



**ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**AN ASSESSMENT OF THE ROLE OF MICRO FINANCE
INSTITUTION IN URBAN POVERTY ALLEVIATION:
(The Case of Addis Credit and Saving Institution in Kirkos Sub City)**

BY: AYELECH ESHETE

ADVISOR: Dr. CD DASH (Professor)

**JUNE, 2010
ADDIS ABABA**

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Acronyms

ADCSI= Addis Credit and Saving Institution

CBOs = Community Based Organization

CSA = Central Statistics Agency

E.C = Ethiopian Calendar

HDI = Human Development Index

HPI = Human Poverty Index

LCDs= Least Developing Countries

MFI= Micro Finance Institution

MOFED= Ministry of Finance and Economic Development

NBE= National Bank of Ethiopia

NGO = Non Government Organization

PASDSP=Plan for Accelerated and Sustainable Development Program

PRSP = Poverty Reduction Strategy Paper

SDPRP= Sustainable Development and Poverty Reduction Program

UNCHS= United Nations Center for Human Settlement

UNDP=United Nation of Development Program

Abstract

Poverty is a critical problem of all countries in the world regardless of their level of development. The whole purpose of development and Development Studies is to fight against poverty and reducing both urban and rural poverty in the world to the possible minimum level through different interventions. Microfinance is considered as one of the major interventions in poverty alleviation all over the world. Therefore, it is vital to evaluate the role microfinance programs play in urban poverty alleviation.

The prevailing operation of the conventional financial institutions in Ethiopia is inefficient in providing financial services to the poor. The challenge that is facing today is to reduce poverty. Microfinance is being practiced in the country as a tool to deliver financial services for reducing poverty. In order to investigate the fundamental premise, this study examined empirical evidence in Addis credit and saving institution to know its contribution to poverty reduction.

Therefore, the objective of this study is to find out whether delivery of financial services of the MFI to urban poor in the contribution of towards poverty alleviation. Primary data were collected through questionnaire administered to clients of AdCSI using systematic random sampling technique. Secondary data were gathered from different literatures and MFIs' reports. The research is both quantitative and qualitative in nature.

Descriptive analysis was applied in the study. The contribution of microfinance is analyzed based mainly on income which in turn has effects on nutritional status, education fee, medical facilities, employment generation, and empowerment among others. The finding indicates that AdCSI scheme has made positive contribution to the clients in relation with observed variables. Though the result also implies that AdCSI gives priority to women clients on the provision of financial services; loan disbursement of men is higher than loan disbursement of women. Besides, significant number of borrowers can not afford expenses on education, clothing they have no income generating mechanism before joining in the institution among others. Therefore, strengthening the existing operation with other support means of income generating mechanism would be appropriate to address the problem of urban poor.

Chapter One

1. Background

1.1 Poverty in Ethiopia

Ethiopia is one of the poorest and most heavily indebted countries of the world with the population of about 79 million of which rural accounts for 66 million and urban 13 million (CSA, 2008). It is a fairly large but landlocked country with a total area of about 1.1 million square kilometers. The agricultural sector, which accounts on the average 46.6 percent of GDP, is the source of livelihood for about 85 percent of the country's population, that is, the country is extensively dependent on agriculture, which provides about 85 percent of the employment. Ethiopia is one of the poorest African nation states. Poverty in Ethiopia is a pervasive and persistent phenomenon due to the interaction of a number of persistent poverty traps like population pressure, low investment in human capital, low levels of infrastructure, agrarian nature of the economy and other related factors MicroNed (2007:6-7).

Ethiopia is among the poorest third world countries with an annual average per capital income of US \$217. This is very little money for daily meal, let alone health, education, emergency and others expenses. Then poverty is the fundamental problem in Ethiopia. A recent estimate finds that about 30.6 *percent* of the population was estimated to live under the poverty line. Even though an average of 11.18 *percent* of annual GDP growth is registered over the period 2009, very low productivity, as a result of unreliable rainfall, high population growth and structural bottlenecks are the frightening challenges of the country (MoFED, 2009/2010:11).

The Human Development Index (HDI) of Ethiopia for 2008, which takes life expectancy, adult literacy, primary schooling and per capita income, gives the country a rank of 169th out of the 177 countries.

On the other side, from the Gender Related Development Index point of view (GDI) Ethiopia Ranks 149th among 177 developing countries for which index have been calculated (UNDP, 2008). These explanations show that poverty is a multifaceted and multidimensional and deep rooted challenge in Ethiopia.

According to Amha (2000:1) the major causes of the high prevalence of poverty in Ethiopia include lack of asset, employment opportunities, income, skill, education, health etc. and this is aggravated by soil degradation, deforestation, drought, civil war, and lacunae in appropriate government policies. The microfinance institutions are playing significant roles in expanding financial services to low income group entrepreneurs and traders, who are not usually reached by the conventional banks. Improvements have been witnessed not only in terms of clients of number but also in operational efficiency.

The existing government, with international organizations, launched a sweeping program of economic reforms aimed at macroeconomic stabilization and poverty reduction since 1992/93. Ten-year development strategy, called Agricultural Development-Led Industrialization (ADLI), was also laid out by the government. It envisages fostering economic growth with the aim of reducing poverty. Moreover; government developed a five year strategic Plan for Accelerated and Sustained Development to End Poverty (PASDEP). Indeed, a recurring theme in these programs is the reduction of poverty amongst the population (MoFED: 2006).

1.2. Microfinance Institution in Ethiopia

Following the downfall of the government of Emperor Haile Selassie I in 1974, Ethiopia spent the next 17 years under a heavy-handed Marxist junta (commonly known as the “Derg”). Under Derg rule, the national economy suffered tremendously, due mainly to a rather large number of ill-conceived policy measures designed to steer and control the courses of social, economic and political development in the

country. Above all, nationalization of urban and rural land, rental housing, banks, insurance companies, leading business firms, and agricultural enterprises did a great deal of harm to the national development. In Ethiopia micro finance services were introduced after the collapse of Dergu regime following the policy of economic liberalization. Microfinance is taken as a shift from government and NGOs- subsidized credit programs to financial services run by specialized financial institutions. With this shift Some NGO and government micro credit programs were transformed to microfinance institutions. Microfinance in Ethiopia has legal ground (Degefe, 2009:1-4).

According to Peck and W/Yohannes (2009:7) Much of the passion behind microfinance is drive by its potential to help poor people better manage their financial resources, take on new economic opportunities, mitigate everyday risks, reduce vulnerability and improve their living condition. Lack of access to financial services is a major constraint limiting the accumulation of assets by the poor and the development of indigenous enterprises.

The issue of regulatory framework has come to forefront because Micro Financial Institutions were providing financial service to the poor, outside the conventional banking system (Ahmed, 2002:10). The regulatory frame work was put in place to licenses supervise the institution and government is sued its first microfinance legislation (Proclamation No.40/1996) under the country of central Bank. In the Proclamation the purposes and duties of Micro Finance Institutions (MFIs) are clearly stipulated. It provides the framework to create, expand and develop microfinance and credit programs.

The potential demand for financial services, particularly microfinance, in Ethiopia is enormous. However, the existing supply of financial services to the poor is very limited. The major sources of financial services in Ethiopia are commercial bank, MFIs, and same semi

financial services like “Iquibs”, “Idders” and “Mahabers” and informal sources like Money lender trader suppliers of credit. Now the Ethiopia micro financial institutions have shown remarkable program progress in terms of out reach and performance. However, it should be noted that the twenty seven MFIs meet only less than 20 percent of the demand for financial service of the poor (Peck and W/Yohannes, 2009:7).

The proclamation frame work was put in place as part of government’s effect to liberalize the financial sector and lay down an alternative institutional framework to provide financial services to the rural and urban poor to produce food self sufficiency and reducing unemployment for urban areas i.e. the aggregate effect is to alleviate rural and urban poverty. Most importantly experts observing and unsound financial practices of NGOs and government agencies recommended the regulatory framework to promote more systematic financial service provision and bringing microfinance in the country within the existing financial system.

Specifically, within this proclamation, the National Bank of Ethiopia (NBE) is primarily vested in with the power to licensing and supervision of the business of the MFIs. The bank determined the minimum startup capital to begin a MFIs service at 200,000. The micro credit and saving institutions in Ethiopia focus mainly on group based lending and promote compulsory and voluntary savings.

1.3. Addis Credit and Saving Institution

Improving access to financial services is an important development tool, because it helps in increase their income and consumption, which would in the final analysis reduce poverty. Lack of financial services, the absences of loan products, micro-insurance products, conveniences saving instruments and various other financial instruments are a major constraint limiting the accumulation of

assets by the poor and the development of indigenous enterprises (Peck and W/Yohannes, 2009:7).

So, Addis Credit and Saving Institution (AdCSI) is one of the major MFIs of the country operating to address the problem of the poor in Addis Ababa. Since its establishment in 2000, it has attracted a number of clients in its branches in all the ten sub-cities of Addis Ababa. Each sub-city is again equipped with kebele branches. Addis Ababa City Government is the major owner of the company and provides many supports to realize its vision and mission. AdCSI is highly subsidized and gets financial resource 97 percent from Addis Ababa City Government (Alehegn, 2007).

The mission of Addis Credit and Saving Institution is to become exemplary MFI in Ethiopia by making contribution to poverty alleviation, employment creation and women's empowerment. Moreover, the major objective of the institution include: develop the saving culture of the community beneficiary of the service, enlarge the community to develop self-confidence with particular attention to women's provide sustainable and reasonable loan service. Hence in this study the researcher focus on an assessment of the role of Addis credit and saving institution towards poverty alleviation.

2. Statement of the Problem

The key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder to development. The ladder of development hovers overhead, and the poorest of the poor are stuck beneath it. They lack the minimum amount of capital necessary to get a foothold, and therefore need a boost up to the first rung' (Jeffrey Sachs 2005:245).

The prevailing operations of the conventional financial institutions in many low income countries such as Ethiopia do not provide substantial credit and saving facilities to the poor.

In the Ethiopia government rural development strategy, the Poverty Reduction Strategy Paper (PRSP), including the most recent Plan for

Accelerated and Sustainable Development Program and other documents, among other things, considered microfinance as a good entry point in achieving development objectives as well as restraining the dangerous trend in poverty and meeting the Millennium Development Goals (Gobezie, 2008:3). Therefore, the Ethiopia government has become very interested in micro-finance and emphasizes that microfinance sector is crucial to meet the poor peoples' needs and to alleviate poverty.

As result, almost all MFIs including AdCSI are working based on poverty reduction mission in the country and poverty has remained the declared core objective in the government's (SDPRP). It has been given an adequate emphasis to the problems of urban dwellers. Ethiopia government's efforts to improve the living conditions of the rural population have begun to bear fruit whereas the incidence and severity of poverty have intensified in the urban areas recently. Addis Ababa contains about 26 *percent* of the total urban population of the counting. But, it is one of the least developed cities in Africa facing a major challenge of urban poverty and slum proliferation (Haregewoin, 2007:4).

Addis Ababa is presently suffering from a host of social and economic problems including widening income disparity, deepening poverty, rising unemployment, severe housing shortage, poorly developed physical and social infrastructure and the proliferation of slum and squatter settlements (UN-HABITAT, 2007:1).

According to Mills and Perenia cited in UNCHS (2000:4) urbanization is an integral process of development. It allows people to enjoy better service, education, health etc. Though urbanization provides opportunities, it is also the cause for deprivation, lack of access to essential needs of human beings, in-adequate income, etc. which are all manifestations of urban poverty, are quite common in urban areas.

Urban poverty is both a major cause and consequence of urban problem.

Addis Ababa, with the higher concentration of facilities per population than other urban centers in the country, enjoys a privileged position. Moreover, the city is not capable of accommodating the increasing population being attracted by the luring facilities and seemingly employment opportunity (Ibid). Therefore, in Addis Ababa, just like other urban areas of the nation, poverty is rampant and widespread.

Hence microfinance institution is recognized by the government as one of an effective tool to reduce poverty in Addis Ababa by providing financial services to those who do not have access to the commercial banks and financial institutions by providing the poor with credit and saving facility to start a small business and to create employment opportunities. It is also an instrument for supporting the economy and social conditions of the poor and women by facilitating access of health and education facilities and enhances the living standards of poor. So, this research is interested in assessing the role of microfinance institution in poverty alleviation in Kirkos sub city by taking AdCSI and clients as a unit of analysis. With reference to Addis Credit and Saving Institution, the researcher would like to address the following basic research questions.

3. Research Questions

1. How are MFIs targeting the poor, especially women in their service provision?
2. To what extent AdCSI schemes help beneficiaries to create employment opportunities, to generate income, to own assets and meet their basic needs?
3. What are the services/products provided and what results have been achieved?

4. What constraints/challenges do clients of AdCSI in Kirkos sub city are facing in getting and utilization of credit?

4. Objective of the Study

Microfinance institutions have been applied in Ethiopia with the ultimate goal of poverty alleviation. The general objective of the study is to assess the role of MFIs towards poverty alleviation and to identify the constraints that may be facing in the effort of the poor. The specific objectives are:

- To assess the role of AdCSI in creating employment opportunities and generating income needs for the poor as well as empowerment.
- To identify the kinds of services and products provided by the microfinance institution program to the poor.
- To draw conclusions about the applicability of microfinance in alleviating the poverty in urban area.

5. Significance of the Study

Microfinance has been viewed as one way of dealing with poverty by expanding service to the poor. With relation to this poverty, it is a fundamental problem in Addis Ababa Sub Cities and Kirkos sub city is one of them. Though government gives emphasis on poverty alleviation in rural areas through SDPRP by considering micro credit and saving institutions among others as instruments, currently, attention is given to reduce the deep rooted problems of urban dwellers.

Now- a- days, MFIs are working all over the country to provide credit and saving service to urban and rural poor who do not have access to financial services from conventional /formal banks. Therefore, it is important to assess the role of Addis Credit and Saving Institution to the beneficiary or the poor that is, the study would be helpful for AdCSI to evaluate its contribution towards urban poverty alleviation.

6. Research Methodology

6.1. Theoretical Framework to be Applied

In identifying the feature of urban poverty, from that of rural poverty, Moser describes urban poverty based on three specific characteristics of urban life: commoditization, environmental hazard, and social fragmentation. By commoditization she refers to the fact that urban households are for the most part obliged to pay for their food, shelter, transport and education in comparison to those rural dwellers. Moreover, employment is frequently illegal and insecure. The urban poor are affected by environmental problems including lack of environmental services (i.e. sanitation, water, drainage, and solid water management), poor quality housing, over-crowding, and settlement on marginal or degraded land. These factors increase health risks of the poor.

In terms of social fragmentation, the vulnerability of urban dwellers may also be high because community and inter household mechanisms for social security are less likely to operate in urban areas (Moser 1998:24).

Asset vulnerability framework put forward by Moser contributes to the growing evidence that points to the limitations of income poverty measurement and its inability to capture other factors affecting the poor as well as their response to economic difficulty. She summarizes the asset vulnerability framework based on assets of labors, human capital, productive assets and household relations. From the perspective of this asset vulnerability framework, therefore, poverty is characterized by not only a lack of assets and the poor inability to accumulate an asset portfolio but also by inability an appropriate coping or management strategy. The key issue in anti-poverty strategy is therefore to build up the asset base of the poor and to expand better their capabilities to manage their existing portfolio of assets (Ibid).

As this Asset Vulnerability Framework (AVF) provides a good theoretical framework for understanding and revealing with urban poverty, in this study it will be applied as tool to determine the roles of MFI in urban poverty alleviation.

6.2 Data Gathering Tools and Sample Size

Kirkos sub city is one among ten sub cities of Addis Ababa City Administration. Its neighbors are: in the north Arada sub city, in the south Nifas Silk Lafto sub city, in the east Bole and Yeka sub city and in the west Lidata sub city. The total area of the sub city is estimated about 14.72 square kilometers. The total population live in this area is 220,991, that is, male 103,314 and female 117,677. The sub city is established according to the proclamation No.1/1995 of Addis Ababa city administration, and it has 11 Kebele administrations; and 10 sub branches of micro finance institutions, 13 government, 21 public and, 48 private owned schools as well as 3 government and 96 private owned health institutions.

