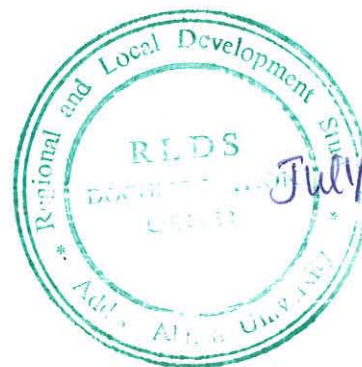


ADDIS ABABA UNIVERSITY

**SCHOOL OF GRADUATE STUDIES
REGIONAL AND LOCAL DEVELOPMENT STUDIES**

MICROFINANCE AND IMPROVEMENT IN LIVING STANDARDS: A PATHWAY OUT OF POVERTY (the case of Enemay Woreda, Eastern Gojjam, Amhara Regional State)

Bamlaku Alamirew Alemu



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LIVING STANDARDS: A PATHWAY OUT OF
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Gojjam, Amhara Regional State)

A thesis submitted to the School of Graduate Studies,
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Regional and Local Development Studies

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JULY, 2004

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Acronyms

ACSI	<i>Amhara</i> Credit and Savings Institution
PPA	Participatory Poverty Assessment
MFI	Microfinance Institutions
UNDP	United Nations Development Program
DCSI	Dedebit Credit and Savings Institution
NC	New Clients
FB	Frequent Borrowers

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Dedication

This thesis is dedicated to my father, Ato Alamirew Alemu and to my mother W/ro Elfinesh Abate, who have brought me up with love and care.

Abstract

Since the 1970s there has been a strongly growing interest in considering microfinancing as a viable strategy for the poor. Especially after the success of the Grameen Bank, the system has been duplicated in the different parts of the developing world. Ethiopia is also one of the countries where microfinance has been given due consideration as a safety net for the poor to help them overcome the adversities of poverty.

Microfinance institutions, as mentioned above, are basically set up with the goal of poverty reduction. Hence, the situation whether the objective of these MFIs is met merits special consideration by way of impact assessment. Although several studies have been conducted so far, the impact of microfinance on poverty reduction still remains an issue to be addressed. This study tries to answer three important questions: how well ACSI has been working regarding repayment and outreach; what welfare difference ACSI has brought on the clients and what opinion the clients have regarding the services provided by ACSI.

With the above objectives in mind, the research work employed questionnaires (developed by UNSAID's AIMS Project), key informants; focus group discussions, and observations to obtain primary data. In addition, secondary sources of data have also been used. Eventually, using a mix of qualitative and quantitative tools (such as logit model), the study found out that ACSI has brought positive impacts in income, consumption, asset building (in urban areas in particular) and decision making in household activities. However, much is to be done in incorporating more females in the program and in devising strategies in such a way that clients would look for other alternative income generating ventures, other than, for example, buying ox and sheep in rural areas and cereals trading in urban areas of Enemay Woreda. In addition, loan size ought to be considered in addition to providing the poor with trainings and technical backup.

Key Terms: Poverty, poverty reduction, microfinance, ACSI, impact, Enemay Woreda

Word count: 312

CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND OF THE STUDY

1.1.1 POVERTY: AN OVERVIEW

The division of the 'haves' and the 'have-nots' characterizes the world. While the former lead a luxurious life, the latter suffer from lack of *decent, healthful* and *productive* life. The inequality between the rich and the poor is widening apart, which resembles the trend of opening a scissor. Besides, the number of the poor is getting higher and higher as the years go by. According to the World Development Report of 2003, there were more than one billion people in the world who live in acute poverty. These people are extremely poor and denied of access to the essentials for a humane existence (Cunningham and Saigo, 1995). However, the issue of poverty is not the concern of the developed world; it is a secondary issue in highly industrialized countries (Bigsten, et al 1999).

In developing countries, however, the issue of poverty is a primary concern. In 1993, there were ten countries, which were labeled as the poorest by the World Bank. Of these, eight were found in Africa. Food production in those countries has fallen far short of the population growth. The worst declines in per capita food production have been observed in Ethiopia, Angola, Sudan, Somalia and Mozambique due to drought, war, and government failures to put "good" policies in place (Ibid).

When we come to our country in particular, with over 65 million people and 1.12 million Km² area, Ethiopia can at best be described as a large country. Agriculture is the backbone of the country's economy. The fact that approximately 85% of the country's population lives in the rural

areas and derives its livelihood from agriculture proves the sector's outstanding importance (Sisay and Adugna, 2001). As far as Human Development Index is concerned, Ethiopia is positioned 170 out of 174 countries in the year 2000/1 (World Bank, 2001, cited in Tsehay and Mengistu, 2002). Even at worse, about 44% of the population in the country is reported to live below poverty line (MoFED, 2002). According to the report of UNDP (1998), the human Development Index of the country is 0.244, which is by far lower than that of Sub Saharan African Countries. There are also such problems as food insecurity, population growth, land size decline and fragmentation, and insufficient capital to produce or purchase food (Tesfaye and Debebe, 1995).

On top of all the above, Ethiopia is found almost at the bottom of the development rank. For instance, the World Bank report (1999) describes the fact that the per capita income of Ethiopia is \$ 115. This puts the country at the 170th position out of 175 countries. Two years later, it was reduced to \$ 110 (World Bank, 2001). Besides, World Development Report (2002), points out that, Ethiopia, with low per capita income and high incidence of absolute poverty (i.e., 50% of the population below the poverty line), is one of the poorest countries of the world. Against the backdrop of low development indices, the country is characterized by cross border migration, increasing internal conflict (ethnic disputes), resource degradation (settlement in environmental sensitive areas) etc.

The causes for underdevelopment and poverty in Ethiopia are attributed to a number of factors, which vary spatially. The commonly understood are the fact that over 80% of the population is dependent on subsistence agriculture, the employment outside agricultural sector is so limited and higher growth rate of population than growth rate of GDP. There are different specific reasons, which made the country's economy exhibit such kind of problem. For instance, Wolday

(2000) puts the causes of poverty as follows. He indicated that poverty and food insecurity are the main challenges and fundamental issues of economic development in Ethiopia. Citing the appeal made by the Government of Ethiopia at the beginning of the year 2000, he went on explaining that the estimated drought-affected people requiring food aid were about 8 million. According to him, lack of income, assets, employment opportunities, skills, education, health and infrastructure as major causes of low economic growth and high incidence of poverty in Ethiopia. These problems have also been aggravated by soil degradation, deforestation, recurrent drought, civil war, and inappropriate policies. The study by Samia (1999) also supports this argument.

In an attempt to mitigate the constraints, however, the government in particular, NGOs and the public at large are applying various solutions. Microfinance is among the specific means that is given greater emphasis and is expected to play essential role for reducing poverty. Thus, most of the microfinance services providing institutes have articulated creating a small and easily accessible loan to the poor as their primary objective. Therefore, one can say that reducing poverty is high on the agenda in Ethiopia. MoFED (2002) supported this argument indicating the Millennium Development Goals of Ethiopia. This document revealed that by the year 2015, the poverty situation of the country should decrease by half from what it is now. The most important strategies through which this goal is to be achieved include capacity building, improvement in the legal system, civil service reform, devolution and empowerment. More importantly, the document emphasized that the economy of the country should grow by 5.7% per year to get its Millennium Goal achieved.

1.1.2 HOW POVERTY IS DEFINED AND MEASURED

The meaning of poverty is not satisfactory to every society in the world and as such, there are various approaches towards measuring it. In the modern sense of the term, poverty goes beyond

the simple fact of too low income and therefore, encompasses other dimensions. For instance, Johnson and Rogally (1997, cited in Ledgerwood, 1999) defined poverty as not only lack of income but also vulnerability and powerlessness. This argument is also supported by the World Bank's (2000 cited in Tassew and Daniel, 2002) study, which stated that the poor are excluded from state and societal affairs. According to this report, there are at least four dimensions of poverty. These are lack of income, low level of achievement in education and health, vulnerability to risks and some sort of insecurity and voicelessness.

When we come to its measurement, poverty is measured by constructing a poverty line. According to World Bank (1991) and MoFED (2002), poverty line is defined as a threshold level of per capita income/ consumption level below which an individual is labeled to be poor. This poverty line is measured in different ways. Some of these approaches are absolute, relative and subjective poverty.

In the absolute poverty approach, people are labeled to be poor when some basic needs are not sufficiently satisfied. More particularly, absolute poverty is a cost of a bundle of food items that are necessary to assure a predetermined energy requirement. There are different methods of defining absolute poverty line. The most common method is the basic need approach. This approach defines absolute minimum in terms of basic needs such as food, clothing, housing, health care, education etc. In this regard, poverty means lack of command over the stated basic needs where the poverty line is the minimum cost of these basic needs (Rowntree, 1901 cited in Dercon and Krishnan, 1996). More importantly, Hagenars (1986:56), puts the basic need approach as follows:

$$Z = C_o + O_{co}, \text{ where}$$

Z is the poverty line

C_o is the minimum cost of food

O_{co} is the minimum cost of non-food items

In this approach, poverty lines are drawn by computing the cost of the food basket at regional prices that enable poor households to meet the nutritional requirements. In addition, an allowance for the non-food consumption is added (Ravallion and Bidani, 1994 and Ravallion and Sen, 1996).

The other method of defining absolute poverty line is the Food Energy Intake (FEI) approach. This method sets poverty lines by computing the level of consumption or income at which households are expected to satisfy the normative nutritional requirement, which is 2200Kcal (Greer and Thorbeche 1986, cited in Dercon and Krishnan, 1996).

In addition to these methods, total expenditure or income ration can be used as a determinant method of absolute poverty. But, the cost of basic non-food requirement determination involves some element of subjectivity. Due to this reason, the common practice of poverty assessment in developing countries is to use the food poverty line as an absolute poverty line (Mekonnen 1996, cited in Ermias, 2000). On the other hand, Dercon and Krishnan (1996) used a consumption-based approach to construct the absolute poverty line for Ethiopia that involves the following steps.

- All consumption information including the consumption from own production and stocks will be expressed in money terms. To value subsistence consumption, a separate price survey is taken,

- Consumption per household is rescaled to take into account the household size and composition. Adult Equivalent Unit (AEU) is derived for each households and used to calculate consumption per adult equivalent,
- Representative diet for each poor household is derived. But, since poverty lines are essentially tools to allow comparison of welfare across households and regions, constructing a diet for the poor, which is identified for all households is better.
- Incorporating values to the non-food consumption

The second approach of determining poverty line is the relative poverty, which implies that one has less than what others have. In the definition of the relative poverty line, there are also various methods like fraction of mean or median income and percentile of the income distribution. In other words, the poverty line can be set at one-half, one-third, and two-third of the mean income. This method involves classification of the population into different quartiles depending on the proportion the researcher chooses. Finally, the researcher decides that the population in the last one or two quartiles to be considered as poor and the corresponding cut off income level to be a relative poverty line. According to Ravallion (1992), the major weakness of this method is that it is not clear whether the method is an indicator of poverty or measurement of income inequality. In addition, it is highly subjective in which the results obtained are localized that makes it difficult for inter societal comparison.

The third approach is the subjective approach to poverty line determination. Unlike the above approaches, subjective poverty line depends directly on the opinion and feeling of the concerned individuals to determine the minimum level of income for themselves. In this approach, the

difference between poor and non-poor depends on the subjective judgment of individuals about what constitutes a socially acceptable minimum standard of living in their own societies. The result of this approach may sometimes be misleading as it takes purely an account of individuals' or groups' own declaration about their position.

The World Bank also developed a Participatory Poverty Assessment (PPA) technique so as to complement other poverty measures. It is an assessment of poverty by its primary stakeholders-people themselves (Narayan et al, 2000). The most important stakeholders of PPA are poor men and poor women. Though it is difficult to quantify information from PPA and to make generalization at national level, it provides a valuable insight into the multiple meanings, dimensions and experience of poverty. But, at its weakest, PPA doesn't replace traditional household surveys; rather it provides important complementary information. After constructing the poverty line, what comes next is the choice of poverty indexes. These indexes are the head count index, the poverty gap index and the Foster-Greer Thorbecke measure of intensity of poverty, which are discussed below in detail. According to Ravallion (1992, cited in Abebe and Bereket, 1996), the Head Count Ratio is the most popular measure of poverty, which is simply the ratio of the number of the poor to the total population in a community. Hence, $H=q/n$ where,

H is the head Count Index

q is the number of people earning income below the poverty line z

n is the total number of individuals in the community

Ravallion (1992) indicated that poverty gap index is the average share of the minimum standard of living, which the poor are lacking. He also described it as the total income short fall needed to eradicate poverty. This can be calculated as follows:

$$P_1 = \frac{P}{\sum_{i=1}^P (z-y_i)}$$

Where,

y_i is the income of individual 'i' in the community

P_1 is the poverty gap index

z is the poverty line

Dercon and Krishnan (1996) indicated that the Foster-Greer Thorbeck method measures the intensity of poverty by squaring the transfers needed so that very poor households are given a large weight. In general as suggested by Foster et al (1984), the three poverty indices can be calculated using the following formula.

$$P_\alpha = 1/n \sum_{i=1}^q \left(\frac{z-x_i}{z} \right)^\alpha \text{ where,}$$

α equals to 0, 1 and 2 for P_0 , P_1 and P_2 respectively

x_i is equal to consumption per adult equivalent for individual i

z is the poverty line

q is the number of people earning income below the poverty line z

n is the total number of individuals in the community

1.2 THE SHIFT IN DEVELOPMENT PARADIGMS

Since the second half of the twentieth century, third world countries have constantly changed their path of development with the hope of registering economic growth. For instance, in the 1950s and 1960s the most important issue that attracted the development agenda of developing countries was to attain rapid development and thereby catch up with the western world. In these

periods, areas with high potential were selected as “engines of growth” with the assumption that the benefits of growth would trickle down to the other sections of the population. With the passage of time, however, the expected results became hard to come by. Instead, the programs and projects that were envisaged became rather a frightening dream. As a result, countries changed their path of development and subscribed to the Integrated Rural Development Paradigm, which was practiced in the 1970s. Before a decade was out, this approach was also proved to be a failure, as it neglected urban centers (Tegegne, 2001). Then the World Bank blamed governments of developing countries for their inefficiency in achieving economic growth, and advised them to follow another development path. This was Redistribution with Growth, by which assets were redistributed to the rural poor, land in Ethiopia, for example (BOA, 1997, cited in Lakew *et al*, 2000 and Solomon, 1994).

The above point could tell us that Ethiopia has also implemented various projects and programs that aim at increasing production and food self-sufficiency. For instance, at the beginning of the 1990s, a broad spectrum of reform has been introduced among which the Agricultural Development-Led Industrialization Strategy (ADLI) stood as the prime vehicle to address poverty and food security (Yohannes, 2002).

However, in the context of achieving economic growth actors of development have not been given the chance to get involved in the whole process of socio-economic transformation for quite a long time. As a result, deteriorating economic conditions started to be observed in the country. But, nowadays, it becomes a conventional wisdom to argue that development is understood to be a multi-actor process, where government-owned institutions alone couldn't register economic growth. Therefore, if economic growth is to be achieved, NGOs, CBOs, and private sectors should join hands (Elias, 2003; Fitsum, 2002; Helmsing, 2001 and Kirkpatrick, 2001). In this

regard, microfinance institutions are integral part of the financial system by which communities are mobilized to engage in productive activities so as to generate income, create employment opportunities, stimulate the economy of a well-defined area and thereby improve their livelihood situation (Gebeyehu, 2002 and Ledgerwood, 1999).

According to Itana (2002), the development of MFIs began following the famine of 1984/85. In 1996, a proclamation was issued in Ethiopia, which has given MFIs a legal basis. As a result, several microfinance institutions have started to give lending service to the poor (Berhanu, 2002). These institutions, according to the World Bank (1991 and 2001) and Baker (1997), are the most important poverty reduction strategies. At best, they are described as social safety nets for vulnerable groups.

1.3 STATEMENT OF THE PROBLEM AND JUSTIFICATION

According to Johnson and Rogaly (1997), development policy analysts and NGOs have started considering microfinancing as an effective means of poverty reduction since the 1990s. In Ethiopia too, the government and NGOs started providing financial and technical support to informal sectors. As a result, microfinancing has been considered a viable tool to reach the poorest segment of the population (Bekele 1996 and Solomon 1996). The development of microfinance institutions in Ethiopia has started very recently. It was after the issuance of Proclamation No 40/1996 that twenty three microfinance institutions (MFIs) have been legally registered by the National Bank of Ethiopia (NBE) and started delivering services. Since then the industry has shown a remarkable growth in terms of outreach (Wolday 2000). In 2003, they have reached to twenty three.

Although microfinance programs and institutions have become increasingly important safety nets of the poor, knowledge about the achievements of these strategies remains only partial and controversial. On one hand, there are studies, which indicate that microfinance has positive impacts in reducing poverty (Holcombe, 1995; Hossain, 1988; Remenyi, 1991, Schuler, Hashemi and Riley, 1996). In addition, Khandker (2003) indicated that microfinance is the best strategy that can protect poor people from poverty by diversifying and increasing their sources of income. He pointed out that poor households are characterized by extreme vulnerability. Thus, what safeguards these people from this situation and smoothes out their consumption is microfinance. On the other hand, there are studies that indicate pessimistic kind of result on the impacts of microfinance towards reducing poverty (Buckley, 1997; Montgomery, 1996; Rogaly, 1996; Wood and Shariff, 1997). But, there are limited research findings that clearly indicate to which group of arguments the Ethiopian microfinancing initiative rests on. For instance, Teferi (2000) and Berhanu (1999) tried to see the impact of microfinance on poverty reduction in Ethiopia. Their studies took loan repayment performances as the best indicator for improvement in living standards. But loan repayment performance cannot be taken as best indicator of improvement in levels of well being because there are people who intentionally commit default of repayment. In addition, people may be forced to repay the money they have borrowed although there is no improvement in their living standards. Berhanu (1998) also used improvement in income as proxy indicator for improvement in living standards of the poor. This again concentrates only on one dimension of well being and ignored other important dimensions like education, health, asset building etc. So, it is possible to say that the studies made so far in the field are not exhaustive enough to see the impact of micro-finance on the well being of the poor. This particular study is, therefore, envisaged to fill what is an important gap.

1.4 OBJECTIVES AND RESEARCH QUESTIONS

Since early 1990s a number of microfinance institutions have been set up and have made credit available to finance the poor and various small businesses in Ethiopia. They have spelled out in black and white their overriding objective, i.e., to reach the very poor and help them shield themselves from poverty. They have covered overwhelmingly vast parts of the country within a very short time span. Having this idea in mind, the general objective of this research is to analyze the impact of ACSI on poverty reduction in Enemay Woreda of East Gojjam through both qualitative and quantitative data gathered from the study area. "*Man is a chooser. All his rational choices involve the weighing up of costs and benefits.*"¹ Hence, the writer's conjecture here is to explore the benefits gained from applying microfinancing as a mechanism to get out of poverty in the study area. Therefore, it is hoped that the study will answer the following specific questions.

- How well is ACSI working regarding outreach?
- What welfare difference has ACSI brought on the program clients?
- What opinion do the program clients hold of the services provided by ACSI?

1.4 SIGNIFICANCE OF THE STUDY

The research is believed to generate data about ACSI and its impact it may have brought on the life of the clients. It will also be important to provoke a discussion whether ACSI can reduce poverty in countries such as Ethiopia where starvation is chronic.

¹ Gerard Radnitzky and Peter Bernholz (1986:285). *Economic Imperialism: A Professors World Peace Academy Book*. Paragon House Publishers, New York

The research will serve policy makers, program managers, donor field staff and NGO personnel, researchers and practitioners of micro-credit service to acquire the understanding about the process of intervention, level of the contribution of small loans to reducing poverty and take other necessary supportive measures to strengthen the initiatives. In addition, the research may serve as an eye-opener and a pointer towards further study in the area, as it is the first of its type in *Enemay Woreda*.

