IMPACT OF MICROFINANCE ON POVERTY REDUCTION IN ETHIOPIA:

The cases of three branches of Specialized Financial and Promotional Institution (SFPI)

By: ABEBE TIRUNEH

REGIONAL AND LOCAL DEVELOPMENT STUDIES (RLDS)

ADDIS ABABA UNIVERSITY

ADDIS ABABA

ETHIOPIA

January 2006

THE IMPACT OF MICROFINANCE ON POVERTY REDUCTION:

The Cases of three branches of Specialized Financial and Promotional Institution (SFPI)

By: **ABEBE TIRUNEH**

A Thesis Submitted to the School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirements for the Degree of Master of Arts in Regional and Local Development Studies (RLDS).

ADDIS ABABA UNIVERSTIY

SCHOOL OF GRAGUATE STUDIES
REGIONAL AND LOCAL DEVELOPEMTN STUDIES

Approved by Board of examiners:

1.____________________	**____________________**
Chairman	**Signature**
2. ____________________	**____________________**
Advisor	**Signature**
3.____________________	**____________________**
Internal examiner	**Signature**
4.____________________	**____________________**
External Examiner	**Signature**

January 2006

Declaration

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

Name: Abebe Tiruneh

Signature:______________________

Confirmed by Advisor:

Name: Dr. Wolday Amha______________________

Signature:______________________

Place and date of submission: Addis Ababa University, January 2006.

ACKNOWLEDGEMENT

God and many people have helped me to accomplish the research work on time and in successful manner. I am great full to all who supported me to complete the research paper. I especially thank my advisor Dr. Wolday Amha for his willingness to help me and provide technical support, relevant materials, and constructive advices and comments.

I am indebted to my family Abeba Kassuhun, Hilena Abebe and Melkamu Tiruneh who gave me the necessary materials and taking responsibilities to facilitate my work. I would like to thank Dr. Mengistu Bayih for his support in editing the research paper.

I would like to thank AEMFI staff members, SFPI management and staff members, branch managers, and all branch staff members for their unreserved cooperation. Last but not least I would like to acknowledge my institution, The House of People's Representatives of Federal Democratic Republic of Ethiopia for sponsoring my graduate studies.

TABLE OF CONTENTS

LIST OF TABLES

Tables ***page***

LIST OF FIGURES

LIST OF ANNEXES

ABBREVIATIONS AND ACRONYMS

ACSI -	Amhara Credit and Savings Institution
ADCSI –	Addis Credit and Savings Institution
AEMFI –	Association of Ethiopian Microfinance Institutions
AIMS –	Assessing the Impact of Micro-enterprise Services
ASA –	Association for Social Advancement
BGSC –	Bussa Gonofa Share Company
CCC –	Casa Campesina Cyambe
CGAP –	Consultants Group to Assist the Poor
CSA –	Central Statistical Authority
DECSI –	Dedebit Credit and Savings Institution
EU –	European Union
GDP –	Gross Domestic Product
IDA –	International Development Association
IFAD –	International Fund for Agricultural Development
IMF –	International Monetary Fund
MDG –	Millennium Development Goal
MFI –	Microfinance Institutions
MoFED –	Ministry of Finance and Economic Development
MSC –	Meklit Share Company
NBE -	National Bank of Ethiopia
NGO –	Non-Governmental Organizations
OCSSCO –	Oromia Credit and Savings Share Company
OMFI-	Omo Microfinance Institute

PEACE-	Poverty Eradication and Community Empowerment
RLDS –	Regional and Local Development Studies
SDPRP-	Sustainable Development and Poverty Reduction Program
SEEP –	Small Enterprise Education and Promotion
SFPI –	Specialized Financial and Promotional Institute
SML –	Share Microfinance Limited
SPSS –	Statistical Package for Social Science
SUM –	Special Unit for Microfinance
UK –	United Kingdom
UN –	United Nation
UNDP –	United Nation Development Program
USAID –	United States Agency for International Development
USD –	United States dollar
WB –	World Bank
WDR –	World Development Report

ABSTRACT

Poverty is a harsh and undesired phenomenon in mankind. Reducing, if possible eradicating poverty is unquestionable. Thus, microfinance programs have been considered as one of the main instruments in poverty reduction in recent development agenda. It is a means to support the marginalized active poor of the society. Studying the impact of microfinance intervention is important to assess its viability on poverty reduction. The main objective of this study is to find out whether the provision of microfinance services of MFIs in Ethiopia has brought changes on the living standards of clients. It is focused on the impact of SFPI program at household and enterprise levels.

Primary data were collected through close-ended and open-ended structured questionnaire from active clients, ex-clients (dropouts), and incoming clients (used as control groups) using random samples. Discussions with key informants and focus groups were administered to capture qualitative information. A total of 150 samples were selected using multistage simple random sampling. Among these samples 140 were valid. Settlement and gender composition were considered in sample selection process. Secondary data were gathered from different published and unpublished relevant materials. The study mainly applied analytical approaches such as frequencies, averages and percentages.

The impact of delivering financial services to poor clients was analyzed based on some socio-economic and political indicators in different levels. The findings revealed that SFPI program has made a positive impact on households' income, asset ownership, housing condition, expenditure, and diet condition. However, the finding didn't show the impact of SFPI on households' access to education and medical facilities. SFPI credit delivery has also increased enterprises production capacity, net profit and employment opportunity to the client household members as well as the local community. Moreover, it has a positive impact on personal savings and women's empowerment. Most of the findings are consistent with the hypothesis developed in the research. MFIs have contributed a great share in improving the living standard of the poor and reduce poverty at household level. Therefore, strengthening the development of MFIs in Ethiopia is an appropriate and appreciated policy instrument to realize the objectives of the Poverty Reduction Strategy of Ethiopia.

Key words: **Impact, poverty, microfinance, poverty reduction, clients, and poor**

CHAPTER ONE

1. INTRODUCTION

1.1. Background

Poverty is a broad, multifaceted and multidimensional concept that involves the economical, social, political and environmental well-being of the people (WB, 2002). It is difficult to provide a single absolute and standardized definition of poverty rather than defining it in relative terms. Different authors provide different definitions for the concept of poverty. But the widely used definition of poverty is indicated in the World Bank Development Report (1990) as follows:

> *An inability to attain a minimum standard of living, poverty means a shortage of having enough to eat, a low life expectancy, a higher rate of infant mortality, low educational standard, enrollment and opportunities, poor drinking water, inadequate health care, unfit housing conditions and lack of active participation in decision making process.*

Poverty remains a global problem of huge proportions, which needs a great attention to reduce it. It haunts the lives of billions of people around the world. Of the worlds' 6 billion people 2.8 billion live on less than 2 US dollar a day and 1.2 billion on less than 1 US dollar a day (WDR, 2000/2001).

Attacking persistent poverty in low and middle-income countries is the greatest single challenge facing the global development community as the world moves forward in to 21st century (ibid). However, poverty is not a primary concern in highly industrialized countries (Bigsten, et al 1999). But it is a strategic issue in developing countries. Poverty is mostly the manifestation of developing countries in Africa, Latin America and Asia.

Ethiopia is one of the developing countries facing severe poverty. Ethiopia is located in the horn of Africa with a total surface area of 1.016 million square kilometers (CSA, 1997). The population of Ethiopia is estimated to be 73 million with the average population growth rate of about 2.4 percent (CIA, 2005). It is one of the poorest countries in the world. As estimated by the World Bank the per capita income of Ethiopia is USD 110. It ranks 169 out of 175 countries in terms of the over all Human Development Index (UNDP, 2003). The country's economy is predominantly based on agriculture, which accounts for about 50% of GDP, 85% of exports and 85% of employment of the country (IFAD, 2001).

Poverty and food insecurity are the main challenges and fundamental issues of economic and social development in Ethiopia (Gebrehiowot, 2002). It is estimated that in Ethiopia 44 percent of the population is living below absolute poverty line (Wolday, 2003). Poverty in this country is a manifestation of complex factors.

Like other Sub-Saharan Africa countries, the socio-economic condition of the country is characterized by low growth rate of income, saving, investment, inadequate social services, high population growth and high unemployment rate. Unbalanced growth rate of population with economic growth is both the causes and consequences of poverty in Ethiopia. This high population growth also causes the natural resource degradation of the country. The country's economy is unable to create employment opportunities for the fast growing labor force (Tsehay and Mengistu, 2002). Poverty in Ethiopia is also caused by various factors such as high population growth, high unemployment, low level of literacy, environmental degradation, drought, limited access to resources, health and education services and others (Wolday, 2003). Lack of access to financial services is also among the causes of poverty in Ethiopia.

Provision of financial services is one of the important economic inputs in the effort to reduce poverty and empower economically marginalized segments of the society. These marginalized poor people have limited access to financial services from the formal financial institutions especially in developing countries. Because formal financial system has inadequate geographical outreach, lack of adequate management system, lack of skilled manpower, high risk perception and inadequate collateral, poor people found it difficult to obtain adequate amount of credit and were charged high rates of interest by monopolistic moneylenders.

From the 1950s, governments and international aid donors extended subsidized credit allocations to small farmers of developing countries. Development of financial institutions such as the Agricultural Development Banks, were responsible for the delivery of cheap subsidized credit to poor farmers. These institutions supervised the uses to which loans were put and repayment schedules were based on the expected income flow from the investment. Returns were often overestimated. As the result, loans were often not repaid. Therefore, the credibility and financial viability of these subsidized credit schemes were weakened and were unable to sustain their lending programs. Thus, credit provision for the poor was transitory and limited (Johnson and Rogaly, 1997, Tesfaye W.G, 2003).

Microfinance institution programs gained a worldwide acceptance and popularity since 1980s in providing financial services to the poor. Recent developments in the design of microfinance schemes have come out with innovative features which resulted in reduced costs and risks of making loans to poor and isolated people and made financial services available to people who were previously excluded. Microfinance intervention may increase income, consumption, saving, investment, employment opportunities, better access to nutrition, health care and education.

Ethiopia has a favorable macro policy environment and regulatory framework to promote sustainable microfinance development (Wolday, 2003). The government of Ethiopia supports microfinance institutions as one of the means of addressing the poorest segment of the society to reduce poverty. To this end, the government created a conducive environment for the development of microfinance institutions by issuing proclamation No. 40/1996(the microfinance law).

Following the issuance of the proclamation, the National Bank of Ethiopia, the licensing and supervising agency for Microfinance Institutions, issued implementation guide lines within which microfinance institutions are allowed to operate. It also issued a dead line within which different saving and credit programs operated by NGOs in the country are required to be either licensed as Microfinance Institutions or discontinue operating their credit programs. In accordance with this, some of them were transformed to licensed Microfinance Institutions and most of them were terminated.

This legal and regulatory framework has assisted in increasing the number of microfinance institutions to twenty-six, as of November 2005. These different microfinance institutions together formed an association under the name of Association of Ethiopian Microfinance Institutions (AEMFI) in 1999 to share their experiences so as to improve the services they render to their clients and provide advocacy services. AEMFI was initially registered as non-profit and non-governmental organization by the request of four MFIs such as DECSI, ACSI, OCSSCO and OMFI.

Currently, AEMFI expanded its activities beyond experience sharing and advocacy. It includes training, research, financial performance monitoring and promotion. The vision of AEMFI is to reduce the level of poverty through the efficient and sustainable delivery of financial services by MFIs to the poor in Ethiopia. On the other hand its mission is to serve and develop a sustainable institutional structure of microfinance industry in Ethiopia by promoting best practice in the industry, serving as the forum for debate and dialogue, facilitating sharing of experience and information; and creating an enabling environment for the industry (AEMFI, 2005).

Specialized Financial and Promotional Institution (here after SFPI) is one of the microfinance institutions in Ethiopia established in accordance with proclamation No. 40/1996. It is registered as a share company by liability on November 25, 1997. It started operations in the second half of the 1998. It is an active member of AEMFI.

The shareholders of SFPI are composed of governmental organizations, non-governmental organizations and the private sector. The seven shareholders in SFPI are commercial Bank of Ethiopia, Dashen Bank, Agri-service Ethiopia, Projynist Ethiopia, Addis Ababa Women Entrepreneurs Association, and Ethiopian National Association for the Blinds and Ato Hailu Wondafrash. Among these, the largest share is owned by commercial Bank of Ethiopia. SFPI is administered by board of directors, which are composed of five members elected by the General Assembly. The General Assembly of the shareholders is the highest governing body of the institution.

The institution has a mandate to operate at federal level both in the urban and rural context. Its head office is located in Addis Ababa. Its operation is running in four branches. Each branch has both urban and rural clients. The branches are named as Sholla branch, Cherkos branch, Merkato branch and Debrezeit branch. The first three branches are located in Addis Ababa and the fourth branch is located in Oromia Region (Debrezeit), about 45 kilometers from Addis Ababa.

As indicated in the institution's document, the vision of SFPI is to see poor people especially women, to be fully accessed to institutional credit for self employment, to reduce poverty both in urban and rural Ethiopia, and to promote emergence of self reliant and business minded generation. The institution's mission is working towards the socio-economic empowerment of the active poor both in urban and rural Ethiopia by assisting them in creating and running viable business through provision of financial and non- financial services.

The institution has five objectives, indicated as follows:

1. Inculcate work ethics and business culture in the minds of its clients
2. Facilitate the creation and the expansion of micro-enterprises by providing financial and non-financial support services such as credit, training in business practices and related technical advice
3. Inculcate saving habit among its target people
4. Enhance the entrepreneurial ability to its target population through training.
5. Promote the transition of successful micro-enterprises from the informal to the formal sector

On the basis of these objectives, SFPI targets poor individuals who shall organize themselves into groups of three to five members, who may come up with production oriented and viable project ideas, and cooperatives with legal entity. More attention is given to the poor female-headed households. In 2004 sixty percent of the clients of SFPI are females.

The main activities performed by SFPI are carryout microfinancing activities both in urban and rural Ethiopia, promoting savings, mobilize resources from various sources, promotional counseling and training services and plough back profits generated from operation.

The study tries to assess the impact of microfinance institutions on poverty reduction by taking a case study of Specialized Financial and Promotional Institution. It is conducted by assessing the clients who are participating in the program; dropouts from the program and potential clients in the near future.

1.2. Problem statement

Developing countries are working to create their own national poverty reduction strategies based on local needs and priorities. UNDP advocates for the nationally owned solutions and helps to ensure their effectiveness by creating innovative pilot projects, connect countries to global best practices and resources, promote the role of women in development and bring governments, civil society and donors together to coordinate their efforts (UNDP, 2003). The development of microfinance programs gained a worldwide acceptance and popularity since 1980s in providing financial services to the poor. It is one way of the antipoverty instrument of the development programs. Numerous institutions in many parts of the developing world have been providing micro-credit and recovering their loans. The Grameen Bank's group lending methodology became widely adopted by institutions in many parts of the world (Robinson, 2001). Relative to the experience of other developing countries, microfinance development in its institutionalized form is a recent phenomenon in Ethiopia.

Lack of financial resources is one of the major problems facing poor households. Formal financial institutions are inefficient and inaccessible in providing credit facilities to the poor (Assefa et al., 2005). Thus, developing an alternative mechanism for providing financial services to the poor households became critical. In realizing this, the Ethiopian government has created the legal and regulatory framework for the establishment of microfinance institutions.

The main objective of almost all microfinance institutions in Ethiopia is to deliver financial services to the poor. Microfinance became one of the important tools of reaching the poor who had very limited access to the formal financial sector. The provision of financial services to the poor has increased through microfinance institutions in a short period of time in Ethiopia (Wolday, 2003). However, Ethiopian microfinance institutions are faced with many problems. Some of these are low outreach, limited funding alternatives, limited financial products, lack of research to understand client needs and weak internal control system (Wolday, 2001).

There is a high-unmet demand. SFPI has shown a promising growth in its operation and outreach. However, it is still providing financial services to a very limited number of clients. The Ethiopian MFIs should focus on the responsiveness of their financial products to the needs of their clients. This in other ways means that, MFIs should know client's needs by conducting a market research or needs survey and produce products that fulfill the needs of clients. These types of market assessments may help MFIs to collect information, which makes them financially and operationally sustainable (Wolday, 2003). It also assists MFIs to build strong capacity to meet the fast growing demand of credit by the poor.

This study tries to examine how SFPI achieves its goal, in sustainable way to make a difference in the livelihood of the poor given the above challenges. Attempts are made to understand the client needs and assess the impact of microfinance intervention on poverty reduction at the household and enterprise levels.

One of the issues raised by researchers is that, it has not been sufficiently or critically evaluated in relation to its impact (Meehan, 1999). Impact assessment can be used to improve services, increasing impact on poverty and microfinance institution efficiency, to promote good client service and accountability and to provide accountability to donors and other external stakeholders (SEEP, 2001). If the intervention is intended to reduce poverty, it is important to know the degree to which poor people use existing services and on what terms they used. And then an intervening organization makes an informed decision on whether their work is likely to augment or displace existing poor financial services (Johnson and Rogaly, 1997). The results of few case studies indicated that access to finance could reduce poverty. However, comprehensive impact assessment research has not yet been conducted to prove it.

Very limited researches towards improving the financial sector have been observed (wolday, 2003). Even these limited researches are more concentrated on institutional sustainability rather than client impact or sustainability. Thus, studying the impact of microfinance intervention is important to fill this gap.

SFPI has not undertaken an impact assessment study to understand or evaluate whether or not its interventions leads to change by comparing the conditions without the intervention. This particular study attempted to assess the impact of microfinance intervention on poverty reduction by taking a case study of SFPI. Some indicators of poverty, which are used to assess impact in this study, include change in asset ownership, income level and expenditure, housing, education and health condition, and empowerment. The justification of selecting SFPI, as a case study is that, it focused on the marginalized poor people especially the poor women and its geographic coverage included both urban and rural clients

1.3. General objective

The general objective of this study is to assess the impact of microfinance services on poverty reduction at household and enterprise levels by increasing income, creating job opportunity and enhancing empowerment.

1.4. Specific objectives

The study has the following specific objectives.

1. To examine the nature of loan and loan repayment capacity of the poor.
2. To assess the nature and change of income and wealth as a result of the delivery of financial services.
3. To compare the living standard and expenditure of the people before and after receiving the loan.
4. To examine the impact of microfinance on employment and production capacity of enterprises before and after the loan.
5. To assess the impact of microfinance services on empowering women clients.
6. To evaluate the trend of saving mobilization before and after the program.
7. To study the impact of credit and saving services on improving asset ownership, education and health care.
8. To assess the clients' image towards SFI financial and non-financial service provision.

1.5. Hypothesis

In order to conduct impact assessment and to address the main objective of the study, this particular study has the following hypotheses:

- The provision of microfinance services such as credit and saving has a positive impact on clients
- at household and enterprise levels.
    - At the enterprise level:
        - Increasing profit
        - Increasing production
        - Increasing fund availability
        - Increasing employment opportunity
    - A the household level:
        - Increasing income

- Increasing consumption
- Increasing housing ownership and improvements
- Increasing assets ownership
- Increasing food security
- Increasing access to education and health care
- Increasing savings
- Enhancing empowerment

1.6 Significance of the study

Institutional Microfinance is lately emerging phenomenon which had not been given due attention in earlier development paradigm, particularly in Ethiopia. As a result, very limited studies have been undertaken in this area. The document in the Association of Ethiopian Microfinance Institution revealed that Ethiopian microfinance institutions are facing a number of challenges. Among these, lack of research to understand clients' needs is a vital problem. This case study has attempted to address the lacuna of research on the impact of microfinancing programs at enterprise and household levels and its role in combating poverty. This study will contribute in filling the information gap by assessing the socio- economic impact of SFPI operations in Addis Ababa and Oromia region at a household and enterprise level. It also adds a body of knowledge in the area.

1.7. Limitation of the study

This study is limited to the households who are participating in SFPI microfinancing program. It only focuses on one MFI and very limited sample size. Therefore, it may not have a strong scientific justification and representative ness to generalize about the impact of MFIs on reducing poverty in the entire country.

The other limitation of the study is time and financial constraint. Because the study is time and finance bounded as compared to the wideness and intensiveness of the work. There is also the problem of getting reliable information from respondents. Due to absence of a baseline survey before the implementation of the program, respondents may not recall the situations before taking loans properly.

Despite the above limitations, the samples selected from SFPI are considered representative enough. It is believed that, the random samples helps to make reasonable analysis and conclusion on assessing the impact of microfinance services on poverty reduction in both urban and rural areas.

1.8. Organization of the paper

This research paper is organized into five chapters. The first chapter deals with background, statement of the problem, and objectives of the study, hypothesis, significance, limitation and conceptual framework of the study. The second chapter focuses on pertinent literatures and relevant empirical case studies to the research. Whereas chapter three describes the research methodologies applied in the study. Chapter four focused on the major findings of the study. Chapter five is the conclusion and recommendation part of the study.

1.9. Conceptual framework

Impact assessment can be used to improve services, increasing impact on reducing poverty and microfinance institution's efficiency, to promote the delivery of good client services and accountability, and to provide accountability to donors and other external shareholders. Microfinance impact analysis is the process by which one determines the effect of microfinance on the living standard of the poor as an intervention (SEEP, 2001).

According to Yaron (1997), there are two major schools of thought that are prominent in impact assessment of microfinance. The first one focuses purely on changes in the organization and its operations. In this approach, generally, two key variables of institutional outreach and institutional sustainability are focused on. In other words, the main focus for the impact assessment in this approach is the performance of the institution in extending the credit. The assumption is that if both outreach and sustainability have been enhanced, then the intervention is judged to have a positive impact as it has widened the financial market in sustainable fashion. This, in turn, is based on the assumption that such institutional impact extends the choices of people looking for credit and saving services and that extension of choice ultimately leads to improved micro enterprise performance and household economic security.

The second approach, which is currently gaining prominence and is applied for this impact assessment, is the one, which focuses on clients needs rather than on the organizations delivering the financial services. It should answer the questions, such as who are users of the services? How are the various groups using the services? And how does the intervention affect the life of the beneficiaries?

The impact assessment methodology applied in this case are the ones developed by USAID's AIMS project that seeks to assess impact at household, enterprise, individual, and community levels. This approach is believed to produce a fuller picture of overall impacts of microfinance activities.

The rationale for using household and enterprises as units of impact assessment is that for an organization aiming at providing financial services to alleviate poverty, its end result is fully measurable only in direct relationship to the lives of human beings. Human beings are part of the household, the society or the community in which they live. These elements would, in one way or the other, influence the actions or activities of the clients. In other words, the impact of the credit may occur as a result of the composition of the household, the quality of the decision-making within the household to any economic activity of the household (Tsehay and Mengistu, 2002).