For this study both qualitative and quantitative data from primary and secondary source were used. The primary data was collected through close ended as well as open ended questionnaires for AdCSI clients. In addition, qualitative input was collected from office managers of Kirkos branch and sub branches of AdCSI through semi-structure interviews. Questionnaires were prepared in English, and translated into local language for the purpose of clarity. To gather data through questionnaires, in Kirkos sub branches, 153 respondents (clients) were included in the sampled. Moreover, out of 12 managers' 50 percent that is, 6 of them were interviewed to the study. In this sub city, there are 10 sub branches of AdCIs which are operating microfinance services. However, the researcher focused in 5 kebeles by taking 50 *percent* of the entire kebele branches due to two reasons: on one hand all sub branches are performing the same activities, on the other hand the researcher has limited time boundary.

According to AdCSI 2001 E.C budget year report there are 2976 (male 1280 and female 1696) active clients in Kirkos sub city branch. To make clear, the report shows each Kebele sub branch clients as follow:

Table 1.1: Active Clients of AdCSI in Kirkos Sub City (2001 E.C)

S.No	Kebele	No of Clients	Loan dispersed in birr	Saving
1	02/03	334	1,743,000	392,091
2	02/04	307	2,150,500	295,325.43
3	05/07	290	1,858,400	142,102.53
4	08/09	307	1,286,700	89,229.19
5	10	178	870,200	124,214.22
6	11/12	285	1,419,800	259,339.44
7	13/14	306	1,079,000	264,608.17
8	15/16	246	1,073,800	65,677.51
9	17/18	416	2,040,900	119,841.87
10	20/21	309	1,224,600	240,365.57
Total		2,976	14,749,800	2,791,996.51

Source: AdCSI 2001 E.C budget year report

Kirkos sub city is selected intentionally or deliberately due to the fact that the researcher has background knowledge and some hint concerning micro credit and saving institution of Kirkos sub city branch. Moreover, the focus area of five kebele branches of Addis credit and saving institutions are selected by simple random sampling technique.

Table 1.2: Sample of Clients from Total Population of Kirkos Sub City

S.No	Kebele	Total No Clients	Sample fraction of 10%
1	02/03	334	33
2	05/07	290	29
3	10	178	18
4	13/14	306	31
5	17/18	416	42
	Total	1,524	153

Source: AdCSI 2001 E.C budget year report

The secondary data like performance report and other relevant information were also collected from the institution branch office as well as sub branches offices. The researcher was used books, articles and journals for literature review. Moreover, information was collected from AdCSI official documents, and discussion.

In order to select respondents and officials of the Kirkos sub city branches, the researcher has applied systematic random sampling technique by taking the lists and the profile of clients and simple random sampling technique from sub branches respectively. Therefore, the researcher selected 153 clients from five sub branches (see Table 1.2).

6.3 Data Analysis Technique

To simplify the data analysis, the row data was coded and entered into computer for processing it using the statistical package for social studies (SPSS). Since, the research is descriptive and both qualitative and quantitative data analysis techniques were employed. Specifically, simple statistical analysis like percentage, mean, tabulation and graph was used in order to analyze the data easily.

7. Scope and Limitation of the Study

There are many MFIs in Addis Ababa City Administration but the scope of the study limits only on AdCI and their clients. Microfinance

covers a wide area of issues and the above theoretical framework encompasses urban poverty in terms of social, economic, political, cultural perspectives. However, the focal area of this paper has been more on the economy and social point of view. Since there are different factors that affect the situation of the clients, this paper didn't control those factors totally. The rest variables have been address to a certain extent. Therefore, the researcher deals from these perspective or dimensions.

Most of the people undertaking the micro and small level business are mostly illiterate and therefore the questionnaire might be a difficult tool to gather data. In order to avoid such inconveniences and for enhancing the return rate of the questionnaires the researcher was used data collectors who have knowledge of the research questionnaire. Moreover, Addis Credit and Saving Institution in Kirkos sub city has ten sub branches. However, the researcher included 45 *percent* of the entire population, that is, five Kebeles were included in research focus areas because of limited time and also due to the fact that all sub branches provide the same kind of service to the clients.

8. Organization of the Paper

The thesis has four chapters. The first chapter deals with the introduction which includes: background of the study, problem statement, research question and objective significance of the study, research methodology, and scope and limitation of the paper as well as organization of the study.

In the second chapter conceptual and analytical frameworks of the research are presented through reviewing related literature. Data presentation and analysis was undertaken in chapter three. The fourth and the last chapter was presented the summery of findings, conclusions and recommendations of the paper. A bibliography was follow chapter Four.

Chapter Two

2. Conceptual and Analytical Framework

This chapter reviews the basic concepts of poverty and microfinance. The first part related to concepts that repeatedly come up in this study. The second part includes poor people's Assets and Capabilities. The third part deals with microfinance approaches, microfinance and poverty alleviation. Finally institutional design for the poor, impact of microfinance, Challenge in Serving the Poorest and countries experiences is discussed.

2.1 Conceptual and Definition of Poverty

The definition and measurement of poverty is vague and fluid. Many authors define poverty in different ways by considering different criteria and indicators of poverty. Some researchers have defined the poor as that portion of the population, that is, unable to meet the basic nutritional needs. Others viewed poverty as a function of education and/or health using the measurement of life expectancy, child mortality, etc. level of expenditure and consumption are other criteria used to identify the poor. As Maanen quoted Jan Pronk's description of day to day reality of being poor as follows.

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

The poor are heterogeneous group which can be categorized into different levels according to their poverty status (Sebstad and Cohen 2001:4). In consideration of poverty line, people in countries of the world can broadly be divided into two categories: namely, poor and non-poor. The non-poor are living above and the poor are living below the poverty line. The poor may be further divided into destitute,

extreme poor and moderate poor. However, in this research the category of poor and non poor are used.

Poverty is also linked to lack of access by the poor house holds to the assets like human capital (access of education), natural (access to land), physical (access to infrastructure, social-political (such as networks and political influence over resources), or financial (saving, and access to credit) necessary for a higher standard of income of welfare (World Bank, 2000:10).

In development as freedom, Sen (1999:87) defines poverty as the deprivation of basic capabilities that provide a person with the freedom to choose the life she/he has reason to value. From this perspective, poverty is a condition with many interdependent and closely related dimensions which can be categorized as (a) lack of regular income and employment, productive assets (such as land and housing), access to social safety nets, and command over economic resources; (b) lack of access to services such as education, health care, information, credit, water supply and sanitation; and (c) influence on decision-making that affects one's life. It is generally accepted that poverty should be understood in a holistic way including economic, social and political dimensions.

Poverty is a complex problem and reducing it depends up on many interconnected factors, that is, why poverty can not be attributed to one main cause nor its reduction based on one main strategic. Economy growth is just one strategic element among many others related to poverty reduction (M.L. Narasaiad, 2007:2-6).

According to Johnson and Rogaly (1997) poverty is conceptualized in terms of lack of (a) income; (b) vulnerability (i.e. defencelessness's and security linked with assets, such as health and education, houses and domestic equipment, access to infrastructure... etc; and risk to which they are exposed, including illness and death...etc); and (c) powerlessness with in household and community due to differences in

caste, ethnicity, gender, age, and wealth. Poverty should be understood in broader context which includes empowerment, access to power, and the opportunity to participate in social and political activities.

According to Jeffery Sachs (2005:20) as a matter of definition, it is useful to distinguish between three degree of poverty: extreme (or absolute poverty), moderate poverty, and relative poverty. Extreme poverty means that households cannot meet basic needs for survival. They are chronically hungry, unable to access health care, lack of amenities safe drinking water and sanitation, can not afford education for some or all of the children, and perhaps lack basic shelter- a roof to keep the rain and of the hut, a chimney to remove the smoke from the cook stove and basic articles of clothing, unlike moderate and relative poverty, extreme poverty occurs only in developing countries. Moderate poverty generally refers to conditions of life in which basic needs are met, but just barely. Relative poverty is generally construed as a household income level below a given proportion of average national income. The relatively poor, in high- income countries, lack access to cultural goods, entertainment, recreation, and to quality health care, education, and other perquisites for up ward social mobility.

Absolute poverty is measured by defining poverty like: a minimum level of income, consumption or in a broad sense, access to goods and services necessary for an individual's survival. So, those who do not have there are said to be living below the poverty line. This means that the poverty line represents a minimum level of acceptance in a society at a particular time period (Smith, 2006:224). Some of the basic issues that surround poverty measurement are over all expenditure, absolute/relative and household or individual (Ibid).

Urban poverty has various manifestations and characteristics such as inability to acquire adequate income and productive assets, poor

access to basic services, networks, social discrimination and exclusion, and poor access to decision making (Wekwete 1999:43; Dube 1999:2). Levels of monetization, commoditization, spatial distribution of the populace in towns and cities all make a difference when we try to understand urban poverty.

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

2.1.1 The Concept of Microfinance

Microfinance is banking the unbankable, bringing credit, saving and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to sufficient collateral (Maanen 2004:17). In relation to the concept of microfinance Robison's description as follows:

Microfinance refers to small scale financial service primarily credit and savings provided to people who farm or fish or herd; who operate small enterprises or micro enterprises where goods are produced to individuals and groups at local level of developing countries: both rural and urban. Many such households have multiple sources of income. Microfinance services can help low-income people reduce risk, improve management, raise productivity, obtain higher returns on investments, increase their incomes, and improve the quality of their lives and those of their dependents (Robison, 2001:9).

As Bystrom is also quoted United Nations description, microfinance can be defined as the sustainable supply of small-scale financial services such as credit, savings accounts, and insurance to poor and low-income people. Microfinance institutions are the banks

organizations providing these finance services and today most of them operate on a non-commercial basis. The primary role of the many thousand MFIs or bank of the poor, that currently operate worldwide is to support the strong (Bystrom, 2008:1, Vol. XX).

In broader understanding, Ledgerwood described that financial service generally including saving and credit; however, some MFIs also provide credit cards, payment services, money transfers, and insurance service. Besides, many MFIs provide social intermediation services such as group's formation, development of self-confidence, and training in financial literacy and management capabilities among members of a group. Thus, the definition of microfinance often includes financial and social financial intermediations (Ledgerwood, 1999:1). Microfinance clients are typically self-employed, low-income entrepreneurs in both urban and rural areas. Clients are often traders, street vendors, small farmers, service providers (Hairdressers, rickshaw drivers), and artisans and small producers, such as black smiths and seamstresses (Ibid).

According to Ledgerwood and White (2006:30) microfinance refers to the provision of financial services, primarily but not exclusively saving and credit, to poor households, those do not have access to formal financial institutions. Many countries use quantitative approaches to define the segments of the population that can be targeted for microfinance products and service. Therefore, this research identifies the different service provision of microfinance in Addis Credit and saving Institution to the urban dwellers.

2.1.2. The Evolution of Microfinance

The microfinance revolution has changed attitude towards helping the poor in many countries and some has provided substantial flows of credit, often to very low income groups or households, who would normally be excluded by conventional financial institutions (John Weiss, 2005:247).

As Robinson describes, the microfinance revolution developed in the 1980s, that is, before it has a name and came of age in the 1990s. It occurred when the many advances of previous decades in market knowledge, lending methods, and savings mobilization were combined with a commercial approach to financial intermediations for low income people. In addition to these, it accelerated growth in the number of microfinance institutions created and an increased emphasis on reaching scale. Internationally, a microfinance industry began to develop (Robison, 2001:54).

Microfinance has been as accepted idea with a longer run than most in the realm of third world poverty reduction. If one counts the time from the advent of micro credit, it has been around for about half the six- decade-long lifespan of official development assistance. Suddenly, microfinance was a subject of discussion where it had never been before. Micro credit evolved slowly. From the 1950s through to the early 1970s the development endeavor focused much on economic development and still toyed with the notion of industrial development, a kind of catching-up with the west by replication and imitation. As development thinking focused more on the intractable nature of poverty in the early 1970s, the low poor and their immediate needs paramount (Dichter and Harper, 2007:1-2).

According to Honohan and Back (2007:141) microfinance can service the financial needs of the poor. Its revolution has given MFIs the confidence to provide deposit and lending services to poor people.

2.2. Poor People's Assets and Capabilities

Poor women and men need a range of assets and capabilities to increase their wellbeing and security as well as their self confidence. So, they can negotiate with those more powerful. Because poverty is multidimensional, so are these asset and capabilities.

“Assets” refer to material assets, both physical and financial. Such assets-including land, housing, livestock, saving, and jewelry-enable

people to withstand shocks and expand their horizon of choices. Assets can be individual or collective. The extreme limitation of poor people's physical and financial assets severely constrains their capacity to make fair deals for themselves and increases their vulnerability. Capabilities are inherent in people and enable them to use their assets in different ways to increase their wellbeing. Human capabilities include good health, education, and production or other life-enhancing skills (World Bank, 2002:15).

2.3. Microfinance Approaches

There are different approaches to microfinance service provision to the poor. It can be categorized as poverty lending vs. financial system approach, minimalist vs. integrated approach and business vs. developmental approach. Let us discuss as follows.

Poverty Lending Vs Financial System Approach

Government organizations and donors agree that MFIs can contribute to poverty reduction. However, there is less consensus about the degree to which, how and when poverty can be reduced through microfinance. According to Robinson (2001:7), it divides that the financial system and the poverty lending approaches. Both approaches share the goals of making financial services available to poor people across the world.

However, the poverty lending approach focuses on poverty reduction through credit and other services provided by institutions that are funded by donor and government subsidies and other concessionary funds. The priority goals are to reach the poor at lower, especially the poorest of the poor, with credit. Except for mandatory savings to microfinance, many institutions using the poverty lending approach provide micro credit to poor borrowers sustainably, due to their low interest rates on loans for full cost recovery. Moreover, they do not meet the demand among the poor for voluntary saving interest (Robinson, 2001:7).

On the contrary, the financial service approach focuses on commercial financial intermediation among poor borrowers and savers; its emphasis on institutional self-sufficiency. With world wide unmet demand for micro credit estimated in the hundreds of millions of people and characterized by requests from credit worthy borrowers for continuing access to loans of gradually increasing size, government and donor funds can not possibly finance micro credit on a global scale. Commercial microfinance is not appropriate, however, for extremely poor people who are badly malnourished, ill and without skills employment opportunities. Starving borrowers will use their loans to buy food for themselves or their children. Such people do not need debt rather they need food, shelter, medicines, skill training and employment for which government and donor subsidizer and charitable contributions are appropriate. For these people, microfinance is the next step-after they are able to Work. From the above discussion, poverty lending approach seems to be more appropriate towards the poorest of poor in addressing their problems (Robinson, 2001:8).

Minimalist Vs Comprehensive Approach

Poverty reduction focused microfinance service providers are divided into two approaches in terms of their view on microfinance products services; minimalist and integrated. According to Sabharwal, minimalist approach emphasizes, often exclusively on credit access which it sees as the 'missing piece' for poverty reduction (Sabharwal, 2000:15). Advocates of this approach restrict their service only to the provision of credit and saving facilitates making the credit responsible to make the best out of the loan delivered.

In contrast, integrated approach refers to the provision of non financial services such as training in health, literacy, social action and environmental awareness besides financial service (Hickson, 2001:64). The supporters of this approach acknowledges that credit alone may not be enough to ensure stable employment and productivities for the

reason that the causes of poverty at the grass roots level are multidimensional ranging from economic and social problems to lack of marketable skills and resource management know how (Amha, 2003:8). This research attempted the integrated approach to see how the cases integrate their financial services with other non-financial services in Ethiopia.

Business Vs Development Approach

The first objective of MFIs is the provision of basic financial services to the poor. However, the service provision depends on their approaches. There are two contesting approaches among microfinance supporters: business approach and development approach. According to Van Maanen (2004:53), business approach primarily focused on organizational achievements such as repayment, cost recovery and profitability. Hence, their concern is 'how to develop the industry' rather than how to develop the community.

