). The rest 18.3% do not currently have a savings account at all. However, before joining SFPI, only 12.1% of them had a saving account with eqqub, women’s associations, credit cooperatives and the rest did not have their own savings account at all. This indicates that the number of clients that are able to save has increased after joining SFPI.

**Table 9. Respondent Saving Status Before and After the Loan**

Description	Before the loan	After the loan
Has a saving account in bank	0	63
Saved in eqqub women association or others	12 %	18.7
Didnot have a saving account at all	88 %	18.3

**Source: Survey of 2013**

Further analysis was conducted to identify the likelihood of saving among SFPI clients by using probit estimation after controlling for other variables affecting saving behavior (see Table 10). Indeed the estimation result declared that family size does not seem to increase the likelihood of saving amount of clients. As a result family size has significant negative influence on likelihood of saving of specialized financial promotion institutes clients at 1% level of significance. Subsequently, as family size increases, the likelihood of increasing saving among

clientsdecreases. This could be as a result of the increase in expenditure made on children, consumption and the likes with the increase in family size

**Table 10.** Probit for Saving of SFPI Clients

<b>Explanatory variable</b>	<b>Estimated coefficient (Std. errors)</b>	<b>Marginal Effects (Std. errors)</b>
Sex	-.179 (0.546)	-.056 (0.541)
Age	-.035(0.115)	-.011(0.116)
Family Size	-.175(0.007) ***	-.055 (0.008)
Educational Status	.018(0.571)	.005(0.573)
Loan Duration	.068 (0.373)	.019(0.368)
Marital Status	.237(0.429)	.073(0.434)
Loan at first	.000(0.179)	.000(0.173)
Current level of loan	-2.80e-06 (0.962)	-8.78e-07 (0.962)
Intercept	2.019726 (0.003)	
Prob> chi2	0.0003	
LR chi2(9)	29.11	
N	120	

Note: Statistical significance is given at the 10% (\*), 5% (\*\*) and 1% (\*\*\*) levels.

FGD result show that many of the respondents have savings account in SFPI but are not aware of the amounts they have and the applicable interest rates. In some cases the clients withdraw all or some of their savings and they start to save all over again. There are also case where respondents feel that the money they have at hand before joining the SFPI is too little to be in a bank. A case in point in this regarded is statement quoted from 34 years old key informant client.

*Before joining the SFPI, I did not have a saving account. Since I had a very small amount of money, it was shameful to go to the bank and deposit it. In addition, I did not have the necessary knowledge of saving to do that. I now have a bank book opened with the SFPI which allows me to deposit my savings upon settlement of the loan (key informant interviewee).*

This indicates that the SFPI helped them to earn money and open a saving account relieving them from the feeling of intimidated to deposit small money in their account. Nowadays they can save and deposit a small amount of money starting from Birr one which they are able to do every time when they go to the SFPI to settle their loans.

### **iii. Asset Accumulation of Clients**

Assets accumulation plays a multitude of roles among clients of microfinance service. The ways in which households use assets to smooth out consumption is a well-documented process. Households purchase assets when their income are better and sell them during the lean periods therefore assets also serve as a form of saving. Besides an asset accumulation by borrowers is expected to have a positive impact on loan repayment performance having the perception that the assets will be under liability in case of default. In fact material assets which included other physical and financial assets like for instance land, housing, livestock, saving and jewelry, enable people to withstand shocks and expand their horizon of choices (World Bank, 2002). As a result the researcher holds the position of evaluating the effectiveness of SFPI Micro-financial service on the level of asset accumulation of the clients. Subsequently based on the survey result the impact of SFPI microfinance service provision on the respondent asset accumulation will be exhibited in the next table below.

**Table 11. Percentage and Frequency Distributions of Respondents based on their Asset Accumulation**

No	Description	Number of Respondent	Percentage of Respondent	Frequency Distribution
1.	Did you have fixed property (including House) before being a member in SFPI?			
	• Yes	73	60.83	44.4
	• No	45	37.5	16.8
	• No answer	2	1.67	0.0334
	• Total	120	100	61.233
2.	Do you have fixed (including House) and movable asset after being engaged in SFPI program?			
	• Yes	97	80.83	78.4
	• No	23	19.167	4.4
	• Total	120	100	82.8

3.	What assets do you have after being engaged in SFPI program?			
	• Owner of a house	2	1.67	0.0334
	• Bought house hold furniture	64	53.33	34.13
	• The saving has increased	34	28.33	9.6
	• Own land	8	6.67	0.5334
	• Bought livestock	12	10	1.2
	• Total	120	100	45.4968

**Source: Survey of 2013**

According to the above tabular demonstration out of all respondent 73 (60.83 %) of them conformed that they used to have fixed property before joining to Specialized Financial Promotion Institute. Whereas 45 (37.5 %) of them have stated that they didn't have any fixed property whatsoever but the remaining 2 (1.67 %) have no answer to the above question. Correspondingly, 97 (80.83 %) of them affirmed that they have fixed and movable asset after joining the microfinance provision. However, 23 (19.167 %) of them avowed that they didn't possess any movable asset after being the client of SFPI.

In addition among the survey respondents, 2 (1.67 %) of the respondents stated that they have become the owner of a house owing to the fact that they have become the client of SFPI. Nevertheless, 64 (53.33 %) of them has avowed that they have owned household furniture. Moreover 34 (28.33%) of them have said that they have observed increment in their saving yet the remaining 8 (6.67%) and 12 (10 %) owned a land and livestock respectively after joining the program.

Furthermore, estimation made on asset accumulation confirms the fact that asset accumulation is negatively affected by age of respondent's at 5% level of significance. As a result older credit participants have less likelihood of accumulating asset. This could be because of the fact that as

people get older they will not care less whether they bought land or purchased livestock the rationale behind this is that there is no grantee if they are living today or the day after. Accordingly, they will use the generated income for current consumption. Nerveless, education by itself also have a negative effect on asset accumulation of the participants given that clients with better education strive for better enhancement of their educational Status rather than accumulate asset. Hence educational Status of respondents affects asset accumulation of clients at 1% level of significance.

In addition, the likelihood of clients with a longer loan duration to accumulate asset is positively affected at 5% level significance. This could be because of the fact that clients will be able to accumulate all necessary experience and income so as to be able to accumulate asset. Again, loan at first is likely to negatively affect asset accumulation at 5% level of significance. This could be due to the fact that participants may take a higher amount of loan and incur business risk as a result they will be forced to use the rest of the loan for repayment of their pervious principal and interest rather than to accumulate asset.

**Table 12.**Probit for Clients Asset Accumulation

<b>Explanatory variable</b>	<b>Estimated coefficient (Std. errors)</b>	<b>Marginal Effect (Std. errors)</b>
Sex	-.182 (0.567)	-.0448 ( 0.562)
Age	-.057 (0.021) **	-.014 (0.025)
Family Size	.103(0.150)	.025(0.161)
Educational Status	-.089 (0.009) ***	-.022(0.011)
Loan Duration	.207(0.030) **	.051(0.018 )
Marital Status	-.132 (0.673)	-.032(0.671)
Loan at first	-.000 (0.016)**	-.000(0.017)
Current level of loan	.000 (0.159)	.000(0.156)
Intercept	2.460949 (0.001)	
Prob> chi2	0.0003	
LR chi2(9)	28.86	
Pseudo R2		
N	120	

Note: Statistical significance is given at the 10% (\*), 5% (\*\*) and 1% (\*\*\*) levels.

