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The Impact of Microfinance on Living Standards, Empowerment and Poverty Alleviation of the Poor People in Ethiopia, A Case Study in ACSI

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Abstract
The study tries to look at the impact of microfinance on the lives of the poor people. There are different views on micro credit as a powerful development tool regarding its success in developing the lives of the poor and some times these views are contradictory. However poverty is a global issue; it is a problem that even the wealthiest nation is facing. In this scenario country like Ethiopia is facing a great challenge to alleviate or reduce poverty because poverty is becoming cause of many problems like illiteracy, unemployment, diseases like depression, stress etc. In order to control these diseases first we have to control poverty. At government level and also at international level many strategies are made every day to control poverty. But now Dr. Younis gave a formula of micro credit that successfully worked in Bangladesh and is now replicated all over the world and also in Ethiopia so; the purpose of the study was to observe that what role micro credit plays in Ethiopia on living standards, empowerment and poverty alleviation. The study was conducted in two branches of Amhara Credit and saving institutions that are Debratabor and Estie. Those people are targeted who have taken micro credit so that the comparison of living standard before and after use of micro credit can be made and hence it can be seen that, if there is any improvement in their living standard after using micro credit or not.
The study was based on questionnaires which were distributed to the clients of Debratabor and Estie branches of ACSI along with experienced data collectors; as a result, the respondents can easily understand it and fill it accordingly. Sample for this survey was 150 with 75 respondents per branch. Some of the factors that show poverty reduction are Training and education, clean water and hygienic environment, nutrition and adequate food, accommodation, income and savings. Overall we can say that training and education, clean water and hygienic environment, nutrition and adequate food, accommodation, income and savings are important factors of poverty reduction. The results that have been analyzed with microfinance permit the following conclusions: almost all the clients reported an increase in their incomes which has improved their standard of living, have sent their children to school; have been able to pay for their medical bills and can feed their families, can cope with future crises using their savings, have been empowered economically and their positions in the family as well as in the society.

CHAPTER ONE: INTRODUCTION

1.1 Back ground of the study

There is recent global agreement that Microfinance institutions (MFIs) are good instruments to fill the gap of conventional banks' limitations in reaching the poor and the vulnerable non-poor with banking services. They are considered as one of the most effective interventions for empowering the poor in their economic and social involvements. That is, through these MFIs, the poor are able to access financial services, which previously were exclusively available to the upper-income population. The basic idea behind such intervention is that access to micro-finance services such as credit, savings, and micro-insurance to the poor could help them, among others, to expand their businesses that will allow them to pull out of poverty.
The Amhara region of Ethiopia covers an area of 172,752 km2, and has a population of about 18 million people (about a quarter of the national population) with some 85% of the population residing in the rural parts of the region. The topography, combined with limited road and other communication networks, makes many communities difficult to access. Agriculture is the dominant economic sector, accounting for 48.6% of the region's GDP while the industrial sector comprises 27.8% and the service sector 23.5%. The level of poverty and ill being in Ethiopia is very high. The Amhara region, in particular, has suffered in the past, and was one of the Ethiopian areas that most suffered famine in 1973, 1984 as well as in more recent times. In the Amhara region, 52 out of the 113 districts are categorized as chronically food-insecure (Bamlaku A.2006),
Currently, more than 30% of the regional population earns an income, which is below the (locally driven) poverty line income level. This minimum cost of consumption is estimated to be only about $10/month/ adult. One should therefore note that the poverty rate would even be higher if one considers the $30 poverty line (the dollar-a-day convention) set by the World Bank (Dercon et al., 2006). Many factors have accounted for such high level of poverty, among which the low level of capital and of monetization. According to an earlier study on rural Ethiopia, less than 1% of the population has access to finance from formal sources (IFAD, 2001).

The EPRDF-led Government of Ethiopia, which has taken power after the fall of the Dergue regime in 1991, has undertaken a series of economic reform programmes aimed at re-orienting the economy from command to market economy, rationalizing the role of the government and creating a legal and institutional environment to enhance private sector investment. The Govern-
ment's "Sustainable Development and Poverty Reduction Program (2002) (Ethiopia's version of the Poverty Reduction Strategy Paper), which is based on the earlier rural, industrial and development strategies, has more clearly articulated the objectives to revitalize the development of the country, emphasizing, effective rural financial intermediation. The more recent "Plan for
Accelerated and Sustainable Development to End Poverty" (PASDEP) (2005-2010), Ethiopia's current guiding strategic framework document, also emphasizes micro-enterprise and self-employment supportive intervention based on key principles such as: enabling people, communities and businesses and not crowding-out (or replace) personal responsibilities, and achieving the objectives through decentralization, private sector promotion and liberalizing.

Formal microfinance in Ethiopia started in 1994/5. The Licensing and Supervision of Microfinance Institution Proclamation No. 40/1996 encouraged the spread of microfinance institutions (MFIs) and authorized them to, among other things, legally accept deposits from the general public (hence diversifying sources of funds), draw and accept drafts, and manage funds
for the microfinance business. Perhaps, Ethiopia is one of the first countries that introduced regulated microfinance. Unlike other countries, MFIs in Ethiopia are allowed to mobilize public savings. Moreover, with a view to further stimulate economic activities and provide opportunities for the poor to escape poverty by making available more and appropriate financial services to the majority, the Government has been refining the regulatory framework for microfinance operations.

Currently, there are 28 MFIs operating in Ethiopia, providing microcredit service for about 2 million clients. Amhara Credit & Saving Institution (ACSI) is the largest. The operation of ACSI, the main rural financial intermediary in Amhara Region, was initiated in 1995 by the Organization for the Rehabilitation and Development in Amhara (ORDA), an indigenous NGO engaged in development activities in the Amhara region. ACSI had undertaken its pilot activities in 1996, and was licensed as a microfinance share company in April 1997. As of June 2008,
ACSI is operating in all Woredas (districts) of the region, and has covered 2700 Kebeles.Accordingly, poverty reduction has remained the declared core objective in the government's old and new Poverty Reduction Strategic Papers (PRSPs). In those papers, microfinance is indicated among the specific means that is given greater emphasis and is expected to play essential role for reducing poverty in the country. This research, therefore, seeks to analyze the impact of microfinance on living standards, empowerment and poverty reduction in Ethiopia, in order to check whether microfinance is a good strategy for poverty reduction or not, in case of ACSI.

