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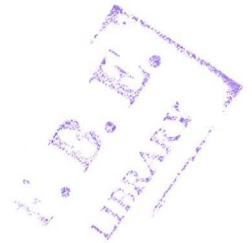
A research proposal on the role of microfinance institutions in
improving productivity of women works in micro and small scale
enterprises

In the rural areas of Ethiopia

A Thesis submitted

By

Grace Linda Mvula



In partial fulfillment of the requirements for the Award of

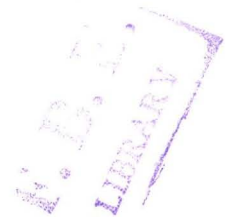
The degree of Master in Business Administration

Supervisor; Professor G.K. Murthy

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Dedication

To my family,

My husband Geoffrey, without whose support and encouragement this achievement would not have been possible.

And to my beloved children Eric, Naomi, Edmund and Joel, who encouraged me through some very hard and trying times.

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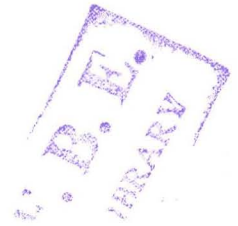
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I am also very grateful to Professor G.K. Murthy for accepting to guide and direct me through the study and successful completion of this paper.



Abstract

The main objectives of this research proposal is to study the impact of Microfinance activities on the rural poor women, who are involved ion Micro enterprises. in rural Ethiopia. In addition assess the criteria for obtaining Micro finance, by these poor women

Identify areas where Micro finance intervention can achieve positive impact. What impact has Micro finance had on those micro enterprises which have benefited from funding.

The main focus will be on the impact micro finance has, or is having on participating households micro enterprises by women, and individual women.



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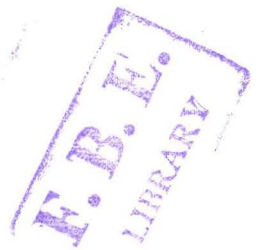
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Executive summary

The paper gives an over view of the economic situation in Ethiopia, in the first few chapters. Then it introduces the condition of women in the country, it further tries to introduce the plight of women as they try to access funding to help raise the level of performance of the micro and small scale enterprises that they undertake to help reduce the level of poverty at household level.

Then the paper introduces the need for financial services for women. It is believed that if most of or all the women who are involved in micro and small scale enterprises access funding they could help improve the economic conditions that prevail in the country.

Finally the paper introduces the establishment of a specialized microfinance institution to take care of specific needs and demand of women as they try to improve the performance of their micro enterprises.

The pilot project is ^{set} ~~sent~~ in Oromia Region, because it is the largest region in the country with a third of the country's population living in this region. It is believed that if a specialized financial institution of this kind could be established and succeed in this region, then the services could be extended to other regions of the country, because the conditions that prevail in this region for women are representative of the plight of the women in the other smaller regions of the country.

1. INTRODUCTION

1.1 Background and country profile

Today Ethiopia is one of the poorest countries in the world. The most recent world rankings of GNP per capita put Ethiopia 206th and last, out of 206 of the poor states of the world, with per capita income of only US\$500 (World Bank 2000). Merging income, life expectancy, adult literacy and school enrolment the latest (1998) human development index (HDI) positions Ethiopia 171st out of 174 countries. With regard to the gender-related Development Index using the same measures disaggregated for men and women, it comes 141st out of 143 (UNDP 2000).

The percentage of people living on less than US\$1 per day was 31.3% in 1995, a decrease from 46% in 1982; while in 1995/1996 it is estimated that 45.5% of the population is living below the national poverty line. Absolute poverty is regarded as a greater concern than relative poverty by the government. Economic living standards in rural Ethiopia account two-thirds the urban level. This is reflected in the proportions of people in food poverty (people unable to attain their minimum nutritional requirements), 52% of the rural population and 36% of the urban population (MEDAC, 1999). On average 60% of per capita income is spent on food. Two-fifths of the urban households and one-fifth of the rural households are female-headed.

Ethiopia is an agricultural country; over 85% of the 75 million of the population are either farmers or earn their living from farm related jobs. The country has an area of 1.1 million square kilometers. It is one of the poorest countries in Sub-Saharan Africa. The (UNDP) Human Development Report (2000), revealed that Ethiopia is the third least developed country in the world. The major export items of the country, include, coffee, hide, and skin, oilseeds, chat, bee-wax, and sugar.

Like many other African countries, the mismatch of rapid population growth and low productivity remains a major problem and bottleneck for economic growth. Since the economic development of Ethiopia is dependent on subsistence rain-fed agriculture, the

country is particularly vulnerable to adverse effects of fluctuations in production and commodity prices. The agricultural sector has been unable to meet its primary objectives of providing food, raw materials and export materials. The long lasted civil war, recurrent drought and inappropriate government policies have all aggravated the poverty in Ethiopia.

According to the Demographic and Health Survey 2000, 166 children in every 1000 continue to die before the age of five, while the infant mortality rate is 97 out of 1000 children, (CSA) 2000. The under five mortality rate is 23% lower in the urban areas than rural areas and infant mortality ranges from 81 per 1000 live births, in Addis Ababa, to 129 per 1000 in Afar Region (rural Ethiopia). The children who survive are also among the world's most malnourished. Ethiopia is also characterized by low life expectancy (the 1998 figure was 43) mainly due to HIV/AIDS. Three million Ethiopians were estimated to have been infected with the epidemic. At the end of 1999 (UNAIDS 2000) giving Ethiopia the third largest number of HIV- infected people in the world surpassed by only South Africa and India.

According to the World Bank's poverty report (World Bank 2000), "Poverty in Ethiopia is overwhelmingly a problem of subsistence farming". Smallholder farming employs more than 80% of the labor force, contributing 67% of exports earnings. Agriculture accounted for 49% of GDP, services 44% and industry 7%. However, besides the reappearance of drought and the increasing variability of rainfall, the ability of many farming families to grow enough food crops is constrained by the diminishing size of landholdings, mounting population, environmental degradation, civil war and internal conflict that lasted more than 30 years.

The biggest challenge to policy- makers is to recognize the resource of the future livelihood of Ethiopia's majority of smallholder crop farmers, while the richest rural households obtain significant income from non-farm activities. Irrigated land as a proportion of total cropland is only 1.8% though over 3 million hectares of land, are estimated to be available for irrigation. Ethiopia also owns the largest livestock herd in Africa (19% of all Africa's farm animals), three quarters of total livestock units are

employed in smallholder agriculture, while the rest support the livelihoods of over 12 million populations in the entire country.

According to the study of the ministry of Economic Development and Co-operation (1995/1996), 45.5% of the population in the country consume less than the required food amount per day, this is a major factor in reducing the life expectancy of the people, this is also aggravated by poor access to safe drinking water. The country also lacks adequate basic amenities for the people like public toilets, social services, like health and education. The socio-economic situation in most cases is made worse the high population growth and economic inefficiency, which is manifested by high unemployment rate. In terms of investment, the country needs to invest about 44% of its GDP annually to be able to meet the target (Ethiopian Economic Association, 2001). Moreover women are at a disadvantage and marginalized group in the society. On top of the un recorded and unpaid works in all fields from domestic work to agriculture, women have a lot of responsibilities in their homes.

The study of Gender working group (1995) in Ethiopia revealed wide disparities and inequalities between men and women in all areas including access to education, health care, food, income and employment. Researchers indicate that “female literacy plays an important role in raising productivity levels and reducing child mortality rates and population growth, because they become aware of child spacing methods, available to them, to prevent high population growth and immunizations for their children to reduce infant mortality rate and other methods of preventing under five child mortality. They also learn better methods of feeding their children which reduces death in infancy. But in reality women who are expected to be health educators and family health providers have benefited little from all the latest technological developments”. This is why poverty of women remains a big threat to the economic and social stability of the country.

In Ethiopia, among other things, lack of finance is one of the fundamental problems impeding production, productivity and income of rural and urban households. Since access to institutional finance is very limited, the majority of the poor particularly women obtain financial services through informal channels, such as money lenders,

Ikkub and others (David Hulme, Paul Mosley 1996).The rural as well as urban poor need financial services to save small amounts, to engage themselves in income generating activities like agriculture , petty trade and services. But formal be it government and private owned banks in the country, do not serve poor households due to the high cost of small transactions, lack of collateral and geographic location. Increasing access to basic financial services is important in reducing poverty in the country.

Thus demand of the poor for financial services in Ethiopia is met through the informal sector (friends, relatives, money lenders, with very high interest rates, iquib, and iddir), Microfinance institutions, savings and credit cooperatives, multipurpose, cooperatives, government projects and NGOs involved in savings and credit activities should soften their rules to help cater for the poor. Saving and credit programs have operated for a number of years in Ethiopia. However, (microfinance services delivered by license) is regulated under the act of parliament since 1996 under proclamation No 40/1996. The proclamation authorized the National Bank of Ethiopia to supervise establishments and management of Microfinance Institutions. After this proclamation NO 40/1996, 20 micro institutions have been established and are operating in different parts of the country. The development of microfinance institutions in Ethiopia is focusing on poverty alleviation by servicing exclusively the productive poor. Microfinance Institutions provide microfinance services to the poor that are not served by the formal financial institutions like banks. Many of the Microfinance Institutions have yet to give due emphasis to providing financial assistance to the poor women on their mission and vision statement, in reality their financial products do not meet the needs of women.

Women are very reliable microfinance clients, demonstrating more discipline than men in making regular deposits and loan repayment (Fiebeg,!996). Considering the role of Microfinance institutions in poverty alleviation, and assuming the absolute poverty level of the country, the efficient delivery of financial services to the poor particularly women is very vital in Ethiopia. Hence the need to have Micro-finance Institutions which can cater for the needs of the poor women.

Tassew Woldehanna and Tekie Alemu (2002), state that although the level of poverty in rural Ethiopia is more severe than in urban areas due to the relatively rapid and continuous migration into urban areas, due to land scarcity, periodic drought and low agricultural productivity, the poor in the urban areas equally also need due attention. In the same analogy, poor women in urban areas should set due focus in the development programs of the country, especially those which affect their livelihood most.

1.2 PROBLEM STATEMENT

Micro enterprises could play a critical and important role in the socio-economic development of many countries in Africa. At household level micro enterprise services can both expand the opportunities for escaping poverty and enhance capability by raising human capital through available training, as well as help guard against vulnerability. In order to enhance the development and growth of micro enterprises there is need for financial resources, and the development of capacity of many micro enterprises. Micro financial institutions do not have adequate capacity to make an impact. Moreover Micro finance services are expected to have positive impact at community level at large, this can be particularly through increasing employment opportunities, reducing child labour and enhancing forward and backward linkages of trade at grassroots level.

Women entrepreneurs in the rural areas face a lot of challenges. Their education levels are low and are usually involved in negligible income generating activities mainly from agricultural produce, such as selling vegetables and tomatoes. They lack the capacity to undertake larger and more rewarding sustainable programs (Malcom Harper 2003). The most critical constraint is access to capital and credit. In most cases mechanisms and formal channels for getting credit tend to exclude micro entrepreneurs the majority of whom are women. Either because they cannot put up the necessary collateral or fulfill the bureaucratic requirements of regular interest repayments.

Hans Dlete Seibel and Uben Parhansup (1996), state that in the past credit programs including subsidies and neglect savings mobilization have underlined rural finance. However in recent years the numbers of countries have been growing in which

financing institutions mobilize savings and practice commercial banking. In the rural areas there still exists informal financial systems such as KATAPILA in Malawi and BEDER in Ethiopia, which are better adjusted to the local conditions, yet these informal financial institutions have not been well captured within the existing formal financial institutions. Micro enterprises operate within their own limited resources. Many micro enterprises by women do not have access to bank finances due to lack of collateral and information.

Hence most self-help groups of micro entrepreneurs are unable to grow because of limited finances to invest and increase capital for improved performance of their enterprises. Since their operations are outside the formal sector they have not been able to contribute significantly to the economy in the countries where they operate.

1.3 HYPOTHESIS

It has been generally accepted by people working in micro finance institutions that micro finance is not a means to poverty alleviation because it does not reach the poorest.

However, micro finance can significantly reduce vulnerability when it starts to have positive impact on household variables, of income diversification, household assets education and nutrition. Thus in this stance micro finance will prevent women from slipping into extreme poverty.

Women entrepreneurs involved in micro enterprises in rural areas could contribute to considerable economic growth of the underdeveloped world, if only they were availed micro finance credit with attainable conditions. However since their enterprises are small and unregulated by government they continue to face serious challenges as they conduct their business.

These problems can be abated by improving the availability of financial services, acquisition of skills through training, market information and business management knowledge.

The study will take the following hypothesis for examination or testing.

LIST OF IMPACT HPOTHESES

Participation in micro finance assisted micro-enterprise service leads to:

At household level: -increased income
- increased assets and increased welfare in such aspects as food self sufficiency, housing, education and health.

At the individual level: - increased control of resources on part of women clients
- leads to increases in paid labor and productivity which helps bring about economic empowerment

At enterprise level: - increased net worth;
- increased net cash flow and increased differentiation between
① - The enterprise and household.

1.4 OBJECTIVES OF THE STUDY

The main objective of the study is to have in-depth knowledge of the problems women face in accessing financial assistance.