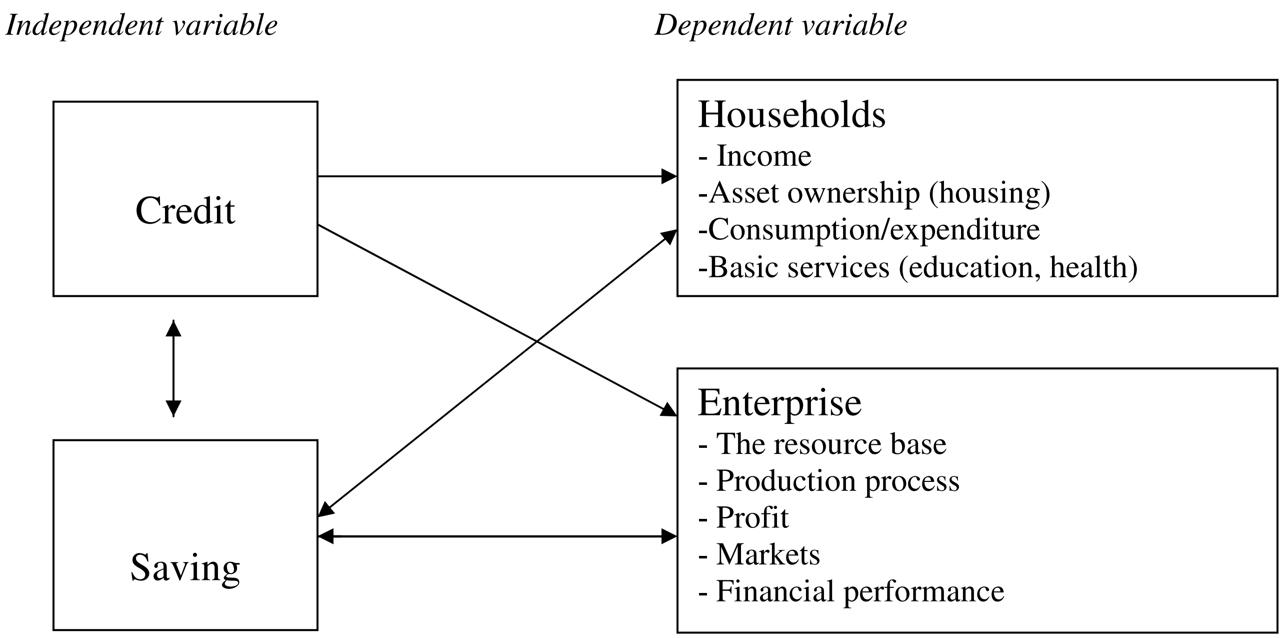
At the household level, impact may be measured by net increase in household income, asset accumulation and labor productivity. At the enterprise level, it is measured by changes in enterprise income, employment, profit and volume of production.

The result of this kind of assessment would enable the organizations to take appropriate decisions to build on their strengths and strive to concentrate on areas of clients' needs that call for much improvement (Tsehay and Mengistu, 2002). The aim of SFPI is to reduce poverty by targeting poor people to improve the clients' welfare and standard of living. Therefore, this study applies the second approach which focuses on clients’ needs to assess the impact of SFPI on the living standard of the clients.

The study attempts to measure the impact that occurs at household level and enterprise level use it as a conceptual framework. The impact can be assessed by specific indicators such as increase in household income and expenditure (consumption), change in the enterprises income, improvement of employment and production, and empowerment of women.

The research has both independent and dependent variables. Independent variables are services that are provided by SFPI for clients. On the other hand dependent variables are improvements in the livelihood of the clients. Therefore, the finding depends on the relationship and outputs of the independent and dependent variables. The diagram shows the relationship between independent and dependent variables.

Figure: 1. 1. Relation ship between independent and dependent variables



Household income =f (credit, saving)

CHAPTER TWO

REVIEW OF LITERATURE

2.1. Poverty

2.1.1. **Concepts** ***and definitions of poverty***

Before assessing the impact of any institution on poverty, it is important to understand the concept of poverty and its relative definitions. The world is characterized by the division of ‘haves’ and ‘have nots’. The haves lead a luxurious life while the have-nots suffer from lack of decent, healthful and productive life (Todaro, 1997).

There is no clear consensus among development experts and policy makers on how to define measure and eradicate poverty (Meehan, 1999). Accordingly, there is no a single absolute and standardized definition of poverty rather than defining it in relative terms. Different people view and define it in different ways.

Traditionally poverty was understood primarily as material deprivation, as living with low income and low consumption characterized by poor nutrition and poor living conditions. This is commonly known as income poverty. It is associated with the low health and educational levels that are either the cause or the result of low income said to be human poverty. Many researchers define poverty on the basis of income level instead of using its broader definition, which includes well being. However, Hulme and Mosley, 1996 consider the definition as inadequate and incomplete.

A classical definition of poverty sees it as the inability to attain a minimal standard of living measure in terms of basic consumption needs or the income required for satisfying them (WB, 1990). Poverty is thus characterized by the failure of individuals, households or entire communities to command sufficient resources to satisfy their basic needs. The inability to attain minimal standards of consumption to meet basic physiological criteria is often termed as absolute poverty or deprivation. It is most directly expressed as not having enough to eat or malnutrition. In absolute sense the poor are materially deprived to the extent that their survival is at stake. In relative terms, they are also deprived in relation to other social groups whose situation is less constraining.

Attimir (1982) defined the concept of poverty as a situation of poor health facilities, low level of education, malnutrition and lack of participation in decision-making process. He elaborated it as follows:

> *Poverty is a situational syndrome in which the following are combined: under consumption, malnutrition, precarious housing conditions, low educational level, bad sanitary conditions, either unstable participation in the production system or restriction to its more primitive strata, attitudes of discouragement and anomie, little participation in the mechanisms of social integration and possibly adherence to a particular scale of values different to some extent from that held by the rest of the society.*

Similar definitions and descriptions have also been providing by many institutions and authors. World Bank in its report (1990) defines poverty as the inability to attain a minimum standard of living. Poverty means a shortage of having enough to eat, a low life expectancy, a high rate of infant mortality, low educational standard, low enrolment and opportunities, poor drinking water, inadequate health care, unfit housing conditions and lack of active participation in a decision making process. Poverty does not only mean lack of material needs but also vulnerability and powerlessness. Power and participation dimension is argued to be independent with the income level and asset ownership dimension (Holcombe, 1995).

According to the World Bank report (2002), the dimension of poverty is classified as at least in four dimensions. These are: lack of income, low level of achievement in education and health, vulnerability to risks and some sort of insecurity and voiceless ness. The broad and widely used definition of poverty is developed by the World Bank, which incorporates the economic, social, political and environmental situations of the people. The broader definition of poverty as the multidimensional phenomena leads to a clearer understanding of its causes and to formulate a more comprehensive policy aimed at poverty reduction.

2.1.2. Measures of poverty

It is not easy to measure poverty like that of its definitions. Thus, measures of poverty are different in different countries. Conventionally, the income or expenditure level that can sustain a minimum standard of living measures it. Poverty can be commonly measured by constructing a line called poverty line. The cross cutting level which is constructed from monetary estimates of minimum needs is said to be poverty line (Getahun, 1999). Poverty line is also defined as a threshold level of per capita income or consumption level below which an individual is labeled to be poor (WB, 1991). The poverty line represents a minimum level of economic participation in a given society at a given point in time. People below this threshold is said to be poor. Poverty line can be estimated in two different approaches. These approaches are absolute poverty and relative poverty.

Absolute poverty refers to a condition in which people barely exist. In such situation, the availability of the next meal will be a matter of life or death. It is a critical condition in which people live on aid, food relief or their own meager returns from squatter farming, prostitution, scavenging on refuse tips and so on (Todaro, 1997). It tends to identify those who are starving without any comparison made with others.

To allow for international comparison the world Bank has established an international poverty line of 1US dollar a day per person in 1985 purchasing power parity (PPP) prices which is equivalent to 1.08 dollar a day per person in 1993 PPP prices. According to this measure the portion of extremely poor people in the worlds population (people living on less than 1 dollar a day) fell between 1990 and 1999 from 29 percent to 23 percent respectively. Developing countries have the highest percentages of population living below the poverty line. The highest incidence of poverty is observed in sub-Saharan Africa, with almost half of its population living below the poverty line (1 dollar).

The relative poverty implies that one has less than what others have. It tends to identify with comparison made with others. It tends to identify with comparison of the circumstances one group of people or an entire economy with another one. It refers to a relative income differential of distribution. It may not be a situation of an entanglement in between life and death as of the case in absolute poverty. It exists when the subjects under consideration are “poor” in relation to others (Todaro, 1997).

2.1.3. The vicious circle of poverty

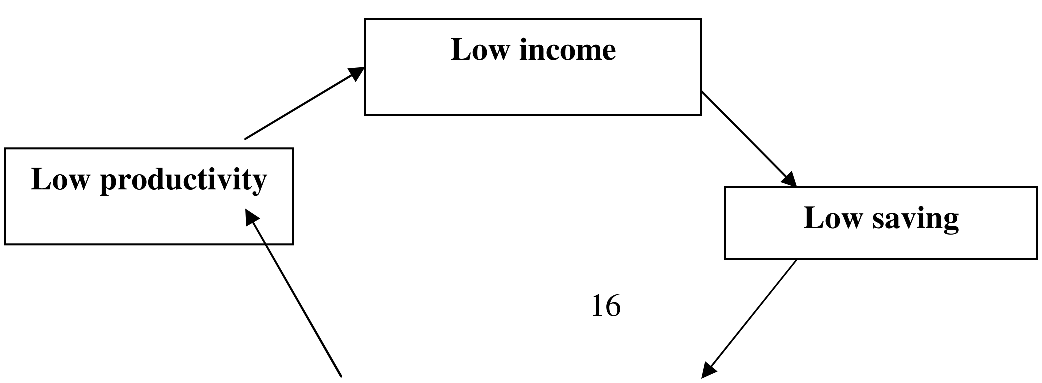
Poor people live without fundamental freedoms of action and choice that the better off take for granted. The poor often lack adequate food, shelter, education, health and deprivations that keep them from leading the kind of life that everyone values. They also face extreme vulnerability to ill health,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

Poor people everywhere continue to suffer from unacceptably low social conditions and lack of access to services. Economists assume that peoples' willingness to save for future consumption grow with their incomes. In poor countries most incomes are mostly spent to meet current needs rather than transferring to future needs. It tends to lower national saving rates.

In combination with the small size of poor countries' economies, lower saving rates account for a much smaller pool of savings available for desperately needed domestic investment in both physical capital and human capital. For example, Sub-Saharan Africa consistently has the lowest saving rate and the smallest pool of saving. High-income countries' pool of saving was about three times as large as all the savings of developing countries combined (WDR, 2001).

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

Figure: 2.1. Relationship between vicious circle components



Low investment

Source: World Bank Report, 2004

The poor in Ethiopia have low income that leads to low saving and in turn leads to low investment. Without new investment, productivity may not be improved and this will result in low income. Access to institutional credit that contributes to an increase in investment and disconnects the vicious circle of poverty is very limited in Ethiopia. The majority of the poor get access to financial services through the informal channels (wolday, 2003).

2.1.4. Situation of poverty in Ethiopia

Poverty is mostly the manifestation of developing countries like Africa, Asia and Latin America. Ethiopia is among the developing countries in the world facing severe poverty. It ranks 169th out of 175 countries (UNDP, 2003). The World Bank estimated that the per capita income of the country is less than USD 110. Poverty remains a threat to the political, economical and social stability of the country.

The majority of people in Ethiopia are living in rural areas where poverty is more widespread than in urban areas. About 45 percent of the rural populations are below the nationally defined poverty line, while it is 37 percent for urban population. Poverty is also deeper and severer in rural areas than in urban areas. On average, the income of the rural poor is 12.1 percent far from the poverty line, while it is 10.1 percent for the urban poor (Tassew, 2004). Similarly MoFED (2002b) estimated the poverty incidence of 45.4 percent and 36.9 percent, depth of 12 percent and 10 percent, and severity of 4.6 percent and 3.9 percent for rural and urban Ethiopia respectively.

Extreme poverty manifests itself in terms of various social, cultural and economic indicators, such as backward and dominantly rural population, high illiteracy rates, repressed women, high fertility rates, high dependency ratios, overcrowded housing system, unsafe drinking water, widespread of HIV/AIDS, drought etc. Most of the poor are women, children, the elderly, small-scale farmers and unskilled workers. These people lack the financial capacity to meet the minimum standards of living (AEMFI, 2005). Generally the socio-economic situation of the country is characterized by low growth of income, inadequate social services, high population growth rate, economic inefficiency and high unemployment rate (Wolday, 2003; Tsehay and Mengistu, 2002).

2.1.5. Poverty Reduction

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

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

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

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

Even if developing countries have coherent and effective homegrown policies in poverty reduction, rich countries and international organizations have an important role in promoting global financial and environmental stability, lowering market barriers to the products and services of poor countries.

Simultaneous actions to expand opportunity, empowerment and security can create a new and dynamic change. If the developing world and the international community work together by combining real resources, experience, knowledge and imagination, there will be a rapid progress in poverty reduction in new millennium (WB, 2001).

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

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

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

The Millennium Development Goals endorsed by all members of the United Nations set out eight specific crosscutting and interrelated goals that are essential to reduce poverty. The first seven goals focused on the duties of poor countries to meet the goals. The eighth goal is aimed at the rich countries and their commitment to respond to developing countries political and economic reforms with increased economic assistance, lowered import barriers and the deduction or elimination of unsustainable debt (UNDP, 2003).

The main precondition for achieving the millennium goals is sufficiently fast and equitable economic growth in developing countries to provide the material resources for reducing all kinds of poverty including human poverty.

The governments of developing countries are the most important actors in the development process. No amount of foreign aid can be effective in any country where the government is corrupt or fails to implement good policies. Formulating comprehensive national development priorities and coordinating their achievement is a crucial task that can never be entrusted to the private sector or to any foreign aid providers (WB, 2003).

Ethiopia is one of the developing countries, which is faced with a complex, deep, broad and structural problem of poverty. The proportion of the population below the poverty line is estimated at around 44 percent. Thus, poverty reduction has become the central development agenda in Ethiopia like of other developing countries (Assefa, 2004).

Several reforms are undertaken in social, political and economical aspects to reduce poverty in the country. Ethiopia's development policies, strategies and programs adopted since 1992/93 have been concerned with how to bring sustainable and equitable development and then reduce poverty. With the above objectives, Ethiopia has formulated a Sustainable Development and Poverty Reduction Strategy Program (SDPRP) in 2002.

The program produced the basic framework for achieving fast and sustainable development and reduces poverty. The focus is on some selected key social and economic sectors. The main sectors on which development efforts would concentrate and which are considered as priority areas are agricultural and rural development, infrastructural development (road, water, telecommunication, electric power), and education and health sectors (MOFED, 2002).

Women and men have different access to critical economic resources and varying power to make choices that affect their lives. This leads to unequal roles and responsibilities of women and men. The government of Ethiopia has recognized that any development effort ignoring or limiting the participation of women cannot be successful. Thus, the government of Ethiopia committed to reduce poverty in addressing gender dimensions and targeting poor people.

The government of Ethiopia has taken encouraging steps by privatizing the nationalized institutions and facilitating the establishment of new organizations. One of the outcomes is the liberalization of the financial sector and the establishment of legal framework that allows the emergence of microfinance institutions to serve poor households (Tsegaye, 2005). The government tries to solve the problem of financial access to the poor by promoting the microfinance institutions. The government believes that microfinance institutions are one of the instruments in poverty reduction.

The delivery of financial services has been viewed as one of the antipoverty tools of the development programs because of creating employment opportunities by increasing their income and consumption and then reducing poverty. Improving financial access to the poor also facilitates economic growth by easing liquidity constraints in production, by providing capital to start up new production. Therefore, the introduction of microfinance will have a significant effect in reducing poverty at macro and micro levels (Wolday, 2003).

2.2 .The emergence of microfinance

The challenge of reducing poverty and improving living conditions for the poorest population is a formidable one. The betterment of poor people requires an effort that spans all sectors of the economy and may not be easy to achieve through economic growth alone. Improved access to financial services helps poor people by enabling payment transactions then bring them into the formal sector. Financial services enable poor people to use profitable business opportunities and raise earnings (Kumar, 2005; Wolday, 2003). But financial markets often serve poor people badly. Since poor people often have insufficient traditional forms of collateral to offer, they are often excluded from financial markets. The formal financial institutions were relevant to extend credit facilities to the poor for fear that loans would not be repaid. Poor borrowers faced high transaction costs when they sought loans from formal financial institutions. The costs included time, travel and paperwork involved in obtaining credit.

From the 1950's governments and international aid donors delivered subsidized credit to small farmers in rural areas of many developing countries. It was assumed that poor people found great difficulty in obtaining adequate volumes of credit and were charged high rates of interest by monopolistic moneylenders. Development finance institutions, such as Agricultural Development Banks were responsible for the delivery of cheap credit to poor farmers. These institutions attempted to supervise the uses to which loans were put and repayment schedules were based on the expected income flow from the investment returns, which were often overestimated. As the result, loans were often not repaid. The credibility and viability of these subsided credit schemes were further weakened. Fluctuating whims of governments and donors, together with poor investment decisions and low repayment rates made many of development finance institutions unable to sustain their lending programs (Johnson and Rogaly, 1997; Hailu, 2005).

Donors and other resource suppliers criticized the model of subsidized credit. They recommend that the model should shift from government intervention subsidy to market based solutions. Policy makers were reminded that credit should be described as debt and that the over-supply of subsidized credit without realistic assessment of people’s ability to repay could result in impoverishment for borrowers (ibid).

According to Robinson (2001), there are two known approaches in microfinance development. These are poverty lending approach and financial system approach. Both approaches share the goal of making financial services available to poor people throughout the world.

The poverty lending approach focuses on reducing poverty through credit and other services provided by institutions that are funded by donors and government subsidies and other concessional funds. A primary goal of this approach is to reach the poor especially the poorest of the poor with credit. Saving is not a significant part of this approach. But mandatory saving is a precondition for receiving the loan. The emphasis is on micro- credit, not microfinance.

The poverty lending approach was first realized in Grameen bank in Bangladesh. It has wide outreach to poor borrowers. But the approach has required large amount of continuing subsidies and does not meet poor people’s demand for saving services. Due to these it has not proven a globally affordable model (Robinson, 2001).

With the failure of credit institutions to address the grassroots (households’) financial needs, the situation demanded an innovative approach to address the lower segment of the population. The new approach should correct the drawbacks of the old approach (Hailu, 2005). This is a financial system approach.

The financial system approach focuses on commercial financial intermediation among poor borrowers and savers; and also emphasis is given to institutional self-sufficiency. The approach targets lending to the economically active poor people, i.e. people with the ability to use small loans and the willingness to repay and to voluntary save mobilization. Bank Rakyat (Indonesian's micro-banking system) and Banco Sol (salvia’s banking system) are models of profitable microfinance institutions (Robinson, 2001).

Appropriate targeting of policies is needed to strengthen financial access for those groups where services are most needed. The new paradigm was introduced as loans are made available in small amounts at market rates, with low level of formality and limited requirements of collateral repayment is undertaken frequently and rates of repayment in many microfinance ventures are cited to be high. Many microfinance ventures also offer deposit-taking services. In this context, microfinance is defined as “the delivery of such services by financial institutions, which are small in size and informal in nature,” (Kumar, 2005).

Many associate microfinance with the provision of small loans to the poor. Both the products (loans) and the market (the poor) fall within the preview of microfinance but they are more of its origins than its present and future. Today microfinance has grown to cover a broader range of products and services, from credits and savings, to insurance and money transfers. Today many agree in the definition of microfinance as provision of financial services to those excluded from the formal financial system in broader terms (SUM, 2002).

According to Joan Parker (2000), microfinance refers to the delivery of financial services such as credits, savings, insurance and other services to clients who are without access to the services of formal sector, financial institutions on sustainable basis. This is the widely used definition of microfinance.

Microfinance programs which focused on the delivery of financial services to the poor gained a worldwide acceptance and popularity since 1980’s.The developments in the 1980’s represented as a turning point in the history of microfinance development. As cited by Robinson (1995) worldwide survey of 206 microfinance institutions that are opened in or before 1992 found that, only 7 percent had been in operation before 1960; and 48 percent had been founded between 1980 and 1989. Microfinance provided large-scale outreach and profitability in 1980’s for the first time. In 1990’s it began develop as an industry (Robison, 2001).

A number of microfinance institutions were created in the 1990's. Some donor agencies have provided strong support for the shift from donor-driven micro-credit programs to self-sufficient microfinance institutions, and have initiated and coordinated the dissemination of best practices in microfinance on regional and global scale (ibid).

Recent studies recognize that poor and low-income people slip from one poverty category to another as the opportunities and risks change. These studies helped shed light on the levels of poverty at which more poor people are reached by today’s successful microfinance intuitions. It is being considered as a preferred vehicle for extending access to the poorest in many countries (Kumar, 2005). The survey conducted at the end of 2002 by Credit Summit Campaign cited in Wolday (2005) revealed that more than 67.6 million clients around the globe have been benefited, of which about 41.6 million are the poorest. According to the Micro-credit Summit estimate at the end of 2005, microfinance institutions are reaching to 100 million poorest people in the world. The UN declared 2005 as a year of micro-credit to bring the microfinance into forefront and integrate with the formal financial system.

2.3. Microfinance Institutions in Ethiopia

Financial development plays a central role in poverty reduction (Narayana, 2005). Microfinance is attractive and has been accepted as an important tool to help poor in improving the livelihoods, reducing vulnerability and fostering social as well as economic empowerment (Lousie, 2002).

The delivery of financial services have been accepted as one of the poverty reduction tools in the development paradigm; because it helps the poor to increase income, improve educational and health status, improve housing condition, empowers the poor, provides confidence and social esteem if it is realized appropriately (Wolday, 2003). It is believed that poor households lack access to adequate financial services for efficient inter-temporal transfers of resources and risk coping. Without some financial support, these households do not have many prospects for increasing their productivity and living standard in sustainable way. Because formal financial sector do not have interest in lending to poor households due to lack of viable collateral and high transaction costs (Assefa et al., 2005).

Lately, microfinance programs received increased attention from the international financial institutions such as World Bank, various bodies of the UN, donor agencies and IMF. IMF focused on encouraging the creation of sound financial systems in developing countries (Gebrehiot, 2005). Microfinance programs aiming at providing financial services to individuals who are excluded from the formal financial sector have been launched in many developing countries. In Ethiopia, lack of finance is one of the fundamental problems impeding production, productivity and income of rural and urban households.

Microfinance development in Ethiopia in institutionalized form is a recent phenomenon. But it has a long history in different forms. Government efforts of delivering credit to accelerate socio-economic development in Ethiopia may date back to the immediate post Italian occupation period with the establishment of the Ministry of Agriculture in 1943 and Agricultural Bank of Ethiopian in 1945.The main objective of the Bank was to assist small land holders whose farms had been devastated during the Italian occupation through loans to purchase agricultural inputs and repaired houses (Assefa et al, 2005).