#### **iv. SFPI on Decision Making Power, Self-Esteem, Self-Confidence, Business Management Skill development and related service**

In most third world countries, men have better income generating activities, access to wider markets, and enjoy a higher social status than women (Murdoch and Haley, 2002). In order to reduce poverty, women, must as well be empowered because poverty reduction strategies that focus on empowering women not only improve the lives of women but also positively affect entire families and communities. Microfinances are thought to be potent agent of social change currently being promoted as key strategy for simultaneously addressing both poverty alleviation and women's empowerment (Mayoux, 1997). In what follows, the role of MFIs/SFPI in empowering client, and particularly women, will be examined by taking participation in decision making, self-esteem, self-confidence, business management skill and related service as an indicator.

##### **Decision Making Power of Client**

Women's ability to influence or make decisions that affect their lives and their future is measured to be one of the important components of empowerments. Many microfinance institutions focus their attention on women's use of loan and ability to make decisions about loan based enterprises as the most direct impact of their program (Cheston and Kuhn, 2002). Thus, the measure of client's autonomy in the household decision making was constructed to capture client's empowerment status. It was measured by the extent of their participation and role in making decisions on issues such as expending money, use of profits from the loan based enterprise, puts loan enterprise income in the saving accounts , buying raw material and selling , using small items and use of loan. In such cases, the SFPIclients were asked whether they have made these decisions mostly alone, jointly with Spouse /children or spouses made them alone in both before and after the loan.

Furthermore, Table 13 shows that 85% of the respondents reported that they have made decisions on expending loan money whereas 65% of them have affirmed that they have made a decision on

the use of profit from loan based enterprise after they have become the client of Specialized Financial Promotion Institute. The remaining 55%, 40% and 55% respectively have avowed the fact that they have made a decision on issue regarding putting loan enterprise income in the saving account, buying raw material and selling and use of loan. This entails that the decisions pertaining to the loan received from SFPI are contributing a sizable amount for the client's empowerment.

**Table 13. Percentage Distributions of Respondents by Decision Making Power**

Type of Decisions	Number	Percentage of Female Respondents	Percentage of Male Respondent	Total Percent
Expending money loan money	102	49.583	35.416	85
Use of profits from loan based enterprise	78	37.9	27.08	65
Puts loan enterprise income in the saving accounts	66	32.08	22.916	55
Buying raw material and Selling	48	23.33	16.66	40
Using Small items and Use of loan	66	32.08	22.916	55

Source: Survey of 2013

Further analysis was conducted to identify the likelihood of decision making power on how to expend loan money among SFPI clients by using probit estimation after controlling for other variables affecting decision making power ( see Table 14). Results further revealed the fact that, the likelihood of older participants is less likely to make decision on issues of expending money at 10% level of significance. This could be due to the fact that a children’s takes over when older clients gets older.

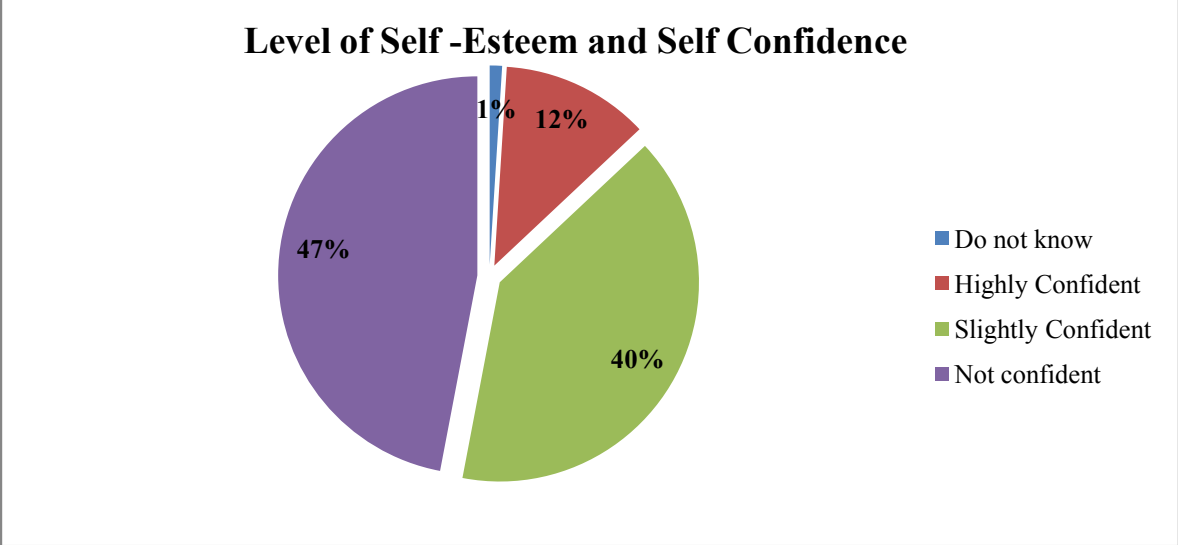
**Table 14. Probit for Decision Making Power of SFPI Clients**

<b>Explanatory variable</b>	<b>Estimated coefficient (Std. errors)</b>	<b>Marginal Effect</b>
Sex	.260(0.372)	.069(0.377)
Age	-.047 (0.057)*	-.012(0.053)
Family Size	.098 (0.177)	.025 (0.173)
Educational Status	.039(0.254)	.010(0.252)
Loan Duration	-.047(0.408)	-.012(0.408)
Marital Status	.032(0.911)	.008(0.911)
Loan at first	.000 (0.913)	4.33e-06 (0.913)
Current level of loan	-.000 (0.579)	-6.68e-06 (0.579)
Intercept	1.97742 (0.004)	
Prob> chi2	0.7228	
LR chi2(9)	5.32	
Pseudo R2	0.0454	
N	120	

Note: Statistical significance is given at the 10% (\*), 5% (\*\*) and 1% (\*\*\*) levels.