It has been observed that no comprehensive studies exist on women and business growth in Ethiopia.

Although women participation is obviously available, it is usually under reported, and the information is not disaggregated on gender basis.

Previous studies have indicated that there is limited secondary data to describe the condition of women in some regions of the country.

No evidence exists of comprehensive studies of women and men small scale and medium enterprises.

The study will examine the impact and contribution of micro finance institutions in providing micro credit to the poor in rural areas of Ethiopia, particularly in the Oromia region.

The specific objectives of the study are:

- Understand the economic and social position of poor rural women involved in micro entrepreneurship.
- To study the socio-economic conditions of households which have benefited from micro finance loans
- To examine the system and criteria used in selection and extending financial services to the poor in rural areas.
- To measure the impact of micro credit in terms of family life improvement, income generation and employment.
- Analyze the findings
- Recommend appropriate strategies for financing micro enterprises in the rural areas.

1.5 **METHOD OF DATA COLLECTION**

This study will use both primary and secondary data.

The primary data were collected through questionnaire and interviews with some focus groups. A questionnaire was designed to obtain from 20 women non clients in Debrezeit branch and 20 women non clients in Hetossa branch. At the same time information was collected from 20 women clients in Oromia Credit and Oromia Savings and Credit group.

Group discussions were held at center meetings with clients during bi-weekly/monthly meetings. Detailed discussions were held with key informants.

Secondary information will be used to provide more information and details about the plight of women in the region. This data may also provide in depth information about the problems of women

Detailed information from the two specific towns namely Debrezeit and Hetosa were selected in Oromia Region to collect data and understand the problems. These two towns were selected because they are heavily populated with people from almost all regions of the country. So that having indepth analysis of their problems would be fairly representational of most areas of the country.

Discussions with key informants and groups focused on the problems of women in accessing financial services.

Individual interviews were conducted with miss Helen Seifu, Assistant for Executive Director Women's Lawyers Association; Mrs . Taytu Ali, Deputy Manager, Cooperatives Promotion Office, Mrs.Tadelech Debele, Ethiopian Women Development fund, Resource Mobilization Officer, Mr.Ermias G/Mariam and Mrs. Emawyesh Messele, Expert Women Affairs office. Additional information and views were obtained through informal discussions with Micro finance Institutions staff.

1.6 **Limitations of the study.**

Although a lot of efforts were made to make the study very useful and successful, there were some problems which were encountered in the process. These include

- The serious gaps in the knowledge about women micro enterprises in Ethiopia.
- In Ethiopia, though savings and credit programs were operated for a number of years by non-governmental organizations, microfinance in a regulated form is a relatively new phenomenon.
- No comprehensive studies exist on businesses for women, on mode of entry, survival and growth rate.

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- Although women participation is obviously available, it is usually under reported and information is not disaggregated on gender basis
- There is no demographic profiling of women who own micro-enterprises in the rural areas.
-
- There is a problem of getting disaggregated data on Micro Finance Institution Services and macro level data which can help us to understand the full status and conditions of women in Ethiopia.
- Limited secondary data to describe the true conditions of women
- Due to time and budget, constraints, I was not able to conduct the standard survey method to get more primary information
- There is limited sharing of lessons learned and practice in improving the performance of women micro-enterprises in the rural areas.

1.7 STUDY LOCATION

i) OROMIA REGIONAL STATE

Oromia region is the largest of all national states in Ethiopia. The total area of the state of Oromia is 367,000 sq. km (which is about 30.2%) of the total area of Ethiopia. The region has twelve administrative zones and 180 local authority grouping locations, As per the Central Statistical Authority (March 2002), Oromia currently has a population of 23,704,000. Out of which 20,786,000 are living in the rural areas, while the rest 2,918,000 are living in urban areas. The total women population in the region is, 11,874 million out of which only 1,459 million live in urban areas, while the remaining majority of 10,415,000, live in the rural areas. About 51% of the population in the region is between the age of 15 and 64, or what is called active population.

Agriculture is the mainstay of the economy. It is also characterized as fragmented and subsistence farming. The region contributes significantly to the national economy by their share in the export of coffee and other agricultural products like sugar and maize. Both crop and livestock are dominated by traditional farming. The region has the largest

cultivated area of, (44,042,510ha), most of this cultivated area is used for crop production, main crops produced are coffee, sugar cane, maize, teff, wheat, sorghum barley and beans.

The study is based in THE OROMIA REGIONAL STATE for the other reason that most of the poor women have not benefited from financial services, from the existing microfinance institution which is delivering financial services to the regional state, called The Oromia Credit and Savings Share Company. The institution has not targeted many women especially the very poor. Most of these poor clients struggle to access any kind of financial help.

Description of the sample areas

Debrezeit

Debrezeit town is one of the major towns in the Oromia Regional state. It has a population of 108,632 out of which 53,648 are male and the remaining 54,984 are female.

There is one branch of the Oromia Credit and Savings Share co micro finance institution which caters for all loan clients. The micro finance institution was established in the year 2000 and currently it is serving 1,208 active loan clients, of these only 149 are female clients. The branch has been financing agricultural activities i.e. purchase of input, (fertilizer, seeds), and farm implements such as farm oxen and wagons to carry the harvest. They have also been financing other small types of animal husbandry such as chicken rearing, for both eggs and meat. They have also been funding some petty trade businesses. In areas which are in wetlands they have been financing small irrigation schemes, for small farmers.

HETOSA

Hetosa is another important town in The Oromia Regional state. It has a population of

10,750 comprising of 5,327 male, and the rest 5423 are female. The town is poorer than Debrezeit, the micro finance branch here was established with the intent of providing funds to the very poor households. The poor are expected to have land as

collateral and physical capacity which most of these poor households do not have which lenders them ineligible for funds. However the institution lacks sufficient funds to carry out its services effectively, to fulfill its objectives of helping the poor to effectively utilize the resources at their disposal. Hetosa branch of the Oromia micro finance institution was established in 1996, currently it serves 1,963 clients, out of which 304 only are women clients. The branch is also involved in funding a lot of agricultural activities just like in Debrezeit, in financing the purchase of seeds, fertilizers and other farm implements to help increase crop production, achieve food self sufficiency, and also to help raise family income. Credit intervention is expected to support clients increase their crop production which will in turn increase their family income after sales. When this happens for several seasons the increased income leads to improvements in the family welfare and status, the level of poverty decreases.

CHAPTER TWO

2. WOMEN AND DEVELOPMENT

2.1 The Role of Women in Economic and Social Development.

Ethiopia is the second most populous nation in Africa after Nigeria. Women represent 50% of the 75 million inhabitants of the country. Women play a crucial role in the agriculture sector, which is the mainstay of the economy, contributing to over 50% of the GDP accounting for 88% of the total export earnings of the country and employment for 85% of the population (World Bank 2000). The livelihood of the households depends on the use of natural resources. Sustainable use of these natural resources determine both quality of life of the people and development of agriculture and thereby the economy of the country. Due to the immense role women play in agricultural production, their role in natural resources management is considerable.

Besides the role of women in agricultural production and other economic activities as key farmers, food producers, natural resource managers, they also shoulder over 90% of household responsibilities. Such roles of women have long been recognized. For instance with regard to time spent, women contribute 60% of all their time in traditional agriculture and 75% of the rest of their time is devoted to food storage and processing in all Sub-Saharan African countries (United Nations 1975, also cited by Kabutha 1999). Besides the reproductive roles such as child bearing and fetching firewood and water, cooking, they are highly involved in crop production activities, such as land preparation, sowing, weeding, harvesting and do most of the post-harvest operations, they are also involved in livestock production, by performing tasks like feeding, watering and herding animals and cleaning barns.

With the high prevalence of HIV/AIDS in Africa the women have been burdened further. They are looking after the aids patients, and when parents have died those in the village collectively look after the orphans. This is a big challenge for the women because they live far from health services. HIV/AIDS has desolate an already over stretched health service in the Ethiopia. The World Health Organization places Ethiopia third country with the highest number of infected people with the HIV/ AIDS, only South Africa and India have higher figures.(WHO 2002). The other problem is that women in

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the rural areas have nearly twice as many children (6.4) as women in urban areas (3.3), (UNDP 2000).

However though the situation looks very bleak for women in Ethiopia, slowly light of hope is starting to shine on the vast nation. Women have started to take part in politics and some are holding a limited number of some senior positions in government such as the minister of foreign affairs is a woman, and The ambassador to South Africa is a woman just to mention a few. Some are holding key positions in non governmental organizations, like the one who holds the gender equality office chair is a woman, and various other positions in health and education.

Despite such contributions, women often face constraints that hinder attainment of their fullest potential of productivity in all aspects of their work. These constraints include, time shortage, limited or no access to control over resources and the benefits they need to receive as a result of their work. Oxfam's Research most recent results in Sudan reaffirms this fact, that women have no control over resources. The research has also revealed that men have more power in both public and private spheres of their society than women. As a result, they are compelled to perceive their role in society as a subordinate and accept that men should take the greater responsibility to control all the resources, including women's own time and labor (Peter and Peters, 1997). The Ethiopian case is not different. Women in pastoral areas of the country are responsible for nearly half of the productive activities and most of the reproductive activities of the household. This mirrors the situation of most Ethiopian rural households. (Kejela,et,al,2005).

Due to socio-cultural norms in Ethiopia in general, and in the rural areas in particular, education is often considered as irrelevant for girls and/ or ladies and at an early age they learn to accept this deprivation that education is for boys or male members of the family. As a result, most women are confined to the homestead and the area immediately surrounding it, and their contact with the world out of their family circles is limited. These conditions are crucial for rural women's involvement in market transactions, and hinder the use of their fullest potential, to generate income which could reinforce their economic independence. This phenomenon indicates that the continuous neglect of the importance of economic and social contribution of women aggravates their

exclusion from the benefits of the development of the country (Skarlatos 2004), as women have less or limited access to productive resources such as land, capital and extension services.

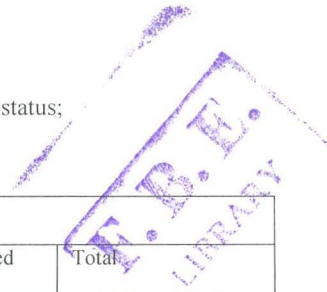
To help solve some of these problems, The Government of Ethiopia is taking a number of policy measures to improve the situation of women in areas such as education, health, and socio-economic conditions. Among these, the development and establishment of micro-finance programs and institutions is a major one. Microfinance institutions assist economic development through the delivery of financial services which enables the rural people to increase their output in agricultural productivity, because financial aid helps them to increase the use of improved farm inputs and also it helps them to participate in other income generating activities.

The women in Ethiopia have also been vulnerable to violent crimes and backward practices under the pretext of religion and preservation of culture. The majority of Ethiopian women have also been victims of current drought and famine prolonged civil war, displacement, broken families, and unemployment these harsh conditions, have inflicted unbearable misery and accelerated their level of poverty.

Rural women in the country are also disadvantaged due to lack of basic services, including lack of supply of potable water, and energy services. Consequently the majority of rural women spend a lot of their productive time in fetching water, and collecting firewood, from distant places. As a result of the social division of labor, women in rural areas work on average 13 to 17 hours a day, with no technological devices to help minimize their work load. A large number of Ethiopian women are illiterate with no marketable skills to work with. However both men and women participate in production activities because of division of labor, but women are engaged in more hard work because they are also burdened with reproductive tasks as well.

Table 1 Distribution of informal sector operators; aged ten years and over, by industry, sex, marital status;

1999/2002 urban and national statistics



Major Industrial Group and sex	Marital status											
	Never Married		Married		Divorced		widowed		Not stated		Total	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Agriculture, Hunting ,Forestry and Fishing												
Both sexes	1,652	.28	14,222	2.43	450	0.8	735	.13	105	.02	17,141	2.93
Male	1,318	.23	12,148	2.08	97	.02	19	-	105	.02	13,687	2.34
Female	307	.05	2,078	.36	353	.06	716	.12	-	-	3,454	.59
Mining and Quarrying												
Both sexes	174	.03	549	.09	139	.02	200	.03	-	-	1,062	.18
Male	93	.02	363	.06	139	.02	54	01	-	-	649	.11
Female	81	.01	186	.03	-	-	146	.02	-	-	413	.07
Manufacturing												
Both sexes	30870	5.28	134,202	22.96	55,640	9.52	55,276	9.46	287	.05	276,275	47.28
Male	13,182	2.26	43,447	7.43	1,604	.27	1,371	.23	41	.01	59,645	10.21
Female	17,688	3.03	90,755	15.53	54,036	9.25	53,905	9.22	246	.04	216,633	37.07
Construction												
Both sexes	1,218	.21	5,080	.87	182	.03	166	.03	-	-	6,646	1.14
Male	1,218	.21	5,080	.87	182	.03	166	.03	-	-	6,646	1.14
Female	-	-	-	-	-	-	-	-	-	-	-	-
Trade, Hotels & Restaurants												
Both sexes	57,922	9.91	125,961	21.55	36,879	6.31	23,533	4.03	226	.04	244,521	41.84
Male	27,998	4.79	58,477	10.01	2,564	.44	1,527	.26	128	.02	90,694	15.52
Female	29,924	5.12	67,484	11.55	34,315	5.84	22,006	3.77	98	.02	153,827	26.32
Transport												
Both male & female	16,909	2.75	12,866	2.20	2,489	.43	3,364	.58	16	-	34,825	5.96
Male	14,950	2.56	10,0c79	1.72	818	.14	78	.01	16	-	25,941	4.44
Community and Personal Service												
Both male & female	16,090	2.75	12,866	2.20	2,489	.43	3,364	.58	16	-	34,825	5.96
Male	14,950	2.56	10,079	1.72	818	.14	78	.01	16	-	25,941	4.44
Female	1,140	.20	2,787	.48	1,671	.29	3,286	.56	-	-	8,884	1.52
Total												
Both male & female	109,494	18.71	294,929	50.47	95,931	16.42	83,393	14.27	634	.11	584,381	100.00
Male	60,288	10.32	131,631	22.52	5,556	.95	3,330	.57	290	.05	201,095	34.41
Female	49,206	8.42	163,298	27.94	90,375	15.47	80,063	13.70	344	.06	383,286	65.59

Source: Adopted from zenebework and Eshetu (2001), Assessment of progress and Constraints of Women Focused Micro- enterprise In Ethiopia , a Study Commissioned By The Ethiopian Women Lawyers Association , Addis Ababa Ethiopia

Distribution pattern in informal sector; Analysis

Table1.