On the other side, development approach emphasis more on break even, impact on credit and on how the client is doing rather than profitability. Supporters of this approach argue that the clients should participate in awareness and capacity building programs before taking there loans. Looking these different approaches, Van Maanen in his work concluded that:

The basis difference seems to be whether the MFI should be seen as a business, be it with a development mission or a developmental body, and be it with a business character. [...], the answer depends on the type of clients the MFI wants to serve; if the MFI aims at clients deep down the poverty pyramid...the approach of the development should prevail. If they look for clients who could eventually "graduate" to the formal sector, the sound business approach is more logical (Maanen, 2004:55).

Therefore, the development approach gives emphasis not only to building institutions for sustainable provision of services, but also empowering the poor people to get the most out of the services delivered, this research paper adopts the development approach of analyze the functioning of AdCSI, financial products, services and

their integration with non-financial services are given an indication as well as poverty lending approach is so much as related with the provision of product or service to the poor.

2.4. Microfinance and Poverty Alleviation

Poverty has become the primary concern of less developed countries for the last two decades now. Therefore, poverty alleviation has become the most important challenge faced by policy makers and practitioners who have been trying to improve the lives of their poor. Although poverty alleviation has featured as a priority developmental goals of governments of LDCs, the outcome has not largely been as expected. Experience shows that government hand outs and aid to poor communities and households had insignificant or no contribution to poverty reduction of alleviation in the shortest possible time (Zaid Negash, 2002:19).

A new breakthrough has been recorded when efforts to fight poverty started by enabling people to create their own jobs and generate revenues. Consequently, the provision of finance to the poor was recognized as a means through which poverty and exclusion could be alleviated more effectively. The micro credit campaign has four care themes reaching the poorest, empowers women, building financially self-sufficient institute and ensuring a positive measurable impact in the lives of clients under their families (Ibid).

According to Weiss (2005: 250), in recent years there has been a significant shift in both thinking and practice in the micro-finance sector with MFIs coming to be seen as providing a range of financial services to the poor, including savings facilities, not just micro credit.

In terms of understanding poverty a simple distinction can be drawn within the group poor between the long term or chronic poor and those who temporarily fall into poverty as a result of adverse shocks the transitory poor. On the other hand, chronic poor one can distinguish between those who are either so physically or socially

disadvantaged that without welfare support and the larger group who are poor because of their lack of assets and opportunities. Moreover, within the non-destitute category one may distinguish by the depth of poverty i.e. how far households are below the poverty line, with those significantly below it representing the core poor sometime categorize by the irregularity of their income (Weiss 2005).

In principle microfinance can relate to the chronic (destitute) poor and to the transitory poor in different ways. The condition of poverty has been interpreted conventionally as one of lack of access by poor households to the assets necessary for a higher standard of income, whether assets are thought of as human (access to education), natural (access to land), physical (access to infrastructure), social (access to networks of obligations) or financial i.e. access to credit (World Bank cited in Weiss 2005: 251). Lack of access to credit is readily understandable in terms of the absence of collateral that the poor can offer conventional financial institutions. Moreover the various complexities and high costs involved in dealing with large numbers of small, often illiterate borrowers. Microfinance institutions try to overcome barriers through innovative measures such as group lending and regular saving schemes as well as establishment of close links between poor clients and staff of the institutions concerned (Ibid).

According to Zeller and Meyer (2002:297) many difficulties remain that need to be resolved in view of the ambitious objectives attached to micro finance programs. In relation to the microfinance there are two main issues require clarification. First a large number of poor households still lack access to financial services. Impact studies indicate that the poorest of the poor do not participate in microfinance programs, in part because the necessary environment is not yet in place to support their needs. Second, most of the microfinance institutions have not yet been able to demonstrate their capacity to reach a break even point that would allow them to operate without subsidies.

Weiss points out that the case for microfinance as a mechanism for poverty reduction is simple. If access to credit is improved, it is argued, the poor can finance activities that will allow income growth, provided there are no other binding constraints (Weiss, 2005:251). This is a route out of poverty for the non-destitute chronic poor.

For the transitory poor who are vulnerable to fluctuations in income that bring them close to or below the poverty line, microfinance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself that can be drawn on. The avoidance of sharp declines in family expenditures by drawing on such credit or savings allows 'consumption smoothing' (Ibid).

However, there are inconclusive arguments on the impact and the role of microfinance and micro credit programs in poverty reduction. Proponents of microfinance consider that Poor's access to credit boosts an income level, increases employment at the household level and thereby alleviates poverty.

Also that, credit enables poor people to overcome their liquidity constraints and undertake some investments. Furthermore that credit helps poor people to smooth out their consumption patterns during the loan periods of the year (Okurut et al 2004). By so doing, credit maintains the productive capacity of the poor households.

Evidence by Coleman (1999) suggested that the village bank credit did not have any significant impact on physical asset accumulation; production and expenditure on education. The women ended up in a vicious cycle of debt as they used the money from the village bank for consumption and were forced to borrow from money lenders at high interest rates to repay the village bank loans so as to qualify for more loans. However, impact for women who had access to bigger cheaper loans from the village bank was significant. The main conclusion of

the study was that credit is not an effective tool for helping the poor to enhance their economic condition and that the poor are poor because of other factors (like lack of access to markets, price shocks, un equitable land distribution) but not only lack of credit.

Fisher and Sriram (2002) stress that access to microfinance services protects the poor against the often severe consequences of fluctuating incomes, ill health, death and other emergency expenditures. Despite the vast claims that microfinance credit works best for the poor people, Johnson and Rogaly (1997) argue that poorest borrowers become worse off as a result of credit and that it makes them vulnerable and expose them to high risks. Therefore, this study needs to have assessed the microfinance contribution to alleviate the poverty.

2.5. Institutional Design for the Poor

Appropriate institutional design will lead to better achievements in outreach but may or may not necessarily lead to profitability, efficiency and sustainability because the more the program targets the poorest, the less the cost recovery and profit margin expected. Moreover, reasonable achievements of the program will have positive impact on the poor clients and positive impact on the poor will lead to poverty reduction (Johnson and Rogaly, 1997: 3-4). Recent microfinance interventions have made use of a range of design features (Johnson and Rogaly, 1997:3). Although there are different designing features, this research focuses on some of them.

2.5.1 Lending Methodologies

MFIs are using different modals to provide financial services to the poor. Robert Cull et al, in their global analysis of lending micro banks, found three main categories: Group, Individuals, and Village Banking Models (Cull et al 2007). On the other hand, according to Ledgerwood (1999:82), MFIs approaches or modals are: individual lending, German Bank solidarity lending, Latin America solidarity lending,

village banking and self-reliant village banks models. According to Johnson and Rogaly, the rationale of group lending is that if a member is having difficulty with repayments, other in the group will put pressure on the member to repay. Moreover, that if this pressure fails and the member defaults on the loan, the whole group will repay the loan on behalf of the members' (Johnson and Rogaly, 1997:328) while many schemes use groups, Hulme and Mostey (1996) concluded that group formation may exclude some poor people, especially when the group is formed based on religion, ethnicity, sex, etc (Vigenina and Kritikos, 2004). As a result clients may prefer other models like individual and village banking.

The solidarity group lending model makes loans to individual members in groups of four to seven. The members cross guarantee each other's loans to replace traditional collateral. Clients are commonly female market vendors who receive very small, short-term working capital loans. Payments are made weekly at the program office. The model also incorporates minimal technical assistance to the borrowers, such as training and organization building. Group members normally receive equal loan amounts, with some flexibility provided for subsequent loans (Ledgerwood, 1999:84). Savings are usually required but are deducted from the loan amount at the time of disbursement rather than requiring the clients to save prior to receiving a loan. Savings serve primarily as a compensating balance, guaranteeing a portion of the loan amount (Ibid).

Individual lending is defined as the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment. It requires frequent and close contact with individual clients to provide credit products tailored to the specific needs of the business. Individual lending is most successful for larger; urban-based, production-oriented businesses and for clients who have some form of collateral or a willing cosigner (Ledgerwood, 1999:83). Village banking was designed in the early 1980s in Latin America by John

Hatch and his associates at the Foundation for International Community Association (FICA) to provide asset building loans to poor women in Bolivia. Membership in village bank usually ranges from 30 to 50 people, most of whom are women. Membership is based on self-selection. The bank is financed by international mobilization of members' funds as well as loans provided by the MFI (Ibid).

Village banking 3 group is a support group usually women- who meet weekly or biweekly to provide themselves with business; an incentive to save and a means of accumulating savings and a community based system that provides mutual support and encourages personnel empowerment.

2.5.2 Subsidized Credit Vs Market Interest Rates Model

In addition of the above model, according to (Holt, 1994; Robison, 2001:72) under subsidized credit model, credit was subsidized because poor people have no capacity to pay high interest rate. Government and donors subsidize microfinance programs with the objective of contributing to poverty alleviation strategies. The critique to this credit model is that credit was seen as a means to impoverishment in a sense that it makes the poor in more debt that they are not able to repay and the program often does not reach low income groups.

On the other hand, market interest rate model refers to the rate that arises from interplay of supply and demand in some defined range of transactions. Market rate is used to refer to the rate at which commercial banks and their conventional customers conduct deposit and loan transactions. Loan interest rates are called 'subsidized' or 'unsubsidized' depending on whether they cover the full cost of providing the loan. Delivering microfinance services at many small, scattered locations is considerably more expensive than providing

clients with services for large loans and deposits in centrally located urban banks (Robinon, 2001:30).¹

2.5.3 Progressive Lending Vs Frequent Repayment Model

Progressive lending refers to the system by which borrowers obtain increasingly larger loans if repayment is made promptly. As long as the system is credible and alternative sources of finance are less attractive, this type of incentive can enhance repayments (Murdoch, 1999).

Frequent repayment schedules are also seen to act as an added mechanism to secure repayment. As most MFIs collect repayments before investments bear fruit, they are in fact lending the borrower's steady income stream and hence, securing part of the loan repayment even if projects fail (Nissanke, 2002: 5).

2.5.4 Consumption Smoothing Vs Productive use Model

Credit is an important instrument that can be used effectively and productively when it is given to the loans and the willingness to repay them. The term economically active poor is used in a general sense to refer to those among the poor who have some form of employment and who are not severely food deficit or destitute (Robinson, 2001). When loans are provided to the poorest people, the borrowers may use the loan for consumption smoothing and may not be able to use the loan effectively for productive purpose (Hulme and Mosley, 1996).

2.5.5 Products and Services

According to Ledgerwood (1999:64), providing microfinance services to marginal clients is a complex process that requires many different kinds of skills and functions. There are four broad categories of products/services that may be provided to microfinance clients: namely (a) financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards

¹ This definition is for FINCA's website

and payment services, (b) social intermediation or the process of building the human and social capital required by sustainable financial intermediation for the poor, (c) enterprise development services, non financial services that assist micro entrepreneurs include business training, marketing and technology services, skills development and sub sector analysis; (d) social services or non-financial services that focus on improving the wellbeing of micro entrepreneurs include health, nutrition, education and literacy training. Social services are likely to require ongoing subsidies, which are often provided by the state or through donors. However, the degree to which MFI provides each of these services depends on whether it takes a minimalist or integrated approach.

2.5.6 Targeting the Poor

According to Ledgerwood, targeting the poor clients depends on the objectives of the microfinance service provider and the perceived demand for financial services. These objectives include: to reduce poverty, to empower women or other disadvantaged population groups, to create employment, to help existing business grown or diversity their activities, to encourage the development of new businesses etc. (Ledgrwood, 1999:34).

Direct targeting refers to the allocation of a specific amount of found to provide credit to a particular sector of the economy or population. It is founded on the belief that because certain groups (the poor, specific castes) or sectors are unable to access credit (or to access it at affordable prices), credit must be made accessible through a governmental or donor mandate. These allocations of specific amount of funds are to provide poorest of the poor women, the indigenous population or the economically active poor. Direct targeting leads to credit diversion and low repayment. Further more, potential clients who have profitable but un financed or under financed businesses may be excluded because they do not fit the profit. Alternatively,

people who do match the qualifications and receive credit may not have entrepreneurial skills or a profitable venture in need of financing (Ibid).

Indirect targeting refers that products and services are designed for and aimed at people who are people beyond the formal finance, instead of mandating specific funds to particular groups. MFI that seeks to provide the very poor with credit should design its loan products so that the relatively high interest rates and weekly attendance at group meeting. More affluent clients usually see this as an inconvenience, which makes the credit attractive only to poorer clients.

The primary difference between direct and indirect targeting lies in the means that the MFI uses rather than in the target group. Both direct and indirect targeting may reach the same population groups or economic sectors, but direct targeting imposes eligibility criteria, while indirect targeting designs appropriate products and services (Ledgerwood, 1999:35).

Dunford and Denman (2000) argued that the small loan size, high interest rate, short loan duration, the frequent repayments, and dependence on group guarantees and weekly attendance at group meetings are all factors assumed to make the program unattractive to people who have other sources of credit as an indirect method. However, when easier finance options are not available to the not-so-poor, the demand for credit may be so high that even they are willing to tolerate the unattractive features of group-based poverty leading.

According to Armendariz and Morduch (2005:138-139) the Grameen Bank has bound microfinance to creating opportunities for poor women. The bank lent originally to large numbers of men, in addition to women, keeping both groups and centers segregated by sex, when the focus shifted in the early 1980s, the move was mainly a response to growing repayment problems in male centers, and by the end of

that decade well over 90 percent of clients were women. At the end of 2002, 95 percent of clients were women.

On the other hand, according to Ledgerwood (1999:37), MFIs empower women by increasing their economic position in society. The provision of financial services directly to women aids in this process. Women entrepreneurs have attracted special interest from the institutions because they almost always make up the poorest segments of society and are responsible for child rearing including education, health, and nutrition and they often have fewer economic opportunities than men. It has been argued that an increase in women's income benefits the household and the community to a greater extent than a commensurate increase in men's income.

The facts of women in cultural barriers that often restrict them to the home making it difficult for them to access financial services. Women have more traditional roles in the economy and may be less able to operate a business outside of their homes. Moreover, women often have disproportionately larger household obligations. Commercial banks are unwilling to lend to women or mobilize deposits from them.

Women's access to property is limited and their legal standing can be precarious, women have fewer sources of collateral. They have lower literacy rates, which makes it more difficult for them to deal with financial systems that depend on written contracts. Women have demonstrated higher repayment and savings rates than male clients (Ibid).

Johnson and Rogaly argued that microfinance interventions may lead to empowerment for women by increasing their incomes and their control over that income, enhancing their knowledge and skills in production and trade and increasing their participation in household decision making. As a result social attitudes and perception may change and women's status in the household and community may be

enhanced (Johnson and Rogaly, 1997:38). Moreover advocates argue that microfinance can increase women's bargaining power within the household. Women will become "empowered" and enjoy greater control over household decisions and resources.

2.5.7 Mobilizing of Savings

According to Ledgerwood and White (2006: 3-6) underlying the performance of successful microfinance intermediaries are some basic tenets including saving mobilization. These principles are especially important for microfinance institutions transforming to regulated financial intermediaries because such institutions tend to have little prior experience with either public savings or financial intermediation. Developing countries show considerable similarity in the ways poor people save in the informal sector in the reasons, they save and in the way they match the types of savings with the particular purposes for which they save. Evidence shows that a wide range of countries, cultures and economics show that economically active poor saver want for their financial institution. Low income saver wants security, convenience, liquidation, confidentially, a choice of products, appropriate for their needs, helpful, and friendly service, and potential access to loans. Then the MFI can develop products and services that meet the needs of poor people better than they can do by likely to draw large numbers of saver. Therefore, the research attempts to analysis the saving of money as accumulation of assets. Term deposits are savings accounts that in a specified amount of time. They provide the lowest liquidation and the highest returns. MFI pay the higher rate of return to the saver and the term of deposits range from one-month term to several years; they allow the MFI to fund loans for a period of time just of the deposit time. According to Weiss (2005:252) most microfinance schemes charge close to market clearing interest rate (although these will often not be enough to ensure full cost recovery given the high cost per lost per loan of small-scale lending).If the core poor cannot afford high interest rates they will either nor take up the

service or take it up and get into financial difficulties. Also where group lending is used, the very poor may be excluded by other members of the group, because they are seen as a bad credit risk jeopardizing the position of the group as a whole.

