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THE IMPACT OF MICROFINANCE ON POOR WOMEN:

A case study of
Dedebit Credit and Saving Institution (DECSI)
in the Eastern Zone of Tigray

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Abstract

In Ethiopia about half of the population (about 44 per cent) live in absolute poverty. Although the causes of poverty and the corresponding measures to be taken in reducing or alleviating poverty are diverse, the importance of providing microfinance services to the poor is becoming a major tool all over the less developed countries, including Ethiopia

When properly designed, microfinance offers a variety of benefits to the poor people. Foremost, microfinance initiatives can effectively address material poverty, physical deprivation of goods and services through increased income, income diversification, consumption smoothing, and reduced variability of income.

In Ethiopia the delivery of microfinance services has increased in a short period of time. This study attempts to address the impact of microfinance services provided by DECSI on poor women and their households. In the case study, there is a marked difference in the loan size between male and female clients of DECSI. The loan size of urban clients was also significantly greater than rural clients in both men and women.

This study shows that directly or indirectly, microfinance services provided by DECSI are contributing to the sustenance and improvement of the life of the poor women and their households although the impact varies. Generally the study shows that microfinance contributes to Increase in income and diversified sources and reduced variability of income. It has also contributed to Increased consumption and improved living condition in terms of house repairs and expansions and medical services. Another contribution of the microfinance services is capital accumulation in the form of increased saving. Finally it contributed to better position of women in terms improved attitude and respect of their spouses, increased selfconfidence and self-image.

On the other hand, microfinance services have limited impact on entrepreneurial development and microenterprising, in sustaining and improving microenterprise profitability, requiring beyond credit services by respective stakeholders. The empirical evidence also shows implications for regulatory aspects of the microfinance services such as reviewing loan ceiling and repayment terms. It also indicated implications for diversifying microfinance products, reducing group sizes and considering lending on individual bases in widening microfinance services to the poor and poorer categories of the society in achieving poverty reduction and in the transition to poverty alleviation and securing development in the country.

CHAPTER I

INTRODUCTION

1.1. Background

About one billion people globally live in households with per capita income of under one Dollar per day (Morduch, 2000; Popoola, 1999). Increasing poverty worsens the poverty problem in the world today (Popoola, 1999), particularly in Sub Saharan Africa. In both developed and less developed countries the human livelihood is characterized by a sharp contrast of increasing disparity between the rich and the poor. Poverty alleviation is thus becoming one of the most important challenges faced by the policy makers of many less developed countries. The provision of financial services to low income households is believed to eradicate, (or at least reduce), poverty through the transformation of social and economic infrastructures (Morduch, 2000)¹.

The Microfinance industry itself is becoming a global phenomenon. The proliferation of microfinance programs, particularly microcredit, targeted to women is increasing from time to time. The World Bank is engaged in reducing poverty through promoting best practice in the microfinance industry and funding selected institutions to bring financial services to the poor. The provision of microcredit has been recognized as instrumental tool for eradicating and/or reducing poverty by many developing countries, including Ethiopia. From various studies, Park and Ren (2001)², summarize that microcredit programs have increased incomes and had other positive

¹ See The Microfinance Schism, World Development, Volume 28, No.4.

² See Microfinance with Chinese characteristics, World Development, Volume 29, No.1.

effects such as gender empowerment, improved nutrition, higher educational attainment, and reduced consumption variability.

However, there is partial evidence and is contested that microfinance would make a larger contribution to reduce poverty or promote small and micro enterprise development in most developing countries as compared to investments in social and economic infrastructures (Hulme, 2000; Johnson and Kidder, 1999)³.

The total population of Ethiopia as of July 1, 2000 is 65,344, 000 out of which 55,458,000 live in rural areas (CSA, 2000). Ethiopia is one of the poorest countries in the world. In Ethiopia about 45% of the population live below the absolute poverty line out of which 47% of the rural and 33% of the urban population is unable to fulfil the minimum living standard. About 85% of the total population lives in rural areas where agriculture is the main stay of the economy.

Rural development has thus become a primary strategy for improving the standard of living of the majority of the population, particularly the rural poor. The ruling party in Ethiopia, the Ethiopian Peoples Revolutionary Front (EPRDF) has designed an Agricultural Development Led Industrialization (ADLI) policy in involving the poor as targets as well actors of the overall development program of the country.

The poor peasants in our country have little money to buy oxen and other agricultural implements, use improved seeds, and fertilizers.

3 Hulme(2000). Impact Assessment Methodologies for Microfinance: Theory, Experience and better Practice. World Development, Volume 28, No. 1.
Johnson and Kidder(1999). Small Enterprise Development. Volume 10, No. 3.

One of the key problems faced by the farmer in using improved seed, fertilizer, and modern implements is lack of money. Although productivity increases as a result of modern agricultural inputs, the small farmer has neither initial capital nor credit facilities to fill the gap. Fast agricultural growth is unthinkable without solving this bottleneck (Five Year Development Strategy of the EPRDF, 1995).

In Ethiopia, out of the total rural population about 32,569,000 (48.84%) are women most of whom live in rural areas and rural women are about 42% of the total population in this country and 88 per cent of the Ethiopian women live in rural areas (CSA, 2000). Nearly 85 per cent of the labor force of rural women is spent on productive and reproductive agricultural activities. In most part of Ethiopia, rural women play a major role in securing food for the family.

The situation of Ethiopian Women

The current Ethiopian population is estimated to be 65,344,000 and women make up 49.8 percent of the total Population (CSA, 2000). More than 80 percent of the Ethiopian population lives in rural areas.

Women in rural areas work over 15 hours a day and they receive little economic benefit from their labor.

Too few women are represented in decision-making bodies in the country. They also have less access to education than men do (NOPE, 1999; cited in SERA, 2000).

According to CSA (1998), about 47 percent of the women are in the childbearing age and this constitutes 24 percent of the Ethiopian population. About Eighty-five percent of the Ethiopian people including women live in the rural areas (CSA, 1998) where social services such as education and health are very poor. Without making changes in the living conditions of such a significant part of a population, thinking of development is impossible. Any development policy, program, project or activity which attempts to reduce poverty has to address the situation of women properly, i.e. it should consider the key variables that positively influence the status of women.

The Challenges of the Tigrean Women

Tigray is a region with total population of about 3.71 million out of which about 50.8 percent of them are females. About 16.5 percent of the population lives in the urban centers and the remaining 83.5 percent lives in rural areas. Tigray is a region that suffers from continuous drought and food crises. Its population also has suffered from a devastating civil war of 17 years (1975 – 1991). Such problems affected both men and women but the effect or impact is higher in the vulnerable groups of the population such as women, children and the elders. So all of the above already discussed problems of women in Ethiopia are true for the Women of Tigray also. However to be more specific, let us discuss the problems of women in Tigray.

According to Tigray Region Bureau of Economic Planning and Development, some of the major problems of women in Tigray are indicated in the following page.

i) Economic

- *Lack of exposure, capital and information on different economic activities.*
- *Limited access to agricultural inputs and credit services.*
- *Limited skill and knowledge on different non-agricultural income generation activities to support their income.*
- *Low level of agricultural productivity due to high level of land degradation and drought. This has made women to be highly food insecure.*

ii) Social

- *Limited access to health and educational services.*
- *Existence of high illiteracy rate, which limits the participation of women in different job opportunities.*
- *Low enrollment in elementary, secondary and tertiary education*
- *High burden of work. At household level women are responsible to fetch water, collect firewood, prepare food, and look after children. This has reduced the time availed for other social and economic activities.*
- *Lower attention given to women tailored training.*
- *Low level of awareness on the part of women on the*

importance of education, health and family planning services.

- *Experience of harmful traditional and cultural practices such as early marriage and female genital mutilation (FGM).*
- *Higher HIV/AIDS infection*

iii) Political

- *Limited participation of women in different political and social position due to limited opportunities to increase their leadership capacity.*
- *Limited awareness on the part of women on existing family law and issues associated with women's rights.*

Women are more affected by poverty than men. They are engaged in harsh and laborious work taking less quantity of food with low nutritional value. School enrolment is low and as a result women do have limited skills. They are less empowered to make decisions and own resource (Fong and Perett, 1991).

Microfinance services are thus one of the tools with growing importance and recognition to improve the socio-economic status of women.

The status of Microfinancing in Ethiopia

The poor farmers in rural areas in country have little money to buy oxen, and other agricultural implements, use seeds and fertilizers. In fact lack of awareness and cultural problems are other facets that hinder the farmers from using modern agricultural inputs and technologies. Thus to involve the rural poor, the majority of the population, in the

process of development in many aspects and in sharing its benefits, the rural poor have to be helped to help themselves by creating access to resources, particularly access to finance.

On the other hand like in other less developed countries, formal banks operating in highly centralized urban areas. Due to their location and unrealistic collateral requirements, formal banks are inaccessible to the poor in general and to the rural poor in particular. The Commercial Bank of Ethiopia and the Development Bank of Ethiopia have only 170 and 32 branches respectively; and as of March 2001, the private banks all put together had 80 branches (Wolday, 2002).

Braverman and Guasch (1993); Webster and Fidler (1996); and Mulat (1999) indicate the following reasons, among others, as causes for the reluctance of banks (including in Ethiopia) to serve the rural poor and other microentrepreneurs.

- Physical remoteness of borrowers
- Lack of collateral
- Repayment for working capital can be required only once at the harvest season
- High cost of intermediation in geographically dispersed beneficiaries
- Small size of the transaction
- Mobility of many informal sector enterprises
- General lack of information about the borrowers
- Poor transportation

- Lack of confidence on the repayment of the loan by borrowers
- Lack of information

Because of the above mentioned reasons, bank's financial services are inaccessible to the poor. Thus delivering financial services to the poor requires an innovative targeting design and a credit delivery mechanism that helps identify and attract only the poor who can initiate and sustain productive use of loans (Wolday, 2002).

Beyond their original motive of relief services, NGOs have been assisting the poor to help themselves by providing rotating credit services for the rural poor in the form of circulating capital with low or no interest. While many NGOs had credit schemes for years, NGO programs that emphasize saving and credit began in early 1990s (Gebrehiwot, 2001). The basic limitation of NGOs, however, is that their outreach is limited and with vulnerable sustainability. The delivery of financial services in Ethiopia has also been viewed as an antipoverty tool because it helps the unemployed become employed, thereby increasing their income and consumption and reducing poverty (Wolday, 2002).

In using microfinance as a poverty alleviation tool in Ethiopia, the need to promote more sustainable microfinance institutions necessitated a regulatory framework. Following the proclamation No. 40/96 that provides for the establishment of microfinance institutions in July 1996, to date twenty micro finance institutions have been legally registered providing their services to more than 500,000 clients (Wolday, 2001). Dedebit Credit and Saving Institution /DECSI/ is the vanguard and the largest micro finance institutions

in the industry.

1.2 Statement of the Problem

The major producers in the agricultural sector are women because on the one hand they are engaged in activities directly related to crop production and animal husbandry almost equally with their male partners. On the other hand they are engaged in activities supporting the agricultural production such as food preparation, fetching wood and water, child rearing and caring etc.

Addis Truneh (2000), has addressed the problem of the Ethiopian women as follows:

...about 35-40 per cent of the land in Ethiopia is mainly managed by women farmers. Moreover the wives in the male-headed households do participate in every agricultural activity³.

Ethiopian women who constitute about 50% of the population and who consist the majority of the unemployed segment of the population are the most affected by poverty. Since the majority of the Ethiopian women live in areas where basic social services such as health, education and other infrastructures are non-existent, disease, malnutrition, and illiteracy is seriously affecting the life of women and children (Tsehay and Mengistu, 2002).

³ Economic Focus, Volume 3, No. 3

Given that there are heterogeneous categories of women in terms of relative wealth, marital status, religion, ownership of land, household headship and control over resources, the majority of women are the most affected by the low level and harsh conditions of the rural life. In providing microfinance services to the poor, DECSI, as a vanguard microfinance institution in Ethiopia has been encouraging women clients to be beneficiaries of its services. However, the majority of clients in DECSI are still males. However, there has been limited effort to study the impact of microfinance on the life of women in Ethiopia in general and in Tigray region in particular.

1.3 Research Methodology and Data Collection

1.3.1 Research Objectives and Questions

Research Objectives

General Objectives

The general objective of the study is to investigate the Impact of microfinance services on the situations and status of poor women at household and individual levels; and contribute to the understanding and the debate on the impact of microfinance in reducing or alleviating poverty and/or improving vulnerable subsistence economies.

Specific Objectives

- Investigate the impact of microfinance products of DECSI on the economic status of poor women in terms of:

Income

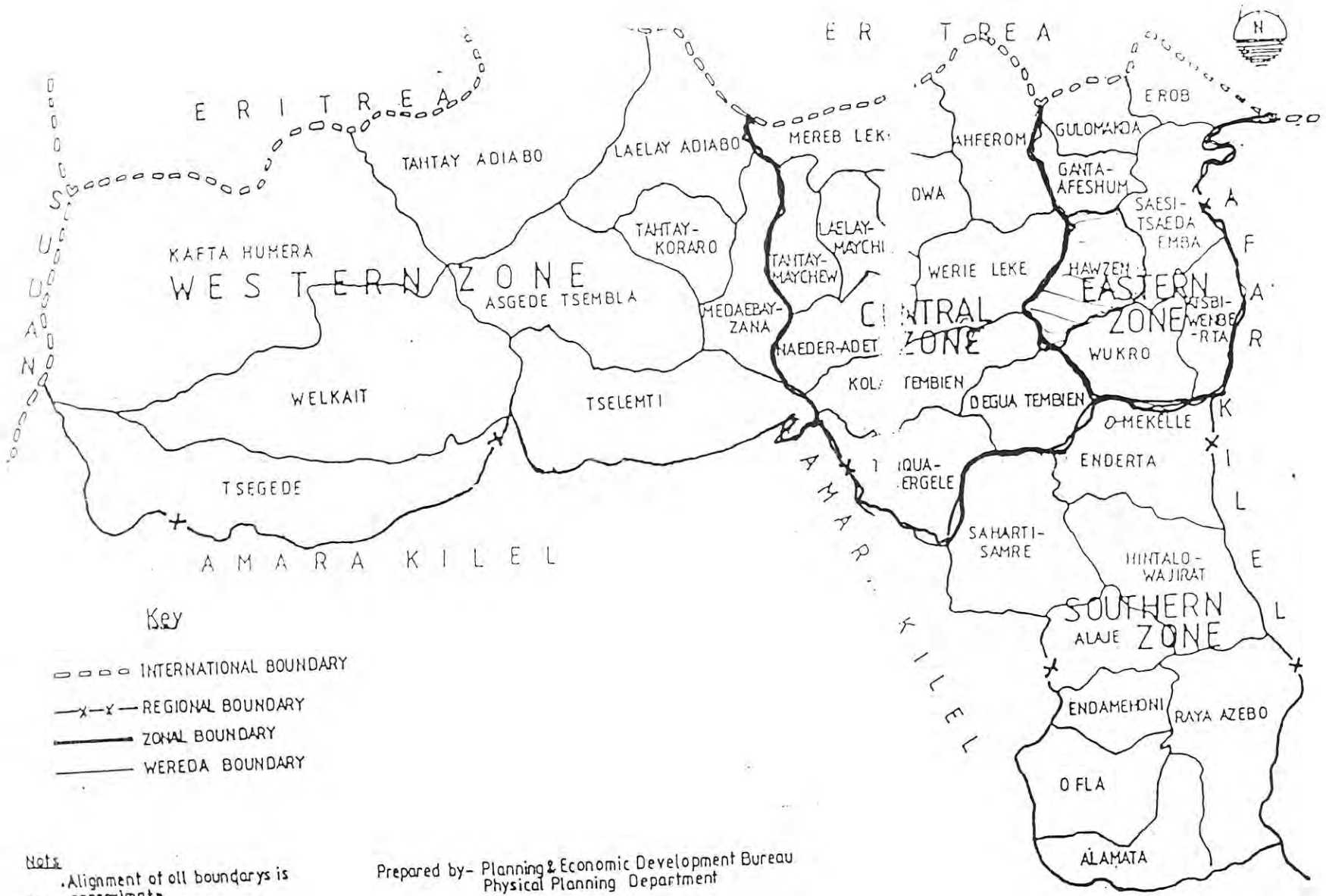
Living conditions

Asset and capital accumulation (saving)

- Investigate the impact of microfinancing on the empowerment of women in terms of:
 - Bargaining power
 - Control over resources
 - Decision making at household level
 - Self-image and self-confidence
- Investigate the implications of microfinance services for other socio-economic interventions such as business development services.
- Contribute to the understanding and debate on the impact of microfinance in alleviating or reducing poverty
- Identify problems encountered by female clients and necessary support services to strengthen the impact.
- Recommend on ways of designing gender sensitive microfinance products to enhance participation and success of women.

Research Questions

Women are the majority of the poorest of the poor in Ethiopia. As a result, microfinance services are being provided to poor women. However there are questions as to the access of women to microfinance and its contributions to the betterment of their life at individual, household, enterprise or community levels. The following are the major questions in relation to the impact of microfinance on the life



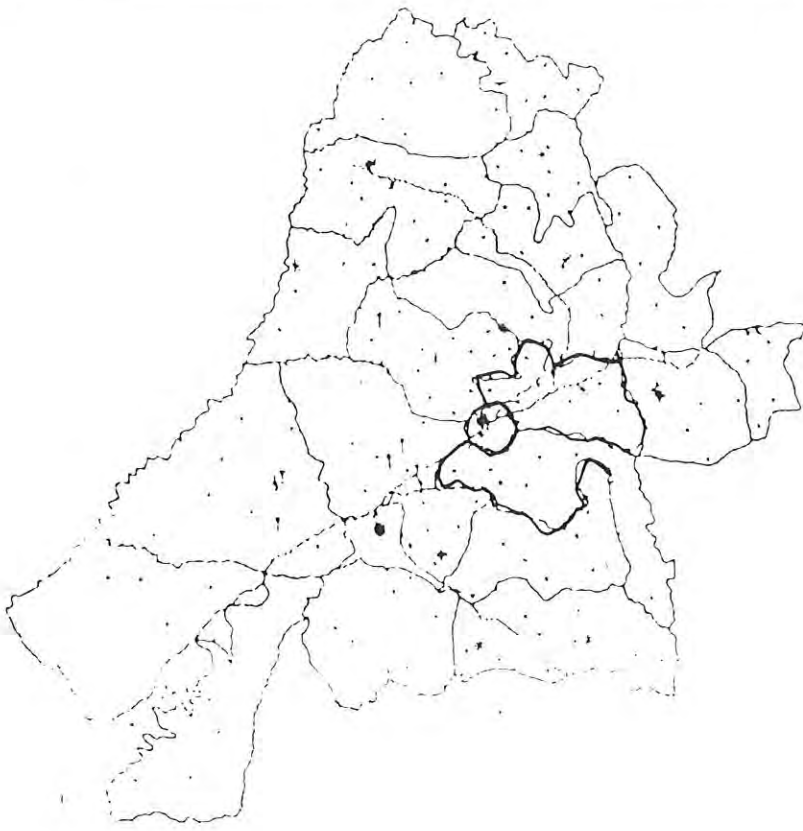
of poor women households.

- ◆ Do microfinance services have an impact on increasing or improving the income and living conditions of poor women?
- ◆ What are the major causes for the significance or insignificance of the impact of microfinance services on the life of poor women?
- ◆ Does the impact of microfinance really go beyond income smoothing?
- ◆ Does microfinancing have an impact on the empowerment of women?
- ◆ What are the major problems faced by the poor women clients and what are the necessary support services or interventions to be made by policy makers, Microfinance Institutions, Donors, and Training Institutions?
- ◆ Who are the targets? (The poorest of the poor, the poor, or the upper poor)?

1.3.2 Selection of the study area

Tigray is one of the drought prone areas devastated by famine and long period of civil war. The Eastern Zone of the region is crop dependent area with the most fragmented land, which is highly degraded. In addition to the frequent shortage of rainfall, the soil is also less fertile. Consequently, the Eastern zone is among the priority list that deserve intervention by the regional government and other non-governmental organizations. DECSI has intensive microfinance programs in Tigray. Accordingly, Hawzen, one of the most drought prone areas in the zone, is the target of the research study. Finally the study is conducted in one urban and two rural kebeles out of the 22 kebeles of the woreda.

Hawzen - Towns, villages and main infrastructures



Federal Democratic Republic of Ethiopia
 Bureau of Planning and Economic Development of Tigray
 Physical Planning Department
SRPT Project
 USAID Cooperation
 CRPM Accelerated Delivery

LEGEND

- Towns
- Villages
- Main roads
- N Schools
- + Health infra
- † Hydro point



Projection: UTM, Zone 37
 Datum: Adindan, Spheroid: Clarke
 The Bureau of Planning and Economic Development of Tigray, Ethiopia, is the lead agency for the SRPT project. The project is implemented by the USAID Cooperation and CRPM Accelerated Delivery. The project is implemented by the USAID Cooperation and CRPM Accelerated Delivery. The project is implemented by the USAID Cooperation and CRPM Accelerated Delivery.

1.3.3 Data set

The data needed for the study includes both qualitative and quantitative data. The quantitative data is collected using sample survey of clients of DECSI through structured questionnaire and secondary sources. The sample survey included both current clients and dropout clients who have left the program in order to minimize unnecessary optimism.

The qualitative data was collected through focus group discussions with various key informants and participant observation.

The focus group discussion has included:

- Clients and non clients (including men)
- Credit and Saving Committees DECSI
- Key informants such as local administrators and leaders of Community Based Organizations
- Practitioners (DECSI Staff, including the general manager)

Sources of secondary Data

- Analysis and Review of Literature
- Dedebit Credit and Saving Institution
- Central Statistical Authority
- Association of Ethiopian Microfinance Institutions
- Tigray Bureau of Economic Planning and Development

1.3.4 Sampling Technique and sample size

The study has employed a multistage sampling. First, out of the twenty-two kebeles in the Woreda, seven kebeles whose walking distance is within two hours from the main road were purposely selected. In the second stage, Hawzen town as an urban area is purposely selected for comparison purpose. In the third stage out of the six kebeles, two kebeles were randomly selected to represent the rural area. Finally, a sample of 130 clients, proportional to the number of clients in each kebele, ^{was} randomly selected from the list of clients that was provided by Hawzen sub-branch office of DECSI. However, three questionnaires were invalidated that the analysis is made on 127 respondents only.

The sample clients included 13 dropout clients (i.e., 10 percent of the sample clients) whose number was determined based on the average percentage of dropouts in the woreda, which was provided by the DECSI sub branch.

1.3.5. Data Collection and Fieldwork

Questionnaire Survey

Two structured questionnaires were developed to collect information from both existing and dropout clients. The questionnaires were prepared in English and for clarity and convenience purpose, they were translated to Tigrigna.

Senior university students from Mekelle University who were also exposed to data collection in rural areas were used as enumerators for the study. This was arranged

in a way the data collection time fits the semester break of the university.

Half-day training was also offered to the enumerators. The questionnaires were pretested at Mekelle and the peripheral rural areas of Mekelle to represent the urban and rural areas of the study place respectively. Based on the feedback from the pretest, detail discussions were conducted with the enumerators to provide the enumerators with the feed forward about the data collection before hand. Finally necessary amendments were made in the questionnaires.

The researcher obtained sincere co-operation from DECSI staff. They facilitated the data collection process both at the head office and at Hawzen branch. The sub branch provided the list of clients in all kebeles.

The questionnaires were filled in the residence areas of the clients door to door. All questionnaires were being checked by a supervisor and approved by the researcher at the end of every day. Series of discussions were also conducted on half-day basis to exchange experiences.

Focus group discussions

Focus group discussions were also conducted simultaneously with the credit and saving committee, and local administrators, clients and non-clients at each kebele. Personal observations are also made on the houses and enterprises of the selected clients. The researcher has used basic questions related to impact to guide the

discussion with the key informants.

Discussion with DECSI Staff

When data collection at the field level was finalized interviews were conducted with the DECSI staff at Hawzen sub branch. Additional interviews were also conducted with Ato Atakilti Kiros, general manager of DECSI, Ato Belay Assefa, the then acting general manager, and Ato Yohannis, head of Planning and Co-ordination.

1.3.6 Data Analysis

The questionnaires were cleaned and analysed using the SPSS program. The major part of the analysis was based on descriptive methods such as averages, percentages and other measures of central tendency.

Qualitative information collected through focus group discussions and interviews with DECSI staff were also incorporated into the quantitative results and conclusions of the study.

1.4. Significance of the study and its application

Neglect of women in development and disregarding the involvement of 50 percent of the population aggravates poverty. Improving the life and well being of women is improving the life of the society in terms of increased productivity, nutrition, health, child schooling, household management, cultural change etc.

The study shall provide disaggregated data and basic information on the impact of

micro finance programs and their implications for the government at various levels, Microfinance institutions, Development Agents, Women's Associations and other stakeholders.

The outputs of the study will be used as inputs to policy makers, microfinance institutions, development agents and women's Associations in designing financial products to women.

The direct beneficiaries from the results are women because the findings address how microfinance services can be tuned to the specific needs of women clients. The family and household of the women including children and male partners will also benefit from the improvements of the life of women as a result of well designed and managed gender sensitive microfinance programs. The society will also benefit from the integrated development that involves real participation of women that are about 50% of the population.

Microfinance institutions can also benefit from designing and implementing successful microfinance products, and supporting their activities from donors. Finally it can also initiate further research.

1.5 Scope and Limitation of the Study

The performance of microfinance institutions is measured by three variables: outreach, sustainability and impact. However, the scope of this study is limited to the impact of microfinance on the life of poor women and their respective households. Moreover, the

impact of microfinance has various chains and linkages but the impact to be considered and measured in this study is primarily at household and individual levels. Also, it is not the purpose of this study to measure the magnitude of the impact; it is only the direction of the impact. The microfinance services provided by DECSI are microloan and saving services. As a result, two types of loans are provided by DECSI: Agricultural or input loan and Regular or micro-business loan. Agricultural or input loan is provided for purchases of oxen, artificial manure, improved seed etc.

However this research study is limited to the impact of regular loans on the life of poor women and their households. Basically impact study requires longer time but the duration of the many clients is not exceeding two years. As a result, the findings have their own limitations. In fact the impact on petty trade in which almost all the clients are engaged may not be difficult to measure even in a short period of time.

Besides, it may not be easy to filter the difference of the impact with and without microfinance services. Another limitation of the research is that it does not show comparative analysis of clients and nonclients. It is based on recall memory and clients might have problems in appropriately providing the accurate information.

Finally, the kebeles in the remote areas of the woreda are also excluded from the domain of the target study because of budget and transport limitation.

CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. Concepts and Definitions

The clarification of basic concepts such as microcredit, microfinance, poverty, impact, empowerment and others is vital before assessing and measuring the impact of microfinance on the life of the poor.

Microcredit

Microcredit may be defined as the extension of small amount of collateral-free institutional loan (a maximum of Birr 5000 in Ethiopia) to jointly liable poor group members for their self-employment and income generation (Rahman, 1998). However, microcredit may not include other services such as saving, insurance, payment services, etc.

Microfinance

Microfinance is the provision of small scale financial services to low income clients who have no access to financial services provided by the formal sector (Ledgerwood, 1999; Robinson, 2001). Although microfinance services primarily include saving and credit, it may involve insurance, payment or money transfer. Therefore microfinance is a wider term that includes microcredit.

Poverty

What is the precise definition of poverty, how to measure it and who constitutes the poor are difficult questions to answer. An operational and comprehensive definition of poverty has long been needed to fight poverty in a more effective way. However it is fiercely a contested issue. The centerpiece of the debate about defining poverty is whether poverty is largely about material needs or whether it is much broader set of needs that permit well being (Hulme and Mosely, 1996). Approaches focusing on the

material need focus on consumption usually using income. Greely (1994); as cited in Hulme and Mosley (1996), has strongly defended the use of income-poverty measures. However Chambers (1983, 1995) has identified various forms of deprivation that cannot be captured by income poverty measures. The levels or degrees of poverty are also of important consideration in defining poverty in a comprehensive way. For the purpose of this paper the definition of poverty incorporates economic deprivation of people or households, particularly in terms of income.

Vulnerability

Vulnerability is also another important concept related to and often caused by poverty. It can be even more difficult to have a comprehensive definition than poverty. It is often more challenging to measure. Vulnerability indicates the degree of susceptibility of poor people to easy threatening or insecurity of any improvement in a livelihood. Chambers (1989) says that vulnerability is about the capability to deal with contingencies and to cope with change.