Table one shows that a majority of women are engaged in enterprises with few entry barriers such as(making some food items, local drinks ,petty trade ,small hotels and restaurants) and 37.7 percents of women are engaged in manufacturing sector where as 10.21 percent are men. The other type of activities consist of 26.32 percent are engaged in petty trade, hotels and restaurants of these 15.52% are male counterparts.

In Ethiopia where low socio-economic situation prevails, the formal sector can not accommodate more job seekers as needed because there aren't enough jobs being created. Therefore it is important that the informal sector is made more vibrant to take in more job seekers because it is an important area, which can provide more meaningful employment to many school leavers both at college, secondary school, and primary school leaver's levels, as needed by the country. Women have a bigger role to play in the informal sector because they are involved in most of the informal industrial productions. The survey conducted by CSA on cottage/ handicrafts industries in both urban and rural centers of the country, indicated that out of the 1,311,745 people engaged in the informal sector,(micro and small enterprises)57.78% were located in rural areas, out of which 64.50% were female operators(National Report on the implementation of the Beijing platform for Action 2000). The main types of activities in which women operators are involved include: manufacturing of food items and beverage (local drinks), petty trade like hawkers', textiles as well as non metallic mineral products such as pottery. Most activities of the women are carried out without fixed location or in places such as small kiosks small shop outlets or home based activities. One of the major problems for participating women in the informal sector is that the type of business they are engaged in does require money to be managed profitably, though in some instances the work can also be done simultaneously with their other household activities. Therefore the main constraint of these women is lack of access to capital. Thus, the informal sector has to be organized in such a way that participating women can have meaningful gains form their activities.

Since most women are not educated, to help reduce their level of poverty they resort to self employment, they start to participate in areas of income generating activities in which they do not know very well how to manage or have little market information. In many instances micro-enterprises are started as a means of poverty alleviation, which usually are initiated by women who see that there are no barriers for entry into the activities of their choice.

2.2 LEVEL OF POVERTY AND WOMEN

Poverty amongst women in Ethiopia is manifested in various forms, like, lack of shelter, and lack of food, and clothing, but it is very severe. It is compounded by Government policy on land holdings, environmental degradation, backward farming practices, lack of agricultural inputs in rural areas and high unemployment rate in urban centers. The high population growth rate exerts more pressure on the limited resources, and the high HIV/AIDS epidemic erodes and diminishes further the effectiveness of the health services. The non existence of basic services in some areas and lack of adequate essential services in some areas, such as educational opportunities, health care delivery, water supply and sanitation, poor road infrastructure for ease of delivery of produce to the market place, all these deepen the level of poverty and misery in the rural population.

Women are prime victims of poverty because of no access to or control over production resources. It has been repeatedly ascertained that poverty is a rural phenomenon and the prevalence is high among female headed households, particularly those widowed, separated, or single. In addition to this, most of the development programs in Ethiopia are not gender sensitive. Women do not have equal access to any kind of resources as men.

Table 2 Comparison of poverty between 1995/96 and 1999/00 by gender and residence

European years	residence	Sex of head	national		rural		urban	
			index	se	index	se	index	se
	Poverty index							
		male	0.461	0.012	0.477	0.013	0.329	0.026
		female	0.425	0.016	0.460	0.019	0.337	0.030
1995/96	P1	male	0.131	0.005	0.135	0.005	0.096	0.009
		female	0.123	0.006	0.129	0.007	0.106	0.013
	P2	male	0.051	0.002	0.053	0.003	0.039	0.004
		female	0.049	0.003	0.051	0.004	0.046	0.008
1999/2000	po	male	0.444	0.013	0.455	0.014	0.339	0.020
		female	0.434	0.015	0.447	0.019	0.492	0.014
	P1	male	0.120	0.005	0.123	0.005	0.086	0.006
		female	0.115	0.006	0.118	0.007	0.134	0.006
	P2	male	0.045	0.002	0.046	0.003	0.030	0.003
		female	0.043	0.003	0.044	0.004	0.051	0.003

Source; Tassew Woldehanna and Teki Alemu(2000) Poverty Profile in Ethiopia A Report submitted to Welfare Monitoring Unit, Ministry of finance and economic development, Addis Ababa .

PO= proportion of people in absolute poverty (unable to meet their basic needs)

P1= Poverty depth (the depth of poverty among the poor)

P2= Severe poverty. (poorest)

Table 2: presents the comparison of poverty between 1995/96 and 1999/00 by gender and by residence. The results indicate that in urban areas the poverty head count index is higher for female headed households than for male headed households, and the difference is significant, but in rural areas the difference between male and female headed households is there, but is not that remarkable. It is expected that female headed households are more marginalized and endowed with less physical and human capital. The table also shows that in urban areas though poverty indicators are there for both

males and females, females are more affected with poverty incidences because of the extra load they carry in looking after extended families.

The depth of poverty severity, has decreased in males than in females because, males it appears have found something to do which has improved their situation while the situation has worsened for women.

The result as a whole indicates that poverty changes between 1995/96 and 1999/00 were in favour of males, particularly in rural areas where there is improvement in male indicators. In urban areas the depth and severity of poverty for females deteriorated. (Tassew and Tekie, 2002)

Women and Education Level

According to the Household and Income Expenditure Survey and Welfare Monitoring Unit (2002), in urban centers 30% of the households are headed by females. It was noted that in rural areas, one out of five households are female headed, while in urban centers every third household is female headed. The study also indicated that most of these female headed households in urban centers are of immigrants from the rural areas, in search for better life. However because they lack the necessary skills to find meaningful employment and that they are unable to find required financial support to help minimize their poverty, the situation is bad.

According to (Tassew and Tekie 2002), the situation is that bad for women because of the women's limited access to education. The overall literacy rate in the country is 40 percent for men, and much lower for women, of the literate female only 11 percent of this category are able to write a letter or a simple statement.

Table 3; Literacy rate in Ethiopia (1995-2000)-Statistics List

gender	1995-96			1997			1998			1999/00		
	urban	rural	all	urban	rural	all	urban	rural	all	urban	rural	all
male	82.3	29.2	36.5	8.10	25.1	33.4	8.10	28.8	36.3	82.1	33.0	40.0
female	60.4	9.2	18.1	60.8	7.3	16.5	59.0	8.8	17.1	61.2	11.0	19.5
total	70.0	19.4	27.3	70.0	16.2	24.8	69.0	18.8	16.6	70.4	21.8	29.4

Source; WMS 1997, 1998 and 1999/2000,

Table 3: Indicate that boys are predominantly enrolled in schools than girls, or that more of the male population has access to education than the female population. This shows that the males are benefiting from education than the females. This is because of the cultural norms prevailing in almost all regions of the country which put women at a disadvantage.

The other major factor which contributes to poverty, particularly for women is access to health services. Un employment, education, social and physical environment, child development, and food security are all important determinants of health status in a country.

Table 4; **Health Care Conditional on reported illness**

	Ethiopian	Male Urban	Urban female	all urban	Male Rural	Female Rural	All Rural
Ill but not treated	61.65	29.29	37.83	33.27	59.85	66.81	61.74
Treated in public facility	19.38	38.49	33.7	34.23	19.6	15.82	17.05
Treated in private facility	13.38	23.71	20.52	21.19	13.38	11.63	12.13
Traditional healer	6.59	8.5	7.96	7.98	7.17	5.74	6.014

Source; Tassew woldehanna and Tekie Alemu (2002), poverty profile of Ethiopia a report submitted to welfare monitoring unit of ministry of Finance and Economic Development Addis Ababa

Table 4 : Indicates that more than 60% of the population were ill but did not receive any form of medical treatment. However, in urban areas, about 37 percent of female were ill and did not receive any treatment. Where as in rural areas 62 percent female were ill and hardly received any treatment. In terms of gender desegregation males are relatively better in both urban and rural areas than females. In urban areas about 29% of the male population were ill and did not obtain treatment while female population in urban is about 33% were ill and treated at a public health facility, but in rural areas less than 16% of the population received treatment.

2.3 PUBLIC POLICIES FOR WOMEN

The Federal Democratic Republic of Ethiopia has adopted a new constitution under proclamation 1/1995. The main objective of this constitution is to establish standard guidance that the country should adhere to in terms of human rights, respect of the individual and people's fundamental freedoms and rights to live together on the basis of equality without sexual, religious or cultural and ethnic discrimination. In addition to this the constitution has acknowledged that the importance of living as one people leads to sustainable and mutually supportive conditions in the sense of ensuring respect for each others' rights and freedom.

Women have been challenged to be active in the communities where they live, to take up active roles in issues which affect their lives such as in the local social welfare programs, education, public health and other basic social services, their full participation will enable them derive full benefits from the activities. It is also envisaged that this will be a step in the right direction for women to be able to obtain technical and credit services, as well as exchange views and experience with other women in their local settings which will enrich and enlighten their lives.

Moreover the constitution has given due attention to the rights of women under article 35 which describes that women have equal rights with men in marriage and clarify that the state shall enforce the right of women to eliminate the influences of harmful practices, laws, customs and practices that cause bodily or mental harm to women.

In Ethiopia, the government has been displaying commitment to improve the status of Ethiopia women in many aspects. In 1991 the Women's Affairs Office was established under the Prime Minister's Office, and eventually issued National policy on Ethiopian Women (NPEW) in September 1993. The office is headed by women and has the responsibility of coordinating, facilitating and monitoring all Government programs related to women.

The main objectives of the NPEW include;

- Facilitating conditions conducive to enact gender equality and related laws, so that women can participate in social and political issues without fear of men.
- To ensure that the law for women to own property, such as a house is being followed, also that the human rights of women are not violated, and that women have a right to employment, performing public functions and that they can also be decision makers.
- Facilitating the necessary conditions whereby rural women can access basic social services, such as health and education.
- Facilitating the conditions whereby women can form groups to engage in meaningful activities.

Besides these, the Government of Ethiopia has prepared A Poverty Reduction Strategy Paper (PRSP). The interim paper was prepared based on various sector programs such as Agricultural Development led Industrialization (ADLI), judiciary and civil service reform, decentralization/empowerment and capacity building in both public and private sectors. The main components of the PRSP include indicators on how to deal with poverty , inequality, food security, access to health services, education, potable water supply and communication. Apart from this, the paper also focuses on addressing the gender dimension emphasizing to address the inequalities between men and women which deter long lasting change and equitable development. The paper also stipulates mechanisms of empowering rural women to increase their participation in political matters and how to improve their image in society.

CHAPTER THREE

The need for microfinance services to women

3.1 review of women focused Microfinance in the world

Until recently, microfinance institutions were considered as tools for reducing poverty all over the world. Now there is need for expanding the objectives for the delivery of microfinance services to poor men and women. One of these objectives could be to help the poor improve productivity and also for the improvement of their lifestyle. Among the dispiriting news, excitement is building in the other corners of the world, because of the coming into existence of a set of unusual financial institutions which are providing prosperity amongst the poorest of the poor, in places like Bolivia, Bangladesh, and Indonesia

(Jonathan Morduch, 1992). The hope is that much poverty can be alleviated and that economic and social structures can be transformed fundamentally by providing financial services to low income households. Almost all of the borrowers do so to finance self employment activities, and most start by taking small loan amounts (Jonathan Morduch, the microfinance promise). Some of the microfinance institution programs serve just a handful of borrowers, while others target and serve a large number of clients. In the past two decades, a diverse assortment of new programs have been set up in Africa, Asia and Latin America, Canada and roughly in about 300 cities from New York to San Diego California (the economist 1997).

Accordingly micro-credit programs for the poor have come to occupy central place in poverty oriented strategies in Bangladesh. Such programs have a number of features in common. They are largely targeted to women, because like other parts of the world poverty strikes women most at the core of their being, because of the enormous responsibilities which they shoulder as mothers to their own children and to those of the extended family. Now with the high prevalence of HIV/AIDS they have to find sufficient food and of the right nutritional content to feed the patients under their care. Women clients are largely targeted because of the way they are trusted with the repayment of the borrowed funds. Women repayment rates are excellent all over the world in which ever program they are involved as borrowers of funds, this renders them good for economic efficiency. Many programs with high female participation rates such as PRODEM in

Bolivia, GRAMEEN BANK, in Bangladesh, Women World Banking in United States of America, Self Employed Women's Association (SEWA) of India, all have successful repayment records and are relatively very successful.(C.J. Weidemann 1992).