### **Self-Esteem and Self-Confidence**

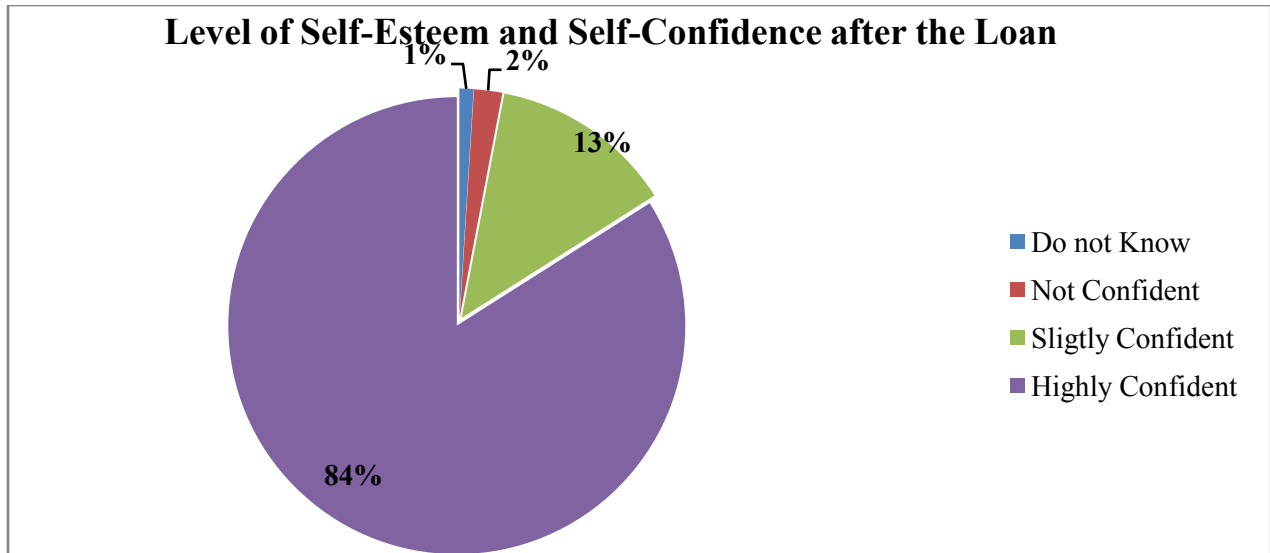
Self-esteem and Self-confidence is one of the potential results of client’s empowerment. Cheston and Kuhn (2002) identified Self- esteem and self-confidence as one of the most crucial areas for empowerment. Therefore, participants were surveyed and assessed with some elements of self-esteem and self-confidence pointers which are discussed in Figure 6 below. As indicated in Figure 6, 40% of the respondents responded that they were with slightly less confidence before the loan while 47% of the respondents replied that they were not confident. In addition 1% did not answer the question. Nevertheless only 12% of the respondents reported to be highly confident.



Source: Survey of 2013

**Figure 6. Percentage Distribution of Self-Esteem and Self- Confidence of Participants before the Loan**

However, the survey signifies that credit participants have improved their self-confidence after loan. This fact is displayed on the figure below. As per Figure 7, 84% of the study population had reported that they felt more confident, capable of money management and confident enough to go to the market and health center respectively. The remaining, 13% of the respondents responded that they were slightly confident after the loan while 2% of the respondents replied that they are not confident. In addition 1% did not answer the question.



Source: Survey of 2013

**Figure 7. Percentage Distributions of Self-Esteem and Self Confidence of Participants after the Loan**

As it is demonstrated above, the self-esteem and self-confidence of the clients has generally improved after they joined SFPI. It appears the same results from the replies of the FGD participant that their self-confidence and self-esteem toward themselves has enhanced after the intervention of Specialized Financial Promotion Institute Microfinance Provision.

Similarly, key informant interview with a 28 years old lady who is single said the following.

*The fact that I now engage in some sort of business has itself enhanced my self-confidence (Key informant).*

The following has been noted by a 34 years old widow.

*After I joined the SFPI micro financial program the changes that are brought about in me and my family constantly encourage me. Subsequently, this gives me the confidence that I can work and improve my living (Key informant).*

A 33 years old client had to say the following

*Previously I was financially dependent on my husband. My confidence has improved because I now have my own income (Key informant).*

A 28 years old lady respondent stated that,

*Despite my husband is not contented with the contribution I make to the household, my self-esteem and self-confidence has augmented because I have realized that I can work and become economically independent (Key informant).*

As it can be seen from the above, the self-confidence of most of the clients has enhanced after their participation in SFPI. This is a very basic requirement of empowerment as the clients would be encouraged to work hard and improve their lives as their self-confidence enhances.

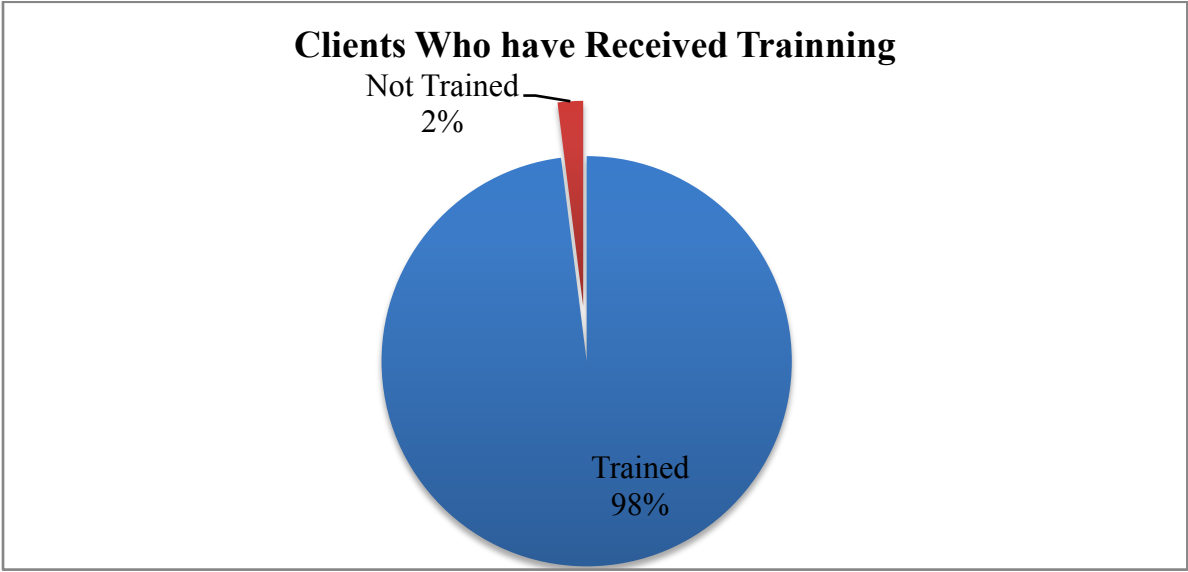
### **Business Management Skills of the Clients**

Clients were asked whether their skills and capacities to undertake businesses independently have been improved after their participation in the microfinance programmes. Women clients, who have participated in the FGD discussion, informed that their skills to independently carry out economic activities have been developed as the loans widened their horizons of business transactions besides the business training they were given by the microfinance staff. They said the group meetings and some supervision offered by the microfinance staff have also been enhancing their business skills. Those women who informed not having jobs before taking loans said that the SFPIs microfinance programme introduced them to the business world and productive economic active.

### **Training and Advisory Services**

It is in fact incontrovertible that training is good path of sharpening interpersonal skills and empowering clients by creating awareness. According to Oxaal and Baden (1997) the nexusbetween empowerment and training in general and specific for women is on the whole

acknowledged. The researcher considers at this juncture training as a crucial element in shaping clients Business development skill regarding marketing, record keeping, pricing and the likes. In view of the fact that such training is the tool for poverty reduction in general and sustainable livelihood in particular. As a result, participants were assessed as to whether they had received training or not. They were also surveyed as per the trainings they received. Their responses are indicated in Figure 8. According to Figure 8 below, 98% of the respondents had reported that they had received trainings on loan usage, saving deposit, loan repayment and the likes. The remaining 2% of the respondents replied that they hadn't received any training.