2.6 Outreach and Financial Performance

This section focuses on the achievements expected from MFIs as a result of products and service:

2.6.1 Outreach

Outreach can be measured in terms of breadth (number of clients served and volume of services) or depth (the socioeconomic level of clients that MFIs reach) (Lafourcade et al 2005:4). In addition to this, Richard Meyer (2002) noted that outreach is a multidimensional concept. In order to measure outreach, Meyer emphasized on the number of poor clients served that were previously denied access to formal financial services; the number of women served since women face greater problems than men in accessing financial services; depth of poverty that shows how well MFIs reach the very poor. Finally, the variety of financial services provided because the poor demand and their welfare will be improved if efficient and secure savings, insurance, remittance transfer and other services are provided in addition to loans (Meyer, 2002:4). According to Ledgerwood (1999:39) MFIs commonly measure their outreach of services in terms of scale or the number of clients they reach and depth or the level of poverty of their clients. The depth of outreach achieved by an MFI will depend to a great extent on its objectives and its ability to design products and services suitable to the level of poverty it is targeting.

2.6.2 Financial Performance

MFIs earn financial income from loans and other financial services in the form of interest fees, penalties, and commissions etc. These financial assets, such as investment income. MFIs' financial activities also generate various expenses, from general operating expenses and

the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable institutions earn a positive net income i.e. operating income exceeds total expenses. In order to measure the overall financial performance, financial revenue and financial expense indicators as well as returns can be compared against the institutional of equity and assets (Lafarcade et al, 2005).

Efficient and effective institutions reach number of poor people with minimum costs of delivering service. The efficiency of an MFI can be calculated in various ways; Lafarcade et al used operating expense ratio, costs per borrower and costs per staff member and savers per staff members. Productive MFIs maximize services with minimal resources, including staff and funds (Lafourcade et al, 2005:11).

2.7 Impact of Microfinance

In the year 2000, the United Nations drew up a list of Millennium Goals² which aims to spur development and eradicate extreme poverty. In 2002, Murdoch and Haley were authorized to determine the impact that microfinance has on the realization of the seven Millennium Goals. In an extensive work, Murdoch and Harey concluded that 'there is a ample evidence to support the positive impact of microfinance on poverty reduction as it relates to the first six of the seven millennium goals'. The study of shows that clients who participate in microfinance programs have increased household income, better nutrition and health, the opportunity to achieve higher education, a decreasing in vulnerability to economic shock, greater empowerment, and in some cases, the ability of completely life themselves and their families out of poverty (Murdoch and Haley 2002:5).

Poverty reduction through 'poor' growth has become a central concern to policy makers and a focus of development programming microfinance is considered to be an effective tool for reaching the poor and stimulating the transformation of the vicious circle of poverty into

a virtuous cycle of economic advancement. In deed, public discourse on micro credit has often presented as a panacea for poverty reduction. Much of the legitimacy of the argument which associates micro credit with poverty reduction rests on the perceived success of the Grameen Bank, which comes to serve as a model of the virtuous outcome of credit for poor women in Bangladesh (Lont and Hosper, 2004:27).

Over the last two decades, the micro credit sector has grown fast, as has the enthusiasm and belief of its proponents that lending to the poor will reduce global poverty. The efficiency of microfinance's are rising in respect of its impacts on the poor, and some of the globally institutions are rethinking their practices. They prove small loans to poor families need to have access to public funding during the early years of their operations. The public funding will eventually be phased out as institutions achieve financial sustainability (Ibid).

Zeller and Meyer (2002:221) review and synthesis of empirical evidence until the early 1980s only a handful of microfinance intermediaries existed; today the number of microfinance institutions are reaching 7,000 approximately 16 million poor people. The spectacular growth by the microfinance industry has been fuelled not by anonymous market forces, but by deliberate actions of national governments, non governmental organizations and donors who view microfinance as an effective tool for alleviation poverty. This view is based on the assumptions that poor households have worthy activities that could potentially raise their living standards. Microfinance helps household's smooth consumption in the face of decline in health of adult family members. Bangladesh is strong and positive and probably is the clearest evidence there is that microfinance is working in the way intended to bring sustained relief from poverty. The programs had a positive effect on household consumption, which was significantly greater for female borrowers (Weiss: 258).

Other scholars (Wright 2000:31, Simanowitz and Walter 2002, Cherston and kuhn 2002), also argued that microfinance contributes to increased income, consumption smoothing, better health and nutrition, improvement in school attendance and empowerment. All of these benefits are interconnected; the improvement of one will invariably have a positive effect on the others. The combined enhancement in all areas of life brings a marked increase in living conditions for the poor and a new message of hope for the eventual reduction of poverty. However, according to David Hulme (2000:79), although some scholars support that microfinance has positive economic and social impacts on the poor, others argued that microfinance has negative impacts on the poor clients. There are also in between who supports the positive impact but not necessarily for the poorest, as claimed. Therefore, this research contributes on this debate.

2.8. Challenge in Serving the Poorest

The challenges of reaching the poorest population with microfinance include physical and economic barriers; self- selection and self-exclusion as well as sector risks and the deprivation of extreme poverty it self. Maes (2006) has put main challenge of microfinance institution in serving the poorest such as economic barriers, physical barriers, sector risk, self selection, self Exclusion, and Impact of chronic poverty.

Economic barriers: many microfinance programs use group lending methodology clients to attend a weekly or monthly meeting to access credit. The cost of transportation to this meeting, together with the opportunity cost of attendance can present a barrier for the very poor to participate microfinance programs. Alternatively many, individual lending or saving programs require clients to save a certain amount before they can by the poorest populations.

Sector Risk: very poor people are often dependant on subsistence economies and the unique requirements of financing such activities (payback of the loan fore instance, can only take place after the production period that often lost several months), microfinance institutions usually shy away from lending to this sector.

Self selection: it is well known that solidarity groups in Grameen style microfinance programs and village banks reject very poor members because thus risk the credit value of the entire group.

Self Exclusion: Even when very poor people are not actively excluded by a community, they often opt out of community related projects because they are intimidated, believing that the services offered by such project are not suited to their needs. To strengthen this point, Fisher and Sriram (2002) points out that Poor people are excluded not only by better off members, but they also exclude themselves.

Impact of chronic poverty: living in absolute poverty for a prolonged time strongly affects a person's dignity and hope for the future, as well as his or her ability to take initiative and overcome stigma. Moreover, poor health (especially chronic diseases such as malaria HIV/AIDS) presents a major obstacle for conduction success full micro-enterprise activities (Maes, 2006).

2.9. International Experiences on Micro-Finance

Today most countries try to encompass the program of microfinance their strategies of development. Therefore, it becomes important to deal with the experience of some countries regarding microfinance institutions.

Microfinance and Financial Sector Diagnostic Bangladesh (World Bank, 2009:12-57)

The most common account is that the microfinance industry has its roots in Bangladesh with the Grameen Bank and it's on Bangladesh focus. Microfinance services in Bangladesh are provided by NGO,

MFIs microfinance banks; government programs nationalized commercial banks and private commercial banks. Group based lending methodologies prevail (World Bank, 2009).

According to Bangladesh bank NGO-MFIs (estimated at 5000 in number) are the largest providers of microfinance service in the country serving 61 percent of all borrowers. A striking 90 percent of MFI clients are women and the average loan size is about BDT 4000(\$57). The average interest rate on saving is 5 percent, the service charges on credit range from 10 to 20 percent for flat collection. The total loan portfolio of the microfinance borrowers, taking in to account their cross-indebtedness to different microfinance providers, they likely number 18 million. It is estimated that just over 60 percent of them have incomes below the poverty line (World Bank, 2009).

Given that financial education is not widely recognized as being an important measure for improving the country's development there are currently no noteworthy, broadly applied national wide financial education program in Bangladesh. Bangladesh bank has, however, established a training academy to develop professionals in the banking sectors. Microfinance activities in Bangladesh are regulated by the micro credit Regulatory Authority Act of 2006, which establish the oversight body for microfinance activities, the micro credit Regulatory Authority. The goal of the Act is provide on all encompassing regulatory framework for microfinance with in Bangladesh and improve transparency and accountability with in the sector (World Bank, 2009).

The Act stipulates that all MFIs must obtain license before carrying out microfinance activities. As of February 2007, 4236 MFIs had applied for a license minimum criterion require that on MFIs have either a minimum of 1000 borrowers or BDT 400 million in loan principal outstanding. Under the Act, MFIs are allowed to provide loans, advice, and support to poor people; accept deposits from their

members; provide insurance services and their social development-oriented loan products for clients; and receive refinancing.

Transformation Microfinance Institutions providing full Financial Services to the Poor in Uganda (Joanna Lendgerwood and Victoria White: 2006-459)

Uganda microfinance (UM) received official notice from the bank of Uganda microfinance limited had been licensed as microfinance. Deposit taking institution. Long anticipated this notification market the realization of a long-term vision that motivated two aspiring entrepreneurs to launch UM in August 1997, as well as the culmination of three years of intensive preparation, planning, and negotiation.

From UM initial days, the founders were clear about their vision for the organization to offer quality financial services to micro entrepreneurs and low income people living in Uganda. When presented with the opportunity to change institutional form and come under the supervision of the bank of Uganda to offer even more services as well as to access broader sources of funding and expand operations.

Unlike other MFIs operating in Uganda at the time, Uganda microfinance was never a one product organization. The organization started operations by offering a range of credit products and today offers micro enterprise working capital loans (both group and individual), various loan products for salaried employees, a home improvement loan, a school fees loan, and a small and medium enterprise loan. Uganda microfinance lending methodology included a compulsory savings components, mandated at 20 percent of the loan amount for some of its products. UMF believed the demand for savings services would be quite high, particularly outside Kampala. In addition, because Uganda capital markets are not yet well developed,

deposits represented the best source of local funding for loan portfolio for the longer term (*Lendgerwood and White, 2006-459*).

2.10. An Over View of Addis Credit and Saving Institution in Ethiopia (AdCSI, 2001:1-8)

Addis credit and saving Institution (AdCSI) is a micro financial institution which operates within the boundaries of Addis Ababa city administration. It was established and registered at the national bank of Ethiopia on January 2000 according to the bank of (NEB) proclamation No.40/1996. The major services given by AdCSI are; providing credit service to micro and small enterprise potential operators counseling and provision of advice for the targeted group on business and financial affairs, facilitating business development services for clients, affecting payment and collecting revenue for other institutions city Administration through 10 sub cities of Addis Ababa. Loan disbursed, saving mobilization, numbers of clients from years 1997-2001E.C (Appendix-3).

Objective, Mission and Vision of the Intuitionist

AdCSI vision is to become can active contributor towards poverty reduction efforts and would like to see improvement in the life of low income people. And its mission is promoting micro and small enterprises to alleviate poverty and unemployment prevailing in Addis Ababa city administration territory through provision of sustainable financial and other related services with particular attention to women. Having this vision and mission, the institution has broad objectives such as: Provision of credit and saving services to as many active poor as possible; Enhancing the development of micro and small enterprises; Giving the priority to women in the provision of financial services; Creating long term self employment income generating activities; Enhancing the culture of saving by target people and wider public; Assume financial and operational self sufficiency of the institution.

Operational Lending Models

Similar to other parts of the world, MFIs in Ethiopia focus mainly on group-based lending and promote compulsory and voluntary savings. They use a solidarity group approach, whereby clients join into groups of 3-7 members and co-guarantee each other's loans. These groups meet on the weekly or monthly bases to make loan repayments and savings deposit. Working through groups is considered as an effective means to expand outreach and reduces the transaction costs for MFIs. A few MFIs deliver services through traditional social groups like *Idir* whose members also guarantee each other's loans. The co-guarantee mechanism within the groups serves as an alternative form of collateral. In addition to group lending methodology, most MFIs use individual lending on the basis of physical or other collateral. Starting in the mid of 1995 E.C change in policies, procedure and methodology of the institution has started to provide this individual loans. Cooperatives and joint ventures are also entertained on the same line.

Type of Loan Products

There are four types of loan products such as micro business loan sometime called general loan, small business loan, micro lease and housing loan. Micro business loan product has a nature of installment and it is disbursed for this type of loan ranges from 700 birr to 5000 birr. The second type of loan is small business loan, disbursed relatively for well established businesses and technical and vocational school graduate students who want to enter in to productive ventures and the size of the loan is usually greater than 5000 birr and less than 50,000 birr for each entrepreneur. Micro lease loan disbursed for the purchase of machines according to the choices of clients. This type of loan is rendered mostly to people who are organized in to cooperatives. Housing loan product is to enable clients construct a new house or complete a construction in progress. The maximum loan size is 50,000 birr with loan term of 60 months (or 5 years) and repayable monthly. Depending up of the nature of, the business, the

loan products are characterized in to term loan and installment loan. Term loan is a type of loan disbursed and collected within a given time, which have gestation period; while for installment loan collection of payment is made monthly. Loan can be provided for the purpose to start and expand business engaged in weaving and tailoring metal and wood work, food processing and production of construction input, municipal service like solid waste disposal and parking retail trade, urban agriculture, leather products and other income generating activities. The main loanees are Addis Ababa city residents who are 18 years old and above, edirs (legally registered), cooperatives, joint ventures and other business association.

Loan Size, Interest Rate and Service Charge

The feasibility of the project is given the prime importance in the determination of the amount of loan to be given on credit and for controlling purpose and the institution decide the loan size accordingly. This includes both working capital as well as investment.

AdCSI charges 9% of lending interest for installment and micro lease and 9% for term loans per annum on flat rate basis. In addition to this 2% service charge is paid for all micro lease and small loans. For the housing and consumption loan, the interest rate is 10% per annum on decline rate basis. Its loan size and time of repayment is as shown below:

Loan Size	Maximum Time Allowed for Repayment
Up to 2000 birr	Up to 18 months (the duration varies with loan size and business ability to pay)
2001-5000 birr	24 months
Above 5000 birr	36 months
Term loan	18 months
Housing loan	60 months

Source profile of Addis credit 2001E.C

Saving is an important component of the program, it serves as a source of lending capital, provides cash collateral for loans and enables to generate income through interest spread. AdCSI provides saving services to both borrowers and non-borrowers. There are three types of saving services provided by the institution. There are mandatory saving (borrower specific), personal (voluntary) saving (borrower and non-borrower clients). Except for the time deposit, the institution pays an interest of 4.5% per annum for the amount mobilized through saving. Apart from the saving service AdCSI provides two types of insurance. The first is credit insurance provided to borrowers only. To write off the loan in case of a death, the client is required to pay 1% of the outstanding balance for the coming year if any. The second is a business insurance provided to cooperative and joint ventures in case of a complete damage of their business. The insurance premium to be paid is the same as the first type. AdCSI charges 9% interest for installment and micro lease and 9% for term loans per annum on a flat rate basis. In addition to this 2% service charge is paid for all micro and small loans. For the house and consumption loan, the interest rate is 10% per annum on a declining rate basis. Therefore, this research is investigated to a certain extent the loan, saving and non-financial services.

Chapter Three

3. Data Presentation, Analysis and Discussion

3.1 Introduction

This chapter deals with data presentation, analysis and discussion collected from primary and secondary sources according to the arrangement of the research questions that guide this study. The basic research questions are: How MFIs are targeting the poor, especially women in their service provision? To what extent the clients of MFIs (AdCSI) become the beneficiaries? What kinds of products/ services are provided and what result are achieved by AdCSI? What has been the challenges faced of AdCSI clients in getting and utilizing the credit? Still out of 153 sampled respondents around 2 percent of them are not returned. As indicated in the methodology part, data collected through questionnaire and interview will be systematically presented, analyzed and discussed in the following sections.