1.5 HYPOTHESES

It is obvious that credit has a potential to increase productive assets, income and facilitates employment. This is to mean that as the access to lending increases, the poor can have the chance to engage in income generating activities, and thereby improve their families' health, education, and nutrition. In addition, with financial services, the poor can save, build assets and income, and expand their production, thus transforming their own and their families' lives. From this general assumption and from the impact model developed by the USAID's AIMS project, a number of hypotheses could be derived. These hypotheses are the following:

- 1. Participation in microfinance programs leads to improved income and food security of the households through income smoothing and asset building;*

This hypothesis emanates from the fact that surplus production from income generating activities and other productive investments enable households to feed themselves and their family members. In addition, households are able to accumulate savings to improve their security level especially in the period of stress. Furthermore, they have the possibility of additional expenditure on food such as improved nutrition and asset accumulation. The variables to be used in testing this hypothesis are, mean annual expenditure on food and household durables, percent whose

household income has increased over the last 12 months, percent of households having key household assets, percent of households whose diet has improved during the last 12 months, and percent of households who have experienced food shortages and the coping strategies they have employed.

2. Participation in microfinance leads to increased access to school and medical facilities

This hypothesis refers to microfinance interventions increase income and thereby help the poor to send their children to school. In addition, microfinance is believed to help the program clients get access to medical facilities. In this regard, percentage of clients reporting an improvement in access to medical facilities and education will be used as test variables for this hypothesis. On top of that, mean number of school age children who are currently in a school will also be used.

2. Participation in microfinance programs leads to improvements in personal well-being and empowerments for women participants;

This hypothesis claims that clients become more financially self-sufficient and economically independent, and thus experience increased self-esteem and self-confidence. This leads to improved leverage in decision-making and increase bargaining power. In addition, clients build their social and human capital due to their access to information and knowledge through social intermediation. They increase their mobility and interactions at the household and community level. Percentage of clients reporting as a member of associations or groups, extent of involvement of women clients in the decision to take and use loans will be the variables used to test this hypothesis. In addition, percentages of females who make decisions to sell own produce will be used.

4. Participation in microfinance programs leads to improvements in housing conditions

The assumption of this hypothesis is that involvement in microfinance will help the poor to accumulate capital and thereby invest on their residence either as a permanent living area or to derive income by renting it out. To test this hypothesis, the percentage of those respondents who have made some form of improvement, expansion or repair on their house will be used.

1.6 SCOPE AND LIMITATION OF THE STUDY

This study was limited to the household of *Enemay woreda* of Eastern *Gojjam* who were participating in the microfinance scheme of ACSI. Therefore it may not have a scientific justification to assure the reader that the final conclusion out of this paper could be representative and applicable to all households who are participating in microfinance programs throughout the country and even through out the *Amhara* Region.

Even though efforts were made to investigate the salient features and drawbacks of the program intervention in *Enemay Woreda*, the study was not without limitations. Some of these included:

- Time constraint
- Limited coverage of the study, i.e. the study covered only one *woreda*.
- Lack of well documented data sources and adequate reports especially in the study area.
- Methodology, as there is no best technique of examining impact.
- The size of the sample taken

CHAPTER TWO: REVIEW OF LITERATURE

2.1. CONCEPTUAL LITERATURE

2.1.1 A NEW STRIDE IN THE DEVELOPMENT AGENDA: THE NEED FOR AND EVOLUTION OF MICROFINANCE

According to Ledgerwood (1999), the development thinking of the 1950s and 1960s shifted to financing small farmers with the aim of helping the rural poor to get access to credit through which they could buy agricultural inputs. This was because formal financial institutions were not serving a useful purpose when it comes to the poor. Citing Bhaduri (1983); Rao (1980); Bardhan (1980); Ghosh (1986) and Ghat et al (1992), Chowdhury (N.D) also indicated that in developing countries, the poorer section of the community do not get access to formal financial sectors. He indicated the situation in Bangladesh. He went on to explain that the poor are simply kept out of the reach of the formal financial institutions for several reasons. For instance, formal financial sectors require collateral and credit rationing. In addition, they prefer for high-income clients and large loans. In addition, the processes and procedures of providing loan are bureaucratic and lengthy. These all have kept the poor away from the formal financial sectors. This idea is supported by, Moll H. (1998); Khandker (1998); Ghate (1992) and Hulme (2000).

Morduch (1998) also argued in his study conducted in Bangladesh that since moneylenders/informal financial institutions operate with little competition, they charge high interest rates.) Moreover, the structure and location of those financial institutions is another factor that limits access to finance particularly to the rural poor. Generally, according to), capital markets in developing countries do not work well.

In connection with the above issues, Ethiopia's unmet need is finance. This problem gets worse when it comes to the poor. According to the study conducted by IFAD and World Bank (cited in Wolday, 2000), though there are 5.2 million active poor in Ethiopia, only 500,000 have got access to credit. These problems can be attributed to the failure of formal financial institutions to operate in countries such as Ethiopia. For example, according to Mulat Demeke *et al* (1998), most of the branches of the commercial banks are concentrated in urban areas and only 21 percent of the *Woredas* (districts) in the country have branches. Even if there are banks in some *woredas* of the country due to their high collateral requirement the poor have limited access to conventional banks. Furthermore, formal banks usually consider the demand for loan by the poor as unattractive and unprofitable (Wolday 2001 and Gebeyehu 2002). In addition, Gebrehiwot (2002) indicated that the poor have been hindered from being engaged in productive activities by finance constraints, especially from the formal financial sectors. On the other hand, informal financial sectors usually require high interest rates, which the poor cannot afford to pay. These situations have also found to restrict the access of the poor towards informal financial sectors. Therefore, one can argue that the limitations of financial institutions in providing the poor with credit have become the driving forces behind the emergence of MFIs. Nowadays, micro finance institutions are mushrooming to provide the poor with financial as well as technical assistance. The development of these MFIs could be viewed from two angles: (a) as potential market growth for financial services and (b) as a paradigm shift by the government and NGOs from mere relief assistance to mobilizing the community towards sustainable development (Fiona, 1999, cited in Wolday, 2000). In explaining the importance of micro finance institutions, Wolday (2001) argues that microfinance activities in Ethiopia are policy instruments which enable rural and urban poor to increase output and productivity. More importantly, they induce technology adoption, improve input supply, increase income, reduce poverty and thereby help the poor to

attain food security. Hence, microfinance is taken as a prime component of the new development strategy of Ethiopia, which emphasizes on poverty alleviation. As a result of such policy, in the last decade, microfinance industry has shown a remarkable growth in terms of outreach and sustainability.

The government also started micro-enterprise lending program after signing a development credit agreement (that is Market Town Development Project) with International Development Association (IDA) on March 30, 1990) which has been managed by Development Bank of Ethiopia. The objectives of the program were to finance very small businesses and household income generating activities, and to provide at least 50 percent of the loan to women entrepreneurs (implementation completion report, MTDP, 1999, cited in Asmelash, 2003). Currently there are 22 microfinance institutions registered under the National Bank of Ethiopia, operating in the urban and rural areas of the country sponsored by regional governments, local associations, NGOs, and government departments (Seifu, 2002). The industry is non-competitive and provides uniform credit and saving products to all clients (Wolday, 2002). As far as the emerging shift from the old subsidized credit delivery to the new paradigm of sustainable commercial microfinance is concerned, Morduch (1998) indicated that by the 1980s, numerous institutions in many developing countries of the world started providing the poor with credit. The Grameen Bank was one of the many, which were part of the paradigm shift. Nowadays, replications of this Bank are mushrooming in poor countries such as Ethiopia. How the impact of these MFIs is assessed is indicated below.

2.1.2 APPROACHES OF IMPACT ANALYSIS: THE CONCEPTUAL FRAMEWORK

According to Ledgerwood (1999), there are three types of impact of a program. These are economic, sociopolitical or cultural and personal or psychological. Thus, large MFIs reaching hundreds of thousands of clients may aim at bringing changes in economic growth in a region or sector, a shift in the political aspect of a particular district and improvement in borrowers' sense of self. These impacts are evaluated from two perspectives. The first one is the financial system approach and the second one is the client oriented impact analysis approach. The first one focuses on changes in the organization (MFI) and its operations. And as such, out reach and sustainability of the program are taken to be important proxy indicators of the impact of the program on the clients (Goetz and Gupta, 1996). As far as impact assessment is concerned, Hulme (2000) indicated that there are two schools of thought. These are *the intended beneficiary school* and *the intermediary school*. The difference between the argument made by Goetz and Gupta, and that of Hulme is a question of terminology. Hulme argued that *the intended beneficiary school* focuses on the impact of a program basically on the clients (households or individuals), whereas, the second school of thought focuses on institutional out reach and sustainability. According to this school of thought, if out reach and sustainability are achieved, the intervention is said to have brought beneficial impact, as financial markets are expected to have been widened. However, this assumption is found to be a failure since it *does not reveal borrower cross financing of loans* (Wiig, 1997, cited in Hulme, 2000). Thus, what clearly indicates 'who benefits' and 'how' is *the intended beneficiary school*, which is the focus of this study. Many microfinance programs have attained the objective of reaching a large number of clients with small amounts of resources. Studies indicate that women are believed to be the main participants and beneficiaries of microfinance programs in many countries. Yet, many women

lack enough power within households to use their loans to improve productivity and welfare (Goetz and Gupta, 1996).

As far as impact assessment is concerned, attribution and fungibility are the most important problems. These problems are seen differently in different approaches. For instance, Hulme (2000) indicated that the scientific method attributes the effects of a program to its causes with the help of experimental designs. On the other hand, quasi-experimental designs are used in combination with multivariate analysis (Gaile and Foster, 1996, and Mosley, 1997) as well as both qualitative and quantitative data (Carvalho and White, 1997, cited in Ledgerwood, 1999). Some other studies use the control group design where a 'before and after' the program data are used for both the treatment and control groups. On the other hand, the humanistic approach focuses on key informants. In this case, the researcher gets involved in the process of data collection (Gaile and Foster, 1996). This study is a fair blend of several approaches indicated above.

2.1.3 THE POLICY ENVIRONMENT ON THE ETHIOPIAN ECONOMY

According to Ledgerwood (1999), one of the most important factors that facilitate the smooth functioning of MFIs is conducive policy environment. He went on to argue that for MFIs to achieve substantial outreach and financial viability, government socio-economic policies should be right. This implies that the regulatory environment can affect the success of MFIs. When we look at the Ethiopian financial sector, it was highly repressed for about seventeen years during the Derg period and had rather a deadening effect on the economy of the country at large. The government largely obviated the need for intermediation, with the financial sector ignoring risk

and accommodating the credit demand of the state plan. The structure of the financial institutions was quite narrow and segmented. Besides, about 70 percent of the assets of the financial institutions were controlled by the National Bank of Ethiopia and Commercial Bank of Ethiopia alone. During that period monetary policies were fully geared towards supporting the centrally-planned economy, with financial institutions serving particularly to meet the demand for credit by the central government and public enterprises. Preferential interest rates were given to socialist oriented industrial and agricultural co-operatives and public enterprises (Yohannes, 2002).

Since the takeover of the present government in 1991, considerable attempt has been made to liberalize the financial sector. To this effect, Proclamation No. 84/94 was issued to liberalize the financial sector. The proclamation allows private domestic investors to participate in banking and insurance activities which were previously monopolized by the government. However, the issuance of this proclamation alone did not totally solve the financial problem of the economically active poor people in rural and urban areas (Seifu 2002).

Another Proclamation, No. 40/96 was issued to solve the problem of the delivery of financial services to the poor. Following the issuance of this proclamation the microfinance industry of Ethiopia showed a remarkable growth in terms of outreach and sustainability. Furthermore, the National Bank of Ethiopia which is empowered to supervise and license the microfinance institutions, issued a new directive on May 2002 to improve the regulation limits on loan size (Br. 5000), repayment period (one year), and lending methodology (social collateral) which had been negatively affecting the contribution of microfinance institutions in the development endeavor of the country.

2.2 EMPIRICAL LITERATURE

2.2.1 ETHIOPIA: A GLIMPSE AT ITS POVERTY SITUATION

By all standards, Ethiopia is one of the poorest countries of the world. The country has remained to be poor for a long period of time. For instance, the World Bank's study (1990) indicated that the country was poor in the 1960's. According to this study, the poverty situation of the country was even worse in the 1980's than in the 1960's and therefore, the period was called a *lost decade*. In addition, around the beginning of the 1990's, 60% of the total population of the country lived below the poverty line (World Bank, 1992). On top of the above, the situation is not better even today. The following facts assure us this.

The country's GDP per capita is around USD 110, which is by far lower than that of Sub Saharan African countries. In addition, the following facts are indicators of the country's backwardness. Agriculture contributes the lion's share to the country's GDP (45.6% in 1999). The educational enrolment and life expectancy in the country are extremely low. Population to hospital bed ratio is 4.1 on average. In addition, other indicators of well-being are very low (Bigsten, A. et al, 2002). According to Sisay and Adugna (2002), Ethiopia faces problems of resource degradation due to rapid population growth. They indicated that loss of biodiversity and low agricultural productivity are serious problems in the country. The same study showed that Ethiopia is a very poor country that its per capita income is very low and 31.3% and 76.4% of its population live below \$1 and \$2 a day respectively. Supporting this, Yohannes (1996, cited in Asmelash, 2003) indicated that over 50% of the Ethiopian people live in abject poverty.

In addition, the World Bank report (1999) indicated that 55.8 percent of the total population of the country is poor. Furthermore, 42.3 percent of the total population has a life expectancy of less

than age 40. Besides adult illiteracy, people without access to safe water, health services, and sanitation accounts for 64.6%, 75%, 45%, and 85% of the total population respectively. On top of the above, MoFED (2002) indicated that 44% of the total population in Ethiopia in 1999/00 were absolutely poor. It also showed that rural poverty was higher than urban poverty. According to this report, rural poverty in the country in the year 1999/00 was 45%, whereas urban poverty was 37%. On the other hand, WMS (cited in MoFED, 2002) pointed out that in the country, wasting, stunting and literacy rates stood at 9.6%, 56.6% and 29.4% respectively. This study revealed that these problems are even worse in the rural areas of the country.

2.2.2 MICROFINANCE AND POVERTY ALLEVIATION

Several studies have been conducted to examine whether microfinance can really help the poor. The results are inconclusive. In some cases microfinance is said to have brought positive impacts on the life of the program clients, whereas in some other instances, microfinance is found to play insignificant role towards mitigating the problem of the poor. For instance, Pitt and Khandker (1998) indicated that microfinance has brought positive marginal impacts on consumption and male schooling in Bangladesh. They showed that microfinance has become a promising strategy to shield the poor from vulnerability through consumption smoothing as well as building assets. They further indicated that microfinance and investment in human capital are positively related. This implies that microfinance promotes participation in schooling. At the same time, these studies pointed out that the microfinance has increased the program clients towards reproductive health. On the other hand, they revealed that microfinance has showed negative impacts in labour supply in Bangladesh.

In addition, Khandker (1998) used the assumption of perfect targeting and estimated that for every 100 taka lent to a woman and a man, household consumption increased by 18 taka and 11 taka respectively in Bangladesh. He also explained that moderate poverty and ultra-poverty reduced by 15% and 25% respectively for households in BRAC. The rate was even lower for old borrowers than new ones. This is to mean that number of loans was found to be important as far as the impact of credit is concerned. This argument is also supported by Montgomery et al (1996, cited in Zaman, 2001), who pointed out that third time borrowers were found to get higher incomes and register growth in their enterprises. In addition, Mustafa et al (cited in Zaman, 2001) rightly pointed out that older borrowers were found to have greater asset values and household expenditures on average than new borrowers. Both Khandker's and Morduch's study was conducted in the same year and the same place. However, using the same data as Khandker did, Morduch (1998) did not find the same result. While explaining the reasons, Morduch noted that Khandker's eligibility threshold was flawed. Thus, he used an alternative approach and corrected for the selectivity biases. Eventually, he did not find an evidence to suggest that microfinance can reduce poverty *per se*. Using the difference-in-difference strategy, he found out that micro finance has proved to be a viable tool towards reducing vulnerability showing that consumption variability was 47%, 54% and 51% lower for eligible Grameen, BRAC and BRDB households respectively. However, he indicated the difficulty he faced to show whether micro-finance could increase consumption levels or schooling as compared to control groups unlike what Pitt and Khandker argued.

With the objective of examining the long-term impacts of microfinance on program clients in Bangladesh, Khandker (2003) also conducted a research work. In his study he found out that microfinance is serving a useful purpose in benefiting the poorest segment of the program clients

and in reducing poverty in Bangladesh unlike what Hulme and Mosley (1996) argued. He also indicated that females are found to benefit more than males from microfinance services. But, the poor are found to spend much on food, not on other income generating activities. Therefore, according to Khandker, enhancing the skill of the program clients is very important in addition to providing them with credit. Here, one can clearly observe the fact that the impacts of microfinance are not sustainable unless the poor are engaged in activities that are income generating. Therefore, one can say that the benefit of microfinance is evaluated from the perspective of meeting people's short-term problems as far as Khandker's analysis is concerned.

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

The foregoing discussions clearly indicate that the existing evidence on the impact of micro-finance on poverty is inconclusive. On the one hand, there research works that suggest that access to credit has the potential to significantly reduce poverty (Khandker, 1998 and 2003; Khandker

and Pitt, 1998). On the other hand, it is argued that microfinance has insignificant role in reducing poverty (Morduch, 1998). The impact of micro-finance on reducing vulnerability is straightforward. The available evidence reveals that the provision of microfinance has been found to strengthen crisis-coping strategies, diversify income-earning sources, build assets and improve the status of women (Hashemi, et al, 1996; Montgomery, et al, 1996; Morduch, 1998 and Hossain et al, 1998). In addition to the above-mentioned research works, Sharma (1998) in Nepal and Bliss and Stern (1982) in India also indicated that microfinance has helped the poor in calorie intake.

2.2.3 LITERATURE ON ETHIOPIA

There are few studies in Ethiopia that were designed to indicate the impact of microfinance on the life of the clients. Borchgrevink *et al* (2003) clearly indicated that credit has brought positive impacts at household level in Tigray. Tassew (2004) in his study in Tigray indicated that Ethiopia has started giving attention to the establishment of MFIs in rural areas so as to help the poor get access to financial resources. He pointed out that the important consideration before providing credit to the poor is to examine whether the key factor for the poor to get out of their problem is finance. In this study, which was conducted in 35 watersheds in central Tigray, he showed that the most important and profitable activities the poor can engage within the existing micro-credit systems are petty trading, goat fattening, poultry and chicken farming. As far as oxen and goat fattening is concerned, there is a higher positive return to both labor and capital. The return to capital is, of course, higher than the return to labor according to this study. Therefore, finance is required for these activities and thereby to reduce poverty in the study area. This, however, depends on the price of livestock.

Kejela (2004) conducted a research work with the purpose of identifying opportunities for economic diversification in Central Tigray. In this study, he indicated that financial returns to labor and capital are positive for wheat, barley, horse bean production, goat and oxen fattening, irrigated onion and pepper production. Thus, it is important for MFIs to focus on these activities in an attempt to reduce poverty in Central Tigray, according to this study. He also indicated the need to look for an option for peer group collateral approach of credit service delivery.

There are also other studies that attempted to examine the role of MFIs in improving the life of the poor. For instance, Berhanu (1999), Mengistu (1998) and Teferi (2000) tried to see the impact of microfinance on poverty reduction in Ethiopia. However, these studies did not employ the desired methodologies to clearly indicate the impact of microfinance on poverty reduction. This is because they all used loan repayment performances as the best indicator for improvement in living standards of the clients.