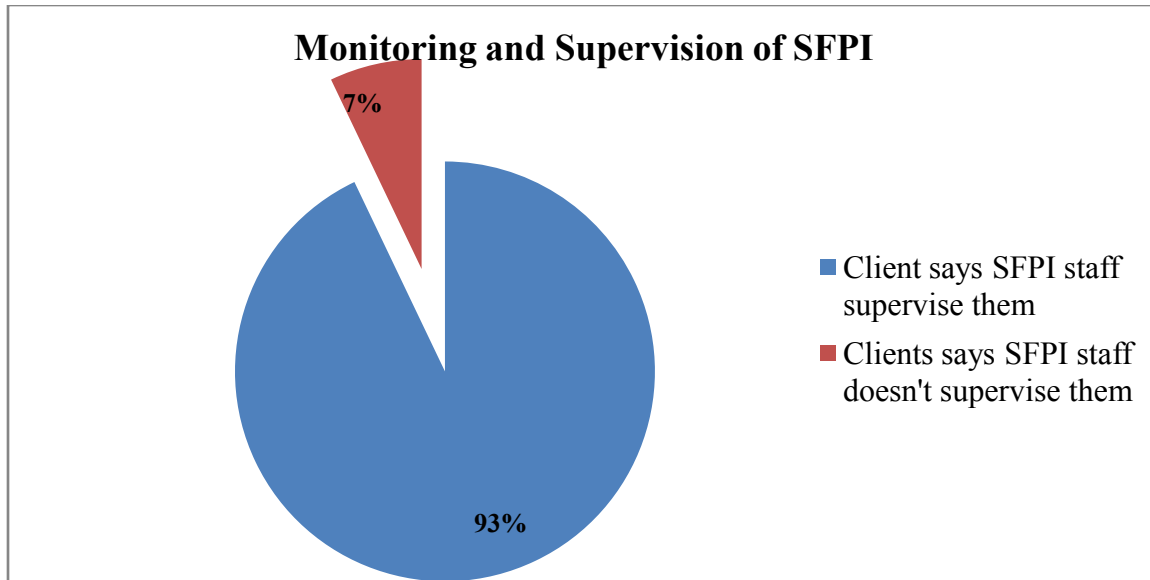


Source: Survey of 2013

Figure 8. Percentage Distributions on Participant's Involvement in SFPI Training

**Monitoring and Supervision**

In order to improve the performance of a microfinance institutions and asses the demand along with facilitating the success of the clients, supervision is of paramount. Particularly a regular monitoring and supervision of loan utilization is anticipated to lend a hand in plummeting the diversion of loan towards unintended activities (Assefaet al, 2005).



Source: Survey of 2013

**Figure 9. Monitoring and Supervision Service of SFPI**

According to the above Figure, Sample clients were asked whether the SFPI coordinators monitor and supervise them. As it can be seen on figure 9 about 92.9% of the respondents reported that SFPI staffs supervised them to assess the use of loans, whether or not they used their loan for the intended purpose and ensure repayment of loans in accordance with the schedule. About 7.1% of the clients affirmed that they are not that much monitored and supervised except in the case of repayment of loan up on the schedule. Furthermore, according to the key informant interview conducted with the general manager of SFPI.

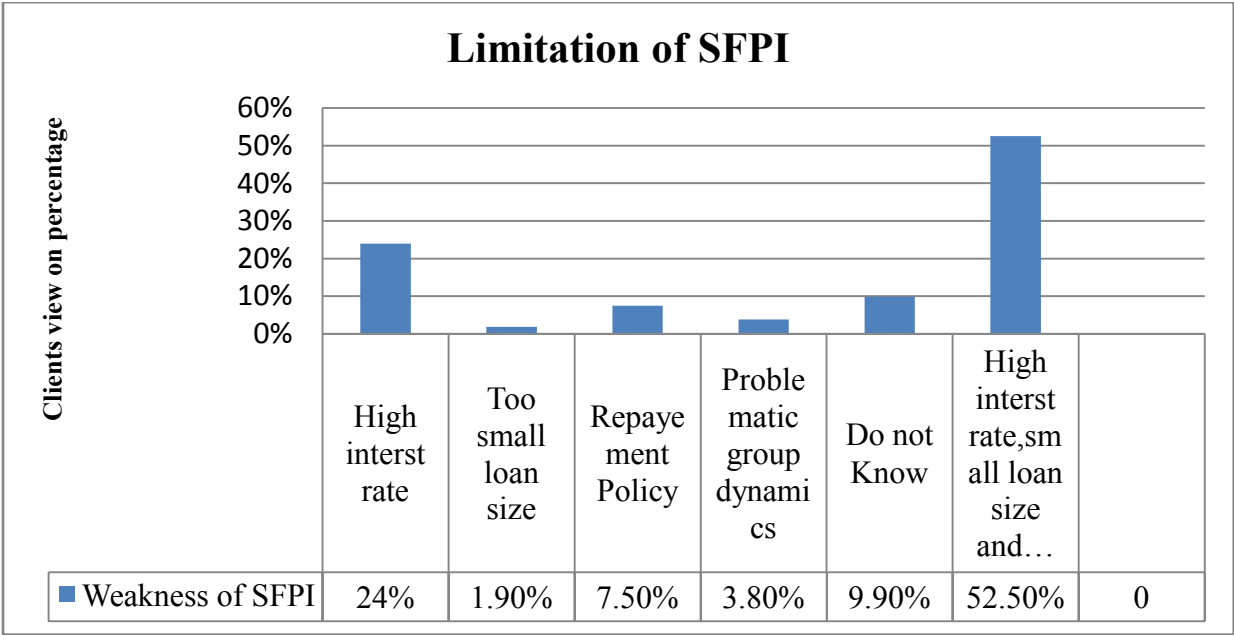
*“The rationale behind not supervising some clients is due to the fact that some clients take loan say for example for fattening oxen’s but due to a certain condition the profit achieved from such a business could be more or less minimum. Subsequently, a particular client may divert the loan for fattening sheep. As a result under such circumstance supervising this kind of informal business practice is difficult to administer.”*

Furthermore, participants of the Focus Group Discussions suggest that more improvement is needed in monitoring and supervision, which will encourage clients to increase their performance and reduce defaults.

**4.1.4 Clients view of the Strength and Limitation of SFPI**

**i. Limitation of Specialized Financial Promotion Institute**

In order to be able to provide improved service to the clients of MFIs assessing the negative as well as the positive view of the clients is a chief component. Consequently, respondents were asked to demonstrate the limitation of SFPIs in rendering microfinance provision services. The following figure will put forward the responses of participants.