Self Employed Women's Association is a trade union for illiterate women in Headband India, it was established in 1972, to enable uneducated women to access credit for the development of their small enterprises. More than 40,000 women have benefited from SEWA since its establishment. The program has proved very successful in providing training in business management, banking skills, and other social security schemes. It has also been largely credited with the creation of marketing cooperatives. The governing board of SEWA is composed of illiterate and literate women, some with technical knowledge and others are self employed workers with little if any technical knowledge at all. SEWA Bank tries to adopt traditional banking practices to meet the needs of its self employed members. When extending loan amounts to its clients the bank takes into account the character and socio economic background of the applicants, their capability to repay the loan amount, they also take as collateral non traditional items such as jewelry. In most cases Microfinance institutions do not require collateral for the borrowed funds, from the very poor clients, however that SEWA requests collateral from its client means that it is using a different methodology of lending form other institutions.

In Bangladesh, microfinance has mobilized about nine million poor people of which seven million are outstanding borrowers, who are engaged in economic activities. The Grameen Bank, has made commendable achievement in poverty alleviation through the creation of income generating opportunities, for the rural poor, by providing them with adequate financial services, with a special focus on women clients. The performances of the bank in creating employment opportunities for the rural poor and their aid in alleviating poverty amongst the poorest of the poor are considered the best or far better than other banks which offer similar services to poor people(Mosharraf Hossain Khan, Women in microfinance, empowerment or Enchantment 2000).

The characteristics of Grameen Bank are that they do not demand collateral from their clients, the applicants for the loans, theirs is credit provided to customers after filling

simplified documentation, with flexible terms and conditions for the loans. This creates trust which has led to high recovery rates of the credit extended to these poor people, however these loans are extended strictly as a group exercise. The bank demands that clients hold weekly meetings at which savings mobilisation, repayment installments are discussed or made. At these meetings the bank also, creates awareness on the various aspects and dangers of social discrimination. The Bank also tackles the issue of human development, and sometimes helps with functional literacy proceeding, and following credit. In Grameen Bank one of the most important and almost universal characteristics of microfinance has been that 90% of the borrowers are women. In Grameen Bank priority is given to women groups as opposed to male groups, for the reasons that women are more disciplined borrowers, they are easily accessible, they listen and are responsive to instructions they are always available for weekly meetings and they meet their repayment targets on time. The other success story of Grameen Bank microfinance program has been that it has empowered its women clients, and it has helped raise their social and political consciousness, which is reflected in their lives among other benefits.

Dr.M.A. Hakim (2000), states that the impact of microfinance program will also depend on the overall growth and development of the economy as a result of the active involvement of the poor women and men in micro enterprises, both involving agriculture and other forms of micro enterprise, like weaving, arts and crafts, and petty trade. The studies show that microfinance programs have benefited the poor in more than one way, access to microfinance has improved the living standard of the poor people, through diversification and strengthening of their survival strategies, which have enhanced their security. Moreover the access to microfinance services has enabled the poor to undertake diversified economic activities, which generate a steady flow of income. With the existence of microfinance, and the possibility of poor households having access to funding for their entrepreneurial activities, now they are able to own assets, like cattle, oxen for farming and other house hold items like furniture, and other utensils, they are able to make savings, which they can cash later, or use to meet their other needs.

A study by Mustafa et. al. (1995) on the impact of BRAC microfinance program, In Brazil, describes the impact and gradual changes that have taken place in the lives of the

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women. It is said that members involved in the program have gained greater control over their incomes and have been able to gain control on expenditures.

Where as in Africa, The Uganda Women's Finance Trust Limited (UWFT) has been providing a consolidated package of products and services that include savings and credit. The program has targeted to women who are living below the poverty line of less than one US\$ per day. The organization has also introduced a formal training in business management skills and formal education for the clients. In the year ending June 2001, the organization had reached 31,656 borrowers and 43,594 savers. UWFT was among the first WWB affiliates to mobilize savings from low income women in rural and urban areas. (Uganda Women's Finance Trust Limited) has an internet web page, UWFT, internet.

In line with the thought stated above about owning internet services, establishing a specialized Women Microfinance Institution in Oromia region is crucial to providing such

services to the women of the region. It is noted, that there is no women focused microfinance institution in Ethiopia. In order to fill the gap, improve women's life and to empower women, the institution can play a major role. Thus to achieve the structured goal and success the proposed MFI can adopt the above mentioned experiences and success of women focused microfinance institutions, in different countries.

3-2 Constraints of Women in Oromia Region.

Oromia is the largest of all the National States of Ethiopia. The total area of the region is 367,000. sq.km (which is about 30.2%),of the total area of Ethiopia. As per the Central Statistical Authority (2002), Oromia currently has a population of about thirty million people, of which twenty five million are living in rural areas and the rest are living in urban areas. The total women population in urban areas is 1,459,000 while the remaining 10,415,000 are living in rural areas. About 48% percent of the population of Oromia

Region live below the absolute poverty level. The level of poverty for women is expected to be deeper than for men.

The constraints of women in Oromia Region are;

Lack of access to basic education; Education is one of the most important aspects in terms of economic growth of the country and improvement of livelihood at individual level. The region suffers from low literacy rate of women compared to men. Women did not get a chance to attend school due to prohibitive traditional cultural problems, they could not be allowed to attend school just like their male counterparts. Illiteracy is more pronounced among women compared to men.

Lack of basic health services; The health oriented problems of women in Oromia Region have to be seen in terms of the overall definition of health, inter sector relations or interdependence of health matters with relevant social and economic factors which affect the well being of an individual. Women in the Oromia region, in the rural areas in particular are not having adequate access to family planning methods, to offer them informed choices about when to have the children they would like to have, spacing of children. The women also have poor access to medical treatment in fact they are not obtaining proper medical treatment, for many of the ailments that they suffer. Conversely, the production and provision of the basic resources is also dependent on the existence of healthy labor capacity of productivity. Hence the issue is both a means and an end in the socio-economic development process. Low or lack of health services, lack of professional health providers and lack of medicines, and medical equipment, worsens an already bleak condition for the region, especially in the rural areas.

Lack of clear property right for women (land ownership); In Oromia Region the majority of the people depend on agriculture for a living. Since agriculture is the mainstay of income generating activities, women in the region have no or less right to ownership of land, due to cultural and traditional factors where men are the dominant force in terms of allocation of resources than females. Although, in Sub article 7 of Article 35 of The Constitution of Ethiopia it is stated that; “women have the right to acquire, administer,

control, transfer and benefit from property". In fact from the statement, women have equal rights with men with respect to access, use and administration of land, to inheritance of property (The Constitution of The Federal Democratic Republic of Ethiopia, 1977). Though in practice, the right for women to ownership of land and control over the resources is not incompatible.

Lack of marketing Infrastructure; This is another major problem, for all the people not just the women. Those who are engaged in agriculture as well as those who are involved in small scale income generating activities do not have ready market for their produce, this is particularly more difficult for those living in the rural areas. Transport is another constraint, which inhibits the integration between big urban consumer markets and the rural producers markets. Many women are engaged in income generating activities, but they lack adequate market information. In general women lack appropriate marketing strategy and creativity due to their low level of education and understanding of issues relating to business enterprise and management.

Lack of Finance; Finance is a big impediment when it comes to micro and small business enterprises by women, if both rural and urban poor women have to have alternative income generating activities, other than the ones they are currently engaged in which do not lift them out of absolute poverty. However, in The Oromia Region women lack access to financial services in order to generate their income and improve their livelihood. Special effort need to be made to enable women access to credit services, which will help them engage in meaningful income generating activities, to earn them a living and/ or supplement family income. They also need access to better tailored microfinance services that also meet their socio-economic constraints.

Lack of Training; In general women in the region lack basic education and training in business development and marketing strategies. Since most of the women are engaged in, traditional weaving, petty trade, pottery, and agriculture activities, they need to be provided with technical skill training, in micro enterprise development and improved agribusiness skills, so that they can earn more from their enterprises. Microfinance institutions provide training to their clients, but most of these women in the region have

no access to microfinance credit, therefore they can not access training needed to help them improve their understanding of the micro business that they are engaged in, and what they are supposed to do to help them earn above average returns from their enterprises.

Lack of Information; Women are marginalized groups in society, and those of the Oromia Region suffer the same fate like their counterparts in other parts of the world. Access to information and information technology is very crucial to market access for the products and services which the women have to offer to society, Although in Oromia Region women do not get access to necessary information due lack of information services, because of the geographical location of the region, also because these poor women can not afford the connection to any information technology.

Generally the main challenges for women, particularly in Oromia rural areas, is early marriage, teenage pregnancies, prohibitive cultures and lack of information facility and service providers, contributes considerably to barriers to the empowerment of women. The unhealthy and loose family relations, and the dominant role of men characterize the other intra-household relations that are also distinct from the rest. The deep-rooted cultural beliefs and traditional practices of the society is one of the most impending challenges for the women of the region.

3.3 The need for credit to women; supply and unmet demand

In Ethiopia lack of finance is one of the bottleneck impeding factors to production of services and for income generating activities in the rural and urban households. The majority of the rural/urban poor need access to financial services through the delivery of microfinance with attainable lending conditions. Although Non government organizations, Cooperatives, and some microfinance institutions have been delivering some financial services to the poor, the gap for unmet demand is very wide (Chao Beroff.et.al 2000). This is because many of the active poor women are not benefiting from microfinance institutions or formal bank lending services, the demand for financial services is much higher among women than the demand among men. This is because in many instances men can have access to micro credit from some microfinance institutions and not women. The demand of women for financial services in Ethiopia is much higher

compared to the capacity of the microfinance institutions currently delivering financial services to the poor.

Potential Demand for finance by women in Ethiopia

Regions	Total Population (000)	Women	Average H.H size	households (000)*	Active households(76.4%) (000)**	Poor outreach (80% of active poor)
Tigray	1,981		4.5	440	336	269
Amhara	8,599		4.5	1,910	1,459	1,167
Oromia	11,874		5.0	2,375	1,815	1,452
Southern region	6,687		5.0	1,337	1,021	817
Afar	1,272		6.0	212	162	130
Harari	85		4.5	19	15	12
Dire Dawa	170		5.5	31	24	19
Somali region	1,794		7.0	256	196	156
Gambella	109		4.5	24	18	15
Benshangul	280		4.5	62	47	38
Total	32,851		51	6,666	5,093	4,074

*This assumes that 50% of the poor households are poor

** Assumes that 80% of the poor households have atleast one person who is economically active

The majority of rural/urban women in Ethiopia particularly the heads of the households depend on micro or small scale activity or petty trade, such as selling tell, areke, fuel wood, or vegetables, for a living. Such enterprises are very important activities to poor and low income families, due to their limited access to financial working capital. Women are not able to get loans from government and private banks. Special effort need to be made to improve women's access to financial services to enable them engage in meaningful income generating activities to earn them a living and to supplement family income.

The uncovered potential clients for finance services to the poor women in Ethiopia

Region	Total no of Women	Potential Outreach Population	Actual Supply by MFIs	Coverage by MFIs in %	Gap between Potential Supply in %
Tigray	1,981	269,000	61,423	0.23	99.77
Amhara	8,599	1,167,000	58,536	0.05	99.95
Oromia	11,874	1,452,000	4,945	0.003	100
Southern region	6,687	817,000	25,098	0.03	99.97
Afar	1,272	130,000	-	-	100
Harari	85	120,000	-	-	100
Dire Dawa	170	19,000	-	-	100
Somali region	1,794	156,000	-	-	100
Gambella	109	15,000	-	-	100
Benshangul	280	38,000	535	0.01	99.99

The table reveals both the potential clients and gap between potential outreach and supply for credit are estimated based on the total women population of the country. Accordingly, in Tigray out of the total women population of 1,981,000, about 61423 women are MFIs clients. The coverage of women clients by MFIs is only 0.23%. Hence the gap between potential outreach and supply in Tigray Region is 99.77%. Consequently in Oromia Region the total women population is 11,874,000 out of which only 4,945 are women clients of microfinance the coverage of women clients by MFIs is only 0.003%. The gap between potential outreach and supply for Oromia Region is almost 100%. This justifies that the potential coverage by MFIs is very small compared to total number of the women population. Therefore in terms of the demand by number of population, MFIs in Ethiopia only cover about nine percent (Choa, Berof, et.al 1999). Therefore the establishment of specialized financial women microfinance institutions is highly needed in order to benefit women and increase the outreach in Ethiopia.

3.4 THE SERVICES PROVIDED BY MICROFINANCE INSTITUTIONS FOR WOMEN

Women in Ethiopia are actively involved in many aspects of the activities of the society.

They are subsistence producers and consumers of many of the food crops, they are also very active participants in the social, political, and cultural development of the communities where they live. In Africa, for example women produce 80% of the food, in Asia 60% and in Latin America 40% they also sell some of their produce to give them an income, because they are involved in looking for local markets and customers, it helps them to have good knowledge about their local customers. (Veronica Gonzalez Aguilar Women's participation in Microfinance). The informal sector is highly dominated by women micro entrepreneurs, which shows that the women involvement in transactions is very high, and support through the delivery of appropriate and adequate financial services can bring about much improvement to their lives.