In addition, Daba (2004) used logit model and descriptive statistics to examine the relation between participating in micro financing and the improvement in living standards. Then, he indicated that OCSSO has made positive contribution towards improving the welfare of the program clients. He went on explaining that since the out reach is increasing as the years go by and the loan repayment performance has been 100% for several years, it is possible to argue that OCSSO is contributing to poverty alleviation. But, loan repayment performance cannot be taken as best indicator of improvement in levels of well being because there are people who intentionally commit default of repayment. In addition, people may be forced to pay the money they have borrowed although there is no improvement in their living standards. This is supported by several studies. For instance, Khandker (1998) pointed out that loan recovery rates couldn't

be used as the sole determinant of a program's success since many microfinance programs rely on social, peer, and other forms of pressure to maintain high loan recovery rates. In addition, the study by Zeller and Sharma, (1998) indicates that since high loan recovery rates are often achieved only by rollover loans, high loan recoveries do not necessarily reflect high benefits. In addition, the study by Ledgerwood (1999) indicated that the willingness to pay proxy of impact assessment is a simple measure of impact and is found to have the following problems: it is very difficult to indicate the magnitude of the impact; it does not clearly indicate the intra-household effects and it hardly shows the long-term consequence of the micro finance institutions (i.e., poverty reduction).

Berhanu (1998) also studied the role of credit on enterprise income. In his study, he used improvement in income as proxy indicator for improvement in living standards of the poor. This again concentrates only on one dimension of well being, i.e., income and ignored other important dimensions of well being like education, health, asset building etc. To examine the impact of DECSI on the life of the program clients, Fiona (2000) and Zaid (2000) conducted a research work. Using secondary data as well as descriptive analysis such as percentages, they indicated that DECSI has brought a positive impact on living standards of people in Tigray. Here, one can see the methodological problem the study might have faced. In addition, the findings of Tsehay and Mengistu (2002) on the impact of microfinance among poor women in Ethiopia indicates that the microfinance interventions have brought positive impacts in the improvement of economic status and empowerment of women microfinance participants. This study too used only Chi-Square analysis to investigate the impact of microfinance on poverty reduction. So, it is possible to say that the studies made so far in the field are not exhaustive enough to see the impact of micro-finance on the well being of the poor in rural Ethiopia.

Samson (2002) also conducted another study in *Loume woreda*. He used Multi Linear Discriminant Analysis and indicated that consumption credit users were found to be characterized by greater affiliation to *equbs*. In addition, borrowers were found to spend the loan for grain purchase and emergency health care, not for the stipulated purpose. This study was aimed at examining financial arrangements and determinants of household credit. Therefore, it was not purely an impact analysis. On the other hand, Asmelash (2003) conducted a research work in Tigray. He indicated that the credit provided to the poor has brought a positive impact on the life of the program clients as compared to those who do not get access to these micro finance services. He showed that micro finance has brought a positive impact on income, asset building, and access to schools and medical facilities in the study area.

Jemal (2004), with the aim of investigating determinants of loan repayment performance in Oromia, indicated that the most important defaulters were the young males, who are illiterate. He said that these people received smaller loan amounts, and therefore, earned smaller income, but supported more dependents than the non-defaulters. The same study showed that loan diversion is the character of those peoples who support more dependents, who have borrowed for many years and who have fewer sources of additional income. Finally, he indicated that the credit scheme has contributed positively towards improving the living standards of the program clients in terms of income, access to education, medical facilities and nutritional status.

Bouman (1984, cited in Padma and Getachew, 2004) explained that the rural population in the third world countries is not getting access to the formal financial sectors. This is because; financial intermediaries have failed to fulfill their basic functions such as production credit to

finance income-generating activities. On top of that, they fail to provide people with consumption credit, which would serve to maintain and expand human productive capacity. To make matters even worse, saving schemes are not available in rural areas. According to this study, some clients of the MFIs in Awassa have shown improvements in sending their children to private schools, and in terms of income and self-employment generation especially in urban areas. However, this study suffers from econometric analysis; it is purely descriptive where robust and rigorous conclusions cannot be drawn.

CHAPTER THREE: SAMPLING DESIGN, RESEARCH METHODOLOGY AND DATA BASE

3.1 SAMPLING TECHNIQUE

The writer identified two sample groups from the total population so as to select respondents for the survey. The first group consisted of those who were in the waiting list or who have just taken the loan. The other group consisted of people who have been in the program for more than two years. The selection was conducted randomly. This means that taking the list of people from the institution as a sampling frame, 210 respondents were selected randomly.

3.1.1 RESEARCH METHODOLOGY AND DATA BASE

The writer used a structured questionnaire containing both close and open-ended questions that were developed by USAID's AIMS project (2000). In accordance with the situation of the study area, some modifications were made. These questionnaires were administered to the sample respondents of the study area. For this purpose, a total of ten enumerators were employed. However, some questionnaires were not filled out properly. As a result, 194 valid cases were obtained. In addition, *Enemay Woreda* was selected to exploit the writer's prior experience of the study area.

Besides, focus group discussions were conducted with the clients of the program and employees of the institution in the study area in order to identify salient problems of the institution and the program. The focus group discussions were held on both rural and urban households of the study area. The total number of focus groups was five, of which three (one female group and two male group) were from the rural households and two (one group each) were from urban households. Key informants were contacted so as to get information about how the institution was operating in the area and about the opinion of the people towards the program intervention. Secondary data

from the institution was also put to use. After collecting the data, a mix of statistical, mathematical and econometric tools were employed so as to obtain the best possible measure regarding the impact of credit on improving the life of the clients. For instance, from the statistical tools, Chi Square analysis was used to investigate the difference in welfare between the frequent borrowers and the new clients. Here, a summary of statistics and tabulation of field data were used to examine the impact of ACSI's intervention towards improving the welfare of the clients. More specifically, the methods for analyzing the survey data included cross tabulation and test for statistically significant differences between mean values. The cross tabulations highlighted differences in the mean values of the hypothesized impact variables between important subgroups, such as between frequent borrowers and new clients. In the case where the differences between the mean values of the impact variables were of sufficient magnitude to be of some interest, then test for the statistical significance of these difference were conducted. These tests included ANOVA and Paired T-test.

From the mathematical tools, linear and polynomial models were used to examine the trend of client growth in the study area. On top of that, logit model was employed so as to investigate the impact that credit might have brought on the life of clients. Finally, the results of focus group discussions were presented by clearly indicating what advantages and disadvantages the program has had from the viewpoint of the clients. Qualitative analysis was also used to formally present arguments pertaining to the impact of microfinance on the beneficiaries' welfare and to explain some operational issues of the study institution.

There were reasons for employing cross sectional survey design. To begin with, this method is timelier in providing impact information than longitudinal design. Secondly and more

importantly, it is less expensive and resource intensive as it requires only a snapshot data collection. Therefore, it is suggested for a study like this where the research is supposed to be completed in six months time. However, at its weakest, there is a problem of identifying control groups that are similar to experiment groups (Johanson and Rogaly, 1997). Thus, as suggested by USAID's AIMS project the cross sectional impact analysis method was applied between frequent borrowers who have been in the program for two years or more and first time or incoming clients as a control group.

As indicated above, in addition to using ANOVA and Chi-Square tests, Logit Model has been used to investigate the factors for the increase in income. The status of income has been treated as a dichotomous dependent variable by taking 1 for increase in income and 0 otherwise. The functional relationship between the probability of improvement in income and explanatory variables is specified as follows:

$$Y=f(X_i, U_i)------(1)$$

Where: Y=Average yearly income of respondents

X_i is a vector of explanatory variables that include: type of the respondents, settlement of the respondents, sex of the respondents, educational status of the respondents, age of the respondents, family size, ownership of oxen and ownership of land.

U_i = Error term

Since the dependent variable was dichotomous, Logit Model has been used as suggested by several studies for its manageability, simplicity and appropriateness (Maddala, 1983). While specifying the distribution of the model, the steps followed by Gujarati (1992) were considered, which is provided below:

$$P = \frac{1}{1 + e^{-z_i}} \text{-----(2)}$$

$$Z_i = \beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_n x_{ni} \text{-----(3)}$$

$$P_i = \frac{1}{1 + e^{-(\beta_0 + \beta_1 x_{1i} + \beta_2 x_{2i} + \dots + \beta_n x_{ni})}} \text{-----(4)}$$

Where:

P_i =probability of improvement in income in relation to the explanatory variables

e^{z_i} =irrational number to the power of z_i

z_i = A function of n explanatory variables

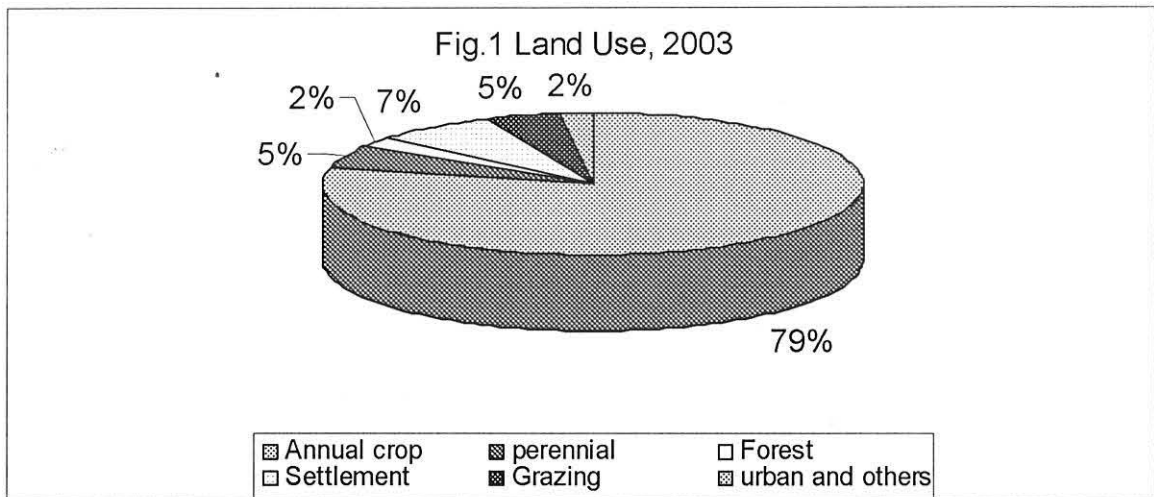
β_s =explanatory variables

Logit Model was selected for the following reasons. First, it is easy to manipulate and simple to comprehend. Second, the data were dichotomous and therefore, Logit was the best to use. Third, several studies have used this model while dealing with similar topics with this thesis.

3.1.2 DESCRIPTION OF THE STUDY AREA AND ACSI

Enemay *wereda* is one of the 113 *woredas* in the Amhara National Regional State. It is divided into 24 administrative *kebeles*; 21 rural and 3 urban. It has a total population of 167,492 (2003) of which 86.5% live in rural areas. According to the information obtained from the Woreda's Capacity Building Desk, the stratification of the population indicated that the rich, medium and poor constituted 10%, 30% and 60% of the total population respectively. The *wereda* is located 265 kms north of Addis Ababa bordered by Enarj Enawga in the north, Dejen in the south, Shebel Berenta in the east and Debay Tilatgin in the west.

According to the information obtained from *Enemay Woreda* Agricultural Office, the total area of the Woreda in 2003 was 51,454.65 hectares. Of this, 79% was covered by annual crops. The chart provided below illustrates this best.



Source: Agricultural Bureau of the Woreda

Agriculture, which is basically rain-fed and is dominated by small and subsistence holders, is the backbone of the inhabitants of the *woreda*. Because of long population settlement, over cropping, and little or no improvement in traditional farming practices, there is considerable natural resources degradation. This has further resulted in declining agricultural production and thereby starvation of the population, because of recurrent drought and famine. As is the case in many Ethiopian rural areas, the level of poverty in *Enemay woreda* keeps people trapped in marginal existence with emphasis only on day- to-day survival. As a result, people have little opportunity to accumulate capital either to invest in income generating activities or for future use during time of adversity. There are little or no opportunities for off-farm and non-farm activities. Industrial development is extremely backward.

According to the information obtained from the administration office of the *woreda*, infrastructure was poor, with inadequate road network throughout the *woreda*. As many of the rural *kebeles* in the *woreda* did not have road access, one could observe people traveling on foot across the plateau areas. Educational and health services were also inadequate. According to the Administrative Office of the *woreda*, there were 29 schools (28 first and second cycle and 1 comprising both grades 9-10 and preparatory) 1 health center, 2 clinics and 4 health posts in the study area. Even at worse, the existing schools and clinics were urban-biased where the rural areas were marginalized in most cases.

The *Amhara* Rehabilitation and Development Organization formed the *Amhara* Credit and Saving Institution (ACSI) in 1995. Since its establishment, the institution has a total of 171 branches and has covered about 65% of the total *kebeles* (in 1999) in the Region. However, there were still many poor people, who were yet to get the service. According to the information obtained from the Branch Office at *Bichena*, ACSI started providing loans to the inhabitants of the study area in 1998 (1991E.C.) with a total of 444 clients, of which 175 (39.4%) were females. On the other hand, the program clients constituted 3% rich, 17% medium and 80% poor.

The recent shift in development paradigm hinges on the provision of small credit to the poor so as to shield them from the adversities of poverty. It was with this context that ACSI has started its service, which includes credit, training about the uses of saving, payment of pension fees (for government employees only), provision of money transfer, delivery of money for the farmers so that they could be able to buy agricultural inputs. From this, one can possibly observe that the services of ACSI are really diverse.

ACSI has the vision of bringing about sustainable development to create a situation where people can live happily, while ensuring the sustainability of the institution at the same time. Towards this end, it has the following objectives:

- to provide the poor with financial assistance so as to help them involve in activities that would increase production and productivity of their economy
- to reduce poverty through increasing people's income
- to promote females' participation in family and community decision-making activities through increasing their income

In addition to the above-mentioned points, ACSI has the objective of building the capacity of the clients through business skill upheaval meetings, new technology introduction, business orientation and clients' conference. It also selects its clients on the bases of the following criteria:

- capable of working, healthy and 18-60 years of age, who has only financial problem
- has good character in the community
- has not taken any loan from other organizations, moneylenders or the government
- lives in the *kebele*, where the loan is to be provided
- willing to comply with the rules and regulations of the institution.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.1 DESCRIPTION OF THE PROGRAM

4.1.1 LOAN HISTORY AND LOAN USE

According to the information obtained from the branch office in the study area, group collateral was the mechanism by which the poor were allowed to get credit. Accordingly, the average group size of the clients during the survey was approximately 5-7 persons of the same sex. There were 25 centers in the study area with 10-15 groups each. Provided that the clients repay the loan in time, there was no upper limit about the number of times an individual could borrow from the institution.

With regard to the amount of loan, urban clients have reported higher mean value in both the first and current loans as compared to the rural clients. The average first loan amount of urban clients was Br. 1176.56, where as that of rural clients was Br. 457.50. On the other hand, the average current loan amount of urban and rural clients is Br. 2736.67 and Br. 632.73 respectively (Table 4.1).

According to the information obtained from the sample survey, few clients both in the rural and urban program areas have experienced repayment problem in the last loan cycle and in making compulsory savings. Another important point worth mentioning is that despite the small amount of loan they have taken, the percentage of clients who have faced difficulty in making loan repayment was higher in the rural program areas than in the urban program areas. The Table provided below clearly illustrates the average loan size and the number of loans taken by both rural and urban borrowers.

Table 4.1 Clients' Experience with ACSI

Type Of Respondents	Settlement Of Respondents	Average number of program loan	Average Amount First Loan (Birr)	Average Amount Of Current Loan (Br.)	Average Cumulative Loan Size (Br.)
Frequent Borrower	Rural	2.89	457.50	632.73	1090.23
	Urban	3.88	1176.56	2736.67	3913.23
	Total	3.04	526.89	990.94	1517.83

Source: Survey Data

The above Table indicates that the average cumulative loan size was higher for urban clients than that of the rural clients. Even though there are no restrictions put by ACSI about the type of activity for which the poor take loans, there are differences in areas where rural and urban clients focus. This means that loans extended to ACSI members in urban areas are used to fund activities such as buying and selling of goods, whereas in the rural areas, loans are used to fund agricultural and agriculture-related activities. These activities enable the members to engage in activities that would help them generate additional income to support their families and pay their loans. It is to be noted that everybody is not entitled to credit; ACSI accepts only those who are not served by the conventional banks and those who are considered as poor by the community. Therefore, to get access to the services of ACSI, new clients should form a group of five or more and should get an approval by the *Kebele* officials. With regard to loan use of the program clients, the survey result indicated that most clients used their loans strictly in productive activities except that they smooth their income during bad times. The primary loan activity in the rural program area was agriculture, where the majority of the respondents have identified themselves as farmers. In the urban areas loans were used mainly for commercial activities, which included petty trade, retail business, local food and drink processing, and handicraft and services businesses (See Table 4.4).

The assumption of microfinance intervention is that the provision of financial services especially loan is to enhance the welfare and economic situation of its clients by making adequate finance available to help them engage in profitable activities. On the other hand, if the loan is used for non-productive activities, such as consumption and purchase of non-productive assets, the whole exercise will be futile. In other words, the intervention of microfinance in the study area will not bring the intended impact, which is poverty reduction. From the survey, it was possible to learn that the program clients have used the loan for intended purposes. However, these 'intended purposes' may not help the poor to get sustainable assurance of income. This is because the program clients were found to borrow for almost the same purpose at all times. For instance, since their involvement in the program, 34.4% of rural borrowers use the loan to buy ox, 41.1% to buy sheep or goat. One may ask as to why these people borrow money to buy ox or sheep at all times. The answer is straightforward, but very fundamental as far as poverty reduction is concerned. As the Table given below indicates, many of the respondents in rural areas use the loan to buy sheep or goat followed by purchase of ox. From the survey, it was possible to see that clients with one or no ox did not buy sheep or goat. This is because these people desperately needed the loan to be self-sufficient in preparing their plot of land (Table 4.2)

Table 4.2 Mechanism of land preparation for respondents with one or no ox

<i>Item</i>	<i>Frequency</i>	<i>Valid Percent</i>
Oxen sharing/exchange arrangement	51	66.6
Rent oxen for cash/produce share	22	28.6
Rent out land	3	3.9
Gets oxen from relatives	1	1.3
Total	77	100.0

Source: Survey Data

Table 4.2 indicates that the major means of land preparation for the respondents (66.6% of the respondents indicate this) with no ox was oxen sharing. This is how the system works. First, clients take the loan. Then, they buy ox with the loan they have taken. Finally, they organize

exchange arrangement with others of similar interest. Here, a very interesting question can be raised, which is related to what these people finally repay. From the interview conducted with the borrowers, it was possible to investigate that after harvesting season comes to an end, they try to feed the animals and then take them to markets for sale. In a situation where the sale amount of these draft animals could not cover the debts, the farmers would be forced to sale crops or other animals from the household. This situation also works for those who buy sheep or goat. That is why we see these people taking the loan for the same purpose during the couple of years they have been in the program. These all show that the clients were engaged in agricultural activities with the exception of few respondents. Another point worth mentioning is the difference in the type of activity in which females and males were engaged.

Table 4.3 Purpose of loan during the past few years (Rural)

<i>Item</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
	<i>Frequency</i>	<i>Frequency</i>	
Purchase of sheep/goat	17	20	37 (41.1%)
Purchase of oxen	24	7	31 (34.4)
Trade	4	1	5 (5.6%)
Two or more of the above	11	6	17 (18.9)
Total	56	34	90 (100%)

Source: Survey Data

As Table 4.3 indicates, males were mostly involved in buying ox and in trade, whereas females were engaged in buying sheep/goat. A Chi-square test was employed to check whether this variation really holds. As a result, it was found out that, females, in rural areas, tended to engage in sheep or goat rearing instead of buying ox.

Table 4.4 Chi-Square Tests on purpose of loan in rural areas

Item	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.933	3	.047
Likelihood Ratio	8.088	3	.044
Linear-by-Linear Association	.519	1	.471

a 2 cells (25.0%) have expected count less than 5. The minimum expected count is 1.89.

From the above Chi-square test, one could possibly observe the variation in the inclination of the male and female respondents to engage in a certain activity, which shows the character of rural areas in Northern Ethiopia where females engage in activities that are performed around their home areas.