During the Derg regime, a large share of credit was given to the state sector and marginalizing the private sector and the poor. Due to this, the private sector including the poor was forced to depend on self-financing and non-institutional credit. During the 1986-90 the share of domestic credit to the private sector and cooperatives averaged 4.7 and 1.1 percent respectively and the rest going to the government and public sector (WB, 1991). NGOs have been delivering relief and development services like emergency food, health, education and water in Ethiopia since 1970's. NGOs delivered micro-credit service to the poor as part of their poverty alleviation programs (Wolday, 2001).

Assefa et al., (2005) and Wolday (2003) indicated that many NGOs were involved in the provision of microfinance services particularly in rural area. Moreover, the credit delivered by NGOs faced many problems because of bad credit culture; which includes charging interest rates that do not reflect true costs, lack of sound lending and collection policies and procedures, credit was delivered without verifying borrower integrity and skill, lending based on NGO staff needs rather than felt needs of borrowers, loan terms were not based on repayment capacity, lack of collection efforts by the staff and providing loan outside the target group (to staff friends, relatives and the like).

The donor or NGO driven micro-credit programs were commonly used in many developing countries and are still in practice in some countries. The approach is known as poverty lending approach that is supply-driven rather than demand driven and focused mostly on credit. On the other hand, this approach disregarded the domestic saving mobilization. As the approach changed from subsidized to market based principles, governments and NGOs considered microfinance as the integral part of the financial system and they recognize the importance of both credit and savings services (Ledgerwood, 1999).

In 1990, an agreement was signed between the Ethiopian government and International Development Association (IDA) for a Market Towns Development Project with the objective of tackling poverty through employment creation and income enhancement by providing credit (Meehan, 1999). But the operation was for the first time undertaken after 1994 in regulated form (Tsehay and Mengistu, 2002). Most of the borrowers were women during the time.

Wolday (2003) indicated that financial schemes of NGOs and institutions that do not follow sound, sustainable financial principles and facilitate real economic growth might cause more harm than benefit. The study recommended that the government should develop national standards for NGO credit programs. Thus, the government took the initiative to establish the regulatory framework in order to facilitate sound development of the microfinance industry.

Following this, the government of Ethiopia launched a Proclamation No. 40/1996 which requires all existing microfinance providers to register as either a microfinance institution, a saving and credit cooperative or an agricultural cooperative before the deadline of April 1999 (Proc. No 40/1996). It also provides a power to the National Bank of Ethiopia as the licensing and supervising authority.

The majority of the NGOs in Ethiopia were terminated the delivery of financial services following the issuance of proclamation No. 40/1996 (Wolday, 2003). Recently, microfinance institutions are emerging rapidly in the country based on the new approach and in line with the new microfinance law. Currently, there are twenty-six microfinance institutions in Ethiopia. Almost all microfinance institutions have a common objective; poverty reduction through provision of credit and saving services using group based lending methodology (Meehan, 1999; Assefa et al., 2005; Tsehay and Mengistu, 2002).

Microfinance institutions in Ethiopia are allowed to mobilize saving deposits from their clients and the public. Most MFIs have been trying to reach both in urban and rural areas (Tsehay and Mengistu, 2002). The performance of microfinance industry in Ethiopia appears impressive measured in terms of their rural presence, outreach of their services and repayment and sustainability. The achievement is not only in supplying financial services for the poor but also in realizing and strengthening lending and payback systems (financial system development that serves the poor) of the country.

The twenty-six microfinance institutions in operation delivered an outstanding loan of 1.48 million birr to 1.2 million active clients and mobilized savings of about 501.3 million birr. The average loan size was 1,232 birr (Tsegaye, 2005). Although the interest rates of most MFIs in Ethiopia were relatively lower than other Sub-Saharan Countries, the many MFIs are operationally efficient (Wolday, 2003). The 2003 report of AEMFI revealed that the gross savings rate was about 69 percent and the average repayment rate of the industry was 96 percent. The average personnel of Ethiopian MFIs are about 233 ranging from 22 personnel (Meklit microfinance) to 1479 personnel (ACSI). Moreover, its average assets employed are about 55.3 million birr ranging from 2.47 million to 29 million birr. The largest market share is taken by ACSI (41%), DECSI (37%) and OCSSCO (12%) (Tsegaye, 2005).

In spite of the encouraging development, millions of poor in Ethiopia suffer from lack of savings and limit access to working and investment capital to start income generating activities. The potential demand for credit in Ethiopia is high. For instance, at the households' level, 9 million poor households in Ethiopia need credit. This demand remains largely unmet with the existing capacity and structure of financial institutions in Ethiopia (Degefe, 2004).

The twenty MFIs meet less than 9 percent of the demand for financial services of the active poor. This indicates that there is a significant unmet demand for microfinance services in Ethiopia. The loan products in Ethiopia are very limited. All microfinance institutions deliver the same types of loan products to their clients copying from each other. The lending methodologies and lending products are supply-driven instead of being demand-driven. The MFIs have not attempted to involve themselves in market study and new financial product development. All MFIs focused on increasing repayment and client outreach (Wolday, 2002).

Some MFIs in Ethiopia have not reached in their operational self- sufficiency and financial self-sufficiency. The average operational and financial self- sufficiency of microfinance institutions in Ethiopia is 104 percent and 77 percent compared to African MFIs 111.1 percent and 93.7 percent respectively (Tsegaye, 2005).

Forming an association called Association of Ethiopian Microfinance Institutions (AEMFI) networks the Ethiopian MFIs. Four microfinance institutions such as DECSI, ACSI, OCCSSCO and OMFI for registration first formally request this association and then the Ministry of Justice legally registers it as non-profit and non-governmental organization. AEMFI plays an important role for the development of microfinance industry in Ethiopia by promoting best practices in the industry, serving as a forum for debate and dialogue, facilitating sharing of experience and information, and creating an enabling environment for the industry. Currently all 26 MFIs are registered as a member of AEMFI (Haftu, 2005; AEMFI, 2005).

2.4. Impact from case studies in microfinance industry

Poverty reduction has been a concern of developing countries through emerging microfinance industry. The idea of poverty reduction through MF has generated enormous enthusiasms among donors and N G Os as an instrument for reducing poverty in a sustainable manner. The results of few case studies have indicated that access to finance can reduce poverty. But comprehensive research has not yet been conducted whether provision of microfinance services to the poor can surely reduce poverty. Some of the case studies conducted to measure the impact of microfinance institutions on poverty in developing countries are reviewed in this section.

Scholars argue on MF services on its negative impacts. Although micro-credit has claimed more and more of the aid budget, it may not always be the best way to help the poorest and the fervor for micro-credit may siphon funds from other projects that might help the poor more (Hulme,2000).

Sometimes even when repayment rates are higher, it may be painful to the clients making them pay from other sources such as sales of their limited assets. It increases indebtedness risks for poor people because it makes them remain trapped in the vicious circle of poverty. However, it does not mean that MF is worthless but the question is whether MF is better than some other development projects for the poor as whole. More over, provision of micro-credit can be one tool to reduce poverty but not the only one. There are at least four negative externalities that should be considered in MF development. These are, facilitating de-industrialization, facilitating trade deficits and import dependency, facilitating the destruction of social capital and facilitating one-dimensional response to poverty reduction and local economic development (Bateman, 2003).

Some studies concerning the role of MF in poverty reduction by the Grameen Bank indicated that borrowers have been initially successful but in the long run face a downturn terms of ownership of asset and level of income, 69% of dropouts resulted from inability to pay their installments due to loss in income generating activity, repayment of microcredit is being made from other source s and the older groups and branches of MFIs have higher loan default rate and larger percentage of ineffective groups(Johnson and Rogaly,1997).

The study analyzed by Hulme and Mosley comparing the households which had received credit and households which had not received credit and revealed that the better-off the borrower, the greater the increase in income from a micro-enterprise lean. Borrowers who already have assets and skills are able to make better use of credit. The poorest are less able to take risks or use credit to increase their income.

Some of the poorest borrowers interviewed become worse off as a result of micro-enterprise credit, which exposed these vulnerable people to high risks. Business failure was more likely to provoke a livelihood crisis than it was for borrowers with a more secure asset base. Specific crises included bankruptcy, forced seizure of assets and unofficial pledging of assets to other members of a borrowing group. There have been reports of suicide following peer-group pressure to repay failed loans (Hulme and Mosley, 1996). Other evidences suggested that self-selected groups for peer-monitoring have not been inclusive of the poorest people select those with whom they want to form a group on the basis of their own knowledge of the likelihood that people will make timely payment of loan and savings installments.

On the other side there are some evidences that show the positive impact of microfinance on the households' income and quality of life in millions of poor people in developing countries of Asia, Latin America and Africa. A study conducted by Rao and Bavaiah (2005) on the impact of microfinance on household income and employment in India indicates that the impact of the program on poverty reduction has been very encouraging. The findings revealed that 76.8 percent of Share Microfinance Limited (SML's) mature clients have experienced significant reduction in their poverty and 37 percent of the mature clients who were below the poverty line have come out of poverty line and now they are on the category of the non-poor. 80 percent of the mature clients responded that SML intervention increased their income. Microfinance helped the poor women beneficiaries to enter into new economic activities and increase their income significantly. The study revealed that SML contributes 58 to 90 percent of their total income.

The impact study carried out on Casa Campesina Cayambe (CCC) in Ecuador revealed that many members who received the loan from CCC financial institution have improved milk products and raised income (Johnson and Rogaly, 1997). Robinson (2001) in her study concluded that households and enterprises could benefit from microfinance institutions when voluntary savings are locally mobilized. Micro-enterprises can self-finance in full or in part their working capital needs as well as save toward investment needs. Saving accounts provide security, legal recognition of the asset and returns, and improve household financial management. Moreover it creates an opportunity for women to become economically empowered. The evidence revealed that women have got the opportunity to hold their savings in their own name for the first time.

Christopher Dunford (2000) cited in Rao and Bavaiah (2005) concluded that MFIs have an important role in integrating microfinance with overall operations especially with education and health. The credit and education components reinforce each other by addressing the informal as well as the economic obstacles to health and nutrition. The other study in Judith, et al. (1999) analyzed as loan growth is important to financial sustainability and a proxy for positive impact. It revealed that, on overage, loan size increased steadily although at a rate lower than the original village bank model projections.

Johnson and Rogaly (1997) studied the impact of microfinance intervention in Union Regional de Apoyo Campesino (URAC) an MFI in Mexico and concluded that URAC's flexible savings facilities are appreciated by its members and used to support a wide range of livelihood needs including food purchases, emergency health care, and insurance for periods of unemployment. Thus, the services have demonstrated their usefulness and relevance to members and enabled them both to protect and improve their livelihoods.

Another impact study in Ladywood Credit Union (LCU) in UK, revealed that the financial service provided by LCU is useful for the thrift, preventing indebtedness through savings and providing a means of building security against uneven cash needs, providing people with a means of being in control of their own finances, and living within their income. LCU users who live on benefits or very low incomes tend to save in irregular small amounts. Those people who are benefited from the credit union are very positive about the service, stressing in particular the understanding approach of staff, the flexibility, the chance it provides to save in small amounts, the low rate of interest on loans, and the greater sense of control it offers them in difficult circumstances (ibid).

Rutherford (2003) studied the money management behavior of low-income Bangladesh households indicated that respondents were found to be active managers of their financial resources and he concluded that as both MFIs and poor households would benefit if MFIs achieved a better understanding of current and potential demand for financial services by the poor and failure products and delivery systems.

Ruben and Clercx (2003) concluded that credit provision performs critical functions for reinforcing the resilience of rural livelihoods in less-favored areas. Provision of rural credit and savings services created the favorable conditions for adopting the Quezungual Agro-forestry system and contributed to higher and more stable cereal yields and reduced labor demands in agriculture. Thus, access to rural finance reinforces food security and enables the income diversification as a precondition for subsequent in-depth investment.

The impact study conducted on Action Aid Agricultural loan provision in Gambia revealed that among 30 respondents who took the loan, the 29 reported that the loan received increased production, improved yield, more food, less need to borrow from else where, and reduced length of the hungry season (Johnson and Rogaly, 1997).

Anton Simanowitz (2000) in his study on impact information from dropout clients in South Africa concluded that dropouts provide valuable sources of information for program improvement relating to both the performance of the MFI in relation to client needs and how to MFI's relate to client livelihoods and external conditions. Ana Marr (2003) concluded that microfinance failed to solve the original problems of information asymmetries between borrowers and lenders in its pursuit of financial sustainability. This failure destroys the social fabrics of communities, creating more poverty and excluding the poorest and most vulnerable from any given group (Rao and Bavaiah, 2005 citation).

Meehan (1999) in her study on the impact of credit provision by DESCI in Tigray region revealed that the majority of respondents (83 percent) reported that an initial increase in households' income due to credit services. But it has fallen to 52 percent after five years. The incremental income is mainly used for basic household food supply, clothing and education of children 80 percent, 60 percent and 40 percent respectively. The provision of credit in response to demand and the impact of credit access and usage has resulted in increasing household income and decreasing poverty levels in the study area is depend on continued access to credit. She also, concluded that the expansion of business opportunities and strategic planning for clients' economic activities could contribute to the scale and sustainability of the impact of loans on poverty levels.

Likewise, Asmelash (2003) indicated that the overall household income of frequent clients has increased than the overall household income of the new clients in both urban and rural areas in 12 months. The result suggested that DECSI has a positive impact on diversification of income sources for clients. The frequent borrowers have a better housing condition and increased asset ownership, improved ability to pay educational and medical expenses than non-participants. In the same token frequent borrowers have better diet improvement, job opportunity creation and participation in decision- making (empowerment) than the non-participants. Similar conclusion has made in micro-credit income diversification case study in central Tigray conducted by Tassew (2005). In general the findings revealed that microfinance intervention has a positive impact on the livelihoods of the households. Thus, it has an impact in poverty reduction.

Alex Borchgrevilk et al. (2005) conducted a study on the impact of credit on marginalized groups such as young households, rural landless households, and urban house-renting households by taking a case study of DECSI in Tigray regional state. The study targeted more on extremely marginalized groups of female-headed households. They concluded that DECSI's program has a positive impact on the livelihoods on its clients compared to non-clients. The clients have greater improvements in terms of their assets, income, consumption, food security, less vulnerability to shocks, and social and political empowerments.

Padma and Getachew (2005) conducted a study on women economic empowerment and microfinance by reviewing Awassa women clients. The finding revealed that 83 percent of respondents reported that credit was a very supporting tool to their business. The majority of clients built up some additional rooms for the purpose of living and business. They have better asset ownership, better educational expense and participation in decision-making. There is a positive influence of microfinance in asset formation, increasing income and employment generation, in business improvements, and increasing decision-making process.

Tsehay and Mengistu (2002) revealed that over 74 percent of frequent borrowers have been able to expand their business. Over 94 percent and 70 percent of frequent borrowers sent their children to school and improve their diet respectively. They have also better asset ownership, both economic, and social empowerment than the non-participants. They have also better asset ownership, both economic, and social empowerment than the non-participants. They concluded that the credit and saving intervention has some positive impact that made a difference on the socio-economic empowerment of the women clients.

Haileselassie's study (2005) on financial sustainability of microfinance institutions by taking a case study of SFPI and PEACE revealed that outreach, financial self-sustainability and institutional building are the main indicators of microfinance performance. His findings indicated that MFI's have achieved extensive outreach in providing financial services to the urban and rural poor. Saving mobilization was significantly increased and at the same time repayment rate was very high in both institutions (98 percent and 99.6 percent of SFPI and PEACE respectively). The trend of financial performance showed that there is a good and steady progress towards reaching operational self-sufficiency. But both institutions are still subsidized. It is possible to say that the performance of the institution affects the impact of the intervention in poverty reduction.

Another impact study on SFPI conducted by Jimbed consult P.L.C (2001) concluded that at the individual level personal income and savings have shown improvements. Additionally household income and welfare has been increased. It can be evidenced by the study that most of school-aged children are in school and there is an improvement in household diet as a result of the microfinance services of SFPI. The microfinance intervention has also an impact at the enterprise level by enterprise expansion, addition of new products, improving quality of products, improving management skills, and cost reduction. However, improvements in net worth have been insignificant. Most of the improvements observed are achieved over a short period than long period. The survey indicated that most of one-year and two-year clients have better improvements than third-year respondents. In general the study concluded that SFPI's credit program has positive impacts on its target clients.

As reviewed in some case studies on impact of microfinance interventions, MFIs have a positive impact on the livelihood of the marginalized poor. But the depth of impact is different in different countries and different MFIs because of several factors. Some of the factors can be size of the financial service provided, institutional performance, information availability, accessibility, infrastructure availability, awareness of the clients, approach or methodology, environment and others.

However, in conclusion governments and donors should know whether the poor gain more from small loans compared to other alternatives such as health care, education, agriculture, food aid etc. Most measures of the impact of microfinance institutions fail to control for what would have happened in their absence. The net contribution or impact of microfinance to poverty reduction should be properly and more accurately measured.

CHAPTER THREE

METHODOLOGY

3.1. Data collection

The study was conducted in Addis Ababa and its surrounding areas in Oromia Regional State in three branches of SFPI (merkato branch, cherkos branch and debrezeit branch). The study used both primary and secondary sources of data. The primary sources of data is obtained from direct observation, structured and unstructured questionnaires, focus group discussions and interviewing the concerned parties such as Association of Ethiopian Microfinance Institution and management staff and employees of SFPI at the main office and at each branch.

Direct observation is made in merkato branch, cherkos branch and debrezeit branch. This method helped the researcher to observe the real impact of SFPI intervention on poor clients. Structured questionnaires were used to collect information from households on various aspects of impact dimensions. Before applying it, the questionnaire was tested for its validity by using pilot survey. Two branch managers, staff members, enumerators, supervisors and some respondents are involved in pilot testing. The questionnaire was refined and finalized after incorporating the inputs of the pilot survey.

The interviews were administered on randomly selected active clients and incoming clients to answer questions regarding their situation before they took the loan based on their memory and after taking the loan. The questionnaire was prepared in English language. The respondents should know and told about the research objectives in the language, which they can understand. Most respondents in the survey speak Amharic. Therefore, the questionnaire was translated into Amharic. This enabled the enumerators and respondents to easily understand the questions, express their ideas comfortably and reduce communication barriers. The interview enabled the researcher to capture and ascertain both subjective and objective facts. Thus, face-to-face interview were important in order to increase probability of response rate and flexibility in extracting more qualitative and quantitative information. Three supervisors and five enumerators were trained to collect relevant data from sample households and enterprises. A training manual was prepared to train enumerators. The enumerators were given a one-day training on the training manual, which focused on the objectives of the study on how to approach a respondent, how to record the responses, and on detailed contents of the questionnaire.

Conducting focus group discussions was important to assess the satisfaction or dissatisfaction of clients in service provision and disclose their problems, comments and provide some recommendations. This also strengthened the reliability of the finding. The focus group discussions were conducted in both urban and rural households. A total of five focus group discussions, of which, three in urban and the other two in rural areas were conducted. Each group discussion had seven to ten participants. To reduce the risk of biased ness, male and female clients had separate group discussions. Among five group discussions one female and two male group discussions were conducted in urban areas and the remaining one female and one male group discussions were conducted in rural areas.

Discussions with key informants such as some clients of SFPI, employees and branch managers, SFPI officials, and AEMFI officials were conducted to collect qualitative information. Secondary data were obtained from documents, reports, journals, proceedings, bulletins, Internet, periodicals, various books and other relevant materials.

3.2. Sample Design

A case study design is used in the study. Case study design helps to examine the detail features of the institution. The study has used two groups of samples namely, experimental group and control group. Control group was used to avoid the problem of intervening variables (variables that are affecting the output of the research other than independent variables). This control group is randomly selected from the list of people who are in the training phase, which would be clients of the SFPI in the near future or incoming clients. Experimental groups are randomly selected from the list of SFPI active clients and ex-clients (dropouts). The sample frame of the study is the entire people found in the list of SFPI microfinance institution.

Probability sampling technique or simple random sampling is used in the study. Probability sampling ensures sampling units a known, non-zero and equal chance of being included and hence representative ness. In this technique sampling units are stratified depending on the branch category or grouping of the institution. Determining the appropriate sample size is important in research undertaking. Thus, sample size depends on the total number of population, the level of confidence and the maximum deviation from true population that can be tolerated in the study. Depending on this, there are various sample size estimation methods. Among these the method or model used to determine the desired sample size with the population of above 10,000 and sample size of above 30 is formulated as:

$$\mathbf{n = \frac{z^2pq}{d^2}}$$

where: n = sample size (when population is greater than 10,000)

z = the standard normal deviation usually set at 1.96 which corresponds to the 95 percent confidence interval

p = proportion in the target population estimated to have a particular characteristics

q =1-p

d = degree of accuracy usually set at 0.05 or occasionally at 0.01.

SFPI has four branches (shola, merkato, cherkos and debrezeit) and a head office operating in both urban and rural areas. Two stage sample design procedures were employed for the survey. The first stage is the selection of sample branches of the SFPI. The four branches have almost similar characteristics. Therefore, each branch has equal chance to be selected. From four branches three branches (merkato, cherkos and debrezeit) were randomly selected. The second stage is selection of sample respondents from the selected branches.

The study is focused on selecting samples from each area equally. To manage the research within the given time and limited budget, a total of 150 samples were selected using random sampling. Among these samples, 75 were selected from urban clients and 75 were selected from rural clients. From the total sample size, 100 samples were used as experimental group and 50 were used as control group. Experimental groups were composed of active clients (clients in the pipeline) and ex-clients (dropouts), while control groups were composed of clients in the training or incoming clients (clients ready to get service from SFPI in the near future but not in the pipe line at present). From 150 samples, 75 were male and the remaining 75 were female. The sample sizes are shown in table 3. 1.

__Table: 3. 1.__ Settlement of respondents and their composition

	Active clients (Experimental group) including dropouts		Incoming clients (control group)	
	Male	Female	Male	Female
Urban respondents	25	25	12	13
Rural respondents	25	25	13	12

Among 150 samples, 140 were valid. From these valid respondents 91 were experimental groups and 49 were control groups. Although enumerators attempting to convince respondents to fill the questionnaire, some of them were not willing to respond and the rest were not found in the area during survey.

3.3. Data analysis

The method of analysis used in the study is descriptive statistics. It includes the comparison of income, asset ownership, housing condition, nutrition, health, education, decision-making (empowerment), business growth and employment opportunities between active clients and incoming clients in both urban and rural areas. Percentages and central tendency measurements were also used to analyze the data. SPSS, the latest version, was used to process the raw data.