The formal financial sector in Ethiopia does not provide financial services to the poor households due to lack of collateral and lack of accurate information about the sector. Consequently the poor people are forced to use informal sources of finance, such as ikkub, moneylenders and friends which charge very high interest rates on the borrowed funds. Since the mid- 1980s many non-governmental organizations have started the provision of micro-credit to poor households for income generating activities. This has lessened the burden of poverty on some households but not on all, because of lack of information to all those who need such help. The provision and delivery of financial services through microfinance institutions could increase income and acquisition of assets to the poor. The provision of microfinance services has been recognized as a tool for reducing poverty in many developing countries, including Ethiopia. In Ethiopia, microfinance services have historically been supported through a number of channels such as government, multi- lateral and bi-lateral institutions, non governmental organizations such as GTZ and Irish Aid, and community based organizations. Microfinance programs have contributed to increased incomes women empowerment, improved nutrition for families and children, lower fertility for women higher educational attainment for children in those families that have benefited from participating in microfinance activities and has reduced consumption vulnerability.

Table on ; Outreach indicators of Microfinance Institutions as of December, 2001

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	Regular Loans Disbursed During	Regular year end Loan Portfolio	Regular year end Active clients	No.of Women Loan clients at Year-end	percentage of Women Clients	No.of Rural Clients at Year-end	No.of Urban Clients at Year-end	Loans collected During the year	Total Savings at Year end (All Savings)
Addis City	N/av	7,774,861	6,906	5724	83	0	6906	3,790,893	994,620
Africa Village	1,354,076	654,304	606	353	58	0	353	1,104,927	194,104
ACSI	116,167,397	93,159,799	152,601	58,536	38	152,601	0	92,371,431	84,874,800
Asser MFI	342,300	754,484	311	285	92	54	257	N/Av	90,070
Benshangul	780,758	441,743	1,319	535	40	535	0	340,015	162,163
Bussaa	2,803,150	908,912	3,030	2,463	81	1,448	1,582	2,553,315	82,986
DECSI	95,725,229	111,169,239	158,689	61,423	38	158,689	0	104,719,500	121,997,984
Eshet mfi	1,682,018	748,473	2,337	949	40	1,102	1,235	983,837	100,794
Gasha mfi	3,234,490	2,446,939	4,381	3,286	75	58	4,323	2,431,759	1,187,993
Meke mfi	261,635	2,224,525	2,485	1,061	42	2,485	0	N/av	116,273
Meklit mfi	1,371,062	899,530	1,982	1,366	70	586	1,366	471,532	293,357
Metemamen	115,800	78,563	385	307	79	336	49	37,238	29,060
Omo mfi	N/av	28,222,379	N/av	20,473	35	51,672	6,386	232,169,877	15,539,030
OCSSCO	36,941,972	388,671,688	38,186	4,945	12	N/av	N/av	25,282,441	10,287,455
Peace mfi	3,785,708	2,114,868	3,367	1,993	59	3,209	158	1,670,840	436,416
Shashmene mfi	1,278,000	823,341	N/av	N/av	35	N/av	N/av	380,918	155,155
Sidama mfi	578,980	5,748,224	7,891	4,340	54	N/av	N/av	4,609,975	1,407,828
SFPI	682,589	3,925,422	6,526	4,747	72	180	6,346	3,848,878	1,824,221
Wasasa mfi	154,980	731,514	1,457	958	65	1,071	386	995,833	189,195
Wisdom mfi	13,114,800	8,890,302	9,759	3,025	30	2,799	226	10,676,667	3,356,387
Total	293,123,894	308,587,589	402,188	156,296	1068	325,153	23,187	256,308,181	248,680,029

Source; Association of Ethiopian Microfinance Institutions (AEMFI), 2001 Addis Ababa, Planning and Performance Monitoring Unit

The table above shows that Microfinance Institutions in Ethiopia had reached about 461,327 clients and had delivered loans amounting to Birr 308,587,589 by the end of 2001. The industry has shown remarkable growth in terms of outreach among poor rural/urban households. DECSI in Tigray is one of the largest microfinance institution in

Ethiopia, in terms of the outreach it has managed and the number of active participants it has attracted to the institution. The microfinance institution has 158,689 active clients, out of these, 61,423 are women clients, Oromia Credit Savings and Share Company, (OCSSO), has 38,186 active clients of which 4,945 are women clients. Oromia Region is the largest regional state in the country, and that the microfinance services are still at such a low ebb it shows that microfinance activities are not well developed in the region. Something has to be done if this vast state of over thirty five million people out of which, 80%, are living in the rural areas of the region. Something must be done if the rural poor of this vast region have to benefit from microfinance services which are available country wide. Why does the region have a low outreach? Is it because of the geographical terrain which makes it difficult for finance providers to reach some of the poorest people of the region? Whatever the reason, it is important that extensive outreach must be carried out in order to reach some of the worst poverty stricken people of the country. The clients which dominate microfinance services and are largest beneficiaries of funding from these financial institutions in the country are men. In the Oromia Region for example, though the outreach is low, out of the active clients, 88% of these active clients are men. In other countries of the world where microfinance services are provided to improve and increase productivity of poor households, such as Bangladesh 90% of clients and recipients of microfinance funding are women. Women have proved that they are credit worthy in many countries compared to men. Therefore with this fact in mind it would be imperative that the women of the Oromia region be given a chance to benefit from microfinance service providers in the region or that some institution establish microfinance services that can reach and benefit these marginalized poor women.

The financial products of the microfinance institutions in Ethiopia do not fit or match the demand of women, particularly those of the Oromia Credit Savings and Share microfinance institution. The collateral or contribution one has to have, before she can access credit proves to be a hurdle for most of these poor women. So far, it appears that the microfinance institution has conditions which are not flexible enough to accommodate the needs and demands of the poor women of the region. That is why in 2001 out of a total outreach of 38,186 active participants only 4,945 which represent only 12% of the active clients are women clients. Although the practitioners indicate that they

do not discriminate between men and women in the way they provide funding, in actual fact results on the ground show a different picture. The conditions of the institution seem to favour men more than women, because the figures seem to reflect that the needs of men are met most of the time. It appears that OCSSCO programs are not gender sensitive, in that they seem not to have a deliberate policy included in their conditions to target the needs and demands of women. In Oromia Region most households are dominated by male counterparts rather than female, then it appears the institution seems to promote its services through male peasant organizations than female groups or associations.

Consequently, the development of Microfinance institution was initiated to help reduce or alleviate poverty amongst poor rural/urban households. If this development has to have a positive impact women should be made to play a major role the services provided by these microfinance institutions, because they are the ones who are badly affected by poverty because of the multi-facet roles that they play in the home. Even if microfinance institutions understand that women are more reliable clients than men, but because of cultural barriers they seem to put a blind eye to the aspirations of women, that is why their participation in microfinance services figures are much lower than men.

4.1 CHANGES IN THE ENTERPRISE

Change in the enterprise is one of the variables used to measure impact and improvements at the enterprise level. This includes changes in the enterprise's business management, net worth, fund availability and estimation capacity of clients. The last two are important because fund is one of the basic factors required for bringing changes in an enterprise and the level of estimation capacity of borrowers that measures their level of basic skills at rudimentary level.

description	Urban clients		Rural clients		All clients	
	New borrowers	Frequent borrowers	New borrowers	Frequent borrowers	New borrowers	Frequent borrowers
Percent having no difficulty giving estimates of recent costs, revenue and profit,	valid n=56 63.6	Valid n=70 48.4	Valid n=59 8	Valid n=63 5	Valid n=115 37.1	Valid n=133 27.8
Percent who were unable to conduct business in the last 12 months due to lack of money	49.1	42.9	1.7	9.7*	24.3	26.4
Average number of months unable to conduct business due to lack of money	5.8*	4.1	1	2	5.7*	3.9

Tsehay Tsegaye & M. Bediye 2002

*statistically significant difference between new and frequent borrowers (p-value<0.05)
number of clients studied 250

The table also shows that urban clients have more capacity to provide estimates of recent costs, revenues, and profits, as compared to rural clients. More than 48% of urban clients have the capacity where as only less than 8% of rural clients can do the estimates with no difficulty. Comparing the two sample groups (new and frequent borrowers) in each location, we find no statistical difference in their responses, thus showing that the two groups are similar in status. In other words, participating in microfinance brought no

significant difference in this respect. This is mainly because the MFIs are minimalist in that they do not provide any training and their field staff are not equipped with the necessary skills to give technical or managerial advice at grass-root level.

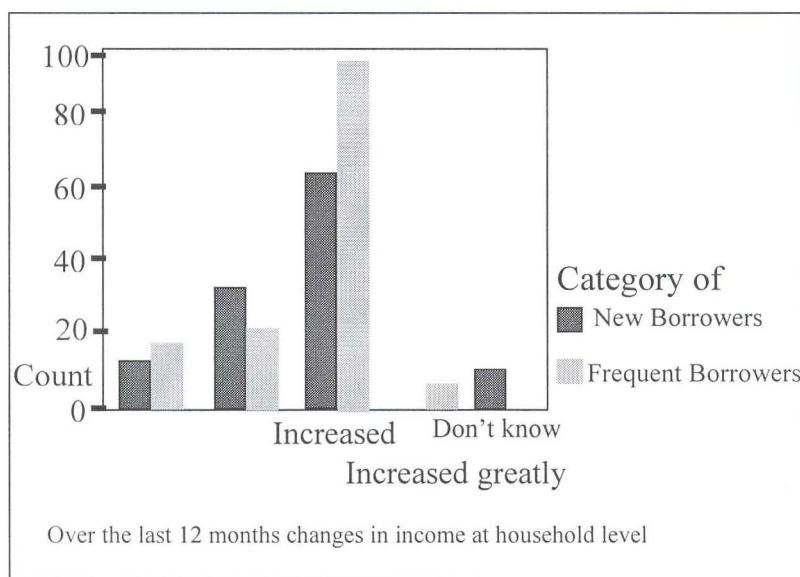
In terms of fund availability many urban clients reported that they faced shortage of money to conduct their business in the last twelve months. Over 42% reported the problem. New borrowers are the ones that faced more problems as compared to their frequent-borrower counterparts. However there is no statistical difference between the responses of the two groups.

This could imply that the amounts of initial loans provided to new borrowers are very small and frequent loans do not grow proportionally with clients' needs. On the other hand this may also indicate or confirm that some clients do not utilize the money for productive activities. This, in turn, could also confirm that the follow-up practice of loan utilization is not strict in MFIs. In view of the review of the average length of the period during which clients experienced fund shortage, new urban borrowers are statistically more likely to be in the problem for longer time in comparison to the frequent urban borrowers because frequent borrowers already have initial capital with which to work with. Both groups of rural clients remained with the problem for similar period of time. New borrowers, both urban and rural clients put together, suffered from shortage of funds for a statistically significant period of time. The difference between the new and frequent borrowers may be linked to the increase of income and voluntary savings of frequent borrowers and its use as cushion in time of need for working capital.

In most cases micro enterprises that are located in towns report that after a significant short period of time they expanded their businesses, through the loans that they had taken. However the credit in rural areas seems to have stronger impact. Frequent borrowers in the rural areas could benefit from microfinance by improving the quality of their products as compared to their new rural counterparts because of the sizes of the

loans. New borrowers have little financial capital and no cushion, but as one continues to borrow the size of the loans increase, this is what improves performance of the micro-Enterprise

* Statistically significant difference between new and frequent borrowers ($p < 0.05$).



DESCRIPTION	URBAN CLIENTS		RURAL CLIENTS		ALL CLIENTS	
	New Borrowers	Frequent Borrowers	New Borrowers	Frequent Borrowers	New Borrowers	Frequent Borrowers
	Valid n= 56	Valid n= 70	Valid n= 59	Valid n= 63	Valid n= 115	Valid n=133
Percent whose overall household income has increased over the last twelve months.	48.1	62.9	67.8	84.1*	58.4	73*

Source: Tsehay Tsegaye & Mengistu Bediye 2002

4.2 IMPACT AT THE HOUSEHOLD LEVEL.

At the household level the impact of micro-finance intervention on micro-enterprise may be observed in association mainly with increase in family income, improvement in family welfare, acquisition of assets and social empowerment. The household is usually expected to benefit from the credit in terms of among other things the improvement in income which enables families purchase required family assets and other necessities.

The group that was studied, both in urban and rural areas indicated that they had enjoyed improvement in household income after access to micro-credit. The improvement was more pronounced in the rural areas where 84.1% of frequent borrowers and 67% of new borrowers witnessed household increase in flow of income. The rural frequent borrowers experienced significant increase because the additional loans enabled them to increase the productivity of their micro-enterprises. For rural clients frequent borrowing has led to the diversification of their activities. Women clients are able to show that they generate better net income from both new and expanded economic activities, compared to that of non-clients. This also clearly indicates that microfinance intervention plays a significant role in generating better net

Income for women clients. As the income of the women client improves the tendency of savings increases, which leads to investment and improved wellbeing. This also enables the women clients to hire more good workers who help in the production process, which leads to improved quality of their products, reduces costs of production and sold their products in new markets.