Impact

Establishing impact essentially is making a case that the program led to the observed or stated changes. This means that the changes are more likely to occur with program participation than without program participation. It does not imply that the changes always occur from program participation. Rather, it increases the probability that the changes will occur (Rossi and Freeman 1989; cited in Barnes and Sebstad, 1999).

An impact assessment should thus consider intervening factors, other than the program, such as age, gender, skill and training level of client, household composition location of enterprise, level of competition and other relevant external

factors.

Empowerment

Empowerment is a difficult term to define because there are many trade-offs among many dimensions of empowerment. A generally accepted definition is thus not yet available because there are many indicators of empowerment. In this study the major indicators of empowerment are bargaining power, control over resources, decision making at household level, and self-image and self-confidence. Generally it refers to women's direct and indirect control over all activities and choices of their family. Therefore it refers to the improved status of women at household and community levels.

Microenterprise or Income generating Activity or microbusiness

These terms are used interchangeably. The term refers to any business activity of the client supported or financed (fully or partially) by DECSI.

2.2 Classification and Selection of indicators in Measuring the Impact of Microfinancing

Impact means how microfinance programs affect the livelihood and welfare of their clients. There are various factors that influence the impact of microfinance programs shown in the following figure.

1. Contextual Factors

Contextual factors are variables in the external environment that are significant at macro level. These include:

- ◆ Regulatory framework (term and ceiling of loan, minimum saving interest rate

- ◆ Infrastructure (road, transportation, and communication)
- ◆ Market (accessibility and demand)
- ◆ Socio-cultural factors (religion, attitude towards borrowing from government)
- ◆ Peace and stability (war, political stability, and administration)
- ◆ Weather conditions (unstable fluctuating rain fall)
- ◆ Land holding and size (ownership, size, productivity and fragmentation)

2. MFI Services

These are variables within the governance of microfinance institutions. MFI services are in fact influenced by contextual factors. The specific MFI related factors include the following:

- ◆ Mission, vision, Objectives, policies and strategies of MFIs
- ◆ Terms and conditions of saving, lending and repayment
- ◆ Governance and management of the MFI
- ◆ Financial sustainability
- ◆ Money transfers and payment

3. Client Related Factors

These factors are closely associated with characteristics of the client, particularly demographic variables. Client related factors affecting impact include:

Age	Residence (urban-rural)
literacy level	gender relations
Household size	previous occupation
poverty level	religion, etc

4. *Factors related to the income generating activity*

There are also factors related to the income generating activity, with serious influence on the impact microfinancing. These factors include:

- Type or nature of the business
- Size of the business
- Capital and asset of the business

Attempt is made here to identify and use main impact indicators of well-being.

- Income
- Living condition
- Expenditure
- Saving culture and capital accumulation
- Empowerment

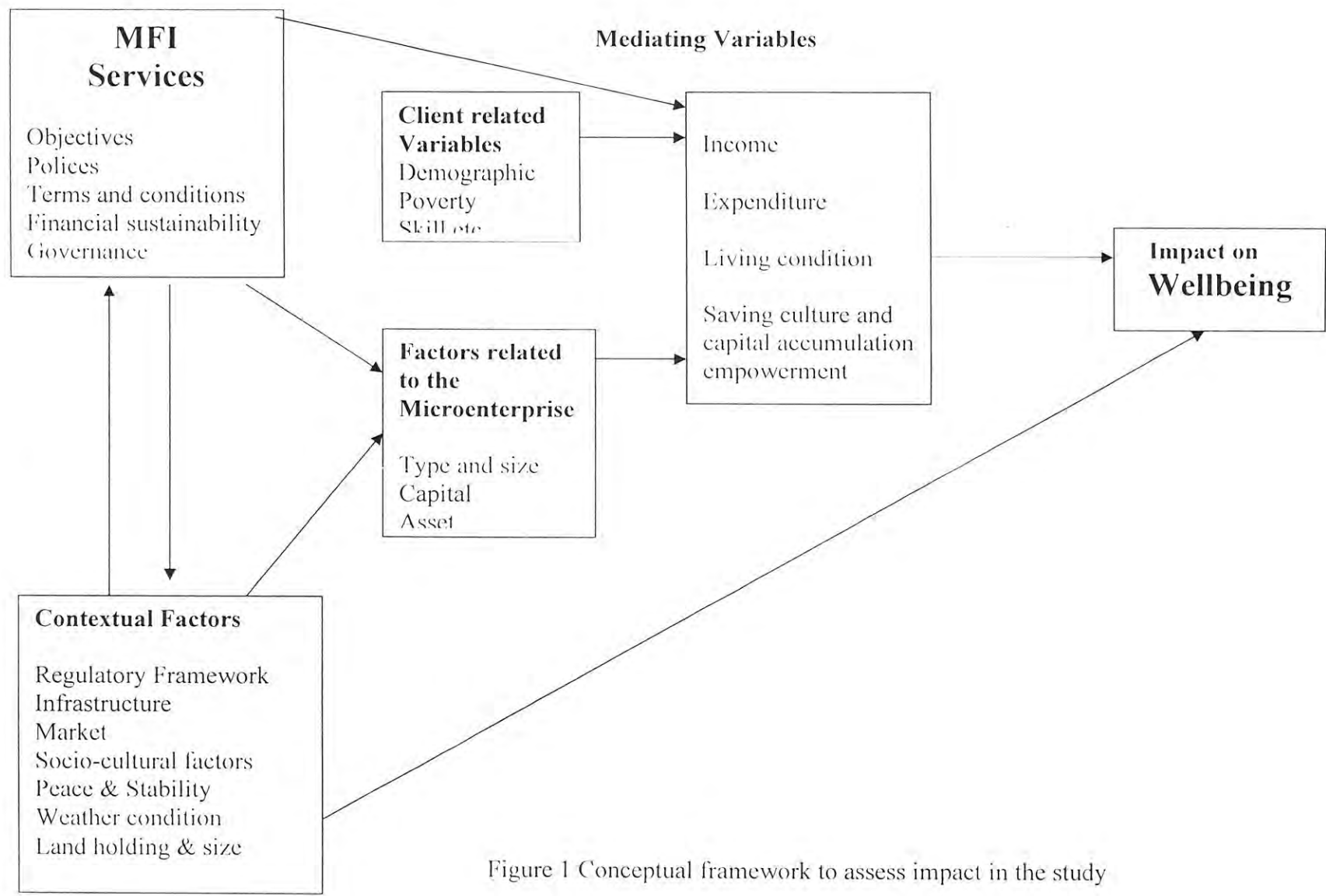


Figure 1 Conceptual framework to assess impact in the study

2.3 **Microfinance and Development: Global Issues and Trends**

Development basically aims at improving the standard of living of people and it essentially involves the majority population in a given country. The majority of the people in less developed countries live in rural and peripheral areas where there is little infrastructure and services as a manifestation of abject poverty. Rural development involves the transformation of the economic, social and cultural conditions of the rural population for the better so as to enable them effectively and consciously participate in the overall development effort at all levels (Gebrehiwot, 1989).

The rural poor can improve productivity of land and labour by improving access to credit to acquire new technology and other assets (Mulat, 1999). Raising agricultural productivity and preventing the rural poor from severe poverty are not only necessary but also preconditions for a meaningful progress (Zaid, 1999). The delivery of financial services to the poor is considered as a major component of poverty alleviation strategies and sustainable development in many developing countries.

Many developing countries are using targeted microfinance programs to alleviate poverty by facilitating equity and economic growth (Rachman, 1998; Webster and Fidler, 1996; Shahidur and Khandker, 1998). The authors further argue that microfinance products targeted to the poor can play an important role to promote

equitable income distribution, to make services accessible to the poor, to activate competition and enhance productivity and technical change. Thus microfinancing can be used as a tool to stimulate development.

Money, says the proverb. makes money, when you have got a little it is often easy to get more. The great difficulty is to get that little (Adam Smith, 1776; cited in Holis sweet man, 1998).

Thus to involve the poor in the process of development in many aspects and sharing its benefits, the rural poor have to be helped to help themselves by creating access to resources, particularly access to finance.

Effective microfinance programs are major tools of providing access to opportunities and resources for the low-income people so that they would participate in the process of development of a country.

.... Since the mid 1960s, small farmers and the rural poor have increasingly become the chief targets of credit interventions. There are many reasons for such emerging ideas about the efficiency of small farmers, their output potential with new technology, their lack of cash at critical

periods, their lack of collateral for loans, and the exploitative or monopolistic behaviour of private moneylenders. Moreover since the early 1970's a strong equity dimension has emerged in the aims of credit scheme and small farm projects (Ellis, 1992; cited in Zaid, 1999).

Properly channeled microfinance schemes provide the poor households with an opportunity to:

- increase income
- increased employment
- increase smooth consumption
- own resources such as livestock,
- get self employed in the informal sector
- empower women
- improve nutrition and health
- improve the potential for educating children
- use new technologies and inputs of agriculture

These indicate that the delivery of microfinance services is one of the tools to improve the standard of living of the poor and promote equitable and sustainable development. Several studies have been made in many developing countries that use microfinance

programs as a tool of reducing poverty, and study the impact of microfinance. Most of the studies made in western Africa and Southeast Asia show that clients of microfinance programs have higher and stable incomes and smooth consumption patterns.

2.4 Microfinance and Poverty Alleviation

In both developed and less developed countries the economy is characterized by a sharp contrast of increasing disparity between the rich and the poor. On the one hand, the rich are growing richer, living a life of affluence, on the other hand, the poor are getting poorer living in severe deprivation characterized by vulnerability, malnutrition, lack of education to enhance upward mobility, lack of shelter and other resources that constantly keeps them under the trap of poverty (Popoola, 1999).

About one billion people in the world today live in households with per capita income of under one dollar per day (Morduch, 2000; Popoola, 1999; Dawson and Jeans, 1997. About 17 per cent of the absolute poor live in Sub Saharan Africa (DFID,1997).^{***}

Popoola (1999) indicated that about 20 per cent of the world's population live in extreme poverty that constitutes a leading cause for death (including HIV/AIDS). This is often caused by insufficient income to maintain minimum nutrition levels and

^{***} Eliminating Poverty, a Challenge For The 21st Century (DFID,1997)

limited or no access to health services.

Poverty has thus become the primary concern of less developed countries during the last two decades. Poverty alleviation has, therefore, become the focus policy makers and practitioners of those countries who have been trying to improve the lives of their poor people. Although poverty alleviation has featured as a priority developmental objective of governments of LDCs, the outcome has been the opposite, i.e. increased poverty. Experience has shown that government assistance and aid to poor communities and households had insignificant or no contribution to poverty alleviation other than dependency and disincentive that make matters worse. Poverty has reached levels that demanded a real change in the development approach. Therefore there is hardly any controversy about the great urgency of pursuing the objective of poverty reduction or alleviation in the shortest possible time. A new breakthrough came into existence when efforts to fight poverty started by enabling people to create their own jobs and generate revenues, i.e., provision of finance to the poor was recognised as a means through which poverty and exclusion could be alleviated more effectively.

It is assumed that poverty can be alleviated and that economic and social structures can be transformed fundamentally - by providing financial services to poor households (Morduch, 1999). Increasing access to finance and poverty reduction

interact through a direct linear relationship where the more funds are made accessible to the poor, the more poverty is considered to be alleviated. The provision of financial services to low income households to enable them generate income is believed to eradicate, or at least reduce, poverty more effectively.

Credit to finance private income generating activities undertaken by the poor became an unlikely new tool in the fight against poverty in parallel to the traditional transfers of public funds (UNDP, 1999). The growing acceptability of micro-credit as an anti-poverty development strategy grows out of the general rethinking of aid policy and practice currently taking place among donor agencies.

The microfinance industry itself is becoming a global phenomenon. The proliferation of microfinance programs, particularly microcredit targeted to women who are more marginalized in many less developed countries is increasing from time to time. The World Bank is engaged in reducing poverty through promoting best practice in the microfinance industry and funding selected institutions to bring financial services to the poor (Wolfensohn, 2000).

Globally there are now about 8 to 10 million households, with 400-500 million poor family members, served by microfinance programs and some practitioners are

pushing to expand the number in multiple of ten during the next decade (Morduch, 1999).

In the microcredit Summit of 1997, delegates set the ambitious goal of reaching 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005. This would be helping not less than half a billion poor households. The experience of highly subsidized credit in countries was almost unsuccessful for three decades, from 1950s to 1980s. New approaches that challenge subsidies are arising as the keys to success in the microfinance industry. Methodologies such as group lending that uses social collateral as a security for repayment are contributing more to new successes in microfinancing by offering a 'win-win' solution where both microfinance institutions and the poor benefit.

There is a growing recognition that lending to the poor is not just a good thing to do but is also profitable (Brill, 1999; cited in Morduch, 1999).

The microcredit campaign has four-core themes

- Reaching the poorest
- Reaching and empowering women
- Building financially self sufficient institutions

- Ensuring a positive, measurable impact in the lives of clients under their families

Poverty alleviation has become as a top priority agenda as well as primary challenge to policy makers and leaders of less developed countries. And microfinance services are being accepted as a tool to eradicate or at least reduce poverty and improve food security.

The Micro-credit Summit Declaration anticipated that the majority of borrowers would be in the developing world, however, microcredit has also been proven to be effective in industrialised countries. Despite a radically different economic context between rich and poor it focused on those families living below their nations poverty line (Adams and others, 2000).

There are over 10,000 microfinance institutions world wide and the World Bank estimates that 400-600 million dollars of donor funds are earmarked for microfinance each year (Economist, 1999; cited in Park and Ren 2000). Therefore microfinancing has become a global issue, and an important instrument. in the efforts to eradicate or reduce poverty.

2.5 Gender and Development

Women play a key economic role in less developed countries, particularly in poor households. If they are given proper support they could be involved in income generating activities.

With the erosion of men's earning capacity as a result of decreased size of land holdings, population pressures and economic downturns, there is increasing dependency on the economic activities of rural women (Fong and Perette, 1991)

Unlike the income of men, women's earning income is often spent in family food supplies, clothing, health, and pay for schooling of children. In less developed countries, the major part of family management lies on the shoulder of women because of absence of males caused by migration, war, refugee movements, divorce or widowhood. As a result, the number of *de facto* and *de jure* female-headed households is increasing from time to time. Because of economic and socio-cultural factors, female headed households in developing countries are the poorest of the poor (Fong and Perrete, 1991).

On the other hand, in addition to their domestic family responsibilities of all house

management, rural women are major contributors to agricultural production. For example in Africa it is estimated that 46 per cent of the agricultural labour force are women (Fong and Perette, 1991). However, such significant economic roles are underreported, unacknowledged and undervalued.

Because of socio-cultural factors, the social position of women is also small. As a result of the unacknowledged and undervalued economic role of women as well as their underestimated social position, women are often neglected in planning and implementing rural development projects and programs. Neglect of women thus becomes neglect of half of the targets and actors of development.

All development programs at national and regional levels should be able to integrate gender concerns in their plans and programs to see that women participate, contribute, benefit and their effort is recognised, and technologically supported. Rural development programs need to reorient their implementation strategies so that they would target rural women as beneficiaries of development initiatives and programs. Women are engaged in productive, reproductive, and community activities.

Anti-poverty and empowerment approaches are the common development strategies for women. Anti-poverty approach aims at ensuring that poor women increase their productivity. It recognises the productive role of women and seeks to meet *practical*

gender needs to earn income. Consequently, one of the major tools is microfinancing targeted to the poor.

Empowerment as a development strategy approach for women involves two levels: intrinsic and extrinsic. *Extrinsic level* is gaining greater access to and resource control. On the other hand *intrinsic level* involves change from within such as the rise of self-confidence, consciousness and motivation. It recognises women's triple roles and seeks to meet strategic gender needs through bottom-up participation on resources and development issues that concern the life of women.

2.6 The Debate on Microfinancing

The idea of attempting to reduce poverty through microfinancing has generated enormous enthusiasm among donors and non-governmental organisations as an instrument for reducing poverty in a way that is self-sustaining. The provision of microcredit in recent years generated greater enthusiasm (Morduch, 2000; Rogally 1996). Popoola (1999) reports that microcredit had substantial record of accomplishment and potential as a poverty alleviation and development strategy. Some of the potentials of microcredit programs include:

- Most poor people are credit worthy, especially in the context of a mutual responsibility system (group collateral).
- Sustainability of the microcredit program is achievable

- Microcredit programs have exhibited a high level of replicability.
- Microcredit programs have the capacity to grow and serve large numbers of very poor people as demonstrated by many microfinance institutions.
- Microcredit programs have the capacity to help borrowers work their way out of poverty as shown by many studies.
- Microcredit program stimulates savings and accumulation of assets among poor people.
- Microcredit is capable of becoming a vehicle of desirable social developments.

On the other hand, scholars also argue on microfinance schism or its negative verdict. Although microcredit has claimed more and more of the aid budget, it may not always be the best way to help the poorest and the fervour for microcredit may siphon funds from other projects that might help the poor more (Navajas, Shreiner, Meyer and Gonzalez, 2000). There is partial evidence and is contested that microcredit would make a larger contribution to reduce poverty or promote small and microenterprise development in most developing countries as compared to investments in other social and economic infrastructures (Hulme 2000; Johnson and Kidder, 1999). Hulme, Johnson and Kidder (1999) further question about the

appropriateness of this single solution to poverty alleviation in a variety of local contexts.

Some times even when repayment rates are higher, it may be painful to the clients making them pay from other sources such as sales of their limited assets. Thus increasing indebtedness has clear risks for poor people and be trapped in the vicious circle of poverty. However it does not mean that microfinancing is worthless but the question is whether microfinance is better than some other development projects for the poor as a whole. Moreover, provision of microfinance can be one tool to reduce or alleviate poverty but not the only one.

Rahman, R. (2000) also indicated the following concerns about the role microcredit in poverty alleviation by Grameen Bank.

- Case studies have shown that borrowers have been initially successful but in the long run face a downturn in terms of ownership of asset and level of income (Rahman, A. 1999).
- 69 per cent of dropouts resulted from inability to pay installments due to loss in income generating activity (Husain, 1998).
- Studies reveal that repayment of microcredit is being made from other sources (Rahman, R, 2000).
- The older groups and branches of MFI have higher loan default rate

and larger percentage of ineffective groups (Matin, 1998).

These hypotheses on the stagnation of the impact of microcredit, particularly in the long run, deserve serious attention from researchers. The conclusion on the microfinance schism is that governments and donors should know whether the poor gain more from small loans than from other alternatives such as health care, education, agriculture, food aid etc. Most measures of the impact of microfinance organisations fail to control for what would have happened in their absence (Navajas, Schreiner, Meyer, Gonzalez, 2000). The net contribution or impact of microfinance to poverty alleviation should be properly and more accurately measured.

2.7 The Impact of Microfinance on the Situations and Status of Poor Women Households

2.7.1 Global Experience

Microfinancing provides women with an opportunity to access and control over resources such as land, capital, equipment, education/training, health, nutrition services etc. Also properly channeled microfinance services enable women to enjoy benefits in terms of income, asset ownership, status etc. It also enhances women's empowerment in terms of decision on the following:

- Decision making at household and community levels
- Image and self-confidence
- Organisational capacity.

Finally, it also promotes labour and time saving technologies and skill training. The direct provision of micro credit to women is one of several ways to initiate a process of social and economic change for women (Fong and Perrett, 1991).

Essentially the primary targets of microfinance programs are women who are often marginalized in many aspects in the developing countries. Improving the life of women is improving more than 50 percent of the population with an additional significant impact on the life of their male partners and children.

Microfinance programs are often in favour of women clients who are, for the most part, excellent clients. Several studies identified social benefits that women gain from participating in microfinance programs. They feel less marginalized, have higher aspiration for their children's education and future, use more reliable source of drinking water, are more likely to use latrines and contraceptives, and are less likely to marry at an early age (Webster and Fidler, 1996).

As a result, microfinance institutions, donors, and non-government organisations have

strong interest and emphasis on gender issues. Basically the hindrance to access financial services and other opportunities are worse particularly in women. As a result, women are more marginalized as compared to their poor male partners.

Studies made in 12 west African countries show that there are legal and cultural restrictions on women activities and women in many parts of the less developed countries are disadvantaged in their access to education, skills, and capital that improve their ability to succeed in small business (Webster and Fidler, 1996).

In spite of cultural restrictions, relatively low level of education and skill, experiences from the Grameen Bank show that microfinance enabled poor women to engage themselves in various income generating activities (Lutfun and Osmani, 1998). These income generating activities include both farm and non-farm activities such as poultry, horticulture and petty trade.

Microfinance Programs often provide non credit inputs such as consciousness raising training and these inputs may empower the poor, especially women (Khandker, 1998). Moreover micro credit programs are expected to assist in raising the social welfare by promoting human capital investment in child care and education, nutrition, quality and quantity of food, and other aspects on the life of their children and male partners.

It is also likely that the increase in income of women through income generating activities smoothens consumption and would probably contribute to stability and reduction in other social problems and is likely to reduce out migration to urban areas and thereby reducing unwanted population pressure in urban areas. In many developing countries microfinance programs are promoted as a strategy not only for poverty alleviation but also for women's empowerment. Access to microfinance was seen as vital to women's ability to earn an income and contributing to an increase in their status and autonomy (Mayoux, 1995).

The Success of microfinancing in poverty alleviation depends on how far it can address the constraints faced by the poor households (Rahman, R., 2000). Using various methodologies impact have been assessed by considering the following variables:

- Household income
- Household savings
- Employment generation
- Human capital formation

Hossain (1984) reported that using borrower's recall, the income of Grameen Bank clients increased by about 32 per cent in two years time. Moreover the same study indicated that the increase of income of Grameen Bank members was about 18 per

cent higher compared to the non-member during the same period.

On the second round of impact assessment on Grameen Bank in 1986, Hossain (1988) presents that household survey data in income also confirms that the household income of GB members was about 43 % higher than non-members.

Khandker (1998) estimated that 21 per cent of Grameen Bank borrowers managed to lift their families out of poverty within 4.2 years enabling 5% of the households to cross the poverty line each year.

Hossain (1984 and 1988), and Khandker (1998) have discovered that Grameen Bank clients had brought about a percentage change of income increase at 30.9, 39.7 and 23.3 percent respectively. Microfinancing is one of the factors for reducing poverty in Bangladesh from 59% of the total population in 1991/92 to 53% in 1995-96 (The Economist, 1998; cited in Meehan 1999).

Studies made in Grameen Bank in 1995 show that Microfinance has a positive impact on savings and capital accumulation and as a result the investment was higher for long time borrowers than for newer one to the extent 260 percent as compared to non-members. Microfinance in Grameen Bank has also resulted in greater involvement of members in income generating activities compared to the

control groups (Hussain and Kabeer, 1998).

Microfinancing has resulted in greater aspiration of MFI clients, particularly mothers for schooling their children and the actual enrolment of their children as compared to non-members.

Microfinance and Empowerment of Women

Although, theoretically microfinancing services are expected to enhance empowerment, the results are mixed and controversial, particularly in terms of control over resources and reduction of violence against women. But it does also have positive impact on other aspects such as increased participation in income generating activities and awareness about their economic and health related problems.

Empowerment

The conceptualisation of empowerment lies in an understanding of the relationships of dependence, interdependence and autonomy which characterised gender relations in different cultures, the structures of risks, incentives and opportunities which they generate and therefore the particular which processes of

*empowerment are likely to take (Kabeer, 2000)**.*

It is argued that credit programs empower women by strengthening their economic roles, increasing their ability to contribute to family income, helping them establish their identity outside of the family and giving them experience and self confidence in the public sphere (Sinha, 1998)***. Access to credit was seen as vital to women's ability to earn income and contributing to an increase in their status, autonomy and decision making power (Mayoux, 1995; Ray, 1987).

It is believed that credit has a great potential to improve women's wellbeing by improving their bargaining position and thereby win the respect of their male partners and other family members. On the other hand Sinha (1998) argues that lending to women enhances household welfare and the issue of impact of targeted credit to women's empowerment is far from resolved. Sometimes microfinance programs may have a negative effect on the life of women in terms of increased work overload or reduced contribution of male income to the household. Thus, there can be controversies on the impact of microfinance on the empowerment and well being of women.

2.7.2 Ethiopian Experience

The time since which formal microfinance services are provided is not long. On the

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Conflicts over credit: Re-evaluating the Empowerment Potential of Loans to Women in Rural Bangladesh.
World Development, Volume 29, No. 1

***IDS Bulletin, Volume 29, No. 4 (1998)

other hand, the growth of microfinance services has been remarkable in the short period of time. Accordingly, several studies show that the MFI industry is contributing to poverty reduction and other means of improving the standard of living of the poor.

Because of access to credit, women are encouraged to take economic and entrepreneurial risks at 30 percent higher than men (Meehan, 2001). In the same study the author indicated 60 clients (94%) reported a significant increase in income as a result of access to credit although the income of some of the clients has dropped after a certain period of time. Also, the author indicated that access to microfinance has contributed to greater usage on basic household food, increase in assets and smoothing consumption in the clients' households.

Women generally took smaller loans than their male partners (Getaneh, 2001; Meehan, 2001). Getaneh further addressed that the profit margin for women clients is similarly lower and women have to go a long way to be able to be good business managers themselves. In a recent survey of ACSI clients, Getaneh (2001) indicated that only 38 percent of married clients manage the loans they have taken themselves; and 55 percent reported that they used the loan jointly with their husbands and other 7 percent reported that the loan is used by their husbands. This may show that women are not equally beneficiaries like their men partners.

A recent study by Tsehay and Mengistu (2002) revealed that 84 percent of frequent rural women clients and 62.9 percent of frequent urban women clients have shown significant improvement in their household income. The authors concluded that access to microfinance positively contributed to ownership of additional household assets, which are important for empowering women clients economically. One major indicator of household welfare is residence house and same authors indicated that 60 percent of urban clients and 18.3 percent of rural clients made repairs to their houses. Similarly the authors concluded that MFIs intervention resulted in improving household diet.

2.8 Development of Microfinance Industry in Ethiopia

When the targeted subsidised cheap credit programs failed during the second half of the twentieth century, microfinance emerged in the 1980s as a new development approach to benefit the active poor. The first formalized financial institution is believed to be the Grameen Bank (GB) of Bangladesh, established in 1983.

Grameen Bank is considered as a highly publicised success story that is taken as a model for many MFIs throughout the world, including the United States. All Grameen type microfinance institutions target the active poor, particularly women, on the basis of group social collateral and compulsory savings.

During the last three decades, governments, donor agencies, non-governmental

organisations, and international financial institutions have recognised the value of microfinance institutional development as a viable means of achieving poverty alleviation through appropriate financial intermediation. In Asia and Latin America, financial institutions like Bank Rakyat Indonesia (BRI), Bangladesh Rural Advancement Committee (BRAC), and Grameen Bank (GB) have served millions of poor clients and their households with credit and saving services. More recently microfinance institutions have begun to develop and formalise in many Sub-Saharan African countries including Kenya, Zimbabwe, Benin, Senegal, Nigeria, and Ethiopia to serve part of the 70 per cent of the poor population in Africa.

Most MFIs in Africa are young and inexperienced in the realm of formal financial intermediation. Similarly, MFIs in Ethiopia are new. However there were credit services provided by non-governmental organisations, projects and other informal organisations in disintegrated ways. The initial formal MFI was initiated by Relief Society of Tigray (REST), in 1993. Accordingly REST established Rural Credit Scheme in Tigray (now Dedebit Credit and Saving Institution). In the subsequent years other credit and saving scheme institutions continued to be established until 1996.

In July 1996 the National Bank of Ethiopia (NBE), has issued proclamation No. 40/96 that provides for the establishment and operation of Microfinance institutions in Ethiopia. Since the issuance of the proclamation in 1996, to date more than nineteen

microfinance institutions are legally registered providing their services to more than 450, 000 clients (Wolday, 2002).

2.8.1 Overview of Dedebit Credit and Saving Institutions (DECSI)

Establishment

Relief society of Tigray (REST) had realised that lack of access to finance was one of the major constraints for the rehabilitation of the war-devastated people of the region. Besides, REST was aware that creating access to financial services for the poor is providing the poor with opportunities for alleviating poverty and enhancing self-reliance through entrepreneurship and empowering the poor, involving women through participatory approaches.

As a result, REST conducted a survey and designed a microfinance program to help the poor help themselves by providing credit and saving services. After assessing the conventional banks and traditional moneylenders who are charging high interest rate, REST initiated the establishment of Credit Scheme of Tigray. Thus after assessing and evaluating the experience of many developing countries in microfinance operations, REST Credit Scheme of Tigray (RCST) was established in 1993 and started its operations in March 1994 in the four zones of Tigray.