Source: Survey of 2013

**Figure 10. Percentage Distributions of Clients View regarding SFPI Limitation**

Figure 10 indicates that 24.4% of the respondents do not like SFPIs loan due to the supposed high interest rates while 7.5% showed dislike owing to the repayment policy. The perceived problematic group dynamics and the too small loan size appear to be the source of dislike respectively for 3.8% and 1.9% of the clients. Furthermore, more than half of the respondents,

i.e., 52.5% have complained about high interest rates, too small loan size and the repayment policy. The rest 9.9% were not able to identify any negative perceptions regarding SFPI.

In a similar line of argument participant of the Focused Group Discussion complained about the relative high interest rates, i.e., 16 percent interest on loans taken as compared to only 4 percent when they save in the SFPI.

A divorced client who is 42 years of age and has been a member of the SFPI for seven years noted the following.

*The interest rate applied by the SFPI is smaller compared to that levied by private lenders. However, the rate is still too much for me. In addition, the interest rate on loans taken is not comparable to the amount offered for savings. Interest used to be calculated on the remaining balance of the loan taken but these days the initial amount is considered for interest (Key informant).*

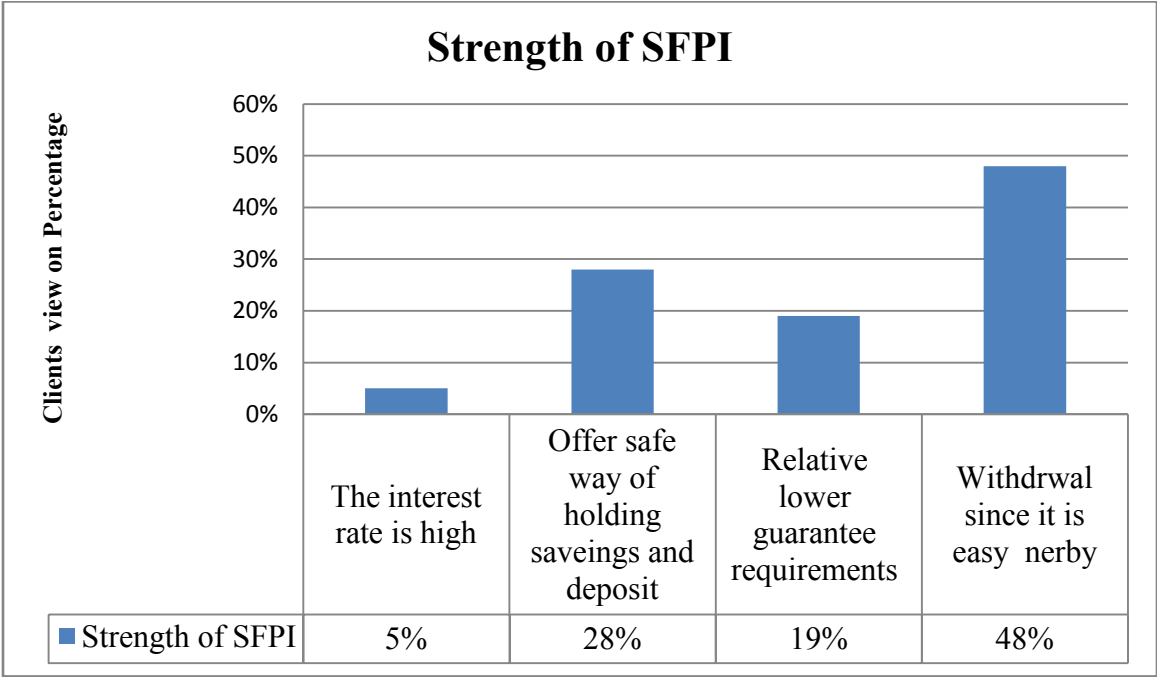
Furthermore, participants in the FGD think about the loan offered as very small which is not adequate to start business or any other activity.

A 35 years old lady who has been a member of the SFPI for the last six years had this to say

*In fact, the loan size increases as we settle the loan in full and take another. However, the loan still falls short of the amount needed to start business. It would be better if they could increase the amount of loan so that we are able to engage in our own business, earn better incomes and settle our debts more quickly (Key informant).*

Consequently, one can see that SFPIs usually offer small loan amounts. Subsequently, this small loan size impedes large capital investments and also limits their engagement as well as expansion of business activities.

**ii. Strength of Specialized Financial Promotion Institute**



**Source: Survey of 2013**

**Figure 11. Percentage Distributions of Clients View regarding SFPI Strength**

As depicted in the above Figure, 5% of respondents like the credit facilities offered by SFPI for the reason that it has good interest rate while 28% of them due to its positive impact on offering a safe way of holding savings and deposit. 19% of the clients prefer SFPI because of the relatively lower guarantee requirements compared to other sources of loan, whereas 48% of them like it because it has easy withdrawal since it is nearby than other informal sources of credit.

## **Chapter Five**

### **5. Conclusion and Recommendation**

#### **5.1 Conclusion**

Following the success of the Grameen Bank in Bangladesh, the importance of micro-financing for poverty reduction has gained momentum in the policy agenda of several countries. Despite the fact that results are inconclusive, a bulk of the literature indicates that there are situations where microfinance could help the poor in many respects such as serving as a buffer against shocks, as an instrument of consumption smoothing. It could also help households to increase their income and assets and help them increase consumption expenditure and develop savings habits. This study was conducted with the objective of investigating the role of microfinance on poverty reduction with a particular reference to specialized financial promotion institute. The analysis employs both quantitative and qualitative methods. Data were generated from survey sample of 120 SFPI clients in Addis Ababa. Together with this four focus group discussions were conducted involving 10 -15 clients along with eight key informant interviews, documentary analysis and direct observation.

Findings of the study suggest that specialized financial promotion institution has been playing important role towards expanding the outreach performance of its service. Currently the SFPI is operating in four regions through nine branches as compared to four branches in two regions by the year 2004. As a result the organization has managed to increase the number of clients from 25,294 to 36,751 during the period of 2007 to 2012. As stated in its objectives the SFPI has been focusing on serving women and currently 53% of its clients are women whereas 47% of them are men. Nevertheless, the trend shows that the number of female as a percentage of the total clients has been decreasing over a time i.e. from 58% in 2007 to 53% in 2012 while that of males is increasing. If such trend continues, the organization objectives of giving priority to women will be getting less practical. This is particularly worrying given that women are among the poorest segments of the society who are most excluded from the formal banking service (Cheston and Kuhn, 2002). Subsequently, efforts should be made to know what factors are restraining the growth of female SFPI clients so as to take relevant measures accordingly. In fact future research may take up on this issue as well.

From the beneficiaries' side, SFPI intervention is found to have improved participants household income, saving habit and asset accumulation. In fact more than 82% of households confirmed that the overall household income increased due to their participation in SFPI program. Furthermore, regression analysis showed that income of the clients increase as the participants stay longer in the program at 10% level of significance. Members' likelihood of savings is found to have no significant correlation with the duration of stay as a beneficiary. This may be related with the finding of negative influence of family size on the likelihood of participants saving (at 1% level). Subsequently, the additional expenditure associated with the increase in family size depresses the likelihood of increasing saving. Therefore, what matters more for increasing beneficiaries' savings is how much family size they have rather than how long they stayed in the program. On the other hand, longer duration of participation in IGA is found to be significantly associated with higher likelihood of asset accumulation (at 5% level).