3.2 Characteristics of Respondents

As revealed in Table 3.1, of the total sample clients of AdCSI in Kirkos Sub city, 89(59.3%) of the respondents are females and 61(40.7%) of them are males. This shows that AdCSI gave weight to women borrowers as compared to men clients and the participation of women in AdCSI financial services is relatively better. Though the AdCSI financial service provision is relatively better participation of women, there is a need to encourage addressing more women in the service so that they can take a loan and get involved in income generating activities.

Table 3.1: Respondents by Sex and Age

Description		Number of respondents	Percentage of respondents
Sex	Male	61	40.7
	Female	89	59.3
	Total	150	100
Age	18-35 years	87	58
	36-45 years	47	31.3
	Over 46 years	16	10.3
Total		150	100

Source: Survey data, 2010

As indicated in Table 3.1, out of the total respondents, 87(58%) of them are in the age range of 18-35 years, 47(31.3%) of respondents are in the age range of 36-45 years and only 16(10.7%) of respondents are in the age range of over 46 years. From this, the researcher understood that the majority (89.3%) of the respondents categorized under the productive age group (18-45 and only 10.7% of clients of borrowers have an age of over 46 years. Hence, the majority of AdCSI clients are in the productive age that they can work to change their life and they can use the loan in different income generating activities.

Table 3.2: Status and Family Size

	Description	Number of respondents	Percentage of respondents
Marital status	Married	74	49.3
	Un married	50	33.3
	Divorced	26	17.3
	Total	100	100
Family size	1-4	97	64
	5-10	48	32
	More than 10	5	3.3
Total		150	100

Source: Survey data, 2010

Table 3.2 revealed that, 74 (49.3%) of clients are married, 50 (33.3%) of respondents are unmarried and 26(17.3%) of them are divorced. This indicate that majority of the borrowers are married and the evidence shows that AdCSI gives loan to married clients than unmarried and divorced clients. This could be to minimize the default rate and maximize the repayment rate. It might also be due to group exclusion of the unmarried clients during group formation to minimize risks. With respect to family size, 97(64%) of clients respondents have the family size of 1-4, 48(32%) respondents have a family size of 5-10 and 5(3.3%) respondents have a family size of more than 10. This shows that almost all AdCSI clients do have at least one family member. This has implication on the use of loan on income generating activities or other purposes.

Table 3.3: Sample Respondents by Level of Education

Description	Number of respondents	Percentage of respondents
Illiterate	23	15.3
Primary (1-8)	50	33.3
Secondary (9-10)	51	34
Preparatory	11	7.3
Diploma	12	8.0
BA degree and above	3	2
Total	150	100

Source: Survey data, 2010

As indicated in Table 3.3, from the total respondents, 51(34%) are high school (9-10), 50 (33.3%) respondents are primary (1-8), 23(15.3%) respondents are illiterate, 12(8%) respondents are Diploma holders, 11(7.3%) respondents are preparatory and 3(2%) respondents have BA Degree and above. This shows that the majority of clients have low level of education. Only 17.3 % of the respondents have diploma and above. This has implication on loan use and managing the businesses or using loan for income generating activities.

3.3 Targeting the Poor

Addis Credit and Saving Institution target the low income segment of urban community, productive poor, with special emphasis on women. The term “productive poor” refers to those among the poor who have some form of employment as well as the capacity to repay back the loans and who face non-severe food deficits and not destitute (Robinson, 2001). Experience shows that unless there is a targeting tool, the poorest will either be missed or they will tend to exclude themselves from the program. Hence, MFIs that design programs related to the needs of the poor are likely to retain them as clients.

The urban loan program is launched mainly to address the problem of the urban poor through providing certain credit access in order to enabling them to involving in different socio-economic activity. To be

clear microfinance program gives emphasis more on low level of income group by targeting the urban poor to improve the living standard of the poor. Thus, AdCSI in kirkos sub city borrowers answered about the credit system as can be shown in the next Table 3.4.

Table 3.4: Respondents According to their Lending System

Description		Number of respondents	Percentage of respondents
Lending model?	Individual	44	29.3
	Group	106	70.7
	Total	150	100

Source: Survey data, 2010

According to Table 3.4, among the total sampled respondents 106 (70.7%) of them confirmed that they borrow in a group lending system and 44 (29.3%) of respondents reported that they borrow in individual lending model. The solidarity group model incorporates minimal technical assistance to the borrowers. The group members cross quarantine each others' loans to replace traditional collateral (Lederwood, 1999:84). This implies that such approach has an advantage because of borrower can use group as a collateral. From the clients response one can understand that the institution is applied both group and individual lending system. However, the individual lending require personal guarantee as collateral which might be difficult for the poor to borrow.

Moreover, majority of interviewed AdCSI officials explained that the mechanism used for addressing the poor in addition to group lending is an individual lending which permit the poor to get loan with collateral basis and the collaterals include: house, vehicles, machineries, regular job salary for government and non-government employees etc. Thus strict collateral requirements are difficult for the

urban poor in order to fulfill the requirements. Certainly, such types of practice lead to screening out the poor as they do not have capacity to meet the collaterals requirements and to get loan from AdCSI.

From the view point of selection requirements of the targeted poor, the needed requirement to access the credit service includes, letter of approval from the kebele which shows that they are the residents of Addis Ababa, certification letter for co-operatives and CBOs from different civil organization, the evidence that confirms that the activities would be implemented in Addis Ababa city etc. In addition to this, screening committee in the Kebele level put their comments and decisions concerning applicants. This implies that in Kirkos sub city it is likely to be marginalization of the poor through different requirements and direct interference of kebele administration in loan service provision.

Table 3.5: Distribution of Respondents According to Credit Criteria

Description		Number of respondents	Percentage respondents
Do you think that the criteria by which you are being allowed to get access to credit services are suitable?	Yes	64	42.7
	No	77	51.3
	No answer	9	6
	Total	100	100

Source: Survey data, 2010

As indicated in Table 3.5, from the total sampled of respondents 77(51.3%) of them said that the credit criteria is not suitable. 64(42.7%) respondents reported that the credit criteria is suitable, and 9(6%) of respondents gave no answer. This implies that even if more than half of the respondents agreed that the loan service is suitable, significant number of clients replied that the criteria allowed

getting access to credit services from AdCSI is not suitable. Hence the credit criterion to get a loan needs some improvement to encompass the greater number of clients.

Table 3.6: Distribution of Respondents According to their Group Formation

Description	Number of respondents	Percentage of respondents
Kebele administration	39	26
Directly, I asked other group members to join me, and they agreed	15	10.3
Previous group members asked me to join them and I agreed	26	17.3
Addis credit and saving institution staff helped me to join the group	62	41.3
Others	8	5.3
Total	150	100

Source: Survey data, 2010

The above Table 3.6 depicts the clients' group formation made by different stakeholder. 62 (41.3%) of respondents reported that Addis credit and saving institution staff helped them to join in the group, 39(26%) respondents reported that kebele administration assists them to join the service, 15(10.3%) of respondents said that they directly ask other group members to join them, and 8(5.3%) respondents said that they establish their group with insisted by others such as parents and relatives. This implies that all stokeholds are given their technical support to the poor for group formation. Hence, it is a good practice for helping the urban poor and it should be encouraged the practices to motivate the low income group. However, care must be taken when the kebele administration and other bodies form the group because the clients should have the right to form their groups voluntarily and get the service without others influence.

3.3.1 Income Generation

The major objective of microfinance is to help generate income by poor households and there by alleviate poverty. The increase or decrease in the level of income may have an implication on the life standard of the individuals. Increasing income, for instance, can pave a way the opportunity to open business, employment, access to health service, education, a means to fulfill basic needs and own assets. Moser emphasized that the development of human capital one of the element of his framework is closely linked to the economic and social infrastructures such as education, healthcare ensure skills and knowledge productivity (Moser, 1998:31). AdCSI borrowers were asked to tell their average monthly income and expenditure to know, the status of beneficiaries which is summarize in Figure 1.

Figure 1: Average Income of Respondents

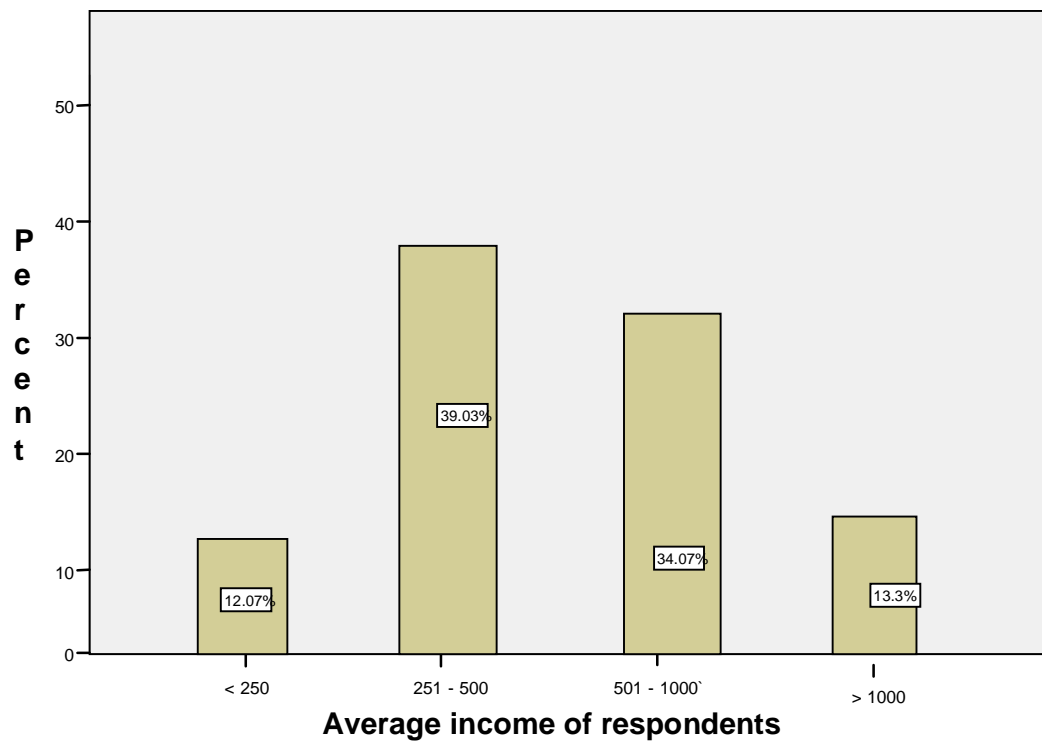
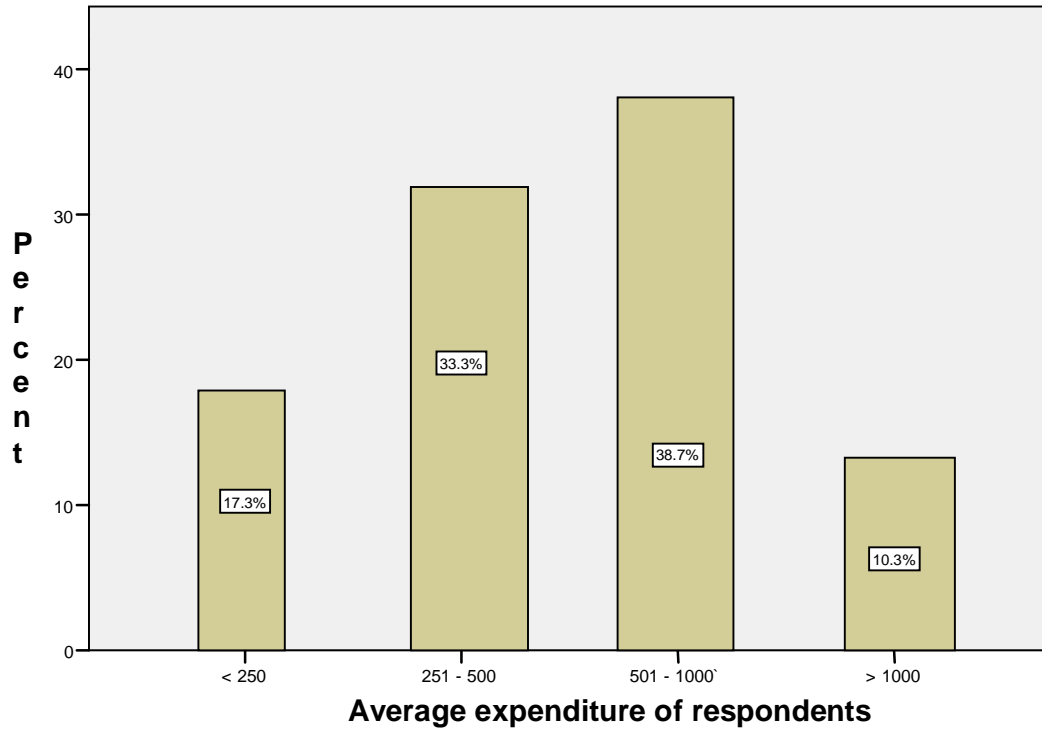


Figure 2: Average expenditure of respondents



Mean for the Average Monthly Income and Expenditure

	Number of respondents	Minimum	Maximum	Mean
Average monthly income	150	90	4000	716.61
Average monthly Expenditure	150	30	3,500	576.68

As can be shown in Figures 1 and 2, 19(12.76) of the respondents have monthly income below 250 Birr, 59(39.3%), the highest number of sampled clients, have average monthly income range from 251-500 Birr, 52(34.7%) respondents have average monthly income 501-1000 Birr and 20(13.3%) respondents have an average monthly income greater than 1000 and the mean is 716.61 Birr. In terms of expenditure, 26(17.3%) of respondents have less than 250 Birr of average monthly expenditure, 50(33.3) respondents have monthly average expenditure 251-500 Birr, 50(38.7%) of respondent have

average monthly expenditure 501-1000 and 16(10.7%) of respondents have an average monthly expenditure greater than 1000 Birr. And the mean is 576.68. This implies that the clients of AdCSI are in a position to cover their expenditure from their income. However, it is very difficult to conclude that the income is gained from the loan advantage and it is doubtful to say that the credit institutions are addressing the urban poor in Kirkos sub city.

Table 3.7: Respondents According to their Source of Income Before and After Joining of MFI

Description		Number of respondents	Percentage respondents
Did you have any business and income source before joining this credit program?	Yes	99	66
	No	51	34
	Total	150	100
Did your income increase after joining the loan credit program?	Yes	99	66
	No	42	28
	No answer	9	6
	Total	150	100

Source: Survey data, 2010

As indicated in Table 3.7, 99(66%) of AdSCI clients reported that they had business and their own income source before joining in the credit program and 51(34%) of borrowers said that they had not any business and income source before joining this credit program. This implies that the majority of the clients had their own income generating sources before joining the institution. Therefore, it is very difficult to conclude that AdCSI in Kirkos sub city is reaching the targeted urban poor though this needs further investigation. Moreover, AdCSI clients asked about their income after joining the credit program. Accordingly, 99(66%) of respondents said that their

income has been increased after joining the loan program, 42(28%) respondents replied that their income have not increased and 9(6%) of respondents gave no answer. This implies that most of the respondents have increased their income after getting credit service from AdCSI though it is difficult to suggest that this income growth is as a result of loan service.

3.3.2 Impact of Microfinance on Education

Urban households are for the most part obliged to pay for their food, shelter, health care and education in comparison to rural areas. Accordingly, microfinance institution in Kirkos sub- city gives credit service to generate income in order to address the poor peoples' problems. Hence, the present study attempts to see how their basic needs such as education, health and nutrition are met.