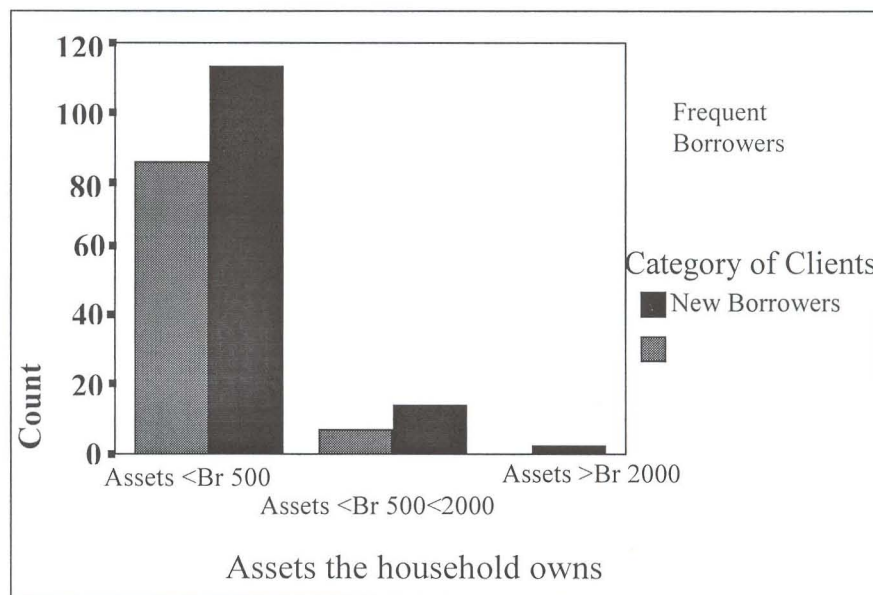
DESCRIPTION	URBAN CLIENTS		RURAL CLIENTS		ALL CLIENTS	
	New Borrowers Valid n=56	Frequent Borrowers Valid n=70	New Borrowers Valid n=59	Frequent Borrowers Valid n=63	New Borrowers Valid n=115	Frequent Borrowers Valid n=133
Percent with modest value household assets such as radio, chairs, tables, benches, shelf, ordinary bed frame, & matters, minor stove (worth <Br500)	88.5	85.1	100	98.1	93.8	90.8
Percent with mid- range value house hold assets such as modern tape player, modern bed & mattress, modern stove, black & white TV, refrigerator buffet, cupboard sofa set (worth >500<2,000 Br)	11.5	13.4	0	1.9	6.3	8.4
Percent with high-range value household assets such as color TV, modern buffet, modern sofa set, CD player, video cassette player, modern refrigerator and stove (worth >Br 2,000)	0	1.5	0	0	0	0.8
Percent acquiring additional household assets in the last two years	40	31.7	0	5	31	21.4
Percent who acquired household assets described above since joining the program	9.4	20.6	0	36.4*	8.9	23*

* Statistically significant difference between new and frequent borrowers (p<0.05)

Source: Tsehay Tsegaye & Mengistu Bediye 2002

4.2,2 Household assets

The present study also investigated whether microfinance had led to the women clients, ownership of some assets. A higher number of the sample of women clients reported that now they do own some assets, such as oxen to help in farming activities, cow, goats, donkey and a radio, after participation in microfinance services, than both before the microfinance intervention and when they were non clients.



Source: Tsehay Tsegaye & Mengistu Bediye 2002

A large number of households both in rural areas and urban centers both new and frequent borrowers, responded positively and confirmed that though some may not own large assets as those that had started before them to work with microfinance institutions, they too had managed to purchase some small assets of maybe, worth less than 500 Birr. Moreover, frequent borrowers, indicated that frequent borrowing had led to significant improvement in their ability to acquire household assets and household items such as plates and other utensils. Hence one can conclude that access to credit positively contributed to ownership of additional household assets and improvement in family welfare. Asset ownership is important for empowering women clients economically. This can be evidenced as the women get more frequent loans, utilize it for the purpose intended they generate more income, and they tend to use part of the profit earned for priority household assets instead of using it on themselves. The findings also indicate that frequent loans have helped them to improve their ownership

capability particularly in having household goods as they continue to stay longer in the microfinance services.

DESCRIPTION	URBAN CLIENTS		RURAL CLIENTS		ALL CLIENTS	
	New Borrowers Valid n=56	Frequent Borrowers Valid n=70	New Borrowers Valid n=59	Frequent Borrowers Valid n=63	New Borrowers Valid n=115	Frequent Borrowers Valid n=133
Percent whose household school expenses for the current year have increased	43.8	36.8	25.5	56.5*	34.3	47.1
Mean number of school –aged children per household	2.7	2.7	3.5	3.7	3.1	3.2
Percent of school-aged children who are currently in school	98.8	94	57.1	62.2	77.1	76
Percent of school-aged children never went to school	1.2	6*	42.9	37.8	22.9	24
Mean highest grade in school completed by any children in the house hold.	7	7.4	3.5	5*	5.5	6.3

Source: Tsehay Tsegaye & Mengistu Bediye 2002

4.2,3 Household Welfare

Under household welfare three items are considered for discussion.

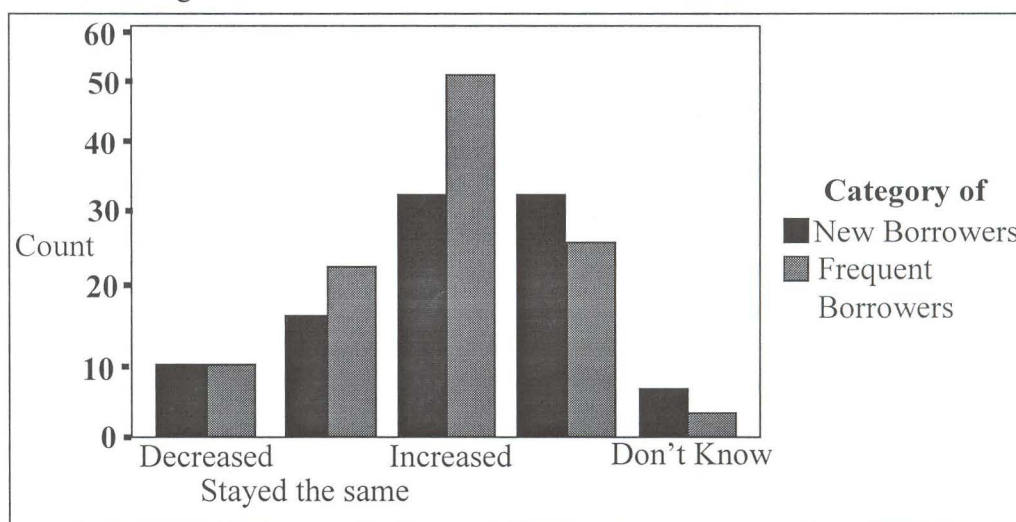
These include housing improvements, child education, diet, and food security.

Frequent borrowers both in rural and urban areas indicated that they had helped carry out repairs to their houses, in comparison to new borrowers. A dwelling house is one of the priorities or basic needs of a household. The ability of the households to improve their houses is considered as one of the best indicators for family welfare improvement.



The result achieved in improvement to dwelling houses or repairs made to existing homes and access to utilities shows that there is a clear indication that access to credit has enabled the households to generate disposable income that was spent on better facilities that improved the living standard of the families concerned. Again it shows that as women earn money, they spend more of their income on household. The ability to generate income not only benefits them but also the whole family including the extended family benefits from their achievements. Support financial services provided to women have multiplier effect.

A modest proportion of clients in both urban and rural areas indicated that they had witnessed greater increase in their current school expenses. However frequent rural borrowers made significantly larger school expenses in comparison to new rural borrowers in rural areas this could be in some parts as a result of restrictions imposed on the girl children to attend school. Once again it is clearly observable that whatever income women generate a good portion is spent on the welfare of the household. Women are worried about their children's future and once they are empowered financially, they could also be empowered in household decision-making like on sending children to school including their daughters. However, in comparison to rural clients, urban clients seem to send more of their children to school, the rural areas clients being involved in agricultural activities they require that their children help them with the agricultural activities first before they can go to school, and some parents want their children to stay away from school altogether.



How do current school expenses compare to that of last

Source: Tsehay Tsegaye & Mengistu Bediye 2002

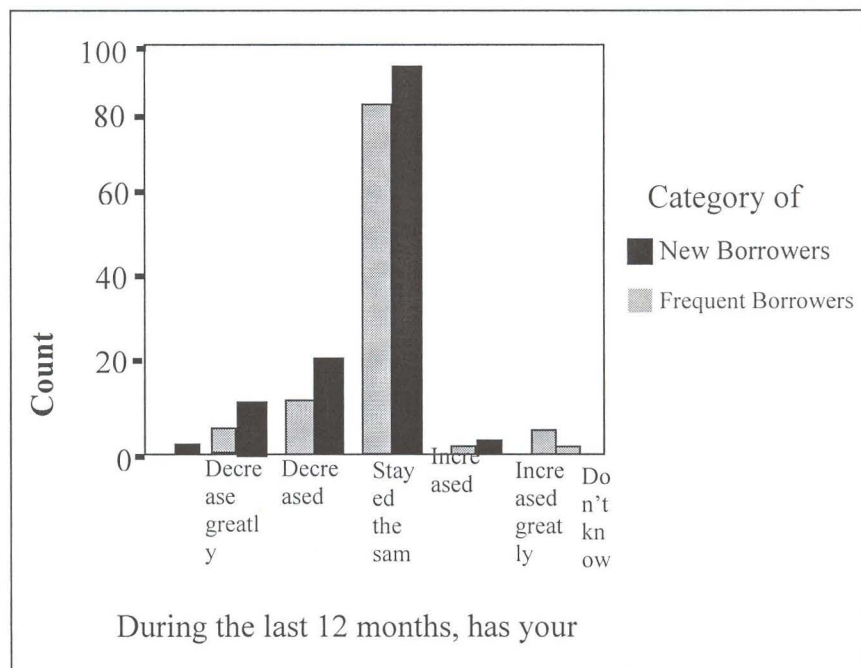
Most of the clients in both locations have been sending their children to school. A minimum of 57.1% of rural clients and 94% of urban clients sent their children to school. However, in comparison to rural clients, urban clients seem to send more of their children to school. Being engaged mostly in agricultural activities that require more workers (compared to urban petty trade), it is no wonder that rural clients keep some of their children away from school

It is obvious that microfinance intervention is expected to support clients in the production of food crops to ensure food security, which is the prime concern of all poor households. A good number of households indicated that the availability of food for their families had improved after they had received financial assistance from microfinance services, those who had had repeated financial aid showed more pronounced food self sufficiency than primary borrowers. However both camps had indicated that access to micro-credit enabled them to provide improved diets for their households.

4.3 Impact at the individual level.

4.4

As the objective of the study is to assess the impact of microfinance on women borrowers, two major indicators are used to measure the empowerment of women. These women wielded economic and social empowerment, therefore the impact of microfinance at individual level can be measured, among other indicators by changes in personal income, savings, control over assets (ownership) self esteem and decision making.



Source: Tsehay Tsegaye & Mengistu Bediye, 2002

4.3,1. Personal Income and Savings.

Economic empowerment is certainly one of the major criteria for assessing success in the delivery of microfinance services. On the other hand, increasing income and savings signify the whole purpose of involvement in any micro-enterprise for women. The proportion of frequent borrowers that reported the increase in personal income is larger in rural areas compared to that of urban micro-entrepreneurs. Despite the overall increase of income, for rural borrowers comparison indicators show that there is no significant difference between new and frequent borrowers in both locations in achieving increase in income. However more frequent rural borrowers had personal savings than new borrowers did.

In terms of change in savings, most of the clients in both locations reported that they had increase in their savings still rural micro-entrepreneurs had an edge over their urban counterparts. It can be concluded therefore that microfinance intervention in micro-enterprises of women brought about increase in income and savings for clients. Moreover the impact of microfinance intervention in rural areas is statistically higher among frequent borrowers. This may imply in a way that the MFIs in rural areas are striving to encourage the habit of savings among their poor clients. On the other hand women in urban areas are often tempted to spend rather than save their income.

4.3,2. Decision making and asset ownership.