CHAPTER FOUR

RESEARCH FINDINGS

4.1. Operational performance of SFPI

4.1.1. Establishment

SFPI was registered and licensed by the National Bank of Ethiopia in accordance with Proclamation No. 40/1996 on November 25, 1997. It is registered as a Share Company with paid up capital of Birr 400,000. It has started its operations in mid 1998. It has the mandate to operate at federal level both in the urban and rural areas. The main objective of SFPI is to enhance the socio-economic empowerment of the active poor people by providing financial and non-financial services such as, credit, saving, training, advocacy, and technical services (SFPI, 2004).

4.1.2. Governance

Governance of an MFI is a system that links the shareholder to the board, the management, the staff, clients and community (CGAP, 1997). Sound governance is fundamental in creating efficient and sustainable microfinance institutions in Ethiopia (Wolday, 2003). The main framework of governance of SFPI is derived from Proclamation No. 40/1996 and the directives of NBE. The owners of SFPI include NGOs, private sector, financial sector, and government, which are interested in delivering financial services to the poor. The governance structure is composed of shareholders, board of directors, management, staff at all levels, and the clients. The shareholders are Ethiopian National Association for Blinds, Projynist Ethiopia, Agri-service Ethiopia, Addis Ababa Women Entrepreneurs' Association, Commercial Bank of Ethiopia, Dashen Bank, and Hailu Wondafrash (SFPI, 2004).

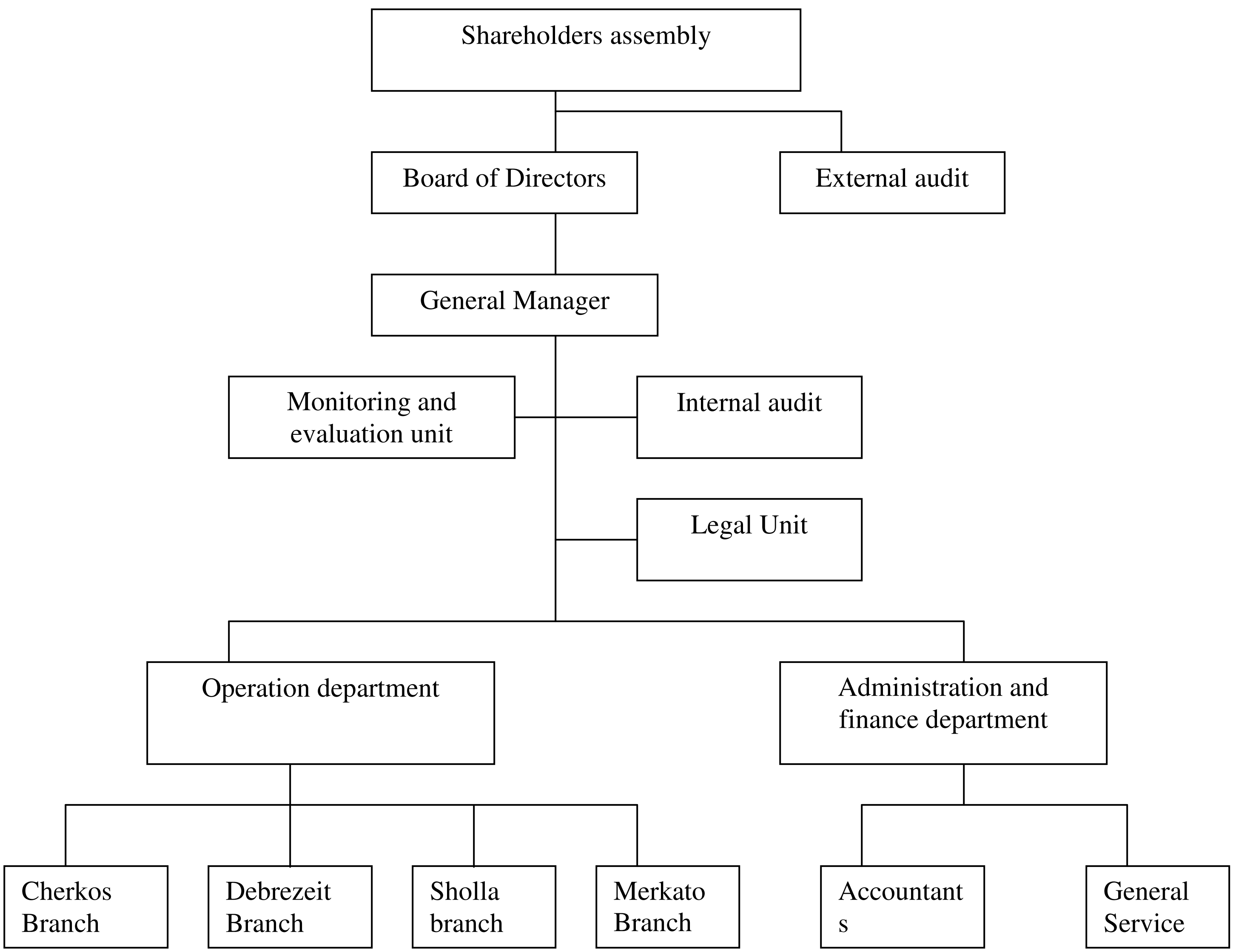
The shareholders' meeting (General Assembly) is the highest governing body in the institution. Although many of MFIs in Ethiopia are established as private share companies, dividends are not distributed to shareholders. Instead of distributed to shareholders the dividend is used for the benefit of the target group (poor). Thus, the shareholders of SFPI are nominal shareholders.

The Board of Directors is elected by the General Assembly. They are accountable to the General Assembly. The board is responsible for providing policy and strategic direction to the institution. The Board appoints the General Manager that manages the institution on a day-to-day basis. Different units and departments are structured under general manager; such as the monitoring and evaluation unit, internal audit unit, legal unit, operations department, and administration and finance department.

The operational department has four branches which are basic operational units in the structure; such as branch managers, credit officers, accountant, cashier, guards and janitor. Three branches are located in urban area and one branch is located in rural area. However, all branches have rural and urban program outlet.

The lowest organizational unit at the grass root level is a group. The center is organized by six groups of clients. Three to five self-selected clients form it. All loans are processed, approved and disbursed at the branch level. Furthermore, savings and deposit withdrawals are taken at this level. The detail organizational structure of SFPI is shown in the figure below.

Figure: 4.1. Organizational structure of SFPI



Source: SFPI head office (2004)

4.1.3. Human Resource

Efficient, appropriately trained, and motivated staff is a prerequisite for an efficient operation of an MFI. SFPI is staffed with the required number of personnel. However, this does not mean that it is equipped with qualified manpower. SFPI management complained that, there is a problem of recruiting competent and skilled staff from the labor market.

Out of 67 employees of SFPI, the majority of the employees (54 employees or 81 percent) are high school complete, 10 employees or 15 percent are diploma holders and only 2 and 1 employees or 3 percent and 1.5 percent are degree and second-degree holders respectively. From the total employees 37 percent are females. Among 67 employees, 22.4 percent are engaged in head office. The remaining is engaged in branches.

SFPI management reported that there is high turnover of staff due to dismissal of employees as a result of poor performance and low financial incentives. Table 4.1 shows the increase in the number of employees since its inception. The number of staff increased from 16 employees in 1998 to 67 employees in 2005. This increment indicates the rapid expansion and growth of SFPI.

Table: 4.1. Personnel expansion of SFPI since its establishment

Year	1998	1999	2000	2001	2002	2003	2004	2005
Man power	16	23	34	51	57	NA	58	67

NA =not available

Source: SFPI annual progress reports

4.1.4. Financial resource

The resources of SFPI include client savings, loans, donation from SOS FAIM, EU, and Save the Children and the share capital owners. SFPI has not yet reached financial self-sufficiency. Its financial self-sufficiency was 79 percent. It is slightly better than the average financial self-sufficiency of Ethiopian MFIs, which was 77 percent, but it is less than the average of financial self-sufficiency of African MFIs that is 93.7 percent (Tsegaye, 2005).

4.1.5. Service Delivery

4.1.5.1 Financial services

SFPI provides financial as well as non-financial services to the poor. The financial services delivered by SFPI are lending and saving services. The target clients eligible for its services are the active poor who are willing to engage in income generating activities of their own in rural and urban areas of the country.

SFPI provides its services using mostly the group-based methodology. However, cooperative and individual based lending methodologies are lately introduced in the system. Loan disbursements are made at sub-braches or branches level. However, cash collections and savings mobilization activities are carried out at the center levels.

The core unit of SFPI operation is the group. Each group contains three to five members and they elect their own leader. This center has been serving as a core body of clients to make a manageable and direct link with the institution. The center leader is the main contact person to the credit officers. The groups are self-selected. They are expected to know each other, have similar background, enjoy trust and develop confidence. Group members are jointly responsible for the loan. They will take the risk if one of a group member fails to repay the loan. The group lending methodology is basically the Grameen Bank approach with a minor adjustment to fit into the local environment.

The cooperative based loan requires physical asset or capital as collateral. Similarly the individual loan requires property or salary of permanent employees as collateral. Before taking the loan, all clients are required to undertake a training or orientation for eight to ten hours focusing on the lending methodologies, purpose of the loan, and responsibilities of members and group leaders. The types of loan provide by SFPI are:

1. Term loans; which are mostly given to clients who are engaged in agriculture;
2. The installment loans; which are provided to clients who are engaged in micro and small-scale enterprises service.
3. Consumption or individual loans; which are lately introduced loans for low salaried employees.

In relation to their composition the majority of the loans (70.28 percent) are provided to micro and small enterprise operators. The remaining is given to poor farmers (17.77 percent), low salaried employees (10.45 percent), and a small proportion to traditional gold miners who formed cooperatives (1.5 percent).

Loan term and size depend on the purpose of the loan, the capacity of the borrower to pay the loan, and the lending capacity of the institution. Even though the final loan approval is centralized in SFPI, group members are also involved in the lending process. Initially, the group approves the loan amount of individual members, then the center and then the credit officer and branch manager, and finally approved by the operations manager. The management committee approves some exceptional loans.

Although MFIs can set their lending rate, SFPI charges 16% lending interest rate. SFPI has a relatively good performance in its outreach and operational self-sufficiency. The following table summarizes the operational trend of the institution from the mid of 1998 to the end of December 2004.

Table: 4.2. Number of active clients, loan disbursement and dropout rates.

Year	1998*	1999	2000	2001	2002	2003	2004
No of active clients	446	1794	4027	6346	7728	9552	11604
Loan disbursement (Birr,000)	570.5	1383.75	3672.54	6825.9	9464.3	10395.4	1340.77
Average loan size (Birr,000)	1.28	0.77	0.91	1.08	1.25	1.41	1.51
Arrears level (percentage)	0.003	4	**NA	2.27	2.86	2.6	4.3
Dropout rates to total clients	**NA	16.7	11.9	16.8	18.7	18.7	22
Percentage of women clients	75	80	74	73	67	65	60

** The 1998 data is started from mid of the year*

*** NA= data is not available*

Source: SFPI annual progress report and own computation.

Table 4.2 indicates that the number of active clients of SFPI grew from 446 in mid 1998 to 11,604 in December 2004. The proportion of female clients' participation declined steadily from year to year. Except the year 1999 (80 percent), the percentage of women participation declined from 75 percent in 1998 to 60 percent in 2004. The percentage of women borrowers has declined by 20 percent from the year 1999 to the year 2004. Women membership levels decline as go further away from urban (market centers). As SFPI's range of operation expanded further and further into the rural areas, the proportion of women's participation declined due to cultural domination. Men considered as the only responsible persons in the household in their culture. Therefore, most of the husbands didn't allow women to participate SFPI's program. Due to this most participants of SFPI in rural area are men. The main objective of the institution was to empower women in socio-economic status by providing financial services. However, the trend of women participation is declining. Although it is relatively better, compared to the average women participation in Ethiopian MFIs and African MFIs 50 percent and 65 percent respectively in the year 2003, this is a real challenge, which needs to be addressed by SFPI. Awareness creation is one of the means to reduce cultural domination and to bring women access to financial services.

The loan disbursement increased from Birr 570,519 in the mid of 1998 to Birr 13,407,720 at the end of 2004. The average loan size ranges from Birr 771 to birr 1,509. The trend of all variables in table 4.2 shows that SFPI expands its outreach significantly. The institution has an encouraging repayment rate (95.4 percent) in the year 2004. On the other hand, the arrears are rising. Its portfolio at risk (30 days) was 6 percent in 2004. However, the institution is still within the acceptable range of 0 percent to 10 percent (Gibbons, and Meehan, 2000) both in arrears and portfolio at risk rate.

The dropout rate is high through out the period. The dropout rate from the total number of clients raised from 11.9 percent in 2000 to 22 percent in 2004. The dropout rate is exceeded by 5 percent from the institution's expectation (17%) in their 2004 annual plan. However, the dropout rate increases at a decreasing rate. Some of the reasons for dropouts are fear of risk originated from joint liability of the group, some dissatisfaction with institutions' service delivery and the need to withdraw all savings. The institution's regulation does not allow clients to withdraw compulsory savings unless they terminate the program.

Saving and saving mobilization is an integral part and the major objectives of SFPI, which is also crucial for sustainability of SFPI's credit services and to meet the clients' high demand. It is critical for development of MSE and socio-economic progress and also a viable source of fund for expansion of outreach (Itana et al. 2003).

SFPI has mainly two types of savings products. It offers voluntary saving facilities depending on their willingness to save. SFPI trains clients to save voluntarily. To encourage voluntary saving, SFPI categorized the voluntary saving in three levels: clients can save at individual level, at group level (group of individuals), and at the center level. The second type of saving, in which SFPI is offering, is compulsory saving. It is performed in the form of loan tax and regular saving. Clients are forced to save before they take loans. Loan tax of 10 percent deducted from the total amount of loan received and transferred to clients' deposit account as part of the loan collateral. Compulsory saving may have an advantage of developing saving culture among borrowers and used as collateral for group loan.

SFPI's manager reported that savings are used as one of the instruments for arrears settlement .The mechanisms (steps) taken by the institution to settle the arrears are firstly, advising the client to pay the arrears by the credit officer; if not, the savings are used to settle the arrears. If this is not successful, the group members are asked to pay the leftover from their savings. If they fail, the group members will not get the next loan unless they settled the arrears of the group. If the above efforts are not successful, the last step will be taking the client to the court. The manager suggested the application of the foreclosure law to be equally implemented for the defaulters of MFIs.

Microfinance institutions are expected to make constant and increasing flow of resources to finance the MSE operators and other clients' access to full financial services. SFPI to become financially self-sufficient, strong and sustainable saving mobilization is important. Table 4.3 shows the trend of saving mobilization from mid of 1998 to 2004.

Table: 4.3. Trends of savings and withdrawals of SFPI

Indicators	1998	1999	2000	2001	2002	2003	2004
Total savings in Birr	140224	483197	1167359	1970700	3184878	5818558	6379943
Total withdrawals in Birr	5250	122563	249409	414586	779268	1710966	1846786
Percentage of savings to outstanding loans	34.3	NA	58.9	54.5	59.3	79	63.3
Percentage of withdrawals to the total savings	3.7	25.4	21.4	21	24.5	29.4	29

Source: SFPI annual progress report and own computation

As indicated in table 4.3, the amount of total savings has increased significantly in the last seven consecutive years. It grew from birr 140,224 in 1998 to birr 6,379,943 in 2004. The percentage of savings to outstanding loan also increased at remarkable rate. The majority (above 63 percent) of the funds mobilized by the institution are generated from client savings. It is an encouraging trend for the sustainability of the institution and the clients' self-reliance. However, the institution should diversify its savings products to non-clients. Even though the percentage of withdrawals to the total savings increased from 3.7 percent in 1998 to 29 percent in 2004, it is not discouraging as compared to saving growth rate.

SFPI provides 4 percent interest rate to clients on their deposit. It is slightly better than the saving interest rate provided by many banks on deposit. To become financially self-sufficient and to motivate savers, the institution has critically assessed the lending and saving interest rates. When determining the interest rate, the capacity of clients that can afford, the type of activity and the needs of the lending organization to earn and cover full cost must be considered. It would be advisable to revise the interest rate on the basis of market research, type of activities of clients and cost benefit analysis of the institution. SFPI should also attempt to deliver demand-driven financial products that meet the need of clients in various activities.

In general, SFPI has achieved extensive outreach. It is delivering financial services to the urban and rural poor, which is encouraging trend. The repayment rate is high. Moreover, the number of savers and the amount of saving mobilized has increased significantly. In spite of the above success, SFPI reported that the institution faces several challenges. These include unfair competition with some MFIs, shortage of loan fund, low capacity of staff, and lack of logistical facilities especially vehicles which hinder the growth of the institution to achieve its objectives.

4.1.5.2. Non-Financial services

Apart from financial services, SFPI also provides non-financial services to its clients and non-clients. The major non-financial services provided by SFPI are training, advocacy, orientation of new clients, and experience sharing among clients.

Orientation is regularly provided for new clients of SFPI for about eight to ten hours before they join the program about the service provided, criteria to be a client, methodologies, amount provided, term of loan, and some other relevant information. Business development training about marketing, record keeping, and pricing is delivered for every client on voluntary basis for ten days. On -job training is delivered for the staff to build their capacity.

Advocacy and training is also delivered to staffs of other organizations. It is an encouraging step to diversify its services and increase income-generating capacity of SFPI. Experience sharing is carried out among clients. Model centers or branches are selected for visit and the program is organized to clients to share their experience among themselves. This experience sharing service is not limited to clients only. It goes beyond this. Staff members also have an opportunity to share other microfinance institutions' experience by attending workshops and visits. AEMFI also provides experience-sharing forums by preparing workshops, panels, and publicizing bulletin, occasional papers and other materials, and organizing experience sharing visits to MFIs.

4.2. Clients characteristics, loan and saving history, and loan usage

4.2.1. Demographic characteristics of respondents

The distribution of respondents in table 4.4 reveals that from the total 140 valid respondents 84 (60%) are active clients, 7 (5%) are ex-clients or dropouts, and 49 (35%) are incoming clients. From the total samples more than 90% provided useful information. 42.2% of the sample (active clients) is urban dwellers and 57.8% are rural clients. However, 85.7% and 73.9% of respondents from ex-clients and incoming clients respectively are urban dwellers.

Table: 4.4. Respondents' location

Location	**Active Clients(n=83)**	**Ex-clients(n=7)**	**Incoming clients(n=46)**
	Percent	Percent	Percent
Urban	42.2	85.7	73.9
Rural	57.8	14.3	26.1
Total	100	100	100

Table 4.5 gives the detail profiles of the respondents in the study. The sample is composed of active clients, ex-clients and incoming clients. The gender composition of active clients is nearly proportional i.e. 45.2% male and 46.4% female respectively. In ex-clients and incoming clients, the majority of respondents are females. In active and incoming client respondents, the majority are male-headed households (57.1% and 51% respectively) while 57.1% of the ex-clients are female-headed households.

About 82.1% and 85.7% of active clients and ex-clients who filled the questionnaire are household heads. Active clients (91.7%), ex-clients (100%) and incoming clients (87.8%) are followers of orthodox church. 61.9% and 55% of active clients and incoming clients are Oromo followed by Amhara, while 57.1 % of respondents in ex-clients are Amhara.

Table: 4.5. Profiles of Respondents

Description	Category	Active Clients(n=84)	Ex-clients(n=7)	Incoming clients(n=49)
		%	%	%
Gender	Male	45.2	28.6	34.7
	Female	46.4	71.4	61.2
	No answer	8.3	-	4.1
Household head	Male	57.1	42.9	51
	Female	35.7	7.1	46.9
	No answer	7.1	-	2
Respondents relation to the household	Head	82.1	85.7	-
	Husband/wife	10.7	14.3	69.4
		100	-	30.5
Religion	Orthodox	91.7		87.8
	Muslim	2.4	-	8.2
	Protestant	6	-	4.1
Ethnicity	Oromo	61.9	28.6	55.1
	Amhara	23.8	57.1	26.5
	Gurage	7.1	- -	10.2
	Others	7.2	14.3	291.88.2

Table 4.6 reveals that most of the sampled respondents are adults. They are found in between 30 and 40 years, which is productive age category of the society. The average age of respondents (32 years) is nearly similar in both urban and rural areas. However, rural clients are older than urban clients in ex-clients category.

The sample survey result also indicates that an average of 4, 3.6, and 3.9 children for active clients, ex- clients and incoming clients respectively. However, rural clients have relatively more children than urban clients. All sample clients both in urban and rural area have below the national average children size.

The average household size of experimental groups is more or less similar (5 and 4.5) before and after taking the loan. While the average household size of control group (incoming clients) is slightly greater (5.9) than the experimental groups category. The average household size of urban clients is slightly higher than the household size of rural clients before and after taking the loan in experimental groups. But the reverse is true in control group category.

With regarding to the number of dependents, experimental groups have less number of dependents than control groups on the average after taking loans. Furthermore, the number of dependents is reduced after taking the loan in experimental groups.

Table: 4.6. Demographic characteristics of respondents

	Active clients (n=84)			Ex-clients (n=7)			Incoming clients (n=49)		
	Urban Average	Rural Average	Grand Average	Urban Average	Rural Average	Grand Average	Urban Average	Rural Average	Grand Average
Age	35.4	37.8	36.6	29	45	37	31	32.7	31.8
No. of children	3.7	4.4	4	2.8	4	3.4	3.6	4.2	3.9
Household size:							5.8	6	5.9
Before loan	5.1	5.1	5.1	5	4	4.5	-	-	-
After loan	5.2	4.9	5.1	5	4	4.5	-	-	-
No. of dependents:							3.9	3.8	3.9
Before loan	3.6	4	3.6	3.3	4	3.7	-	-	-
After loan	3.3	3.8	3.5	2.3	4	3.2	-	-	-

Table 4.7 shows the distribution of respondents by marital status, educational background and occupation of experimental and control groups. It reveals that the majority of respondents from active clients 74.7 %, ex-clients 57 % and incoming clients 71 % are married followed by singled (unmarried). Most rural active clients are married than urban active clients. While the reverse happened in ex-clients and incoming clients.

Most of the clients in all sample categories are literate. About 77 % of active clients, 71.4% of ex-clients and 69.4% of incoming clients are literate. Among these 78 % from active clients and 64.7 % from incoming clients are below grade ten. However, the majority (60 %) of respondents from ex-clients are grade ten and above. On the other hand illiteracy is slightly higher in rural area than urban area.

Regarding to respondents occupation 62 %, 85.7 % and 53 % of active clients, ex-clients and incoming clients respectively are employed. The dominant occupation is farming particularly in rural areas. On the other hand, more urban households are engaged in small business and other jobs. The data reveal that experimental groups are better employed than control groups.