Table 3.8: Respondents' Change in Education Before and After Joining the Credit Program

Description	Number of respondents	Percent of respondents
Were you able to pay your children's education fee before involving in AdCSI program?	Yes	44
	No	32.7
	No answer	23.3
	Total	100
Your capacity to pay for your children's quality of schooling after joining in credit program?	Increased	32.7
	Decreased	4.7
	Remain the same	62.7
	Total	100

Source: Survey data, 2010

According to Table 3.8, 66(44%) of the respondents reported that they are able to pay their children's education fee before involving in AdCSI program and 35(27%) respondents gave no answer for their children's education fee before involving in AdCSI program. This indicated that a significant number of respondents are able to pay their family education fee. So, it is related to the idea of that the majority borrowers had their own income source before joining in AdCSI. Sampled borrowers were asked the capacity for paying quality schooling fee after joining it. 94(62.7%) of respondents reported that they remained the same related to their capacity for paying schooling, 49(32.7%) of sampled respondents confirmed that increasing the capacity for paying school fee of AdCSI clients in this sub city and 7(4.7%) of respondents said that they have decreased the capacity for paying their children's quality of school fee. This shows that most of AdCSI borrowers are not able to meet their needs related to education. There is a need to encourage them to involve in additional income sources to enable them paying school fee. Besides, the following section shows the impact of financial services on health care and nutrition.

3.3.3. Microfinance Impact on Health

Graham Wright argued that microfinance has substantial effect on the nutrition and health of the poor, especially for children (Wright, 2000:3). To Simanowitz and Walter increase in income through participation in microfinance programs inevitably will lead to higher nutrition as a result and health for individuals. Thus, one of the challenges that face the poor people is ill health. So this study also tells how microfinance contributes to the health for the clients. In this regard, to what extent the clients of microfinance institutions in Kirkos sub city can afford to pay the medical expense. Hence to understand the respondents' situation before and after being engaged the credit program in Kirkos sub city of AdCSI see Table 3.9.

Table 3.9: Medical Responsiveness of the Respondents

Description	Number of respondents	Percentage of respondents
How do you explain the differences (in terms of before and after joining the credit program) in affording to pay the medical expenses whenever you or your family members get sick?		
• Better before joining the credit program	33	22
• Better after joining the credit program	117	78
Total	150	100
The number of food items and quality of food that you are consuming now has		
• Improved	88	58.7
• Worsened	7	4.7
• Remained the same	55	36.7
Total	150	100

Source: Survey data, 2010

As is indicated in the above Table 3.9, the majority of the respondents 117(78%) reported that they can afford to pay the medical expenses after joining the credit program whenever their family members fall sick and 33(22%) reported that it was better before joining to pay the medical expenses. Although the result from the majority of respondents confirm that they can be able to pay their medical expense, the result is not satisfactory. Hence, AdCSI in Kirkos sub city should assist the clients more to pay their medical expenses.

Moreover, sampled borrowers were also asked to single out the number of food items and quality of food that they are consuming now. Accordingly, 88(58.7%) of respondents reported that they improved the number of food items and quality of food now than

before, 55(36.7%) of respondents confirmed that the number of food items and quality of food that they are consuming now remained unchanged and 7(4.7%) respondents reported that the number of food items and quality of food that are consuming now become worsened. This implies that the significant numbers of the respondents are not satisfied. Hence, the service of AdCSI should need further investigation to know the reason thoroughly.

Table 3.10: Respondents according to their ability to buy cloths

Description	Number of respondents	Percentage of respondents
How do you explain your ability to buy cloths for yourself and for your children in general		
<ul style="list-style-type: none"> • better before joining the credit program 	99	66
<ul style="list-style-type: none"> • better after joining the credit program 	51	34
Total	100	100

Source: Survey data, 2010

As can be shown in Table 3.10 above, 99(66%) of respondents reported that they had better ability to buy cloths for their children before joining the credit program, 51(34%) of respondents said that they have more ability to buy clothing for their children after joining the credit program. This implies that majority of clients of AdCSI are not able to buy their clothing after joining the credit program. According to some interviewed respondents, the reason behind having large number of respondents that better to buy their cloths before joining in credit program was due to the increasing price of cloths and the low purchasing power of Birr today.

3.3.4 Employment Opportunity

The immediate positive impact of micro financing scheme is an employment generation. Type of business activities and trends of employment opportunities were collected. Critical to the issue of microfinance institution service is its employment creation among the poor society where money can use their “labor-commonly identified as the most important asset of the poor” to generate income (Moser 1998:25). It has been noted that in many countries of the world, microfinance programs, provides access to small amount of startup capital for entrepreneurial projects which will then presumably help individuals to create employment opportunity and to create long term self employment in income generating activities. Hence, sample borrowers in kirkos Sub city were asked their responses towards employment opportunity created by the activities of the institution that is tabulation in Table 3.11.

Table 3.11: Respondents According to their Employment Opportunities

Description	Number of percentage	Percentage of respondents
What were you doing before you started the business?		
• Unemployed	64	42.7
• Employed elsewhere in similar business	57	38.0
• Studentship	11	7.3
• Working unpaid in family business	11	7.3
• Employed in government organization	5	3.3
• Others	2	1.3
Total	150	100

Source: Survey data, 2010

As indicated Table 3.11, 64(42.7%) of respondents reported that they were unemployed before start the business, 51(34%) of respondents said they were employed else where in similar business, 11(7.3) of respondents reported that they were students, 11(7.3%) respondents reported that they were working unpaid in family business, 8(5.3%) sampled respondents reported that they were employed in other places such as daily worker, temporary hiring etc. and a very small number of respondents i.e. 5(3.3%) of them said that they employed in government organization. This implies that the majority, 86(57.3%), of respondents can be able to create employment opportunity for themselves. Therefore, AdCSI need be encouraged towards to the employee opportunity for clients themselves.

Table 3.12: Respondents Reply about Number of Employees

Description	Number of respondents	Percentage of respondents
1. Do you have employees before joining in your business?		
Yes	38	25.3
No	109	72.7
No answer	3	2.0
Total	150	100
2. How many employees (even family members employed) do you have in your business?		
One	39	26
2-5	27	18
> 5	5	3.3
None	79	52.7
Total	150	100

Source: Survey data, 2010

According to the above Table 3.12 out of the total sampled respondents, 109(72.7%) reported that they did not have employees before joining AdCSI, 38(25.3%) of respondents said that they had employees before joining the credit program and 3(2%) of respondents gave no answer. The result reveals that majority of the sampled clients had not employees which are hired by borrowers themselves. Besides, there was another question concerning the number of employees as indicated in table 3.12. Accordingly, 79(52.7%) of respondents said that they did not hire employees in their business, 39(26%) of respondents reported that they hired one employee in their business activities started through credit, 27(18%) of them said they had 2 up to 5 employees and 5(3.3%) respondents reported that they hired employees grater than 5. This implies that most of sampled respondents did not hire employees. Hence, microfinance towards creating job opportunity to others who do not have an employment is not satisfactory.

3.3.5 Value of Assets

Value of an assets of the borrowers is expected to have a positive impact on loan repayment performance having the perception that the assets will be under liability incase of default. Asset shows material assets which included other physical and financial assets such asset like land, housing, livestock, saving and jewelry, enable people to withstand shocks and expand their horizon of choices (World Bank, 2002:15). The situation of AdCSI borrowers gave a response towards movable and immovable assets as exhibited in the next table.

Table 3.13: Distribution of Respondents According to their Assets

Description	Number of respondents	Percentage of respondents
Did you have fixed property before being engaged in AdCSI?		
Yes	65	43.3
No	83	55.3
No answer	2	1.3
Total	150	100
Do you have fixed and movable asset after being engaged in AdCSI program?		
Yes	72	48
No	78	52
Total	150	100
What assets do you have after being engaged in AdCSI program?		
• Owner of a house	13	5.5
• Have money to pay the school fees of my children	60	25.5
• Access of payment for health care for my family	73	31.1
• Improve my food situation	65	27.7
• The saving has increased	24	10.2

Source: Survey data, 2010

As indicated in Table 3.13, 83(55.3%) of the respondents said that they did not have fixed property before being engaged in AdCSI program. 65(43.3%) respondents reported that they had a fixed property and a very few number 2(1.3%) of respondents gave no answer. Even though the majority number of borrowers had not asset before joining in the program, a significant number of respondents

confirmed that before they engaged in AdCSI they had an asset, such as table and chair, sofa, buffi and house. This implies that it is similar idea as mentioned before under income generating question due to the significant number of borrowers who have their own assets. Hence, microfinance institution in Kirkose sub city does not achieve the intended purpose to address the target group.

Moreover, AdCSI borrowers were asked about fixed and movable asset whether they have or not after being engaged credit program. As a result 72(48%) of respondents reported that they have an asset after engaged it, and 78(52%) of respondents said that they do not have assets through credit program. However, I found out from the AdCSI officials' interview that have two opposite idea, on the one hand some clients have an asset due to their effort through credit service. On the other hand a significant number of borrowers bought different equipments like sofa, TV etc, with the credit itself. Hence, AdCSI in Kirkos sub city need to give an attention how the loan should be utilized by the borrowers. It ought to mainly give direction for clients to use the loan for income generating activities and to be able to the own assets.

Apart from serving the poor people, a house is the most valuable asset people should have. In urban area when the house is improved, its value boosts and can be used for rental or enterprise purposes for generating income and thereby increases an individual and households material wealth. In line with this, Moser found that housing ownership as most important productive asset of the urban cushion households against (Moser, 1998:32). However, AdCSI borrowers in Kirkos sub city reported about assets that, 73(31.1%) of respondents have an access of health care payment for their family, 65(25.5%) of the respondents reported that they improved their food situation, 60(25.5%) of the respondents confirmed that they afford to pay for school fee of their children, from the total respondents 24(10.2%) of them reported that they increased their saving through

credit program and only 13(5.5%) of respondents reported that they are the owner of the house. This reveals that the majority of urban poor couldn't be able to own their own house through microfinance program.

3.4. Microfinance Products and Services

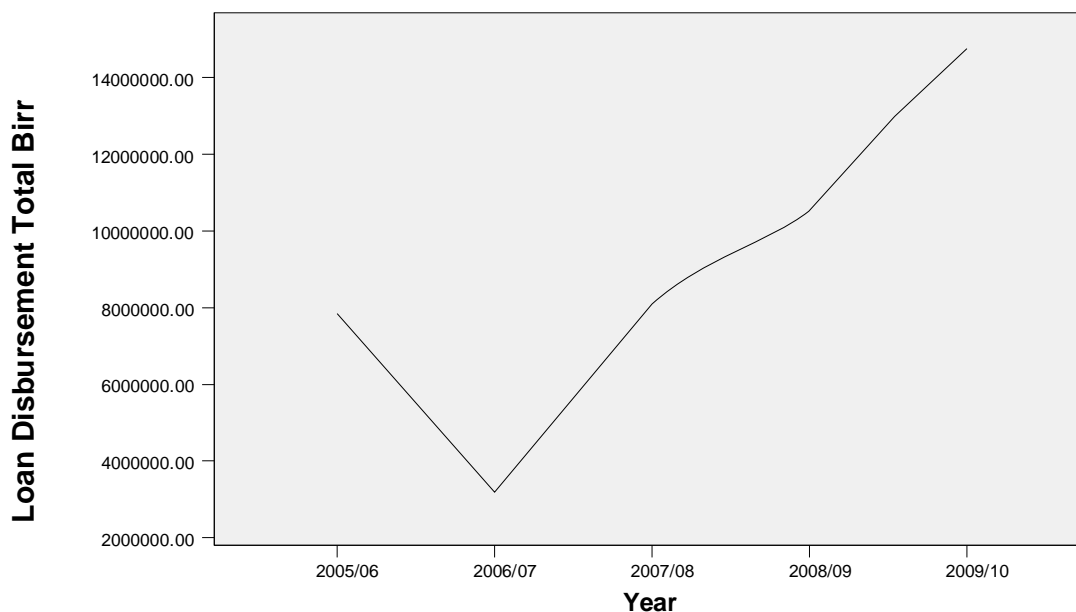
An inventory of products and services provided by AdCSI was done during this study and the analysis of which answers to my third research question which was to examine the nature of products and services provided by the microfinance. The degree of which MFIs provide service depends on whether it takes a minimalist or integrated approach. Advocates for the integrated approach argue that MFIs need to focus on poverty reduction as their primary goal is to provide services to the poor that integrate training, basic education, and primary health are inter connected, and the impact for each can increase when they are delivered together (Moduch and Haley 2002). The argument for the minimalist approach is that it is necessary to achieve financial sustainability first (through financial services mainly credit and savings) and then, when sufficient profit has been accumulated the MFIs can look in to the possibility of providing training and educational services. First let us examine the financial service.

3.4.1. Loan/Credit Service

The service provided by AdCSI included loan, saving, consultancy and managing third party money. There are (a) micro-business which has a nature of installment repayment and disbursed for high turn over activities; (b) a small business loan (c) micro lease loan in which clients choose the machines (d) housing loan product which aims to enable clients to construct a new house (e) consumer loan (f) short term loan targets very urgent financial problem (AdCSI: 2009). Accordingly, AdCSI disbursed the loan in different year which is shown in Figure 3 below:

Figure 3

Trend of Loan Disbursement



Source: Survey data, 2010

As can be shown in figure 3, even though loan disbursement sharply declined in the year 2006/07, it has good upward progress afterwards. The disbursement of loan after 2006/07 shows an increment and AdCSI shows encouraging improvements in disbursing loans.

Moreover, concerning the amount of loan size given by AdCSI, the directive of National Bank of Ethiopia that limits the maximum loan amount to one borrower has given 5000 Birr for the reason of targeting the poor and diversity of loan. Thus, sampled respondents were asked their opinion to the amount of loan size that can be shown as below in Table 3.14.

Table 3.14: Respondents According to Loan Size

Description	Number of respondents	Percentage respondents
What do you feel about the amount of loan size given by Addis credit and saving institution relative to your business		
• very low	25	16.7
• small than required	37	24.7
• good enough	86	57.3
• more than enough	2	1.3
Total	150	100

Source: Survey data, 2010

As indicated in Table 3.14, 86(57.3%) of respondents reported that the loan size is relatively good, 37(24.7%) of respondents said that the amount of loan size is smaller than required, 25(16.7%) respondents reported that the loan size is very low and 2(1.3%) of respondents said that the loan size is more than enough. The outcome shows that majority of sample respondents are satisfied by the provision of loan amount. However, there is an indication that some clients were dissatisfied by the loan size.

Moreover, the loan service is given for different activities and AdCSI provides mainly financial services and restricts its loan products to income generating activities such as weaving and tailoring, metal and wood works, food processing, production of construction material, municipal services like solid-waste disposal and parking, retail trade, urban agriculture, leather products and other. Borrowers shall be residents in Addis Ababa and must be 18 or more years old (AdCSI, 2009:4). Although credit is delivered to productive purposes, the majority of clients are engaged in the traditional businesses of petty trade with low level of education and skill.

Table 3.15: Respondents According to the Reason of Loan plus the First Loan used

Description	Number of respondents	Percentage respondents
what was your first loan mainly used for		
• Petty trade	115	76.7
• Garment	14	9.3
• Construction work	3	2
• To pay my old debt	1	0.7
• Other	17	11.3
• Total	150	100
What is your reason to take a loan?		
• To open new business	55	36.7
• To expand my business	65	43.3
• To change over another business	6	4.0
• To solve the serious problems of my lack of money	24	16
Total	150	100

Source: Survey data, 2010

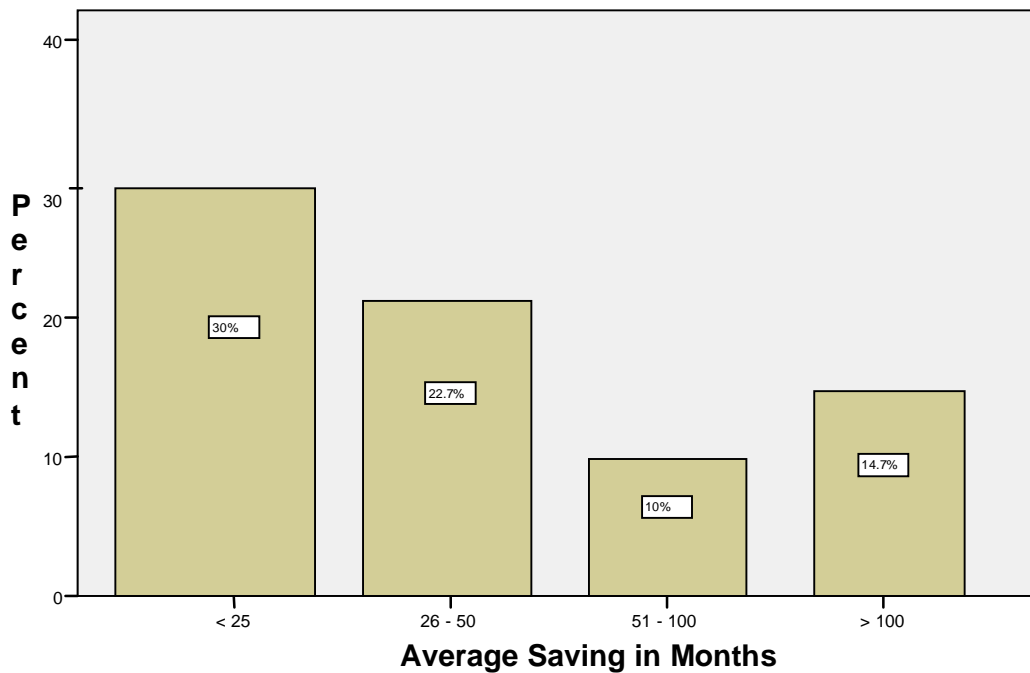
As indicated in Table 3.15, 115 (76.7%) of respondents used the first loan for petty trade, 14(9.3%) respondents used the first loan for garments, 1(0.7%) of respondents use the first loan to pay old debt, 3(2%) respondents said that they used for construction and 17(11.3%) of respondents reported that they used the first loan for other things such as to solve serious problems, to sent their children in abroad and the like.