Descriptive results show that SFPI service provision has played an important role in participants' decision making. On the other hand, probit estimation did not find any significant association between the duration of stay as a beneficiary and the likelihood of improvement in decision making. This implies that being a beneficiary may have brought about changes in decision making among members regardless of how long they stayed in the program. Results further show that decision making power regarding how to expend the loan is negatively associated with the age of beneficiaries (at 5% level of significance). This could be because children and youth in the family are taking over decisions concerning loan spending. Moreover, descriptive statistics, FGD, and interview results show that self-esteem and the self-confidence of participants have shown progress due to the intervention.

Similarly, business management skills of the clients have shown improvement due to the training intervention which covers loan usage, saving deposit, and loan repayment, among others. It is in fact incontrovertible that training, besides building the clients' business management skills, is good path of sharpening interpersonal skills and empowering clients by creating awareness. A related component of the SFPI interventions is monitoring and supervision of clients' activities

regarding loan use to the intended purposes and repayment of loans in accordance with the schedule.

Last but not least, participants identified the strengths of the SFPI as good interest rate on savings, safe way of holding savings and deposit, relatively lower guarantee requirements compared to other sources of loan, and easy withdrawal due to proximity as compared to other informal sources of credit. Some of the limitations of SFPI from the clients' perspective include high interest rates on loans, the repayment policy which lacks grace period, problematic group dynamics, and small loan size.

## **5.2 Recommendation**

Based on the findings of the study and the main conclusions drawn, the following recommendations can be made to enhance effectiveness of microfinance program.

### ***i. MFI/SFPI***

Microfinance can be more viable strategy for sustainable poverty alleviation if more is to be done on programme outreach and depth. The programme needs to expand its outreach in the country in such a way that the poor and women in particular are given due emphasis. Even though the current coverage of beneficiary has reached 36,751 from 446 clients in 1994 for the study SFPI, this trend should increase to reach as many poor as possible.

The increasing improvement in income and asset accumulation of the clients of SFPI should be encouraged to sustain. However, saving seems to be dampened by the rise in family size. In order to further extend improvement of client's economic condition in general and saving habit in particular, trainings may take into account family planning as well as effective labor utilization of existing family size as appropriate. Along with this clients decision making power, business management skills, self-esteem and self-confidence should also be further extended.

Since the objective of many MFIs in general and SFPI in particular is to alleviate poverty instead of being profit generating institutions, they should lower their interest rate especially on loans.

Consequently, the interest rate charged by SFPI should be moderate so that beneficiaries would not use the loan to service the interest and the principal.

SFPI should consider the possibility of implementing increased grace period and reducing the frequency of repayment so as to enable the businesses build adequate capacity to sustain themselves to accommodate repayment.

Regarding the issue of too small size of loans, MFIs should be flexible by raising the minimum loan size to reflect changes in the purchasing power of money over time. For this purpose, SFPI needs to carry out market analysis so as to address financial needs of clients in the context of the current price situations.

Nearly everybody likes the social interaction with the group and center and finds the peer learning and exchange of information valuable. But there are equally strong compliments about group responsibility and group pressure. Group disbandment, group conflict and group pressure were the grumble raised by the focus groups. The survey respondents most dislike about SFPI was taking responsibility for others (what the researcher grouped under group dynamics). Taking responsibilities for others is, of course, the core of the group methodology and what reduces the risk of lending without collateral. Nonetheless, SFPI might need to reassess the way this group responsibility is enforced to see if some of the dissatisfactions of its clients can be addressed. In particular, it might need to reassess the group credit collection system, which subjects the performance of the good borrowers to the adverse effect of the performance of the weakest borrowers, and allow a grace period for the center to sort out the problem of a member in arrears before imposing penalties. Another possibility is to establish mutual insurance or risk fund, in to which all center members must pay token amounts so long as one member has arrears. Such insurance contributes to safeguarding personal savings and allowing individual credit ratings so that the good clients could forge ahead and take bigger loan in the next loan cycle. Further research may look in to the costs and benefits associated with establishing mutual insurance or risk fund.

A comprehensive, systematized and well integrated holistic approach that links the credit with others development interventions is essential to meet client's needs. Therefore, it would be better if SFPI reassess training programmes in records keeping, credit management, marketing and management seminar along with gender equality and facilitate clients access to better jobs and income-generating opportunities. This will prepare their clients enough for the good management of the loan that they may contract and proper management of the business.

SFPI should intensify their monitoring and supervision. All beneficiaries of the credit facility should be monitored every week which helps to keep them on track. It will also give the opportunity to the officers to counsel their clients.

*ii. Relevant stakeholders*

In such kind of development aspired projects Non-Government Organization should also play its own share since both the governmental and non-governmental organizations are advancing the common goal of eradicating poverty.

The government should place proper supervision and regulation of most of the microfinance institutions in the country to prevent the collapse of such institutions.

Finally, the outcomes of this study were obtained from micro-finance program participants of single micro-financial institute Called Specialized Financial Promotion Institute. For this reason, this study calls for further study, which reflects on comparative study of the role of microfinances in poverty reduction by taking into account the situation of other microfinances.

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# Appendixes

## Appendix-1

### Work Plan

Period	Description of Research Activity	Person Responsibility
September 15-30	Working on the Concept Paper/Note and accepting comment from the researcher advisor	The Researcher
October	Writhing the proposal and accepting comment from the researcher advisor	The Researcher
November	Submission of proposal to the department For requesting fund/sponsorship	The Researcher
December	Strengthening the Literature review and the Research Methodology	The Researcher
January	(a) Initiation of the project (b) Development of research instrument (c) Consultation of stakeholders <sup>13</sup> and communities – unveiling the research idea (d) Identification of other important stakeholders (e) Sampling frame and Sampling	The Researcher
February	(a) Polishing up the research questionnaire (b) Recruitment of 8 Research Assistants (c) Pilot testing the research instrument (d) Training research assistants	The Researcher and Assistants
March	(a) Field work (b) Collection of Data (c) Data Entry (d) Data Cleaning	The Researcher and Assistants
April	(a) Data Analysis and interpretation (b) Report writing (c) Produce <b>First Draft</b> for comments Comments on the first draft	The Researcher
May	(a) Revising the comments on the first draft (b) Producing a <b>Second Draft</b> report (c) Get comments on the second draft (a) Work on the comments and Produce Final Draft – Research Report	The Researcher
June	(a) Presentation of Report or Research Results at a Addis Ababa University & defend the thesis to the research advisor, external examiner and other audience	The Researcher

## Appendix- 2

### Checklist for key Informant Interview

Key Informant Interview number \_\_\_\_\_

The Researcher signature \_\_\_\_\_

Name of supervisor \_\_\_\_\_ sign \_\_\_\_\_

Date of Interview \_\_\_\_\_

Interview started at \_\_\_\_ : \_\_\_\_ hrs

Interview finished at \_\_\_\_ : \_\_\_\_ hrs (fill at the end)

### Checklist for key informant interview for AEMFI officials

1. What is your outlook about microfinance industry development?
2. What are the contributions of microfinance institutions for reducing poverty in Ethiopia?
3. What are the opportunities for the development of microfinance institutions in Ethiopia?
4. What are the challenges for the development of microfinance institutions in Ethiopia?
5. What alternative strategies would you suggest to help the poor escape poverty?
6. Is there any legal or policy gap or challenges in microfinance development?