Table: 4.7. Distribution of respondents by their marital status, Education, and occupation

Description	Indicator	Active clients (n=83)			EX-clients (n=7)			Incoming clients (n=49)		
		Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Marital status	Married	28	34	62	3	1	4	24	11	35
	Single	5	4	9	2	-	2	4	1	5
	Divorced	2	2	4	-	-	-	2	2	4
	Widowed	-	8	8	1	-	1	4	1	5
Educational background	Illiterate	6	13	19	2	-	2	7	8	15
	Below grade 10	20	30	50	1	1	2	16	6	22`
	Grade10 &above	8	6	14	3	-	3	11	1	12
Employed (Occupation)	yes	18	34	52	5	1	6	16	10	26
	No	15	10	25	1	-	1	11	2	13
	No answer	2	4	6	-	-	-	7	3	10
Type of occupation	Small business	5	5	10	-	-	-	8	3	11
	Farmer	2	18	20	-	1	1	-	7	7
	Laborer	3	2	5	-	-	-	1	-	1
	Other job	10	13	23	5	-	5	9	1	10
	No answer	15	10	25	1	-	1	16	4	20

4.2.2. Loan and Saving History of SFPI Clients

Table 4.8 indicates the loan history of experimental groups for how long they have participated, how many times they took the loan and in what amount they received. As indicated in the table, active clients and ex-clients, on average, participated in SFPI for 2.2 years and 1.8 years respectively. Urban active clients have longer duration than rural active clients. The reverse is true in ex-clients. Active Clients and ex-clients, on the average, took the loan 2.8 and 2.6 times from SFPI respectively. Similarly the average first loan was Birr 916 and Birr 708 for active clients and ex-clients respectively. However, the average last (latest) loan was almost doubled compared to the average first loan. Urban clients have taken larger loan size than rural clients in both first loan and last loan in active clients, while it is the opposite in ex-clients. Since SFPI lending policy regulated that any client cannot pass from one loan cycle to the next loan cycle unless the first loan is repaid, this has improved performance and on time repayment.

Table: 4.8. Respondents' loan history

Indicators	Active clients (n=84)			Ex-clients (n=7)		
	Urban Average	Rural Average	Grand Average	Urban Average	Rural Average	Grand Average
Duration in the program(yr)	2.4	2	2.2	1.7	2	1.8
No. of loan (#)	3	2.6	2.8	2.2	3	2.6
First loan amount (Birr)	1004	829		667	750	708
Last loan amount (Birr)	2058	1643	1850	792	1500	1146
Cumulated loan (Birr)	2603	2147	2375	1625	2500	2063

As clearly shown in table 4.9, almost all active clients, the majority of ex-clients and some incoming clients have saving accounts in SFPI. However, all rural ex-clients have withdrawn all their savings. The need for taking their savings has contributed towards the increase in the number of dropouts. The active clients have higher compulsory saving than voluntary saving.

Table: 4.9. Respondents' saving

	Active clients (n=84)			Ex-clients (n=7)			Incoming client (n=49)		
	Urban Average	Rural Average	Grand Average	Urban Average	Rural Average	Grand Average	Urban Average	Rural Average	Grand Average
No. of savers	33	46	79	4	-	4	13	3	16
Voluntary saving (br.)	63	74	69	208	-	104	100	100	100
Compulsory saving (br.)	165	152	159	208	-	104	-	-	-

Table 4.10 shows that all clients (around 98 %) received loans using group-lending methodology. Individual loans account only for 1% of the entire loans of SFPI. Above 96% of the groups have, on the average, three to five members. About 94% of group members knew each other before forming a group. Most group members (about 74%) reported that, they monitor the performance of each loan during the regular meetings. However, above 51% of group members reported that the controlling mechanism within the group was not in written form. Introducing in written format may increase the validity of their controlling mechanism.

Table: 4. 10. Lending methodology and controlling mechanism (valid n=84)

Description	Indicators	Percent
Method of receiving the loan	In group Individually	98.6 1.4
Member size in a group	< 3 3 to 5 > 5	1.6 96.8 1.6
Group member know each other before membership	Yes No	95.2 4.8
Group members monitor each other	Yes No	74 26
Controlling mechanism within the group in written form by agreement	Yes No	47.6 52.4

4.2.3. Loan usage

In general, credit increases the income of clients, when it is used in income generating activities. These activities enable clients to generate net income to support their families and pay their loans. In table 4.11 the large majority of clients (94%) reported that they used the loan for the intended purposes. More than 94% of the loan was invested in income generating activities. From this most of it was invested in small business activities (59.7%) followed by agricultural activities (23.7%). Relatively smaller proportion of loan is used for services (7.5%), other activities 3.4%), and manufacturing activities (2.5%). The use of the loan for unintended purpose and consumption is insignificant (less than 4%). Rural clients have used the loan for the intended purpose compared with urban clients.

Table: 4.11. Clients loan usage (valid n=83)

Indicators	Responses	Urban	Rural	percent
		%	%	Average
Using the loan for intended purpose	Yes No	93 7	96 4	94 5.7
Spent the loan on income generating activities	Yes No	93 7	97.9 2.1	94.7 3.7
Activities for which the loan was spent	Small business Manufacturing Service Agriculture Other	71.4 2.9 9.5 7.7 8.6	47.9 2.1 6.3 41.7 2.1	59.7 2.5 7.5 23.7 3.4

Loan repayment capacity may show the positive or negative impact of the credit. The assumption is that if the clients used the loan for productive activities to generate income, they can pay their loan. Otherwise the credit may increase indebt ness on clients. If this is so, the sustainability of the institution is in question. Table 4.12 indicates that about 89% of clients repaid their loan early and in accordance with the schedule of the institution. Few clients (about 9.6%) were unable to pay their loan according to the schedule. Urban clients had better repayment performance than rural clients, 98% for urban and 90% for rural. The survey results reveal that there is an attitudinal change of clients from considering microfinance institutions as charity organizations to finance service delivery institutions. Almost all the respondents reported that they can understand that the loan received from the institution must be repaid. This is very encouraging.

Table: 4. 12. Loan repayment status (valid n=83)

	Indicators	Urban %	Rural %	Total
Loan repayment	Early	12.4	18.8	15
	According to the schedule	69.6	79.2	74
	Lately/arrears	18	2.1	9.6
Do you believe that the loan must be repaid	Yes	88.6	100	94
	No	11.4	-	5.7

Table 4.13 reveals that almost all (more than 97%) respondents have no access to finance other than SFPI. Insignificant numbers of respondents (2.5%) have financial access other than SFPI. They borrowed money from other sources for different purposes. This implies that microfinance institutions are the main source of finance to the poor both in urban and rural areas.

Table: 4.13. Access to credit other than SFPI (valid: n = 83)

Indicators	Responses	Urban %	Rural %	Total
Have access to credit Other than SFPI	Yes	2.9	2.1	2.5
	No	97.1	98	97.5
To what purpose you Borrow money from Other than SFPI	Business	33.3	40	37.5
	To buy fixed assets	33.3	20	25
	Other purpose	33.3	40	37.5

SFPI has two types of interest rates; 16 percent on lending and 4 percent interest on savings. Most of the clients reported that the interest rate on lending is moderate (51.2%) and low (19%). However, 19% of respondents complained that the lending interest rate of SFPI is high. Similarly

53.6% of clients reported that the interest rate on saving is greater than the market rate, while 14.3% of clients complained that the interest rate on saving is less than the market rate. Furthermore, 22.6 % of the clients have no information about the interest rate. In spite of the training and orientation given to clients, the sample respondents failing to know the interest rate implies that there is a lot to be done on educating clients.

The data revealed that the majority (60.7%) of clients have paid their loans and received the next cycle of loans every year. About 31% of the clients have a term loan for six months. About 68 % of the clients have accepted the loan period as satisfactory. On the other hand, about 25 % of respondents reported that the loan period is short. This indicates that SFPI should revisit its lending methodology and financial products.

Table: 4.14. Clients' opinion about interest rate, term of loan and repayment period
(Valid n=84)

Description	Indicators	Frequency	Percent
Interest rate on-lending	High	16	19
	Moderate	43	51.2
	Low	16	19
	Don't know	8	9.5
	No answer	1	1.2
Interest rate on saving	Less than market rate	12	14.3
	Greater than market rate	45	53.6
	Have no information	19	22.6
	Don't know	5	6
	No answer	3	3.6
Term of loan	Monthly	1	1.2
	Every six month	26	31
	Every year	51	60.7
	Other	5	6
	No answer	1	1.2
Repayment	Short	21	25

Period	Satisfactory	57	67.9
	Long	5	6
	No answer	1	1.2

4.3. Impact at the household level

Lack of finance is one of the major bottlenecks that constrained the poor from engaging in meaningful and gainful activities. In response to this, the recent shift in development paradigm focused on the provision of microfinance services to the poor in order to protect them from adversities of poverty. The expectation is that access to microfinance provides better chance of involving in farm, non-farm and micro and small enterprises activities. As the result of this households could increase and diversify their income, ensure food security and reduce poverty. At the household level impact may be measured by the net increase in household income, savings, asset accumulation, housing conditions, expenditure, diet, education, health condition and improve decision making capacity(empowerment).

4.3.1. Household income and savings

Households with higher income levels have more choices, can better meet their basic needs and enjoy broader opportunities. The assumption is that the household is expected to benefit from the loans in terms of improving income and diversify the source of income. As indicated in table 4.15, the large majority of households (90%) had source of income before they took the loan, while few households (10 %) hadn't any source of income.

As reported by the respondents, most of the households had, on the average, less than Birr 409 per month before taking the loan. However, the majority of households reported that their average monthly income rose to above Birr 526 after they took the loan. Only 28.6 % of households had above Birr 400 on the average per month, before the loan, while 57.7% of the household has above Birr 400 on the average per month after taking the loan. Rural households have higher monthly average income than urban households. Moreover, more than 70 % of the households confirmed that there is an increase in the overall household income after they took the loan. On the other hand, 19.3% of the respondents reported no change and 10.8 % decreased in the overall income of the household after taking the loan.

When the respondents were asked on why there is change in income, 48.8 percent of households indicated that their income increased because, most of them (68%) expanded the existing business, few of them (16 %) started new business and the remaining (9%) a family member managed to get a job. However, insignificant number of the households (12%) reported that their income decreased due to poor production, poor sales (market problem), a family lost job, and other reasons. The positive impact of SFPI is more pronounced in rural households than urban households. Almost all respondents (more than 95 %) have saving account in SFPI. Only few (3.6 %) clients have only compulsory saving. Where as more than 89.30% has both compulsory saving and voluntary saving. About 79.8 % of the respondents reported that their main source of saving is business profit. The large majority of the respondents (68 %) have increased their overall savings and the capacity to save. On the other hand, some of the respondents (13%) complained that their overall savings have shown no change and even showed a decreasing trend (12 %). The findings of the survey revealed that households' income has increased and their source of income diversified as well as their savings increased due to the loans provided by SFPI.

Table: 4.15. Change of household income and saving before and after the loan (valid n=83)

Description	Indicators	Urban	Rural	Total
		%	%	%
Have source of income before the loan	Yes	82.4	95.8	90
	No	17.6	4.2	10
Reason for increment	Business expansion	66.7	44.4	68
	Start new business	19	13.9	16
	Got a job	4.8	-	9
	Income from other sources	-	5.6	6.8
	Other reasons	-	30.6	25
	Don't know	-	5.5	4.5

Reason for decrement	Poor production Poor sales Lost job Other reason	- 40 40 20	40 20 - 40 -	20 30 20 30
Average income per month	Before loan (br.) After Loan (br.)	377 492	441 561	490 526.5
Purpose of saving	For loan repayment	-	4.2	2.3
	For safety of cash	18.3	22.9	21
	For consumption	-	2.1	1.2
	House improvement	20	25	23.4
	For emergency issues	56.7	43.8	49.6
	Others	5.5	2.1	1.2
The overall savings trend	Decreased	14.3	10.4	11.9
	No change	20	8.3	13
	Increased	60	75	67.9
	No answer	5.7	6.3	6
	No	5.7	2.1	3.6
	No answer	8.6	4.2	6

4.3.2. House ownership and improvements

Housing is an important or basic asset for households. Ownership of houses and improvements in it increases households' material wealth and living standard of the household. The assumption is that households may have better housing ownership and improve their houses after getting the loan from SFPI. If households have access to capital through loans, they will invest it in income generating activities. It is expected that they will increase their income and have better capacity to improve and build their own houses.

The results in table 4.16 reveal that most of the households (67.9%) had their own houses before the loan. However, few of the households (7.1 %) become owner of a new house after they took the loan. Similarly, 66.6 % of the households live in medium and good houses, while 33.3 % live in poor houses after the loan. Some households (47%) brought improvements on their houses, which cost more than Birr 100. However significant number of households (53%) did not bring improvements on their houses which cost more than Birr 100. Improvements are mostly made on repairs of houses. Few households (20%) expanded their houses. Based on the response from households, it is possible to say that SFPI has to a limited extent a positive impact on housing improvements of its clients. Nevertheless, the impact is not significant.

Table: 4.16. House ownership and housing improvements (valid n=83)

Ownership and status	**Indicators**	**Urban**	**Rural**	**Total**
		Percent	**Percent**	
Have your own house	Yes	44	87.5	68
	No	56	12.5	32
* Quality of the house at present	Poor	27.8	35.7	33.3
	Medium	66.7	47.6	53.3
	Good	5.5	16.7	13.3
Improvements on houses more than Br.100	Yes	65	27.3	47
	No	35	72.7	53
Kind of improvements on houses	Repair	64.3	70.6	70
	Expansion	21.4	17.6	20
	Sanitation system	7	5.9	6.7
	Other improvements	7	5.9	6.7

**Quality is relative to respondents' settlement*

4.3.3. Household Asset ownership

Change in household asset position is one of the impact indicators of microfinance interventions at the household level. Ownership of household assets is also an indicator of improvement in the households' wealth. The assumption is that microfinance services increase household's income and they may have the capacity to purchase household assets.

Table 4.17 shows some household assets ownership by comparing before and after microfinance intervention. The data in the table reveals that most households (more than 73%) had modest value household assets such as chair, table, bed, and radio before taking loans. Few households (less than 35%) had owned some assets such as tape recorder, television, shelf (buffet), sofa, and refrigerator before taking loans. Bed and table are the most common (94 %) household assets followed by radio ownership (92.9%), while television, sofa, refrigerator, and few households own buffets. The results of the survey show that, ownership of household assets has increased after respondents joined SFPI program. For instance, Television, sofa, and Refrigerator ownership increased from 21 % to 35.7 %, 32 % to 43% and 33 % to 38 % respectively. Thus, SFPI interventions have a positive impact on increasing household assets ownership.

Table: 4.17. Households' Asset Ownership before and after loan (valid n=84)

Assets	Before loan	After loan
	Percent	Percent
Chair	72.6	92.9
Table	94	97.6
Shelf (buffet)	34.5	76.2
Bed	94	95.2
Radio	92.9	94
Tape	41.7	47.6
Television	21.4	35.7
Sofa	32.1	43
Refrigerator	33.3	38.1

4.3.4. Household expenditure

It is assumed that people with better income may have a capacity to spend more. On the other hand, although poor people have a need to expend in order to live a luxurious life, they have no income to spend. Table 4.18 shows that above 64 % of active clients spent not more than Birr 200 per month before taking loans. Less than 50 % of incoming clients (control group) spent a maximum of Birr 200 per month. After taking the loans from SFPI, the percentage of active clients whose average monthly expenditure was less than Birr 100 and between Birr 101 and Birr 200 reduced from 20.2 % to 8.3 % and from 44 % to 38.1% respectively. As indicated in the table, the level of average monthly expenditure of active clients shifts from the lower expenditure category to the next higher expenditure category after taking loans.

In comparison to the control groups more than 49 % of active clients had an average monthly expenditure of above Birr 200 after taking loans, while only 34.8 % of incoming clients had an average monthly expenditure of above Birr 200. From the results, it is safe to conclude that loans make a difference in increasing household expenditure. About 59.5 percent of active clients and 42.9 % of incoming clients responded that most of the expenditure was generated by the households. However, after taking loans, the contribution of other family members increased in bearing expenditure. This is an implication of provision of credit increases the income generating capacity of the households.

Table: 4.18. Households Expenditure of active clients and incoming clients

Expenditure	Indicators	Active clients		Incoming clients
		Before loan	After loan	
		%	%	%
Average monthly Expenditure (Birr)	<100	20.2	8.3	6.1
	101 to200	44	38.1	42.9
	201to 300	16.7	21.4	14.3
	301 to 400	9.5	17.9	8.2
	401 to 500	6	6	4.1
	>500	1.2	3.6	8.2
	No answer	2.4	4.8	16.3
Bearer of expenditure	Myself	59.5	56	42.9
	Other family member	11.9	2.4	14.3
	Me and family	22.6	35.7	24.5
	Relatives	1.2	-	-
	Others	1.2	-	2
	No answer	3.6	6	16.3

4.3.5. Household diet

It is clear that food is basic need for life. The condition of nutrition used in the household is an indicator of the household's well being. The assumption is that participants in the SFPI program will improve their household diet and are less vulnerable to food shortage and shocks than the non-participants of SFPI program. The responses of experimental and control groups about their diet condition are indicated in table 4.19. The large majority of respondents both in experimental and control groups reported that their household had eaten meals at a minimum of three times in a day. Less than 3 % households reported that their families take meals less than three times a day. Few respondents reported that the frequency of taking meals in a day increased after they took the loan from SFPI. The incidence of food shortage in the last 12 months was negligible which occurred for less than 7 months.

Equal percentage (48.8 %) of active clients reported that there is an improvement in their household diet and no change in their household diet after taking loans. Respondents were asked why their household diet was improved. 68.4 % of households said that the diet improvement came from the provision of loans by SFPI, while the minority (31.6 %) responded that SFPI program did not improve their overall household diet. The general trend in household diet condition is improved after SFPI program. More over, 90.5 % of active clients secured themselves from food shortage, while 57% of incoming clients secured themselves from food shortage in the last 12 months. From the results, it is possible to conclude that SFPI program have a positive impact on households' diet condition

Table: 4.19. Households' diet condition

Diet	Indicators	Active clients *(valid n=84)*				Incoming clients(n=49) %	
		Before loan %		After loan %			
		Urban	Rural	Urban	Rural	Urban	Rural
Number of meals in a day	Once	2.9	-	-	-	-	-
	Twice	-	4	-	2	-	13.3
	Three times	82.9	93.9	82.6	90	76.5	60
	More than 3 times	8.6	-	11.4	4	2.9	-
	No answer	6	2.1	6	4	20.6	27

Food shortage during the last 12 months	Yes No No answer	2.9 91.4 5.7	8 90 2	2.9 53 44.1	6.7 66.7 26.7
Overall household diet condition at present	Worsened No change Improved No answer	2.9 42.9 51.4 2.9	- 51 46.9 2		
Diet improvement due to SFPI program	Yes No	72.7 27.3	65.7 34.3		

4.3.6. Household access to education

Education development is one of the priority areas of intervention under the poverty reduction strategy. Education plays an important role in increasing human potential and development at the individual and community level. According to the research conducted by Appleton (2003) cited in Assefa (2004), education can lift people out of poverty. The returns from investing in education are on the average lower but the return in income increment is much higher for those with higher levels of education. On the other hand, returns to education rise with the level of education.

Another study (Aoki et al., 2002, cited in Assefa, 2004), confirmed that lack of educational opportunity is one of the most powerful determinants of poverty and unequal access to educational opportunity is strongly correlated with income inequality. The provision of relevant education significantly contributes to any poverty reduction exercise. The evidences from Assefa's (2004) study revealed that educated farmers are more likely to adopt new technologies and get higher return on their land.

It is assumed that microfinance services of SFPI may improve the possibility of increasing expenditures on education and increases the opportunity of households' access to education. Table 4.20 indicates that active clients have more school age children than incoming clients 80% and 70 % respectively. Rural households have higher school age children than urban households in the active clients' category, while the reverse is true in incoming clients. The results of the study reveals that school attendance is better before the loan than after the loan in active clients and it is lower than the incoming clients' school attendance. School attendance is lower in rural households than in urban households both after and before taking loans.

Similarly, the average annual educational expenditure decreased after the clients took the loan. Furthermore, the overall school attendance has not shown any change after taking loans as reported by 72 % of active clients like of 88 % reported by control groups during the last 12 months. Only 27.7 % of active clients reported as there is an increase in school attendance at present. However, about 52 % of active clients have indicated that SFPI program increased their access to education. On the other hand about 48 % of the respondents reported that SFPI program didn't increase access to education. Although some of the respondents indicated a positive change, the majority revealed that SFPI program hadn't positive impact on households' educational access.

Table: 4. 20. Household educational access

	Indicators	Active clients *(valid n= 83)*				Incoming clients (n=49)	
		Before loan		After loan			
		Urban %	Rural %	Urban %	Rural %	Urban %	Rural %
Presence of school age children	Yes No	84.8 15.2	76.6 23.4	- -	- -	75 25	59.3 41.7
Number of children attending school	1 to2 3 to 4 5 to 8	60 32 8	54.8 32.2 13	80 13.3 6.7	38.9 44.4 16.7	42.9 38 19.1	57 43 -

Average educational expenditure per year (birr)	Don’t know	8.7	8.7	11	10	25	10
	<100	34.8	26	11	15	15	50
	101-400	43.4	47.8	44.4	30	45	40
	>400	13	30.5	33.6	45	15	-
Over all school Attendance	Decreased			7	5	16.7	-
	No change			65.5	70	83.3	100
	Increased			27.5	25	-	-
SFPI program increases access to education	Yes			63.3	43.6	-	-
	no			36.7	56.4	-	-

4.3.7. Household health and access to medical facilities

Poverty and poor health have bi-directional relationship in which poor health leads to poverty and poverty leads to poor health conditions. Apart from lack of financial resources to pay for health services, food, clean water and good sanitation, the poor also suffer from poor health facilities (Daniel, 2004). Thus, provision of financial services to the poor may improve access to medical facilities and improve the health conditions of the poor.

To test this hypothesis, households were asked on the status of their health conditions, medical treatments and the overall medical access in the last 12 months. Table 4.21 reveals that about 79.3 % and 90% of active and incoming clients, respectively, didn’t have sickness or injury incidences in their household in the last 12 months. However, sickness or injury incidence was higher (20.7 %) in active clients than incoming clients (10 %). Incidence of sickness was slightly higher in rural clients than urban clients. Almost all the respondents (active and incoming clients) had medical treatment. This implies that they had the capacity to pay medical expenses. All medical expenses were covered from business profits in the case of active clients whereas in control groups, only 29% of expenses were covered from business profits. About 81% of active clients and 82.5% of incoming clients reported that there were no changes in their overall access to medical facilities in the last 12 months. The findings of the study reveal that SFPI's intervention didn't improve access to medical treatment and overall health conditions of clients.