Besides, 65(43.3%) of respondents reported that they take loan to expand their business, 55(36.7%) of respondents confirmed that the main reason to take a loan is to open new business. 24(16%) respondents reported that they take a loan to solve the serious problem of their lack of money and small number of respondents. 6(4%) said that the reason of loan is to change over another business. However, the researcher understood that business development services that provide opportunities to up grade skills into other areas are not well developed. Similar products are offered on the market which easily saturates.

3.4.2 Saving Mobilization

Most MFIs focus on disbursing loans. Their savings services are designed as a means of collateralizing loans and providing cost capital, they are not designed to meet the poor need for saving mechanisms (Dicher and Haper, 2007 1-2). AdCSI provides voluntary and compulsory savings that is the former saving is made by clients and non clients while the latter saving is done by clients only who are required to save until the loan repayment is successful completed and the amount of interest rate for saving is 4.5% per annum (AdCSI; 2009; 6). From the perspective of saving AdCSI borrowers answered the question that mention in the next table below about the average saving.

Figure 4
Average Saving in Months



Out of total respondents 116 (77.3%) said that they have saving accounts and the rest, 34(22.7%) of respondents reported that they do not have saving accounts. The reasons were that they do not have money to save in MFI due to high inflation, low purchasing power of money in the market and less amount of profit, etc. Out of 116 (77.3%) of respondents, 45(30%) of them reported that they save less than 25 birr, 34 (22.7%) respondents said that they save in the range of 26-50 birr, 15 (10%) of respondents reported that they save in the range of 51-100 birr and 22 (14.7%) respondents said they save more than 100 birr. This implies that the majority of borrowers either they do not have a saving account or they save less amount of money i.e. less than 25 birr per month. Hence AdCSI should revise the saving system to meet the demand of the poor specially to increase the number of voluntary saving and the borrowers should learn about the benefit of saving that can be the part of assets.

3.4.3 Interest Rate and Service Charge

Microfinance institutions charge a higher interest compared to the formal financial banks. It charged 9% interest for installment and micro lease and for term loans per annum in flat rate basis. For housing and consumption loan, the interest rate is 10% per annum on decline rate basis. In addition to the interest rate, 2% service charge is paid for all micro and small loans (AdCSI, 2010: 5). Thus, sampled borrowers in Kirkos sub city were asked to give their responses on interest rate charged by AdCSI. That is being shown below in Table 3.16.

Table 3.16: Respondents According to their Response on Interest Rate

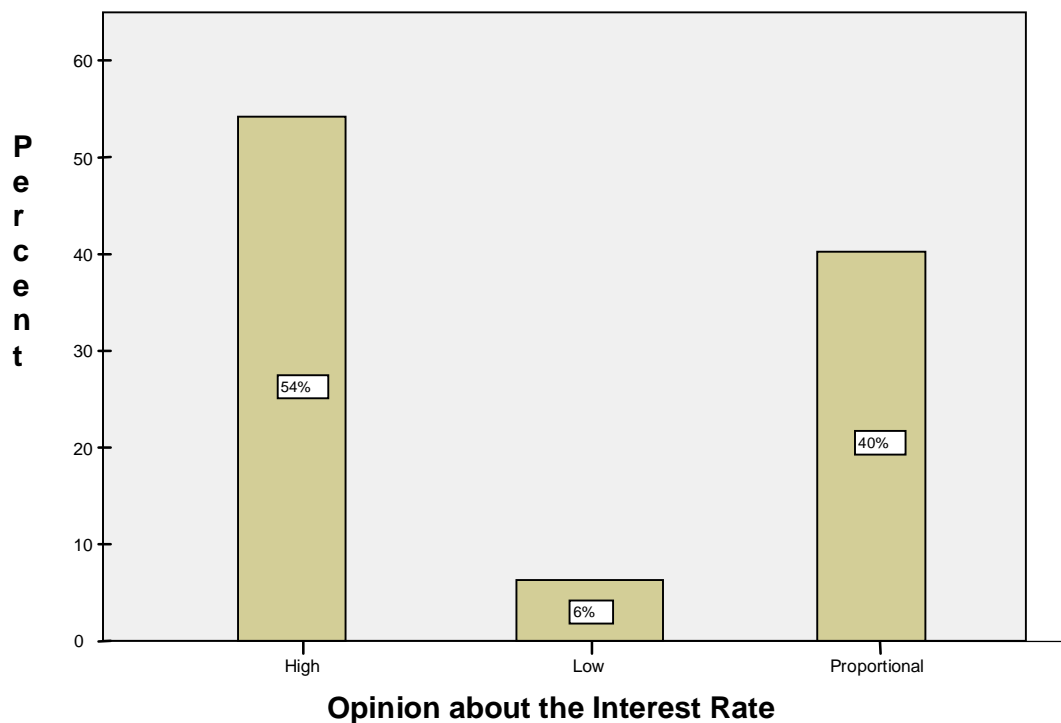
Description	Number of respondents	Percentage respondents
Do you pay interest for the loans?		
Yes	142	94.7
No	8	5.3
Total	150	100

Source: Survey data, 2010

As exhibited in Table 3.16, out of total respondent 142 (94.7%) reported that they pay interest for loans and 8(5.3%) of borrowers said that they do not pay interest. Moreover, the respondent asked their opinion about the interest rate as exhibited as the following figure 5.

Figure 5

Opinion about the Interest Rate.



As indicated in above Figure 5, 81(54%) of respondents of AdCSI clients reported that the interest rate is high, 9(6%) of respondents said the interest rate charged by AdCSI is low and 60 (40%) respondents reported the interest rate is normal. This implies that the majority of borrowers have an opposite idea concerning low interest rate. Hence AdCSI should give emphasis towards rationalizing interest rate to attract the urban poor.

3.4.4 Training and Supervision

MFIs provide both financial and non-financial services to poor clients (Ledgerwood 1999; 64). Moreover, integrated approach refers to the provision of non-financial services such as training in health, literacy, social action environmental awareness besides financial service (Hickson, 2001; 64). Beside, the key issue in anti-poverty strategy is to build up the asset base of the poor and to expand better their

capabilities to manage their existing portfolio of asset (Moser 1998:24). The urban poor are characterized as risk of knowledge, lack of information, lack of financial service etc. therefore, to escape from poverty; the poor should get not only financial service like loan and saving but also it is essential to provide training, education etc. to develop the poor capacity and awareness in managing the financial services. Hence, sampled respondents were asked for their responses about supervision and training that is given by the institution. The following Table 3.17 tabulates the responses.

Table 3.17: Respondents According to Training and Supervision

Description	Number of respondents	Percentage respondents
What is your opinion about follow up and supervision provided by the office?		
Low	54	36
Bad	74	49.3
Very good	22	14.7
Total	150	100
Did you get any formal training that helped you to under take the kind of business you are involved in?		
Yes	65	43.3
No	85	56.7
Total	150	100

Source: Survey data, 2010

As is indicated in Table 3.17, out of the total respondents 54 (36%) reported that the supervision by AdCSI was low, 74(49.3%) good and 22(14.7%) very good. This implies that the institutional supervision and follow up of their borrowers seems to be encouraging. Moreover, borrowers were asked whether they have got formal training or not. As

a result, majority of respondents, 85(56.7%) reported that they did not get any formal training that help to undertake the kind of business and 65 (43.3%) respondents said that they have got formal training. This implies that the majority borrowers of AdCSI did not get a very important input to coping up the situation to be effective and escape from poverty. Hence, AdCSI should give due attention not only for financial services but also for non financial services through training and education of the clients.

3.6 Challenges in Financial Service of the Poor

According to Simanowitz and Walter (2002) the most known explanations of defaulters are either external products like similar saturated product produced or internal services i.e. in the institution itself like short repayment period, low interest rate for saving, and low amount of loan and high interest rate for loan. In Kirkos sub city AdCSI borrowers' responses towards time of repayment of the loan is summarized in the Table 3.18.

Table 3.18: Respondents According to their Repayment Loan

Descriptive	Number of respondents	Percentage of respondents
Does Addis credit and saving institution give enough time to repay the loan?		
Yes	69	46
No	81	54
Total	150	100

Source: Survey data, 2010

As indicated in Table 3.18, out of total sampled respondents, 69 (46%) said that AdCSI gives enough time to repay their loan and majority of respondents, 81 (54%) of borrowers, reported that they do not give enough time to repay the loan. They justified the reason for this credit

and saving institution after gave it the credit, the institution gives an order to borrowers to repay with in short period of time AdCSI should give enough time to borrowers to adapt to the business environment specially the market situation.

Moreover, AdCSI clients answered on things they dislike, and challenges which are faced in business activities as indicated in the Table below 3.19.

Table 3.19: Respondents According to their Constraints /Challenges

Description	Number of respondents	Percentage of respondents
State what you dislike in AdCSI services?		
• Group lending	80	30.4
• Amount of loan smaller than requested	50	19
• Delay in service delivery	25	9.5
• High interest rate	56	21.3
• Short repayment period	52	19.8
Total	263	100
What the main constraints to use the credit?		
• High interest rate for loan	54	29
• Shorter repayment period	67	36
• Low interest rate for saving	16	8.6
• Low amount of loan	49	26.3
Total	126	100

Source: Survey data, 2010

As can be shown in Table 3.19, 80(30.4%) respondents reported that they do not like group lending system, 50(19%) of respondents said that they dislike the amount of loan due to the amount of credit smaller than requested, 25(9.5%) of respondents reported that they

dislike delay of in service delivery, 56(21.3%) of borrowers said that they dislike high interest rate and 52(19.8%) of respondents reported that they dislike short repayment period of time.

Beside to this, borrowers were asked the constraints when they use the credit, based on this as indicated in the above table, 67(36%) of respondents reported that the main constraints to use their credit is shorter repayment period, 54(29%) of respondents reported the main constraint is high interest rate of loan, 49(26.3%) of respondents said that they face the challenges of low amount of credit for required and 16(8.6%) respondents reported that the constraint to use the loan is low interest rate for saving. Thus, shorter repayment period (1), high interest rate for loan (2), low amount of loan (3), and low interest rate for saving (4) can be ranked one to four respectively. Hence AdCSI should give attention to solve the above constraints as per the responses.

Women's Empowerment

In most third world countries, men have better income generating activities, access to wider markets, and enjoy a higher social status than women (Murdoch and Haley 2002:136). In order to reduce poverty, women who suffer the most, must be empowered because poverty reduction strategies that focus on empowering women not only improve the lives of women but also positively affect entire families and communities. AdCSI gives priority to women clients on the provision of financial service as it's indicated in the organizational objectives (AdCSI, 2009). However, sampled borrowers in Kirkos sub city were asked their responses towards gender segregation and their responses are summarized in the next Table 3.20.

Table 3.20: Respondents According to Gender Perspective

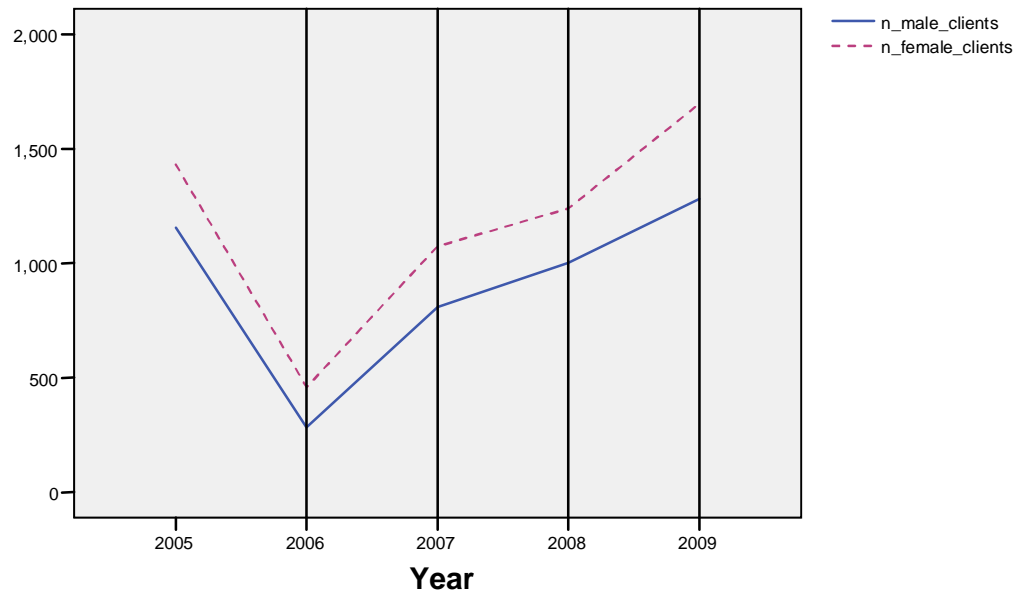
Description	Number of respondents	Percentage of respondent
Is there gender segregation to be beneficiary in this program?		
Yes	20	13.3
No	130	86.7
Total	150	100

Source: Survey data, 2010

As can be seen in Table 3.20, of the total sampled respondents 130 (86.7%) reported that they have not gender segregation and 20(13.3%) respondents said that they face gender segregation i.e. male and female borrowers are not equally treated. This implies that majority of AdCSI women borrowers get credit with relatively similar to men. However, the number of women borrowers is greater than men as indicated in the following Figures 6 and 7.

Figure 6

Number of Clients in Terms of Sex (AdCSI)

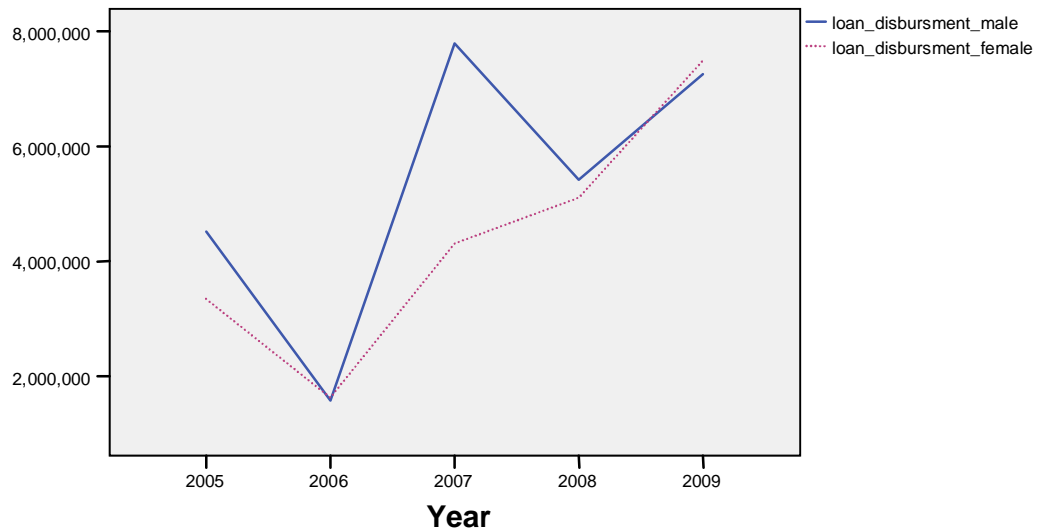


Source: AdCSI profile, 2009

As can be shown in Figure 6, the number of women borrowers is more than men every year. However, the actual loan taken by women is lower than men except in recent years as can be shown in the next figure.