1.2 Statement of the Problem

The prevailing operation of the formal or conventional financial institutions in many low-income countries such as Ethiopia is inefficient in providing sustainable credit facilities to the poor. Therefore, targeting credit to the poor is found to be one of the many instruments for poverty reduction. In Ethiopia, microfinance institutions have been established and operating with the ultimate goal of poverty reduction.

Although microfinance programs and institutions have become increasingly important safety nets of the poor, knowledge about the achievements of these strategies remains only partial and controversial. According to Bamlaku Alamirew (2006), several studies indicate that microfinance has positive impacts in reducing poverty (Holcombe, 1995; Hossain, 1988; Remenyi, 1991; Schuler, Hashemi and Riley, 1996; Hulme and Mosley, 1996; Pitt & Khandker, 2003 and Khandker, 2003). On the other hand, there are studies that indicate pessimistic kind of result on the impacts of microfinance program initiatives towards reducing poverty (Buckley, 1997; Montgomery, 1996; Rogaly, 1996; Wood and Shariff, 1997). More importantly, in the Amhara Region, where this study is to be conducted, studies are very little. Therefore, this study is designed to fill this gap.

1.3 Objectives of the study

As explained above, targeting credit and saving services to the poor is one of the many ways for poverty reduction. Based on this basic idea, MFIs including ACSI have been applied in Ethiopia with the ultimate goal of poverty reduction. The main objective of the paper, therefore, is to analyze the impact of microfinance on living standards, empowerment and poverty reduction in Ethiopia i.e to find out whether the delivery of microfinance services by ACSI has made a difference in socio-economic situation of its clients. Specifically the study is intended to:

1. To assess whether ACSI direct its services to the poor population and micro and small businesses and whether conditions and procedures for credit favour these target groups.
2. To assess whether the customers reached by these schemes improved their general performance in terms of growth, creation of employment and generation of income.
3. To assess the nature and change of income and wealth as a result of the delivery of financial

services.

4. To assess clients' perception on the services of the institution

1.4 Research Questions

On the light of the research objective; the research question is developed as follows: ***What is the impact of Microfinance on living standards, Empowerment and poverty alleviation of the poor people in Ethiopia, a case of ACSI?.*** Therefore, in this research the following questions were raised to be answered at the end of the study.

1. What impact does microfinance programmes have on the client welfare?
2. Can microfinance promote empowerment of the client?
3. Can microfinance programmes savings reduce vulnerability and risks of clients?
4. Under what circumstances can microfinance help the client out of poverty?

1.5 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 (Abebe Tiruneh 2006). This study is attempts 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 ACSI operations in Amhara region at household and enterprise level. On the other hand, policy makers will also benefit in the sense that, the findings provide informed suggestions on how policy can be improved. With improved and easy to implement policies, more MSEs and the community at large will be able to access and benefit from the services of MFIs.It also adds a body of knowledge in the area.

1.6. Scope and Limitations of the Paper

This study was limited to the household of Debratabor and Estie *who* were participating in the microfinance scheme of ACSI. Therefore it may not have a scientific justification to assure the reader that the final conclusion out of this paper could be representative and applicable to all households who are participating in microfinance programs throughout the country and even through out the Amhara Region. To manage the research within the given time and limited budget, a total of 150 samples were selected using systematic random sampling. Among these samples, 75 were selected from Debra tabor branch and 75 were selected from Estie branch. Thus, there are number of limitations in this study. Firstly, the respondents were limited (150 respondents or samples) in terms of size and composition. Secondly, the data collection was restricted only within two branches of ACSI which may fail to represent the actual scenario of the whole region.

1.7. Organization of the Paper

This research paper is organized in to five chapters. Chapter one presents the background of the study, objectives of the study, significance of the study and organization of the paper. Chapter two provides the literature review. Methodology of the study is presented in chapter three .The data presentation and analysis is presented in chapter four. Finally, chapter five discusses conclusion & recommendations made on the basis of the research findings.

CHAPTER TWO: REVIEW OF LITERATURE

2.1 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 (Abebe Tiruneh, 2006).

There is no clear consensus among development experts and policy makers on how to define measure and eradicate poverty. 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 voicelessness. 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.

2.2 .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. 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 money lenders. 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 .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 (Abebe Tiruneh).

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).

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 develops as an industry (Robison, 2001).

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 .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. 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. 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. 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. 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).

According to Abebe Tiruneh (2006), 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-eight 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. 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).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 (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.

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 sources 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).

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), 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, and 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.

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.

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 have 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 shocks, and social and political empowerments.

According to Abebe Tiruenh, 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 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. It was further revealed that poor infrastructure of the MFIs led to high transportation costs, which increased the transaction costs in credit procurement, and disbursement and this ultimately hindered the effectiveness of the credit programmes. This happened because most of borrowers lived in rural areas, far from credit offices.

From the above evidence the researcher found that there is a strong need to study the schemes existing in Ethiopia, Amhara region, and see to what extent their operations contribute to poverty reduction in the country. From this study, recommendations will be made to policy makers so as to find alternatives through which financial services could be offered to the low income earning population or rather restructure the existing schemes for poverty reduction

CHAPTER THREE: METHODOLOGY

3.1. Methods of Data collection and Sources of Data

There are mainly two kinds of research methods, quantitative method and qualitative method. These two methods differ in terms of the numeric (numbers) or non-numeric (words) data. Quantitative method is predominantly used as a synonym for any data collection technique (such as questionnaire) or data analysis procedure, such as: graphs or statistics that generates or uses numerical data. On the other hand, qualitative method is predominantly used as a synonym for any data collection technique (such as an interview) or data analysis procedure (such as categorizing data) that generates or uses non-numerical data. Therefore, the other difference between qualitative and quantitative data is that, the qualitative data refers to words, such as pictures and video-clips, rather than numerical results.

It is not easy to express the impact of microfinance on the general people of a country with the help of few sentences. On one hand, some impacts can be shown only in numerical figures like, savings and income, while on the other hand other impacts can be expressed only in descriptive ways, like, access to education, business experience etc. In the questionnaire, the researcher tried to combine the numerical questions as well as some non-numerical questions. Hence, this study was also focus on the numerical data. Thus, the result of the research depends on numerical and non-numerical analysis, using both quantitative and qualitative methods.

The study was conducted in Amhara Regional State in two branches of ACSI, Daberatabor branch and Estie branch. The study made use of both primary and secondary data sources. The data from primary sources were collected using open ended and closed ended questionnaires where as, data for secondary source were elicited from documents and literatures on the subject area. Further, interviewing and observation was applied to validate data obtained using the questionnaire survey.