### Appendix- 3

#### Checklist for key informant interview for SFPI officials

Branch \_\_\_\_\_

Key informant interview Identification number \_\_\_\_\_

The Researcher signature \_\_\_\_\_

Name of supervisor \_\_\_\_\_ sign \_\_\_\_\_

Date of Interview \_\_\_\_\_

Interview started at \_\_\_\_: \_\_\_\_ hrs

Interview finished at \_\_\_\_: \_\_\_\_ hrs (fill at the end)

1. What was the historical background of SFPI and main services provided?
2. Who are the beneficiaries of SFPI services?
3. Do SFPI provide training for clients before or after loan provision? When?
4. What types of loan is SFPI currently providing ( example group based ,individual....etc)?
5. Explain the mechanism used for addressing the poor?
6. Do you conduct needs assessment to identify loan needs? Do you require clients to develop business plan in applying for loan?
7. How do you treat women and men in the provision of credit?
8. What types of lending system do you follow (meaning, is it group based or individual oriented)?
9. Describe your term of loan and repayment?
10. What was your mechanism used as collateral in loan provision?
11. If a client fails to repay his loan, how do you manage the arrears? Do you have insurance service for clients?
12. Is there any controlling mechanism for clients to ensure that loans are used for the intended purpose?
13. What are the impacts of SFPI performance regarding outreach? (please attach annual reports and relevant documents)
14. Is there any feedback mechanism from clients to assess their needs?

15. How do you view the impact of SFPI services on the economic status of the clients (by comparing with the situation before becoming SFPI client)?
16. Have you recorded any improvement in the living conditions (quality of life) due to the service rendered? If so what are the possible indicators?
17. How do you weigh up the impact of SFPI on empowerment and psycho-social development of women clients?
18. Have there been any incidents of client dropout? If so what are the main reasons for client dropouts?
19. What are clients' opinion about your service provision and the amount of interest rate (both loan and savings)?
20. What is the main source of income for the institution?
21. How do you suggest the role of the institution in poverty reduction? (put it together with the impact aspect discussed under no.16, and others)
22. What are the main constraints and challenges faced by the institution?
23. Are there any legal or policy gaps and challenges in the institution's function?
24. What are the main limitations of the institution?

## Appendix- 4

### Focus Group Discussion (FGD) Questions Guideline

Branch \_\_\_\_\_

Group leader Code \_\_\_\_\_

FGD Identification number \_\_\_\_\_

Name of the FGD Facilitator \_\_\_\_\_ sign \_\_\_\_\_

Name of supervisor \_\_\_\_\_ sign \_\_\_\_\_

Date of Interview \_\_\_\_\_

Interview started at \_\_\_\_: \_\_\_\_ hrs

Interview finished at \_\_\_\_: \_\_\_\_ hrs (fill at the end)

Composition of a group of clients with different loan duration

#### List of Discussants

Participant Number	Age	Religion	Marital Status and relationship to the head	Level of Education (in completed years of schooling)	since when beneficiaries have started new IGA or expanded existing one due to the institution; type of IGA
1					
2					
3					
4					
5					
6					

## **I. Discussion Points**

1. From where did you hear about the SFPI before you applied for it? Describe the information you obtained about the institution?
2. Discuss how you become member of the loan program.
3. What information (e.g. training and others) were you provided with after becoming a beneficiary of the program?
4. What is your current income level in comparison to the one prior to joining the SFPI? What about your savings? What do you comment on saving amounts, types and periods? What is your comment on saving withdrawal?
5. What were the income generating activities you engaged in to make living before loan membership?
6. Is there change in the income and living conditions as a result of SFPI membership? How? Discuss the changes (if any) observed?
7. Discuss if you have made an Asset and capital accumulation as a result of SFPI service rendered.
8. Is there any change in your household decision making power after your SFPI membership? Explain.
9. Who decides on the use of the loan you take? How do you spend the loan?
10. How do you view your Spouses attitude towards your contribution to the household before and after you joined the SFPI?
11. How would you compare your self-confidence before and after you joined the SFPI? Why?
12. What about resource ownership and control over income before and after you joined the SFPI?
13. Do you have any support mechanism among group members? Explain.
14. What problems have you encountered since becoming beneficiary of the program?
15. What are the strengths and limitations of SFPI?
16. Do you support the activities and supervision of the SFPI? Discuss your idea about the program.

**Appendex-5**

**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
COLLEGE OF SOCIAL SCIENCES, CENTER FOR AFRICAN STUDIES  
DEPARTMENT OF HUMAN AND ECONOMIC DEVELOPMENT IN AFRICA**

Code: -----

Questionnaire for the survey on the Role of Microfinance in Poverty Alleviation in Ethiopia: the case of Specialized Financial Promotion Institute (SFPI)

Branch \_\_\_\_\_

Questioner Identification number \_\_\_\_\_

Name of the Enumerator: \_\_\_\_\_ sign \_\_\_\_\_

Name of supervisor \_\_\_\_\_ sign \_\_\_\_\_

Date \_\_\_\_\_

Interview started at \_\_\_\_: \_\_\_\_ hrs

Interview finished at \_\_\_\_: \_\_\_\_ hrs (fill at the end)

**Dear Respondent,**

I am one of the students of Addis Ababa University studying Human and Economic Development in Africa. As a partial requirement of Masters of Art program I am undertaking a research study entitled the Role of Microfinance in Poverty Alleviation in Ethiopia: the case of Specialized Financial Promotion Institute. I am interviewing people here in order to find out about the Impact of microfinance Institutions on poverty Reduction. The purpose of the study is to generate information necessary for the planning of appropriate interventions and its outputs will be used to fill the knowledge gap. Subsequently it will aspire to inform decision makers, planners, researchers and practitioners about the impact of microfinance intervention on increasing the welfare of the individual, household as well as the community. Therefore, your honest and genuine participation by responding to the questions is highly appreciated. Be assured that anonymity is maintained and the information you provided is kept confidential. Your name will not be written on this form, and will never be used in connection with any of the information you provided. It will take about 30 minutes to complete the questionnaire.