The REST Credit Scheme of Tigray initiated by REST continued providing credit and saving services to the rural and urban poor until July 1996. Having fulfilled the necessary institutional requirements of the regulatory framework of the National Bank of Ethiopia, the REST Credit Scheme was reorganised to be a regional microfinance institution, under the name of Dedebit Credit and Saving Institution Sh. Co. (DECSI),

1.8.2 **Organization and Management**

DECSI is providing its financial services in 12 branches and 109 sub-branches with 727 employees. As per the microfinance law, the MFI is owned by shareholders that have the ultimate authority to decide on any significant issues that affect the institution. The board of directors composed of individuals representing the share owning organizations and individuals nominated by the shareholders' general assembly administer the company. The general manager and department heads at the head office at Mekelle manage the day-to-day operations of the company.

The branches directly control and supervise the activities of the sub branches. The sub branches are fully autonomous to approve and disburse loans, and to collect repayments and savings. The sub branches act as mobile banking because the staff often travel to the clients in remote Kebeles. Detailed operational and financial reports are prepared at the sub branches.

Target group

DECSI renders credit and saving services with the aim of alleviating poverty through the mobilisation of savings and provision of credit to the poor with priority emphasis to the rural poor, and still with greater priority to women. The poor, particularly the farmers, are in need of credit for various purposes including petty trade, acquisition of livestock, agricultural inputs and implements or to smoothen food consumption. However DECSI under normal circumstances does not encourage the delivery of credit for consumption purposes. As much as possible loans are extended to be invested in income generating activities so as to promote self-reliance. Generally, the institution has covered all rural and urban Kebeles of the region.

DECSI's Services

Basically, DECSI provides the following major financial services

- ◆ Regular or general and agricultural input loans
- ◆ Savings mobilization from loan clients and the community, and
- ◆ Pension payment services to retired civil and military personnel

DECSI is the largest microfinance institution in Ethiopia. Currently DECSI has 219,000 borrowers with Portfolio of Birr 346,642,270 and outstanding loan of 146,000,000 (Wolday, 2000). The author also states that DECSI has 202,000 savers with a saving capital of Birr 76,000,000 as of June 1999. Moreover, 43 per cent of clients of DECSI

are women.

The primary objective of DECSI is to help the poor, particularly women, help themselves by creating access to microfinance services. However no major assessment has been made on the impact of the microfinance services in the region particularly on the life of poor women that are the primary victims of poverty, illiteracy, famine and drought.

CHAPTER III

THE STUDY AREA

3.1 Some basic facts about Tigray

Tigray Regional National state is located in the northern part of the country between 12° 15' - 14° 49' N latitude and 36° 27' - 39° 59E longitude. It is bordered by Afar Region in the East, Eritrea in the North, Amhara in the South and Sudan in the west and its land size is estimated to be 53,638 square kilometres out of which western zone accounts for 51 percent, central 19.3 percent, Southern 18.9 percent, Eastern 10 percent and Mekelle 0.8 percent.

3.2 *Population:*

The population of Tigray has increased from 3.2 million in 1994 to 3.71 million in 2001. This is meant that the rate of population growth reached 2.7 percent per annum. Females constitute half of the population and 83% of the population lives in rural areas and the remaining 17 percent in urban areas.

In 1995/96, about 45.5 percent of the Ethiopian population is living below the absolute poverty level and the people living poverty line slightly declined to 44.2 percent in 1999/2000 (Wolday, 2002). In the Poverty Profile of Ethiopia conducted

by Welfare Monitoring unit of the Ministry of Finance and Economic Development, Tassew and Tekie (2002), reported that the population living below poverty line is 48 percent and 33 percent for rural and urban areas respectively. This shows that poverty is relatively higher in rural areas compared to urban areas.

Tigray has the large percentage of population living below poverty line, both in rural and urban areas compared to other regions (Wolday, 2002). The writer has further addressed poverty in the region has increased in 1999/2000 as compared to 1995/96. Specifically, the percentage of rural population living below the poverty line has increased from 56.1 percent in 1995/96 to 61.4 percent in 1999/2000.

Tigray is one of the drought prone areas devastated by famine and long period of civil war. The Eastern Zone of the region is crop dependent area with the most fragmented land, which is highly degraded. In addition to the frequent shortage of rainfall, the soil is also less fertile. Consequently the Eastern zone is among the priority list that deserve intervention by the regional government and other non-governmental organizations.

Hawzen

The Eastern Zone of Tigray has seven Woredas with a total population of 707,908 out of which 339,903 are males and 368,005 are females (CSA, 2000). Hawzen

Woreda is located in the western part of the zone. Hawzen woreda is surrounded by Wukro woreda in the south-east, Saesi-Tsaeda Imba in the north-east, Ganta-Afeshum in the north, Worie Lekhe in the west, Qolla Tembien in the south-west and Degua Tembien woredas in the south.

Because of its strategic location as a trade route and joint point for several zones, Hawzen has served as an important trade center for thousands of years, even before the Axumite ^{Sovras?} kingdom. Still now it serves as a central market for livestock and other agricultural products for people from various zones. The total area of Hawzen is 805.95 square km and its population density is 140.9 per Km Square

The climate of Hawzen by and large is woina-dega, which is between high land and low land. As a result it is often suitable for many cereals and grains whenever there is adequate rain. It mainly produces wheat, teff, maize and cereals. Agriculture is the main stay of the economy for almost all of the population of the Woreda. In addition to agriculture, many people of the woreda, including rural people are engaged in petty trade, particularly grain trade to supplement their unreliable income from crop production.

According to CSA (2000), Hawzen woreda is divided into 22 kebeles making a total population of 110,833 out of which 53,802 are males and 57,031 are females. From the

total population of the Woreda, 4,498 (4.06%) live at the town and the remaining in the rural areas. Hawzen is the name of the woreda as well the name of the town. The town is 23 km to the west of the main road from Mekelle to Adi Grat. As a drought prone and economically devastated area, Hawzen is one the first targets to get the intensive microfinance services since the earlier stages of DECSI.

CHAPTER IV

FINDINGS OF THE STUDY

4.1 General characteristics of clients

The demographic characteristics of the respondents such as their ages, marital status, their relations with the head of the household etc and their socioeconomic characteristics such as their educational level, health conditions, wealth conditions may have direct or indirect relations with the way they use the loan or other financial services they took and consumption patterns.

4.1.1 Age of clients and size of their respective households

Most of the respondents [77.1%] are in the reproductive ages; i.e., 22.8% are in the age group 20 - 29 years, 28.3% are between 30 and 40 years and 26.0% are between 40 and 49.

Table 1: Age group of the respondents in years.

		Count	Col %
Age group of the respondents	20-29	29	22.8%
	30-39	36	28.3%
	40-49	33	26.0%
	50-59	18	14.2%
	60-69	11	8.7%
Group Total		127	100.0%

Only 22.9% are above age 49. So, higher proportion of women is in the lower age group, probably in the most active and energetic age.

The mean age of the respondents is 39.54 years, and this shows that the distribution is positively skewed. That is, more females are at their younger ages, with strong desire to work hard and with optimistic future. This may have an influence on the success and continuity of their microenterprises and thereby contribute to the impact that credit may have in their lives.

4.1.2 Educational status of clients

Education is one of the key variables that may influence the behavior and efficiency as well as effectiveness of people. Education is a decisive factor in uplifting the individual and society, because it improves his/her skills, potentials and makes him/her more creative, and more innovative.

Four out of any five respondents [79.5%] are illiterate and only 20.5% of the respondents are literate. This high degree of illiteracy may have an impact on the way the clients use the financial services that they receive.

Table 2: Literacy status of respondents

	Literacy Status of the respondents				Group Total	
	Illiterate		Literate		Count	Row %
	Count	Row %	Count	Row %		
Rura	69	90.8%	7	9.2%	76	100%
Urban	32	62.7%	19	37.3%	51	100%
Group Total	101	79.5%	26	20.5%	127	100%

Illiteracy rate is higher in rural areas [90.8%] than in the urban [62.7%]. Only 9.2% of the rural respondents and 37.3% of the urban respondents are literate. Based on this, one may also expect differences between rural and urban areas in the degree of success of clients. Moreover, the urban clients constitute more than 70% of the literate clients that may influence the impact of the microfinance services through increased savings, repeat loans, amount of loan taken and thereby contribute to the success of their business.

Table 3: The educational level of the respondents by place of residence.

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Col %
		Count	Col %	Count	Col %		
The educational level of the respondents by urban rural	Lower primary [1 - 4]	7	100.0%	10	62.5%	17	73.9%
	Upper primary [5 - 8]			5	31.3%	5	21.7%
	High school			1	6.3%	1	4.3%
Group Total		7	100.0%	16	100%	23	100.0%

Attending formal education may also equip people with skills and ability that may help to lead a more successful life. Out of the 26 literate clients 23(89%) have attended formal education. Besides of all the females that attended formal education, nearly three-fourth (73.9%) are in the lower primary schools and 21.7% are in the upper primary schools. Table 3 indicates that the majority of the sample clients have lower educational level.

4.1.3 Marital status of clients

The marital status of the sample clients was also analysed and results are given in table 4.

About 7.1% of the females are unmarried and 48.8% are currently married. In addition, about 6.3% are separated, 26% are divorced, and 11.8% are widowed. This shows that there is high rate of family dissolution; i.e., 44.1% of the females are separated, divorced or widowed.

Table 4: Marital Status of sample clients by area of residence

Marital status	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Unmarried	5	6.6	4	7.8	9	7.1
Currently married	41	53.9	21	41.2	63	48.8
Separated	6	7.9	2	3.9	8	6.3
Divorced	17	22.4	16	31.4	33	26.0
Widowed	7	9.2	8	15.7	15	11.8
Group Total	76	100	51	100	127	100

Due to these and other reasons, the proportion of family dissolution rate in the study area is very high, which is about 50% in the urban areas and about 40% in the rural areas. This may be one of the causes for using microfinance services as a means to improve their livelihood.

Table 5: The relationship of the respondents with the head of the household

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Row %
		Count	Row %	Count	Row %		
Relationship with the Household head	Head	28	53.8%	24	46.2%	52	100%
	Spouse	47	68.1%	22	31.9%	69	100%
	Parent	1	25.0%	3	75.0%	4	100%
	Grand parent			1	100%	1	100%
	Sister/Brother			1	100%	1	100%
Group Total		76	59.8%	51	40.2%	127	100%

The study result shows that 40.9% of the interviewed females are heads of their households and 54.3% are spouses. In Tigray, females become heads only if either they are divorced, separated or widowed. In both cases it is either the result of poverty or it may also result in poverty.

There is a claim that even among women, housewives (male-headed households) have more access to credit and other services than women headed households or their families. However, the data in Table 4 show that there is no as such a significant difference on the access of women to microfinance services because she is the head of the household.

The main occupation in which the respondents are engaged is also studied and results show that 58.3% are engaged in farming and one-third [33.9%] are engaged in the private microbusiness. It can be said that farming and the off-farm and other microbusiness are the two main occupations that the respondents are engaged in.

4.1.4 Demographic and Other Characteristics of Clients

Nine out of ten respondents of the rural areas [92.1%] are farmers and 8 out of ten [80.4%] respondents in the urban areas are engaged in their own microenterprises. Thus, the occupation of the respondents is highly dependent on where she resides. The sample survey also shows that 92.1 per cent of the rural clients occupation is farming and the microenterprise activity can be a source of income diversification. However, for the urban clients the microenterprise activity seems to be the main source of income for subsistence on which they greatly depend because 80 per cent of them are mainly engaged in the microenterprise.

Table 6: Main occupation of the respondents

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Row %
		Count	Row %	Count	Row %		
Main Occupation of the household member	Farming	70	94.6%	4	5.4%	74	100%
	Oldage			1	100%	1	100%
	Underage	1	100%			1	100%
	Others (Specify)			3	100%	3	100%
	Handicraft	1	100%			1	100%
	Daily labore			1	100%	1	100%
	Unpaid family	1	100%			1	100%
	Unemployed	1	100%			1	100%
	Private Sector	2	4.7%	41	95.3%	43	100%
	Government sector			1	100%	1	100%
Group Total		76	59.8%	51	40.2%	127	100%

A question on whether the respondents use their own land or not was also asked and the result shows that 86.6% of the respondents own land and 11% do not.

Table 7: Proportion of sample respondents that own land

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Row %
	Count	Row %	Count	Row %		
Do you own land?						
Yes	75	68.2%	35	31.8%	110	100%
No	1	7.1%	13	92.9%	14	100%
Group Total	76	59.8%	51	40.2%	127	100%

As that of occupation, land ownership also significantly varies by the place of residence. About 98.7% of the rural residents and about 68.6% of the urban residents responded that they own land. Of course, the size of the land is also a very important variable.

Table 8: Size of the land owned by the respondents by residence[in tmad].

Residence of the				Group	
Rura		Urba		Coun	Mea
Coun	Mea	Coun	Mea		
76	3	51	2	127	2

The mean land size is two tsmad (half hectare) per household. The land size also varies by urban rural and is less in the urban areas than in the rural areas. That may be one of the reasons why the most of the urban respondents are engaged in the microenterprises and the rural residents in agriculture. This may make the urban clients to be relatively successful because they may take it as the only means of survival. This fact seems to be supported by the greater size and more repeat loan of the urban clients to be discussed later in this chapter.

In Tigray, 95.5% of the people are orthodox Christians. In this study, all of the respondents are orthodox Christians. The researcher has purposely checked in the sub branch office if it ever had a Muslim client. Finally, in the town of Hawzen, lthe researcher tried to trace a dropout Muslim client who was forced to leave the program by her husband. Her husband believed that the religion does not allow receiving or paying interest. This shows that religion should be given due

consideration in providing microfinance services to the poor, particularly in the urban areas where there are relatively many poor Muslims.

4.1.5 BASIC INFORMATION ON THE MICROENTERPRISE [Client information]

The duration of the client in the microenterprise may have an impact in the degree of success because in business, experience is very important. The duration varies from 1 year to 6 years. Nearly half of the respondents have two years in the program and the remaining 50 percent have stayed in the program for more than 2 years.

Table 9: Duration of the clients in the program in years

Duration of the client in the program	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
1	2	2.6%	4	8.2%	6	4.8%
2	49	65.3%	12	24.5	61	49.2%
3	18	24%	15	30.6	33	26.6%
4	5	6.7%	9	18.4	14	11.3%
5	2	2.7%	7	14.3	9	7.3%
6			4	8.2	4	3.2%
Group Total	76	100%	51	100%	127	100%

About 65.3% of the rural respondents and 24.5% of the urban respondents have experiences of two years in the program. On the other hand, 33.4% of the rural and 70.5% of the urban respondents have experiences of more than two years. In general, the urban respondents seem to have better experiences in the program than the rural respondents. Because experience is a major means of acquiring skill the urban clients are likely to be more successful than the rural clients.

Table 10: Average duration of the clients in the program in years.

Residence of the respondent				Group Total	
Rural		Urban		Count	Mean
Count	Mean	Count	Mean		
76	2	51	3	127	3

The mean number of years of the client in DECSI in the urban areas is 3 years and that of the rural areas is 2 years. But the overall average is 3 years.

4.2 Selection of income generating activities or micro enterprises by clients

About 23.6% of the respondents are engaged in animal fattening. About 36.8% of the rural residents and only 3.9% of the urban respondents are engaged in this activity. The greater percentage of rural clients are engaged in animal fattening. This may be because they have lifetime experience in farming and other agricultural activities.

The second activity of clients in which 18.9% of the respondents are engaged in is buying and selling grains and other agricultural products. About 17.1% of the rural respondents and 18.9% of the urban respondents are engaged in buying and selling grains and other agricultural products.

The third main activity in which the clients are engaged in is preparing and selling beverages [Tella, Areke, etc]. About 2.6% of the rural clients and 31.4% of the urban respondents are engaged in this activity. Of course, 9.4% of the respondents are also involved in buying and selling livestock; and this amounts to 13.2% of the rural clients and 3.9% of the urban clients. It is likely that the remaining clients have either

consumed the loan they have taken or spent it in non-productive activities. Thus the entire loan taken by the clients is not invested for the intended purpose (see Table 19 for details).

The reasons why the respondents are engaged in such activities are also summarized in Table 11 below.

Table 11: The first main reason why the clients are engaged in microenterprise activity

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Row %
		Count	Row %	Count	Row %		
The first most important reason why the client engaged in micro enterprise activity is	No Respons	16	72.7%	6	27.3%	22	100%
	Low agricultural yield because of land fragmentation	10	83.3%	2	16.7%	12	100%
	Low agricultural yield because of unstable climate	28	73.7%	10	26.3%	38	100%
	Low agricultural yield because of declining soil fertility	3	100%			3	100%
	No other source of income	7	33.3%	14	66.7%	21	100%
	Means of employmnet	4	30.8%	9	69.2%	13	100%
	Others	8	44.4%	10	55.6%	18	100%
Group Total		76	59.8%	51	40.2%	127	100%

The first main reason why the clients are involved in the micro-enterprise activity is due to low agricultural yield because of unstable weather (for 29.9%). This counts for about 36.8% of the rural respondents and 19.6% of the urban respondents. The second main reason (for 16.5% of the respondents) is because they have no other source of income. About 9.2% of the rural respondents and 27.5% of the urban clients reported that it is because of the fact that they have no other means of income that they are engaged in this activity. The third main reason (for 10.2%) is that it is the only means of employment that they have; and this counts for about

5.3% of the rural and 17.6% of the urban respondents. Low agricultural yield because of land fragmentation is a reason for 9.4% of the respondents; 13.2% of the rural and only 3.9% of the urban respondents.

Impact of unstable weather is significant particularly for the rural clients to be engaged in a microenterprise activity or at least to take credit for consumption to cope up in difficult seasons or to be spent on other non-productive expenditures.

Prior to the present activity, nearly one-third (32.3%), i.e., 47.4% of the rural and 9.8% of the urban respondents reported that they were engaged in farming.

Table 12: The activity that the clients were engaged in prior to the present activity

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
No Response	14	18.4%	3	5.9%	17	13.4%
Farming	36	47.4%	5	9.8%	41	32.3%
Housewife	18	23.7%	10	19.6%	28	22.0%
Student			1	2.0%	1	0.8%
Daily labourer			3	5.9%	3	2.4%
Operate own business	5	6.6%	19	37.3%	24	18.9%
Unpaid family worker	1	1.3%			1	0.8%
Unemployed	1	1.3%	4	7.8%	5	3.9%
Others	1	1.3%	6	11.8%	7	5.5%
Group Total	76	100%	51	100%	127	100%

The second main occupation in which they were engaged in prior to the present activity (22%) was being a housewife (22%), which is 23.7% of the rural and 19.6%

of the urban respondents.. In addition, about 18.9% reported that they were running their own business. About 6.6% of the rural and 37.3% of the urban respondents reported that they were operating their own business.

The reason why the clients are involved in such a particular micro enterprise was studied and results show that nearly one-third (29.9%) chose it because it has higher return and there is no significant difference between rural and urban respondents.

One out of any four respondents (25.2%) chooses this particular enterprise because they couldn't choose any other activity mainly because of capital shortage. There is a high variation between rural and urban respondents. About 37.3% of the urban respondents and 17% of the rural respondents have capital shortages that couldn't allow them to make another choice. Moreover, 6.3% choose it because it has been family business and this accounts for 9.2% of the rural and only 2% of the urban respondents. Also, 4.7% of the respondents choose it because they saw other persons doing it.

From this result, it seems that the rural clients depend more on what others were doing (family or others) than the urban clients. This may be because the urban people are more exposed to different sources of information than the rural people.

The results of the study on how the respondents acquired the skill for the present enterprise show that 42.5% of the respondents said that they acquired the skill they have through experience in time. Highest proportion of people (49%) from urban areas seems to agree with this reason than those from rural areas (38.2%).

For 42.5% of the clients the source of their skill is their own experience. From the clients studied 21.3% are self-thought or self-initiative and accounts for 21.1% of the rural and 21.6% of the urban respondents. Family tradition is the third main reason and constitutes 10.2%. About 7.9% of the rural and 13.7% of the urban respondents reported that family tradition is the main reason for the transfer of the skill.

In all these cases there is no as such business or management training given to the clients and this will surely have a serious impact on the continuity and success of their enterprise.

The number of years that the clients have experienced in business activities including this one may also be another important factor.

Table 13: Years of experience in business activities

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Row %
		Count	Row %	Count	Row %		
Years of experience that the client has in business including in this enterprise.	1	1	50.0%	1	50.0%	2	100%
	2	20	83.3%	4	16.7%	24	100%
	3	9	69.2%	4	30.8%	13	100%
	4	2	15.4%	11	84.6%	13	100%
	5	4	50.0%	4	50.0%	8	100%
	6	2	40.0%	3	60.0%	5	100%
	7	1	25.0%	3	75.0%	4	100%
	8	1	33.3%	2	66.7%	3	100%
	10	1	14.3%	6	85.7%	7	100%
	12			1	100%	1	100%
	13			1	100%	1	100%
	15	2	66.7%	1	33.3%	3	100%
	17			2	100%	2	100%
	19			1	100%	1	100%
	23			1	100%	1	100%
	26			1	100%	1	100%
	30	2	66.7%	1	33.3%	3	100%
	32	1	100%			1	100%
Group Total		46	49.5%	47	50.5%	93	100%

Out of the 127 clients it is only 93 of them who have started business. For those clients who have started, their business experience varies from 1 year to 32 years. The mean, median and mode of the experiences are 7 years, 4 years and 2 years respectively. There is a higher experience in the urban areas than the rural areas.

Table 14: Average year of experience in business activities including this

Residence of the								Group			
Rural				Urba				Coun	Mea	Media	Mod
Coun	Mea	Media	Mod	Coun	Mea	Media	Mod				
76	6	3	2	51	8	5	4	127	7	4	2

The mean experience in rural clients is 6 years and that of the urban is 7 years. In addition, the modal experience of the rural and urban areas is 2 and 4 years respectively.

4.3 Microenterprise Activities and the Trend of their Impact on the Clients and their Households

About half (49.6%) of the total clients (and above 67% of 93 clients who have started business) are organised individually and 22.8% in partnership with family and relatives. Furthermore, about 75% of the urban and 33ss% of the rural clients work individually as sole proprietors. The distribution by ownership shows that it is rare to work together, particularly in businesses such as partnerships and co-operatives. This often aggravates the capital and skill limitation of the clients' enterprises. Here it may be appropriate to create awareness though training about pooling resources to work together for mutual benefit.

Table 15: Type of Microenterprise ownership

Type of enterprise ownership	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Individually	29	38.2%	4	7.8%	33	26%
With relatives	25	32.9%	38	74.5%	63	49.6%
With Group members	22	28.9%	7	13.7%	29	22.8%
Others			1	2%	1	0.8%
			1	2%	1	0.8%
Group Total	76	100%	51	100%	127	100%

The loan of sample clients varies from Birr 200 to Birr 2500. More than half (52. %) of the clients took Birr 500 and above during the first loan, i.e. about two-third of the rural clients and one-third of the urban clients took Birr 500. Look at Table 16 below for details.

Table 16: The amount of the first loan by sample clients in Birr

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Col %
		Count	Col %	Count	Col %		
Amount of loan received	200	1	1.3%	1	1.9%	2	1.6%
	250	1	1.3%	1	1.9%	2	1.6%
	300	6	7.9%	6	11.8%	12	9.4%
	400	4	5.3%			4	3.1%
	500	50	65.8%	16	31.4%	66	52%
	600	4	5.3%			4	3.1%
	700	3	3.9%	1	1.9%	4	3.1%
	800	3	3.9%			3	2.4%
	900	1	1.3%			1	.8%
	1000	3	3.9%	14	27.5%	17	13.4%
	1500			7	13.7%	7	5.5%
	2000			3	5.9%	3	2.4%
	2500			2	3.9%	2	1.6%
	Group Total		76	100%	51	100%	127

The mean loan of urban and rural areas is Birr 963 and Birr 525 respectively. The median loan for urban and rural clients is Birr 1000 and Birr 500 respectively. It seems that higher loan is given to the urban clients than the rural ones. Only 13% of the rural clients took more than the average loan of Birr 693 while 57% of the urban clients took above the average loan.

Table 17: The average loan size of sample clients in Birr

Residence of client respondent								Group Total			
Rural				Urban				Count	Mean	Median	Mode
Count	Mean	Median	Mode	Count	Mean	Median	Mode				
76	525	500	500	51	963	1000	500	127	693	500	500

Table 17 shows that about 55% of the urban clients took Birr 1000 and above in their first loan, but from the rural areas it is only 4% who took Birr 1000 or above in their first loan. This may be caused by various factors. On the one hand most of the urban clients are engaged in petty trade that provides immediate return. On the other hand, as table 18 shows, about 41% of the rural clients intended to invest the loan on livestock that does not provide immediate return.

Furthermore, the urban clients, more or less, rely on the income of their enterprise for subsistence, making them committed and with entrepreneurial skill while for the rural clients it is additional source of income. In addition to this as Table 19 shows more than 20% of the rural clients seem to use the loan for consumption, probably to smoothen consumption in difficult seasons. It is also possible that the urban clients have relatively better experience and exposure in microenterprise activities.

Table 18: Main intended use of the first loan

Main intended use of the loan	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Working capital	2	2.6%	4	7.8%	6	4.8%
Household consumption	42	55.3%	46	90.2%	88	69.3%
Livestock	1	1.3%	1	2%	1	0.8%
	31	40.6%			32	25.2%
Group Total	76	100%	51	100%	127	100%

About 69.3% of the respondents had the intention to use it as a working capital. The remaining 30 percent have taken it for consumption and this influences the impact that the microfinance services have on the lives of the clients. About 90.2% of the urban and 55.3% of the rural clients reported that they had an intention to use it as a working capital. One out of any four clients [25.2%] reported that their intention was to buy livestock; and this accounts for 40.8% of the rural and 2% of the urban clients.

Table 19: Actual use of the first loan in Birr

Actual use	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Working Capital	18	23.69	30	58.82	48	37.82
Household Expenses	18	23.69	2	3.92	20	15.74
Other non-productive Activities	31	40.78	4	7.84	35	27.55
Working Capital and other non productive activity	9	11.84	15	29.41	24	18.89
Group Total	76	100	51	100	127	100

Regardless of their intentions, only 37.8% of the clients reported that they actually used the loan that they took for working capital. About 58.8% of the urban respondents and 23.7% of the rural respondents used it for working capital. In addition, about 15.74% of the clients (23% of the rural and about 39% of the urban clients) used their first loan purely for household expenses [in food, clothing, and other supplies].

Besides, in the rural areas additional 41% of the clients have used the first loan for other non-productive purposes while it is only 7.84% for the urban clients. Generally 64.7% of the rural clients and 11.76 of the urban clients used the loan for non-productive purposes. This may have been caused by the inability of the MFI to meet the demand of its clients because it is often supply driven. The fungibility of money may also have its contribution to the misuse of the loan. The remaining balance of 18.89% of the loan (11.84% of rural and 29.41% of urban) is also shared for working capital and other non-productive purposes. According to the above empirical evidence, it seems that there is a significant difference in the actual use of the loan between the rural and urban respondents.

Similar analysis was also made for the second loan. The minimum amount that the clients took is Birr 100 and the maximum is Birr 2,500. The number of clients who have taken the second loan is very low as compared to the first one.

Table 20: Amount of the 2nd Loan in Birr

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Amount of loan received	100	33.3%	10	28.6%	11	28.6%
500			3	8.6%	3	7.9%
800	2	66.7%	15	42.9%	17	44.5%
1000			2	5.7%	2	5.3%
1500			3	8.6%	3	7.9%
2000			2	5.7%	2	5.3%
2500						
Group Total	3	100%	35	100%	38	100%

It is only 38 clients who have taken loan for the second time and the majority is from the urban areas. The main reason cited by the respondents was because of failure of members to repay the loan many of them could not take loan for the second time. Other respondents from rural areas have also stated that they could not repay because of drought and low agricultural yield.

The mean amount of the second loan is Birr 1003 and varies between rural and urban clients. The average loan size of the urban clients is almost twice of that of the rural clients. Moreover the number of rural clients who were able to take the second loan is only 3 (or 3.94%), which is negligible. One of the causes for significant reduction of the number of clients in the second loan may be the area and success in the investment of the first loan. There is a possibility that about 65% of the rural

clients may have spent the loan on non-productive consumption and certain part of the loan (about 12%) was also shared for working capital and other non-productive expenses.