3.2. Sample Design and Sampling technique

A case study design is used in the study. Case study design helps to examine the detail features
of the institution. The sample frame of the study is the entire people found in the list of Debratabor and Estie branches of ACSI .In order to select respondents of the two branches of the institution the researcher applied

systematic random sampling technique. Taking the lists and the profile (which includes the full address) of clients from the two branches, the researcher selected 75 respondents from the whole list of each branch by using systematic random sampling technique.

According to Tsegaye (2005), Sampling is the process of selecting units (e.g., people, organizations) from a population of interest so that by studying the sample we may fairly generalize our results back to the population from which they were chosen. The research was carried out in two branches of ACSI namely Debratabor and Estie in Amhara region. Respondents were selected in a largely random manner, but with regard to the individual's ability to provide the types of information sought through each research instrument. These branches were selected purposely because of the density of the credit clients in the area. In addition, the duration of the credit was considered an important ingredient to enable me to track the impact after a long period. This gives a better understanding if the clients have had their quality of life improved. This can be measured in several dimensions as economic variables like their businesses, registered increment in incomes, improved living conditions, keep their family well-fed and healthy, educate their children and also develop respect at home and in the community. 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 systematic random sampling. Among these samples, 75 were selected from Debra tabor branch and 75 were selected from Estie branch.

3.3 Methods of 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 of the clients before and after use of micro credit and hence it can be seen that, if there is any improvement in their living standard after using micro credit or not. Quantitative data collected through questionnaires were analyzed and interpreted through SPSS (Statistical Package for Social Science). In addition, other data, which are qualitative in nature, are also analyzed and interpreted by using statistical tools such as data tabulation, frequency distribution, percentage, graphs and charts. Once the data are organized and presented, it is then analyzed to form meaning about the research questions and draw appropriate recommendation. Those data collected through document review are analyzed and interpreted by comparing it with standard literature review to draw appropriate finding, conclusion and recommendation.

CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

In this chapter the presentation and analysis of results are undertaken based on the data collected from the clients of Debratabor and Estie branches of ACSI .The chapter provides the empirical findings gleaned from the collected data and it provides demographic information of the respondents and the statistical analysis of the information collected from them, followed by the interpretation and discussion about the findings.

4.1 Demographic Information of the Respondents

With regarding to the demographic characteristics of the respondents of ACSI, Table 1 shows that 66.7% of the respondents were female where as 33.3% were male. The lion shares of the respondents were women that testify to the fact that most of the beneficiaries of microfinance are female because the researcher has selected the respondents randomly without any bias towards the gender. There are good reasons to target women by ACSI, because gender discrimination is one of the major causes of poverty, slower economic growth, weaker governance and lower standards of living and women are poorer and more disadvantaged than men. However, women contribute decisively to the well being of their family comparatively more than men (Bamlaku Alamirew, 2006).

In terms of age, 65.4% of the respondents were in the age group of 30 to 40 years. 24% were in the age group of 18 to 30 years and the remaining 10.6% were 40 years and above. The respondents also classified in terms of their level of education since, it could affect the way in which they manage and live their daily lives and manage the household and business. From this survey, many of the respondents had at least basic primary education (1-5 grades), which represents 50% of the respondents, however 21.3% had secondary educational experiences(6-10 grades) and only 10.7% had more than 10 years of educational experiences(grade 10 and above). The rest, 18% had no educational background. With regard to their numbers of families, the analysis shows that 34% of the respondents had less than two members in their family, which indicates that respondents were either unmarried, or had no children, 56% had 2 to 5 members and rest of the 10% had more than five members. The researcher tried to find out how many family members each respondent have because a large family size usually has higher expenses than a smaller family.

Table: 1. Demographic characteristics of respondents

Variables	Measuring Group	Frequency	Percentage (%)
Gender	Male	50	33.3
	Female	100	66.7
	Total	**150**	**100**
Age (years)	18-30	36	24
	30 – 40	98	65.4
	>40	16	10.6
	Total	**150**	**100**
Educational Level (in years)	Not at all	27	18
	1 – 5	75	50
	6 – 10	32	21.3
	>10	16	10.7
	Total	**150**	**100**
No. of Family Members	<2	51	34
	2 – 5	84	56
	>5	15	10
	Total	150	100

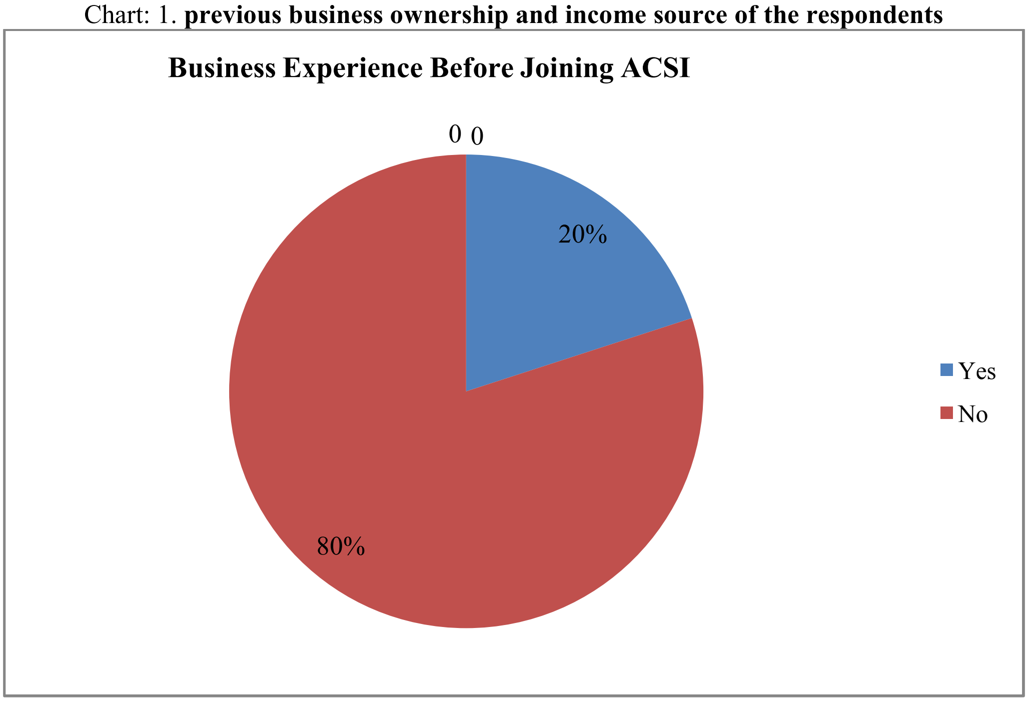
Source*:* Survey data (2004)

4.2 Previous business ownership and income source of the respondents

The respondents of the institution were asked if they had their own sources of income or any business activities that helped them to generate income and create employment opportunity before joining the credit program. As shown in chart 1, only 20% of the respondents of ACSI had their own business and income sources previously from which they generate income and creating Employment opportunity before joining the credit program and rest of 80% had no previous business experiences. This may be a good indicator that ACSI is mainly targeting to the poor segment of the society in its credit service provision. It indicates that MFIs are contributing a lot to start the new small-scale businesses as well as in the expansion of old businesses.