Table: 4. 21. Health status of households

Indicators	Responses	Active client *(valid n=84)*		Incoming client (n=49)	
		Urban %	Rural %	Urban %	Rural %
Any sickness in the household during the last 12 months	Yes	17.6	22.9	10.7	8.3
	No	82.4	77.1	89.3	91.7
Did you get medical treatment	Yes	17	91	100	100
	No	83	9	-	-
Source of money for medical expenses	Business profit	100	45.5	33	25
	From friends	-	9	-	25
	Others	-	45.5	67	50
Over all medical access	Decreased	3	2	10.7	-
	No change	84	80	75	100
	Increased	13	18	14.3	-

4.3.8. Empowerment of women

Microfinance intervention may lead to women empowerment by increasing their income and their control over that household resource (including their own income), enhancing their knowledge and skills in production and trade, and increasing their participation in household decision making. As the result, social attitudes and perceptions may change and women's status in the household and community may be enhanced (Johnson and Rogaly, 1997).

Table 4.22 indicates that out of the total respondents the majorities of women (85%) took loans after they got marriage. Among these, rural clients are slightly higher than urban clients in taking loans after marriage. About 50 percent of respondents reported that, the decision to take the loan is jointly made by the husband and wife. Joint decision-making is better in urban household (55.6%) than rural households (45 %). Besides, 26.3 % of the respondents reported that only the wife makes the decision on the loan. About 50% of respondents indicated that the decision to use the loan and 47.4% to use the business profit is jointly made by the husband and wife, while only wife makes 31.9% of loan usage and 36.8% of business profit decision. No one reported that husband as the only decision maker on the loans in the household both in urban and rural households. This indicates that women have at least equal or more power than their husbands in the decisions on the loan. Out of the total sample respondents, more than 92 % confirmed that the participation in SFPI program raised their confidence in decision-making. Similarly about 90 % of respondents reported that they have higher level of self-confidence after taking the loan. The findings of the study revealed that SFPI program enhanced women's participation in decision-making and increases their self-confidence.

Table: 4. 22. Empowerment of married women in decision making (valid n=38)

Indicators	Responses	Urban %	Rural %	Total
Any credit in your name after marriage	Yes	83.3	85.1	84.2
	No	5.6	15	10.5
	No answer	11.1	-	5.3
Decision maker to take the credit	Husband and I	55.6	45	50
	Mostly I	-	5	2.6
	Only I	16.7	35	26.3
	No answer	27.8	15	21
Decision maker on the usage of loans	Husband and I	55.6	45	50
	Mostly I	11.1	5	7.9
	Only I	22.2	40	31.9
	No answer	11.1	10	10.5
Decision maker on the use of business profit	Husband and you	50	45	47.4
	Mostly I	5.6	-	2.6
	Only I	27.8	45	36.8
	No answer	16.7	10	13.2

Do loan experience add confidence in your decision making	Yes	89.5	94.7	92.1
	No answer	10.5	5.3	7.9
Your level of self confidence	Highly confident		90	89.5
	No confidence	5.6	-	2.6
	No answer	5.6	10	7.9

4.4. Impact at Enterprises Level

It is expected that enterprises can benefit from microfinance program by improving access to their capital, which helps them to expand their business. Through this expansion enterprises can increase production, profit and create job opportunities to their households and the community. Table 4.23 shows the impact of SFPI program on enterprises using impact indicators such as job opportunity, production process and profit before and after taking loans. Most of the respondents (63 %) reported that members of the household ran their enterprises, where as 37 % responded that they have co-workers to help them in running the business before the loan. Among these co-workers, about 64.5 % were household members and 22.6 % were hired laborers.

However, after the loans from SFPI, about 27.3 % of the respondents confirmed that they hired additional workers in their enterprises other than their family members. Moreover, about 54.5 % of the respondents indicated that their enterprises increased job opportunities for the community. It is clearly indicated that about 94.7 % (large majority) of the households improved their enterprise capacity after taking loans. Similarly 86.1 % and 93.8 % of respondents confirmed that their enterprises' production and profit have increased after they borrowed money from SFPI respectively. In conclusion, the sample survey results reveal that SFPI program has a significant positive impact at enterprise level by improving business, employing more, increasing production and increasing net profit.

Table: 4. 23. Impact on enterprises (valid n=84)

Indicators	Responses	%
Any co-workers in your business to help you before loan	Yes	37
	No	63
Relation of co-workers	Family member	64.5
	Hired laborer	22.6
	Others	13
Hired additional laborer after the loan	Yes	27.3
	No	72.7
Your business increase job opportunity after loan	Yes	54.5
	No	45.5
Business improvement after loan	Yes	94.7
	No	5.3
Your business production after loan	No change	13.9
	Increased	86.1
Your business profit after loan	Decreased	2.7
	No change	18.5
	Increased	93.8

4.5. Non-financial services

4.5.1. Training

Training is one of the non-financial services provided by SFPI. Table 4.24 indicates the trainings delivered to the active clients of SFPI. About 91.7 % of clients received training, while about 7 % didn't. The trainings were focused on loan utilization, marketing, and savings. Most of the clients (52.4 %) received training on loan utilization. Most of the clients were trained not less than three times. However, during the focus group discussions, most of the participants reported that the training delivered by SFPI is not satisfactory.

Table: 4.24. Clients training (valid n=84)

Activities	Indicators	Percent
Training taken	Yes	91.7
	No	7.1
	No answer	1.2
Type of training taken	About loan utilization	52.4
	About marketing	6
	About saving	11.9
	General training	20.2
	No answer	9.5
Number of trainings taken	Once	17.9
	Twice	11.9
	Three times	28.6
	More than 3 times	33.3
	No answer	8.3

4.5.2. Monitoring and supervision

Supervision is an important element in improving the performance of microfinance institutions and to assess the demand and success of clients. Regular monitoring and supervision of loan utilization is expected to help in reducing diversion of loans towards unintended activities (Assefa et al., 2005). Sample clients are asked whether monitoring and supervision is useful, regular and satisfactory.

As per the results in table 4.25 about 92.9 % of the respondents reported that SFPI staffs supervised them to assess the use of loans, whether they used their loan to the intended purpose or not and ensure repayment of loans in accordance with the schedule. About 27.4 % of the clients were been supervised more than three times in one loan cycle. Moreover, about 23.8 % were supervised conditionally i.e. when supervision was necessary. Most of the clients (79.8 %) accept the supervision of SFPI as satisfactory. Furthermore, participants of the focus group discussions were satisfied with supervision where they received advices to help them to achieve better success and encouraged them to repay the loan on time. In one group discussion, participants reported "we sometimes consider the institution as 'father' of us". However, they suggest that more improvement is needed in monitoring and supervision, which will encourage clients to increase their performance and reduce defaults.

Table: 4.25.Supervision of clients (valid n=84)

Activities	Response	Percent
Any supervision on loan utilization and repayment	Yes	92.9
	No	4.8
	No answer	2.4
Quality of supervision	Satisfactory	79.8
	Not satisfactory	8.3
	No answer	11.9
Number of supervision per one loan cycle	None	3.6
	Once	19
	Twice	4.8
	Three times	16.7
	More than 3 times	27.4
	Conditionally	23.8
	No answer	4.8

4.6. Clients perception

4.6.1. Incoming Clients

A separate questionnaire was designed to capture the perception of incoming clients (control groups) on SFPI program. Different respondents have different reasons for not joining SFPI program. According to the results of the study on table 4.26, the common reason for the majority of the respondents (50 %) is lack of information about the SFPI program. This indicates that SFPI needs to promote its awareness creation activities. The second reason reported by more than 33 % participants was lack of opportunities to access loan from SFPI and the difficulties in forming a group.

From the total respondents (incoming clients), 36.1 % confirmed that they are willing to take the credit if SFPI provide them individually. This indicates that group-lending methodology may discourage clients and potential clients to join the SFPI program. Lending interest rate is not a major constraint to join the program for the poor. Only 5.6 % of the respondents reported high interest rate as the reason for not joining the program. Although about 83 % of respondents reported they are willing to take loans from SFPI, they could not get the loan for different reasons. About 73 % of respondents revealed that they are currently ready to join the SFPI program. This decision may be the result of the training or orientation provided by SFPI to address the problems of incoming clients.

Table: 4.26. Reasons for not a member of SFPI responses from incoming clients

Indicators	Quantity	Yes	No	No answer	Valid
No need of credit	%	16.7	83.3	-	100
Unable to form a group	%	33.3	66.7	-	100
Fear of group responsibility	%	13.9	83.3	2.8	100
Dislike group meeting	%	2.8	94.4	2.8	100
The loan is too small to meet credit needs	%	2.8	94.4	2.8	100
Lack of entrepreneurship	%	11.1	86.1	2.8	100
Lack of information about credit provision	%	50	50	-	100
Lack of opportunity to get the credit	%	33.3	66.7	-	100
Disagreement among families	%	16.7	77.8	5.6	100
Due to high interest rate	%	5.6	91.7	2.8	100
Willingness to take the credit if provided individually	%	36.1	55.6	8.3	100
Readiness to be a client of SFPI now	%	73.5	26.5	-	100

4.6.2. Active Clients

Table 4.27 shows whether clients are satisfied with financial services of SFPI or not. Above 70 % of clients reported that they received enough amount of loan to meet their demand, according per their request. About 94 % of clients received the loan as soon as they apply for it. Almost all clients (99 %) received training or orientation before they received the loan. However, 26.2 % of clients complained about the amount of loan provided by SFPI i.e. it was not enough to fulfill their purpose. This is confirmed through the focus group discussions. In general, most of the clients are satisfied with financial service delivery of SFPI. This finding is consistent with the study conducted by Assefa et al., (2005) in four MFIs in Ethiopia (DECSI, ACSI, OCSSCO and Sidama microfinance institution), which revealed that most of the amount of loan provided by the four sample MFIs is adequate. The study also indicated that two third of the sample clients are satisfied with the loan amount. However, 20 % of the clients complained about the amount of loan provided by four MFIs.

Table: 4.27.Clients satisfaction in SFPI's service (valid n=84)

Description	Responses	Percent
Got the amount of money requested	Yes	70.2
	No	29.8
Got enough amount for the purpose	Yes	73.8
	No	26.2
Got in time as soon as requested	Yes	94
	No	6
Training taken before receiving the loan	Yes	98.8
	No	1.2

Open-ended questions were prepared to capture the opinion of active clients of SFPI. Focus group discussions ware also conducted to study the perception of clients on the service delivery of SFPI. 50 respondents provided their opinion in the interview and 38 focus group participants in five groups also provided their opinion on service delivery. Table 4.28 indicates the summary of responses of both interviewees and focus group discussions.

The service delivery of SFPI is appreciated among clients. Most of the participants in the interview (66 %) and focus group discussions (73 %) stated that, their living standard have improved as a result of SFPI program. The other appreciation of the participants is the savings service of SFPI that promoted the saving habits of the clients. 56 % of interviewees and 35 % of focus group participants shared this. About 52 % of interviewed clients and 92 % of focus group participants liked the services of SFPI staff's handling and providing useful advices. They even stated that “consider the staff as part of their families.” They also appreciated on the on lending interest rate, training and advices, good working condition, lending without personal guarantee, reduced the exploitation of money lenders, paying reasonable interest on deposit, and adequate monitoring and supervision of SFPI.

On the other hand the sample clients indicated what they didn’t like in SFPI. From the total 50 interviewed clients 28 % and from 37 focus group participants 89.2 % expressed that they do not like group collateral. Similarly 22 % and 73 % of interviewee and focus group participants respectively reported that they dislike the shortness of loan period. Moreover, some clients reported that the loan size is low to meet their needs. High lending interest rate is another dissatisfaction reported by 18 % of interviewees and 35 % of participants of the group discussion. Clients disliked the long time in disbursing loans, group and center savings, inflexibility in withdrawing savings i.e. they cannot withdraw money whenever they want and savings were not regularly recorded on time in the savers passbook.

Clients have also made some recommendations to improve SFPI services. One of the suggestions of clients is increasing the loan period. The period should be flexible in accordance with the working condition of the clients. The other improvement proposed by large majority of focus group discussion participants (89.2 %) and interviewed (16 %) participants were the need of promoting individual lending methodology. The clients recommended that SFPI should increase the size of loan delivered to clients. They said that “The loans of SFPI make a difference in our lives and we can expand our activities if we get enough loans to our purpose.” About 30 % of the interviewed clients proposed that SFPI should reduce the lending interest rate.

Table: 4.28. Frequency and percentage distribution of likes dislikes and suggestions of interviewed active clients and focus group participants

	Interview	Focus group discussion
	Percent	Percent
Likes:		
Improve living standard	66	73
Fair on-lending interest rate	-	43
Staff members' good approach	52	92
Training and advice	32	-
Promote saving habit	56	35
Create good working condition	10	-
Lending without asset collateral	8	-
Good interest on deposit	8	32.4
Good supervision	6	48.6
Saved us from money lenders exploitation	-	21.6
Dislikes:		
Group and center saving	-	21.6
Group collateral	28	89.2
Short repayment period	22	73
Low amount of loan	16	43
High interest rate	18	35
Loan is not disbursed on time	10	-
Cannot withdraw savings immediately	-	27
Suggestions:		
Reduce on-lending interest rate	30	-
Permit individual loan	16	89.2
Increase amount of loan	20	21.6
Make the repayment period longer	30	73

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

The government of Ethiopia believes that microfinance institutions are one of the instruments in poverty reduction. It is expected that microfinance services create employment opportunities, increasing income, enhancing empowerment and in aggregate improve the livelihood of the poor. Accordingly, Proclamation No. 40/1996 was established in 1996 to promote microfinance development in Ethiopia. Following this, many (twenty-six) microfinance institutions have been emerging in remarkable manner in Ethiopia.

The main objective of all MFIs in Ethiopia is to provide financial as well as non-finical services to the active poor people. Emphasis has been laid on the need that poor people have for a wide range of financial services. So it is important to understand the rationale of microfinance development features on the targeted groups (poor). On the other hand, assessing the impact of microfinance intervention is essential to explore the ways in which financial services are able to support livelihoods and promote them for savings accumulation for future use.

This study had the objective of assessing the impact of microfinance on poverty reduction, focusing on a case study. It attempted to find out the impact of microfinance services provided by SFPI at household and enterprise levels. The results of the study are summarized as follows below.

SFPI has shown an encouraging growth in its operation and outreach. The number of active clients, loan disbursement, and average loan size of SFPI has increased in a remarkable way from year 1998 to 2004 and has an impressive loan repayment (95.4 %). However, the dropout rate has shown an increasing trend. Moreover, the main target group of SFPI, that is women clients' participation, declined from 80 % in 1999 to 60 % in 2004. The reason for this is low awareness of women for the purpose of microfinance services and domination of husbands over their wives not to join SFPI program. Similarly the proportion of female in SFPI staff is lower than male.

The study found out that SFPI intervention has improved households' living conditions. The findings revealed that the average monthly income of most households rose after they took loans from SFPI. Similarly more than 65 % of households confirmed that the overall household income increased due to SFPI program. However, the impact is more pronounced in rural households than urban households. Furthermore, households made improvements in their houses after they joined SFPI program. SFPI program has also raised the households' asset ownership. Ownership of assets in all interviewed clients has increased after the program. Even poor households purchased television, sofa and refrigerator after taking loans from SFPI.

Microfinance provision enables the clients to generate income that could be spent on improved facilities and improve the living condition of households. The average monthly expenditure of active clients shifted from the lower category to the next higher category after joining SFPI program. The average monthly expenditure of active clients was higher than the incoming clients. Active clients have got more chance of improving their diet than incoming clients. Almost half of active clients indicated that their diet condition have improved due to SFPI interventions. About 91.7 % of active clients reduced shocks from food shortage compared to 61.2 % of incoming clients in the last 12 months. However, SFPI's intervention did not show a positive impact on improving access to education and medical facilities.

SFPI program has a positive impact on enterprise expansion, increasing job opportunities of the household members and the community, increase in production and net profit. More than half of respondents confirmed that their enterprise expansion increased employment opportunities for their families and the community. Large majority of respondents stated that their enterprise capacity has improved due to SFPI interventions. Similarly more than 73 % of respondents reported that their enterprises have been increased production and net profit after they have received loans from SFPI.

Most of respondents indicated that their overall saving has been increased and developed their saving habit. Furthermore, SFPI program enhances empowerment of women. Most respondents expressed that they have equal power in households' decision making. Decisions on the loan, loan usage and business profit is taken jointly by the wife and the husband. About 92 % of respondents reported that SFPI program has built their confidence in decision-making.

However, the findings on the impact of SFPI program on households' access to education and medical facilities didn't consistent with the hypothesis developed in the study. Most findings of this study are consistent with the hypotheses developed in the study. Thus, microfinance intervention has a positive impact at the household and enterprise levels. This implies that microfinance institutions have an important role in poverty reduction.

5.2. Recommendations

SFPI has a positive impact on poverty reduction. However, the following recommendations are presented for further development of SFPI.

- The declining tendency of women clients' participation in SFPI shows inconsistency with its objectives. It needs a critical assessment to find out the reasons and take corrective measures.
- The investigation indicates that dropout rate in SFPI is increasing. Most dropout clients stated that the main reasons for exiting from SFPI were personal problems and dissatisfaction of SFPI service. Therefore, SFPI should investigate the main dissatisfactions that lead to withdrawal of clients from SFPI program and take corrective measures accordingly.
- The institution (SFPI) should give due attention to correct the dissatisfactions reported by clients and take into account their recommendations.
- Training is important in all organizational levels of the institution. According to the survey, most clients like the orientation and advice provided by SFPI staffs. However, on-job training for clients is limited. So it is advisable to provide on-job training at the grass root level and also close supervision is needed.
- Information is a critical factor for any sound decision making process. Incoming clients stated that one of the common reasons for not joining SFPI program was lack of information about SFPI. Thus, establishing advocacy and advertising mechanism helps the institution to expand its outreach and give an opportunity for possible potential beneficiaries.
- The institution (SFPI) has shown a remarkable growth in its operation. However, it is still at the age of supply-driven. It needs a strong and continuous effort to shift from supply-driven to demand-driven stage for its sustainability.

REFFERENCES

AEMFI (2003) Microfinance Development Review: Rural Financial Intermediation Program and its role in strengthening the Rural Finance System in Ethiopia. Vol.3, No. 2: Addis Ababa, Ethiopia.

_______ (2005) Microfinance Development Review in Wolday A. (ed). Vol.5, No.1: Addis Ababa, Ethiopia.

AIMS Project (2000) Learning from Clients Assessment Tools for Microfinance Practitioners. Washington D.C.

Asmelash (2003) The Impact of Microfinance in Ethiopia: The case of DECSI in Ganta-Afeshum Woreda of Eastern Tigray. Master Thesis, Addis Ababa University: Addis Ababa, Ethiopia.

Assefa A. (2004) New Pro-poor Policies and Budgeting in the Ethiopian Education Sector in Tassew W. and Eberlie W. (eds). Department of Economics, Addis Ababa University: Addis Ababa.

Assefa A.,Gebrehiwot A. and Mulat D.(2005) Rural Finance in Ethiopia: Assessment of the Financial Products of Microfinance Intuitions. AEMFI, Occasional paper No.12: Addis Ababa, Ethiopia.

Attimir O. (1982) The Extent of Poverty in Latin America: World Bank Staff Working Papers. No .522. The World Bank: Washington D.C.

Bateman M. (2003) New Wave Microfinance Institutions in South-East Europe: Small Enterprise Development. An International Journal of Microfinance and Business Development in Tawney C. (ed), Vol.14, No.3: ITDG Publishing, London.

Borchgrevik A., Tassew W., Gebrehiwot A. and Weldeab T. (2005) Marginalized Groups, Credit and Empowerment: The Case of Dedebit Credit and Savings Institution (DECSI) of Tigray. Occasional paper No. 14, AEMFI: Addis Ababa, Ethiopia.

CGAP (1997) World Bank Project on Microfinance Program. World Bank: Washington D.C.

CSA (1997) Statistical Abstract. Government of the Federal Democratic Republic of Ethiopia: Addis Ababa, Ethiopia.

CIA (2005) The World Fact Book: Ethiopian Population, Ethiopia.

Daba M. (2004) The Impact of Microfinance on Poverty Reduction: A Case Study of Oromia Credit and Saving Share Company. A Paper Presented in the International Conference on Microfinance Development in Ethiopia: Awassa, Ethiopia.

Daniel Z. (2004) Health Sector in Ethiopia's PRSP in Tassew W. and Eberlli W. (eds). Department of Economics, Addis Ababa University: Addis Ababa.

Degefe (2004) Trends in Financial Development of Nine Microfinance Institutions from 1999 to 2002. The Paper Presented in the Second International Workshop of RLDS, Addis Ababa University: Addis Ababa, Ethiopia.

Federal Democratic Republic of Ethiopia (1996) Federal Negarit Gazeta: Proclamation No. 40/1996, Proclamation to provide for the Licensing and Supervision of the Business of Micro Financing Institutions. Addis Ababa, Ethiopia.

Gebrehiwot A. (2002) Microfinance Institutions in Ethiopia: Issues of Portfolio Risk, Institutional Arrangements and Governance, in Microfinance Theory, Policy and Experience in Zaid N. et al. (eds). Mekelle University: Mekelle, Ethiopia.

________ (2005) Microfinance Development in Ethiopia: Impact and Sustainability of Microfinance Institutions. AEMFI: Addis Ababa, Ethiopia.

Getachew W. (2005) Specialized Financial and Promotional Institute Paper Presented for Save the Children USA Partners' Meeting, March 6-9th: Morocco.

Getahun T. (1999) Poverty and Poverty Reduction in Ethiopia: In Aspects of Development Issues in Ethiopia Proceedings of Workshop on the Twenty-Fifth Anniversary of the Institute of Development Research in Tegegne G. et al. (ed), Institute of Development Research Addis Ababa University: Addis Ababa, Ethiopia.

Gibbons D. and Meehan F. (2000) The Micro-credit Summit's Challenge: Working Forwards Institutional Financial Self-sufficiency While Maintaining a Commitment to Serving the Poorest Families. CGAP: Washington D.C.

Haftu B. (2005) sustainability of NGOs and Networks: The Case of Association of Ethiopian Microfinance Institutions in Gerbrehiot A. (ed), AEMFI: Addis Ababa, Ethiopia.

Haileselassie T. (2005) Financial Sustainability of Microfinance Institutions: A case study of SFPI and PEACE in Gebrehiot A. (ed), AEMFI: Addis Ababa, Ethiopia.

Hailu W. (2005) Microfinance in Developing Countries: Concept and Practices. AEMFI: Addis Ababa, Ethiopia.

Holcombe S. (1995) Managing to Empower: The Grameen Bank Experience of Poverty Alleviation. University Press Limited, Dhaka and ZED Books: London.