In urban areas, the loan was used basically for trade followed by purchase of oxen for butchery. The type of trade includes buying and selling of cereals, selling of coffee and clothes. In this case, it is to be made clear that urban borrowers buy cereals from the rural people and then sell these crops to the consumers in urban areas in retail form. The purpose of loan in urban areas is indicated below.

Table 4.5 Purpose of loan (urban)

<i>Item</i>	<i>Frequency</i>	<i>Valid Percent</i>
Trade	11	68.8
Purchase of oxen for butchery	2	12.5
Handicraft (blacksmith)	1	6.3
Two or more of the above	1	6.3
Others (local food and alcohol processing)	1	6.3
Total	16	100.0

Source: *Survey Data*

Table 4.5 indicates that 68.8% of the respondents in urban areas used the loan for the purpose of trade. Only 6.3% of the respondents engage in local food and alcohol processing. Respondents were asked whether they have faced difficulties in repayment of the loans. All of the frequent borrowers said that they have paid the loans on time; they would not be entitled for the next cycle, otherwise.

4.1.2 DEMOGRAPHIC CHARACTERISTICS OF SAMPLE RESPONDENTS

After the success of the Grameen Bank in Bangladesh, microfinance interventions have started targeting mainly the active poor as a very important strategy to get out of their poverty situation. Towards this end, assessment of the impact of these microfinance institutions merits special attention. Assessment of impact requires a clear picture of the individuals' and households' demographic characteristics, such as educational level, religion, sex, household size, number of dependents and working groups in the household. The following Table summarizes the respondents' individual demographic characteristics.

Table 4.6 Respondents' Individual Characteristics

	Frequent Borrowers		New Clients	
	Freq.	%	Freq.	%
Educational Level: 1. None or basic education	12	11.3%	6	9.7%
3. Primary and junior	89	84%	51	82.3%
4. Secondary	5	4.7%	5	8%
5. Tertiary	0	0%	0	0%
6. Others	0	0%	0	0%
Total	106	100%	62	100%
Religion: 1. Orthodox	97	91.5%	54	87.1%
2. Muslim	9	8.5%	8	12.9%
3. Catholic	0	0%	0	0%
4. Protestant	0	0%	0	0%
Total	106	100%	62	100%
Gender: 1. Male	71	67%	48	77.4%
2. Female	35	33%	14	22.6%
Total	106	100%	62	100%

Source: *Survey Data*

Table 4.6 indicates that Orthodox Christians are many in number in both frequent borrower and new client group. There is also variation in education level between these two groups of

respondents. As could be seen from the table, frequent borrowers are in a better position in having access to formal education, especially in the lower grades.

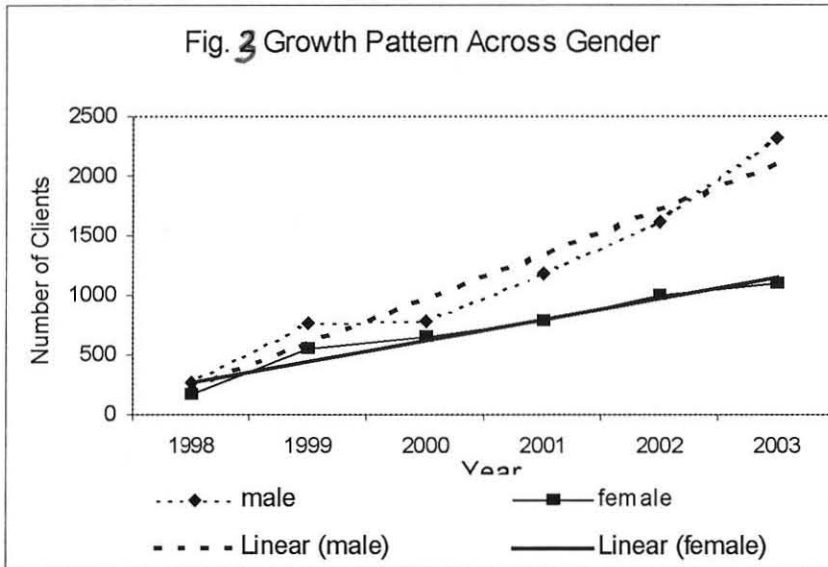
With regard to the household characteristics of the respondents, there was difference between rural and urban clients and between frequent borrowers and new clients. For instance, the average family size of rural borrowers was found to be 5.69, whereas that of urban borrowers was 5.11. On the other hand, the average number of dependents in rural borrowers was a bit higher than that of urban borrowers. In addition to this, new clients have less family size and average number of dependents as compared to the frequent borrowers in both rural and urban areas. This may imply that since the frequent clients have more dependents than the new clients, they require higher income to cover all the necessary expenses of the dependents, and this can affect the welfare of the frequent clients negatively. In both the frequent borrowers and new clients, the number of female-headed households was higher in rural than urban areas.

Table 4.7 Household Demographic Characteristics

<i>Item</i>	<i>Frequent Borrowers</i>		<i>New Clients</i>	
	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>
<i>Family Size (mean)</i>	<i>5.11</i>	<i>5.69</i>	<i>4.87</i>	<i>5.62</i>
<i>Average number of dependents</i>	<i>1.50</i>	<i>2.62</i>	<i>1.45</i>	<i>2.50</i>
<i>Number of female-headed households</i>	<i>8</i>	<i>15</i>	<i>7</i>	<i>13</i>

Source: *Survey Data*

As we have seen above, there is a small variation in key household demographic characteristics of the respondents' households: the average number of dependents is slightly higher for the frequent borrowers than for the new clients, and frequent borrowers had slightly higher average household size than new clients.



Source: Enemay Woreda Branch Office (Graph-own calculation)

$$Y_{\text{male}} = 376.89X - 164.6$$

$$R^2 = 0.9431$$

$$Y_{\text{Female}} = 176.11X + 94.267$$

$$R^2 = 0.9599$$

Fig.3 shows that the difference between number of male and female clients increases as the years go by and if this trend continues, the gap will be even much higher than what is observed now.

In addition to number of clients, their repayment condition was also taken into consideration. From the survey, it was investigated that the branch office of ACSI in *Enemay Woreda* has not done well in getting the loan back it disbursed to the clients, especially during 1998 and 1999. The repayment rate during these years was 30.5% and 43.6% respectively. The data were disaggregated to examine who repaid more: females or males. Finally, it was found out that females' repayment rate was higher than that of males (See Annex 4).

Table 4.8 *Amount of loan disbursed*

Year	Amount Disbursed (Birr)		
	Male	Female	Total
1998	170,350	87,400	257,750
1999	455,950	263,250	719,200
2000	894,080	596,650	1,490,730
2001	1,475,830	902,700	2,378,530
2002	2,292,830	1,186,200	3,479,030
2003	3,157,840.20	1,431,675	4,589,515.20

Source: ACSI (Enemay Branch)

Table 4.8 indicates that there is an increasing trend in the amount of loan disbursed to the clients of ACSI in the study area. However, this is not satisfactory, as there were arrears, which needed to be collected before it is too late. The arrears were found in ex-clients. Therefore, we forwarded questions to these ex-clients. Eventually, it was found out that most of them did not repay in time and as a result, they were forced to terminate the program. The survey indicated that 76.9 percent of the ex-clients did not pay in time and 23.1 percent did (Table 4.9).

Table 4.9 *Loan default by Ex-clients*

<i>Did you pay in time?</i>	Frequency	Valid Percent
Yes	6	23.1
No	20	76.9
Total	26	100.0

Source: *Survey Data*

In an attempt to identify the most important factors that hindered these people from settling their debts timely, questions were forwarded to the ex-clients. From these investigations, it was learnt that 55 percent of the ex-clients did not repay in time because they used the loan for consumption purposes. On the other hand, the percentage of those who failed to repay due to time inconvenience and payment of other loans accounted for 15 % each (Table 4.10).

Table 4.10 Reason for loan default

<i>Item</i>	<i>Frequency</i>	<i>Percent</i>
Death/illness of household member	1	5.0
Use the money for consumption purpose	11	55.0
Time inconvenience	3	15.0
Lack of access to market	1	5.0
Payment of other loans	3	15.0
Others	1	5.0
Total	20	100.0

Source: Survey Data

Since there were some clients who terminated the program because of factors other than default, it is very fundamental to raise a question that would answer as to why these people quitted the program. From the survey, it was found out that 73.1 percent terminated the program because they were not able to repay. As a result, their assets were sold and they were forced to quit (See Table 4.8).

Table 4.11 Reason for termination of program services

<i>Item</i>	<i>Frequency</i>	<i>Valid Percent</i>
Default of other members	2	7.7
Lack of ability to pay	19	73.1
Dissatisfaction with the group lending approach	2	7.7
Fear of indebtedness	1	3.8
Better loan opportunities	2	7.7
Total	26	100.0

Source: Survey Data

Table 4.11 indicates that the most important factor to terminate the program was lack of ability to repay the loan they have taken for the majority of the respondents.

4.3 CLIENT ORIENTED IMPACT

4.3.1 THE IMPACT OF ACSI ON INCOME

As briefly indicated in the literature part of this thesis, microfinance is expected to improve the long-term economic and social security of its clients' through wealth creation, income smoothing, asset building and the like. Many studies indicated that participation in microfinance program has had a positive impact on the welfare of clients' households. In this thesis, an attempt was made to examine whether this scenario ascertains in *Enemay Woreda* of the *Amhara* Region where this study dwells on. Improvement in the household's living standard may be observed from trend and diversification of income sources, food security strategies for coping up with difficulties, education of children and access to health facilities, food consumption patterns and ownership of specific key assets. However, the aforementioned factors are not solely affected by improvement in income. Therefore, an attempt has been made to look into the possible ways of measuring the impact of ACSI on the clients so as to make robust conclusions.

From the frequency analysis (Table 4. 12), it was possible to observe variation in the trend of income between frequent borrowers and new clients. For instance, in urban areas 62.5% of the respondents from the frequent borrowers registered increase in their income for the last 12 months, whereas only 33.3% of the new clients indicated that their income has shown increment. Besides, in rural areas, frequent borrowers were in a better position than new clients. A total of 32.2% frequent borrower and 25.0% new client respondents showed an upward trend in their income. This figure is by far lower for ex-clients than that of frequent borrowers and new clients in both rural and urban areas. To prove this statistically, cross-tabulation was employed. Eventually, it was found that the above difference between frequent borrowers and new clients both in urban and rural areas has become statistically significant at 5% significance level (See

Table 4.13). This may lead us to the rejection of the null hypothesis, which states that there is no difference between frequent borrowers and new clients in trend of income.

On top of the above, one also needs to raise a question as to which borrower has registered an increase in income-the rural or urban borrower or both. This question helped the writer to investigate the place where ACSI has performed better in its endeavor towards helping the poor to get out of their problem. Towards this end, a frequency table was drawn, which showed existing difference in the trend of income and expenditure between urban borrowers and rural borrowers.

Table 4.12 Trend of income during the last 12 months (borrowers Vs type of settlement)

<i>Item</i>	<i>Urban frequent borrowers</i>		<i>Rural frequent borrowers</i>	
	<i>Frequency</i>	<i>Valid Percent</i>	<i>Frequency</i>	<i>Valid Percent</i>
Increased	10	62.5	29	32.2
Decreased	2	12.5	58	64.4
Stayed the same	4	25.0	3	3.3
Total	16	100.0	90	100

Source: Survey Data

Table 4.12 indicates that 62.5% of the urban and 32.2% of rural respondents of the frequent borrower group reported that their overall household income has increased during the last 12 months. The percentage increase of income was found to be higher for urban respondents than the rural group. In addition, 22.9% poor and 65.5% non-poor respondents indicated that their income has shown increment during the specified period.

The difference in the trend of income between urban and rural respondents of the borrower group was statistically significant at 95% confidence interval when tested in a Chi-Square analysis. From this an assumption could be made that ACSI's urban respondents of the borrower group are benefiting better than respondents of rural clients. In this regard, it is safe to state that the

Amhara micro-credit scheme of *Enemay* branch has worked better in urban areas of the study area than the rural areas (See the Table provided below).

Table 4.13 Chi-Square Tests on Trend of income vs type of settlement

<i>Item</i>	<i>Value</i>	<i>Df</i>	<i>Asymp. Sig. (2-sided)</i>
Pearson Chi-Square	19.518	2	.000
Likelihood Ratio	18.459	2	.000
Linear-by-Linear Association	.291	1	.590
No. of Valid Cases	106		

a 1 cells (26.7%) have expected count less than 5. The minimum expected count is 1.06.

Table 4.13 indicates that the null hypothesis is rejected at 5% significance level indicating that respondents of urban areas are doing better as far as trend of income is concerned. However, this scenario did not hold true when analyzed using logit model (See Table 4.16).

For better understanding of the situation, respondents were asked to explain the reasons for the increase or decrease of their income. From the frequency tables, it was made clear that 64.4 % and 28.9% of rural respondents have registered an increase in their household income because of good agricultural produce in the season and good market situations respectively. In urban areas, 52.7% of the respondents reported that the increase in their income was due to good market situations. On the other hand, 21.1% of the urban respondents singled out undertaking a new business as the most important variable for the increase in their income during the same period. From the structured questionnaires, it was found out that no one explicitly indicated credit as a source of growth of income. This may imply that the impact of credit on the growth of their income did not come to the mind of the respondents. However, credit was found to be very important for the change in income when analyzed using logit model (see Table 4.16). On top of that, undertaking a new business may implicitly indicate the role credit might have played in

helping the clients to engage in income generating activities. This was observed from the discussions conducted with the respondents of the poor and the non-poor group. For instance, 52%, 37.5%, 9.4% of the former indicated that good agricultural produce, access to market and undertaking a new business were factors for the increase in their income, whereas 35.4%, 25.1% and 10.3% of the non-poor group singled out access to market, undertaking a new business and good agricultural produce as important factors for the increasing trend in their overall annual income respectively. In this regard, it is to be noted that both access to market and undertaking a new business require financial capital. However, the poor do not have money to afford. Thus, ACSI might have played an important role in helping these people so that they would be able to engage in activities that would be essential to register growth in income. On the other hand, the most fundamental reasons for the decrease of the households' income during the last 12 months were low agricultural production (for 91.7% of the rural respondents) and poor market situation and sickness of family members (for 58% and 41.7% of the urban respondents respectively). These figures are important in the sense that they reveal the erratic nature of agricultural production and the sensitivity of the market.

The result of the Chi-Square analysis supports the argument that micro-financing scheme has a positive impact on improving the income level of beneficiaries. This result is similar to what Zeller and Sharma (1998) and Pitt and Khandker (1998) argued. Hence, one could argue that respondents of the frequent borrower group were benefiting from the services of ACSI as far as income is concerned. In this case, however, the borrowers did not have diversified sources of income. For example, 98.9% of the frequent borrowers and 93.2% of the new clients in the rural areas depended largely on crop production. About 73.3% of the frequent borrowers and 54.5% of the new clients in urban areas were involved in petty trading that included selling of cereals,

coffee, and other agricultural products followed by local food processing and handicraft. It became very difficult to measure income directly. The obvious reason is that people became suspicious and reluctant to tell the truth about their actual income. In this regard, the trend and source of income, expenditure of frequent borrowers and new clients were analyzed. Using SPSS, ANOVA and Paired T-test were employed to examine the difference between FB (frequent borrowers') and NC (new clients') mean annual expenditure. From the ANOVA result, it was possible to see that the only statistically significant difference was observed in food, in which respondents of frequent borrowers had more expenditure than new clients with a mean annual expenditure of Birr 1965.76 and Birr 1678.71 respectively. This is indicated in the Table provided below.

Table 4.14 Mean Annual Expenditure on Food

		N	Mean	Std. Deviation	Std. Error	95% C. I.		Min.	Max.
						Lower Bound	Upper Bound		
Annual food expenditure amount	Frequent clients	106	1965.76	550.57	53.48	1859.73	2071.80	800	3654
	New clients	62	1678.71	588.86	74.79	1529.17	1828.25	760	3600
	Ex-clients	26	1896.88	490.00	96.10	1698.97	2094.80	960	3250
	Total	194	1864.79	567.87	40.77	1784.38	1945.21	760	3654

Source: Survey Data

Table 4.14 indicates that respondents of the frequent borrower group had more expenditure than ex-clients and new clients. As indicated under Annex 1, the difference between the groups of respondents in their mean annual expenditure on food was found to be statistically significant at 95% confidence interval leading to the rejection of the null hypothesis, which states that there is no difference in mean annual expenditure on food between the groups of respondents indicated above (See Annex 1).

This indicates that respondents of frequent clients spend much of their money on food. From the analysis, it was also evident that there was significant difference between respondents of FB and NC in the average annual expenditure during the last 12 months indicating that the microfinance intervention has brought positive impact on the life of borrowers (at least through an increase in their annual expenditure on food). This result supports the arguments of Morduch (1998). He indicated that income smoothing should be the prime concern to be expected from microfinance institutions.

In this case, it looks important to raise a question as to which frequent borrower had more expenditure on food, the urban or the rural or both. Towards this end, ANOVA was used. As a result, it was found out that there was difference between frequent borrowers and new clients in rural areas as far as annual food expenditure of respondents is concerned. From the ANOVA, it was observed that the expenditure of new clients was Birr 1660.68, whereas that of frequent borrowers was Birr 1946.34. This difference was significant at 5% significance level (since .008 is less than .05) (See Annex 2). This indicated that respondents of rural frequent borrowers have more expenditure on food than respondents of new clients. This result led us to the rejection of the null hypothesis that assumes that frequent borrowers and new clients in rural areas have no difference in their mean annual expenditure on food.

However, this difference did not hold when it came to urban areas of the study area. From the ANOVA, it was found out that the mean annual food expenditure of respondents of urban frequent borrowers was found to be Birr 2075.00, whereas that of new clients was Birr 1722.78. This may seem a huge difference, but it was not statistically acceptable at 5% significance level (since 0.377 is greater than 0.05) indicating that the null hypothesis was accepted, which states

that there is no difference in mean annual expenditure on food between respondents of frequent borrowers and new clients in urban areas (See Annex 3).

As a way of summing up this part, we can say that clients in the study area did not have diversified source of income. Rural respondents depended on crop production and urban respondents on trade of cereals. This situation would have several implications as far as sustainability of food security is concerned. For instance, the purpose of taking loan by the rural people indicated that the cycle continues to be from hand- to- mouth so long as agriculture is rain-fed. This in turn would affect the urban clients as long as they depend on trading of agricultural commodities and local food processing as a very important additional source of income for their family. More importantly, this situation may affect the repayment performance of the institution especially during bad years.

In fact, diversified source of income is a character of poor households so as to reduce income variability and thereby smooth their income over time. This has disadvantage to households in that it may result in lower overall levels of expected income. In other words, for poor households, income diversification may be a risk-management strategy that results in somewhat lower but more reliable income levels. Since most depend on few sources of income, we cannot assume that these theory works in the study area. Since the diversification of income sources is often considered as a strategy to spread risk and to create a steady flow of income, the result of the frequency analysis reveals that the households of the rural frequent clients have significantly lower secondary income sources than the urban frequent clients. But there is no significant difference in additional source of income between frequent borrowers and new clients in both rural and urban areas. Accordingly, the result of the analysis rejects the hypothesis that assumes

participation in ACSI's micro-financing program has a positive impact on diversification of income sources for the program clients.

On the other hand, frequent borrowers were found to be better than new clients in food expenditure, which may indicate that participating in ACSI has helped the program clients in rural areas of the study area to smooth their income by helping them get access to food. This is also evident from the purpose of taking loan that the rural poor borrow to buy ox by which they till their land, produce as much as they can and thereby feed their family. When repayment comes, they sell the ox and look for the next round to take loan. On top of that a great deal of the rural clients takes loan to buy sheep/goat. It was observed that the rural people took loan several times for this same purpose. The reason is straightforward. They sell the offspring any time and fulfill their household requirements, food as most of them explained during the interview. As usual when repayment comes, they sale sheep, especially the mother; they wouldn't have borrowed many times for the same purpose otherwise.