Table 21: Average amount of the second loan in Birr.

Residence of respondent								Total			
Rural				Urban				Count	Mean	Median	Mode
Count	Mean	Median	Mode	Count	Mean	Median	Mode				
76	567	800	800	51	1040	1000	1000	127	1003	1000	1000

Another point observed in the table above is the average loan size of the second loan is greater than that of the first loan. The rate of increase for both rural and urban clients is similar although the number of repeat clients in the rural area is insignificant.

Table 22: Intended use of the second loan by sample clients

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Main Intended use of the loan when received	73	96.1%	16	31.4%	89	70.1%
Working capital	2	2.6%	35	68.6%	37	29.1%
Others (Specify) _____	1	1.3%			1	.8%
Group Total	76	100%	51	100%	127	100%

In the second loan 92.1 of the sample clients are urban. Moreover, table22 shows that 37 clients (97.36%) intended to use the second loan for working capital.

Table 23: Actual use of the second loan by sample clients

Actual use of the loan	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Working Capital	-	-	24	68.58	24	63.16
Household Expenses	2	67	2	5.71	2	5.26
Working Capital and other non productive activity	1	33	9	25.7	10	26.31
Group Total	3	100	35	100	38	100

In the second loan the discrepancy between intended and actual use is comparatively smaller, particularly in the urban areas. This may show that the conscious effort of the clients in their business and relatively better stability of their enterprise.

Table 24: Amount of the third loan by sample clients in Birr

	Residence of the respondent		Group Total		
	Urban		Count	Col %	
	Count	Col %			
Amount of loan received	500	8	30.8%	8	30.8%
	1000	11	42.3%	11	42.3%
	1200	1	3.8%	1	3.8%
	1500	5	19.2%	5	19.2%
	2500	1	3.8%	1	3.8%
Group Total		26	100.0%	26	100.0%

Based on Table 24 above, the number of clients is again reduced from 38 in the second loan to only 26 in the third loan. Moreover all the clients are in urban areas. This shows that almost all rural women did not have access to regular loan or microbusiness loan. As Table 24 shows the amount of the third loan varies from Birr 500 to Birr 2500.

Table 25: Average amount of the third loan

	Residence of the respondent					Group Total				
	Urban					Count	Mean	Max	Mini	Mode
	Count	Mean	Max	Mini	Mode					
Amount of loan received	26	1008	2500	500	1000	127	1008	2500	500	1000

The results in table 25 show that the modal amount is Birr 1000 and the mean amount of the third loan is Birr 1008, which does not significantly vary from that of

the second loan.

Table 26: The intended use of the third loan by sample clients

	Residence of the respondent		Group Total		
	Urban		Count	Col %	
	Count	Col %			
Main Intended use of the loan when received	Working capital	26	100.0%	26	100.0%

The intended use of the third loan was all in all for working capital. In fact as Tables 26 and 27, show there is a variation between the intended use and actual use of the third loan.

Table 27: Actual use of the third loan is mainly on working capital by sample clients.

Actual use	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Working Capital	-	-	20	76.92	20	76.92
Household Expenses	-	-	2	7.69	2	7.69
Working Capital and other non productive activity	-	-	4	15.39	4	15.39
Group Total	-	-	26	100	26	100

Generally it seems that as the clients get more experienced, the intention they have and the actual use gets more and more correlated. This may be because they developed better business skills and they may be recognizing that the income from their enterprise activity is significant, making them more entrepreneurial. There is a variation in the degree of correlation between intended use and actual use of the loan between clients in rural and urban areas.

From the 127 sample clients, 34 respondents have not actually started business. Either they have used the loan for consumption or other non-productive purposes; or

they were simply unable to manage. The source of start-up funds was also studied. One out of two respondents [50.4%] started with the program loan, i.e. 83.33% of the rural and 43.18% of the urban clients with the microloan from DECSI. About 14% of the clients also reported that they started it with household or personal saving; and this accounts for 7.4% of the rural and 22.72% of the rural clients. It seems that the urban clients have other sources than the loan. Besides there is also relatively longer business experience in the urban areas that their businesses may have started prior to the provision of microfinance services.

In addition, 5% (9.09% of the urban and 1.85% of the rural) of the sample clients reported that program loan and family are the sources of capital for starting the microenterprise activity.

Table 28: The trend of business profit during the last two years

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Col %
		Count	Col %	Count	Col %		
The trend in the level of business profit during the last two years	No Response	31	40.8%	7	13.7%	38	29.9%
	Increased significantly			1	2.0%	1	.8%
	Increased	11		19	37.3%	30	23.6%
	Remained the same	13	17.1%	4	7.8%	17	13.4%
	Decreased	17	22.4%	20	39.2%	37	29.1%
	Decreased significantly	4	5.3%			4	3.1%
Group Total		76	100%	51	100%	127	100%

Table 28 shows that, in addition to the 34 clients who were unable to start their business, additional 4 clients were unable to manage their business and thereby 38 respondents did not reply on the level of their business profit. In the rural areas the most common reason reported by the clients is death of animals, particularly sheep and chicken, because of epidemic diseases. As a result, many reported during the

interview and focus group discussions that most of them are unable to repay the loan. In the urban areas, peace and stability is reported to be a major problem for poor sales of their products, particularly those engaged in preparing and selling beverages and food items because of lack of demand for their products.

Due to the misuse of the loan for consumption and other non-productive activities and the prevalence of unstable weather it is only 89 respondents who tried to run the business. Out of the 89 clients who managed to continue their business, 31 respondents (24.4% of the clients) reported that the business profit has increased during the last two years and 17 respondents (13.4%) of the clients reported that it remained the same. Besides, 31(34.83%) and 17(19.1%) of them were able to increase and retain their income respectively. With the prevalence of such constraints, the researcher feels that it is partially a success even to retain their income.

About 39.3% of the urban and only 14.5% of the rural respondents reported that the profit has increased during the last two years. There seems to be higher profit in the urban areas than in the rural areas.

However, Table 28 indicates that the increase in business profit was less in both rural and urban areas. This may be the result of the declining agricultural production caused by unfavorable weather condition because most of the respondents own farmland. Again when the purchasing power of rural people declines it will have a direct effect on the demand of many goods and services provided by the urban clients.

From the 89 clients who are able to manage their business almost half of the clients generate a significant amount of income from their enterprise. Moreover, the amount of income generated from the microbusiness is relatively greater and more significant in the urban areas. This may be due to the fact that the rural residents usually use their agricultural products for their subsistence and other household expenses.

Table 29: Proportion of household income from the enterprise

Proportion of household income from the enterprise	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
All	31	40.8%	7	13.7%	38	29.9%
More than half	3	3.9%	18	35.3%	21	16.5%
About half	4	5.3%	9	17.6%	13	10.2%
About one-fourth	5	6.6%	4	7.8%	9	7.1%
Negligible	10	13.2%	5	9.8%	15	11.8%
	23	30.3%	8	15.7%	31	24.4%
Group Total	76	100%	51	100%	127	100%

Table 29 indicates that out of 89 who have started business, 21 respondents (16.5%) and 13 respondents (10.2%) reported that all and more than half of the income comes from the enterprise respectively. From the 45 rural clients 18 of them have reported that all their income is generated from the micrienterprise activity. From the 89 respondents, 15 of them reported that about one-fourth of the income comes from the enterprise. About 58 respondents out of the 89 clients reported that more than one-fourth or more of their household income comes from the enterprise.

The first most important household expenditure [for 60.6%] of the clients is household living expenses; and accounts for 72.5% of the urban and 52.6% of the rural respondents. This may be due to the fact that the rural residents usually use their agricultural products for their expenses.

Out of the total 127 clients, it is only 28 (about 22%) who were unable to repay their loans regularly. The major reason given during the interview and the focus group discussion was deployment of males (husbands and sons) who had active role in running the business because of the war with Eritrea. This was particularly observed in business such as livestock trade, fattening, and grain trade that involved traveling greater distance for buying and selling. Other reasons included by the clients were using the return from the enterprise for household expenses (11,8%), lack of adequate profit (7.1%) and loss or damage (1.6%) in descending order.

The sample clients were also asked on whether they have personal savings or not. It is only 71 clients (62.28%) that have reported that they have cash savings. The remaining 43 clients (43.71%) stated that they know they have but they do not really know about the amount of their savings with DECSI. Also, the thirteen dropout clients have no personal savings although they used to save before they left the program.

From the above explanations it is possible to say that there is no as such a basic awareness and knowledge about the savings and other forms of capital accumulation. Besides, it is also possible that other people, other than the client, may have utilized the loan taken. In fact DECSI managed to mobilize huge amount

of savings from its clients but it is almost without building the awareness about the benefits to clients themselves. This may call for close follow up and orientation on some advisory services from DECSI staff. Actually the amount of savings accumulated by the sample clients is shown below.

Table 30: Amount of compulsory saving by sample clients

		Count	Col %	Mean	Median	Mode
Residence of the respondent	Rural	76	59.8%	58	46	40
	Urban	51	40.2%	111	80	25
Group Total		127	100%	86	50	25

Based on the amount of the loan and the duration of the clients the average amount of compulsory saving is Birr 111 and Birr 58 in the urban and rural areas respectively. The average compulsory saving of the urban clients is almost twice than that of the rural clients.

Table 31: Amount of Voluntary saving by sample clients

		Count	Col %	Mean	Median	Mode
Residence of the respondent	Rural	76	59.8%	41	24	24
	Urban	51	40.2%	277	72	10
Group Total		127	100%	162	30	24

Table 31 shows that the mean level of voluntary saving is Birr 162 and it is significantly higher for urban clients. It is Birr 277 and Birr for urban and rural clients respectively.

Concerning the trend of their personal savings, out of 127 clients (13.4%) reported that it is continuously increasing and 61 (48%) responded that it stayed the same because they have fully repaid and are not depositing in their saving accounts any more. Furthermore, other than the dropout clients who left the program, the

remaining 113 clients have not withdrawn their savings either because of group collateral or they want to continue with the DECSI program.

Clients may face various problems in starting or operating their businesses. Table 32 shows that about 27.6% clients reported that insufficient fund (lack of adequate working capital) was the main problem they faced. About 14% also reported that they have a combination of problems of insufficient fund ^{and} other related problems. Loss, theft, or damage and lack of market are also accounting for 4.7% and 3.1% respectively. Finally 22% have reported that they had not any problem in starting the business.

Table 32: Major problems of sample clients in starting their microenterprise

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
What were the major problems when you started your micro-enterprise?	18	23.7%	7	13.7%	25	19.7%
Insufficient fund	22	28.9%	13	25.5%	35	27.6%
Lack of suitable premises	1	1.3%	1	2.0%	2	1.6%
Lack of market	1	1.3%	3	5.9%	4	3.1%
Lack of input from suppliers	2	2.6%			2	1.6%
Cash flow	1	1.3%			1	.8%
Disagreement with spouse/family problem	1	1.3%			1	.8%
Theft (loss) damage	4	5.3%	2	3.9%	6	4.7%
Others (Specify) ___	7.00	11.90	14	27.4%	23	18.1%
No problem	17	22.4%	11	21.6%	28	22.0%
Group Total	76	100%	51	100%	127	100%

Data were also collected on whether the clients have major constraints in running their microenterprises. Accordingly about 37 clients (29.1%) reported that they did not face any problem. From the remaining clients about 25% (out of which the greater majority are urban clients) reported that they had working capital and other related problems. For the rural clients, the most significant problem is loss or damage (6.3% of the total) that may be caused by loss and death of animals such as cow and sheep.

The sample clients were also asked about the destiny of their micro enterprise in the future. Accordingly, about 29.9% of the clients responded that they want to expand the existing business. But there is a significant difference between the urban and rural clients. About 60.8% of the urban clients and 9.2% of the rural clients want to expand the existing business. This may imply the relatively better knowledge and entrepreneurial skill of the urban clients acquired during their relatively longer work experience.

Table 33: The future plan of the clients with the microenterprise

The future plan of the respondents with the microenterprise	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Maintain Existing Business	24	31.6%	8	15.7%	32	25.2%
Expand Existing Business	10	13.2%	5	9.8%	15	11.8%
Diversify Business	7	9.2%	31	60.8%	38	29.9%
Close Existing Business	1	1.3%	4	7.8%	5	3.9%
Do not know	9	11.8%	2	3.9%	11	8.7%
	25	32.9%	1	2.0%	28	20.5%
Group Total	76	100%	51	100%	127	100%

About 11.8% of the clients want to maintain the existing business, i.e. 13.2% of the rural and 9.8% of the urban respondents want to maintain the existing business. About 11 clients (8.7%) have the plan to close it; out of which 9 clients are rural. Above all, what is surprising is that 20.5% of the clients do not know about the future of the enterprise that they have; they failed to plan and this may directly imply that that do not have any entrepreneurial skill or courage to decide. So 32.9% of the rural respondents seem to be the victims of lack of entrepreneurial skill.

Out of the total rural sample clients of 76, only 10 (13.16%), 7 (9.21%), and 9 (11.84%) have the intentions to maintain, expand, or diversify their businesses respectively. The remaining 65.78% of the rural clients have either terminated the business or do not know about the future of their businesses. One of the most significant implications of such variable outcomes between rural and urban can be the need for business development services to equip them with at least the starting knowledge and training or possibly providing loans based on their real demand including for consumption purpose.

Expenditure in the clients' households

Out of the total clients about 52% of them live in their own homes and the others use rental and free houses of their families. Again 50% of those who owned their houses were able to improve or repair their residential house. In the rural areas, it is almost one third of the total clients who have made some repairs on their residential houses.

About 12.6% (16 clients) have also reported that they did expansions to their residential houses still with major proportions in the rural areas. It might not be spent

in the income generating activity but still with positive effect on the life of the clients' households. In the focus group discussions some clients have reported that they had borrowed the loan in difficult or slack seasons, for repair or smoothing consumption.

Data on amount of food consumption in the households of the clients were also collected. Accordingly about 11.6% of the total clients have reported that their food consumption has increased. About 18.1% of them have reported that they had the same consumption. With the prevalence of unstable weather maintaining the same consumption level is a positive effect of the financial services of DECSI. About 8% of the clients reported that their source of income for the increased food consumption is profit from the micro enterprise mainly for the urban clients.

Data were also collected on the coping mechanism used by clients during hunger or difficult seasons. Still the role of the microfinance service is partially smoothing consumption, even without investing it. About 11 respondents ((8.7%) reported that they use DECSI microloan as a coping mechanism during difficult seasons. Most of them managed to repay the loan even if the loan was spent in consumption during difficult seasons. Thus the implication is that it may be feasible to lend even for consumption so that microfinance services would be demand driven instead of supply driven.

The respondents were also asked on the frequency of buying clothes for the members of the household, and around 48% of them buy clothes once a year for all household members, and about 12% of the clients buy clothes for household

members in less than one year. The responses are more or less similar in the urban and rural areas.

Furthermore, out of 51 household members of clients, who needed medical attention, 47 of them were taken to medical centres for treatment. Out of the 47 again 16 and 2 of them (all from the urban clients) were treated using money from business profits and DECSI loan respectively. For the rural households, the source of the money for medical treatment uses mainly borrowing from others and sale of livestock. This again is another evidence for the misuse of the loan by rural clients for non-productive activities. On the other hand, in the urban clients microfinance is having a positive impact in improving the health status of clients' households.

4.4 Characteristics and Problems of Dropout Clients and their Enterprises

Out of the thirteen dropout clients only two have not withdrawn their savings and the remaining have spent it in household expenses and other non productive activities, including payment of debt borrowed from other individuals. As to the constraints faced by the clients in operating their enterprise, it is greatly associated with lack of market.

Four of them reported that their basic constraint is market problem and other three clients have simply consumed it because of drought and one reported that she had no skill. Data was also gathered as to who made the decision to exit the program and 10 out of 13 stated that they have made the decisions themselves. This shows that female clients are empowered to make such significant household decisions. The clients also reported that the loan had helped them and their family in many

ways. Three of them reported that they consumed more and better food and other 6 clients reported that it helped them to educate their children.

Furthermore, table 34 and 35 describe about the contribution of microfinance services to improve their lives and about their experience with DECSI services. Generally there is no as such a significant difference between the experience of existing and dropout clients.

Table 34: The impact of microfinance on the lives of dropout clients as perceived by themselves

Actual use of the loan	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Helped me a lot	6	60	2	66	8	61.54
Helped me a little	1	10	1	33	2	15.38
Did not help me at all	1	10	–	–	1	7.69
Loan was burden	2	20	–	–	2	15.38
Group Total	10	100	3	100	13	100

Eight out of thirteen sample dropout clients have reported that the microfinance services provided by DECSI has helped them a lot in their lives. Although it may not be significant the microfinance service has also helped two additional dropout clients to a certain extent. In fact two out of thirteen clients have reported that the loan was burden to them

Table 35: The Evaluation of clients on the services of DECSI

Your Experience with DECSI	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Very Good	2	20	1	33	4	30.77
Good	4	40	2	66	5	38.46
No effect	2	20	-	-	2	15.38
Bad	2	20	-	-	2	15.38
Group Total	10	100	3	100	13	100

Table 35 shows that even the dropout clients have terminated their relationship with DECSI, their evaluation on the services provided by DECSI is satisfactory.

Out of the 13 dropout clients five clients rated the microfinance service of DECSI very good and four clients rated it good. In stating their reasons for exit, 4, 3, and 2 clients said that the primary reasons were personal, economic, and problems with group lending respectively.

4.5 The Impact of DECSI Services on the Empowerment of Women

Empowerment of women is often difficult to explain in unidirectional way. It is often multidimensional expressed by many variables including the following:

- Improvement in attitude of men towards women, because of better bargaining position.
- Reducing the level of quarrelling
- Involvement of women in major household decisions
- Control over financial and other resources
- Respect of women by their male partners
- Self confidence and self image

Table 36: Major results of microfinance in empowerment

Measures	Rural		Urban		Total		Remark
	No	%	No	%	No	%	
Increased positive attitude of spouses	21	55%	15	75%	36	62.07%	
Increased participation in major household decisions	7	18.42%	10	50%	17	29.31%	
Reduced quarrel and confrontation	5	13.6%	10	50%	15	25.86%	
Increased respect by spouses	6	15.79%	11	55%	17	29.31%	
Increased self-confidence	24	31.58%	35	68.63%	59	46.46%	All clients
Increased self-image in public	13	71.1%	4	7.84%	17	13.38%	All clients
More quarrel	4	10.5%	–	–	4	3.15%	

Although these may not be the only variables used to measure empowerment, the study by and large emphasised on the above mentioned variables.

Out of the 58 married clients 62.07% (21 from rural and 15 from urban) have responded there is a positive change in the attitudes of their spouses towards them. In other words about 55.26% of rural married clients and 75% urban married clients have stated there is improvement in the attitude of their spouses. Besides it is also relatively higher in the urban areas. For the rural clients the microenterprise is often additional source of income.

Furthermore 7 clients from the rural (18.42%) and 10 from the urban clients (50%) have responded that their participation in major household decisions has increased. Here the number of clients who have improved the decision making power is far less

than the improvement in the attitude of spouses. This may be because a change in attitude is almost moral or theoretical while decision making is practical or actual. But still microfinance seems to contribute to empowerment of women in both cases although with different proportions.

The status and trend of quarrelling and confrontation was also as an indicator of empowerment affecting gender relations. Accordingly 5 clients (13.6%) of rural clients and 10 clients (50%) of the urban clients have reported quarrels and confrontations with their male spouses are reduced. On the other hand, in the rural areas 4 (10.5%) reported that the quarrels are more than before.

The respect given by their husbands was also studied. Based on the results of the sample survey, six from rural (15.79%) and eleven (55%) from the urban reported that the respects by their husbands had increased. On the other hand, three from the rural areas stated their respect by their male spouses is reduced. This is likely to be affected by the decisions on loan repayments and sense of independence of the women from their partners.

All the clients were also asked two questions about their self-confidence in household decisions and their self-image in the public. Accordingly, 24 from rural areas (31.58%) and 35 (68.63%) from urban clients reported their self-confidence has increased on what they do and say. On the other hand it is only thirteen (17.1%) in rural and only 4 (7.84%) in urban areas that reported that their public image is enhanced.

4.6 Relationship with DECSI

There does not seem to be great dissatisfaction with many of DECSI services except for group collateral and group dynamics. Moreover, the experience of all the 127 clients with DECSI seems to be similar for both rural and urban clients. According to table 36 shown on the following page, at an average more than 70% of clients rated the first five characteristics satisfactory or above based on the clients' perceptions.

Table: 37 DECSI Services as rated by perceptions of the respondents

DECSI Services	RATE												Sub Total	
	Excellent		V. Good		Satisfactory		Fair		Poor		No Rate			
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Interest Rate	12	12	29	20	3	1	4	2	11	10	17	–	76	51
Loan Size	19	17	41	19	1	2	1	2	1	5	13	6	76	51
Lead Time	15	10	39	19	4	9	3	2	2	5	13	6	76	51
Grace Period	3	6	37	27	10	5	5	2	7	5	14	6	76	51
Repayment Period	4	4	34	27	11	3	8	7	6	4	13	6	76	51
Group Guarantee	2	2	21	27	4	–	5	7	31	25	13	6	76	51
Group solidarity	1	2	19	7	3	–	7	8	32	28	14	6	76	51

CHAPTER V

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

5.1 Summary of Major Findings

There is a claim that married women have more access to microfinance services, because of the influence of their husbands, than female headed households. About 51.2% of clients are not spouses and this implies that spouses and the other clients have similar access to credit in terms of number. However, in terms of amount women have less access than men in the study area. The researcher has tried to look for the details of all the loans provided to all clients in the three kebeles including Hawzen town.

Table 38: Average amount of credit in Birr in the first loan

Clients	Residence of respondent		Total
	Rural	Urban	
Female	525	963	693
Male	803	1800	968

Table 39: Average amount of credit in Birr in the 2nd loan

Clients	Residence of respondent		Total
	Rural	Urban	
Female	567	1040	1003
Male	1074	2210	1262

As Tables 38 and 39 show, the average loan size of urban female clients is almost double to that of rural clients (184%). This is likely to be caused by lack of business experience in the rural areas and their limited entrepreneurial skill. In addition to this, there is a marked difference between the loan size of males and females even within the rural areas. This shows that rural women are the most disadvantaged in their access to credit, like any other services. There is also a significant difference in the average loan size of male clients in rural and urban areas (see Tables 38 and 39 above). Therefore, the residence area of the clients seems to be a major factor for access to credit and potential success.

Also in the third loan there were no rural women who had access to credit in the rural areas. There were only 26 women clients from the urban area who had the access to credit. Furthermore, the loan amount of female clients was at an average Birr 1008 while that of urban male clients was Birr 2400, which was about 238% of the loan of women clients in the urban.

For about 39% of rural and 20% of urban clients, the primary reason to join the microfinance services is low agricultural yield because of unstable weather, which is completely beyond their control. And yet they have no any background or skill in business related activities. In this case, unless the unskilled and untrained women are exposed to business and records management systems their failure may also be sure.

What makes it worse is also that most of the clients (55.1%) are not accustomed to pooling their resources and work together to complement each other, such as in co-operatives and partnerships. This area may also require sensitization, promotion and support by different stakeholders.

Another important finding is that clients spend a significant proportion of the loan for household and other non-productive activities that provide no return other than consumption. For example, in the first loan about 43% of the clients spent

their loan in consumption and other non-productive activities. Although some of it may be caused by the fungibility of money, due to the unstable weather and the resulting low agricultural yield, most of it may have been used to smooth consumption or coping mechanism for income variability.

A quarter of the sample clients rely on their microenterprises for 50 percent or more of their income, particularly in the urban areas. For example, 21 clients (16.5%) of the respondents reported that 100% of their subsistence income comes from the income generating activity. Therefore, it is becoming a basic means of self-sustenance for many poor people.

During the focus group discussion, one of the clients underlined the significance of MF services in her life as follows:

*Had it not been for the microfinance services provided by DECSI,
I would not have been here, I would have migrated somewhere.*

Another client has also addressed the significance, MF services on the life of poor women in the following way:

*Why do you ask us whether we have accumulated
assets such as livestock and other fixed properties? In
the absence of sufficient agricultural yield (caused by
unstable weather), we are surviving or have something
to eat to sustain our lives because of DECSI credit.*

Therefore microfinance seems to play a major role, probably a determinant role for some of the poor women in the survival and life of their households. This means even what is spent in consumption is playing its own role in their lives.

In expenditure aspect, relatively more female clients in the rural areas are likely to spend their loans in non-productive activities such as consumption during hunger or difficult seasons to smooth variability of income and investments in

house repairs and expansions that are often made during the summer season. For example, in the rural areas about one third of the clients partially used the loan for repairing their houses and 16 clients (12.6%) from both rural and urban areas managed to expand their houses with the partial support of the credit. Although such spending is not made on productive purposes, it may be contributing to the life of poor women households.

In addition to sustaining the income of the clients, about 11.6% of the respondents have reported their food consumption is increased. With the prevalence of unstable weather, directly or indirectly, microfinance is contributing (at least partially) to increased food consumption. Also from the 47 household members of the clients taken to medical centers for treatment, sixteen of them (all from urban) used IGA business profit and two from rural used DECSI loan as a means to pay the medical fees. Therefore, particularly in the urban clients microfinance is having a positive impact in improving the health status of the clients' household members.

The data also shows that the frequency of buying clothes for household members also seems satisfactory, given the level of absolute poverty, because about 60% of the clients reported that they buy clothes for household members in one year or less time. The drop out clients have also reported (76.92%), that microfinance services provided by DECSI have helped them somehow in their lives.

5.2 Conclusions and Recommendations

MFIs can seriously compete with informal lenders and provide a real choice to MFI member households only by designing a differentiated and diverse lending...to household resource endowment (Sinha and Matin, 1998).

One of the major objectives of MFIs is to access money to the poor who are denied by the formal banks and who are unable to afford the interest levied by private moneylenders. Thus MFIs, including DECSI, are expected to aim at reducing the dependence of poor households on private moneylenders, even for consumption during difficult seasons in their effort to reduce income variability. Microcredit can play its own role in reducing vulnerability in consumption levels and out migration and thereby enhancing productive activities.

All households do not use Microcredit for directly productive purposes. Resource poor households tend to use at least part of the credit for smoothing consumption or other purposes such as repairing houses in summer (kiremt), or school expenses during September, which is one of the difficult seasons for poor farmers because it is just before the harvest season. This may prevent poor women households from selling their fixed assets such as livestock for coping mechanism purposes during hunger or difficult seasons.

Most programs are not optimally designed nor necessarily offering the most desirable financial products (Morduch, 1999). Similarly as shown in the findings, a significant part of DECSI loan is spent on household consumption and other non-productive activities. Therefore it is important to identify and bridge such demand gaps and make microfinance services demand driven instead of supply driven. MFIs should not take the demand of the poor for credit for granted.

There is no agreement among people seeing poverty reduction as the ultimate goal of microfinance as to whether this goal is best fulfilled by exclusively targeting the poorest of the poor or by providing financial services on a broader basis to low income people.

Some women would have liked expert help in identifying profitable businesses. Others expressed their difficulties in choosing profitable business lines and their desire to seek expert help to direct them in making profitable choices. They are ignorant of what feasibility studies are and their importance. (Catherine, 1998)

These constraints are even worse in the microenterprises financed by MFIs that start with zero experience. It is only access to credit that might be solved through the microcredit service not the success nor sustainability of the microenterprises. Credit is necessary but not a guarantee for success in reducing or alleviating poverty.

The conflicting views and results on the impact of microfinancing, particularly on empowering women, attract the attention for further research. Moreover income generating activities run by women are more vulnerable and their sustainable impact in the long run and possibility of being transformed to microenterprise development seems to be limited by their skills and knowledge of business, inadequate feasibility studies, and other technical support. Otherwise it can even be a cause for vicious circle of poverty.

The existing MFIs in this country should diversify or modify their products to widen their services to the poorer and poor categories of the society although priority should be given to the poorest of the poor because poverty alleviation efforts should be transformed to development efforts through microenterprise

development. Thus, the maximum ceiling for microcredit loan deserves attention by policy makers.

Therefore to ensure sustainability in poverty alleviation and transform to development, MFIs should diversify or modify their products for microenterprise development. Finally delivery of such services should be designed in a cost effective way by integrating the efforts of relevant institutions.