Hulme D. and Mosley P. (1996) Finance against Poverty: Effective Institutions for Lending to Small Farmers and Micro-enterprises in Developing Countries: Rutledge press, London.

IFAD (2001) Rural Finance Intermediation Program: Appraisal Report, Vol. II, And Africa II Division Program Department: Addis Ababa, Ethiopia.

Itana A., Tsehay T. and Eshetu E. (2003) Governance and Ownership Structure of MFIs in Ethiopia. AEMFI Occasional Paper No. 8: Addis Ababa, Ethiopia.

Jimbed Consult PLC. (2001) Assessment of Impact of the Credit Operation of SFPI on its Target Clients. SFPI: Addis Ababa, Ethiopia.

Johnson S. and Rogaly R. (1997) Microfinance and Poverty Reduction, Oxfam and ACTIONAID: Oxfam print unit.

Khandker S. (1999) Fighting Poverty with Micro-credit: Experience in Bangladesh. The University press Limited, Bangladesh.

Kumar A. (2005) Access to Financial Services in Brazil, The World Bank: Washington D.C.

Ledgerwood J. (1999) Sustainable Banking with the Poor: Microfinance Handbook, The Institutional and Financial Perspective. The World Bank: Washington D.C.

Louise C. (2002) Macro-economic and Sectoral Approaches: A Source Book for Poverty Reduction Strategies, Vol.2: The World Bank, Washington D.C.

Meehan F. (1999) Microfinance in Rural Development: The Impact of Credit Provision by the Dedebit Savings and Credit Institution on Economic Activity and Household Income in Tigray M.Sc. Thesis: Ethiopia.

MoFED (2002a) Sustainable Development and Poverty Reduction Program, Government of the Federal Democratic Republic of Ethiopia: Addis Ababa, Ethiopia.

__________ (2002b) Poverty Profile of Ethiopia: Analysis and Comparison of Poverty. Government of the Federal democratic Republic of Ethiopia: Addis Ababa, Ethiopia.

Narayana S.L. (2005) Financial Systems Approach and Institutionalization of Micro-savings: Trends, Experience and Policy Perspectives in Gerbrehiot A. (ed), AEMFI: Addis Ababa.

Padma M. and Getachew A. (2005) Women Economic Empowerment and Microfinance: A Review on Experiences of Awassa Women Clients in Gebrehiot A. (ed). AEMFI: Addis Ababa, Ethiopia.

Rao J. N. and Bavaiah M.D. (2005) Impact of Microfinance on Household Income and Employment: A Study of Andhra Pradesh State in India in Gebrehiot A. (ed), AEMFI: Ethiopia.

Robinsons S. (2001) The Microfinance Revolution: Sustainable Finance for the Poor. Vol. I. The World Bank: Washington D.C.

Ruben R. and Clercx L. (2003) Rural Finance, Poverty Alleviation and Sustainable Land use: The Role of Credit and the Adoption of Agro-forestry Systems in Occidental Hondura. Vol. 5, No. 2, Journal of Microfinance: Brigham Young University Publications.

Rutherford S. (2003) Money Talks: Conversations with Poor Household in Bangladesh about Managing Money. Vol. 5, No. 2 Journal of Microfinance: Brigham Young University Publications.

SDPRP (2002) Sustainable Development and Poverty Reduction Program, Ministry of Finance and Economic Development: Addis Ababa, Ethiopia.

SEEP Network (2000) Learning from Clients Assessment for Microfinance Practitioners (draft Manual) USAID: Washington D.C.

SFPI (1998) SFPI Semi-annual Progress Report: Specialized Financial and Promotional Institute, December 1998: Addis Ababa.

_________ (1999) Annual Progress Report, Specialized Financial and Promotional Institute, December 1999: Addis Ababa.

__________ (2000) Annual Progress Report, Specialized Financial and Promotional Institute, December 2000: Addis Ababa.

___________ (2001) Annual Progress Report, Specialized Financial and Promotional Institute, December 2001: Addis Ababa.

___________ (2002) Annual Progress Report, Specialized Financial and Promotional Institute, December 2002: Addis Ababa.

___________ (2003) Annual Progress Report, Specialized Financial and Promotional Institute, December 2003: Addis Ababa.

___________ (2004) Annual Progress Report, Specialized Financial and Promotional Institute, December 2004: Addis Ababa.

Simanowitz A. (2000) Clients Exit Surveys: A Tool for Understanding Client Dropout, Vol.2, No.1, Journal of Microfinance: Brigham Young University Publications.

SUM (2002) Microfinance Distance Learning Course: United Nations, United States of America.

Tassew W. (2005) The Impact of Dedebit Credit and Savings Institution on Poverty Reduction and Community Development in Gebrehiot A. (ed). AEMFI: Ethiopia.

_______ (2004) New Pro-poor Policies, Pre-PRSP Experiences and the 2003-04 Budget in Relation to Agriculture and Food Security in Ethiopia. Department of Economics, Addis Ababa University: Addis Ababa.

Tesfaye W.G. (2003) Finance and Development: Microfinance and Poverty Alleviation, The African Economist Bi-Monthly Bulletin Vol.17, (19).

Todaro M.P. (1997) Economic Development, 6th (edn.). Third Impression: New York.

Tsegaye A. (2005) Ethiopian Microfinance Institution's Performance Analysis Report. Bulletin 1, AEMFI: Addis Ababa, Ethiopia.

Tsehay T. and Mengistu B. (2002) The Impact of Microfinance Services Among Poor Women in Ethiopia. Association of Ethiopian Microfinance Institution Occasional Paper No.6: Addis Ababa, Ethiopia.

UNDP (2003) Human Development Report 2003: Millennium Development Goals. New York: Oxford University Press.

White H. (2002) Combining Quantitative and Qualitative Approaches in Poverty Analysis: World Development 30(3).

Wolday A. (2000) Networking Microfinance Activities in Ethiopia: Challenges and Prospects. AEMFI Proceeding of the Conference on Microfinance Development in Ethiopia: Bahirdar.

________ (2001) Experience Sharing Visit of Ethiopian Microfinance Practitioners to Bangladesh. Occasional Paper No.3, AEMFI: Addis Ababa.

_________ (2002) Product Development in the Ethiopian Microfinance Industry: Challenges and Prospects. AEMFI,Occasional Paper No .4: Addis Ababa, Ethiopia.

___________ (2003) Microfinance in Ethiopia: Performance Challenges and Role in Poverty Reduction. Association of Microfinance Institutions. Occasional paper No. 7, AEMFI: Addis Ababa, Ethiopia.

___________ (2005) Prudential Regulation of the Microfinance Industry: Lessons from Ethiopia. Occasional No. 15, AEMFI: Addis Ababa, Ethiopia.

World Bank (1990) World Development Report. New York: Washington D.C.

____________ (1991) World Development Report. New York: Washington D.C

____________ (2001) Partnership for Development. New York: Washington D.C.

_____________ (2002) Poverty Reduction and The World Bank. New York: Washington D.C.

_____________ (2003) Microfinance and Poverty Assessment Tool. The World Bank: Washington D.C.

_____________ (2004) Progress in the Fight against Poverty. The World Bank: Washington D.C

World Development Report (2000/20001) Attacking Poverty. World Bank: Washington D.C.

Yaron J. (1997) What Makes Rural Finance Institutions Successful? The World Bank Research Observer. Vol.9 No.1: World Bank, Washington D.C.

Annex: 1

ADDIS ABABA UNIVERSITY

SCHOOL OF GRADUATE STUDIES

REGIONAL AND LOCAL DEVELOPMENT STUDIES (RLDS)

SURVEY ON THE IMPACT OF MICROF INANCE ON POVERTY REDUCTION: THE CASE OF SPECIALIZED FINANCIAL AND PROMOTIONAL INSTITUTE (SFPI)

INTRODUCTION

My name is Abebe Tiruneh from Addis Ababa University Regional and Local Development Studies Department. I am working a research entitled in the impact of Microfinance Institutions in reducing poverty in Ethiopia

I am interviewing people here in order to find out about the Impact of microfinance Institutions on poverty Reduction. The purpose of the study is to generate information necessary for the planning of appropriate interventions and its outputs will be used to fill the information gap and inform decision makers, planners, researchers and practitioners about the impact of microfinance intervention on increasing the welfare of the individual, household, enterprises as well as the community. Therefore your honest and genuine participation by responding to the questions is highly appreciated.

Your answers are completely confidential. Your name will not be written on this form, and will never be used in connection with any of the information you tell me. This survey will take 30 minutes to ask the questions. Would you be willing to participate?

Thank you for your cooperation.

PART I

GENERAL INFORMATION

01. RESPONDENTS ADDRESS 1.URBAN 2.RURAL

02. REGION----------------------

03. WEREDA------------------------------

05. SPECIFIED PLACE OF SURVEY--------------------------------------

06. RESPONDENTS I.D. NO.--------------------------

07. INTERVIEWER'S NAME --

SIGN.-----------------------

08. INTERVIEWER'S VISITS

	VISIT 1	VISIT 2	VISIT 3
TIME			
DATE			
INTERVIEWER'S NAME			
RESULT*			

* RESULT CODES:

1. COMPLETED 2. RESPONDENT NOT AVAILABLE

3. PARTIALLY COMPLETED 4. REFUSED

5. OTHER __________________

[SPECIFY]

09. QUESTIONNAIRE IDENTIFICATION NUMBER |__|__|__|__|

10. HEAD OF THE HOUSEHOLD MALE |__|

FEMALE |__|

CHECKED BY SUPERVISOR: SIGNATURE _______________ DATE __________

PART II

A. BASIC INFORMATION ABOUT RESPONDENTS

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
A01	SEX OF THE RESPONDENT	MALE 1 FEMALE 2	
A02	RELATIONSHIP TO THE HEAD OF THE HOUSEHOLD:	HEAD 1 WIFE , HUSBAND OR PARTNER 2 SON OR DAUGHTER 3 SON IN LAW OR DAUGHTER IN LAW 4 GRAND CHILD 5 PARENT 6 PARENT IN LAW 7 BROTHER OR SISTER 8 ADOPTEDOR FOSTER OR STEPCHILD 9 OTHER RELATIVE 10 NOT RELATED 11 DOES NOT KNOW 12	
A03	HOW OLD WERE YOU AT YOUR LAST BIRTHDAY?	AGE IN COMPLETED YEAR |__|__| DOES NOT KNOW 8 NO RESPONSE 9	

A04	HAVE YOU EVER ATTENDED FORMAL SCHOOLING?	YES 1 NO 2	--- A06
A05	WHAT IS THE HIGHEST GRADE YOU HAD COMPLETED?	GRADE |__|__| TECHNICAL/ VOCATIONAL CERT. 13 UNIVERSITY/ COLLEGE DIPLOMA 14 UNIVERSITY/ COLLEGE DEGREE 15	
A06	WHAT IS YOUR MARITAL STATUS?	MARRIED 1 SINGLE 2 DIVORCED 3 WIDOWED 4 SEPARATED 5	…A09
NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
A07	HAVE YOU EVER GOT A CHILD?	YES 1 NO 2	--- A09
A08	HOW MANY LIVING CHILDREN DO YOU HAVE?	NUMBER OF CHILDREN |__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A09	WHAT IS YOUR RELIGION?	ORTHODOX 1	

		CATHOLIC 2 PROTESTANT 3 MUSLIM 4 TRADITIONAL 5 OTHER ________________ [SPECIFY]	
A10	WHAT IS YOUR ETHNICITY?	OROMO 1 AMHARA 2 TIGRAY 3 SOMALI 4 GURAGE 5 OTHER _______________ [SPECIFY]	
A11	CAN YOU TELL ME YOUR HOUSE HOLD SIZE BEFORE THE LOAN?	NUMBER BEFORE THE LOAN MALE |__|__| FEMALE |__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A12	CAN YOU TELL ME YOUR HOUSEHOLD SIZE AFTER THE LOAN?	NUMBER AFTER THE LOAN MALE |__|__| FEMALE |__|__|	

		DOES NOT KNOW 8 NO RESPONSE 9	

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
A13	CAN YOU TELL ME NUMBER OF DEPENDANTS BEFORE THE LOAN? (below age 18 and above age 65)	NUMBER BEFORE THE LOAN MALE |__|__| FEMALE |__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A14	CAN YOU TELL ME NUMBER OF DEPENDANTS AFTER THE LOAN? (below age 18 and above age 65)	NUMBER AFTER THE LOAN MALE |__|__| FEMALE |__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A15	ARE YOU A PARTICIPANT OF SFPI CREDIT PROGRAM	YES 1 NO 2 YEARS----------------------------	…A22
A16	WHEN DID YOU JOIN THE PROGRAM?	YEARS |__|__| DOES NOT KNOW 8 NO RESPONSE 9	

A17	FOR HOW LONG DID YOU PARTICIPATE IN SFPI?		
A18	FOR HOW MANY TIMES DID YOU RECEIVE THE LOAN?	NUMBER OF ROUNDS |__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A19	HOW MUCH WAS YOUR FIRST LOAN?	AMOUNT IN BIRR |__|__|__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A20	HOW MUCH WAS YOUR CURRENT LOAN?	AMOUNT IN BIRR |__|__|__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A21	HOW MUCH WAS YOUR CUMULATED LOANS?	AMOUNT IN BIRR |__|__|__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A22	DID YOU PARICIPATE IN SAVING PROGRAM OF SFPI?	YES 1 NO 2	…A26
A23	HOW MUCH WAS YOUR CURRENT SAVING AMOUNT?	AMOUNT IN BIRR |__|__|__|__| DOES NOT KNOW 8 NO RESPONSE 9	

A24	HOW MUCH WAS YOUR COMPULSORY SAVING in each time?	AMOUNT IN BIRR |__|__|__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A25	HOW MUCH WAS YOUR VOLUNTARY SAVING in each time?	AMOUNT IN BIRR |__|__|__|__| DOES NOT KNOW 8 NO RESPONSE 9	
A26	ARE YOU EMPLOYED?	YES 1 NO 2	--- B01
A27	WHAT IS YOUR OCCUPATION?	PROFESSIONAL-TECHNICIAN 1 ADMINISTRATOR, MANAGER 2 SALES WORKER 3 FARMER 4 CRAFTS MEN, LABOURER 5 MILITARY 6 OTHER ____________________ 7 [SPECIFY]	

PART III

B. LOAN USE INFORMATION

NO	QUESTIONS AND FILTERS	CODING CATIEGORY	SKIP
B01	WHEN DID YOU GET THE LAST LOAN?	YEAR------------------------------ DOES NOT KNOW 8 NO RESPONSE 9	
B02	HOW DID YOU TAKE THE LOAN?	BY FORMING A GROUP 1 INDIVIDUALLY 2 OTHERS (SPECIFY)	B07
B03	How many members are there in the group?	MALE------------------------------ FEMALE--------------------------	
B04	Do you know all your group members before forming the group	YES 1 NO 2	
B05	Do You monitor your group members for the intended purpose Utilization of the loan?	YES 1 NO 2	
B06	Does the group have any internal controlling mechanism in regulation form?	YES 1 NO 2	
B07	Did you get the amount you requested?	Yes 1 No 2	
B08	If the answer is no	Specify the reason-------------	
B09	Did you get a training before you received the loan about loan Utilization.	Yes 1 No 2	
B10	Was the amount of the loan size satisfactory for the intended purpose?	Yes 1 No 2	
B11	Was the loan issued timely?	Yes 1 No 2	

B12	Did you invest the last loans you took from SFPI in an income Generating activities?	Yes 1 No 2	
B13	What was the activity you are engaged after taking the loan?	Commercial (trade) 1 Manufacturing (food processing, textile production, crafts, leather work) 2 Service (hairdressing, restaurants, food stalls, cleaning services, local drinks) 3 Agriculture (food production, animal raising) 4 Others (please specify)	
B14	Do you use any portion of your last loan for unintended purpose?	Yes 1 No 2	…B16
B15	TO what purpose did you use?	Buy food for the household 1 Buy clothes for the household 2 Give or loan the money to others 3 Keep money on hand for emergency 4 Others specify----------------	
B16	What is the status of your loan repayment?	Fully repaid 1 Repayment according to schedule 2 Not repaid according to schedule 3 Does not know 8 No response 9	
B17	What was the amount you repaid?	Fully repaid in birr___________ Repayment according to schedule birr________ Not repaid according to schedule birr_______	

B18	If did not pay according to schedule, what is the major reason?	The loan activity was not profitable 1 Profitable but used for other expenditures 2 Profitable but the outputs are sold in credit 3 Loss of assets 4 Others (please specify)______________	
B19	Do you believe the loan should be repaid?	Yes 1 No 2	
B20	Do you have access to credit from other sources other than SFPI?	Yes 1 No 2	..B24
B21	If yes, from what?	Banks 1 Relatives 2 friends 3 Individual money lenders 4 Iddir 5 Others (Please specify)_______________	
B22	If yes why did you borrow from other sources?	Need of more amount 1 Interest rate is low 2 Easier to get 3 Others (Please specify)__________	
B23	To what purpose did you need the loan?	For business activity 1 For food consumption 2 For clothing 3 To buy fixed assets 4 For medical service 5 Others specify---------------	

B24	What do you think about the lending interest rate of SFPI?	High 1 Moderate 2 Low 3 Does not know 8 No response 9	
B25	What is your term of receiving loan?	Weekly 1 Monthly 2 Quarterly 3 Every four months 4 Every six months 5 Every year 6 Other specify-------------------	
B26	What do you think about the repayment period of the loan?	Short 1 Satisfactory 2 Long 3	

PART IV

C. SOURCE OF INCOME AND LEVEL OF INCOME OF THE HOUSEHOLD

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
C01	Did you have a source of income for your household before the loan?	Yes 1 No 2	C03
C02	If yes,	specify the average monthly income in birr---------------------------------	
C03	What is your average monthly income after you have taken the loan?	Specify in birr------------------------------- ----------	
C04	During the last twelve months has your over all income	Decreased greatly 1 Decreased 2 Stayed the same 3 Increased 4 Increased greatly 5	…C0 6
C05	If decreased, what is the main reason?	One of the household member has been sick 1 Poor sales 2 Production was poor 3 Lost job 4 Others (Please specify)	
C06	If increased, what is the main reason?	Expanded existing enterprise 1 Under took new enterprises 2 Sold in new markets 3 Got a job 4 Income from other sources 5 Others	

		(Please specify)	
C07	Is there any one who is engaged in income generating activity from Member of your household?	Yes 1 No 2	…C10
C08	If yes how many of them are engaged?	Specify in number--------------------------	
C09	In what kind of activity are they engaged?	Trade 1 Service 2 Handicraft 3 Wage laborer 4 Permanent employee 5 Agriculture 6 Others (Please specify)	
C10	During the last twelve months, did you make any of the following changes to your enterprise activities after taking the loan? a. Expanded size of enterprise b. Added new enterprises c. Hired more workers d. Improved quality of products e. Reduced costs by buying inputs in greater volume f. Reduced costs with cheaper source of credit g. Sold in new market	Yes 1 No 2 Yes 1 No 2 Yes 1 No 2 Yes 1 No 2 Yes 1 No 2 Yes 1 No 2 Yes 1 No 2	

PART V

D. HOUSEHOLD ASSET AND WEALTH CONDITION

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
D01	Did you have a house before you join the credit program?	Yes 1 No 2	…D 03
D02	If No, did you have a house after join the program?	Yes 1 No 2	D07
D03	If you have a house what is the condition of the house?	Poor quality 1 Medium quality 2 Good quality 3	
D04	If you have a house what is its market value before the loan?	Specify in birr------------------------	
D05	During the program period, is there any improvements or additions made To your home that costs more than birr 100?	Yes 1 No 2	…D 03
D06	If yes, which one have you done? (You can choose more than one answer)	House repair (roof, floor, wall) 1 House expansion 2 Improved water or sanitation system 3 Lighting/electricity 4 Others specify---------------------	
D07	Do you have the following assets? (Indicate by (√) mark)		

	Asset type	Acquired	
		1. Before loan	2. After loan
a	Chair		
b	Table		
c	Refrigerator		

d	Shelf		
e	Bed		
f	Sofa		
g	Radio		
h	Tape player		
i	TV		
j	Others specify		

PART VI

E. LIVING STANDARD AND EXPENDITURE OF HOUSEHOLDS

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
E01	What was the average monthly expenditure of your household before the loan?	Below birr 100 1 Between birr 101-200 2 Between birr 201-300 3 Between birr 301-400 4 Between birr 401-500 5 Above birr 500 6	
E02	Who was the bearer (source) of expenditure in your household before the loan?	Your self (head of household) 1 Other family member 2 You and other family members 3 Relatives 4 Others (Please specify)__________	
E03	How many times does your household eat meals in a day?	Once 1 Twice 2 Three times 3 More than three times 4	
E04	What is the average monthly expenditure of your household after the loan?	Below birr 100 1 Between birr 101-200 2 Between birr 201-300 3 Between birr 301-400 4	

		Between birr 401-500 5 Above birr 500 6	
E05	Who is the bearer (source) of expenditure in your household after the Loan?	Your self (head of the household) 1 Other family member 2 You and other family members 3 Relatives 4 Others (please specify)-------------------	
E06	What is your household diet condition looks like?	Worsened 1 Stayed the same 2 Improved 3	.
E07	How many times your households eat meals in a day after the loan?	Once 1 Twice 2 Three times 3 Above three times 4	
E08	If improved, do you think that the nutritional status of your family improved because of the loan you received?	YES 1 NO 2	
E09	During the last twelve months was there ever a time when it was necessary for your household to eat less because of either lack of food or lack of money to buy food?	Yes 1 No 2	…F0 1
E10	If yes, how long did this period last?	In months? ____________	
E11	How the household solve the problem (shortage)	Borrowed from friends 1 Borrowed money or food at cost 2 Sold personal property 3 By migrating to seek employment 4 Other (Please specify) _________	

PART VII

F. ACCESS TO EDUCATIONAL FACILITIES

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
F01	Do you have children and other school aged household members?	Yes 1 No 2	…F03
F02	If yes, how many of them have attended to school?	Before the loan_____ After the loan____	
F03	What is the average educational expenditure per year?	Before the loan birr_________ After the loan birr _________ Does not know 8 No response 9	
F04	Did the number of your household member attending school?	Decrease 1 Stayed the same 2 Increased 3	…F06
F05	If increased, what is the main reason?	New school building in the area 1 Income improvement in the household 2 Increase the awareness of the household to wards education 3 Others (Please specify)__________	
F06	If decreased, what is the main reason?	Lack of income for school tuition 1 Lack of access to school in the area 2 High price of educational facilities 3 Lack of interest to attend school 4 Needed for help to the household 5 Others (Please specify)__________	
F07	Do you think that you and your family access to educational facilities have	Yes 1 No 2	

	improved following the loan?		