In addition to ANOVA, Paired T-test and Chi-Square Analysis, Logit Model was used. The model is specified as follows:

Table 4.15 Parameter Estimates (LOGIT model)

Variables	Description
Y	Average annual income 1=increased, 0=did not increase
SETTRES	Settlement of the Respondents; 1=urban, 0=rural
SEXRES	Sex of the respondents, 1=male, 0=female

EDUSTRES	Educational Status of the respondents, 1=has completed primary education, 0=has not completed primary education
TYPERES	Type of the Respondents, 1=frequent borrowers, 0=new clients
DUMMY FOR POOR	Poor=1, Non-poor=0
LSIZERES	Land Size of the respondents (in Hectare)
AGERES	Age of the respondents
NUMOXEN	Number of oxen owned by the respondents

Table 4.15 indicates the description of the variables. Once the variables were described, the model was employed. As a result, the following result was obtained (See Table 4.16). In addition, the model was employed for the poor and the non-poor separately (See Tables 4.17 and 4.18).

Table 4.16 Estimates of the Logit Model for the poor and non-poor

Item	Regression Coefficient	Z-Value	P-Value
CONSTANT	-4.09012	-13.01664	0.00
Dummy for frequent borrower	.23168	1.47271	0.07*
Dummy for urban settlers	.62546	.86208	0.19
Dummy for primary education completion	.03373	.14697	0.44
Dummy for male	.06994	.40245	0.34
Dummy for poor ²	-.16510	-.97048	0.17
Family size	-.03628	-.85546	0.19
Age of the respondents	-.05088	-.31607	0.37
Land size in hectare	-.03173	-1.18088	0.12
Number of oxen	-.03337	-.96469	0.17

Source: Survey Data

Pearson Goodness of –Fit Chi-Square=4745.943

DF=184, P=.000

* Significant at 90% confidence interval

The direction of change in the probability of improvement in income in relation to the explanatory variables is explained based on the sign of the coefficients. The parameters tell how the economic status of the frequent borrowers and new clients changes with the change in explanatory variables. On the other hand, the positive sign of the parameters show the trend that the changes of the variable are greater in frequent borrowers than new clients. Therefore, Table 4.16 indicates that yearly per capita income (Y) is positively related to program participation indicating that the probability of improvement in income increases with the increase in program participation. The coefficient is statistically significant at 10% significance level. It implies that frequent borrowers showed higher improvement in income than new clients. In addition, the probability of improvement in income was not significantly higher for male respondents than for females. Besides, the probability of increase in income was not found to be higher for those who completed primary education than for those who did not, contrary to what was expected. The probability of increase in income had positive relation with settlement of the respondents. This may indicate that urban areas were better than rural areas. However, the difference was not statistically significant. Besides, there was no significant difference in the probability of increase in income between the poor and the non-poor despite the fact that income decreases as one goes from the non-poor to the poor. The relation between land size and trend of income, age and trend of income, and number of oxen and trend of income were found to be inverse. To see the situation better, the data were disaggregated for the poor and non-poor and analysis was made accordingly.

² The poor are those who may possess one or below one ox worth but still do not sufficiently cover their annual consumption in rural areas and that or urban areas who sale their labour for daily consumption.

Table 4.17 indicates the situation of the poor. From the table, it is clearly observed that trend of income decreases as one goes from new clients to frequent borrowers. The sign of the Z-value is not as expected. As far as gender is concerned, the income of females showed an increasing trend when compared with males. This is expected in that females, if given the chance, are careful of their business. This was also observed in the repayment performance of the clients in the study area. On the other hand, urban areas were found to be better than rural areas. As expected, those who completed primary education showed an upward trend in their income when compared with those who did not completed the same level of education. From the analysis, it was observed that family size was not helpful for the increase in the trend of income. This is to mean that when family size increases, income tend to decrease. This is the situation in poor countries where people spend much of their budget on basic means of survival such as food and clothing. And as such, the result was expected. On the other hand, as age of the respondents increase, trend of income was found to exhibit a positive sign. This is perhaps because experience would help people to accumulate knowledge and new ways of doing things. Consequently, they would be able to care about their income when they grow aged. Land size was also found to have positive relation with trend of income. The reason is straightforward. The larger the size of land, the more will be the chance to produce more provided that agricultural inputs and other methods of proper farming are put in place. But, number of oxen and trend of income had an inverse relation. However, all of the above mentioned differences between the respondents were not statistically significant (Table 4.17).

Table 4.17 Estimates of the Logit Model for the poor

Item	Regression Coefficient	Z-Value	P-Value
CONSTANT	-4.40478	-9.64871	0.00
Dummy for frequent borrower	-.14060	-.60051	0.27
Dummy for urban respondents	.85032	.04662	0.48
Dummy for primary education completion	.16595	.48554	0.31
Dummy for male	-.24099	-1.00347	0.16
Family size	-.04544	-.73952	0.23
Age of the respondents	.08420	.37565	0.35
Land size of the respondents	.05058	.53705	0.29
Number of oxen of the respondents	-.07360	-.44884	0.33

Source: Survey Data

Pearson Goodness-of-Fit Chi Square = 247.810

DF = 112 P = .000

Table 4.18 indicates the situation of the non-poor. It indicates that yearly per capita income (Y) is positively related to program participation indicating that the probability of improvement in income increases with the increase in program participation. The coefficient is statistically significant at 10% significance level. It implies that frequent borrowers showed higher improvement in income than new clients. In addition, the probability of improvement in income was higher for urban respondents than for the rural and for female respondents than for males. However, the differences were not statistically significant at 90% confidence interval. Besides, the probability of increase in income was found to be higher for those who completed primary education than for those who did not as expected though not that significant in statistical terms. Besides, there was no significant difference in the probability of increase in income between those with large family size and small family size despite the fact that income increases as one goes from the former to the latter. The relation between land size and trend of income was also inverse indicating that those with small land size showed an increase in the probability of increase in income. This scenario could work if care is taken to intensively cultivate the land. In

addition, number of oxen and trend of income were found to show a positive relation. This may be the case in a situation where people rent out their extra ox and get income from it.

Table 4.18 Estimates of the Logit Model for the non-poor

Item	Regression Coefficient	Z-Value	P-Value
CONSTANT	-4.61426	-7.44474	0.00
Dummy for frequent borrower	.39209	1.43913	0.07*
Dummy for urban respondents	.28261	.29924	0.39
Dummy for primary education completion	.08148	.23918	0.41
Dummy for male	-.16476	-.53691	0.29
Family size	-.02927	-.36076	0.36
Age of the respondents	.42293	1.29002	0.09*
Land size of the respondents	-.10894	-.98920	0.16
Number of oxen of the respondents	.03934	.34731	0.36

Source: Survey Data

Pearson Goodness-of-Fit Chi Square = 5457.079, DF = 64 P = .000

* Significant at 10% significance level

4.3.2 IMPACT OF ACSI ON BUILDING ASSETS

The survey attempted to assess the impact of ACSI on households' accumulation of assets. This is because ownership of durable household assets is regarded as one of the most important indicators of improvement in the households' welfare. In this regard, in addition to the impact on the overall household income, microfinance is also expected to improve the ownership of key household assets of its clients. This variable is mainly related to the use of income and savings for purchase of durable household assets instead of investing it on income generating activities. Accordingly, the assessment deals with the ownership of different types of appliances and furniture in the urban and rural areas of both frequent borrowers and new clients.

The difference in the mean annual expenditure of the respondents towards the purchase of household assets was also examined. As a result, the mean annual expenditure of frequent borrowers and new clients was found to be more or less similar (Table 4.17).

Table 4.19 Mean Annual Expenditure on Assets

		N	Mean	Std. Deviation	Std. Error	95% C. I.		Min.	Max.
						Lower Bound	Upper Bound		
Annual food expenditure amount	Frequent clients	106	54.54	127.32	12.37	30.02	79.06	0	1000
	New clients	62	63.58	116.55	14.80	33.98	93.18	0	700
	Ex-clients	26	55.38	95.97	18.82	16.62	94.15	0	400
	Total	194	57.54	119.68	8.59	40.59	74.49	0	1000

Source: *Survey Data*

Table 4.19 shows that new clients had more expenditure than frequent borrowers. However, this difference was not statistically significant at 95% confidence interval since 0.647 is greater than 0.05 (Table 4.20).

Table 4.20 ANOVA Table on Purchase of Household Assets

		Sum of Squares	df	Mean Square	F	Sig.
Purchase of durable household assets	Between Groups	3198.9	1	3198.9	.2	.647
	Within Groups	2530591.4	166	15244.5		
	Total	2533790.3	167			

Source: *Survey Data*

Table 4.20 indicates that the null hypothesis is accepted, which assumes that involvement in microfinance does not have positive impact towards boosting the mean annual expenditure of the frequent borrowers, whereby both the frequent borrowers and the new clients were equal in their expenditure amount. This situation also held true for both urban and rural clients, when considered separately (See Annexes 2 and 3).

However, it is to be made clear that the assets owned by respondents in rural and urban areas, as anyone naturally inquires, were not the same. For instance, during the survey, hoe and hammer were the most common household assets owned by both the frequent and the new clients in the rural program areas, while beds and blankets, and radios/tapes were owned by urban frequent borrowers and new clients. But most borrowers and non-borrowers in urban areas do not have refrigerator, television, sewing machine, stove and the like and as a result, these assets were put out of the analysis. Tables 4.21 to 4.26 indicate the variation in ownership of important assets between the borrowers and the new clients in both urban and rural areas of the program. In the case of ownership of blankets, there was no significant difference between the borrowers and the new clients in urban areas. Consequently, the result of the analysis leads us to the rejection of the alternative hypothesis, which assumes that borrowers are better in terms of having blankets than non-borrowers. It is to be made clear from the outset that tables about ownership of assets were drawn separately because different types of respondents were found to have different types of assets. For instance, a respondent with blanket may not have bed and therefore, the same table could not be drawn to show these two different assets (Table 4.21).

Table 4.21 Ownership of Blankets in Urban Areas

<i>Type of Respondent</i>	<i>Do you have Blanket?</i>		<i>Total</i>
	<i>Yes</i>	<i>No</i>	
Frequent Borrowers	16(100.0%)	0(0%)	16(100.0%)
New Clients	16(88.9%)	2(11.1%)	18(100.0%)
Ex-clients	14(87.5%)	2(12.5%)	16(100.0%)
Total	46(92.0%)	4(8.0%)	50(100.0%)

Source: *Survey Data*

Table 4.21 indicates that all of the respondents in the frequent borrower group and a great number of respondents of both new and ex-clients replied that they possessed this asset.

Table 4.22 Chi-Square Tests on Ownership of Blankets (Urban Areas)

<i>Item</i>	<i>Value</i>	<i>df</i>	<i>Asymp. Sig. (2-sided)</i>
Pearson Chi-Square	2.068	2	.356
Likelihood Ratio	3.262	2	.196
Linear-by-Linear Association	1.664	1	.197
N of Valid Cases	50		

a 3 cells (50.0%) have expected count less than 5. The minimum expected count is 1.28.

The above table shows that all respondents of the borrower group had blankets, whereas the percentage of the new client respondents was found to be 88.9% in urban areas. Chi-Square analysis confirmed that there is no statistically significant difference between frequent borrowers and new clients in ownership of these assets at 95% confidence interval.

A frequency table and cross-tabulation also showed that there is difference between frequent borrowers and new clients in accumulation of these assets. Table 4.23 indicates that all of the respondents of the frequent borrower group had radios/tapes and 66.7% of the new clients accumulated the aforementioned assets.

Table 4.23 Ownership of Radio/Tape in Urban Areas

<i>Type of Respondent</i>	<i>Do you have Radio/Tape?</i>		<i>Total</i>
	<i>Yes</i>	<i>No</i>	
Frequent Borrowers	16(100.0%)	0(0%)	16(100.0%)
New Clients	12(66.7%)	6(33.3%)	18(100.0%)
Ex-clients	10(62.5%)	6(62.5%)	16(100.0%)
Total	38(76.0%)	12(24%)	50(100.0%)

Source: *Survey Data*

Table 4.23 indicates that all respondents of the frequent borrower group had radio/tape. This percentage was higher than the new and ex-clients. To statistically examine the situation, cross-tabulation was employed. The Chi-Square test indicates that ACSI has helped the frequent borrowers to accumulate assets in the form of radios/tapes (See Table 4.22).

Table 4.24 Chi-Square Tests on Ownership of Radio/Tape

<i>Item</i>	<i>Value</i>	<i>df</i>	<i>Asymp. Sig. (2-sided)</i>
Pearson Chi-Square	7.511	2	.023
Likelihood Ratio	11.023	2	.004
Linear-by-Linear Association	6.044	1	.014
N of Valid Cases	50		

a 3 cells (50.0%) have expected count less than 5. The minimum expected count is 3.84.

Table 4.24 indicates that the difference between frequent borrowers and new clients in terms of ownership of radios/tapes in urban areas of the program was statistically significant at 5% significance level leading us to the rejection of the null hypothesis, which assumes that there is no difference between frequent borrowers and new clients in urban areas in ownership of radios/tapes. The survey result showed that 100% of the respondents in the group of urban frequent borrowers have bought radios/tapes while they have been in the program. Hence, it could be very safe to assume that ACSI has helped its frequent borrowers of the urban areas of the study area to accumulate wealth in the form of such important assets as radios/tapes.

Other important assets of urban respondents were furniture. It was found out that 93.8% of frequent borrowers and 72.2% of the new clients possessed these assets. The percentage difference between 93.8% and 72.2% is, in fact, great. However, robust conclusions cannot be made unless the statistics is significant. Hence, to statistically check the reliability of the difference between frequent borrowers and new clients in having furniture, a Chi-Square test was employed. The analysis confirms that difference exists at 95% confidence interval. This test result leads us to the rejection of the null hypothesis and the acceptance of the alternative hypothesis at 5% significance level, indicating that a significant number of frequent clients have had more furniture than the new clients of the urban program area. There was also a question forwarded to the frequent borrowers about the status of their ownership of furniture. Eventually,

it was investigated that 93.8% of them replied that they have acquired these assets after they have joined the program. Therefore, ACSI's micro-financing scheme appeared to have a positive impact on the ownership of key household assets such as furniture of its clients in the urban program area.

Like that of urban respondents, asset ownership of the rural respondents was examined with the help of frequency tables and cross-tabulation. Since most of the rural people replied that they did not have assets, only blankets and hoe were considered for the analysis. From frequency table it was found out that 41.1% and 38.6% respondents from frequent borrowers and new clients respectively were found to have blankets in rural areas. However, this difference was not statistically significant at 5% significance level (Table 4.25).

Table 4.25 Ownership of Blanket in Rural Areas

<i>Type of Respondent</i>	<i>Do you have Blanket?</i>		<i>Total</i>
	<i>Yes</i>	<i>No</i>	
Frequent Borrowers	37 41.1%	53 58.9%	90 100.0%
New Clients	17 38.6%	27 61.4%	44 100.0%
Ex-clients	5 50.0%	5 50.0%	10 100.0%
Total	59 41.0%	85 59.0%	144 100.0%

Source: Sample Survey

Chi-Square Tests

<i>Item</i>	<i>Value</i>	<i>df</i>	<i>Asymp. Sig. (2-sided)</i>
Pearson Chi-Square	.437	2	.804
Likelihood Ratio	.432	2	.806
Linear-by-Linear Association	.045	1	.833

a 1 cells (26.7%) have expected count less than 5. The minimum expected count is 4.10.

The above Chi-Square test leads us to the rejection of the alternative hypothesis, which assumes that frequent borrowers are better than new clients in ownership of blanket. The same analysis was used for the investigation of hoe in rural areas. However, the result indicates that ACSI has

not brought a significant difference between the frequent borrowers and their counterparts in ownership of hoe (Table 4.26).

Table 4.26 Ownership of Hoe (Rural Areas)

<i>Type of Respondent</i>	<i>Do you have Hoe?</i>		<i>Total</i>
	<i>Yes</i>	<i>No</i>	
Frequent Borrowers	69(76.7%)	21(23.3%)	90(100.0%)
New Clients	32(72.7%)	12(27.3%)	44(100.0%)
Ex-clients	9(90.0%)	1(10.0%)	10(100.0%)
Total	110(76.4%)	34(23.6%)	144(100.0%)

Source: *Survey Data*

Table 4.26 indicates that ex-clients possessed more hoe than the rest of the respondents. However, this difference was not statistically significant at 95% confidence interval (Table 4.27).

Table 4.27 Chi-Square Tests on Ownership of Hoe (in Rural Areas)

<i>Item</i>	<i>Value</i>	<i>df</i>	<i>Asymp. Sig. (2-sided)</i>
Pearson Chi-Square	1.358	2	.507
Likelihood Ratio	1.553	2	.460
Linear-by-Linear Association	.122	1	.726

a 1 cells (26.7%) have expected count less than 5. The minimum expected count is 2.36.

Table 4.27 indicates that the difference between frequent borrowers and new clients was not statistically significant as far as ownership of hoe is concerned.

4.3.3 IMPACT OF ACSI ON HOUSING IMPROVEMENT

It is a well-established fact that housing and its related investment is a key indicator of a country's development. This is because investments can serve a useful purpose both to increase the household's standard of living and to improve its income-generating opportunities. Apart from serving people as shelter, a house is the most valuable asset people should have. When the house is improved, its value boosts and thereby increases a household's material wealth. In urban

areas, housing improvements may create a storage space for inventory or other enterprise-related items. Rooms and storefronts can be added to the house to be used for rental or enterprise purposes. Such improvements can help households to diversify and to add a steady income stream to their economic portfolio (Asmelash, 2003). Rental units can provide a source of income after retirement. In these ways, housing improvements can be an integral part of the household members' long-term economic strategies. Hence, the assumption of this variable is that, participants of microfinance scheme have better housing condition than new clients. That is, if households have access to a large capital through loan, they will be engaged in more profitable and productive activities, thereby increasing their income level. As a result, they will have better capacity to improve their residential and business houses through repair or building additional rooms from the profits of loan activities. Housing improvements can range from adding new rooms to installing electricity or telephone.

The findings clearly indicated that there was no difference between the frequent borrowers and the new clients in improving or expanding their houses. The following table summarizes the frequencies whether the respondents have made any improvement on their houses during their involvement in the program. The survey result indicated that a similar percentage of frequent borrowers and new clients made improvements and repairs to their housing during the last two years.

Therefore, based on Table 4.28, we are not safe to say that ACSI's micro-financing intervention has not brought a positive impact on the housing improvement of its clients' in both urban and rural areas.

Table 4.28 Improvement in house

Type of Clients	Urban	Rural
Frequent Borrowers	9 out of 16 (56.25%)	11 out of 86(12.8%)
New Clients	10 out of 18 (55.6%)	8 out of 44(18.2%)

Source: *Survey Data*

Clients were asked for the types of housing improvements they have made during the last two years. Most clients replied that house repair was the most common housing improvement they have made. In general, the results suggest that ACSI’s micro-financing intervention has not brought a significant impact on the improvement of housing of its beneficiaries of both urban and rural areas. Since the amount of money that people spent for house expansion may differ, there was an attempt to see the mean annual expenditure of the frequent borrowers and new clients towards this activity with the help of ANOVA. Finally, it was found out that the former and the latter had a mean annual expenditure of Birr 297.78 and Birr 336.39 respectively.

Table 4.29 ANOVA on Expenditure for House Improvement

		N	Mean	Std. Deviation	Std. Error	95% C. I		Min.	Max.
						Lower Bound.	Upper Bound		
Purchase of house/maintenance/expansion	Frequent clients	106	297.78	1209.84	117.51	64.78	530.78	0	8000
	New clients	62	336.37	939.13	119.27	97.88	574.87	0	5000
	Ex-clients	26	360.58	967.63	189.77	-30.26	751.41	0	4000
	Total	194	318.53	1094.05	78.55	163.61	473.45	0	8000

Source: *Survey Data*

This result of the ANOVA indicated that the mean annual expenditure of frequent borrowers is smaller than that of new clients in rural areas of the program. This difference is, however, not statistically significant at 95% confidence interval. This leads us to the rejection of the

hypothesis, which assumes that intervention in micro-finance has a positive impact in adding people's expenditure towards improving their houses. Similarly, the urban respondents were asked to tell their annual expense for the expansion/improvement of their residence. The following tables illustrate this situation best.