Moreover the long run sustainability of microenterprises supported by MFIs can be questioned. The potential actors in providing nonfinancial support or business development services in this country can be

- Training and Research institutions
- Regional Bureau of Agricultural Development
- Regional Office for Agricultural Cooperatives Promotion
- Regional Agency for Micro and Small Enterprises Development
- Donors

It may not also be necessary to replicate Grameen experiences, as they can limit research and demand analysis. Thus lending to individuals based on collateral, as an option also deserves attention. Even the social collateral needs further analysis and study to see alternative options, such as modifying the group size, i.e. reducing to less than five may be more manageable in collecting repayment although it might increase risk costs. Ways of encouraging saving mobilization should be designed to support sustainability of the MFI. For example part of subsidies, if at all, can be allocated to raise saving rate in order to enhance saving and capital accumulation.

Finally, limited research is done on the impact of microfinance on the beneficiaries, particularly in Africa. Thus critical studies and impact assessments should be conducted by Microfinance Institutions to identify problems and limitations of MF supported income-generating activities.

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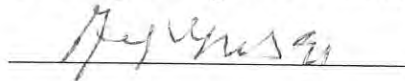
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Signed Declaration

The thesis is my original work and has not been presented for a degree in any other university and all sources of materials used for the thesis have been duly acknowledged

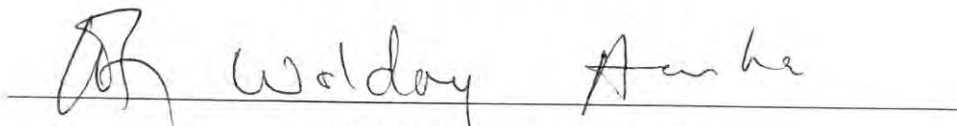
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November 2003

The thesis has been submitted for examination with my approval as an advisor



Wolday Amha (Ph.D)

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THE IMPACT OF MICROFINANCE ON POOR WOMEN:

A case study of
Dedebit Credit and Saving Institution (DECSI)
in the Eastern Zone of Tigray

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

By **Tesfay Aregawi**

November 2003
Addis Ababa



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Abstract

In Ethiopia about half of the population (about 44 per cent) live in absolute poverty. Although the causes of poverty and the corresponding measures to be taken in reducing or alleviating poverty are diverse, the importance of providing microfinance services to the poor is becoming a major tool all over the less developed countries, including Ethiopia

When properly designed, microfinance offers a variety of benefits to the poor people. Foremost, microfinance initiatives can effectively address material poverty, physical deprivation of goods and services through increased income, income diversification, consumption smoothing, and reduced variability of income.

In Ethiopia the delivery of microfinance services has increased in a short period of time. This study attempts to address the impact of microfinance services provided by DECSI on poor women and their households. In the case study, there is a marked difference in the loan size between male and female clients of DECSI. The loan size of urban clients was also significantly greater than rural clients in both men and women.

This study shows that directly or indirectly, microfinance services provided by DECSI are contributing to the sustenance and improvement of the life of the poor women and their households although the impact varies. Generally the study shows that microfinance contributes to Increase in income and diversified sources and reduced variability of income. It has also contributed to Increased consumption and improved living condition in terms of house repairs and expansions and medical services. Another contribution of the microfinance services is capital accumulation in the form of increased saving. Finally it contributed to better position of women in terms improved attitude and respect of their spouses, increased selfconfidence and self-image.

On the other hand, microfinance services have limited impact on entrepreneurial development and microenterprising, in sustaining and improving microenterprise profitability, requiring beyond credit services by respective stakeholders. The empirical evidence also shows implications for regulatory aspects of the microfinance services such as reviewing loan ceiling and repayment terms. It also indicated implications for diversifying microfinance products, reducing group sizes and considering lending on individual bases in widening microfinance services to the poor and poorer categories of the society in achieving poverty reduction and in the transition to poverty alleviation and securing development in the country.

CHAPTER I

INTRODUCTION

1.1. Background

About one billion people globally live in households with per capita income of under one Dollar per day (Morduch, 2000; Popoola, 1999). Increasing poverty worsens the poverty problem in the world today (Popoola, 1999), particularly in Sub Saharan Africa. In both developed and less developed countries the human livelihood is characterized by a sharp contrast of increasing disparity between the rich and the poor. Poverty alleviation is thus becoming one of the most important challenges faced by the policy makers of many less developed countries. The provision of financial services to low income households is believed to eradicate, (or at least reduce), poverty through the transformation of social and economic infrastructures (Morduch, 2000)¹.

The Microfinance industry itself is becoming a global phenomenon. The proliferation of microfinance programs, particularly microcredit, targeted to women is increasing from time to time. The World Bank is engaged in reducing poverty through promoting best practice in the microfinance industry and funding selected institutions to bring financial services to the poor. The provision of microcredit has been recognized as instrumental tool for eradicating and/or reducing poverty by many developing countries, including Ethiopia. From various studies, Park and Ren (2001)², summarize that microcredit programs have increased incomes and had other positive

¹ See The Microfinance Schism, World Development, Volume 28, No.4.

² See Microfinance with Chinese characteristics, World Development, Volume 29, No.1.

effects such as gender empowerment, improved nutrition, higher educational attainment, and reduced consumption variability.

However, there is partial evidence and is contested that microfinance would make a larger contribution to reduce poverty or promote small and micro enterprise development in most developing countries as compared to investments in social and economic infrastructures (Hulme, 2000; Johnson and Kidder, 1999)³.

The total population of Ethiopia as of July 1, 2000 is 65,344, 000 out of which 55,458,000 live in rural areas (CSA, 2000). Ethiopia is one of the poorest countries in the world. In Ethiopia about 45% of the population live below the absolute poverty line out of which 47% of the rural and 33% of the urban population is unable to fulfil the minimum living standard. About 85% of the total population lives in rural areas where agriculture is the main stay of the economy.

Rural development has thus become a primary strategy for improving the standard of living of the majority of the population, particularly the rural poor. The ruling party in Ethiopia, the Ethiopian Peoples Revolutionary Front (EPRDF) has designed an Agricultural Development Led Industrialization (ADLI) policy in involving the poor as targets as well actors of the overall development program of the country.

The poor peasants in our country have little money to buy oxen and other agricultural implements, use improved seeds, and fertilizers.

3 Hulme(2000). Impact Assessment Methodologies for Microfinance: Theory, Experience and better Practice. World Development, Volume 28, No. 1.
Johnson and Kidder(1999). Small Enterprise Development. Volume 10, No. 3.

One of the key problems faced by the farmer in using improved seed, fertilizer, and modern implements is lack of money. Although productivity increases as a result of modern agricultural inputs, the small farmer has neither initial capital nor credit facilities to fill the gap. Fast agricultural growth is unthinkable without solving this bottleneck (Five Year Development Strategy of the EPRDF, 1995).

In Ethiopia, out of the total rural population about 32,569,000 (48.84%) are women most of whom live in rural areas and rural women are about 42% of the total population in this country and 88 per cent of the Ethiopian women live in rural areas (CSA, 2000). Nearly 85 per cent of the labor force of rural women is spent on productive and reproductive agricultural activities. In most part of Ethiopia, rural women play a major role in securing food for the family.

The situation of Ethiopian Women

The current Ethiopian population is estimated to be 65,344,000 and women make up 49.8 percent of the total Population (CSA, 2000). More than 80 percent of the Ethiopian population lives in rural areas.

Women in rural areas work over 15 hours a day and they receive little economic benefit from their labor.

Too few women are represented in decision-making bodies in the country. They also have less access to education than men do (NOPE, 1999; cited in SERA, 2000).

According to CSA (1998), about 47 percent of the women are in the childbearing age and this constitutes 24 percent of the Ethiopian population. About Eighty-five percent of the Ethiopian people including women live in the rural areas (CSA, 1998) where social services such as education and health are very poor. Without making changes in the living conditions of such a significant part of a population, thinking of development is impossible. Any development policy, program, project or activity which attempts to reduce poverty has to address the situation of women properly, i.e. it should consider the key variables that positively influence the status of women.

The Challenges of the Tigrean Women

Tigray is a region with total population of about 3.71 million out of which about 50.8 percent of them are females. About 16.5 percent of the population lives in the urban centers and the remaining 83.5 percent lives in rural areas. Tigray is a region that suffers from continuous drought and food crises. Its population also has suffered from a devastating civil war of 17 years (1975 – 1991). Such problems affected both men and women but the effect or impact is higher in the vulnerable groups of the population such as women, children and the elders. So all of the above already discussed problems of women in Ethiopia are true for the Women of Tigray also. However to be more specific, let us discuss the problems of women in Tigray. According to Tigray Region Bureau of Economic Planning and Development, some of the major problems of women in Tigray are indicated in the following page.

i) Economic

- *Lack of exposure, capital and information on different economic activities.*
- *Limited access to agricultural inputs and credit services.*
- *Limited skill and knowledge on different non-agricultural income generation activities to support their income.*
- *Low level of agricultural productivity due to high level of land degradation and drought. This has made women to be highly food insecure.*

ii) Social

- *Limited access to health and educational services.*
- *Existence of high illiteracy rate, which limits the participation of women in different job opportunities.*
- *Low enrollment in elementary, secondary and tertiary education*
- *High burden of work. At household level women are responsible to fetch water, collect firewood, prepare food, and look after children. This has reduced the time availed for other social and economic activities.*
- *Lower attention given to women tailored training.*
- *Low level of awareness on the part of women on the*

importance of education, health and family planning services.

- *Experience of harmful traditional and cultural practices such as early marriage and female genital mutilation (FGM).*
- *Higher HIV/AIDS infection*

iii) Political

- *Limited participation of women in different political and social position due to limited opportunities to increase their leadership capacity.*
- *Limited awareness on the part of women on existing family law and issues associated with women's rights.*

Women are more affected by poverty than men. They are engaged in harsh and laborious work taking less quantity of food with low nutritional value. School enrolment is low and as a result women do have limited skills. They are less empowered to make decisions and own resource (Fong and Perett, 1991).

Microfinance services are thus one of the tools with growing importance and recognition to improve the socio-economic status of women.

The status of Microfinancing in Ethiopia

The poor farmers in rural areas in country have little money to buy oxen, and other agricultural implements, use seeds and fertilizers. In fact lack of awareness and cultural problems are other facets that hinder the farmers from using modern agricultural inputs and technologies. Thus to involve the rural poor, the majority of the population, in the

process of development in many aspects and in sharing its benefits, the rural poor have to be helped to help themselves by creating access to resources, particularly access to finance.

On the other hand like in other less developed countries, formal banks operating in highly centralized urban areas. Due to their location and unrealistic collateral requirements, formal banks are inaccessible to the poor in general and to the rural poor in particular. The Commercial Bank of Ethiopia and the Development Bank of Ethiopia have only 170 and 32 branches respectively; and as of March 2001, the private banks all put together had 80 branches (Wolday, 2002).

Braverman and Guasch (1993); Webster and Fidler (1996); and Mulat (1999) indicate the following reasons, among others, as causes for the reluctance of banks (including in Ethiopia) to serve the rural poor and other microentrepreneurs.

- Physical remoteness of borrowers
- Lack of collateral
- Repayment for working capital can be required only once at the harvest season
- High cost of intermediation in geographically dispersed beneficiaries
- Small size of the transaction
- Mobility of many informal sector enterprises
- General lack of information about the borrowers
- Poor transportation

- Lack of confidence on the repayment of the loan by borrowers
- Lack of information

Because of the above mentioned reasons, bank's financial services are inaccessible to the poor. Thus delivering financial services to the poor requires an innovative targeting design and a credit delivery mechanism that helps identify and attract only the poor who can initiate and sustain productive use of loans (Wolday, 2002).

Beyond their original motive of relief services, NGOs have been assisting the poor to help themselves by providing rotating credit services for the rural poor in the form of circulating capital with low or no interest. While many NGOs had credit schemes for years, NGO programs that emphasize saving and credit began in early 1990s (Gebrehiwot, 2001). The basic limitation of NGOs, however, is that their outreach is limited and with vulnerable sustainability. The delivery of financial services in Ethiopia has also been viewed as an antipoverty tool because it helps the unemployed become employed, thereby increasing their income and consumption and reducing poverty (Wolday, 2002).

In using microfinance as a poverty alleviation tool in Ethiopia, the need to promote more sustainable microfinance institutions necessitated a regulatory framework. Following the proclamation No. 40/96 that provides for the establishment of microfinance institutions in July 1996, to date twenty micro finance institutions have been legally registered providing their services to more than 500,000 clients (Wolday, 2001). Dedebit Credit and Saving Institution /DECSI/ is the vanguard and the largest micro finance institutions

in the industry.

1.2 Statement of the Problem

The major producers in the agricultural sector are women because on the one hand they are engaged in activities directly related to crop production and animal husbandry almost equally with their male partners. On the other hand they are engaged in activities supporting the agricultural production such as food preparation, fetching wood and water, child rearing and caring etc.

Addis Truneh (2000), has addressed the problem of the Ethiopian women as follows:

*...about 35-40 per cent of the land in Ethiopia is mainly managed by women farmers. Moreover the wives in the male-headed households do participate in every agricultural activity*³.

Ethiopian women who constitute about 50% of the population and who consist the majority of the unemployed segment of the population are the most affected by poverty. Since the majority of the Ethiopian women live in areas where basic social services such as health, education and other infrastructures are non-existent, disease, malnutrition, and illiteracy is seriously affecting the life of women and children (Tsehay and Mengistu, 2002).

³ Economic Focus, Volume 3, No. 3

Given that there are heterogeneous categories of women in terms of relative wealth, marital status, religion, ownership of land, household headship and control over resources, the majority of women are the most affected by the low level and harsh conditions of the rural life. In providing microfinance services to the poor, DECSI, as a vanguard microfinance institution in Ethiopia has been encouraging women clients to be beneficiaries of its services. However, the majority of clients in DECSI are still males. However, there has been limited effort to study the impact of microfinance on the life of women in Ethiopia in general and in Tigray region in particular.

1.3 Research Methodology and Data Collection

1.3.1 Research Objectives and Questions

Research Objectives

General Objectives

The general objective of the study is to investigate the Impact of microfinance services on the situations and status of poor women at household and individual levels; and contribute to the understanding and the debate on the impact of microfinance in reducing or alleviating poverty and/or improving vulnerable subsistence economies.

Specific Objectives

- Investigate the impact of microfinance products of DECSI on the economic status of poor women in terms of:

Income

Living conditions

Asset and capital accumulation (saving)

- Investigate the impact of microfinancing on the empowerment of women in terms of:
 - Bargaining power
 - Control over resources
 - Decision making at household level
 - Self-image and self-confidence
- Investigate the implications of microfinance services for other socio-economic interventions such as business development services.
- Contribute to the understanding and debate on the impact of microfinance in alleviating or reducing poverty
- Identify problems encountered by female clients and necessary support services to strengthen the impact.
- Recommend on ways of designing gender sensitive microfinance products to enhance participation and success of women.

Research Questions

Women are the majority of the poorest of the poor in Ethiopia. As a result, microfinance services are being provided to poor women. However there are questions as to the access of women to microfinance and its contributions to the betterment of their life at individual, household, enterprise or community levels. The following are the major questions in relation to the impact of microfinance on the life

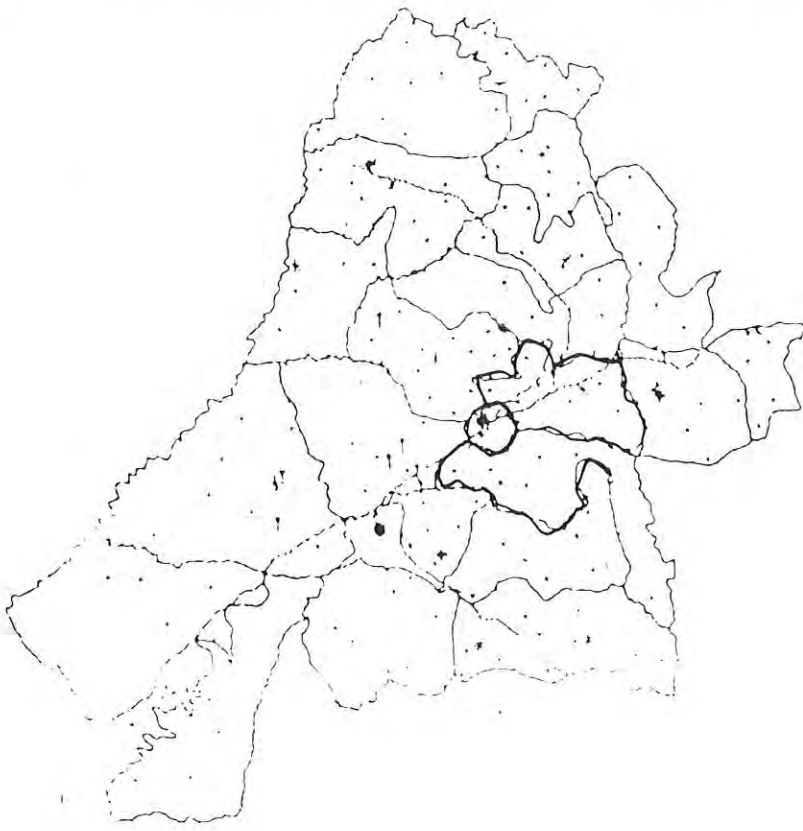
of poor women households.

- ◆ Do microfinance services have an impact on increasing or improving the income and living conditions of poor women?
- ◆ What are the major causes for the significance or insignificance of the impact of microfinance services on the life of poor women?
- ◆ Does the impact of microfinance really go beyond income smoothing?
- ◆ Does microfinancing have an impact on the empowerment of women?
- ◆ What are the major problems faced by the poor women clients and what are the necessary support services or interventions to be made by policy makers, Microfinance Institutions, Donors, and Training Institutions?
- ◆ Who are the targets? (The poorest of the poor, the poor, or the upper poor)?

1.3.2 Selection of the study area

Tigray is one of the drought prone areas devastated by famine and long period of civil war. The Eastern Zone of the region is crop dependent area with the most fragmented land, which is highly degraded. In addition to the frequent shortage of rainfall, the soil is also less fertile. Consequently, the Eastern zone is among the priority list that deserve intervention by the regional government and other non-governmental organizations. DECSI has intensive microfinance programs in Tigray. Accordingly, Hawzen, one of the most drought prone areas in the zone, is the target of the research study. Finally the study is conducted in one urban and two rural kebeles out of the 22 kebeles of the woreda.

Hawzen - Towns, villages and main infrastructures



Federal Democratic Republic of Ethiopia
 Bureau of Planning and Economic Development of Tigray
 Physical Planning Department
SRPT Project
 USAID Cooperation
 CRPM Accelerated Development

LEGEND

- Towns
- Villages
- Main roads
- Schools (N)
- + Health infra
- † Hydro point



Projection: UTM, Zone 37
 Datum: Adindan, Spheroid: Clarke
 The Bureau of Planning and Economic Development of Tigray, Ethiopia, in cooperation with the USAID, is preparing this map. Technical assistance is provided by the USAID, Bureau of Planning and Economic Development of Tigray, Ethiopia, and the USAID, Bureau of Planning and Economic Development of Tigray, Ethiopia.
 The source of information and material for this map is the 1:50,000 map of Tigray, Ethiopia, prepared by the USAID, Bureau of Planning and Economic Development of Tigray, Ethiopia, and the USAID, Bureau of Planning and Economic Development of Tigray, Ethiopia.

1.3.3 Data set

The data needed for the study includes both qualitative and quantitative data. The quantitative data is collected using sample survey of clients of DECSI through structured questionnaire and secondary sources. The sample survey included both current clients and dropout clients who have left the program in order to minimize unnecessary optimism.

The qualitative data was collected through focus group discussions with various key informants and participant observation.

The focus group discussion has included:

- Clients and non clients (including men)
- Credit and Saving Committees DECSI
- Key informants such as local administrators and leaders of Community Based Organizations
- Practitioners (DECSI Staff, including the general manager)

Sources of secondary Data

- Analysis and Review of Literature
- Dedebit Credit and Saving Institution
- Central Statistical Authority
- Association of Ethiopian Microfinance Institutions
- Tigray Bureau of Economic Planning and Development

1.3.4 Sampling Technique and sample size

The study has employed a multistage sampling. First, out of the twenty-two kebeles in the Woreda, seven kebeles whose walking distance is within two hours from the main road were purposely selected. In the second stage, Hawzen town as an urban area is purposely selected for comparison purpose. In the third stage out of the six kebeles, two kebeles were randomly selected to represent the rural area. Finally, a sample of 130 clients, proportional to the number of clients in each kebele, ^{was} randomly selected from the list of clients that was provided by Hawzen sub-branch office of DECSI. However, three questionnaires were invalidated that the analysis is made on 127 respondents only.

The sample clients included 13 dropout clients (i.e., 10 percent of the sample clients) whose number was determined based on the average percentage of dropouts in the woreda, which was provided by the DECSI sub branch.

1.3.5. Data Collection and Fieldwork

Questionnaire Survey

Two structured questionnaires were developed to collect information from both existing and dropout clients. The questionnaires were prepared in English and for clarity and convenience purpose, they were translated to Tigrigna.

Senior university students from Mekelle University who were also exposed to data collection in rural areas were used as enumerators for the study. This was arranged

in a way the data collection time fits the semester break of the university.

Half-day training was also offered to the enumerators. The questionnaires were pretested at Mekelle and the peripheral rural areas of Mekelle to represent the urban and rural areas of the study place respectively. Based on the feedback from the pretest, detail discussions were conducted with the enumerators to provide the enumerators with the feed forward about the data collection before hand. Finally necessary amendments were made in the questionnaires.

The researcher obtained sincere co-operation from DECSI staff. They facilitated the data collection process both at the head office and at Hawzen branch. The sub branch provided the list of clients in all kebeles.

The questionnaires were filled in the residence areas of the clients door to door. All questionnaires were being checked by a supervisor and approved by the researcher at the end of every day. Series of discussions were also conducted on half-day basis to exchange experiences.

Focus group discussions

Focus group discussions were also conducted simultaneously with the credit and saving committee, and local administrators, clients and non-clients at each kebele. Personal observations are also made on the houses and enterprises of the selected clients. The researcher has used basic questions related to impact to guide the

discussion with the key informants.

Discussion with DECSI Staff

When data collection at the field level was finalized interviews were conducted with the DECSI staff at Hawzen sub branch. Additional interviews were also conducted with Ato Atakilti Kiros, general manager of DECSI, Ato Belay Assefa, the then acting general manager, and Ato Yohannis, head of Planning and Co-ordination.

1.3.6 Data Analysis

The questionnaires were cleaned and analysed using the SPSS program. The major part of the analysis was based on descriptive methods such as averages, percentages and other measures of central tendency.

Qualitative information collected through focus group discussions and interviews with DECSI staff were also incorporated into the quantitative results and conclusions of the study.

1.4. Significance of the study and its application

Neglect of women in development and disregarding the involvement of 50 percent of the population aggravates poverty. Improving the life and well being of women is improving the life of the society in terms of increased productivity, nutrition, health, child schooling, household management, cultural change etc.

The study shall provide disaggregated data and basic information on the impact of

micro finance programs and their implications for the government at various levels, Microfinance institutions, Development Agents, Women's Associations and other stakeholders.

The outputs of the study will be used as inputs to policy makers, microfinance institutions, development agents and women's Associations in designing financial products to women.

The direct beneficiaries from the results are women because the findings address how microfinance services can be tuned to the specific needs of women clients. The family and household of the women including children and male partners will also benefit from the improvements of the life of women as a result of well designed and managed gender sensitive microfinance programs. The society will also benefit from the integrated development that involves real participation of women that are about 50% of the population.

Microfinance institutions can also benefit from designing and implementing successful microfinance products, and supporting their activities from donors. Finally it can also initiate further research.

1.5 Scope and Limitation of the Study

The performance of microfinance institutions is measured by three variables: outreach, sustainability and impact. However, the scope of this study is limited to the impact of microfinance on the life of poor women and their respective households. Moreover, the

impact of microfinance has various chains and linkages but the impact to be considered and measured in this study is primarily at household and individual levels. Also, it is not the purpose of this study to measure the magnitude of the impact; it is only the direction of the impact. The microfinance services provided by DECSI are microloan and saving services. As a result, two types of loans are provided by DECSI: Agricultural or input loan and Regular or micro-business loan. Agricultural or input loan is provided for purchases of oxen, artificial manure, improved seed etc.

However this research study is limited to the impact of regular loans on the life of poor women and their households. Basically impact study requires longer time but the duration of the many clients is not exceeding two years. As a result, the findings have their own limitations. In fact the impact on petty trade in which almost all the clients are engaged may not be difficult to measure even in a short period of time.

Besides, it may not be easy to filter the difference of the impact with and without microfinance services. Another limitation of the research is that it does not show comparative analysis of clients and nonclients. It is based on recall memory and clients might have problems in appropriately providing the accurate information.

Finally, the kebeles in the remote areas of the woreda are also excluded from the domain of the target study because of budget and transport limitation.

CHAPTER II

REVIEW OF RELATED LITERATURE

2.1. Concepts and Definitions

The clarification of basic concepts such as microcredit, microfinance, poverty, impact, empowerment and others is vital before assessing and measuring the impact of microfinance on the life of the poor.

Microcredit

Microcredit may be defined as the extension of small amount of collateral-free institutional loan (a maximum of Birr 5000 in Ethiopia) to jointly liable poor group members for their self-employment and income generation (Rahman, 1998). However, microcredit may not include other services such as saving, insurance, payment services, etc.

Microfinance

Microfinance is the provision of small scale financial services to low income clients who have no access to financial services provided by the formal sector (Ledgerwood, 1999; Robinson, 2001). Although microfinance services primarily include saving and credit, it may involve insurance, payment or money transfer. Therefore microfinance is a wider term that includes microcredit.

Poverty

What is the precise definition of poverty, how to measure it and who constitutes the poor are difficult questions to answer. An operational and comprehensive definition of poverty has long been needed to fight poverty in a more effective way. However it is fiercely a contested issue. The centerpiece of the debate about defining poverty is whether poverty is largely about material needs or whether it is much broader set of needs that permit well being (Hulme and Mosely, 1996). Approaches focusing on the

material need focus on consumption usually using income. Greely (1994); as cited in Hulme and Mosley (1996), has strongly defended the use of income-poverty measures. However Chambers (1983, 1995) has identified various forms of deprivation that cannot be captured by income poverty measures. The levels or degrees of poverty are also of important consideration in defining poverty in a comprehensive way. For the purpose of this paper the definition of poverty incorporates economic deprivation of people or households, particularly in terms of income.

Vulnerability

Vulnerability is also another important concept related to and often caused by poverty. It can be even more difficult to have a comprehensive definition than poverty. It is often more challenging to measure. Vulnerability indicates the degree of susceptibility of poor people to easy threatening or insecurity of any improvement in a livelihood. Chambers (1989) says that vulnerability is about the capability to deal with contingencies and to cope with change.

Impact

Establishing impact essentially is making a case that the program led to the observed or stated changes. This means that the changes are more likely to occur with program participation than without program participation. It does not imply that the changes always occur from program participation. Rather, it increases the probability that the changes will occur (Rossi and Freeman 1989; cited in Barnes and Sebstad, 1999).

An impact assessment should thus consider intervening factors, other than the program, such as age, gender, skill and training level of client, household composition location of enterprise, level of competition and other relevant external

factors.

Empowerment

Empowerment is a difficult term to define because there are many trade-offs among many dimensions of empowerment. A generally accepted definition is thus not yet available because there are many indicators of empowerment. In this study the major indicators of empowerment are bargaining power, control over resources, decision making at household level, and self-image and self-confidence. Generally it refers to women's direct and indirect control over all activities and choices of their family. Therefore it refers to the improved status of women at household and community levels.

Microenterprise or Income generating Activity or microbusiness

These terms are used interchangeably. The term refers to any business activity of the client supported or financed (fully or partially) by DECSI.

2.2 Classification and Selection of indicators in Measuring the Impact of Microfinancing

Impact means how microfinance programs affect the livelihood and welfare of their clients. There are various factors that influence the impact of microfinance programs shown in the following figure.