PART VIII

G. MEDICAL FACILITIES AND HEALTH CONDITION OF THE HOUSEHOLD

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
G01	Is there any household member sick or injured during the last twelve months?	Yes 1 No 2	 ..G05
G02	If yes, did they get medical treatment?	Yes 1 No 2	 G04
G03	If yes, where did you get the money you paid for medical treatment?	From my business profit 1 From my voluntary saving 2 Borrowed from relatives 3 Borrowed from friends 4 Borrowed from other sources at cost 5 Others (Please specify)___________	
G04	If they didn't get medical treatment, what is the main reason?	Lack of medical facilities 1 High price medical facilities 2 Low level of income (lack of money) 3 Distance of the health institution 4 Others (please specify)_______	
G05	In general, do you think your access to medical facilities?	Decreased 1 Stayed the same 2 Increased 3	H01 H01
G06	If increased, what is the main reason?	Access of credit from SFPI 1 Borrowed other sources other than SFPI 2 Better local treatment 3 Sold household assets 4 Others (please specify)_________	

PART IX

H. EMPLOYMENT AND PRODUCTION

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
H01	What was the major type of activity you engaged before the loan?	Local drink preparation 1 Wood works 2 Metal work 3 Food preparation 4 Animal husbandry 5 Retail trade 6 Wavering 7 Bakery 8 Hotel /restaurant 9 Shoe repair/shiner 10 Barber 11 Unemployed 12 Others (please specify) ____________	
H02	Is there any worker who helps you Do before the loan?	Yes 1 No 2	
H03	If yes who are they?	Family members 1 Hired labor 2 Apprehentship 3 Others (please specify)____	
H04	Do you think your business activities improved after the loan?	Yes 1 No 2	
H05	Do you think your business activity increases job opportunity?	Yes 1 No 2	

			.
H06	Did you use hired labor in your business activity?		H08
H07	If yes, how many?	Male ______ Female________	
H08	Do you think your production after loan	Decreased ed 1 Stayed the same 2 Increased 3	
H09	Do you think your business profit after the loan	Increased 1 Stayed the same 2 Increased 3	

PART X

I. SAVING INFORMATION

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
I01	Do you have savings at SFPI?	Yes 1 No 2	…J0 1
I02	If yes, what type of saving?	Compulsory 1 Voluntary 2 Both compulsory and voluntary 3 Others (Please specify)----------------	
I03	If yes, specify the average monthly saving amount in birr	Compulsory_________ Voluntary----------------	

I04	What is current total amount of saving?	Specify in birr_____	
I05	What is your source of money for saving?	From business profit financed by the loan 1 From other sources of income 2 Borrowed from relatives 3 Borrowed from friends 4 Borrowed at cost 5 Income from employment 6 Others (Please specify)____	
I06	Have you faced any difficulties for compulsory savings?	Yes 1 N0 2	..I08
I07	If yes, how do you manage the difficulties?	Sold household assets 1 Borrowed from relatives 2 Borrowed from friends 3 Borrowed at cost 4 I did not pay 5 Others (Please specify)_______	
I08	Do you like compulsory saving?	Yes 1 No 2	
I09	During the last twelve months have your savings	Decreased 1 Stayed the same 2 Increased 3	
I10	For what purpose do you save?	For loan repayment 1 For safety of cash 2 For consumption 3 To earn interest 4 Bought household assets 5	

		Made improvement to the house 6 To with draw during emergency 7 Have not used savings 8 Others (Please specify)_______	
I11	What are the attractive features of SFPI saving facilities?	The interest rate is good 1 Offers a safe way of holding savings 2 Convenient to make deposit and withdrawal since it is near by 3 Other (Please specify)_______	
I12	What do you think about the interest rate of SFPI paid on saving?	Less than the market rate 1 Greater than the market rate 2 Have no information about the interest rate 3 Does not know 8 No response 9	

PART XI

J. INFORMATION ABOUT EMPOWERMENT (For married women only)

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
J01	(Have you taken any loans in your name after you were married?	Yes 1 No 2	
J02	Who decides to take loans?	Husband only 1 Mostly husband 2 Husband and You equally 3 Mostly you 4 Only you 5	

		Others (Please specify)__________	
J03	Who decides on the use of loans you have taken?	Husband only 1 Mostly husband 2 Husband and You equally 3 Mostly you 4 Only you 5 Others (Please specify)__________	
J04	Who decides to expend money?	Husband only 1 Mostly husband 2 Husband and You equally 3 Mostly you 4 Only you 5 Others (Please specify)__________	
J05	Who decides on the use of profits in your business?	Husband only 1 Mostly husband 2 Husband and You equally 3 Mostly you 4 Only you 5 Others (Please specify)__________	
J06	Do you feel capable of handling money and making business decision?	Yes 1 No 2	
J07	Has loan experience led to a feeling of being more capable of handling money and making economic decision?	Yes 1 No 2	
J08	How are you confident about yourself?	Highly confident 1 Moderately confident 2 Not confident 3 Does not know 8	

		No response 9	
J09	Do you feel more confident about your self after participating SFPI program?	Yes 1 No 2	
J10	Are you confident enough to go to the following places to get services on your own?	YES NO Market 1 2 Health center 1 2 School 1 2 Women's association 1 2 Kebele or Woreda administration 1 2 Police 1 2 Court 1 2	
J11	**Effect of loan on your** (Indicate your choice by (√) mark)		

	Increased significantly	Increased slightly	Stayed same	Decreased
Level of income				
Diversity of income sources				
Educational facilities				
Medical facilities				
Housing condition				
Total consumption				
Nutrition				
Employment opportunity				
Production				
Capacity to save				
Empowerment (economical decision making				

PART XII

K. SUPERVISION AND ENCOURAGEMENT

NO	QUESTIONS AND FILTERS	CODING CATEGORY	SKIP
K01	. Have you got any training from SFPI?	Yes 1 No 2	K04
K02	If yes, what type of training did you get?	Loan utilization 1 Marketing 2 Bookkeeping or recording 3 About saving 4 Entrepreneurship 5 Management 6 General training 7 Others	
k03	How many times did you get the training	Once 1 twice 2 three times 3 more than 3 times	
K04	Was there any supervision on loan utilization and loan repayment?	Yes 1 No 2	
K05	If yes, is it	Satisfactory 1 Not satisfactory 2	L01

K06	How many times have you been visited per one loan duration of time?	None 1 Only once 2 Twice 3 Three times 4 More than three times 5 Conditionally 6 Does not know 8 No response 9	

PART XIII

L. OTHER INFORMATION ABOUT SFPI

L01. List about three things you like about SFPI?

____

____

____

L02. Write (tell) about three things you dislike about SFPI

____

____

____

L03. Tell your comments or recommendations about SFPI __________________________

____

____

Enumerator's comments____

INTERVIEW QUESTIONS FOR EX-CLIENTS (DROPOUTS)

1) When are you a client of SFPI? ______________
2) For how long did you a member?____________
3) When did you leave the program?____________________
4) Why did you leave the program? ____________________
   a) Due to market problem Yes 1 No 2
   b) Bankruptcy Yes 1 No 2
   c) Due to high interest rate Yes 1 No 2
   d) Due to shortage repayment period Yes 1 No 2
   e) Due to lack of group cohesion Yes 1 No 2
   f) Due to fear of group risk Yes 1 No 2
   g) Due to dislike the program Yes 1 No 2
   h) Due to getting other alternatives Yes 1 No 2
   i) Due to self reliance Yes 1 No 2
   j) Due to sickness Yes 1 No 2
   k) Due to personal problem Yes 1 No 2
   l) The institution reject me Yes 1 No 2
   m) The institution does not satisfied my need Yes 1 No 2
   n) Due to group members dropout Yes 1 No 2
   o) Due to other reasons identify-----------

5. Do you think to rejoin the program in the future? Yes 1 No 2

6 What are the strengths of SFPI---

7.Specify the weakness of SFPI---

8.What are your recommendations to improve the services of SFPI?-----------------------------

---

PART XIV

M. QUE STIONNAIRE FOR INCOMING (NEW) CLIENTS

MO1. What are the reasons for not to be a client of SFPI till now?

MO2.	No need for credit	Yes	1
		No	2
M03.	Unable to form a group	Yes	1
		No	2
M04.	Unable to meet compulsory saving requirement	Yes	1
		No	2
M05.	Taking group responsibility unacceptable	Yes	1
		No	2
M06.	Group requires members to pledge personal assets as collateral	Yes	1
		No	2
M07.	I dislike group meeting	Yes	1
		No	2
M08.	SFPI loan is too small to meet my credit needs	Yes	1
		No	2
M09.	Lack of entrepreneurship	Yes	1
		No	2
M10.	No information about the credit provision	Yes	1
		No	2
M11.	I have a need to get loan, but I can not get the opportunity	Yes	1
		No	2
M12.	Easier to get loans from other sources	Yes	1
		No	2
M13.	Due to high interest rate	Yes	1
		No	2
M14.	Fear of indebtedness	Yes	1
		No	2
M15.	Disagreement with families	Yes	1
		No	2
M16.	Other reasons please specify ______________________________ ____		
M17.	Did you take the loan if the credit is provided individually instead of in	Yes	1

	group	No	2
M18.	Are you ready to be a client of SFPI now?	Yes	1
		No	2
M19.	If yes, specify the reasons ________________________________		
	____		

Annex: 2

QUESTIONS FOR FOCUS GROUP DISCUSSION

1) What is your idea about loan amounts provided by SFPI?
2) What is your idea about interest rate provided by SFPI? Both loan and saving interest rate
3) What do you think about the loan repayment periods of SFPI?
4) What do you comment on saving amounts, types and periods?
5) What is your comment on saving withdrawal?
6) Do you like the services provided by SFPI?
   What is liked? What is disliked? What is your recommendation?
7) Do you like the supervision and encouragement of the SFPI?
8) What is your idea about the whole program?
9) What changes do you observe in your life due to microfinance intervention?

Annex: 3

Checklist for key informant interview for AEMFI officials

1. What is your opinion about the microfinance industry development?
2. What are the roles of microfinance institutions to reduce poverty in Ethiopia?
3. What are the opportunities for the development of the microfinance institutions in Ethiopia?
4. What are the challenges for the development of microfinance institutions in Ethiopia?
5. Is there any legal or policy gap in microfinance development?

Annex: 4

Checklist for key informant interview for SFPI officials

1. How was the history and background of SFPI?
2. What are the main services provided by SFPI?
3. What types of loan can SFPI provided?
4. Did you provide training for clients before and after loan provision?
5. How was your term of loan and term of repayment?
6. What was your mechanism used as collateral in loan provision?
7. If a client may fail to pay his loan, how can you manage the arrears?
8. Is there insurance service for clients?
9. How many times do you provide training for clients on the average in a single term of loan?
10. Is there any controlling mechanism for clients whether they use their loan for the intended purpose?
11. Is there any feedback mechanism from clients to assess their needs?
12. What are the main reasons for client dropouts?
13. What are the main problems claimed by clients?
14. What are clients' opinion in your service provision and the amount in both loan and saving interest rates?
15. Did you provide the necessary services for clients in satisfactory way?
16. What is the main source of income for the institution?
17. How do you suggest the role of the institution in poverty reduction?
18. What are the main challenges (problems) for the institution?
19. Is there any legal or policy gap in the institution's function?
20. What are the main weaknesses of the institution, which need corrections?

Annex: 5

MFI's out reach

	No of loan Client	**Outstanding loan portfolio**	**Clients Savings balance**
MFIs	**Jun, 2005**	**Jun, 2005**	**Jun, 2005**
ACSI	394,374	385,274,000	183,475,000
ADCSI	58,000	118,076,000	39,703,000
Aggar	1,590	2,554,878	1,597,236
Asser	-	-	-
AVFS	5,306	3,710,772	1,255,350
Benshangul	10,822	8,018,941	2,399,462
Bussa Gonofa	5,257	2,927,992	639,540
DECSI	417,290	657,886,106	162,986,226
Eshet	11,348	9,773,762	1,327,058
Gasha	9,773	10,935,686	4,583,479
Meket	2,492	1,308,495	174,948
Meklit	3,701	3,370,763	2,547,708
Metemamen	4,081	1,280,900	321,300
OCSSCO	125,782	138,672,524	50,784,649
Omo	87,645	67,631,524	29,073,204
PEACE	10,605	11,047,385	2,471,215
SFPI	13,013	12,101,870	5,352,194
Shashemene	1,677	1,228,920	471,716
Sidama	13,121	10,938,715	3,577,894
Wassasa	11,007	7,826,140	1,770,396
Wisdom	24,421	23,364,479	6,770,148
Total	1,211,305	1,477,930,055	501,281,723

Annex- 6

Microfinance proclamation

PROCLAMATION NO. 40/1996
A PROCLAMATION TO PROVIDE FOR THE LICENSING AND SUPERVISION OFTHE BUSINESS OF MICROFINANCING INSTITUTIONS

WHEREAS, it needs to provide for a legal regime that brings the activities of microfinancing institutions within Ethiopia's monetary and financial policies;

WHEREAS, the monetary and banking laws in force do not provide for microfinancing institutions catering for the credit needs of peasant farmers and others engaged in small-scale production and service activities;

WHEREAS, it has become necessary to legislate on the licensing and supervision of the business of microfinancing institutions;

NOW, THEREFORE, in accordance with article 55 (1) of the constitution of the Federal Democratic Republic of Ethiopia, it is hereby proclaimed as follows,

PART ONE
General

1. Short Title

This proclamation may be cited as the "Licensing and Supervision of Microfinancing Institutions Proclamation No. 40/1996.

2. Definitions

In this Proclamation, unless the context otherwise requires;

1) "Bank" means the National Bank of Ethiopia;

2) "Company" means a share company,

3) "Microfinancing business" means an activity of extending credit, in cash or in king, to peasant farmers or urban small entrepreneurs, the loan size of which shall be fixed by the Bank;

4) "Microfinancing institution" means a company licensed under this proclamation to engage in microfinancing business in rural and urban areas;

5) members" means the shareholders of a microfinancing institution or signatories to any type of membership arrangement created by such institution;

6) "Group guarantee" means a guarantee mechanism whereby a group of borrowers undertake to be liable jointly of severally to defaulted loan of any one of them;

7) "Savings" Means non-withdrawal mandatory or regular savings of members of a microfinancing institution;

8) "Deposits" means any regular or irregular savings which may be withdrawn partially or totally at any time by the account holder;

9) "Directors" means members of the board of a microfinancing institution

3. Purpose and Duty

1) The purpose of microfinancing institutions is granting credit, in cash or in kind, the maximum amount of which shall be determined by the Bank.

2) Subject to conditions set under this Proclamation, a microfinancing institution may carry out come or all of the following activities;

   (a) Accepting savings as well as demand and time deposits;

   (b) Drawing and accepting drafts payable within Ethiopia;

   (c) Borrowing money for its business purposes against the security of its assets or otherwise;

   (d) Purchasing such income generating financial instruments as treasury bills;

   (e) Acquiring, maintaining and transferring of any movable and immovable property including premises for carrying out its business;

   (f) providing counseling service to its clients;

   (g) Encouraging income generating projects for urban and rural micro-operators;

   (h) Rendering managerial, marketing, technical and administrative advice to borrowers and assisting them to obtain services in those fields;

   (i) Managing funds for microfinancing business; and

   (j) Engaging in other activities customarily undertaken by microfinancing institutions.

PART TWO
Licensing of Micro Financing Institutions

4. Conditions Required to Engage in Micro financing Business

1) To carry out microfinancing business, the following conditions shall be fulfilled;

   (a) obtain a license from the Bank;

(b) be formed as a company;

(c) deposit with a bank the minimum initial capital required by the Bank; and

(d) that the directors and other officers meet requirements set by the Bank

2) The Council of Ministers may, upon recommendation by the Bank, exempt an applicant from the requirements of any of the provisions of Sub- article (1) of this article in order that other innovative financial intermediaries engage in microfinancing business and for other causes consistent with the objective of this proclamation.

5. Prescribing Additional Conditions

1) The Bank may issue directives at any time and prescribe additional conditions to be complied with before a license is issued.

2) Where the Bank intends to change or vary the terms and conditions attached to a license, it shall notify the concerned microfinancing institutions of such intentions forty-five (45) days before the date it proposes to carry same into effect.

6. Application for License

1) An application for license to carry out microfinancing business shall contain the following:

(a) The prospective place of operation (indicating that of the head office and branches);

(b) The name, occupation, residence and nationality of the founders;

(c) Form of organization of the undertaking;

(d) Memorandum of association of the undertaking;
(e) proposed name of the undertaking;
(f) Biographical data on each of the founders, proposed directors and officers;
(g) The proportion of contribution in cash and in kind and the manner of valuation of contribution in kind.
(h) The proposed transactions and operations of the undertaking as well as the manner for carrying out same and
(i) such other relevant information as the bank may require;

2) An investigation fee, prescribed by the Bank, shall be paid at the time of Submitting the application for license.

3) An applicant issued with a license shall commence operations within 12 (Twelve) months from the date thereof.
4) No microfinancing institution shall, without the prior consent of the Bank, operate outside the area for which it has been issued the license.

5) Every microfinancing institution shall pay such annual license renewal fee as the Bank may prescribe.

7. Authorization of Commencement of Operation

Any microfinancing institution may, before commencing operations, be required to meet certain conditions prescribed in a directive to be issued by the Bank.

8. Recovery of Monies and Securities Received by unlicensed undertakings

Where any unlicensed person undertakes activities carried out pursuant to this proclamation, and holds monies or property obtained through such act, the Bank may apply to the Federal High Court for orders in respect of the disposing of same; the High Court shall give orders for the speedy and efficient return of such monies or property to the depositors or owners thereof.

9. Revocation of license

The license of a microfinancing institution may be revoked by the Bank for any of the following reasons;

1) Where it fails to commence operations within a period of 12 (twelve) months following the issuance of license;
2) where it ceases to carry on its activity;
3) where it is declared bankrupt or decided that it be liquidated;
4) where it is amalgamated with another microfinancing institution or bank without prior written authorization of the Bank; or
5) Where confirmed that its registration was effected on the basis of false information.

10. Application for re-Registration

1) Where the savings mobilized by a microfinancing institution equals Birr 1,000,000 (One million Birr) it shall apply for re-registration.

2) Where application is made under sub-Article (1) of this Article, it may be required that additional conditions prescribed by directives issued by the Bank be met.

11. Assistance

1) Where it deems it appropriate, the Bank shall extend technical assistance requested by a micro financing institution while being organized or in the course of operations

2) Microfinancing institutions may obtain line of concessional credit or any assistance from foreign sources for the purpose of on-lending or capitalization.

3) Any credit or assistance to be obtained under sub-Article (2) of this article shall require the prior approval of the Ministry of Finance.

PART THREE

Financial Requirements and Limitations

12. Minimum Capital Requirement and Powers and Responsibilities on the bank

1) The minimum paid-up capital required to obtain license for microfinancing business shall be determined by directives to be issued by the Bank
2) The Bank may issue directives governing the following;

   (a) Limits on the maximum credit extended by microfinancing institutions to any individual or group.
   (b) The loan period and procedures;
   (c) periodic reporting the accounting system and the keeping of books of accounts;
   (d) periodic surveys of loan and audits;
   (e) Standards regarding accountability, structure, savings system and financial performance;
   (f) Setting of special interest rate applicable to microfinancing institutions.

3) The Bank shall have the responsibility to;
   (a) encourage banks and other financing institutions to engage in micro financing business or to expand their activities in same;
   (b) offer or facilitate training for the personnel of microfinancing institutions;
   (c) Promote and develop traditional savings institutions such as lqub in order that the low-income section of society benefit most from them; and
   (d) Promote investment in microfinancing business, especially in rural Ethiopia, Pursuant to powers vested in it under the law;

13. Consolidation and Merger

Consolidation and merger of microfinancing institutions operating in adjacent areas shall be encouraged and such incentives as the Bank deems appropriate shall be granted to them.

14. Opening of Branches

1) Every microfinancing institution shall notify its having opened a branch office, within fifteen (15) days of the commencement of operation of such branch.
2) The Bank may set general guidelines of donations of opening and operating branch offices by microfinancing institutions.

PART FOUR
General Conditions

15. Extending of Loan Services

Microfinancing institutions may extend loan to members as well as to non-members. However, such credit schemes as operating under group guarantee shall exert themselves to bring borrowers into membership of the institutions.

16. Minimum Operational prudence.

The minimum prudential framework of operation in respect of all microfinancing institutions shall be in the manner and form to be prescribed by the Bank.

17. Prohibitions

Without the prior approval of the Bank no microfinancing institution may;

1) enter into an arrangement or agreement for the sale or disposal amalgamation or other wise of its business or effect self restructuring;
2) transfer or otherwise dispose of the whole or any part of its property, whether inside or outside Ethiopia, other than in the ordinary course of its business;
3) effect reduction of its capital or
4) amend its memorandum of association or alter the name under which it is licensed.

18. Circumstances Requiring Approval for Managerial Responsibility

The following shall not be allowed to manage microfinancing institutions without the prior written approval of the Bank:

1) Persons declared bankrupt or who have made a compromise with their creditors, whether in Ethiopia or elsewhere
2) Persons convicted of offences of breach of trust or fraud, whether in Ethiopia or elsewhere.

19. Tax Exemption

The Ministry of Finance is hereby empowered to determine the period, manner and condition of exemption of microfinancing institutions from income tax.

20. Special Responsibility

Every microfinancing institutions shall devise and execute a policy whereby the low-income section of society, especially in rural areas, get access of credit and to this end it shall implement such means of substituting group guarantee for property collateral requirement.

PART FIVE
Miscellaneous provisions

21. Duty to Cooperate

Where so requested by the Bank, all concerned bodies shall have the duty of cooperate in the implementation of this proclamation.

22. Audit

Accounts of microfinancing institutions shall be audited annually by an independent auditor acceptable to the Bank prior to the payment of dividends to shareholders

23. Inapplicable Laws

Any law inconsistent with the provisions of this Proclamation shall not apply to matters provided for under this Proclamation.

24. Other Applicable Law

With respect to matters not covered under this Proclamation, the Licensing and Supervision of Banking Business Proclamation No. 84/ 1994 shall apply, mutatis mutandis.

25. Power to Issue Directives

The Bank may issue directives necessary for the proper implementation of this Proclamation.

26. Transitory Provisions

1) Undertakings engaged in microfinancing business, prior to the coming into force of this Proclamation, may continue in their previous form until reorganized in compliance with the provisions of this Proclamation.
2) The conditions and time limit of non-applicability of this Proclamation to such undertakings shall be determined in directives to be issued by the Bank.

27. Effective Date

This Proclamation shall come into force as of the 5th day of July, 1996.

Done at Addis Ababa, this 5th day of July, 1996.

NEGASO GIDADA (DR.)
PRESIDENT OF THE FEDERAL DOMOCRATIC
REPUBLIC OF ETHIOPIA