Table 4.30 Paired Samples Statistics

Item	Mean	Std. Deviation	Std. Error Mean	95% C.I.		t	df	Sig. (2-tailed)
				Lower	Upper			
Annual house expansion expenditure of urban frequent borrowers	3076.50	3443.63	1217.51					
Annual expenditure for housing improvement of urban new clients	1552.50	1661.90	587.57					
Annual house expansion expenditure of urban frequent borrowers - Annual expenditure for housing improvement of urban new clients	1524.00	3584.12	1267.18	-1472.40	4520.40	1.203	7	.268

Source: *Survey Data*

Table 4.30 indicates that respondents of frequent borrowers have more expenditure than that of new clients for housing improvement with a mean annual expenditure of Birr 3076.50 and Birr 1552.50 respectively. However, this difference was not statistically significant at 95% confidence interval. This result leads us to the rejection of the hypothesis, which assumes that involvement in microfinance improves the housing status of the program clients by helping them get access to money with which they can improve their residence in urban centers of the study area.

4.3.4 IMPACT OF ACSI ON SAVINGS

There were two types of savings in the institution. These were compulsory savings and voluntary savings. In the case of compulsory savings, the program clients were forced to save a certain amount of money as per the rate determined according to the amount of loan they take from the institution. The payment of this savings is settled on monthly basis. For instance, a client would be forced to save 5% of what he/she would borrow for the first time. After the loan is taken, however, he/she would be forced to save only 1% of the loan monthly with an interest rate of 4%. On the other hand, voluntary savings was left for the interested individuals and institutions to deposit their money in the institution. According to the information obtained from the office of ACSI at *Bichena*, voluntary savings were greater than compulsory savings with a total of Birr 2,091,859.73 and Birr 741,961.14 respectively since the commencement of the program. Out of the total voluntary savings, 53.4% was deposited by different organizations. Both frequent borrowers and new clients were asked about their habit of saving. Accordingly, it was found out that 60.8% of the total sample respondents saved their money. It was also possible to learn that 87.3% of the savings were compulsory. There exists difference between urban clients and rural clients as far as savings are concerned. For instance, from the rural sample respondents of 144 people, only 93 people saved their money in ACSI. All of these people were frequent borrowers. More importantly, 71% of them saved from sale of crop, while 23.7% from business profit financed by the loan. From the sample survey, it was also investigated that 97.8% of these people deposited their money in ACSI and the remaining percentage in *equub*. When we looked at the types of savings, 98.9% of the respondents replied that they were compulsory where these people were required to put their money on monthly basis. This shows that the savers are definitely frequent borrowers. When the program clients could not be able to pay these types of savings,

57.9% of the rural respondents indicated that they would be forced to sale crop. More importantly, the rural respondents saved for the purpose of loan repayment (38.7%) followed by purchase of animals (37.6%). On the other hand, out of 44 urban respondents, who had the habit of saving, 50% deposited their money for different purposes. Of these people, 60% and 24% saved their money in ACSI and Commercial Bank of Ethiopia respectively and 44% of the savings was compulsory. In addition, 63% replied that they did not face any difficulty of paying compulsory savings in time. Undertaking a new business was the prime purpose of saving for 68% of the respondents in urban centers of the study area, whereas loan repayment was the most important factor for 24% of the respondents to deposit their money.

Similar analysis was made for the poor and the non-poor and was found out that 97.3% of the former and 68.2% of the latter practiced compulsory savings. On the other hand, 1.4% of the poor and 22.7% of the non-poor had voluntary savings indicating that the non-poor save more than the poor voluntarily. This is perhaps because the poor look for opportunities that would satisfy their immediate consumption instead of depositing their money and waiting for long, as their situation does not allow them to do so.

4.3.5 THE IMPACT OF ACSI ON ACCESS TO EDUCATION

Once the income problem is solved, people will look for mechanisms of fulfilling other needs such as education and health. The assumption is that households with higher income levels have more choices and broader opportunities so as to meet their needs. One of these is educational attainment. Studies indicate that involvement in microfinance and access to education are positively related. For instance, Berhanu (1999, cited in Asmelash, 2003) indicated that since children and other school age dependents of the poor households have marginal access to

educational facilities; credit provision for income generating activities is expected to improve this situation. Therefore, the hypothesis of this section is that in addition to improvement in income, housing, saving and ownership of key household assets, micro-finance is also expected to improve the possibility of additional expenditures in education of beneficiaries' household members. From Table 4.27, it was possible to see that there was minor difference in the percentage increase of the trend of access to education by frequent borrowers of the sample respondents in urban and rural areas. It was also possible to see that 37.5% of the respondents in urban areas have shown increment in the trend of their access to education, whereas 32.2% of the respondents in rural areas replied that their access to school has shown an increasing trend for the last five years. In addition, 37.5% of the urban sample respondents said that their access to school has declined. The percentage of those rural respondents with a declining trend in access to school was a bit higher than the urban respondents, i.e., 43.3%. There was also difference between frequent borrowers and new clients in both urban and rural areas in the trend of access to school.

Table 4.31 Trend of Access to School

<i>Type Respondent</i>	<i>Increasing Trend in Access to School</i>		<i>Decreasing trend in Access to School</i>	
	<i>Urban</i>	<i>Rural</i>	<i>Urban</i>	<i>Rural</i>
Frequent Borrowers	6(37.5%)	29(32.2%)	6(37.5%)	39(43.3%)
New Clients	10(55.6%)	15(34.1%)	1(5.6%)	18(40.9%)
Ex-clients	11(68.8%)	3(30.0%)	4(25.0%)	4(40.0%)
Total	27(54.0%)	47(32.6%)	11(22.0%)	61(42.4%)

Source: *Survey Data*

Table 4.31 indicates that with a 55.6% increase in the trend of access to school, respondents of the new clients group were better than respondents of the frequent borrowers in urban areas. On the other hand, 34.1% of the rural respondents from the new client group indicated that their

access to school has shown an increasing trend. To check the significance of this difference statistically, a Chi-Square Analysis was employed (See Table 4.30).

Table 4.32 Chi-Square Tests on Trend of Access to School

SETTLEMENT OF RESPONDENTS	Item	Value	df	Asymp. Sig. (2-sided)
Urban	Pearson Chi-Square	9.254	4	.050
	Likelihood Ratio	10.568	4	.032
	Linear-by-Linear Association	2.841	1	.092
	N of Valid Cases	50		
Rural	Pearson Chi-Square	.420	4	.994
	Likelihood Ratio	.413	4	.985
	Linear-by-Linear Association	.000	1	.875
	N of Valid Cases	144		

a 6 cells (66.7%) have expected count less than 5. The minimum expected count is 3.52.

b 3 cells (33.3%) have expected count less than 5. The minimum expected count is 2.50.

Table 4.32 indicates that there was statistically significant difference between respondents of frequent borrowers and new clients in the trend of access to school for the last five years indicating that respondents of new clients were better off in urban areas. In rural areas of *Enemay woreda* there was no statistically significant difference between respondents of frequent borrowers and new clients in their access to school for the last five years. In addition, respondents of the poor and the non-poor groups were asked about their access to education. Eventually, it was found out that 36.3% of the poor respondents indicated an upward trend, whereas 45.5% and 18.2% showed a decreasing trend and no change in their access to education respectively. On the other hand, 38.4% and 23.3% of the non-poor indicated increasing and decreasing trend in their access to education during the period considered respectively. The remaining percent did not show any significant change.

Furthermore, when clients were asked for the reasons of increase or decrease in the trend of their access to school during the last 5 years, those who have shown an increasing trend have reported that improvement in the awareness of the household members towards the importance of education was the main reason for the improvement of school age enrollment in their household, followed by access to new school and improvement in household income (Table 4.33).

Table 4.33 Reasons for increase in School Enrollment

Item	Frequency	Valid Percent
Access to new school built in the area	2	2.7
Income improvement in the HH	1	1.4
Increase in the awareness of the HH members towards education	69	93.2
Others	2	2.7
Total	74	100.0

Source: *Survey Data*

The above Table indicates that 93.2% of the sample respondents have shown an increasing trend because of the increase in the awareness about the importance of education. However, lack of cash to cover the costs followed by absence of school in the area was found to be the main reason for the decrease of access to school enrollment for those who had shown a declining trend (Table 4.34).

Table 4.34 Reason for Decrease in School Enrollment

Item	Frequency	Valid Percent
Lack of income to settle tuition fee	39	52.7
Lack of school in the area	16	21.6
Lack of interest to attend school	6	8.1
Lack of time to spare for education	4	5.4
Others	9	12.2
Total	74	100.0

Source: *Survey Data*

In addition to the trend of access to school, there was a need to consider the mean annual expense of respondents of the frequent borrowers and the new clients in both urban and rural

areas. When we consider only the settlement of the respondents, mean annual expenditure for education was found to be higher for urban people than their counterparts with a statistical significant difference.

Table 4.35 Annual School Expense of Respondents

		N	Mean	Std. Deviation	Std. Error	95% C. I.		Min.	Max.
						Lower Bound	Upper Bound		
Annual school expense	Urban	50	104.32	161.61	22.85	58.39	150.25	0	1100
	Rural	144	26.52	51.33	4.28	18.07	34.98	0	450
	Total	194	46.57	98.73	7.09	32.59	60.55	0	1100

Source: *Survey Data*

Table 4.35 indicates the mean annual expenditure on education was higher for respondents of urban areas than that of rural clients. From the analysis, it was investigated that the mean annual expenditure of urban respondents was Birr 104.32 and that of rural respondents was Birr 26.52. This difference, as indicated below was statistically significant at 95% confidence interval (Table 2.36).

Table 4.36 ANOVA on annual expenditure of urban and rural respondents on education

		Sum of Squares	df	Mean Square	F	Sig.
Annual school expense	Between Groups	224636.672	1	224636.672	26.037	.000
	Within Groups	1656498.818	192	8627.598		
	Total	1881135.490	193			

Source: *Survey Data*

Table 4.36 indicates that respondents of urban areas are better off when it comes to expenditure on education. This, however, is not due to the impact of ACSI, but because of the nature of urban areas themselves. This is to mean that urban areas by their very nature have better access to education and as a result, people of these areas spend much on education, as they know its importance. This result was probably due to the mentality about the importance of education and the accessibility to educational facilities, which is naturally better in urban than rural areas.

Therefore, we may not say that it was the result of ACSI's situation of urban and rural respondents needed to be investigated .

With the help of Paired T-test, it was found out that respondents borrower group had slightly higher mean annual school expense than . The mean annual school expense of urban frequent borrowers was Birr 80.25, whereas that of new clients was Birr 65.81. However, this difference, as indicated below, was not statistically significant at 95% confidence interval (Table 4.37).

Table 4.37 Paired Samples Test (of expenditure on education by urban respondents)

	Paired Differences		Std. Error Mean	95% C.I.		t	df	Sig. (2-tailed)
	Mean	Std. Deviation		Lower	Upper			
	School expense of urban borrowers - School expense of urban new clients	14.44		89.35	22.34			

Source: *Survey Data*

On the other hand, the mean annual expense of the sample respondents of frequent and new clients in rural areas was analyzed. From the ANOVA, it was found out that the mean difference was not that big, especially between FB and NC.

Table 4.38 Annual School Expenditure in Rural Areas

	N	Mean	Std. Deviation	Std. Error	95% C.I.		Min.	Max.
					Lower Bound	Upper Bound		
Frequent clients	90	26.92	58.69	6.19	14.63	39.21	0	450
New clients	44	22.77	34.70	5.23	12.22	33.32	0	200
Ex-clients	10	39.40	42.41	13.41	9.06	69.74	0	150
Total	144	26.52	51.33	4.28	18.07	34.98	0	450

Source: *Survey Data*

Table 4.38 indicates that the mean annual school expenditure of frequent borrowers and new clients in rural areas was Birr 26.29 and Birr 22.77 respectively. The Table also shows that ex-clients had more expenditure than the other groups. However, this difference was not also statistically significant at 5% significance level.

Table 4.39 ANOVA Test on School Expenditure of Rural Respondents

		Sum of Squares	df	Mean Square	F	Sig.
Annual school expense	Between Groups	2291.355	2	1145.677	.431	.650
	Within Groups	374468.583	141	2655.806		

Source: *Survey Data*

From the above ANOVA and Paired T-tests, we can say that the impact of ACSI on educational expenses of the respondents of the borrower group was not significant. However, the increase in educational expenditure is not the basic criteria to evaluate the impact of micro-finance on access to education because the increase in educational expenses may be associated with other factors such as the increase in the price of educational materials or the level of education. Moreover, the reduction in school spending by respondents of new clients may perhaps imply enrollment in lower quality or less expensive schools. Therefore, the most important indicators for the impact of micro-finance on access to education are the number of school age children currently attending school and the trend of school enrollment, i.e., whether school enrollment was improved when compared with the previous years. The sample respondents from frequent borrowers in urban areas indicated that the mean number of school age children was 1.38. From these, on average, 1.25 children were attending school. On the other hand, the average number of school age children in the new clients group of the sample respondents was 1.39. From these, on average, 1.11 children were attending school. In this regard, since higher percent of respondents from urban frequent borrowers have reported an increase in children enrollment during the last

12 months, we can say that ACSI's micro-financing intervention has generated a positive impact towards access to education for its clients' household in urban areas. However, this is not the case in sample respondents of the rural areas. For instance, the average number of school age children was 2.24 and 1.91 in the respondents of the frequent borrowers and new clients respectively. From the former, only 0.80 and from the latter only 0.75 children was attending school. Based on this, we can say that ACSI's micro-financing scheme has not brought a positive impact on improving school enrollment of the sample respondents of the frequent borrowers in rural areas.

4.3.6 IMPACT ON ACCESS TO MEDICAL FACILITIES

Using Chi-Square Analysis, the respondents' access to medical facilities during the last 12 months was examined. From the analysis, it was found out that only 5.7% of the respondents have indicated an increasing trend in their access to medical facilities.

Table 4.40 Type of respondent Vs trend of access to medical facilities for the last 12 months

Type of Respondents	Trend of access to medical facilities for the last 12 months			Total
	Increased	Decreased	Stayed the same	
Frequent clients	8(7.5%)	76(71.7%)	22(20.8%)	106(100.0%)
New clients	3(4.8%)	41(66.1%)	18(29.0%)	62(100.0%)
Ex-clients	0(0%)	21(80.8%)	5(19.2%)	26(100.0%)
Total	11(5.7%)	138(71.1%)	45(23.2%)	194(100.0%)

Source: *Survey Data*

Table 4.40 shows that the decrease in access to medical facilities was higher for respondents of frequent borrowers than new clients. As far as increment is concerned, the reverse held true. The

difference between frequent borrowers and new clients in getting access to medical facilities was examined. However, the difference is not statistically significant at 95% confidence interval.

Table 4.41 Chi-Square Tests on Trend of Access to Medical Facilities

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.130	4	.389
Likelihood Ratio	5.490	4	.241
Linear-by-Linear Association	.982	1	.322
N of Valid Cases	194		

a 2 cells (30.2%) have expected count less than 5. The minimum expected count is 1.47.

The above Chi-Square result leads us to the rejection of the hypothesis, which states that there is difference between frequent borrowers and new clients in their trend of access to medical facilities. The situation of urban and rural respondents was analyzed separately. The result indicated that the percentage increase in access to medical facilities was higher for frequent borrowers than new clients. The decreasing trend also became lower as one moves from the former to the latter (Table 4.42).

Table 4.42 Type of respondent Vs Trend of Access to Medical Facilities in Urban Areas

	Trend of access to medical facilities			Total
	Increased	Decreased	Stayed the same	
Frequent Borrowers	2(12.5%)	5(31.3%)	9(56.3%)	16(100.0%)
New Clients	3(16.7%)	4(22.2%)	11(61.1%)	18(100.0%)
Ex-clients	0(0%)	13(81.3%)	3(18.8%)	16(100.0%)
Total	5(10.0%)	22(44.0%)	23(46.0%)	50(100.0%)

Source: *Survey Data*

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	13.919	4	.008
Likelihood Ratio	15.503	4	.004
Linear-by-Linear Association	1.138	1	.286
N of Valid Cases	50		

a 3 cells (33.3%) have expected count less than 5. The minimum expected count is 1.60.

The above Chi-Square test revealed the existing difference between FB and NC in the trend of access to medical facilities leading to the rejection of the null hypothesis, which states that difference does not exist between the aforementioned groups in the issue under consideration in urban areas of the program. On the other hand, the null hypothesis was accepted for the rural areas of the program (Table 4.43).

Table 4.43 Type of respondent Vs Trend of Access to Medical Facilities in Rural Areas

	Trend of access to medical facilities			Total
	Increased	Decreased	Stayed the same	
Frequent Borrowers	6(6.7%)	71(78.9%)	13(14.4%)	90(100.0%)
New Clients	0(0%)	37(84.1%)	7(15.9%)	44(100.0%)
Ex-clients	0(0%)	8(80.0%)	2(20.0%)	10(100.0%)
Total	6(4.2%)	116(80.6%)	22(15.3%)	144(100.0%)

Source: *Survey Data*

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.898	4	.420
Likelihood Ratio	5.925	4	.205
Linear-by-Linear Association	1.485	1	.223
N of Valid Cases	144		

a. 4 cells (44.4%) have expected count less than 5. The minimum expected count is .42.

Table 4.43 indicates that only respondents of the FB group showed increment in access to medical facilities. Besides, the decreasing trend was lower for the same group than the rest. Nonetheless, this was not significant at 5% significance level and hence the null hypothesis is accepted. We can say, therefore, that ACSI's FB and NC did not show any significant difference in their access to medical facilities during the last 12 months. Similar analysis was made for the poor and the non-poor. As a result, it was found out that 74.4% of the poor and 26% of the non-

poor indicated a decreasing trend in their access to medical facilities. On the other hand, 21.5% of the former and 65.8% of the latter replied that their access to medical facilities has shown an increasing trend. This may imply that the non-poor were in a better position than their counterparts. In addition, ANOVA was employed to examine the difference between frequent borrowers and new clients in their expenditure towards medical facilities. Accordingly, it was found out that the mean annual medical expense of frequent borrowers and new clients was Birr 35.19 and Birr 75.39 respectively. The following Table illustrates this best.

Table 4.44 Annual Medical Expense

	N	Mean	Std. Deviation	Std. Error	95% C. I.		Min.	Max.
					Lower Bound	Upper Bound		
Frequent clients	106	35.19	63.37	6.16	22.98	47.39	0	350
New clients	62	75.39	209.37	26.59	22.22	128.56	0	1200
Ex-clients	26	61.54	86.78	17.02	26.49	96.59	0	350
Total	194	51.57	131.75	9.46	32.91	70.22	0	1200

Source: Survey Data

Table 4.44 shows difference in mean annual expense on medical facilities. As indicated under Annex 1, this difference was statistically significant at 95% confidence interval. This indicates that new clients had more medical expense than frequent borrowers in urban areas.

This analysis indicated that ACSI seemed to work better in urban areas. However, we could not assume that ACSI has been doing well in urban areas, as these differences existed between urban and rural areas perhaps because of the positive attitude as well as mentality and accessibility people have had towards medical facilities in urban areas much more than those in the rural areas.

4.3.7 IMPACT OF ACSI ON DIET AND COPING UP WITH DIFFICULTIES

The condition of diet or nutrition is an important factor in the well being of the household members. The assumption is that when people are better fed, or well nourished, they will be more productive. As a result, they will contribute to the development of their community and their country at large. When we consider the frequent borrowers and new clients, the former were expected to have a better household diet condition than the latter. Hence, for the purpose of this study, the condition of household diet was used as variable indicator of this hypothesis. Accordingly, respondents were asked whether their household diet was improved or not during the last 2 years (Table 4.45).