1. Contextual Factors

Contextual factors are variables in the external environment that are significant at macro level. These include:

- ◆ Regulatory framework (term and ceiling of loan, minimum saving interest rate

- ◆ Infrastructure (road, transportation, and communication)
- ◆ Market (accessibility and demand)
- ◆ Socio-cultural factors (religion, attitude towards borrowing from government)
- ◆ Peace and stability (war, political stability, and administration)
- ◆ Weather conditions (unstable fluctuating rain fall)
- ◆ Land holding and size (ownership, size, productivity and fragmentation)

2. MFI Services

These are variables within the governance of microfinance institutions. MFI services are in fact influenced by contextual factors. The specific MFI related factors include the following:

- ◆ Mission, vision, Objectives, policies and strategies of MFIs
- ◆ Terms and conditions of saving, lending and repayment
- ◆ Governance and management of the MFI
- ◆ Financial sustainability
- ◆ Money transfers and payment

3. Client Related Factors

These factors are closely associated with characteristics of the client, particularly demographic variables. Client related factors affecting impact include:

Age	Residence (urban-rural)
literacy level	gender relations
Household size	previous occupation
poverty level	religion, etc

4. *Factors related to the income generating activity*

There are also factors related to the income generating activity, with serious influence on the impact microfinancing. These factors include:

- Type or nature of the business
- Size of the business
- Capital and asset of the business

Attempt is made here to identify and use main impact indicators of well-being.

- Income
- Living condition
- Expenditure
- Saving culture and capital accumulation
- Empowerment

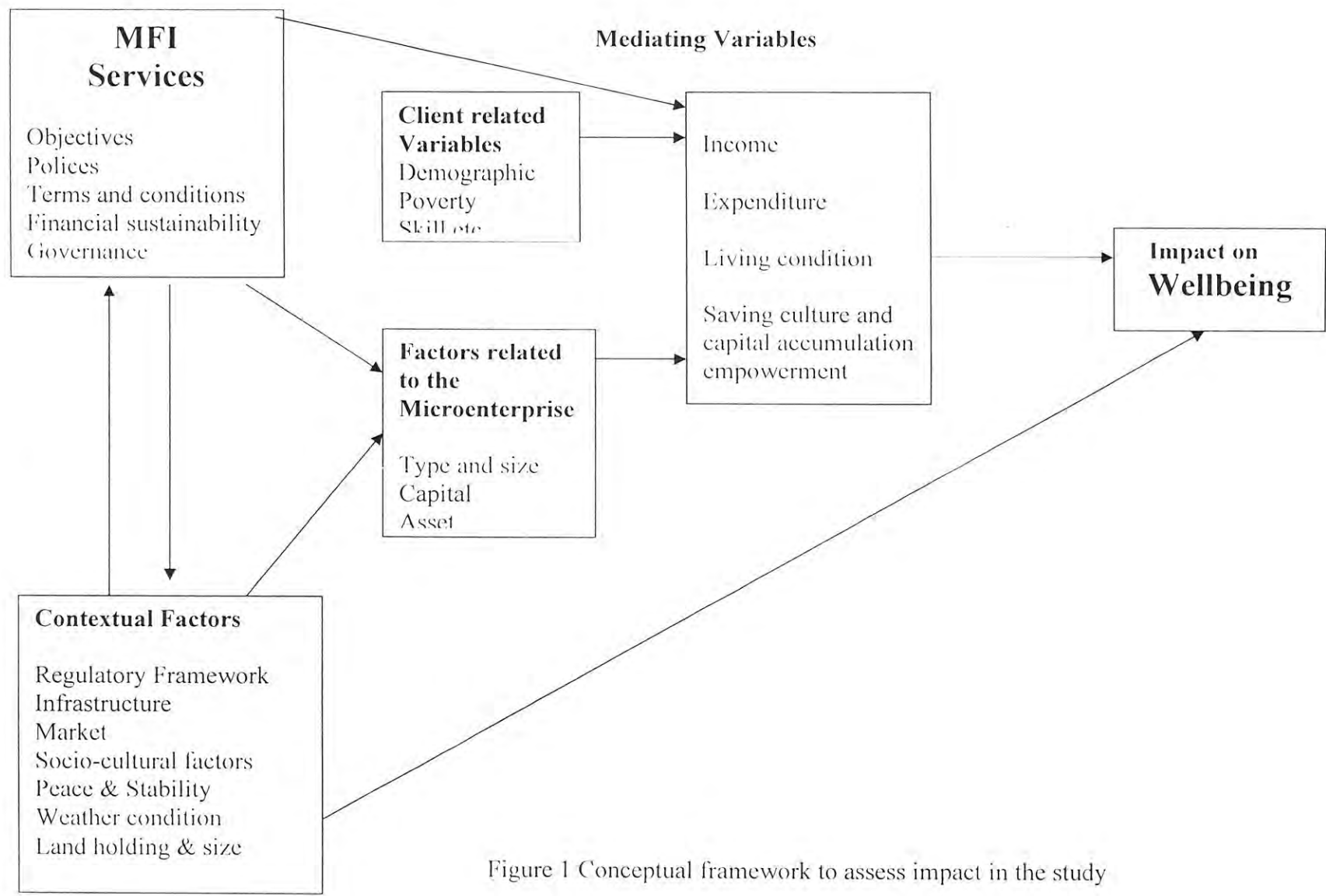


Figure 1 Conceptual framework to assess impact in the study

2.3 **Microfinance and Development: Global Issues and Trends**

Development basically aims at improving the standard of living of people and it essentially involves the majority population in a given country. The majority of the people in less developed countries live in rural and peripheral areas where there is little infrastructure and services as a manifestation of abject poverty. Rural development involves the transformation of the economic, social and cultural conditions of the rural population for the better so as to enable them effectively and consciously participate in the overall development effort at all levels (Gebrehiwot, 1989).

The rural poor can improve productivity of land and labour by improving access to credit to acquire new technology and other assets (Mulat, 1999). Raising agricultural productivity and preventing the rural poor from severe poverty are not only necessary but also preconditions for a meaningful progress (Zaid, 1999). The delivery of financial services to the poor is considered as a major component of poverty alleviation strategies and sustainable development in many developing countries.

Many developing countries are using targeted microfinance programs to alleviate poverty by facilitating equity and economic growth (Rachman, 1998; Webster and Fidler, 1996; Shahidur and Khandker, 1998). The authors further argue that microfinance products targeted to the poor can play an important role to promote

equitable income distribution, to make services accessible to the poor, to activate competition and enhance productivity and technical change. Thus microfinancing can be used as a tool to stimulate development.

Money, says the proverb. makes money, when you have got a little it is often easy to get more. The great difficulty is to get that little (Adam Smith, 1776; cited in Holis sweet man, 1998).

Thus to involve the poor in the process of development in many aspects and sharing its benefits, the rural poor have to be helped to help themselves by creating access to resources, particularly access to finance.

Effective microfinance programs are major tools of providing access to opportunities and resources for the low-income people so that they would participate in the process of development of a country.

.... Since the mid 1960s, small farmers and the rural poor have increasingly become the chief targets of credit interventions. There are many reasons for such emerging ideas about the efficiency of small farmers, their output potential with new technology, their lack of cash at critical

periods, their lack of collateral for loans, and the exploitative or monopolistic behaviour of private moneylenders. Moreover since the early 1970's a strong equity dimension has emerged in the aims of credit scheme and small farm projects (Ellis, 1992; cited in Zaid, 1999).

Properly channeled microfinance schemes provide the poor households with an opportunity to:

- increase income
- increased employment
- increase smooth consumption
- own resources such as livestock,
- get self employed in the informal sector
- empower women
- improve nutrition and health
- improve the potential for educating children
- use new technologies and inputs of agriculture

These indicate that the delivery of microfinance services is one of the tools to improve the standard of living of the poor and promote equitable and sustainable development. Several studies have been made in many developing countries that use microfinance

programs as a tool of reducing poverty, and study the impact of microfinance. Most of the studies made in western Africa and Southeast Asia show that clients of microfinance programs have higher and stable incomes and smooth consumption patterns.

2.4 Microfinance and Poverty Alleviation

In both developed and less developed countries the economy is characterized by a sharp contrast of increasing disparity between the rich and the poor. On the one hand, the rich are growing richer, living a life of affluence, on the other hand, the poor are getting poorer living in severe deprivation characterized by vulnerability, malnutrition, lack of education to enhance upward mobility, lack of shelter and other resources that constantly keeps them under the trap of poverty (Popoola, 1999).

About one billion people in the world today live in households with per capita income of under one dollar per day (Morduch, 2000; Popoola, 1999; Dawson and Jeans, 1997. About 17 per cent of the absolute poor live in Sub Saharan Africa (DFID,1997).**

Popoola (1999) indicated that about 20 per cent of the world's population live in extreme poverty that constitutes a leading cause for death (including HIV/AIDS). This is often caused by insufficient income to maintain minimum nutrition levels and

** Eliminating Poverty, a Challenge For The 21st Century (DFID,1997)

limited or no access to health services.

Poverty has thus become the primary concern of less developed countries during the last two decades. Poverty alleviation has, therefore, become the focus policy makers and practitioners of those countries who have been trying to improve the lives of their poor people. Although poverty alleviation has featured as a priority developmental objective of governments of LDCs, the outcome has been the opposite, i.e. increased poverty. Experience has shown that government assistance and aid to poor communities and households had insignificant or no contribution to poverty alleviation other than dependency and disincentive that make matters worse. Poverty has reached levels that demanded a real change in the development approach. Therefore there is hardly any controversy about the great urgency of pursuing the objective of poverty reduction or alleviation in the shortest possible time. A new breakthrough came into existence when efforts to fight poverty started by enabling people to create their own jobs and generate revenues, i.e., provision of finance to the poor was recognised as a means through which poverty and exclusion could be alleviated more effectively.

It is assumed that poverty can be alleviated and that economic and social structures can be transformed fundamentally - by providing financial services to poor households (Morduch, 1999). Increasing access to finance and poverty reduction

interact through a direct linear relationship where the more funds are made accessible to the poor, the more poverty is considered to be alleviated. The provision of financial services to low income households to enable them generate income is believed to eradicate, or at least reduce, poverty more effectively.

Credit to finance private income generating activities undertaken by the poor became an unlikely new tool in the fight against poverty in parallel to the traditional transfers of public funds (UNDP, 1999). The growing acceptability of micro-credit as an anti-poverty development strategy grows out of the general rethinking of aid policy and practice currently taking place among donor agencies.

The microfinance industry itself is becoming a global phenomenon. The proliferation of microfinance programs, particularly microcredit targeted to women who are more marginalized in many less developed countries is increasing from time to time. The World Bank is engaged in reducing poverty through promoting best practice in the microfinance industry and funding selected institutions to bring financial services to the poor (Wolfensohn, 2000).

Globally there are now about 8 to 10 million households, with 400-500 million poor family members, served by microfinance programs and some practitioners are

pushing to expand the number in multiple of ten during the next decade (Morduch, 1999).

In the microcredit Summit of 1997, delegates set the ambitious goal of reaching 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005. This would be helping not less than half a billion poor households. The experience of highly subsidized credit in countries was almost unsuccessful for three decades, from 1950s to 1980s. New approaches that challenge subsidies are arising as the keys to success in the microfinance industry. Methodologies such as group lending that uses social collateral as a security for repayment are contributing more to new successes in microfinancing by offering a 'win-win' solution where both microfinance institutions and the poor benefit.

There is a growing recognition that lending to the poor is not just a good thing to do but is also profitable (Brill, 1999; cited in Morduch, 1999).

The microcredit campaign has four-core themes

- Reaching the poorest
- Reaching and empowering women
- Building financially self sufficient institutions

- Ensuring a positive, measurable impact in the lives of clients under their families

Poverty alleviation has become as a top priority agenda as well as primary challenge to policy makers and leaders of less developed countries. And microfinance services are being accepted as a tool to eradicate or at least reduce poverty and improve food security.

The Micro-credit Summit Declaration anticipated that the majority of borrowers would be in the developing world, however, microcredit has also been proven to be effective in industrialised countries. Despite a radically different economic context between rich and poor it focused on those families living below their nations poverty line (Adams and others, 2000).

There are over 10,000 microfinance institutions world wide and the World Bank estimates that 400-600 million dollars of donor funds are earmarked for microfinance each year (Economist, 1999; cited in Park and Ren 2000). Therefore microfinancing has become a global issue, and an important instrument. in the efforts to eradicate or reduce poverty.

2.5 Gender and Development

Women play a key economic role in less developed countries, particularly in poor households. If they are given proper support they could be involved in income generating activities.

With the erosion of men's earning capacity as a result of decreased size of land holdings, population pressures and economic downturns, there is increasing dependency on the economic activities of rural women (Fong and Perette, 1991)

Unlike the income of men, women's earning income is often spent in family food supplies, clothing, health, and pay for schooling of children. In less developed countries, the major part of family management lies on the shoulder of women because of absence of males caused by migration, war, refugee movements, divorce or widowhood. As a result, the number of *de facto* and *de jure* female-headed households is increasing from time to time. Because of economic and socio-cultural factors, female headed households in developing countries are the poorest of the poor (Fong and Perrete, 1991).

On the other hand, in addition to their domestic family responsibilities of all house

management, rural women are major contributors to agricultural production. For example in Africa it is estimated that 46 per cent of the agricultural labour force are women (Fong and Perette, 1991). However, such significant economic roles are underreported, unacknowledged and undervalued.

Because of socio-cultural factors, the social position of women is also small. As a result of the unacknowledged and undervalued economic role of women as well as their underestimated social position, women are often neglected in planning and implementing rural development projects and programs. Neglect of women thus becomes neglect of half of the targets and actors of development.

All development programs at national and regional levels should be able to integrate gender concerns in their plans and programs to see that women participate, contribute, benefit and their effort is recognised, and technologically supported. Rural development programs need to reorient their implementation strategies so that they would target rural women as beneficiaries of development initiatives and programs. Women are engaged in productive, reproductive, and community activities.

Anti-poverty and empowerment approaches are the common development strategies for women. Anti-poverty approach aims at ensuring that poor women increase their productivity. It recognises the productive role of women and seeks to meet *practical*

gender needs to earn income. Consequently, one of the major tools is microfinancing targeted to the poor.

Empowerment as a development strategy approach for women involves two levels: intrinsic and extrinsic. *Extrinsic level* is gaining greater access to and resource control. On the other hand *intrinsic level* involves change from within such as the rise of self-confidence, consciousness and motivation. It recognises women's triple roles and seeks to meet strategic gender needs through bottom-up participation on resources and development issues that concern the life of women.

2.6 The Debate on Microfinancing

The idea of attempting to reduce poverty through microfinancing has generated enormous enthusiasm among donors and non-governmental organisations as an instrument for reducing poverty in a way that is self-sustaining. The provision of microcredit in recent years generated greater enthusiasm (Morduch, 2000; Rogally 1996). Popoola (1999) reports that microcredit had substantial record of accomplishment and potential as a poverty alleviation and development strategy. Some of the potentials of microcredit programs include:

- Most poor people are credit worthy, especially in the context of a mutual responsibility system (group collateral).
- Sustainability of the microcredit program is achievable

- Microcredit programs have exhibited a high level of replicability.
- Microcredit programs have the capacity to grow and serve large numbers of very poor people as demonstrated by many microfinance institutions.
- Microcredit programs have the capacity to help borrowers work their way out of poverty as shown by many studies.
- Microcredit program stimulates savings and accumulation of assets among poor people.
- Microcredit is capable of becoming a vehicle of desirable social developments.

On the other hand, scholars also argue on microfinance schism or its negative verdict. Although microcredit has claimed more and more of the aid budget, it may not always be the best way to help the poorest and the fervour for microcredit may siphon funds from other projects that might help the poor more (Navajas, Shreiner, Meyer and Gonzalez, 2000). There is partial evidence and is contested that microcredit would make a larger contribution to reduce poverty or promote small and microenterprise development in most developing countries as compared to investments in other social and economic infrastructures (Hulme 2000; Johnson and Kidder, 1999). Hulme, Johnson and Kidder (1999) further question about the

appropriateness of this single solution to poverty alleviation in a variety of local contexts.

Some times even when repayment rates are higher, it may be painful to the clients making them pay from other sources such as sales of their limited assets. Thus increasing indebtedness has clear risks for poor people and be trapped in the vicious circle of poverty. However it does not mean that microfinancing is worthless but the question is whether microfinance is better than some other development projects for the poor as a whole. Moreover, provision of microfinance can be one tool to reduce or alleviate poverty but not the only one.

Rahman, R. (2000) also indicated the following concerns about the role microcredit in poverty alleviation by Grameen Bank.

- Case studies have shown that borrowers have been initially successful but in the long run face a downturn in terms of ownership of asset and level of income (Rahman, A. 1999).
- 69 per cent of dropouts resulted from inability to pay installments due to loss in income generating activity (Husain, 1998).
- Studies reveal that repayment of microcredit is being made from other sources (Rahman, R, 2000).
- The older groups and branches of MFI have higher loan default rate

and larger percentage of ineffective groups (Matin, 1998).

These hypotheses on the stagnation of the impact of microcredit, particularly in the long run, deserve serious attention from researchers. The conclusion on the microfinance schism is that governments and donors should know whether the poor gain more from small loans than from other alternatives such as health care, education, agriculture, food aid etc. Most measures of the impact of microfinance organisations fail to control for what would have happened in their absence (Navajas, Schreiner, Meyer, Gonzalez, 2000). The net contribution or impact of microfinance to poverty alleviation should be properly and more accurately measured.

2.7 The Impact of Microfinance on the Situations and Status of Poor Women Households

2.7.1 Global Experience

Microfinancing provides women with an opportunity to access and control over resources such as land, capital, equipment, education/training, health, nutrition services etc. Also properly channeled microfinance services enable women to enjoy benefits in terms of income, asset ownership, status etc. It also enhances women's empowerment in terms of decision on the following:

- Decision making at household and community levels
- Image and self-confidence
- Organisational capacity.

Finally, it also promotes labour and time saving technologies and skill training. The direct provision of micro credit to women is one of several ways to initiate a process of social and economic change for women (Fong and Perrett, 1991).

Essentially the primary targets of microfinance programs are women who are often marginalized in many aspects in the developing countries. Improving the life of women is improving more than 50 percent of the population with an additional significant impact on the life of their male partners and children.

Microfinance programs are often in favour of women clients who are, for the most part, excellent clients. Several studies identified social benefits that women gain from participating in microfinance programs. They feel less marginalized, have higher aspiration for their children's education and future, use more reliable source of drinking water, are more likely to use latrines and contraceptives, and are less likely to marry at an early age (Webster and Fidler, 1996).

As a result, microfinance institutions, donors, and non-government organisations have

strong interest and emphasis on gender issues. Basically the hindrance to access financial services and other opportunities are worse particularly in women. As a result, women are more marginalized as compared to their poor male partners.

Studies made in 12 west African countries show that there are legal and cultural restrictions on women activities and women in many parts of the less developed countries are disadvantaged in their access to education, skills, and capital that improve their ability to succeed in small business (Webster and Fidler, 1996).

In spite of cultural restrictions, relatively low level of education and skill, experiences from the Grameen Bank show that microfinance enabled poor women to engage themselves in various income generating activities (Lutfun and Osmani, 1998). These income generating activities include both farm and non-farm activities such as poultry, horticulture and petty trade.

Microfinance Programs often provide non credit inputs such as consciousness raising training and these inputs may empower the poor, especially women (Khandker, 1998). Moreover micro credit programs are expected to assist in raising the social welfare by promoting human capital investment in child care and education, nutrition, quality and quantity of food, and other aspects on the life of their children and male partners.

It is also likely that the increase in income of women through income generating activities smoothens consumption and would probably contribute to stability and reduction in other social problems and is likely to reduce out migration to urban areas and thereby reducing unwanted population pressure in urban areas. In many developing countries microfinance programs are promoted as a strategy not only for poverty alleviation but also for women's empowerment. Access to microfinance was seen as vital to women's ability to earn an income and contributing to an increase in their status and autonomy (Mayoux, 1995).

The Success of microfinancing in poverty alleviation depends on how far it can address the constraints faced by the poor households (Rahman, R., 2000). Using various methodologies impact have been assessed by considering the following variables:

- Household income
- Household savings
- Employment generation
- Human capital formation

Hossain (1984) reported that using borrower's recall, the income of Grameen Bank clients increased by about 32 per cent in two years time. Moreover the same study indicated that the increase of income of Grameen Bank members was about 18 per

cent higher compared to the non-member during the same period.

On the second round of impact assessment on Grameen Bank in 1986, Hossain (1988) presents that household survey data in income also confirms that the household income of GB members was about 43 % higher than non-members.

Khandker (1998) estimated that 21 per cent of Grameen Bank borrowers managed to lift their families out of poverty within 4.2 years enabling 5% of the households to cross the poverty line each year.

Hossain (1984 and 1988), and Khandker (1998) have discovered that Grameen Bank clients had brought about a percentage change of income increase at 30.9, 39.7 and 23.3 percent respectively. Microfinancing is one of the factors for reducing poverty in Bangladesh from 59% of the total population in 1991/92 to 53% in 1995-96 (The Economist, 1998; cited in Meehan 1999).

Studies made in Grameen Bank in 1995 show that Microfinance has a positive impact on savings and capital accumulation and as a result the investment was higher for long time borrowers than for newer one to the extent 260 percent as compared to non-members. Microfinance in Grameen Bank has also resulted in greater involvement of members in income generating activities compared to the

control groups (Hussain and Kabeer, 1998).

Microfinancing has resulted in greater aspiration of MFI clients, particularly mothers for schooling their children and the actual enrolment of their children as compared to non-members.

Microfinance and Empowerment of Women

Although, theoretically microfinancing services are expected to enhance empowerment, the results are mixed and controversial, particularly in terms of control over resources and reduction of violence against women. But it does also have positive impact on other aspects such as increased participation in income generating activities and awareness about their economic and health related problems.

Empowerment

The conceptualisation of empowerment lies in an understanding of the relationships of dependence, interdependence and autonomy which characterised gender relations in different cultures, the structures of risks, incentives and opportunities which they generate and therefore the particular which processes of

*empowerment are likely to take (Kabeer, 2000)**.*

It is argued that credit programs empower women by strengthening their economic roles, increasing their ability to contribute to family income, helping them establish their identity outside of the family and giving them experience and self confidence in the public sphere (Sinha, 1998)***. Access to credit was seen as vital to women's ability to earn income and contributing to an increase in their status, autonomy and decision making power (Mayoux, 1995; Ray, 1987).

It is believed that credit has a great potential to improve women's wellbeing by improving their bargaining position and thereby win the respect of their male partners and other family members. On the other hand Sinha (1998) argues that lending to women enhances household welfare and the issue of impact of targeted credit to women's empowerment is far from resolved. Sometimes microfinance programs may have a negative effect on the life of women in terms of increased work overload or reduced contribution of male income to the household. Thus, there can be controversies on the impact of microfinance on the empowerment and well being of women.

2.7.2 Ethiopian Experience

The time since which formal microfinance services are provided is not long. On the

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Conflicts over credit: Re-evaluating the Empowerment Potential of Loans to Women in Rural Bangladesh.
World Development, Volume 29, No. 1

***IDS Bulletin, Volume 29, No. 4 (1998)

other hand, the growth of microfinance services has been remarkable in the short period of time. Accordingly, several studies show that the MFI industry is contributing to poverty reduction and other means of improving the standard of living of the poor.

Because of access to credit, women are encouraged to take economic and entrepreneurial risks at 30 percent higher than men (Meehan, 2001). In the same study the author indicated 60 clients (94%) reported a significant increase in income as a result of access to credit although the income of some of the clients has dropped after a certain period of time. Also, the author indicated that access to microfinance has contributed to greater usage on basic household food, increase in assets and smoothing consumption in the clients' households.

Women generally took smaller loans than their male partners (Getaneh, 2001; Meehan, 2001). Getaneh further addressed that the profit margin for women clients is similarly lower and women have to go a long way to be able to be good business managers themselves. In a recent survey of ACSI clients, Getaneh (2001) indicated that only 38 percent of married clients manage the loans they have taken themselves; and 55 percent reported that they used the loan jointly with their husbands and other 7 percent reported that the loan is used by their husbands. This may show that women are not equally beneficiaries like their men partners.

A recent study by Tsehay and Mengistu (2002) revealed that 84 percent of frequent rural women clients and 62.9 percent of frequent urban women clients have shown significant improvement in their household income. The authors concluded that access to microfinance positively contributed to ownership of additional household assets, which are important for empowering women clients economically. One major indicator of household welfare is residence house and same authors indicated that 60 percent of urban clients and 18.3 percent of rural clients made repairs to their houses. Similarly the authors concluded that MFIs intervention resulted in improving household diet.

2.8 Development of Microfinance Industry in Ethiopia

When the targeted subsidised cheap credit programs failed during the second half of the twentieth century, microfinance emerged in the 1980s as a new development approach to benefit the active poor. The first formalized financial institution is believed to be the Grameen Bank (GB) of Bangladesh, established in 1983.

Grameen Bank is considered as a highly publicised success story that is taken as a model for many MFIs throughout the world, including the United States. All Grameen type microfinance institutions target the active poor, particularly women, on the basis of group social collateral and compulsory savings.

During the last three decades, governments, donor agencies, non-governmental

organisations, and international financial institutions have recognised the value of microfinance institutional development as a viable means of achieving poverty alleviation through appropriate financial intermediation. In Asia and Latin America, financial institutions like Bank Rakyat Indonesia (BRI), Bangladesh Rural Advancement Committee (BRAC), and Grameen Bank (GB) have served millions of poor clients and their households with credit and saving services. More recently microfinance institutions have begun to develop and formalise in many Sub-Saharan African countries including Kenya, Zimbabwe, Benin, Senegal, Nigeria, and Ethiopia to serve part of the 70 per cent of the poor population in Africa.

Most MFIs in Africa are young and inexperienced in the realm of formal financial intermediation. Similarly, MFIs in Ethiopia are new. However there were credit services provided by non-governmental organisations, projects and other informal organisations in disintegrated ways. The initial formal MFI was initiated by Relief Society of Tigray (REST), in 1993. Accordingly REST established Rural Credit Scheme in Tigray (now Dedebit Credit and Saving Institution). In the subsequent years other credit and saving scheme institutions continued to be established until 1996.

In July 1996 the National Bank of Ethiopia (NBE), has issued proclamation No. 40/96 that provides for the establishment and operation of Microfinance institutions in Ethiopia. Since the issuance of the proclamation in 1996, to date more than nineteen

microfinance institutions are legally registered providing their services to more than 450, 000 clients (Wolday, 2002).

2.8.1 Overview of Dedebit Credit and Saving Institutions (DECSI)

Establishment

Relief society of Tigray (REST) had realised that lack of access to finance was one of the major constraints for the rehabilitation of the war-devastated people of the region. Besides, REST was aware that creating access to financial services for the poor is providing the poor with opportunities for alleviating poverty and enhancing self-reliance through entrepreneurship and empowering the poor, involving women through participatory approaches.

As a result, REST conducted a survey and designed a microfinance program to help the poor help themselves by providing credit and saving services. After assessing the conventional banks and traditional moneylenders who are charging high interest rate, REST initiated the establishment of Credit Scheme of Tigray. Thus after assessing and evaluating the experience of many developing countries in microfinance operations, REST Credit Scheme of Tigray (RCST) was established in 1993 and started its operations in March 1994 in the four zones of Tigray.

The REST Credit Scheme of Tigray initiated by REST continued providing credit and saving services to the rural and urban poor until July 1996. Having fulfilled the necessary institutional requirements of the regulatory framework of the National Bank of Ethiopia, the REST Credit Scheme was reorganised to be a regional microfinance institution, under the name of Dedebit Credit and Saving Institution Sh. Co. (DECSI),

1.8.2 **Organization and Management**

DECSI is providing its financial services in 12 branches and 109 sub-branches with 727 employees. As per the microfinance law, the MFI is owned by shareholders that have the ultimate authority to decide on any significant issues that affect the institution. The board of directors composed of individuals representing the share owning organizations and individuals nominated by the shareholders' general assembly administer the company. The general manager and department heads at the head office at Mekelle manage the day-to-day operations of the company.

The branches directly control and supervise the activities of the sub branches. The sub branches are fully autonomous to approve and disburse loans, and to collect repayments and savings. The sub branches act as mobile banking because the staff often travel to the clients in remote Kebeles. Detailed operational and financial reports are prepared at the sub branches.

Target group

DECSI renders credit and saving services with the aim of alleviating poverty through the mobilisation of savings and provision of credit to the poor with priority emphasis to the rural poor, and still with greater priority to women. The poor, particularly the farmers, are in need of credit for various purposes including petty trade, acquisition of livestock, agricultural inputs and implements or to smoothen food consumption. However DECSI under normal circumstances does not encourage the delivery of credit for consumption purposes. As much as possible loans are extended to be invested in income generating activities so as to promote self-reliance. Generally, the institution has covered all rural and urban Kebeles of the region.