Participation of women in decision making at household level is one aspect of women empowerment. In Ethiopian context the most important issues are decided by males. Women's participation in decision making is low, yet women perform more activities than men at household level. The study also assessed if the intervention of microfinance services had brought significant changes on women's participation in decision making at household level. From the study group it was learned that only 13% of the women clients received credit by themselves before the microfinance services intervention. However after participation in microfinance services the number of women who decided on receiving credit by themselves without the signature of the husbands increases to about 45%, this implies that women have started deciding on important issues such as receiving

credit by themselves although all microfinance institutions in Ethiopia require that the husbands countersign. Participation of women clients in such important decisions at household level is one of the indicators of women empowerment. It was learned that as women earn more from their micro-enterprises and contribute more to the household income, their power of making decisions increases

DESCRIPTION	Urban Clients		Rural Clients		All clients	
	New Borrowers Valid n= 56	Frequent Borrowers Valid n=70	New Borrowers Valid n= 59	Frequent Borrowers Valid n=63	New Borrowers Valid n= 115	Frequent Borrowers Valid n=133
Percent of Individual decision makers	39.3	38.6	28.6	46.4*	33.9	42.1*
Percent of male decision makers	7.5	50*	5.4	12.5	21.4	33.3*
Percent of total owners of enterprise	97.8	96.8	16.1	24.6	52.9	61.3
Percent of enterprise owned by household	2.3	3.2	83.9	68.9	47.1	35.5
Percent of land registered in one's name	-	-	0	16.1	0	16.1
Percent of land registered in husband's name	-	-	0	67.7	0	67.7

Source: Tsehay Tsegaye & Mengistu Bediye, 2002

* Statistically significant difference between new and frequent borrowers ($p < 0.05$)

4.5 Use of Loans and Enterprise Profit

Looking at the uses of profits generated can help us get a partial grasp of the different ways in which profits are spent and what portion is reinvested in the expansion of the business. Most of the urban clients both new borrowers and frequent borrowers indicated that they had used a larger portion of their profit to buy food, while only a small number of rural micro-entrepreneurs indicated that they had used some of their profit to buy food. The larger portion of their profits was reinvested back in the business or was saved. This partially shows that micro credit has been able to increase the capacity of the clients to

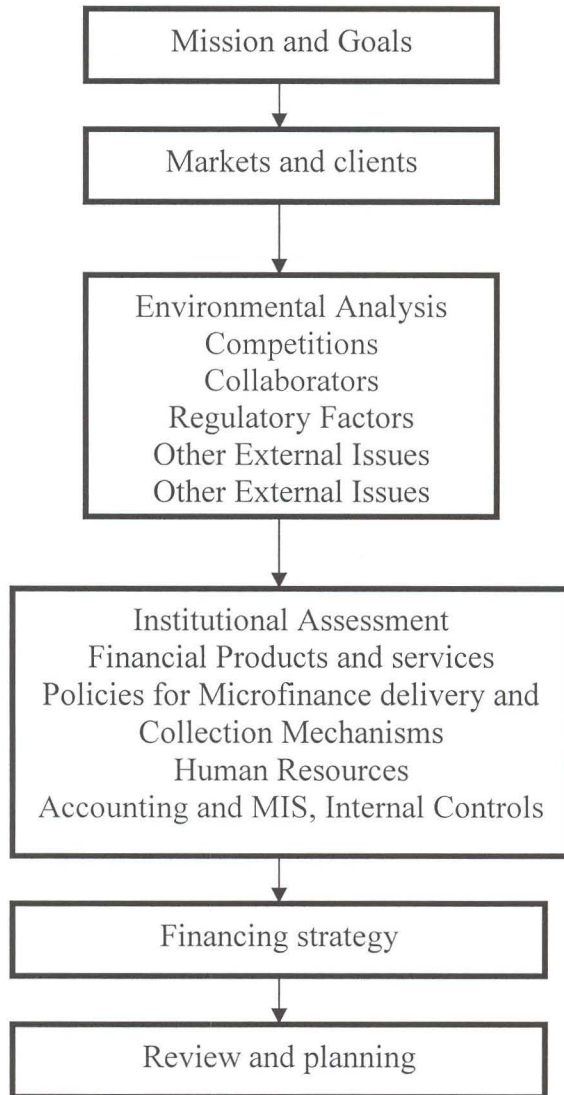
meet their basic needs, as clients stay with microfinance services and take loans frequently to increase production efforts. In rural areas microfinance services have brought about significant results between frequent borrowers and new borrowers, in buying clothes and reinvesting out of profit. A larger number of frequent borrowers buy clothes and reinvest the remainder of the profit. New borrowers spend very little on buying clothes they reinvest about 90% of all profit made from their micro-enterprises.

This could be a good indicator of the fact that when women are engaged in survival type of activities they use any profit generated from their enterprises to meet the basic needs of their families. As a result the enterprises have no chance to grow in-fact they tend to die quickly in some cases if the provision of loans is removed.

ESTABLISHING A MICROFINANCE INSTITUTION SPECIALISED FOR WOMEN IN THE OROMIA REGION.

1.5 Vision, Mission, and objectives for a Specialized Microfinance institution for Women

fig. 1.5



Proposal for the set up of a specialized microfinance institution for women.

Traditionally, women have been marginalized. A high percentage of women are amongst the poorest of the poor. Establishing a specialized microfinance institution for women, could give them a means to climb out of poverty since the other types of microfinance institutions do not go far enough to address the plight of women in the search for financial capital which can help raise the level of productivity in their micro-enterprises. This, would provide the women with a dedicated financial institution which could be a solution to help them to extend their horizon and offer them social recognition and empowerment.

(Integrating a gender perspective in microfinance ACP countries) (2002)

Sometimes because of cultural reasons women are not allowed to leave their village, then finance has be tailored to the needs of these women, so that they too can be included as potential customers. It must not be assumed that microfinance institutions that reach many areas are gender sensitive to the needs and constraints of women. There are many insurmountable barriers for women to access this credit, which for women is often title to land to offer as collateral. However given the choice, many women may prefer different credit terms and conditions, different delivery mechanisms and even different financial products (savings products and insurance)

Most financial institutions recognize that women are not a homogenous group therefore there is no microfinance recipe which can address the needs of all women that is why it would be important to have a specialized microfinance institution for women, so that it can address needs of all types of women irrespective of at which level of the poverty they fall.

Access to financial services is considered a human right, and the needs for women are vast. Identifying potential financial needs for the specialized financial institution should therefore not be difficult

Women in Ethiopia have not been targets of enterprise support development component programs because they are usually small scattered and unorganized, that is



why though microfinance as a means to empower the poor has worked in many countries, it has not been so successful here because of several other factors one of which could be lack of organization into interest groups.

(Integrating a gender perspective ACP countries 2002)

5.1 VISION

A Specialized microfinance institution for women's vision is to assist the poor women in realizing their needs and reduce the level of poverty and increase the level of consumption and ultimately create wealth and capital at poor households.

This would be an institution which will try to address most of the basic needs of the poor women. The conditions of lending would be inclusive enough where even the poorest of the poor women would get recognition and have a financial service which would be tailored to their needs.

5.2 MISSION

The mission of a specialized microfinance institution for women would be to create an attitude of self reliance and confidence of low rural and urban micro-entrepreneurs by delivering financial services tailored to their needs with flexible conditions taking into account the many problems poor women face to access credit.

5.3 OBJECTIVES

The objectives of the proposed institution is to promote and develop viable and sustainable financial services for poor women who are engaged in micro and small scale enterprises at reasonable, and affordable recovery cost for the poor households.

The specific objectives are;

- To improve the livelihood of resource poor households by providing them with attainable financial services for poor women, in the form of increased working capital for their micro and small scale enterprises.
- To enhance perception of women's contribution to household income and family welfare

- To increase women's participation in household decisions about expenditure and other issues and leading greater expenditure on women and children welfare.
- To experiment with lending programs that do not require conventional forms of collateral
- Replicate and expand existing successful methodologies for delivering small working capital loans, so as to increase women income levels and control over income leading to greater levels of economic independence.
- Introduce savings mobilization components in the context of credit or other enterprise assistance programs.
- Promote credit programs which are open to both micro and small scale enterprise activities and enterprises operating in trade, commerce and other small enterprise sectors where women have higher participation rates.
- To improve the economic and social position of women
- To provide and develop basic business skills lacking in the poor women through training tailored to the level of their understanding.
- To encourage formation of homogenous working target groups for ease of training and access to credit.
- To enable micro and small scale enterprise access markets giving wider experience of the world outside the home, to access to information and possibilities for development of other social and political roles

The institution will focus on delivering financial services to low income micro-operators and small scale enterprises with no means of additional working capital. The target will be women, because traditionally women are regarded as unbankable due to lack of collateral. Different target groups flexible loan sizes, and diversified products and services required and demanded by the women groups. The ultimate goal is fostering continued economic activity among poor households to enable them reach profitability and family food self sufficiency, and in long run emerge out of poverty.

i) MARKETS.

In order to achieve the desired level of economies of scale, the institution will decide on the geographical area in which to work on as a pilot project and eventually the program will be extended to all rural and urban centers of the region. Oromia is a vast region it may not be possible to start operations in all the areas at the same time. However the institution will commence, its activities in some rural /urban centers as a learning exercise, then when sufficient funds are realized, provide the services to the rest of the region all rural and urban centers where it may be possible for the women to come together. The services will start in the area of the region which has the highest number of poor people, which is in need of financial assistance.

ii) ELIGIBILITY.

The selection will target on economically active poor, fertile women, who would be able to work but lack the capital necessary for micro- enterprise, initiation or development. The women will be required to form groups of their own to ensure that they are all good for funds, for each one will be security for the other, so that in this way the women can learn from each others' capabilities, which may enable them access continued financial support. The expected age of the clients is women of the ages between 18 to60, and be living in rural/urban areas of the Oromia region.

iii) Environmental analysis

The most successful way in reaching women borrowers is, to visit areas where women congregate in certain places like markets, this may be an opportune place to carry out financial transactions demanding little time from women, neighborhoods, religious gatherings, women's associations and low income residential areas.

It is important that the places selected to deliver financial products to the needy households is considered safe by the women.

In some cases it may be beneficial to visit a certain area on the day when peasant association hold their weekly meeting, and in some cases community elders and government agents are also important actors in identifying possible clients.

iv) Group Formation

Although institutions involved in microfinance have different institutional, ownership and origins, they surprisingly run similar operations. The vast majority provide credit on a solidarity group-lending basis without collateral, often referred to as Grameen-type lending.

To begin with credit will be delivered through solidarity group lending model. Other lending technology such as individual lending will be provided in the long run. The group serves as joint guarantee for each member's loans. Interested clients can form self-selected groups. The group consists of 7 to 10 members in one group and 15 to 30 groups in one center and that they must know and trust one another. The success of Grameen Bank is a good example of group based lending system. In Ethiopia also most of the microfinance institutions are using group based lending model. The advantage of group lending is avoiding of bad risks and at the same time, it will easily be manageable for credit disbursement and collection. In addition to this, group based lending system will reduce the risk of loan default by means of peer pressure and joint responsibility among group members.

v) Product and Service design.

The major products of the microfinance institutions in short are Loan products and Savings products. There will be different types of loan products such as micro-enterprise loan, agricultural loan, emergency loan, and insurance product. On the other hand the institution will also deliver savings services i.e compulsory savings and voluntary saving for clients.

- a) Micro-enterprise Loans; These are loans for petty trading, handicrafts, and services, which are repaid on a weekly basis, fortnightly, monthly or regular basis.
- b) Agricultural Loans; These are loans for agricultural inputs, purchasing of livestock and other agricultural services. The loans will be given in terms where the principal and interest rate are repaid at the end of the loan term.

Usually after harvest or when the farmer has sold some of his other farm products.

All microfinance institutions in Ethiopia, deliver same types of loan products to clients copying from each other. Upon the clients demand, the proposed institution will attempt to involve itself in delivering new products which suit the demand and needs of poor women clients. Like Buro Tangalil in Bangladesh provides different flexible demand driven products clients. It has a range repayment rate and service charge, though the institution will adopt from the successful experiences of other microfinance institutions of the world it will try to experiment with other methods in delivery of services to see which of those could also be successful with clients in the other parts of the country. Of these products which the institution will use it will try to renovate on the insurance product and emergency loan products.

vi) Emergency Loan

Women are more often faced with temporary crises than men or setbacks needing immediate access to credit. There may be a business opportunity that is limited in time. It would therefore, be in the interest of the institution that it is going to adopt the emergency loan product component to facilitate immediate access to funds by clients. Hence, the institution could have one of the best practices by delivering the small loans in no more than one week from the time clients filed an application. Grameen Bank has been found to have emergency loans approved in 24 hours, which is very popular with the poor (Integrating a gender perspective in ACP countries 2002)(Internet).

vii) Insurance Product

Microfinance institutions in Ethiopia are not providing insurance for clients. Though in the long run the specialized microfinance institution could put in its mission statement a plan to innovate insurance services, like life/health or animal insurance to their clients which can easily be managed, because it involves using the standard life and health insurance polices. The institution, will implement life crop, and animal

insurance policies by collecting insurance premiums once in a year, while loan installments and saving deposits are made weekly.

viii) Norms or modalities for lending and saving.

Another feature of the proposed microfinance institution is the adoption of efficient loan processing techniques. Thus, the institution would offer short term loans. The loan repayment period for any loan is between six months to a maximum one year. Depending on circumstances, however, certain loan repayments may be rescheduled. First time loan amount begins at Birr 500.00 per individual in a group and increases to Birr 700 and Birr1000 during the second and third loan cycles respectively. The average loan size increases from year to year. Some activities require higher amount of working capital and the loan size will generally depend on the activity and the repayment capacity. Generally loan repayments would be repaid either weekly, fortnightly, or on a monthly basis depending on the type of client's activity.