Table 4.45 Nutrition Status of the Respondents

Nutrition Status during the last two years	Frequent Borrowers		New Clients	
	Count	Percentage	Count	Percentage
Increase	85	80.2%	16	25.8%
Decrease	9	8.5%	31	50%
Stayed the same	12	11.3%	15	24.2%
Total	106	100%	62	100%

Source: *Survey Data*

Table 4.45 indicates that for 80.2% of respondents from the frequent borrower group have shown an increasing trend in the nutritional status of the food they and their family consume. On the other hand, the respondents of the new client group have not been in a good position when it comes to nutrition over the last two years. This difference between the frequent borrowers and new clients was tested with the help of Chi-Square analysis. The results on the household diet condition suggested for the rejection of the null hypothesis at 5% significance level.

For possible comparisons on the basis of settlement and gender, the data were disaggregated and were tested on Chi-Square. The results indicated that female respondents of the frequent borrower group in the urban program area were better than respondents of rural areas and male borrowers of the same group in urban areas. This signified that the improvement in the household diet condition during the last two years has been better for female frequent clients than for the control groups of both urban and rural program areas as well as for male frequent borrowers of urban areas. This result could be associated with the expenditure people have on food during the specified period in that urban frequent borrowers were found to be better than rural clients. This leads us to the acceptance of the null hypothesis for the rural clients, indicating that the diet condition of the respondents from frequent clients is not significantly different from the new clients' diet condition in the rural program area. Therefore, based on the above test result, we can conclude that ACSI's micro-financing scheme does not have significant impact on improving the diet condition of its rural clients over the last two years. In addition to nutrition, respondents were asked whether they have faced food shortages. As a result, 34% and 74.4% of the urban and rural respondents indicated that they have faced problems of food shortage. When a comparison was made between the program areas, a higher percentage of the rural clients have experienced food shortages than the urban clients. Perhaps this result should be treated with some caution. This might be mainly due to the fact that rural areas were more vulnerable to drought and food shortages than the urban area. The chi-square test leads us to the acceptance of the null hypothesis, indicating that the percentage of the frequent clients, who have faced food shortage during the last 12 months, is not statistically different from the percentage of the new clients who have faced food shortage.

The different mechanisms rural and urban respondents have used to tackle the problem of food shortage were analyzed separately. The urban respondents (frequent borrowers, of course) have indicated that the most important strategy they have used to mitigate the problem of food shortage was using the program loan for consumption (41.2% of the sample respondents) followed by cutting down the number of meals and the amount of food per each meal (primarily for the new clients).

In the rural areas, the most viable strategy the frequent borrowers employed was using the program loan for consumption both directly and indirectly. Directly in the sense that they have bought cereals just for home consumption (65.9% of the respondents out of those with the problem, i.e., 95 people), and indirectly in the sense that these people have sold livestock, most of whom were bought with the help of the loan from ACSI (13.4% of the respondents). In addition, cutting number of meals and amount of food in each meal, selling of firewood and cow dung were among the strategies the respondents have used in their struggle against food shortage in the rural areas.

4.3.8 IMPACT OF ACSI ON EMPOWERMENT OF WOMEN CLIENTS

Apart from economic and socio-cultural impacts, microfinance intervention is believed to boost the borrowers' sense of self. This, according to Ledgerwood (1999), is personal or psychological impact, which is one aspect of empowerment. In this paper, the writer examined whether ACSI has helped the clients to achieve more power in the household or community decisions that affect their and their community's life.

In this study, participation in a microfinance program is hypothesized to have positive impacts on empowerment of the individuals who receive and use the microfinance services, particularly

female clients. This increased empowerment may take the forms of improved decision-making role of women clients in their community and household, as well as building of social and human capital due to their access to information and knowledge through social intermediations offered by ACSI. To this end, both frequent borrowers and new clients were asked to get information and thereby investigate whether they have been involved in any association. From the survey, it was found out that 15.1% and 8.1% of the frequent borrowers and new clients replied that they or their family members have involved in some form of organization respectively. The above figure indicates that more frequent borrowers have involved in organizations than new clients. This difference was tested in a Chi-Square analysis and was found to be significant at 95% confidence interval. On the basis of this, the null hypothesis was rejected. On the other hand, the alternative hypothesis, which assumes that frequent borrowers are involved more than new clients in associations, was accepted. The result of the Chi-Square analysis is presented below.

Table 4.46 Membership of family members in any association (Cross-tabulation)

				Membership of family members in any association		Total
				Yes	No	
Type of respondent	Frequent clients	Count %	16 15.1%	90 84.9%	106 100.0%	
	New clients	Count %	5 8.1%	57 91.9%	62 100.0%	
	Ex-clients	Count %		26 100.0%	26 100.0%	
Total		Count %	21 10.8%	173 89.2%	194 100.0%	

Source: *Survey Data*

Chi-Square Tests

Item	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.647	2	.470
Likelihood Ratio	8.297	2	.016
Linear-by-Linear Association	5.608	1	.018
N of Valid Cases	194		

a 1 cells (26.7%) have expected count less than 5. The minimum expected count is 2.81.

Table 4.46 indicates that more frequent borrowers were found to involve in associations. More specifically, it was possible to see that most people were involved in women associations (76.2% out of the 21, mentioned above). These people were women themselves.

In addition to involvement in associations, respondents of the borrower group were asked about the decisions they make regarding loan taking and spending. Accordingly, it was found out that 67.2% of the frequent borrowers take the loan together with their partners. Besides, 78.3% of the frequent borrowers indicated that they discuss the matter together with their partners and spend the loan in an area where they both believe is important for their families' betterment. However, this issue should be seen with some caution, as some discrepancy was obtained with triangulation techniques. When respondents were asked, they replied that husbands and wives would go to the institution together, but females would be usually needed to sign the loan agreements so as to receive the money from the institution, whereas their husbands would actually utilize the money to buy whatever they want. Therefore, we can say that women respondents were not actually represented and their felt need was not taken into account as far as credit provision is concerned.

As we have seen above, empowerment of women is one important dimension of welfare improvement. Since, ACSI has this as one of its prime concern, it is, therefore, very fundamental to raise the issue of women empowerment as a result of the credit provision. With this in mind, however, examining whether women really invested the loan they have taken in activities that they found appropriate so as to improve their living standard, needs closer attention. As we have seen above, most females decided to take the loan jointly with their partners. Therefore, we were not safe to say that women were actually making use of the loan they have taken to improve their own and their families' living standard. This result is supported by what Goetz and Gupta (1996)

generally argued. They indicated that women are believed to be the main participants and beneficiaries of microfinance programs in many countries. Yet many of them lack enough power within households to use their loans to improve productivity and welfare.

Regarding decisions in selling own produce, both frequent borrowers and new clients were asked, as the matter concerned both. Eventually, it was investigated that more frequent borrowers tended to decide on the issue with their partners than new clients. For instance, 74.4% of the frequent borrowers passed decisions to sell own produce after they have made sure that their partners accepted the idea. When it comes to new clients, the figure declined to 6.5%. The writer employed a Chi-Square Test to indicate whether this difference was statistically significant. As a result, it was found out that the difference between frequent borrowers and new clients was acceptable at 95% confidence interval. While interpreting the table, we have to be very careful that the decision may not be fifty-fifty, as women are usually consulted, not required to pass the ultimate decision. Despite this, it was still an encouraging result to see this change. The result of the Chi-Square analysis about the difference between frequent borrowers and new clients in decision-making while selling one's product is presented in the Table provided below.

Table 4.47 Type of respondents and decision in selling products (Cross-tabulation)

		Decision in selling products						Total
			Husband only	Mostly husband	Husband and wife equally	Mostly wife	Only wife	
Type of respondent	Frequent clients	Count %	10 9.4%	1 .9%	82 77.4%		13 12.3%	106 100.0%
	New clients	Count %	45 72.6%	11 17.7%	4 6.5%	1 1.6%	1 1.6%	62 100.0%
	Ex-clients	Count %	2 7.7%	2 7.7%	19 %	1 3.8%	2 7.7%	26 100.0%

Total	Count %	57 29.4%	18 9.3%	101 52.1%	2 1.0%	16 8.2%	194 100.0%
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Source: *Survey Data*

Symmetric Measures

Item	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	118.470	8	.000
Likelihood Ratio	127.983	8	.000
Linear-by-Linear Association	5.923	1	.015
N of Valid Cases	194		

a 6 cells (40.0%) have expected count less than 5. The minimum expected count is .27.

Table 4.47 indicates that respondents of ACSI's members have benefited from the intervention in deciding on matters that were of high importance to their life. Besides, 91% of those who said that husband and wife decided equally were found in rural areas of the study *woreda*. This is, in fact, against the prevailing scenario where females usually do not have any say on matters regarding the sale of agricultural products in most parts of rural Ethiopia. This indicates that ACSI is doing well in empowering women so that they could decide on issues as equally as their husbands regarding issues of their and their families' interest. Finally, both frequent borrowers and new clients were asked about general issues concerning the institution with the help of focus group discussions. The results are presented in the next sub-section.

4.4 CLIENTS' PERCEPTION OF THE PROGRAM

As mentioned in the methodology part of this thesis, there were focus group discussions conducted with respondents. An attempt has been made to present the results of these discussions in the form of frequencies and percentages. From the discussions, it was possible to learn that 87.6% and 93.8% of the participants in the discussions replied that they believed that involvement in microfinance provisions would serve a useful purpose in narrowing the gender gap and in bridging the gap between the rich and the poor respectively. However, there were a

couple of points these people raised that need to be given due consideration. These were, among others, loan size, repayment period and group lending methodology. During the discussions, these people went to explain that despite the importance of the credit provision in creating income-generating activities, the amount of loan they were allowed to take at a time was below what they really needed. This, according to them, limited their capacity from engaging in activities that required high start-ups. As a result, they were simply confined to activities that asked them little effort and provided them with quick turn over that would enable them pay their debt timely. Itana (2002) supported this idea by saying that the smaller the size of the loan, the less will be the chance to engage in profitable activities. In addition, he went on to explain that small loans discourage even those poor people whose credit requirement is higher than the maximum amount of money that could be permitted by the institution.

Regarding rating of loan repayment period, most people unanimously replied that the time was too short to be able to produce more and pay the money back. As we have seen somewhere above, most people, especially in the rural areas, were engaged in agricultural activities where they bought either ox or goat. In addition to the worry of the respondents, one could also observe the problem in that the repayment period is eleven months during which a client is supposed to repay the loan. Therefore, it is not that difficult to see how much problematic it is for those clients who have used the loan to buy sheep/goat. The reason is straightforward. In this regard, the following questions may be crucial: When do these sheep give birth to an offspring? When do these sheep become ready for the market? Is it convenient for these people to repay eleven months after they have taken the loan in a situation where they are found to use the sheep just to smooth their income? Would the cycle of poverty be broken if this kind of approach continues?

From the discussions, it was also learnt that the institution did not get involved in indicating the viable way of using the loan. Instead, borrowers were absolutely free to invest the loan in any activity they thought was important and manageable under their capacity. However, this kind of approach has several bad consequences. To begin with, the poor do not usually have the know-how and as such they engage in activities that require little expertise. Secondly, the repayment performance of the institution would be affected in the sense that clients may incur losses due to lack of guidance and monitoring about which direction to go.

As far as lending approaches are concerned, two types can be mentioned. These are the financial systems approach and the poverty lending approach. According to Itana (2002), the former involves financial intermediation between the poor borrowers and savers, whereas the latter is about providing the poor with loan and thereby try to reduce poverty. In the study area, it was observed that ACSI is following the poverty lending approach whereby the poor are given the loan and are let to do whatever activity they find appropriate for them in their struggle against poverty. In connection with this, one thing needs to be looked at closely. This is the group lending methodology. It is to be made clear that one of the deriving forces behind the commencement of MFIs is lack of financial services for the poor due to the fact that these people do not have asset, which banks and other financial institutions require as collateral whenever they need to give credit to the needy. This is good news for the poor, as it removes entry barriers for those with no collateral and with limited literacy as well as weak technical know-how. However, respondents of the study area indicated that they are not happy with this kind of approach. When they were asked why, they replied that there are people who commit default, sometimes intentionally, whereby all members of the group would be forced to share the cost.

CHAPTER FIVE: CONCLUSIONS AND POLICY IMPLICATIONS

Microfinance institutions are a recent phenomenon in the Ethiopian context. It was after the issuance of Proclamation No 40/1996 that sixteen microfinance institutions (MFIs) have been legally registered by the National Bank of Ethiopia (NBE) and started delivering services. Since then, the industry has shown a remarkable growth in terms of outreach. These microfinance programs and institutions have become increasingly important safety nets of the poor. However, knowledge about the achievements of these strategies remains only partial and controversial. On one hand, there are studies, which indicate that microfinance has positive impacts on reducing poverty. On the other hand, there are studies that indicate pessimistic kind of result on the impacts of microfinance towards reducing poverty.

Using a mix of the financial system and the client oriented impact analysis approaches, the study tried to examine the impact of ACSI in *Enemay Woreda*. From the survey, it was investigated that the branch office of ACSI in *Enemay Woreda* has shown an increasing trend in the amount of loan it disbursed to its clients across years. However, there were arrears that needed to be collected. Those who defaulted were interviewed, and from the investigations, it was learnt that 55 percent of the ex-clients did not repay in time because they used the loan for consumption purposes. On the other hand, the percentage of those who failed to repay due to time inconvenience and payment of other loans accounted for 15 % each.

The assumption of microfinance intervention is that the provision of financial services especially loan is to enhance the welfare and economic situation of its clients by making adequate finance available to help them engage in profitable activities. On the other hand, if the loan is used for non-productive activities, such as consumption and purchase of non-productive assets, the whole

exercise will be futile. In other words, the intervention of microfinance in the study area will not result in the intended impact, which is poverty reduction. From the survey, it was possible to learn that the clients have used the loan for intended purposes. However, these 'intended purposes' may not help the poor to get sustainable assurance of income. This is because the program clients were found to borrow for almost the same purpose at all times. For instance, since their involvement in the program, 34.4% of rural borrowers use the loan to buy ox, 41.1% to buy sheep or goat.

The growth of clients has an increasing trend; however, the difference between the number of male and female clients was found to increase as the years go by and if this trend continues, the gap will be even much higher than what is observed now.

In both urban and rural areas, respondents from the frequent borrower category were found to register an increasing trend in their income for the last 12 months in comparison with the control group. Good agricultural produce in the season and good market situations were factors for the increasing trends in income for the rural respondents. In addition, in urban areas, more than half of the respondents reported that the increase in their income was due to good market situations. On the other hand, 21.1% of the urban respondents and a good number of the non-poor singled out undertaking a new business as the most important variable for the increase in their income. The most fundamental reasons for the decrease of the households' income were low agricultural production (for 91.7% of the rural respondents) and poor market situation and illness of family members (for 58% and 41.7% of the urban respondents respectively). These figures are important in the sense that they reveal the erratic nature of agricultural production and the sensitivity of the market. In addition, conducting a new business was the very important factor for the non-poor to show increment in their income. This may not be due solely to the use of credit. Therefore,

mechanisms should be devised in such a way that while providing the clients with credit, considerations be taken to give them some sort of business advice so that the finance would turn out to bring them a lucrative business at least in relative terms.

In addition to the above points, yearly per capita income (Y) was positively related to program participation, indicating that the probability of improvement in income increases with the increase in program participation. The coefficient was statistically significant at 10% significant level. It implies that frequent borrowers show higher improvement in income than new clients. In addition, the probability of improvement in income was not significantly higher for male respondents than females. Besides, the probability of increase in income was not found to be higher for those who completed primary education than for those who did not complete contrary to what was expected to be. The probability of increase in income had inverse relation with settlement of the respondents. This may indicate that rural areas were better than urban areas. Besides, there was no significant difference in the probability of increase in income between the poor and the non-poor. In addition, it was found out that ACSI has had a positive impact on the life of urban clients in terms of asset accumulation such as radios/tapes and furniture. However, positive impact was not observed in rural areas of the *Woreda* in this regard.

As far as housing situation is concerned, most clients replied that house repair was the most common housing improvement they have made. The findings clearly indicated that there was no difference between the frequent borrowers and the new clients in improving or expanding their houses.

As a policy indicator, we may say that though ACSI has attained a good balance in terms of the wealth profile of its clients, much more is to be done in terms of gender outreach, as females

constituted a very small percentage. More importantly, the Grameen model of group-based guarantee, introduced in Bangladesh, has become an effective, viable and suitable institutional intervention of ACSI. This is because inability of the poor to serve collateral has been a major obstacle in reaching the community, the poor at large. Nonetheless, there should be some kind of adjustment in such a way that only the defaulter would incur the costs him/herself, not the whole group. In addition, we can argue that microfinance may serve as income smoothing, not as a mechanism of reducing poverty *per se*.

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Annex 1. ANOVA Test on Expenditure of Respondents

Item	Type of Respondent	N	Mean	Std. Deviation	Std. Error	95% C. I.		Minimum	Maximum
						Lower Bound	Upper Bound		
Annual school expense	Frequent clients	106	34.97	65.96	6.41	22.27	47.68	0	450
	New clients	62	54.31	144.64	18.37	17.58	91.04	0	1100
	Ex-clients	26	75.42	65.90	12.92	48.81	102.04	0	250
	Total	194	46.57	98.73	7.09	32.59	60.55	0	1100
Annual medical expense	Frequent clients	106	35.19	63.37	6.16	22.98	47.39	0	350
	New clients	62	75.39	209.37	26.59	22.22	128.56	0	1200
	Ex-clients	26	61.54	86.78	17.02	26.49	96.59	0	350
	Total	194	51.57	131.75	9.46	32.91	70.22	0	1200
Annual ceremonial expense	Frequent clients	106	134.33	185.31	18.00	98.64	170.02	0	1000
	New clients	62	135.39	144.01	18.29	98.82	171.96	0	600
	Ex-clients	26	132.96	130.31	25.56	80.33	185.60	0	500
	Total	194	134.48	165.64	11.89	111.03	157.94	0	1000
Clothing expense	Frequent clients	106	198.31	154.85	15.04	168.49	228.13	0	650
	New clients	62	225.76	188.12	23.89	177.98	273.53	0	1000
	Ex-clients	26	264.92	123.60	24.24	215.00	314.85	0	500
	Total	194	216.01	163.51	11.74	192.86	239.16	0	1000
Purchase of durable household assets	Frequent clients	106	54.54	127.32	12.37	30.02	79.06	0	1000
	New clients	62	63.58	116.55	14.80	33.98	93.18	0	700
	Ex-clients	26	55.38	95.97	18.82	16.62	94.15	0	400
	Total	194	57.54	119.68	8.59	40.59	74.49	0	1000
Purchase of house/maintenance/expansion	Frequent clients	106	297.78	1209.84	117.51	64.78	530.78	0	8000
	New clients	62	336.37	939.13	119.27	97.88	574.87	0	5000
	Ex-clients	26	360.58	967.63	189.77	-30.26	751.41	0	4000
	Total	194	318.53	1094.05	78.55	163.61	473.45	0	8000
Annual food expenditure amount	Frequent clients	106	1965.76	550.57	53.48	1859.73	2071.80	800	3654
	New clients	62	1678.71	588.86	74.79	1529.17	1828.25	760	3600
	Ex-clients	26	1896.88	490.00	96.10	1698.97	2094.80	960	3250
	Total	194	1864.79	567.87	40.77	1784.38	1945.21	760	3654

ANOVA

Item	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	39615.051	2	19807.526	2.054	.131

	Within Groups	1841520.439	191	9641.468		
	Total	1881135.490	193			
Annual medical expense	Between Groups	66198.231	2	33099.116	1.925	.149
	Within Groups	3284029.398	191	17193.871		
	Total	3350227.629	193			
Annual ceremonial expense	Between Groups	113.339	2	56.669	.002	.998
	Within Groups	5295423.115	191	27724.728		
	Total	5295536.454	193			
Clothing expense	Between Groups	101300.036	2	50650.018	1.912	.151
	Within Groups	5058389.944	191	26483.717		
	Total	5159689.979	193			
Purchase of durable household assets	Between Groups	3338.570	2	1669.285	.115	.891
	Within Groups	2760837.600	191	14454.647		
	Total	2764176.170	193			
Purchase of house/maintenance/expansion	Between Groups	111327.491	2	55663.746	.046	.955
	Within Groups	230897552.823	191	1208887.711		
	Total	231008880.314	193			
Annual food expenditure amount	Between Groups	3254339.221	2	1627169.610	5.269	.006
	Within Groups	58983388.532	191	308813.553		
	Total	62237727.753	193			