DECSI's Sevices

Basically, DECSI provides the following major financial services

- ◆ Regular or general and agricultural input loans
- ◆ Savings mobilization from loan clients and the community, and
- ◆ Pension payment services to retired civil and military personnel

DECSI is the largest microfinance institution in Ethiopia. Currently DECSI has 219,000 borrowers with Portfolio of Birr 346,642,270 and outstanding loan of 146,000,000 (Wolday, 2000). The author also states that DECSI has 202,000 savers with a saving capital of Birr 76,000,000 as of June 1999. Moreover, 43 per cent of clients of DECSI

are women.

The primary objective of DECSI is to help the poor, particularly women, help themselves by creating access to microfinance services. However no major assessment has been made on the impact of the microfinance services in the region particularly on the life of poor women that are the primary victims of poverty, illiteracy, famine and drought.

CHAPTER III

THE STUDY AREA

3.1 Some basic facts about Tigray

Tigray Regional National state is located in the northern part of the country between 12° 15' - 14° 49' N latitude and 36° 27' - 39° 59E longitude. It is bordered by Afar Region in the East, Eritrea in the North, Amhara in the South and Sudan in the west and its land size is estimated to be 53,638 square kilometres out of which western zone accounts for 51 percent, central 19.3 percent, Southern 18.9 percent, Eastern 10 percent and Mekelle 0.8 percent.

3.2 *Population:*

The population of Tigray has increased from 3.2 million in 1994 to 3.71 million in 2001. This is meant that the rate of population growth reached 2.7 percent per annum. Females constitute half of the population and 83% of the population lives in rural areas and the remaining 17 percent in urban areas.

In 1995/96, about 45.5 percent of the Ethiopian population is living below the absolute poverty level and the people living poverty line slightly declined to 44.2 percent in 1999/2000 (Wolday, 2002). In the Poverty Profile of Ethiopia conducted

by Welfare Monitoring unit of the Ministry of Finance and Economic Development, Tassew and Tekie (2002), reported that the population living below poverty line is 48 percent and 33 percent for rural and urban areas respectively. This shows that poverty is relatively higher in rural areas compared to urban areas.

Tigray has the large percentage of population living below poverty line, both in rural and urban areas compared to other regions (Wolday, 2002). The writer has further addressed poverty in the region has increased in 1999/2000 as compared to 1995/96. Specifically, the percentage of rural population living below the poverty line has increased from 56.1 percent in 1995/96 to 61.4 percent in 1999/2000.

Tigray is one of the drought prone areas devastated by famine and long period of civil war. The Eastern Zone of the region is crop dependent area with the most fragmented land, which is highly degraded. In addition to the frequent shortage of rainfall, the soil is also less fertile. Consequently the Eastern zone is among the priority list that deserve intervention by the regional government and other non-governmental organizations.

Hawzen

The Eastern Zone of Tigray has seven Woredas with a total population of 707,908 out of which 339,903 are males and 368,005 are females (CSA, 2000). Hawzen

Woreda is located in the western part of the zone. Hawzen woreda is surrounded by Wukro woreda in the south-east, Saesi-Tsaeda Imba in the north-east, Ganta-Afeshum in the north, Worie Lekhe in the west, Qolla Tembien in the south-west and Degua Tembien woredas in the south.

Because of its strategic location as a trade route and joint point for several zones, Hawzen has served as an important trade center for thousands of years, even before the Axumite kingdom. Still now it serves as a central market for livestock and other agricultural products for people from various zones. The total area of Hawzen is 805.95 square km and its population density is 140.9 per Km Square

The climate of Hawzen by and large is woina-dega, which is between high land and low land. As a result it is often suitable for many cereals and grains whenever there is adequate rain. It mainly produces wheat, teff, maize and cereals. Agriculture is the main stay of the economy for almost all of the population of the Woreda. In addition to agriculture, many people of the woreda, including rural people are engaged in petty trade, particularly grain trade to supplement their unreliable income from crop production.

According to CSA (2000), Hawzen woreda is divided into 22 kebeles making a total population of 110,833 out of which 53,802 are males and 57,031 are females. From the

total population of the Woreda, 4,498 (4.06%) live at the town and the remaining in the rural areas. Hawzen is the name of the woreda as well the name of the town. The town is 23 km to the west of the main road from Mekelle to Adi Grat. As a drought prone and economically devastated area, Hawzen is one the first targets to get the intensive microfinance services since the earlier stages of DECSI.

CHAPTER IV

FINDINGS OF THE STUDY

4.1 General characteristics of clients

The demographic characteristics of the respondents such as their ages, marital status, their relations with the head of the household etc and their socioeconomic characteristics such as their educational level, health conditions, wealth conditions may have direct or indirect relations with the way they use the loan or other financial services they took and consumption patterns.

4.1.1 Age of clients and size of their respective households

Most of the respondents [77.1%] are in the reproductive ages; i.e., 22.8% are in the age group 20 - 29 years, 28.3% are between 30 and 40 years and 26.0% are between 40 and 49.

Table 1: Age group of the respondents in years.

		Count	Col %
Age group of the respondents	20-29	29	22.8%
	30-39	36	28.3%
	40-49	33	26.0%
	50-59	18	14.2%
	60-69	11	8.7%
Group Total		127	100.0%

Only 22.9% are above age 49. So, higher proportion of women is in the lower age group, probably in the most active and energetic age.

The mean age of the respondents is 39.54 years, and this shows that the distribution is positively skewed. That is, more females are at their younger ages, with strong desire to work hard and with optimistic future. This may have an influence on the success and continuity of their microenterprises and thereby contribute to the impact that credit may have in their lives.

4.1.2 Educational status of clients

Education is one of the key variables that may influence the behavior and efficiency as well as effectiveness of people. Education is a decisive factor in uplifting the individual and society, because it improves his/her skills, potentials and makes him/her more creative, and more innovative.

Four out of any five respondents [79.5%] are illiterate and only 20.5% of the respondents are literate. This high degree of illiteracy may have an impact on the way the clients use the financial services that they receive.

Table 2: Literacy status of respondents

	Literacy Status of the respondents				Group Total	
	Illiterate		Literate		Count	Row %
	Count	Row %	Count	Row %		
Rura	69	90.8%	7	9.2%	76	100%
Urban	32	62.7%	19	37.3%	51	100%
Group Total	101	79.5%	26	20.5%	127	100%

Illiteracy rate is higher in rural areas [90.8%] than in the urban [62.7%]. Only 9.2% of the rural respondents and 37.3% of the urban respondents are literate. Based on this, one may also expect differences between rural and urban areas in the degree of success of clients. Moreover, the urban clients constitute more than 70% of the literate clients that may influence the impact of the microfinance services through increased savings, repeat loans, amount of loan taken and thereby contribute to the success of their business.

Table 3: The educational level of the respondents by place of residence.

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Col %
		Count	Col %	Count	Col %		
The educational level of the respondents by urban rural	Lower primary [1 - 4]	7	100.0%	10	62.5%	17	73.9%
	Upper primary [5 - 8]			5	31.3%	5	21.7%
	High school			1	6.3%	1	4.3%
Group Total		7	100.0%	16	100%	23	100.0%

Attending formal education may also equip people with skills and ability that may help to lead a more successful life. Out of the 26 literate clients 23(89%) have attended formal education. Besides of all the females that attended formal education, nearly three-fourth (73.9%) are in the lower primary schools and 21.7% are in the upper primary schools. Table 3 indicates that the majority of the sample clients have lower educational level.

4.1.3 Marital status of clients

The marital status of the sample clients was also analysed and results are given in table 4.

About 7.1% of the females are unmarried and 48.8% are currently married. In addition, about 6.3% are separated, 26% are divorced, and 11.8% are widowed. This shows that there is high rate of family dissolution; i.e., 44.1% of the females are separated, divorced or widowed.

Table 4: Marital Status of sample clients by area of residence

Marital status	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Unmarried	5	6.6	4	7.8	9	7.1
Currently married	41	53.9	21	41.2	63	48.8
Separated	6	7.9	2	3.9	8	6.3
Divorced	17	22.4	16	31.4	33	26.0
Widowed	7	9.2	8	15.7	15	11.8
Group Total	76	100	51	100	127	100

Due to these and other reasons, the proportion of family dissolution rate in the study area is very high, which is about 50% in the urban areas and about 40% in the rural areas. This may be one of the causes for using microfinance services as a means to improve their livelihood.

Table 5: The relationship of the respondents with the head of the household

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Row %
		Count	Row %	Count	Row %		
Relationship with the Household head	Head	28	53.8%	24	46.2%	52	100%
	Spouse	47	68.1%	22	31.9%	69	100%
	Parent	1	25.0%	3	75.0%	4	100%
	Grand parent			1	100%	1	100%
	Sister/Brother			1	100%	1	100%
Group Total		76	59.8%	51	40.2%	127	100%

The study result shows that 40.9% of the interviewed females are heads of their households and 54.3% are spouses. In Tigray, females become heads only if either they are divorced, separated or widowed. In both cases it is either the result of poverty or it may also result in poverty.

There is a claim that even among women, housewives (male-headed households) have more access to credit and other services than women headed households or their families. However, the data in Table 4 show that there is no as such a significant difference on the access of women to microfinance services because she is the head of the household.

The main occupation in which the respondents are engaged is also studied and results show that 58.3% are engaged in farming and one-third [33.9%] are engaged in the private microbusiness. It can be said that farming and the off-farm and other microbusiness are the two main occupations that the respondents are engaged in.

4.1.4 Demographic and Other Characteristics of Clients

Nine out of ten respondents of the rural areas [92.1%] are farmers and 8 out of ten [80.4%] respondents in the urban areas are engaged in their own microenterprises. Thus, the occupation of the respondents is highly dependent on where she resides. The sample survey also shows that 92.1 per cent of the rural clients occupation is farming and the microenterprise activity can be a source of income diversification. However, for the urban clients the microenterprise activity seems to be the main source of income for subsistence on which they greatly depend because 80 per cent of them are mainly engaged in the microenterprise.

Table 6: Main occupation of the respondents

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Row %
		Count	Row %	Count	Row %		
Main Occupation of the household member	Farming	70	94.6%	4	5.4%	74	100%
	Oldage			1	100%	1	100%
	Underage	1	100%			1	100%
	Others (Specify)			3	100%	3	100%
	Handicraft	1	100%			1	100%
	Daily labore			1	100%	1	100%
	Unpaid family	1	100%			1	100%
	Unemployed	1	100%			1	100%
	Private Sector	2	4.7%	41	95.3%	43	100%
	Government sector			1	100%	1	100%
Group Total		76	59.8%	51	40.2%	127	100%

A question on whether the respondents use their own land or not was also asked and the result shows that 86.6% of the respondents own land and 11% do not.

Table 7: Proportion of sample respondents that own land

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Row %
	Count	Row %	Count	Row %		
Do you own land?						
Yes	75	68.2%	35	31.8%	110	100%
No	1	7.1%	13	92.9%	14	100%
Group Total	76	59.8%	51	40.2%	127	100%

As that of occupation, land ownership also significantly varies by the place of residence. About 98.7% of the rural residents and about 68.6% of the urban residents responded that they own land. Of course, the size of the land is also a very important variable.

Table 8: Size of the land owned by the respondents by residence[in tmad].

Residence of the				Group	
Rura		Urba		Coun	Mea
Coun	Mea	Coun	Mea		
76	3	51	2	127	2

The mean land size is two tsmad (half hectare) per household. The land size also varies by urban rural and is less in the urban areas than in the rural areas. That may be one of the reasons why the most of the urban respondents are engaged in the microenterprises and the rural residents in agriculture. This may make the urban clients to be relatively successful because they may take it as the only means of survival. This fact seems to be supported by the greater size and more repeat loan of the urban clients to be discussed later in this chapter.

In Tigray, 95.5% of the people are orthodox Christians. In this study, all of the respondents are orthodox Christians. The researcher has purposely checked in the sub branch office if it ever had a Muslim client. Finally, in the town of Hawzen, lthe researcher tried to trace a dropout Muslim client who was forced to leave the program by her husband. Her husband believed that the religion does not allow receiving or paying interest. This shows that religion should be given due

consideration in providing microfinance services to the poor, particularly in the urban areas where there are relatively many poor Muslims.

4.1.5 BASIC INFORMATION ON THE MICROENTERPRISE [Client information]

The duration of the client in the microenterprise may have an impact in the degree of success because in business, experience is very important. The duration varies from 1 year to 6 years. Nearly half of the respondents have two years in the program and the remaining 50 percent have stayed in the program for more than 2 years.

Table 9: Duration of the clients in the program in years

Duration of the client in the program	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
1	2	2.6%	4	8.2%	6	4.8%
2	49	65.3%	12	24.5	61	49.2%
3	18	24%	15	30.6	33	26.6%
4	5	6.7%	9	18.4	14	11.3%
5	2	2.7%	7	14.3	9	7.3%
6			4	8.2	4	3.2%
Group Total	76	100%	51	100%	127	100%

About 65.3% of the rural respondents and 24.5% of the urban respondents have experiences of two years in the program. On the other hand, 33.4% of the rural and 70.5% of the urban respondents have experiences of more than two years. In general, the urban respondents seem to have better experiences in the program than the rural respondents. Because experience is a major means of acquiring skill the urban clients are likely to be more successful than the rural clients.

Table 10: Average duration of the clients in the program in years.

Residence of the respondent				Group Total	
Rural		Urban		Count	Mean
Count	Mean	Count	Mean		
76	2	51	3	127	3

The mean number of years of the client in DECSI in the urban areas is 3 years and that of the rural areas is 2 years. But the overall average is 3 years.

4.2 Selection of income generating activities or micro enterprises by clients

About 23.6% of the respondents are engaged in animal fattening. About 36.8% of the rural residents and only 3.9% of the urban respondents are engaged in this activity. The greater percentage of rural clients are engaged in animal fattening. This may be because they have lifetime experience in farming and other agricultural activities.

The second activity of clients in which 18.9% of the respondents are engaged in is buying and selling grains and other agricultural products. About 17.1% of the rural respondents and 18.9% of the urban respondents are engaged in buying and selling grains and other agricultural products.

The third main activity in which the clients are engaged in is preparing and selling beverages [Tella, Areke, etc]. About 2.6% of the rural clients and 31.4% of the urban respondents are engaged in this activity. Of course, 9.4% of the respondents are also involved in buying and selling livestock; and this amounts to 13.2% of the rural clients and 3.9% of the urban clients. It is likely that the remaining clients have either

consumed the loan they have taken or spent it in non-productive activities. Thus the entire loan taken by the clients is not invested for the intended purpose (see Table 19 for details).

The reasons why the respondents are engaged in such activities are also summarized in Table 11 below.

Table 11: The first main reason why the clients are engaged in microenterprise activity

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Row %
		Count	Row %	Count	Row %		
The first most important reason why the client engaged in micro enterprise activity is	No Respons	16	72.7%	6	27.3%	22	100%
	Low agricultural yield because of land fragmentation	10	83.3%	2	16.7%	12	100%
	Low agricultural yield because of unstable climate	28	73.7%	10	26.3%	38	100%
	Low agricultural yield because of declining soil fertility	3	100%			3	100%
	No other source of income	7	33.3%	14	66.7%	21	100%
	Means of employmnet	4	30.8%	9	69.2%	13	100%
	Others	8	44.4%	10	55.6%	18	100%
Group Total	76	59.8%	51	40.2%	127	100%	

The first main reason why the clients are involved in the micro-enterprise activity is due to low agricultural yield because of unstable weather (for 29.9%). This counts for about 36.8% of the rural respondents and 19.6% of the urban respondents. The second main reason (for 16.5% of the respondents) is because they have no other source of income. About 9.2% of the rural respondents and 27.5% of the urban clients reported that it is because of the fact that they have no other means of income that they are engaged in this activity. The third main reason (for 10.2%) is that it is the only means of employment that they have; and this counts for about

5.3% of the rural and 17.6% of the urban respondents. Low agricultural yield because of land fragmentation is a reason for 9.4% of the respondents; 13.2% of the rural and only 3.9% of the urban respondents.

Impact of unstable weather is significant particularly for the rural clients to be engaged in a microenterprise activity or at least to take credit for consumption to cope up in difficult seasons or to be spent on other non-productive expenditures.

Prior to the present activity, nearly one-third (32.3%), i.e., 47.4% of the rural and 9.8% of the urban respondents reported that they were engaged in farming.

Table 12: The activity that the clients were engaged in prior to the present activity

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
No Response	14	18.4%	3	5.9%	17	13.4%
Farming	36	47.4%	5	9.8%	41	32.3%
Housewife	18	23.7%	10	19.6%	28	22.0%
Student			1	2.0%	1	0.8%
Daily labourer			3	5.9%	3	2.4%
Operate own business	5	6.6%	19	37.3%	24	18.9%
Unpaid family worker	1	1.3%			1	0.8%
Unemployed	1	1.3%	4	7.8%	5	3.9%
Others	1	1.3%	6	11.8%	7	5.5%
Group Total	76	100%	51	100%	127	100%

The second main occupation in which they were engaged in prior to the present activity (22%) was being a housewife (22%), which is 23.7% of the rural and 19.6%

of the urban respondents.. In addition, about 18.9% reported that they were running their own business. About 6.6% of the rural and 37.3% of the urban respondents reported that they were operating their own business.

The reason why the clients are involved in such a particular micro enterprise was studied and results show that nearly one-third (29.9%) chose it because it has higher return and there is no significant difference between rural and urban respondents.

One out of any four respondents (25.2%) chooses this particular enterprise because they couldn't choose any other activity mainly because of capital shortage. There is a high variation between rural and urban respondents. About 37.3% of the urban respondents and 17% of the rural respondents have capital shortages that couldn't allow them to make another choice. Moreover, 6.3% choose it because it has been family business and this accounts for 9.2% of the rural and only 2% of the urban respondents. Also, 4.7% of the respondents choose it because they saw other persons doing it.

From this result, it seems that the rural clients depend more on what others were doing (family or others) than the urban clients. This may be because the urban people are more exposed to different sources of information than the rural people.

The results of the study on how the respondents acquired the skill for the present enterprise show that 42.5% of the respondents said that they acquired the skill they have through experience in time. Highest proportion of people (49%) from urban areas seems to agree with this reason than those from rural areas (38.2%).

For 42.5% of the clients the source of their skill is their own experience. From the clients studied 21.3% are self-thought or self-initiative and accounts for 21.1% of the rural and 21.6% of the urban respondents. Family tradition is the third main reason and constitutes 10.2%. About 7.9% of the rural and 13.7% of the urban respondents reported that family tradition is the main reason for the transfer of the skill.

In all these cases there is no as such business or management training given to the clients and this will surely have a serious impact on the continuity and success of their enterprise.

The number of years that the clients have experienced in business activities including this one may also be another important factor.

Table 13: Years of experience in business activities

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Row %
		Count	Row %	Count	Row %		
Years of experience that the client has in business including in this enterprise.	1	1	50.0%	1	50.0%	2	100%
	2	20	83.3%	4	16.7%	24	100%
	3	9	69.2%	4	30.8%	13	100%
	4	2	15.4%	11	84.6%	13	100%
	5	4	50.0%	4	50.0%	8	100%
	6	2	40.0%	3	60.0%	5	100%
	7	1	25.0%	3	75.0%	4	100%
	8	1	33.3%	2	66.7%	3	100%
	10	1	14.3%	6	85.7%	7	100%
	12			1	100%	1	100%
	13			1	100%	1	100%
	15	2	66.7%	1	33.3%	3	100%
	17			2	100%	2	100%
	19			1	100%	1	100%
	23			1	100%	1	100%
	26			1	100%	1	100%
	30	2	66.7%	1	33.3%	3	100%
	32	1	100%			1	100%
Group Total		46	49.5%	47	50.5%	93	100%

Out of the 127 clients it is only 93 of them who have started business. For those clients who have started, their business experience varies from 1 year to 32 years. The mean, median and mode of the experiences are 7 years, 4 years and 2 years respectively. There is a higher experience in the urban areas than the rural areas.

Table 14: Average year of experience in business activities including this

Residence of the								Group			
Rural				Urba				Coun	Mea	Media	Mod
Coun	Mea	Media	Mod	Coun	Mea	Media	Mod				
76	6	3	2	51	8	5	4	127	7	4	2

The mean experience in rural clients is 6 years and that of the urban is 7 years. In addition, the modal experience of the rural and urban areas is 2 and 4 years respectively.

4.3 Microenterprise Activities and the Trend of their Impact on the Clients and their Households

About half (49.6%) of the total clients (and above 67% of 93 clients who have started business) are organised individually and 22.8% in partnership with family and relatives. Furthermore, about 75% of the urban and 33ss% of the rural clients work individually as sole proprietors. The distribution by ownership shows that it is rare to work together, particularly in businesses such as partnerships and co-operatives. This often aggravates the capital and skill limitation of the clients' enterprises. Here it may be appropriate to create awareness though training about pooling resources to work together for mutual benefit.

Table 15: Type of Microenterprise ownership

Type of enterprise ownership	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Individually	29	38.2%	4	7.8%	33	26%
With relatives	25	32.9%	38	74.5%	63	49.6%
With Group members	22	28.9%	7	13.7%	29	22.8%
Others			1	2%	1	0.8%
			1	2%	1	0.8%
Group Total	76	100%	51	100%	127	100%

The loan of sample clients varies from Birr 200 to Birr 2500. More than half (52. %) of the clients took Birr 500 and above during the first loan, i.e. about two-third of the rural clients and one-third of the urban clients took Birr 500. Look at Table 16 below for details.

Table 16: The amount of the first loan by sample clients in Birr

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Col %
		Count	Col %	Count	Col %		
Amount of loan received	200	1	1.3%	1	1.9%	2	1.6%
	250	1	1.3%	1	1.9%	2	1.6%
	300	6	7.9%	6	11.8%	12	9.4%
	400	4	5.3%			4	3.1%
	500	50	65.8%	16	31.4%	66	52%
	600	4	5.3%			4	3.1%
	700	3	3.9%	1	1.9%	4	3.1%
	800	3	3.9%			3	2.4%
	900	1	1.3%			1	.8%
	1000	3	3.9%	14	27.5%	17	13.4%
	1500			7	13.7%	7	5.5%
	2000			3	5.9%	3	2.4%
	2500			2	3.9%	2	1.6%
	Group Total		76	100%	51	100%	127

The mean loan of urban and rural areas is Birr 963 and Birr 525 respectively. The median loan for urban and rural clients is Birr 1000 and Birr 500 respectively. It seems that higher loan is given to the urban clients than the rural ones. Only 13% of the rural clients took more than the average loan of Birr 693 while 57% of the urban clients took above the average loan.

Table 17: The average loan size of sample clients in Birr

Residence of client respondent								Group Total			
Rural				Urban				Count	Mean	Median	Mode
Count	Mean	Median	Mode	Count	Mean	Median	Mode				
76	525	500	500	51	963	1000	500	127	693	500	500

Table 17 shows that about 55% of the urban clients took Birr 1000 and above in their first loan, but from the rural areas it is only 4% who took Birr 1000 or above in their first loan. This may be caused by various factors. On the one hand most of the urban clients are engaged in petty trade that provides immediate return. On the other hand, as table 18 shows, about 41% of the rural clients intended to invest the loan on livestock that does not provide immediate return.

Furthermore, the urban clients, more or less, rely on the income of their enterprise for subsistence, making them committed and with entrepreneurial skill while for the rural clients it is additional source of income. In addition to this as Table 19 shows more than 20% of the rural clients seem to use the loan for consumption, probably to smoothen consumption in difficult seasons. It is also possible that the urban clients have relatively better experience and exposure in microenterprise activities.

Table 18: Main intended use of the first loan

Main intended use of the loan	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Working capital	2	2.6%	4	7.8%	6	4.8%
Household consumption	42	55.3%	46	90.2%	88	69.3%
Livestock	1	1.3%	1	2%	1	0.8%
	31	40.6%			32	25.2%
Group Total	76	100%	51	100%	127	100%

About 69.3% of the respondents had the intention to use it as a working capital. The remaining 30 percent have taken it for consumption and this influences the impact that the microfinance services have on the lives of the clients. About 90.2% of the urban and 55.3% of the rural clients reported that they had an intention to use it as a working capital. One out of any four clients [25.2%] reported that their intention was to buy livestock; and this accounts for 40.8% of the rural and 2% of the urban clients.

Table 19: Actual use of the first loan in Birr

Actual use	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Working Capital	18	23.69	30	58.82	48	37.82
Household Expenses	18	23.69	2	3.92	20	15.74
Other non-productive Activities	31	40.78	4	7.84	35	27.55
Working Capital and other non productive activity	9	11.84	15	29.41	24	18.89
Group Total	76	100	51	100	127	100

Regardless of their intentions, only 37.8% of the clients reported that they actually used the loan that they took for working capital. About 58.8% of the urban respondents and 23.7% of the rural respondents used it for working capital. In addition, about 15.74% of the clients (23% of the rural and about 39% of the urban clients) used their first loan purely for household expenses [in food, clothing, and other supplies].

Besides, in the rural areas additional 41% of the clients have used the first loan for other non-productive purposes while it is only 7.84% for the urban clients. Generally 64.7% of the rural clients and 11.76 of the urban clients used the loan for non-productive purposes. This may have been caused by the inability of the MFI to meet the demand of its clients because it is often supply driven. The fungibility of money may also have its contribution to the misuse of the loan. The remaining balance of 18.89% of the loan (11.84% of rural and 29.41% of urban) is also shared for working capital and other non-productive purposes. According to the above empirical evidence, it seems that there is a significant difference in the actual use of the loan between the rural and urban respondents.

Similar analysis was also made for the second loan. The minimum amount that the clients took is Birr 100 and the maximum is Birr 2,500. The number of clients who have taken the second loan is very low as compared to the first one.

Table 20: Amount of the 2nd Loan in Birr

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Amount of loan received	100	33.3%			1	2.6%
	500		10	28.6%	10	26.3%
	800	66.7%	3	8.6%	5	13.2%
	1000		15	42.9%	15	39.5%
	1500		2	5.7%	2	5.3%
	2000		3	8.6%	3	7.9%
	2500		2	5.7%	2	5.3%
Group Total	3	100%	35	100%	38	100%

It is only 38 clients who have taken loan for the second time and the majority is from the urban areas. The main reason cited by the respondents was because of failure of members to repay the loan many of them could not take loan for the second time. Other respondents from rural areas have also stated that they could not repay because of drought and low agricultural yield.

The mean amount of the second loan is Birr 1003 and varies between rural and urban clients. The average loan size of the urban clients is almost twice of that of the rural clients. Moreover the number of rural clients who were able to take the second loan is only 3 (or 3.94%), which is negligible. One of the causes for significant reduction of the number of clients in the second loan may be the area and success in the investment of the first loan. There is a possibility that about 65% of the rural

clients may have spent the loan on non-productive consumption and certain part of the loan (about 12%) was also shared for working capital and other non-productive expenses.

Table 21: Average amount of the second loan in Birr.

Residence of respondent								Total			
Rural				Urban				Count	Mean	Median	Mode
Count	Mean	Median	Mode	Count	Mean	Median	Mode				
76	567	800	800	51	1040	1000	1000	127	1003	1000	1000

Another point observed in the table above is the average loan size of the second loan is greater than that of the first loan. The rate of increase for both rural and urban clients is similar although the number of repeat clients in the rural area is insignificant.

Table 22: Intended use of the second loan by sample clients

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Main Intended use of the loan when received	73	96.1%	16	31.4%	89	70.1%
Working capital	2	2.6%	35	68.6%	37	29.1%
Others (Specify) _____	1	1.3%			1	.8%
Group Total	76	100%	51	100%	127	100%

In the second loan 92.1 of the sample clients are urban. Moreover, table22 shows that 37 clients (97.36%) intended to use the second loan for working capital.

Table 23: Actual use of the second loan by sample clients

Actual use of the loan	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Working Capital	-	-	24	68.58	24	63.16
Household Expenses	2	67	2	5.71	2	5.26
Working Capital and other non productive activity	1	33	9	25.7	10	26.31
Group Total	3	100	35	100	38	100

In the second loan the discrepancy between intended and actual use is comparatively smaller, particularly in the urban areas. This may show that the conscious effort of the clients in their business and relatively better stability of their enterprise.

Table 24: Amount of the third loan by sample clients in Birr

	Residence of the respondent		Group Total		
	Urban		Count	Col %	
	Count	Col %			
Amount of loan received	500	8	30.8%	8	30.8%
	1000	11	42.3%	11	42.3%
	1200	1	3.8%	1	3.8%
	1500	5	19.2%	5	19.2%
	2500	1	3.8%	1	3.8%
Group Total		26	100.0%	26	100.0%

Based on Table 24 above, the number of clients is again reduced from 38 in the second loan to only 26 in the third loan. Moreover all the clients are in urban areas. This shows that almost all rural women did not have access to regular loan or microbusiness loan. As Table 24 shows the amount of the third loan varies from Birr 500 to Birr 2500.