Therefore, we can see that more than 50% of the respondents were part of the large families, and at the same time higher proportion of the people did not have any business experience before joining ACSI. So indirectly, MFIs were able to reach and benefit more people and enable them to improve their living standards in general.

Chart: 1. **previous business ownership and income source of the respondents**



Source*:* Survey data (2004)

4.3 Source of Start up Capital of the Respondents

Table 2 and Figure 1, shows the source of start up capital (Source of initial capital**)** of the respondents. 80% of the total respondents have taken their loan from ACSI. The rest of the respondents have either borrowed money

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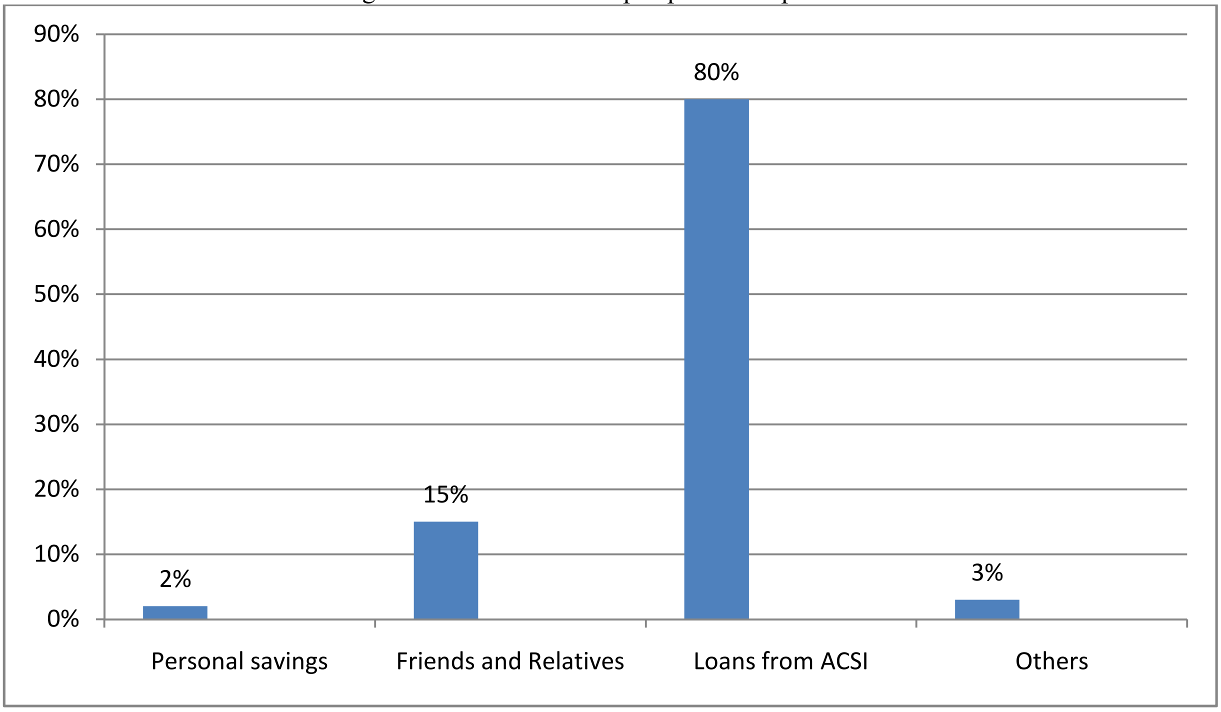
from friends and relatives or have started business from their personal savings. It implies that MFIs is the major source of initial capital and is playing a significant role in helping the poor people to start their own business.

Table: 2. source of start-up capital of respondents

Variables	Measuring Group	Frequency	Percentage (%)
Source of Start up capital	Personal Savings	3	2
	Friends or Relatives	22	15
	Loan from ACSI	120	80
	Other Sources	5	3
	Total	**150**	**100**

Source*:* Survey data (2004)

Figure: 1. source of start-up capital of respondents



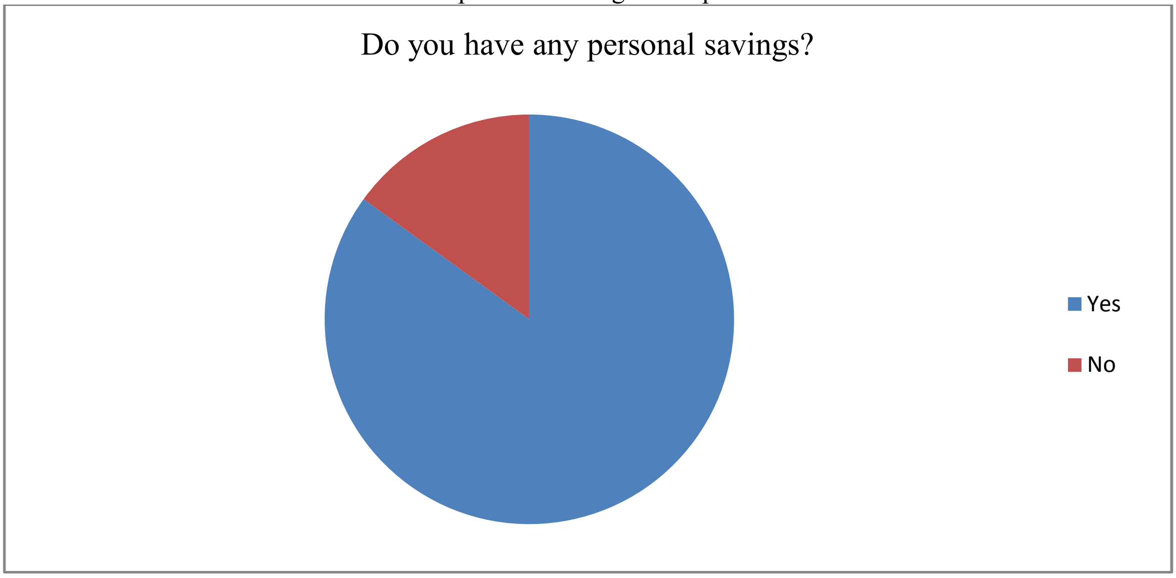
Source*:* Survey data (2004)