Annex 2. ANOVA test on Expenditure of Rural Respondents

		N	Mean	Std. Deviation	Std. Error	95% C.I.		Min.	Max.
						Lower Bound	Upper Bound		
annual school expense	frequent clients	90	26.92	58.69	6.19	14.63	39.21	0	450
	new clients	44	22.77	34.70	5.23	12.22	33.32	0	200
	ex-clients	10	39.40	42.41	13.41	9.06	69.74	0	150
	Total	144	26.52	51.33	4.28	18.07	34.98	0	450
annual medical expense	frequent clients	90	29.52	53.69	5.66	18.28	40.77	0	300
	new clients	44	50.55	103.53	15.61	19.07	82.02	0	400
	ex-clients	10	32.00	40.50	12.81	3.03	60.97	0	100
	Total	144	36.12	72.20	6.02	24.23	48.01	0	400
annual ceremonial expense	frequent clients	90	131.10	197.16	20.78	89.80	172.40	0	1000
	new clients	44	148.39	151.82	22.89	102.23	194.54	0	600
	ex-clients	10	118.50	134.08	42.40	22.58	214.42	0	300
	Total	144	135.51	179.83	14.99	105.88	165.13	0	1000
clothing expense	frequent clients	90	192.73	151.70	15.99	160.96	224.51	0	650
	new clients	44	219.77	158.99	23.97	171.43	268.11	0	700
	ex-clients	10	300.00	95.10	30.07	231.97	368.03	100	450
	Total	144	208.44	152.56	12.71	183.31	233.57	0	700
purchase of durable household assets	frequent clients	90	36.98	75.95	8.01	21.07	52.89	0	400
	new clients	44	49.73	69.50	10.48	28.60	70.86	0	255
	ex-clients	10	64.00	69.95	22.12	13.96	114.04	0	200
	Total	144	42.75	73.61	6.13	30.62	54.88	0	400
purchase of house/maintenance	frequent clients	90	103.37	445.65	46.98	10.03	196.71	0	3000
	new clients	44	196.25	591.90	89.23	16.29	376.21	0	3000
	ex-clients	10	115.00	264.63	83.68	-74.30	304.30	0	800

/expansion	Total	144	132.56	484.95	40.41	52.67	212.44	0	3000
Annual food expenditure amount	Frequent clients	90	1946.34	510.16	53.78	1839.49	2053.20	960	3654
	new clients	44	1660.68	434.80	65.55	1528.49	1792.87	920	3520
	ex-clients	10	1885.40	534.95	169.17	1502.72	2268.08	1300	3250
	Total	144	1854.83	503.76	41.98	1771.84	1937.81	920	3654

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
annual school expense	Between Groups	2291.355	2	1145.677	.431	.650
	Within Groups	374468.583	141	2655.806		
	Total	376759.938	143			
annual medical expense	Between Groups	13243.628	2	6621.814	1.275	.283
	Within Groups	732171.365	141	5192.705		
	Total	745414.993	143			
annual ceremonial expense	Between Groups	11938.961	2	5969.481	.182	.833
	Within Groups	4612667.032	141	32713.951		
	Total	4624605.993	143			
clothing expense	Between Groups	111686.228	2	55843.114	2.448	.090
	Within Groups	3216545.327	141	22812.378		
	Total	3328231.556	143			
purchase of durable household assets	Between Groups	9656.317	2	4828.159	.890	.413
	Within Groups	765156.683	141	5426.643		
	Total	774813.000	143			
purchase of house/maintenance/expansion	Between Groups	258268.406	2	129134.203	.546	.581
	Within Groups	33371341.150	141	236676.178		
	Total	33629609.556	143			
annual food expenditure amount	Between Groups	2421600.392	2	1210800.196	5.041	.008
	Within Groups	33868306.268	141	240200.754		
	Total	36289906.660	143			

Annex 3. ANOVA test on Expenditure of Urban Respondents

		N	Mean	Std. Deviation	Std. Error	95% C.I.		Min.	Max.
						Lower Bound	Upper Bound		
annual school expense	frequent clients	16	80.25	86.29	21.57	34.27	126.23	0	300
	new clients	18	131.39	251.31	59.23	6.42	256.36	0	1100
	ex-clients	16	97.94	68.94	17.24	61.20	134.67	0	250
	Total	50	104.32	161.61	22.85	58.39	150.25	0	1100
annual medical expense	frequent clients	16	67.06	98.67	24.67	14.49	119.64	0	350
	new clients	18	136.11	353.11	83.23	-39.48	311.71	0	1200
	ex-clients	16	80.00	103.07	25.77	25.08	134.92	0	350
	Total	50	96.06	224.58	31.76	32.23	159.89	0	1200
annual ceremonial expense	frequent clients	16	152.50	96.57	24.14	101.04	203.96	0	400
	new clients	18	103.61	120.85	28.49	43.51	163.71	0	400
	ex-clients	16	142.00	131.49	32.87	71.94	212.06	0	500
	Total	50	131.54	116.96	16.54	98.30	164.78	0	500
clothing expense	frequent clients	16	229.69	173.40	43.35	137.29	322.09	0	600
	new clients	18	240.39	250.45	59.03	115.84	364.93	0	1000
	ex-clients	16	243.00	136.75	34.19	170.13	315.87	0	500
	Total	50	237.80	191.64	27.10	183.34	292.26	0	1000
purchase of durable household assets	frequent clients	16	153.31	258.81	64.70	15.40	291.22	0	1000
	new clients	18	97.44	186.58	43.98	4.66	190.23	0	700
	ex-clients	16	50.00	111.06	27.76	-9.18	109.18	0	400
	Total	50	100.14	195.20	27.61	44.66	155.62	0	1000
purchase of house/maintenance/expansion	frequent clients	16	1391.38	2750.48	687.62	-74.25	2857.00	0	8000
	new clients	18	678.89	1450.34	341.85	-42.35	1400.13	0	5000
	ex-clients	16	514.06	1205.47	301.37	-128.29	1156.41	0	4000

	Total	50	854.14	1906.25	269.58	312.39	1395.89	0	8000
annual food expenditure amount	frequent clients	16	2075.00	750.12	187.53	1675.29	2474.71	800	3600
	new clients	18	1722.78	873.59	205.91	1288.35	2157.20	760	3600
	ex-clients	16	1904.06	477.83	119.46	1649.44	2158.68	960	2570
	Total	50	1893.50	726.92	102.80	1686.91	2100.09	760	3600

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
annual school expense	Between Groups	23110.665	2	11555.332	.432	.652
	Within Groups	1256628.215	47	26736.771		
	Total	1279738.880	49			
annual medical expense	Between Groups	46454.105	2	23227.052	.450	.640
	Within Groups	2425008.715	47	51595.930		
	Total	2471462.820	49			
annual ceremonial expense	Between Groups	22820.142	2	11410.071	.828	.443
	Within Groups	647526.278	47	13777.155		
	Total	670346.420	49			
clothing expense	Between Groups	1606.285	2	803.142	.021	.979
	Within Groups	1797869.715	47	38252.547		
	Total	1799476.000	49			
purchase of durable household assets	Between Groups	85592.138	2	42796.069	1.129	.332
	Within Groups	1781533.882	47	37904.976		
	Total	1867126.020	49			
purchase of house/maintenance/expansion	Between Groups	7021219.555	2	3510609.777	.965	.389
	Within Groups	171033692.465	47	3639014.733		
	Total	178054912.020	49			
annual food expenditure amount	Between Groups	1053490.451	2	526745.226	.997	.377
	Within Groups	24838822.049	47	528485.576		
	Total	25892312.500	49			

Annex 4. Repayment Performance of Respondents across Gender

Year	Amount Disbursed			Amount Repaid		
	Male	Female	Total	Male	Female	Total
1998	170,350	87,400	257,750	45,400	73,205.85	78,605.85
1999	455,950	263,250	719,200	206,639.15	106,668.10	317,307.25
2000	894,080	596,650	1,490,730	550,403.80	359,202.70	909,606.50
2001	1,475,830	902,700	2,378,530	1,108,648.05	705,564	1,814,212.05
2002	2,292,830	1,186,200	3,479,030	1,681,297.68	956,209.30	2,637,506.98
2003	3,157,840. 20	1,431,675	4,589,515.20	2,468,333.65	1,186,504.0 5	3,654,837.70

Appendix 1: Questionnaire

Dear Respondent,

This questionnaire has been prepared to examine the impact of ACSI on the clients and to gauge the existing problems with regard to the performance of the institution in *Enemay Woreda*. The information you are going to provide will be used purely for academic purpose. Therefore, you are kindly requested to give genuine responses.

Thank you for your cooperation.

Basic Information: Involvement in the Program

Age _____ Sex _____ Family size _____

Are you a client of ACSI? (Circle one)

- 1: Yes currently
- 2: I have been, but not any more
- 3: I am in waiting list

If the answer for Q101 is item number 1 (Yes currently) go to Q 103 - 110
If the answer for Q101 is item number 2 (I have been, but I left) go to Q 112-114.
If the answer for Q101 is item number 3 (waiting list) go to the next section.

Question for clients (Q 103 – 111)

103. When did you start? Year (in Eth. C) _____.

104. How many times have you taken loan since then? _____.

105. What was the amount of the first loan? _____ (Birr)

106. What is the amount of your current loan? _____ (Birr)

Table of loan history

Loan from the program	Q.107 Year	Q108 Amount (Birr)	Q109. The purpose of loan (see codes below)	Q110. Did you pay on time? Yes=1, No=0	Q111. If you did not pay on time, what was the reason? See codes below)
Loan 1					
Loan 2					
Loan 3					
Loan 4					
Loan 5					
Loan 6					

Loan 7					
Loan 8					
Loan 9					
Loans from other sources					
Loan 10					
Loan 11					
Loan 12					
Loan 12					
Loan 13					

Codes

The purpose of the loan

- 1=agriculture (fattening, bee keeping, horticulture, poultry, purchase of agricultural inputs)
- 2=purchase of oxen
- 3=purchase of transport animals
- 4=trade (coffee, cereals, spices)
- 5=handicraft/blacksmithing
- 6=food processing (injera, bread, alcohol, brewery)
- 7=consumption (to cover food shortage, festivity, clothing)
- 8=settling other debts
- 9=to cover school and medical expenses
- 10=others (specify) _____

Reasons for not paying on time

- 1=crop failure
- 2=death/illness of household members
- 3=using the money for consumption purposes
- 4=migration
- 5=time inconvenience
- 6=lack of access to markets
- 7=default of other members in the group
- 8=payment of other loans
- 9=others (specify) _____

Questions for Ex- clients only (Q 112- 114)

- Q. 112: Year enrolled (Eth.C.) _____
- Q. 113: Year terminated (Eth.C.) _____
- Q. 114: Why did you leave the program? (Circle one or more)
 - 1 = default of other members
 - 2 = I default
 - 3 = group conflict other than default
 - 4 = dissatisfaction with group lending
 - 5 = unhappy with the repayment period
 - 6= unhappy with the interest rate
 - 7= unhappy with the loan size

- 8= no need of credit
- 9 = better loan opportunities
- 10 = risk aversion (fear of indebtedness)
- 11 = illness
- 12 = others (specify)_____

Household composition and characteristics

Enter all members of the household

S. No.	Name of the member	Q. 201 M/F M=1 F=2	Q. 202 Relation to the head of the HH (see codes below)	Q. 203 Age in yrs.	Q. 204 Literate Yes = 1 No = 0	Q. 205 If literate (number of grades completed)	Q. 206 N° of months disappeared from the locality over the last 12 months	Q. 207 Reasons for disappearance see codes below)	Q. 208 Main occupation (see codes below)
1			head						
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12		⊙1A							

Codes

Relation to the head of the hh head

- 1 = father 6 = daughter
 2 = mother 7 = husband
 3 = wife 8 = brother
 4 = sister 9 = other, specify
 5 = son

Main occupation

- 1 = student 3 = trader
 2 = farmer 4 = daily labourer
 5 = self employee (handicraft)

Reason for absence:

- 1 = migration
(specify) _____
2 = education
- 3 = soldier
4 = elected as councilor
- 5 = other

Sources of Household Income

Q. 301. What was your household's source of income for the last five years?

- 1 = agriculture (Go to 302) 2 = relief (Go to 303)
3 = self – employment (Go to 304) 4 = other (specify)

Q. 302 = If your answer for Q. 301 is 1 (agriculture), what was the most important source of income? (Circle one or more).

- 1 = crop production
2 = horticultural production
3 = sale of animals /animal products
4 = animal products
5 = tree farming
6 = grass production
7 = rent out animals
8 = share from land cultivated by others

Q. 303. If your answer for Q.301 is 2 (relief), which one of these was most important? (circle)

- 1 = food aid
2 = food for work program
3 = cash for work program

Q. 304. If your answer for Q. 301 is 3 (self –employment), tell the most important ones)..

- 1 = petty trading
2 = food processing (brewery, alcohol etc)
3 = store keeping (shops)
4 = selling of fire wood, charcoal, animal dung
5 = handicraft /blacksmith/ embroidery
6 = service giving /hair dressing, barber, shoe polishing.

Q. 305. Your income over the last 12 months has been:

- 1 = decreasing (Go to 306)
2 = Increasing (Go to 307)
3 = at the same level
99 = don't know

Q. 306. If your income has been decreasing, what are the reason(s)?

- 1 = sickness of one or two household members
2 = poor (lower) market prices
3 = low agricultural production
4 = lack of transportation to reach markets
5 = others (specify) _____

Q. 307. If your income has increased, what are the reason(s)?

- 1 = access to markets/
2 = good agricultural market

14 = selling of wood, charcoal, animal dung

15 = others (specify) _____.

House hold Asset, empowerment and access to resources

5.1 HH Asset

I. No.	Asset type	Q. 501 How many of these items does the hh own	Q. 502 Were the assets acquired during the last 12 months? 1= yes 0 = NO	Q. 503 what is the market value (in Birr)	Q. 506 Were you a member Of ACSI when these items were acquired? Yes = 1 No = 0
1	B tables /chairs				
2	radio /tape				
3	blankets				
4	beds				
5	TV				
6	stove				
7	refrigerator				
8	sewing machine				
9	jewelry				
10	spades				
11	hammer				
12	sprayer				
13	water pump				
14	hoe				

(For Rural Households)

Q. 507. How many oxen does the household have? _____

Q. 508. If no oxen (have only one ox), how does the household get its land prepared?

1 = rents oxen for cash /produce share

2 = oxen sharing (exchange) arrangement

3 = rent out land

4 = hand digging

5 = gets oxen from relatives

6 = others (specify) _____.

Q509. Does the household have land of its own?

Yes=1 No=0

Q510. If your answer for Q.509 is yes, how many *timad* of land does the household have?

5.2. Empowerment

Q. 511. Is anyone in your family a member of any association?

Yes=1, No=0

Q. 512. If your answer for the above question is yes, she/he belongs to:

- a) council? Yes = 1 , No = 0
- b) youth association? Yes = 1 , No = 0
- c) women association? Yes = 1 , No = 0
- d) farmer's association? Yes = 1 , No = 0
- e) cooperative 'association'? Yes = 1 , No = 0
- f) other (specify) ? _____.

5.3. Access to and control over resources

Q. 513. (Only for married) who has the power in the household?

A) On the decision to take out loans?

- 1 = husband only
- 2 = mostly husband
- 3 = husband and wife equally
- 4 = mostly wife
- 5 = only wife

B) How to spend loans you have taken?

- 1 = husband only
- 2 = mostly husband
- 3 = husband and wife equally
- 4 = mostly wife
- 5 = only wife

C) How to sell own products?

- 1 = husband only
- 2 = mostly husband
- 3 = husband and wife equally
- 4 = mostly wife
- 5 = only wife

Q. 514. Does the household hire labor for herding?

Yes = 1 , No = 0

VI. Access to education and Medical facilities

Q.601: How many children in your household are between the ages 5-17? _____

Q. 602: How many of these children are currently attending school? _____

Q. 603: The number of your family members attending school for the last 5 years has been:

- 1 = increasing
- 2 = decreasing
- 3 = at the same level?

Q. 604: If increased, it was due to:

- 1 = access to new schools built in the area
- 2 = income improvement in the household
- 3 = increase in the awareness of household members towards education
- 4 = others (specify) _____

Q. 605. If decreased, it was due to:

- 1=lack of income to settle tuition fee
- 2=lack of access to school in the area
- 3=lack of interest to attend school
- 4=lack of time to spare for education, as the household members are engaged in business or non business activities
- 5=others (Specify) _____

Q. 606. During the last six months, was there an occasion in which one or more of your household members needed medical treatment?

Yes=1 No=0

Q. 607. If yes for Q.606, where did the household get the money to pay for the medical expenses?

- 1=borrowed from friends
- 2=from the loan
- 3=borrowed from commercial banks
- 4=sale of assets
- 5=from business profit
- 6=others (specify) _____

Q608. Has your access to medical facilities for the last 12 months:

- 1=increased?
- 2=decreased?
- 3=stayed the same?
- 99=don't know

Q609. If increased for Q608, what are the reasons?

- 1=access to loans
- 2=borrowed from local moneylenders
- 3=sale of household assets
- 4=better local treatment from the government
- 5=others (specify)

VII. Savings

Q. 701. Do you save?

Yes=1 No=0

Q. 702. If yes for Q701, what type are they?

- 1=compulsory
- 2=voluntary
- 3=both compulsory and voluntary
- 4=others (specify)

Q.703. What was the amount of your first saving? _____ Birr.

Q. 704. What is the amount of your current saving? _____ Birr.

Q. 705. What is your source of money for saving? (Circle one or more)

- 1 = from business (farm profit financed by the loan
- 2 = borrowed from friends /money lenders /relatives
- 3 = income from employment
- 4 = others (specify) _____

706. Where do you save? (Circle one or more)

- 1 = in ACSI
- 2 = equib
- 3 = commercial bank
- 4 = at home (under the roof, safe box)
- 5 = with friends /relatives
- 6 = in the form of live stock /durables
- 7 = lending to others with higher interest
- 8 = others, specify _____

Q. 706: Have you /your household member faced any difficulty for compulsory savings?

Yes = 1, No = 0

Q. 707: If yes, what did you do to ease the problem?

- 1 = sold household assets
- 2 = borrowed from families /friends
- 3 = borrowed from local money lenders
- 4 = I did not pay for compulsory savings
- 5 = others (specify) _____

Q. 708: For what purpose have you saved?

- 1 = loan repayment
- 2 = to undertake a new business
- 3 = for safety purpose (from theft or damage)
- 4 = old age use
- 5 = ceremonial services (wedding, holidays)
- 6 = to earn interest
- 7 = to buy animals and basic items (clothing, food etc)
- 8 = others (specify) _____

Appendix 2: Questions for focus group discussions

- Q. 1. How do you rate the loan repayment period?
- Q. 2. The maximum amount of money, which could be obtained from ACSI, is
- Q. 3. The flexibility of loan for spending it for any activity is:
- Q. 4. The efficiency of loan recollection mechanism by the ACSI is
- Q. 5. How do you rate the usefulness of ACSI in narrowing the gap between the rich and the poor?
- Q. 6. How do you rate the usefulness of ACSI in narrowing the gender gap?
- Q. 7. How do you rate the usefulness of ACSI in creating income-generating activities?

Declaration

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

Name Bambaku Alamirew Alemu

Signature: 

Faculty: CEE

Department: Regional & Local devt Studies (MLDS)

This thesis has been submitted for examination with my approval as a university advisor.



Tassew Woldehanna