Figure 7

Loan Disbursed in Terms of Sex in AdCSI



Source: AdCSI profile, 2009

As is graphed in the above Figure 7, loan disbursement of males is more every year than loan disbursement to females except 2006 and 2009. Hence, the question here whether men benefit more than women borrowers from the out comes of the program, it needs further research to understand the role of microfinance in Kirkos sub city for the beneficiaries of loan disbursement in term of sex.

Chapter Four

4. Summary of Findings, Conclusion and Recommendation

4.1 Summary of Findings

The previous chapters provide information about microfinance services and their contribution to urban poverty alleviation. The primary and secondary data presented, analyzed and discussed based on the case of Kirkos sub city branch office of AdCSI illustrates a practical insight concerning the role of microfinance practice in urban poverty alleviation. Hence, based on the previous chapters and data analysis the findings of this study are summarized as bellow:

- 4.1.1** Targeting the credit and saving to the productive poor is one of the various instruments for poverty reduction. AdCSI in Kirkos Sub city target the productive poor groups particularly women (in principle). However, in practice it serves both men and women who have an income base. This seems that AdCSI didn't work based on its objectives and targeting strategies.
- 4.1.2** AdCSI provides mainly financial services with group and to a certain extent for individual borrowers'. But, the individuals lending require strong collateral. This might discourage the poorest not to borrow from AdCSI.
- 4.1.3** Increasing or decreasing in the level of income may have an implication on the living standard of individuals. Even though, the clients had business and their own income source before joining the credit program, some of the AdCSI clients showed significant improvement in generating income and owning assets after joining the program.
- 4.1.4** Increasing income through participation in microfinance programs inevitably will lead to better nutrition and health for individual. Evidences in this study show that the majority of AdCSI clients in Kirkos sub city are able to pay their medical expenses and they improved the quality of food item. However, most of the clients were not able to afford fees for quality

education. In addition, the clients were not in a position to buy clothes for themselves and their families.

- 4.1.5** The immediate positive impact of microfinance scheme is an employment opportunity. It has been noted that in many countries of the world, microfinance programs provide access to small amount of startup capital for entrepreneurial projects which will then presumably help individuals to create employment opportunity. Although AdCSI clients create job for themselves, the majority of them didn't create job opportunity for others.
- 4.1.6** Microfinance implies providing credit and saving facilities to the poor, there-by improving the living standard of the borrowers. The targeting group and client selection mechanisms then should gear towards addressing the poor. However, the information gathered from respondents in Kirkos sub city shows that the poor tend to be ignored during group formation by offering different criteria.
- 4.1.7** Microfinance institutions expected to encourage their clients in mandatory and voluntary savings. However, the practice shows that either they did not save or they save small amount of money which cannot secure the future needs of the poor clients.
- 4.1.8** Financial and non financial services are primarily expected to be effective in poverty reduction. However, investigation in this study shows that there is lack of the provision of non-financial service such as training and education to develop the awareness of borrowers towards the use of their loans.
- 4.1.9** Microfinance services are intended to reduce poverty through enabling the urban poor to be active participants in income generating activities. However, the borrowers in kirkos sub city mentioned some of the constraints/problems they faced in service provision like short repayment period, high interest rate on loan, small amount of loan provided, low interest rate on

saving, and some of them were dissatisfied on the application of group lending system.

4.1.10 In order to reduce poverty, women who suffer the most must be empowered because poverty reduction strategies that focus on empowering women not only improves the lives of women but also positively affects the entire family and community. Even though, AdCSI gives priority to women clients on the provision of financial services as indicated in its organizational objectives, loan disbursement of men is higher than loan disbursement of women. This shows that men obtained greater advantage than women in availing AdCSI financial services.

4.2 Conclusions

Microfinance has been widely accepted as a viable option for poverty reduction. In order to investigate this underlying premise, this study examined empirical evidences related to AdCSI in Addis Ababa to check whether microfinance is contributing to poverty reduction or not. For this purpose, Addis Credit and Saving Institution in Kirkos Sub city was analyzed through primary and secondary data. From this study it is possible to conclude that AdCSI Kirkos sub city indeed supports the poor in changing their life particularly in generating their own income, education, health and nutrition, housing, etc. However, the result is not satisfactory. AdCSI didn't mainly focus on the productive poor section. AdCSI utilized different lending models but those lending models didn't consider the interest of the poor clients.

Financial services are not integrated with non financial services so as to assist the poor how to use the loan effectively for income generation. In addition to this, there were different constraints and problems reported from the clients of AdCSI related to financial services like short repayment period, high interest rate on loan, small amount of loan provided, and low interest rate on saving. In order to solve these problems, the following recommendations are suggested.

4.3 Recommendations

Poverty has remained to be a frightening challenge to developing countries and it can be observed in many forms. It has both income and non income dimensions. It might be reflected in lack of income, lack of coping capacity, lack of basic human capabilities and the like. This study has analyzed the microfinance contribution for poverty reduction in Kirkos sub city and confirmed that microfinance is indeed a sound strategy for poverty reduction. However, the results may vary based on the practical involvement of micro financial institutions. Based on the experience of AdCSI and the summary of findings stated above, the following recommendations are put-forward.

- 4.3.1** Although AdCSI targets the productive poor groups especially women in principle, they didn't support the poor particularly women to get benefit like men due to low participation in income generating business activities. Therefore, AdCSI needs to focus on its objectives and targeting strategies so as to contribute for poverty reduction.
- 4.3.2** The analysis shows that AdCSI practiced both group and individual lending models in Kirkos sub city. However, the group lending model constrained by different requirements from the Kebele administration as well as the process of group formation. Moreover, the individual lending model is also constrained by its collateral requirements. Therefore both models excluded the poorest from financial services in one way or another. Hence, AdCSI need aware of this exclusion and implement flexible lending approach in order to satisfy the needs of the poorest and contribute to poverty reduction.
- 4.3.3** The study shows that AdCSI has positive impact on its clients specifically improvement of income, education, health and nutrition, housing, and empowerment of the poor. However, significant number of borrowers couldn't improve their life

situation in Kirkos sub city. Therefore, AdCSI should give attention to the poorest through the provision of financial service in the right way and there is a need to support clients in non financial services like skill based training. Moreover, borrowers should be guided to invest their loan for the intended purposes and productive income generating activities.

4.3.4 Although AdCSI clients create job for themselves, the majority of them didn't create job opportunity for others. Therefore, there is a need to assist AdCSI clients in Kirkos Sub City to utilize their loan for income as well as employment generation activities through different support services like business development services, market oriented production and skill development training.

4.3.5 AdCSI have to support borrowers to save voluntarily and own assets. For this of course AdCSI need adopt flexible approach in saving rate that attracts both clients and non clients to save.

4.3.6 Literature shows that microfinance provides financial and non financial services to enhance the income and to improve the living standard of the poor. However, AdCSI focuses only on financial service provision especially credits and savings. Hence, either it needs to have skill training and awareness creation programs for its clients or it needs to establish network with other stakeholders who can give training and education for its clients.

4.3.7 AdCSI should revise its strategy related to the loan repayment period, its high interest rate on loan, small amount of loan, its low interest rate on saving, etc, so as to encourage the poor in both financial and non financial services.

4.3.8 Finally, women borrowers are required to obtain more advantages from the financial services of AdCSI like that of men clients. All stakeholders have to involve in enhancing the women participation in both financial and non financial services. Loan disbursement for women should be increased in order to improve the living standard of the poor women. Therefore, AdSCI needs to revise its service provision strategy to give benefit women clients.

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Appendices

Appendix 1

Addis Ababa University

Department Of Public Administration

Questionnaire to Be Filled Up By Clients of Addis Credit and Saving Institution

Dear Respondents,

This questionnaire is prepared by me, a student of Addis Ababa University Masters Program in Public Administration. Its objective is to assess “The Role of Microfinance Institution in Urban Poverty Alleviation”. The information you provide is totally sought for academic purposes and shall be kept strictly confidential. Please feel free to share your experiences regarding the microfinance institution services. Thank you in advance for your kind cooperation. Your Ayelech Eshete

Remember: Put mark on the box answer you choose.

1. Personal data on the Respondents

1.1. Gender: Male Female

1.2. Age Breakup: A.18-35 Year B. 36-45 Years C. Over 46 Year

1.3. Education: A. Illiterate B. Primary (1-8)

C. High School (9-10) D. Preparatory

E. Diploma F. BA Degree And Above

1.4. Marital Status: A. Married B. Unmarried

C. Divorced

1.5. Family Size: A. 1-4 B. 5-10 C. More Than 10

2. Social- Economic Condition of the Respondent

2.1. Your Average Monthly Income _____ Birr

2.2. Your average monthly expenditure _____ Birr

2.3. Did you have any business and your own income source before joining this credit program?

A. Yes B. No

2.4. After joining the loan/credit program: your income has increased

A. Yes B. No C. No Answer

If yes, explain _____

2.5. Were you able to pay your children's education fee before involvement in Addis Credit and Saving Institutions Program?

A. Yes B. No C. No Answer

2.6. Your capacity for paying for your children's better quality of schooling after joining the program

A. Increased B. Decreased C. Remains the same

2.7. How do you explain the differences (in terms of before and after joining the credit/loan program) in affording to pay the medical expenses whenever you or your family members get sick?

A. Better before joining the credit program

B. Better after joining the credit program

Explain why _____

2.8. How do you explain your ability to buy clothing for yourself and for your children in general?

A. Better before joining the credit program

B. Better after joining the credit program

Explain why _____

2.9. The number of food items and quality of food that you are consuming now has

A. Improved B. Worsened C. Remained the same

3. Information Concerning Asset of Respondents

3.1. Did you have fixed property before being engaged in Addis Credit and Saving Institution?

A. Yes B. No C. No Answer

If "Yes" state the asset _____

3.2. Do you have fixed and movable asset after being engaged in Addis Credit and Saving Institution program?

A. Yes

B. No

If "Yes":

A. state the fixed asset _____

B. state the movable asset _____

3.3. What assets do you have after being engaged in Addis Credit and Saving Institution Program? (You can tick more than one answer)

A. Owner of a house

B. Have money to pay the school fees of my children

C. Access of payment for health care for my family

D. Improve my food situation

E. The saving has increased

If any other, specify _____

4. Information Regarding Employment Opportunity and Empowerment of Respondents

4.1. What were you doing before you started the business?

A. Unemployed B. Employed elsewhere in similar business

C. A student D. working unpaid in family business

E. Employed in government organization

If any other, specify _____

4.2. Do you have employees before joining in your business?

A. Yes B. No C. No Answer

4.3. How many employees (even family members employed) do you have in your business?

A. One B. 2-5 C. More than 5 D. None

4.4. Is there gender segregation to be beneficiary in this program?

A. Yes

B. No

4.5. If yes, which sex is more favored?

4.6. What is the reason for this?

5. Information Concerning Financial and Non-Financial Services to Respondents

5.1. What do you feel about the amount of loan size given by Addis Credit and Saving Institution relative to your business?

- A. very low
- B. small than required
- C. good enough
- D. more than enough

5.2. What is your reason to take a loan?

- A. To open new business
- B. To expand my business
- C. To change over another business
- D. To solve the serious problem of my lack of money

If any other, specify _____

5.3. What was your first loan mainly used for?

- A. Petty trade
- B. Garment
- C. Construction work
- E. To pay my old debt

Specify if any other _____

5.4. Are you borrow by: A. Individuals D. Group

5.5. If you borrowed by a group, have you ever paid defaulter's penalty to the group?

- A. Yes
- B. No
- C. No Answer

5.6. Who do form your group?

- A. Kebele administration
- B. Directly, I asked other group members to join me, and they agreed
- C. Previous group members asked me to join them and I agreed
- D. Addis Credit and Saving Institution staff helped me to join the group

If any other, specify _____

5.7 Do you think that the criteria by which you are being allowed to get access to credit services are suitable?

- A. Yes
- B. No
- C. No Answer

5.8. Did you pay interest for the loan?

- A. Yes
- B. No

5.9. What is your opinion about the interest rate?

- A. High
- B. Low
- C. Proportional

5.10. Does Addis Credit and Saving Institution give enough time to repay the loan? A. Yes B. No

If "No", specify the reason _____

5.11. State what you dislike in Addis Credit and Saving Institution service (You can tick more than one answer)

- A. Group lending
- B. Amount of loan smaller than requested
- C. Delay (bureaucracy) in service delivery
- D. High interest rate
- E. Short repayment period

5.12. Do you have a saving account in any of the following, if yes, how much is the amount of savings?

- A. In a week _____Birr B. In a month _____Birr
- C. In quarter _____Birr D. In a year _____Birr

If "No" why _____

5.13. What is your opinion about training, follow up and supervision provided by the office?

- A. Low B. Good C. Very good

5.14. Did you get any formal training that helped you to undertake the kind of business you are involved in?

- A. Yes B. No C. No Answer

5.16. What are the main constraints/ challenges to use the credit?

- A. High interest rate for loan
- B. Shorter repayment period C. Low interest rate for saving
- D. Low amount of loan

If other, specify _____

6. Please make some suggestions_____

Thank you very much for your cooperation

Appendix 2

Interview Questions to Kirkos Sub City Addis Credit and Saving Institution Branch and Sub Branches Managers

Dear respondents,

The question is prepared by the student of Addis Ababa university master program in public administration. These interview questions to Kirkose sub city Addis Credit and Saving institution branch and sub branches managers to gather information about “The Role of Microfinance Institutions in Urban Poverty Alleviation”. Specially, they are designed to investigate how microfinance institutions targeting the poor, to what extent improve the living standard of the beneficiaries and to identify the types of service provided by the institution. In addition to these it helps to obtain information of the major constraint or challenges that hinder the program.

1. What type of services /products do you provide for Addis credit and saving institution clients?
2. Tool for targeting
 - Explain the mechanism used for addressing the poor?
 - How do you treat women and men in the provision of service of credit?
 - What types of lending system do you follow?
3. Would you suggest that your observation on the improvement of Addis credit and saving institution clients living situation?
4. What is your suggestion concerning:
 - repayment period
 - saving situation
 - the amount of loan that gave for the institution of clients
 - Interest rate compared with other financial institution

5. What was the main problems and constraints face during the provision of credit and saving services?
6. If you have any additional suggestion which don't address in the above, you can explain it.

Thank you very much for your cooperation

Appendix 3

Loan Disbursement in Terms of Sex in Kirkos Sub City (AdCSI)

Year	Male		Female		Total		% of Female
	No of clients	Amount of loan disbursed	No of clients	Amount of loan disbursed	No of clients	Amount of loan disbursed	
2005	1,154	4,509,513	1,431	3,341,782	2,585	7,851,295	55.36
2006	284	1,569,513	459	1,623,750	743	3,192,650	61.78
2007	808	7,787,500	1,074	4,308,650	1,889	8,096,150	56.86
2008	1,000	5,413,470	1,239	5,106,200	2,239	10,519,670	55.34
2009	1,280	7,251,800	1,696	7,498,000	2,979	14,749,800	56.99

Source: AdCSI Performance Report, 2010

DECLARATION

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

Declared by:

Name: Ayelech Eshete

Date: _____

Signature: _____

Confirmed by Advisor:

Name: Prof. Dr. CD Dash

Date: _____

Signature: _____

Place and date of Submission: Department of Public Administration and
Development Management, Masters of
Public Administration (MPA) June , 2010