4.4 Personal Savings and savings in the last 12 months

The impact of the program has been manifested in education, health, nutrition, accommodation and in savings mobilization. One of the components of the program is a requirement to save on a regular basis. The clients were asked if they had personal savings excluding the forced loan guarantee. Chart 2 below reflects that the majority of the clients (85%) responded to have personal savings while 15% said they had no savings .In addition, with regard to savings, the clients were asked whether their savings in the last 12 months had increased, decreased, remained the same and the response is demonstrated in the chart below which shows 70% having increased savings while 20% said it decreased and 10% said it remained constant. The loans acquired by clients are mainly short term loan and to avoid accumulated interest, the clients are encouraged to make regular savings and this partly explains the increment because they work hard.

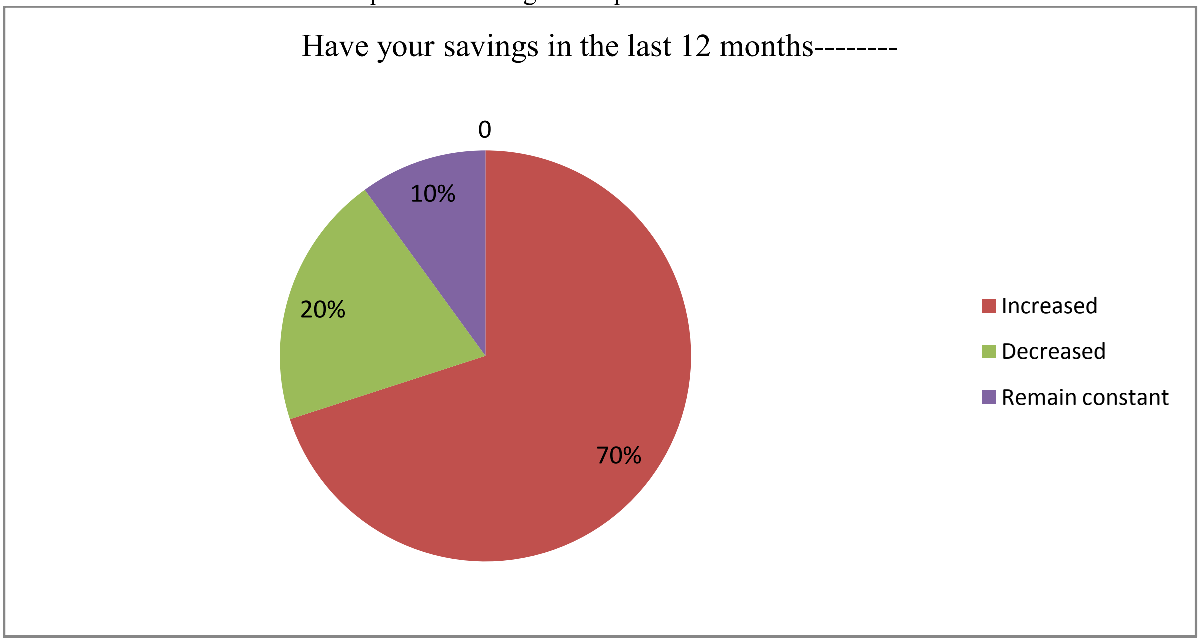
The main reason given as to why people save is to enable them in case of severe crisis and to provide protection against risks, used to acquire another microfinance cycle and also to expand the existing economic activities. However some clients prefer to save in physical assets after the obligatory loan guarantee savings.

Chart: 2. personal savings of respondents



Source*:* Survey data (2004)

Chart: 3. personal savings of respondents in the last 12 months



Source*:* Survey data (2004)

4.5 Improvements in clients · income, savings, employment Opportunities, housing conditions, and basic social services

The major objective of microcredit is to create income among poor households and thereby improve living standards, empowerment and alleviate poverty. The increase or decrease in the level of income may have an implication on the life standard of the individuals. An increase in income, for instance, can pave the opportunity to open business, employment, entrepreneurship, access to health services, education, and house ownership. Social services such as education ensure that people gained skills and knowledge, while economic infrastructure such as water, transport, and electricity – together with health care – ensure that they used their skills and knowledge productively. According to Zigiju Samuel (2008), there is now growing evidence that social capital can have significant impact on development processes and outcome, in helping build human capital and contributing to household welfare.

In this regard, ACSI contributed to the formation of social capital because it encourage, work with, and approach borrower groups and individuals through different Community based institutions. Critical to the issue of microfinance services is also its employment creation among the poor society where many can use their "labour

– commonly identified as the most important asset of the poor to generate income".

It has been noted that in many countries of the world, microfinance programs, provides access to small amount of start up capital for entrepreneurial projects which will then presumably help individual to create employment opportunities. Apart from serving people as shelter, a house is the most valuable asset people should have since when the house is improved, its value boosts and can be used for rental or enterprise purposes for generating income and thereby increases an individual and household's material wealth. In line with this, Zigiju Samuel found housing ownership as the most important productive asset of the poor that saves households against severe poverty. Table 3 clearly shows that there is a clear difference in the clients of the institution after joining the program in relation with, savings, employment Opportunities, housing conditions, and basic social services. As shown in Table 3, the income has increased for almost all of them and that led to improvement in the overall quality of living as indicated by improved access to education, health care, housing, employment opportunities, clothing, and nutritional foods.

Similarly, in terms of their ability to afford different expenses like clothing, nutritional foods, and basic social services; compared to before, they indicated that they have gained more ability to afford after joining the credit program. As table 3 shows that 88% of the respondents of ACSI indicated that their income has increased. Consequently, the majority of the respondents reported that their overall quality of life is improved. This clearly shows that the institution is successful in improving the living condition of the poor people and plays a great role in order to attain the millennium development goals in relation with poverty eradication.