**Thank you for your cooperation.**

**Section I. Basic information of the respondent**

1. Code of the respondent \_\_\_\_\_

2. Sex: Male  Female

3. How old were you at your last Birthday?

Age in a complete year \_\_\_\_\_

No response \_\_\_\_\_

Does not know \_\_\_\_\_

4. Religion

Orthodox

Catholic

Others \_\_\_\_\_

Muslim

Protestant

5. Marital status

Married

Single (never married)

Separated

Widow

Divorced

6. How many living children do you have?

Number of children \_\_\_\_\_

7. Level of education

None/ Illiterate

Secondary

Read and write

Diploma

Basic education/pre-school

Bachelor Degree

Primary

others (specify) \_\_\_\_\_

8. Date of joining the program \_\_\_\_\_

9. Number of loans you as a client have taken \_\_\_\_\_

10. Amount of first loan (Br) \_\_\_\_\_

11. Amount of current loan (Br) \_\_\_\_\_

12. Cumulative value of loans taken (Br) \_\_\_\_\_

13. Current saving amount (Br) \_\_\_\_\_

**Section II. Information about sources of income and level of household income**

14. What is your source of income before joining the SFPI?

Own income

Spouse income

Children's income

Support from relatives and friends

15. Do you ever have any IGA activity?

Yes

No

if yes, since when have you started engagement in your

own IGA? Describe the type of IGA \_\_\_\_\_

16. What is your average monthly income from all sources (give income by source)?

\_\_\_\_\_

17. During the last two or three years has your overall household income \_\_\_\_\_

Decreased  Stayed the same  Increased

18. (If decreased) why did your income decrease?

One or more household members have been sick

Poor sales

Unable to get input  Others (specify) \_\_\_\_\_

19. (If increased) why did your income increase?

Expanded existing enterprise

Started new enterprise

Able

to buy inputs at a cheaper price

Sold in new market

Got

other job  Others \_\_\_\_\_

20. What is your household size before the loan?

Dependent (below age 18 and above age 65 separately) \_\_\_\_\_

Overall \_\_\_\_\_

21. What is your current household size?

Dependent (below age 18 and above age 65 separately) \_\_\_\_\_

Overall \_\_\_\_\_

22. Is any of your household members engaged in income generating activities?

Yes  No  if yes, what kind of income generating activity?

\_\_\_\_\_

### **Section III. Living Standard and Expenditure of Households**

23. What was the average monthly expenditure of your household before the loan? Give estimate in Br \_\_\_\_\_

24. Who was the bearer (source) of expenditure in your household before the loan?

Yourself

Spouse

Other family member's  You and other family member's

Relative's  Others (Please specify) \_\_\_\_\_

25. How many times does your household eat meals in a day?

Once

Twice

Three times

More than three times

26. What is the average monthly expenditure of your household after the loan? Give estimate in Br \_\_\_\_\_

### **Section IV. Information about the household asset and living condition**

27. Did you have fixed property before being engaged in Specialized Financial Promotion Institute? Yes  No  No Answer

If "Yes" state the asset \_\_\_\_\_

28. Do you have fixed and movable asset after being engaged in Specialized Financial Promotion Institute? Yes  No

If "Yes" \_\_\_\_\_:

A. state the fixed asset \_\_\_\_\_

B. state the movable asset \_\_\_\_\_

### Section V. Information on Saving

29. Do you have savings at SFPI?

Yes  No

If yes, what type of saving?

Compulsory

Voluntary

Both compulsory and voluntary  Others (Please specify) \_\_\_\_\_

30. Do you have other savings currently?

Yes  No  if yes, specify amount (in Birr) by type of saving: eqqub \_\_\_\_\_; women's associations \_\_\_\_\_; saving and credit cooperatives \_\_\_\_\_; other \_\_\_\_\_

31. Did you have other savings before joining the SFPI?

Yes  No  if yes Specify amount (in Birr) by type of saving: eqqub \_\_\_\_\_; women's associations \_\_\_\_\_; saving and credit cooperatives \_\_\_\_\_; other \_\_\_\_\_ .

32. What is your current total amount of saving? Specify amount of saving (in Birr): \_\_\_\_\_

33. What is your source of money for saving?

From business profit financed by the loan  From other sources of income

Borrowed from relatives

Borrowed from friends

Borrowed at cost

Income from employment

Others (Please specify) \_\_\_\_\_

34. Have you faced any difficulty of repaying loan? Yes  No

If your answer is yes for question 37 what coping strategies have you used?

---

35. Have you faced any difficulties for compulsory savings? Yes  No

If yes, how do you manage the difficulties?

Sold household assets

Borrowed from relatives

Borrowed from friends

Borrowed at cost

I did not pay

Others (Please specify) \_\_\_\_\_

36. Do you like compulsory saving? Yes  No

37. For what purpose do you save?

For loan repayment  For safety of cash

For consumption  To earn interest

Bought household assets

Made improvement to the house

To withdraw during emergency  Have not used savings

Others (Please specify) \_\_\_\_\_

## **Section VI. Information on Empowerment and Psycho-social development**

38. Who decides to expend the overall money before the loan?

Husband only

Mostly husband

Husband and You equally

Mostly you

Only you

Others (Please specify) \_\_\_\_\_

39. Who decides to expend the loan money after the loan?

Husband only

Mostly husband

Husband and You equally

Mostly you

Only you

Others (Please specify) \_\_\_\_\_

40. Who decides on the use of profits from the loan based enterprise?

Husband only

Mostly husband

Husband and You equally

Mostly you

Only you

Others (Please specify) \_\_\_\_\_

41. Do you feel capable of handling money and making business decision?

Yes

No

42. Who puts loan enterprise income in the saving accounts?

Beneficiary  spouse  children

43. Who buys inputs for the loan based enterprise? Beneficiary  spouse  children

44. Who sales products from the loan based enterprise? Beneficiary  spouse  children

45. Who does the financial accounting and keeps record for the loan-based enterprise?

Beneficiary  spouse  children

46. Has loan experience led to a feeling of being more capable of handling money and making economic decision? Yes  No

47. How are you confident about yourself?

Highly confident  Moderately confident

Not confident  Does not know

48. You feel more confident about yourself after participating SFPI program?

Yes

No

49. Are you confident enough to go to the following places to get services on your own?

Market

Bank

Health center

School

Women's association  Kebele or Woreda administration

Police

Court

Information about SFPI

50. Have you got any training from SFPI? Yes  No .

Describe the contents of training \_\_\_\_\_

**Section VII. Information about SFPI**

51. What are the attractive features of SFPI saving facilities?

The interest rate is good

Offers a safe way of holding savings

Convenient to make deposit and

Withdrawal since it is nearby

Other (Please specify) \_\_\_\_\_

52. What do you think about the interest rate of SFPI paid on saving?

Less than the market rate

Greater than the market rate

Have no information about the interest rate

Does not know

No response

53. List three things you like about the SFPI activities?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

54. List three things you are not comfortable with in relation to the SFPI activities

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

55. Give your comments or recommendations about SFPI \_\_\_\_\_

Enumerator's comments \_\_\_\_\_

**Thank you!!!!**

## Appendix 6

Photos of beneficiaries at their work/business site



## Appendix -7

Photos taken in administering the Key informant interview with the General Manager of SFPI



## Appendix – 8

Photos of beneficiaries taken while the Survey/ questioner and Key informant interview is being administered



## *Declaration*

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

Name: Aziza Geleta Dessalegn

Signature: \_\_\_\_\_

Confirmed by Advisor:

Name: Dr. KidistGebreselassie

Signature: \_\_\_\_\_

Place and date of submission: Addis Ababa University, July 2013