In Ethiopia the regulatory framework allows microfinance institutions to be free in fixing their own interest rates. Although the lending interest rate prescribed by government for microfinance institutions is too low to cover the operational and financial cost on the borrowed funds. However, the lending interest rate for most microfinance institutions in Ethiopia varies between 12.5% and 25%. The proposed institution would charge interest rate that could be viewed to be fair and acceptable to the sector of the clientele it is proposing to target with its services. The institution proposes to charge at a borrowing flat rate of 15% and 4% service charge.

viii) SAVING

One major product of the institution is rendering saving services to clients. Saving mobilization enhances lending capacity and expand outreach in financial and institutional sustainability of a microfinance institution. Therefore the institution will provide two types of saving products; compulsory saving and voluntary saving. Borrowers are required to make up mandatory saving in order to be financially disciplined to serve as collateral. 10% of the total loan amount, would be deposited which earns 6% interest per

annum. According to Directive no. MFI/13/2002 article 2.b indicates that the minimum interest rate that shall be paid per annum by microfinance institutions on saving and time deposit shall be 3% (National Bank of Ethiopia 2002). In order to attract women savers and increase outreach, the institution will give 6% interest on savings per annum. Voluntary savings will be solicited from individuals who can afford, credit groups and members will be allowed to withdraw their voluntary savings if they have a need for it but there will be a base savings amount to keep the account open for later savings.

TRAINING, DELIVERY and COLLECTION MECHANISMS

Credit officers are responsible to select target groups and to organize them into groups and centers. Loan processing and attending scheduled center meetings is an important activity of the loan officers. It is assumed that credit officers will be responsible to carry out the activities mentioned above at branch level.

Training is an important aspect for the institution not only for the clients but for the loan officers as well. The loan officers will have to undergo basic initial training in order that they know how to execute their duties properly, and as their responsibilities change with the growth of the institution they will have to be trained for those senior responsibilities as well. The training will be at a cost to staff so that they are committed to the institution as their own. The institution will follow an approach called maximalist approach i.e finance plus offering training in business skills or basis education to clients. For the first two to three years, the institution would provide training by sharing the cost of training with both staff of the institution and to clients. In order to be efficient in the provision of quality services, as the organization grows it is going to reduce the cost sharing for training among its clients. As an integral part of training, the institution would introduce a participatory monitoring and on-going evaluation system in which borrowers would have an important active role to play in giving feedback on the execution of loan services .

The institution would use double entry accounting system i.e. Generally Accepted Accounting Principle (GAAP) which simplifies and improves understanding of the accounting work.

ix) Management Information Systems

For the Microfinance Institution to provide efficient service and achieve sustainability, it is important that the use of computers is introduced at the onset of the organization, because computers are important for storage of information, and for ease of record keeping. In Ethiopia a package called Total Microfinance Solution software is available and is a must for any microfinance institution.

x) Internal Control

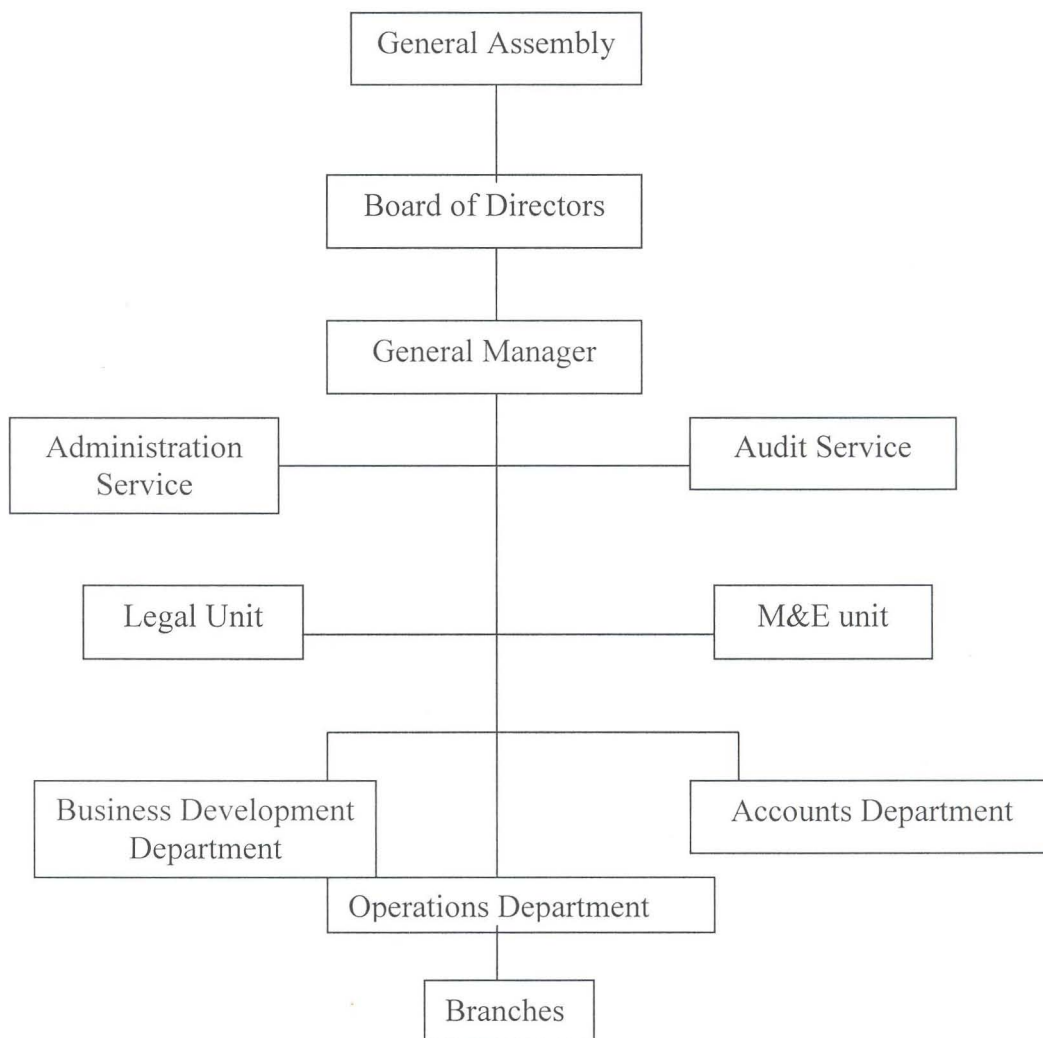
A well functioning system of internal control is the basis of sound microfinance institution operations, which enables the institution to achieve scale and efficiency safely. Though the proposed microfinance institution would have its own internal control system which would be clear and transparent, it would also have its own financial operations manual for day to day management where guidelines would be stipulated on what to do in carrying out financial transactions.

xi) Financial Strategy

A Specialized microfinance institution for women would mobilize its initial financial capital, from different sources, such as, contributions of shareholders, individual investors and small donor grants. later the institution would try to generate its income from services of its operations, and from invested funds as return on investments.

4.5 Structure of the Institution

The organizational structure for the specialized women microfinance institution (SWFI) is as shown below



5.6 Ownership and Governance

The mission of the institution is to provide sustainable financial service to rural/urban women in the Oromia Region, who are involved in micro and small scale enterprises, who could otherwise have no access to credit because they lack collateral which is demanded by the other general microfinance institutions. The institution would be funded, initially by capital contributions of interested individuals, private sector, banks, women's affairs bureau, and some commercial enterprises, in Oromia region. The specialized microfinance Institution would have its own articles and memorandum of association that it would have been approved by the General assembly of shareholders. The institution would be made up of the General assembly, board of directors, and management.

The General assembly would consist of shareholders and would be the supreme organ in all the affairs of the institution. The General assembly would elect a board of directors consisting of seven members. Of which 80% of the board members would be women that would serve for a three_ year term, with possibility of re-election. Board of directors that should be elected from amongst shareholders by the General assembly should administer the institution, which would be managed by a chief executive officer appointed by the board. Remuneration and job description of the chief executive officer should be decided by the board. As it is mentioned above the institution would be established to provide financial services to poor women, it would be in the interest of the women that most of the employees be women too, for ease of communication.

6. CONCLUSION AND RECOMMENDATION

6.1 CONCLUSION

. A large percentage of the women population is among the poorest of the poor. Microfinance activities could give them a means to climb out of poverty. Microfinance could be one of the solutions to help them to extend their boundary and offer them with social recognition and empowerment. In Ethiopia, there is no microfinance institution which delivers financial services only to women. The existing microfinance institutions' products do not fit the needs of women. All are not demand driven, whereas they are supply driven. Therefore the newly established microfinance for women would focus on

poor women, and take inconsideration their plight as they search for sustainable economic freedom.

The study was motivated by the general belief that improvement in the economic status of women is the safest and most efficient way of reducing poverty in Ethiopia. The overall objective of this study, therefore, is to identify social, cultural and economic factors that hinder or limit women's participation in economic activity in the country. One of the factors identified for women not to fully participate in economic activities was identified as lack of access to finance. Therefore it was perceived that one way for easing this problem could be the establishment of a microfinance institution specialized for women with conducive conditions for them to access finance for their micro-enterprises. For this process a feasibility proposal for establishing the institution for women, in Oromia Region is made.

The study revealed that the demand for microfinance services in Ethiopia is high. The demand for microfinance services for women is much higher than the demand for men, this may be in part because more poor women start to engage in micro-enterprise as a means of reducing their poverty level. Particularly in Oromia Region, the potential demand for microfinance services for women is much higher than other regions, this may be in part, because of the backward cultural practices of the region. Although it was difficult to conduct market study (due to limited time), the study using the potential demand analysis has indicated that establishing a specialized microfinance institution would be a very important intervention to improve access to finance for women.

The study also used a standard conceptual framework on how to establish microfinance institution for women. This includes identifying the mission and vision of the would be established microfinance institution, estimating the demand to partly indicate the market for microfinance services and products, identify the resources (both financial and human resources), developing the strategy and reviewing plan.

Moreover the existing microfinance institutions are not developing financial products which fit the needs of most women in Ethiopia particularly in rural areas of the Oromia region. From the total of active clients of the microfinance institutions operating in the region only 39% are women. There is no detailed information whether 39% women clients are using the loan for themselves or giving it to their husbands or other family

members. Thus microfinance institutions should make all attempts to develop financial products for women and take concrete measures to increase women participation in financial activities through aid to help them improve productivity of their micro and small scale enterprises.

The analysis of the critical constraints revealed that socio-cultural biases and practices which were some of the elements reinforce the microfinance institutions behavior. The gender social and power relations have also led to unequal access to decision-making positions to the disadvantage of women. This factor has partly contributed to the existence of a gender biased economy that has not supported the promotion of women.

6.2 Recommendation

In view of the conclusion made above, the following are recommended if women have to make positive contributions to the economies of the countries where they live, also if they have to help achieve meaningful contributions to family welfare.

- a) Governments should encourage and compel micro-finance institutions to develop specific programs and strategies, for selecting women as clients from within their existing target groups
- b) However, given the choice women would prefer different credit terms and conditions, to suit their capabilities, and different delivery mechanisms to suit their family commitments.
- c) The institutions should attempt to mix their clients by promoting women who are engaged in growth oriented enterprises and those operating micro-enterprises as a survival means, this could be used as a role model for other women who are at survival level to encourage them to work hard.
- d) Women are more often faced with temporary crises than men or setback needing rapid access to credit. There may be a business opportunity that is limited in time. It is therefore important that small loans be approved in no more than a week to ensure that clients do not miss business opportunities.
- e) Women are not always aware of the financial products to them. This is because sometimes they are only advertised through men's organizations and where men

rather than men tend to gather together. Thus women should be considered when making advertisement through possible places where they can see or hear about products on offer, such as market places, child health clinics and women's organizations.

- f) The microfinance approach should be maximalist in approach credit plus selling basic business skills, training, and business development training) so that clients get these services at the expenses of the organizations or cost sharing basis.
- g) ✓ Many women are engaged in micro, and small-scale enterprises government should try to arrange appropriate premises where women could feel safe to conduct their businesses. Moreover government should put in place deliberate policies that promote and encourage the flourishing of micro and small scale enterprises by women entrepreneurs.
- h) The microfinance institutions in Ethiopia should strive to provide different products, of microfinance, like those provided in other countries like those by (Grameen Bank of Bangladesh) could be a model and be of benefit to the clients.
- i) ✓ Establishing network net-work with other microfinance institutions to exchange views and experiences, learn from each other's operations experiences and to organize a forum for women.
- j) ✓ Both governments and donor agencies should explore ways of developing innovative credit programs to suit the needs of the different categories of clients, using intermediary channels or institutions closer to the target groups such as co-operatives, women credit business organizations and other grass-root organizations.
- k) **Credit With Education;** The delivery of credit and saving services alone cannot be sure way out of poverty for the majority. Thus, initiating strategic alliance between, among others, the mutually supportive but operationally separate activities of micro-finance and health education (family planning, immunization and HIV/aids education) services would allow each to do what it does best, yet benefit from each other's activities. The clients would benefit tremendously from such a setting, for they would benefit from finance and at the same time learn about health and other social issues which affect their daily lives.

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ABBREVIATIONS

- AEMFI - Association of Ethiopian microfinance Institutions
- ADLI - Agriculture Development Led Industrialization.
- CSA - Central Statistical Authority
- CBO -Community Based Organization
- FMSEDA - Federal Micro and Small scale Enterprise Development Agency
- MFI - Microfinance Institution
- MeDAC - Ministry of Economic Development and External Cooperation
- MSE - Micro and Small Enterprise
- NPEW - National Policy on Ethiopia Women
- NGO -Non Governmental Organization
- OCSSCO -Oromia Credit Savings Share Company
- PA - Peasant Association
- PRSP - Poverty Reduction Strategy Paper
- WAO - Women's Affairs Office