Table: 3. improvement in economic and social factors of clients

Variables	Measuring Group	Frequency	Percentage (%)
Income has increased	Male	42	28
	Female	90	60
	Total	**132**	**88**
Savings have increased	Male	35	23.3
	Female	85	56.7
	Total	**120**	**80**
Access to education has improved	Male	36	24
	Female	92	61.3
	Total	**128**	**85.3**
Access to healthcare has improved	Male	28	18.7
	Female	89	59.3
	Total	**117**	**78**
Employment opportunities have improved	Male	42	28
	Female	92	61.3
	Total	**134**	**89.3**
Housing conditions have improved	Male	42	28
	Female	92	61.3
	Total	**134**	**89.3**
Ability to afford medical expenses (better after joining the credit program)	Male	38	25.3
	Female	85	56.7
	Total	**123**	**82**
Ability to afford school expenses (better after joining the credit program)	Male	35	23.3
	Female	96	64
	Total	**131**	**87.3**
Ability to buy clothing and varieties of foods (better after joining the credit program)	Male	40	26.7
	Female	82	54.7
	Total	**122**	**81.4**

Source*:* Survey data (2004)

4.6 Empowerment of the respondents

The clients were asked whether participation in microfinance programmes has empowered them or not. The majority of the clients (90%) who answered to this question felt that their position in the family had been strengthened, had attained a real change in their lives and self–esteem when they compare themselves to that period before they joined microfinance. Many felt that they can look after their children and educate them, afford a nutritious diet to the household and are no longer dependents on others. Some clients said that with the income they get, have managed to buy a plot of land and build a house while others said that their voices are heard in the household, their contribution in terms of income, their involvement in the decision making process has increased.

On a business level, several clients have managed to set up their businesses and run them. As a consequence of this their leadership and business skills have been enhanced.

Generally, access to microfinance resources tends to improve client's bargaining position within and outside the household. As table 4 clearly shows that there is a difference in the clients of the institution after joining the program in relation with empowerment.

Table: 4. measuring empowerment of the clients

Has your role in terms of income contribution and decision making process increased after joining the credit program?	Percentages %
Yes	90%
No	2%
Others (not answered)	8%
Total	100

Source*:* Survey data (2004)

4.7 Clients perception on ACSI Services

A separate questionnaire was designed to capture the perception of clients on the credit program. Table 5 shows whether clients are satisfied with financial services of ACSI or not. About 87.3% of the clients reported that they received enough amount of loan to meet their demand, according to their request. About 90 % of clients received the loan as soon as they apply for it. Concerning training about loan utilization, almost all clients (98 %) received training or orientation before they received the loan. However, 13% of the clients complained about the amount of loan provided by ACSI that means the loan were not enough to fulfill their purpose. In general, most of the clients are satisfied with financial service delivery of ACSI.

Table: 5. Clients perception on ACSI Services

Variables	Measuring Group	Frequency	Percentage (%)
Received the amount of money requested	Yes	131	87.3
	No	19	12.7
	Total	**150**	**100**
Received enough amount of money for the purpose	Yes	130	87
	No	20	13
	Total	**150**	**100**
Received the loan in time as soon as requested	Yes	135	90
	No	15	10
	Total	**150**	**100**

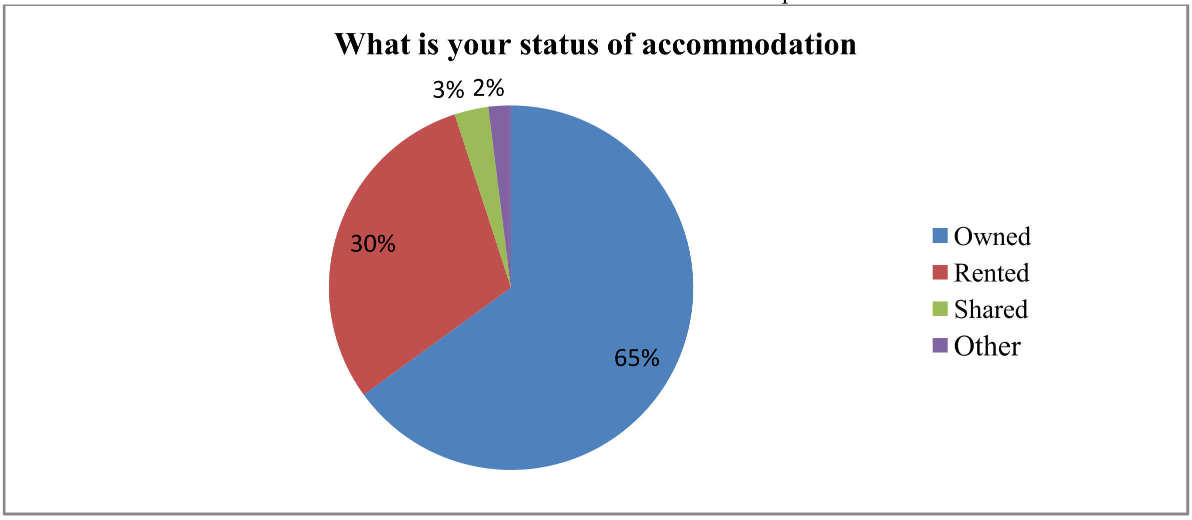
Source*:* Survey data (2004)

4.8 Children *education and* accommodation status of the clients

A separate question was asked to the respondents regarding number of children that don't go to school and the number is 8 children that don't go to school and the reason that was given was not lack of school fees but the children simply refused to school probably they have no motivation. The survey shows that in three households there is six children (two children per head) who do not go to school and in another two households, there are two children (one child per head) which do not go to school. In general, a question was asked whether the clients are able to educate their children or not after the program and all the clients answered that they had the capability to send their children to school because of their facilitation by ACSI and all the clients were asked to comment their views whether ASCI has helped them regarding the over all lives of them and their family, all of them were full of praises of the role of ACSI in their lives and their answer was only Yes, this implies that ACSI enables them to alleviate poverty in many angles.

Concerning the accommodation status of the respondents, a question was asked to the clients and the response was positive partly, 65% of the clients interviewed own their houses as indicated in chart 4 and they have electricity and water connection in their houses. While 30 % rent their accommodations, 3% are sharing and the rest 2% never revealed their accommodation status.