Table 25: Average amount of the third loan

	Residence of the respondent					Group Total				
	Urban					Count	Mean	Max	Mini	Mode
	Count	Mean	Max	Mini	Mode					
Amount of loan received	26	1008	2500	500	1000	127	1008	2500	500	1000

The results in table 25 show that the modal amount is Birr 1000 and the mean amount of the third loan is Birr 1008, which does not significantly vary from that of

the second loan.

Table 26: The intended use of the third loan by sample clients

	Residence of the respondent		Group Total		
	Urban		Count	Col %	
	Count	Col %			
Main Intended use of the loan when received	Working capital	26	100.0%	26	100.0%

The intended use of the third loan was all in all for working capital. In fact as Tables 26 and 27, show there is a variation between the intended use and actual use of the third loan.

Table 27: Actual use of the third loan is mainly on working capital by sample clients.

Actual use	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Working Capital	-	-	20	76.92	20	76.92
Household Expenses	-	-	2	7.69	2	7.69
Working Capital and other non productive activity	-	-	4	15.39	4	15.39
Group Total	-	-	26	100	26	100

Generally it seems that as the clients get more experienced, the intention they have and the actual use gets more and more correlated. This may be because they developed better business skills and they may be recognizing that the income from their enterprise activity is significant, making them more entrepreneurial. There is a variation in the degree of correlation between intended use and actual use of the loan between clients in rural and urban areas.

From the 127 sample clients, 34 respondents have not actually started business. Either they have used the loan for consumption or other non-productive purposes; or

they were simply unable to manage. The source of start-up funds was also studied. One out of two respondents [50.4%] started with the program loan, i.e. 83.33% of the rural and 43.18% of the urban clients with the microloan from DECSI. About 14% of the clients also reported that they started it with household or personal saving; and this accounts for 7.4% of the rural and 22.72% of the rural clients. It seems that the urban clients have other sources than the loan. Besides there is also relatively longer business experience in the urban areas that their businesses may have started prior to the provision of microfinance services.

In addition, 5% (9.09% of the urban and 1.85% of the rural) of the sample clients reported that program loan and family are the sources of capital for starting the microenterprise activity.

Table 28: The trend of business profit during the last two years

		Residence of the respondent				Group Total	
		Rural		Urban		Count	Col %
		Count	Col %	Count	Col %		
The trend in the level of business profit during the last two years	No Response	31	40.8%	7	13.7%	38	29.9%
	Increased significantly			1	2.0%	1	.8%
	Increased	11		19	37.3%	30	23.6%
	Remained the same	13	17.1%	4	7.8%	17	13.4%
	Decreased	17	22.4%	20	39.2%	37	29.1%
	Decreased significantly	4	5.3%			4	3.1%
Group Total		76	100%	51	100%	127	100%

Table 28 shows that, in addition to the 34 clients who were unable to start their business, additional 4 clients were unable to manage their business and thereby 38 respondents did not reply on the level of their business profit. In the rural areas the most common reason reported by the clients is death of animals, particularly sheep and chicken, because of epidemic diseases. As a result, many reported during the

interview and focus group discussions that most of them are unable to repay the loan. In the urban areas, peace and stability is reported to be a major problem for poor sales of their products, particularly those engaged in preparing and selling beverages and food items because of lack of demand for their products.

Due to the misuse of the loan for consumption and other non-productive activities and the prevalence of unstable weather it is only 89 respondents who tried to run the business. Out of the 89 clients who managed to continue their business, 31 respondents (24.4% of the clients) reported that the business profit has increased during the last two years and 17 respondents (13.4%) of the clients reported that it remained the same. Besides, 31(34.83%) and 17(19.1%) of them were able to increase and retain their income respectively. With the prevalence of such constraints, the researcher feels that it is partially a success even to retain their income.

About 39.3% of the urban and only 14.5% of the rural respondents reported that the profit has increased during the last two years. There seems to be higher profit in the urban areas than in the rural areas.

However, Table 28 indicates that the increase in business profit was less in both rural and urban areas. This may be the result of the declining agricultural production caused by unfavorable weather condition because most of the respondents own farmland. Again when the purchasing power of rural people declines it will have a direct effect on the demand of many goods and services provided by the urban clients.

From the 89 clients who are able to manage their business almost half of the clients generate a significant amount of income from their enterprise. Moreover, the amount of income generated from the microbusiness is relatively greater and more significant in the urban areas. This may be due to the fact that the rural residents usually use their agricultural products for their subsistence and other household expenses.

Table 29: Proportion of household income from the enterprise

Proportion of household income from the enterprise	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
All	31	40.8%	7	13.7%	38	29.9%
More than half	3	3.9%	18	35.3%	21	16.5%
About half	4	5.3%	9	17.6%	13	10.2%
About one-fourth	5	6.6%	4	7.8%	9	7.1%
Negligible	10	13.2%	5	9.8%	15	11.8%
	23	30.3%	8	15.7%	31	24.4%
Group Total	76	100%	51	100%	127	100%

Table 29 indicates that out of 89 who have started business, 21 respondents (16.5%) and 13 respondents (10.2%) reported that all and more than half of the income comes from the enterprise respectively. From the 45 rural clients 18 of them have reported that all their income is generated from the micrienterprise activity. From the 89 respondents, 15 of them reported that about one-fourth of the income comes from the enterprise. About 58 respondents out of the 89 clients reported that more than one-fourth or more of their household income comes from the enterprise.

The first most important household expenditure [for 60.6%] of the clients is household living expenses; and accounts for 72.5% of the urban and 52.6% of the rural respondents. This may be due to the fact that the rural residents usually use their agricultural products for their expenses.

Out of the total 127 clients, it is only 28 (about 22%) who were unable to repay their loans regularly. The major reason given during the interview and the focus group discussion was deployment of males (husbands and sons) who had active role in running the business because of the war with Eritrea. This was particularly observed in business such as livestock trade, fattening, and grain trade that involved traveling greater distance for buying and selling. Other reasons included by the clients were using the return from the enterprise for household expenses (11,8%), lack of adequate profit (7.1%) and loss or damage (1.6%) in descending order.

The sample clients were also asked on whether they have personal savings or not. It is only 71 clients (62.28%) that have reported that they have cash savings. The remaining 43 clients (43.71%) stated that they know they have but they do not really know about the amount of their savings with DECSI. Also, the thirteen dropout clients have no personal savings although they used to save before they left the program.

From the above explanations it is possible to say that there is no as such a basic awareness and knowledge about the savings and other forms of capital accumulation. Besides, it is also possible that other people, other than the client, may have utilized the loan taken. In fact DECSI managed to mobilize huge amount

of savings from its clients but it is almost without building the awareness about the benefits to clients themselves. This may call for close follow up and orientation on some advisory services from DECSI staff. Actually the amount of savings accumulated by the sample clients is shown below.

Table 30: Amount of compulsory saving by sample clients

		Count	Col %	Mean	Median	Mode
Residence of the respondent	Rural	76	59.8%	58	46	40
	Urban	51	40.2%	111	80	25
Group Total		127	100%	86	50	25

Based on the amount of the loan and the duration of the clients the average amount of compulsory saving is Birr 111 and Birr 58 in the urban and rural areas respectively. The average compulsory saving of the urban clients is almost twice than that of the rural clients.

Table 31: Amount of Voluntary saving by sample clients

		Count	Col %	Mean	Median	Mode
Residence of the respondent	Rural	76	59.8%	41	24	24
	Urban	51	40.2%	277	72	10
Group Total		127	100%	162	30	24

Table 31 shows that the mean level of voluntary saving is Birr 162 and it is significantly higher for urban clients. It is Birr 277 and Birr for urban and rural clients respectively.

Concerning the trend of their personal savings, out of 127 clients (13.4%) reported that it is continuously increasing and 61 (48%) responded that it stayed the same because they have fully repaid and are not depositing in their saving accounts any more. Furthermore, other than the dropout clients who left the program, the

remaining 113 clients have not withdrawn their savings either because of group collateral or they want to continue with the DECSI program.

Clients may face various problems in starting or operating their businesses. Table 32 shows that about 27.6% clients reported that insufficient fund (lack of adequate working capital) was the main problem they faced. About 14% also reported that they have a combination of problems of insufficient fund ^{and} other related problems. Loss, theft, or damage and lack of market are also accounting for 4.7% and 3.1% respectively. Finally 22% have reported that they had not any problem in starting the business.

Table 32: Major problems of sample clients in starting their microenterprise

	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
What were the major problems when you started your micro-enterprise?	18	23.7%	7	13.7%	25	19.7%
Insufficient fund	22	28.9%	13	25.5%	35	27.6%
Lack of suitable premises	1	1.3%	1	2.0%	2	1.6%
Lack of market	1	1.3%	3	5.9%	4	3.1%
Lack of input from suppliers	2	2.6%			2	1.6%
Cash flow	1	1.3%			1	.8%
Disagreement with spouse/family problem	1	1.3%			1	.8%
Theft (loss) damage	4	5.3%	2	3.9%	6	4.7%
Others (Specify) ___	7.00	11.90	14	27.4%	23	18.1%
No problem	17	22.4%	11	21.6%	28	22.0%
Group Total	76	100%	51	100%	127	100%

Data were also collected on whether the clients have major constraints in running their microenterprises. Accordingly about 37 clients (29.1%) reported that they did not face any problem. From the remaining clients about 25% (out of which the greater majority are urban clients) reported that they had working capital and other related problems. For the rural clients, the most significant problem is loss or damage (6.3% of the total) that may be caused by loss and death of animals such as cow and sheep.

The sample clients were also asked about the destiny of their micro enterprise in the future. Accordingly, about 29.9% of the clients responded that they want to expand the existing business. But there is a significant difference between the urban and rural clients. About 60.8% of the urban clients and 9.2% of the rural clients want to expand the existing business. This may imply the relatively better knowledge and entrepreneurial skill of the urban clients acquired during their relatively longer work experience.

Table 33: The future plan of the clients with the microenterprise

The future plan of the respondents with the microenterprise	Residence of the respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col %	Count	Col %		
Maintain Existing Business	24	31.6%	8	15.7%	32	25.2%
Expand Existing Business	10	13.2%	5	9.8%	15	11.8%
Diversify Business	7	9.2%	31	60.8%	38	29.9%
Close Existing Business	1	1.3%	4	7.8%	5	3.9%
Do not know	9	11.8%	2	3.9%	11	8.7%
	25	32.9%	1	2.0%	28	20.5%
Group Total	76	100%	51	100%	127	100%

About 11.8% of the clients want to maintain the existing business, i.e. 13.2% of the rural and 9.8% of the urban respondents want to maintain the existing business. About 11 clients (8.7%) have the plan to close it; out of which 9 clients are rural. Above all, what is surprising is that 20.5% of the clients do not know about the future of the enterprise that they have; they failed to plan and this may directly imply that that do not have any entrepreneurial skill or courage to decide. So 32.9% of the rural respondents seem to be the victims of lack of entrepreneurial skill.

Out of the total rural sample clients of 76, only 10 (13.16%), 7 (9.21%), and 9 (11.84%) have the intentions to maintain, expand, or diversify their businesses respectively. The remaining 65.78% of the rural clients have either terminated the business or do not know about the future of their businesses. One of the most significant implications of such variable outcomes between rural and urban can be the need for business development services to equip them with at least the starting knowledge and training or possibly providing loans based on their real demand including for consumption purpose.

Expenditure in the clients' households

Out of the total clients about 52% of them live in their own homes and the others use rental and free houses of their families. Again 50% of those who owned their houses were able to improve or repair their residential house. In the rural areas, it is almost one third of the total clients who have made some repairs on their residential houses.

About 12.6% (16 clients) have also reported that they did expansions to their residential houses still with major proportions in the rural areas. It might not be spent

in the income generating activity but still with positive effect on the life of the clients' households. In the focus group discussions some clients have reported that they had borrowed the loan in difficult or slack seasons, for repair or smoothing consumption.

Data on amount of food consumption in the households of the clients were also collected. Accordingly about 11.6% of the total clients have reported that their food consumption has increased. About 18.1% of them have reported that they had the same consumption. With the prevalence of unstable weather maintaining the same consumption level is a positive effect of the financial services of DECSI. About 8% of the clients reported that their source of income for the increased food consumption is profit from the micro enterprise mainly for the urban clients.

Data were also collected on the coping mechanism used by clients during hunger or difficult seasons. Still the role of the microfinance service is partially smoothing consumption, even without investing it. About 11 respondents ((8.7%) reported that they use DECSI microloan as a coping mechanism during difficult seasons. Most of them managed to repay the loan even if the loan was spent in consumption during difficult seasons. Thus the implication is that it may be feasible to lend even for consumption so that microfinance services would be demand driven instead of supply driven.

The respondents were also asked on the frequency of buying clothes for the members of the household, and around 48% of them buy clothes once a year for all household members, and about 12% of the clients buy clothes for household

members in less than one year. The responses are more or less similar in the urban and rural areas.

Furthermore, out of 51 household members of clients, who needed medical attention, 47 of them were taken to medical centres for treatment. Out of the 47 again 16 and 2 of them (all from the urban clients) were treated using money from business profits and DECSI loan respectively. For the rural households, the source of the money for medical treatment uses mainly borrowing from others and sale of livestock. This again is another evidence for the misuse of the loan by rural clients for non-productive activities. On the other hand, in the urban clients microfinance is having a positive impact in improving the health status of clients' households.

4.4 Characteristics and Problems of Dropout Clients and their Enterprises

Out of the thirteen dropout clients only two have not withdrawn their savings and the remaining have spent it in household expenses and other non productive activities, including payment of debt borrowed from other individuals. As to the constraints faced by the clients in operating their enterprise, it is greatly associated with lack of market.

Four of them reported that their basic constraint is market problem and other three clients have simply consumed it because of drought and one reported that she had no skill. Data was also gathered as to who made the decision to exit the program and 10 out of 13 stated that they have made the decisions themselves. This shows that female clients are empowered to make such significant household decisions. The clients also reported that the loan had helped them and their family in many

ways. Three of them reported that they consumed more and better food and other 6 clients reported that it helped them to educate their children.

Furthermore, table 34 and 35 describe about the contribution of microfinance services to improve their lives and about their experience with DECSI services. Generally there is no as such a significant difference between the experience of existing and dropout clients.

Table 34: The impact of microfinance on the lives of dropout clients as perceived by themselves

Actual use of the loan	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Helped me a lot	6	60	2	66	8	61.54
Helped me a little	1	10	1	33	2	15.38
Did not help me at all	1	10	–	–	1	7.69
Loan was burden	2	20	–	–	2	15.38
Group Total	10	100	3	100	13	100

Eight out of thirteen sample dropout clients have reported that the microfinance services provided by DECSI has helped them a lot in their lives. Although it may not be significant the microfinance service has also helped two additional dropout clients to a certain extent. In fact two out of thirteen clients have reported that the loan was burden to them

Table 35: The Evaluation of clients on the services of DECSI

Your Experience with DECSI	Residence of respondent				Group Total	
	Rural		Urban		Count	Col %
	Count	Col%	Count	Col%		
Very Good	2	20	1	33	4	30.77
Good	4	40	2	66	5	38.46
No effect	2	20	-	-	2	15.38
Bad	2	20	-	-	2	15.38
Group Total	10	100	3	100	13	100

Table 35 shows that even the dropout clients have terminated their relationship with DECSI, their evaluation on the services provided by DECSI is satisfactory.

Out of the 13 dropout clients five clients rated the microfinance service of DECSI very good and four clients rated it good. In stating their reasons for exit, 4, 3, and 2 clients said that the primary reasons were personal, economic, and problems with group lending respectively.

4.5 The Impact of DECSI Services on the Empowerment of Women

Empowerment of women is often difficult to explain in unidirectional way. It is often multidimensional expressed by many variables including the following:

- Improvement in attitude of men towards women, because of better bargaining position.
- Reducing the level of quarrelling
- Involvement of women in major household decisions
- Control over financial and other resources
- Respect of women by their male partners
- Self confidence and self image

Table 36: Major results of microfinance in empowerment

Measures	Rural		Urban		Total		Remark
	No	%	No	%	No	%	
Increased positive attitude of spouses	21	55%	15	75%	36	62.07%	
Increased participation in major household decisions	7	18.42%	10	50%	17	29.31%	
Reduced quarrel and confrontation	5	13.6%	10	50%	15	25.86%	
Increased respect by spouses	6	15.79%	11	55%	17	29.31%	
Increased self-confidence	24	31.58%	35	68.63%	59	46.46%	All clients
Increased self-image in public	13	71.1%	4	7.84%	17	13.38%	All clients
More quarrel	4	10.5%	–	–	4	3.15%	

Although these may not be the only variables used to measure empowerment, the study by and large emphasised on the above mentioned variables.

Out of the 58 married clients 62.07% (21 from rural and 15 from urban) have responded there is a positive change in the attitudes of their spouses towards them. In other words about 55.26% of rural married clients and 75% urban married clients have stated there is improvement in the attitude of their spouses. Besides it is also relatively higher in the urban areas. For the rural clients the microenterprise is often additional source of income.

Furthermore 7 clients from the rural (18.42%) and 10 from the urban clients (50%) have responded that their participation in major household decisions has increased. Here the number of clients who have improved the decision making power is far less

than the improvement in the attitude of spouses. This may be because a change in attitude is almost moral or theoretical while decision making is practical or actual. But still microfinance seems to contribute to empowerment of women in both cases although with different proportions.

The status and trend of quarrelling and confrontation was also as an indicator of empowerment affecting gender relations. Accordingly 5 clients (13.6%) of rural clients and 10 clients (50%) of the urban clients have reported quarrels and confrontations with their male spouses are reduced. On the other hand, in the rural areas 4 (10.5%) reported that the quarrels are more than before.

The respect given by their husbands was also studied. Based on the results of the sample survey, six from rural (15.79%) and eleven (55%) from the urban reported that the respects by their husbands had increased. On the other hand, three from the rural areas stated their respect by their male spouses is reduced. This is likely to be affected by the decisions on loan repayments and sense of independence of the women from their partners.

All the clients were also asked two questions about their self-confidence in household decisions and their self-image in the public. Accordingly, 24 from rural areas (31.58%) and 35 (68.63%) from urban clients reported their self-confidence has increased on what they do and say. On the other hand it is only thirteen (17.1%) in rural and only 4 (7.84%) in urban areas that reported that their public image is enhanced.

4.6 Relationship with DECSI

There does not seem to be great dissatisfaction with many of DECSI services except for group collateral and group dynamics. Moreover, the experience of all the 127 clients with DECSI seems to be similar for both rural and urban clients. According to table 36 shown on the following page, at an average more than 70% of clients rated the first five characteristics satisfactory or above based on the clients' perceptions.

Table: 37 DECSI Services as rated by perceptions of the respondents

DECSI Services	RATE												Sub Total	
	Excellent		V. Good		Satisfactory		Fair		Poor		No Rate			
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Interest Rate	12	12	29	20	3	1	4	2	11	10	17	–	76	51
Loan Size	19	17	41	19	1	2	1	2	1	5	13	6	76	51
Lead Time	15	10	39	19	4	9	3	2	2	5	13	6	76	51
Grace Period	3	6	37	27	10	5	5	2	7	5	14	6	76	51
Repayment Period	4	4	34	27	11	3	8	7	6	4	13	6	76	51
Group Guarantee	2	2	21	27	4	–	5	7	31	25	13	6	76	51
Group solidarity	1	2	19	7	3	–	7	8	32	28	14	6	76	51

CHAPTER V

SUMMARY OF MAJOR FINDINGS AND RECOMMENDATIONS

5.1 Summary of Major Findings

There is a claim that married women have more access to microfinance services, because of the influence of their husbands, than female headed households. About 51.2% of clients are not spouses and this implies that spouses and the other clients have similar access to credit in terms of number. However, in terms of amount women have less access than men in the study area. The researcher has tried to look for the details of all the loans provided to all clients in the three kebeles including Hawzen town.

Table 38: Average amount of credit in Birr in the first loan

Clients	Residence of respondent		Total
	Rural	Urban	
Female	525	963	693
Male	803	1800	968

Table 39: Average amount of credit in Birr in the 2nd loan

Clients	Residence of respondent		Total
	Rural	Urban	
Female	567	1040	1003
Male	1074	2210	1262

As Tables 38 and 39 show, the average loan size of urban female clients is almost double to that of rural clients (184%). This is likely to be caused by lack of business experience in the rural areas and their limited entrepreneurial skill. In addition to this, there is a marked difference between the loan size of males and females even within the rural areas. This shows that rural women are the most disadvantaged in their access to credit, like any other services. There is also a significant difference in the average loan size of male clients in rural and urban areas (see Tables 38 and 39 above). Therefore, the residence area of the clients seems to be a major factor for access to credit and potential success.

Also in the third loan there were no rural women who had access to credit in the rural areas. There were only 26 women clients from the urban area who had the access to credit. Furthermore, the loan amount of female clients was at an average Birr 1008 while that of urban male clients was Birr 2400, which was about 238% of the loan of women clients in the urban.

For about 39% of rural and 20% of urban clients, the primary reason to join the microfinance services is low agricultural yield because of unstable weather, which is completely beyond their control. And yet they have no any background or skill in business related activities. In this case, unless the unskilled and untrained women are exposed to business and records management systems their failure may also be sure.

What makes it worse is also that most of the clients (55.1%) are not accustomed to pooling their resources and work together to complement each other, such as in co-operatives and partnerships. This area may also require sensitization, promotion and support by different stakeholders.

Another important finding is that clients spend a significant proportion of the loan for household and other non-productive activities that provide no return other than consumption. For example, in the first loan about 43% of the clients spent

their loan in consumption and other non-productive activities. Although some of it may be caused by the fungibility of money, due to the unstable weather and the resulting low agricultural yield, most of it may have been used to smooth consumption or coping mechanism for income variability.

A quarter of the sample clients rely on their microenterprises for 50 percent or more of their income, particularly in the urban areas. For example, 21 clients (16.5%) of the respondents reported that 100% of their subsistence income comes from the income generating activity. Therefore, it is becoming a basic means of self-sustenance for many poor people.

During the focus group discussion, one of the clients underlined the significance of MF services in her life as follows:

*Had it not been for the microfinance services provided by DECSI,
I would not have been here, I would have migrated somewhere.*

Another client has also addressed the significance, MF services on the life of poor women in the following way:

*Why do you ask us whether we have accumulated
assets such as livestock and other fixed properties? In
the absence of sufficient agricultural yield (caused by
unstable weather), we are surviving or have something
to eat to sustain our lives because of DECSI credit.*

Therefore microfinance seems to play a major role, probably a determinant role for some of the poor women in the survival and life of their households. This means even what is spent in consumption is playing its own role in their lives.

In expenditure aspect, relatively more female clients in the rural areas are likely to spend their loans in non-productive activities such as consumption during hunger or difficult seasons to smooth variability of income and investments in

house repairs and expansions that are often made during the summer season. For example, in the rural areas about one third of the clients partially used the loan for repairing their houses and 16 clients (12.6%) from both rural and urban areas managed to expand their houses with the partial support of the credit. Although such spending is not made on productive purposes, it may be contributing to the life of poor women households.

In addition to sustaining the income of the clients, about 11.6% of the respondents have reported their food consumption is increased. With the prevalence of unstable weather, directly or indirectly, microfinance is contributing (at least partially) to increased food consumption. Also from the 47 household members of the clients taken to medical centers for treatment, sixteen of them (all from urban) used IGA business profit and two from rural used DECSI loan as a means to pay the medical fees. Therefore, particularly in the urban clients microfinance is having a positive impact in improving the health status of the clients' household members.

The data also shows that the frequency of buying clothes for household members also seems satisfactory, given the level of absolute poverty, because about 60% of the clients reported that they buy clothes for household members in one year or less time. The drop out clients have also reported (76.92%), that microfinance services provided by DECSI have helped them somehow in their lives.

5.2 Conclusions and Recommendations

MFIs can seriously compete with informal lenders and provide a real choice to MFI member households only by designing a differentiated and diverse lending...to household resource endowment (Sinha and Matin, 1998).

One of the major objectives of MFIs is to access money to the poor who are denied by the formal banks and who are unable to afford the interest levied by private moneylenders. Thus MFIs, including DECSI, are expected to aim at reducing the dependence of poor households on private moneylenders, even for consumption during difficult seasons in their effort to reduce income variability. Microcredit can play its own role in reducing vulnerability in consumption levels and out migration and thereby enhancing productive activities.

All households do not use Microcredit for directly productive purposes. Resource poor households tend to use at least part of the credit for smoothing consumption or other purposes such as repairing houses in summer (kiremt), or school expenses during September, which is one of the difficult seasons for poor farmers because it is just before the harvest season. This may prevent poor women households from selling their fixed assets such as livestock for coping mechanism purposes during hunger or difficult seasons.

Most programs are not optimally designed nor necessarily offering the most desirable financial products (Morduch, 1999). Similarly as shown in the findings, a significant part of DECSI loan is spent on household consumption and other non-productive activities. Therefore it is important to identify and bridge such demand gaps and make microfinance services demand driven instead of supply driven. MFIs should not take the demand of the poor for credit for granted.

There is no agreement among people seeing poverty reduction as the ultimate goal of microfinance as to whether this goal is best fulfilled by exclusively targeting the poorest of the poor or by providing financial services on a broader basis to low income people.

Some women would have liked expert help in identifying profitable businesses. Others expressed their difficulties in choosing profitable business lines and their desire to seek expert help to direct them in making profitable choices. They are ignorant of what feasibility studies are and their importance. (Catherine, 1998)

These constraints are even worse in the microenterprises financed by MFIs that start with zero experience. It is only access to credit that might be solved through the microcredit service not the success nor sustainability of the microenterprises. Credit is necessary but not a guarantee for success in reducing or alleviating poverty.

The conflicting views and results on the impact of microfinancing, particularly on empowering women, attract the attention for further research. Moreover income generating activities run by women are more vulnerable and their sustainable impact in the long run and possibility of being transformed to microenterprise development seems to be limited by their skills and knowledge of business, inadequate feasibility studies, and other technical support. Otherwise it can even be a cause for vicious circle of poverty.

The existing MFIs in this country should diversify or modify their products to widen their services to the poorer and poor categories of the society although priority should be given to the poorest of the poor because poverty alleviation efforts should be transformed to development efforts through microenterprise

development. Thus, the maximum ceiling for microcredit loan deserves attention by policy makers.

Therefore to ensure sustainability in poverty alleviation and transform to development, MFIs should diversify or modify their products for microenterprise development. Finally delivery of such services should be designed in a cost effective way by integrating the efforts of relevant institutions.

Moreover the long run sustainability of microenterprises supported by MFIs can be questioned. The potential actors in providing nonfinancial support or business development services in this country can be

- Training and Research institutions
- Regional Bureau of Agricultural Development
- Regional Office for Agricultural Cooperatives Promotion
- Regional Agency for Micro and Small Enterprises Development
- Donors

It may not also be necessary to replicate Grameen experiences, as they can limit research and demand analysis. Thus lending to individuals based on collateral, as an option also deserves attention. Even the social collateral needs further analysis and study to see alternative options, such as modifying the group size, i.e. reducing to less than five may be more manageable in collecting repayment although it might increase risk costs. Ways of encouraging saving mobilization should be designed to support sustainability of the MFI. For example part of subsidies, if at all, can be allocated to raise saving rate in order to enhance saving and capital accumulation.

Finally, limited research is done on the impact of microfinance on the beneficiaries, particularly in Africa. Thus critical studies and impact assessments should be conducted by Microfinance Institutions to identify problems and limitations of MF supported income-generating activities.

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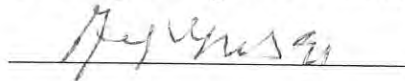
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Signed Declaration

The thesis is my original work and has not been presented for a degree in any other university and all sources of materials used for the thesis have been duly acknowledged

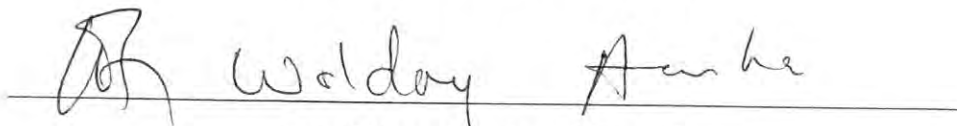
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November 2003

The thesis has been submitted for examination with my approval as an advisor



Wolday Amha (Ph.D)