Chart: 4. accommodation status of the respondents



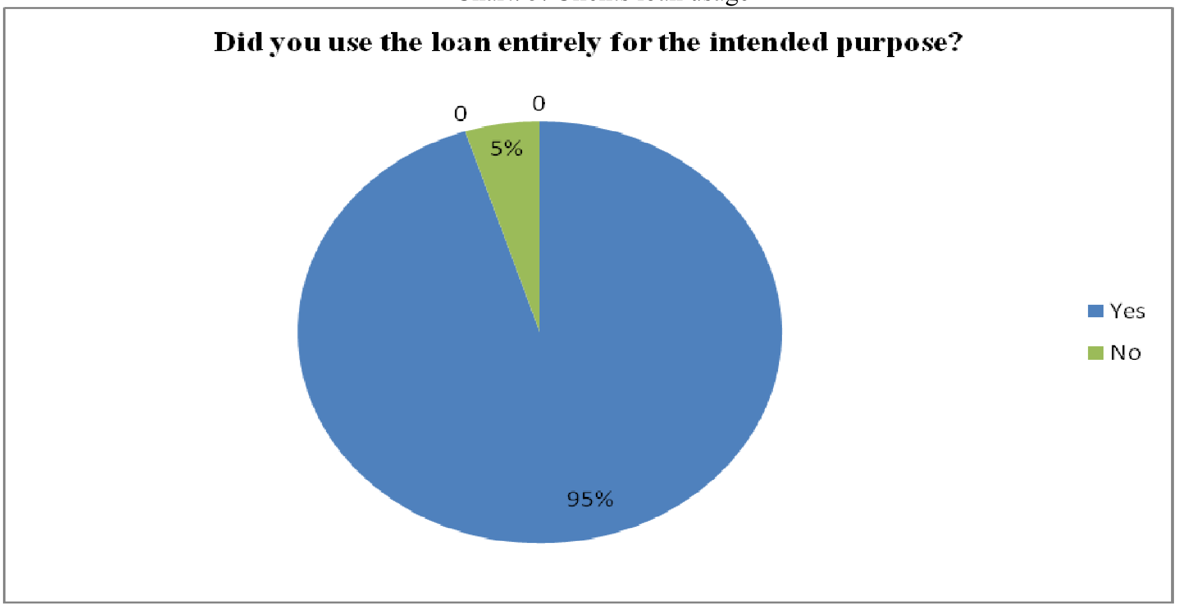
Source: Survey data (2004)

4.9 Access to credit other than ACSI and Loan usage of the respondents

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 Chart 4 majority of the clients, 95% reported that they used the loan for the intended purposes. Mostly the loan was invested in income generating activities. From the survey most of it was invested in small business activities followed by agricultural activities. Relatively small portion of the loan is used for services and other activities, Regarding access to credit before the program, figure 2 reveals that almost all, more than 96%, respondents have no access to finance other than ACSI, that means other banks . Insignificant numbers of respondents (4%) have financial access other than ACSI. This implies that microfinance institutions are the main source of finance to the poor people in order to carry out their activities to generate income in different activities.

Chart: 5. Clients loan usage



Source: Survey data (2004)

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Figure: 2. access to credit other than ACSI

Source*:* Survey data (2004)

4.10 Interest rate, Loan repayment period and procedure of obtaining loans

Table 6 displays information about procedure of loan taking, operational assistance, loan period and reasonability of interest rate of ACSI. Most of the clients reported that the interest rate on lending is moderate (67.3%).However, some of the respondents complained that the lending interest rate of ACSI is high as compared to the objectives of the institution. Regarding the loan period about 75 % of the clients have accepted the loan period as satisfactory. On the other hand, about 25 % of the respondents reported that the loan period is too short. Concerning the procedure of obtaining loans from MFIs is easier or not than conventional banking, majority of the clients (93.3%) reported that the loan taking procedures from MFIs is easier than conventional banking.

Table: 6. interest rate, procedures and loan repayment period

Variables	Measuring Group	Frequency	Percentage (%)
Interest rate of Micro- Credit is reasonable	Male	27	18
	Female	74	49.3
	Total	**101**	**67.3**
Procedure of loan taking from MFI, is easier than formal banking	Male	47	31.3
	Female	93	62
	Total	**150**	**93.9**
Operational assistance from ACSI is help full	Male	50	33.3
	Female	100	66.7
	Total	**150**	**100**
Loan Repayment period is appropriate	Male	30	20
	Female	83	55
	Total	**113**	**75**

Source*:* Survey data (2004)

CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Poverty has remained to be a major challenge to developing countries. It is a problem for all the countries irrespective of their level of development and can be observed in many forms. It has both income and non – income dimensions. It may be a lack of income or resources, a lack of coping capacity, a lack of basic human capabilities, a lack of institutional defenses or in extreme cases a lack of all of these. In a wider sense, it may be a combination of economic, social and political deprivations. To address this problem different strategies have been implemented by developing countries depending on their existing situations. Recently microfinance has been given due weight as one of the means to fight against poverty. Microfinance Programs extend small loans to poor people aiming at enhancing self –employment projects that generate income to improve the living conditions of the poor and alleviate poverty.

Ethiopia as part of the developing countries has adopted microfinance programs where many MFIs are delivering the credit services to the poor in order to mitigate the effects of poverty among the poor sections of the society. Thus, the aim of this thesis is to explore the impact of microfinance intervention on living standards, empowerment and the circumstances under which microfinance can help the poor out of their poverty situation in Amhara region by taking ACSI as a case. The thesis was emphasize and has been more focused on the impact of the intervention from different angles like improvement of living standards, empowerment and reduction of poverty.

The first question asked in this study was: what impact does microfinance programmes have on the household welfare? According to the research findings, it is apparent that the majority of the clients had registered increased incomes. It is these incomes that can help them to solve some problems of poverty like isolation, physical weaknesses and they can afford a good diet, can deal with vulnerability as they can save and now able to deal with crises, has the capacity to send their children to school and to pay for their health which is critical for their continued well-being and as a consequence break the poverty trap.

The second question raised in this study was: Can microfinance programme savings reduce vulnerability and risks of the clients? The findings reported that clients had increased incomes which enable them to save and to buy property. The savings enables clients to deal with severe crises and to cope up with the shocks and reduce vulnerability and bought property can be sold also to deal with the crises; savings can be used to acquire another microfinance cycle and also to start and expand the existing economic activities of the clients.

The above result leads to the third question of the paper: Can microfinance promote empowerment of the clients? The majority of the clients felt that their position in the family had been strengthened, set up businesses and run them, could occupy a political office at local levels and had attained a real change in their lives and self–esteem when they compare themselves to that period before the program. Many felt that they can look after their children, educate them, afford a nutritious diet to the household and are no longer dependents on others.

Finally, the fourth question of the study was: under what conditions can microfinance help the poor out of poverty? Microfinance hinges on a number of other conditions if it is to play a meaningful role. Microfinance is just only one factor and requires the support of other factors. These include entrepreneurial skills in business management, elementary book-keeping, and efficient functioning of markets since they play an important role in the economy and development in different angles. There is need for access to markets for their local products and other infrastructure like roads to transport the merchandise and institutions for example to deal with legal matters to promote sustainable development and a successful microfinance. The network of financial institutions in an economy should be taken in to account, which mobilizes and allocates resources, co ordinate savings and investment which are key for long term growth and transformation.

To sum up, MFIs operation in Ethiopia has brought about positive changes in the standard of living of people who access their services. Although some of the clients have not benefited, most ACSI clients have benefited positively. Despite the achievements of ACSI clients, some of them complained that, the interest rates charged by ACSI were very high in relation with the objectives of the institution. The findings reveal that the process of application for loans starts with small amount and after repayment the client can apply for next higher amount.

This process was observed to be a limiting factor for those customers who needed a large amount right from the beginning. This is true because it takes an unnecessarily long time for those seeking a large loan to obtain enough funds to meet their needs. In addition to the time taken to receive large loans, the clients also raised concerns about the time frame from the receipt of the loan to the time of starting repayment, which is just one month after the disbursement of funds in most cases.

5.2 Recommendations

The following recommendations are put forward in order to improve operations of MFIs based on the information collected from the clients of ACSI.

1. The institution should consider the possibility of increasing the grace period and reducing the frequency of repayment so as to provide for clients with long term loans turn to businesses.
2. The poor state of the infrastructure, especially rural roads, was pointed out as the main reason why MFIs fail to operate in rural areas. In addition to improvement of infrastructure the Government in collaboration with MFIs, should introduce trade exhibitions to their micro and small businesses in order to expand the MSEs' market coverage.
3. The institutions should restructure their training contents to include improving their clients' business skills. They should organize regular business training for their clients and qualified training institutions should conduct this.

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Questionnaire to be filled by clients of ACSI

Dear Respondents,

This is a questionnaire that intended to assess the role of microfinance institutions on living standards, empowerment and Poverty alleviation, the case of Amhara Credit & Saving institution in Dabrataor and Estie Branches), Amhara National Regional State, Ethiopia .The information you provide is totally sought for academic purposes and shall be kept strictly confidential. Please feel free to share your comments and experiences regarding the credit service you are receiving from Amhara Credit and Savings Institution (ACSI). Thank you in advance for your kind cooperation.

Put a (Tick) where appropriate

1. Sex ________________
   - □ Male □ Female
2. How old are you? ____________________________
   - □ 18- 30 years □ 30- 40years
   - □ > 40 years
3. Marital status
   - □ Single/never married □ Married □ Widowed
   - □ Divorced/separated □ other (specify) ---------------------
4. Occupation:
   - □ Farmer

□ Petty trade
□ Handicrafts
□ Civil servant
□ Other.................

5. Family size: □ less than 2 □ 2-5 member □ More than 5
6. How did you know about microfinance?
□ Radio □ TV □ Newspaper □ Other ------------------
7. Do you have personal savings? □ Yes □ No
8. Are you the head of the household? □ Yes □ No
9. Did you have any business and your own income source before joining this credit program?
□Ye □ No
10. How many persons in your household are actively generating some income currently?
□ Male---------- □ Female ------------ □ Total ---------------- □ Nobody
11. How many are dependents? □Male------------- □ Female----------- □ Total-------------
12. What is your status of accommodation? □ Owned house □ Rented □ Sharing □ other ---------
13. Have your savings in the last 12 months? □ Increased □ Decreased □ Remained the same
14. Have your income in the last 12 months? □ Increased □ Decreased □ Remained the same
15. How many of your children are of school age but do not go to school?
□ Male------------- □ Female -------------- □ Total--------------- .Why are they not going to school?
----
16. Has your role in terms of income contribution in the household after joining microfinance program increased? □ Yes □ No
17. Does your role in decision making and your position in the family increased after joining microfinance? □ Yes □ No
18. In your view has joining microfinance improve your quality of life? □ Yes □ No.
If yes, in what way?

____

19. Have the credits introduced/improved your business activities? □ Yes □ No
20. Have the credits created more employment opportunities? □ Yes □ No
21. Have the credits stimulated your savings? □ Yes □ No
22. Microfinance institutions have been subjected to severe criticism that have not addressed the concerns of the poorest of the poor? What is your view?

____

____

____

23. **After joining the loan/credit program**:

I. **The income has increased**
□ strongly disagree □ disagree □ Agree □ strongly agree
Why, explain ______________________________________

II. **The saving has increased**
□ Strongly disagree □ disagree □ Agree □ strongly agree
Why, explain ______________________________________

III. **Better access to education**
□ Strongly disagree □ disagree □ Agree □ strongly agree
Why, explain ______________________________________

IV. **Better access to healthcare**
□ Strongly disagree □ disagree □ Agree □ strongly agree
Why, explain ______________________________________

V. **Better housing conditions**
□ Strongly disagree □ disagree □ Agree □ strongly agree
If you agree, explain what kind of improvements and changes you have done or achieved in your housing and related facilities _______

VI. **Employment opportunities and living standards in general have increased**
□ Strongly disagree □ disagree □ Agree □ strongly agree

If you agree, explain ____

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

□ Better before joining the credit program
□ Better after joining the credit program
why____

25. How do you explain the differences (in terms of before and after joining the credit/loan program) in affording to pay the schooling expenses of your children?

□ Better before joining the credit program
□ Better after joining the credit program
why____

26. How do you explain your ability to buy clothing for self and for your children in General after the program?

□ Better before joining the credit program
□ Better after joining the credit program
why____

27. How do you explain the differences (in terms of before and after joining the credit/loan program) in affording to pay for service expenses of electricity and water?

□ Better before joining the credit program
□ Better after joining the credit program
why____

28. How do you explain the differences (in terms of before and after joining the credit/loan program) in affording to buy/ eat foods like meat, fish, butter…etc?

□ Better before joining the credit program
□ Better after joining the credit program
Why ____

29. Did you get the amount you requested for your business?

□ Yes □ No

30. Was the amount of your loan size enough for the intended purpose? □ Yes □ No

31. Have you been trained about loan utilization by ACSI? □ Yes □ No

32. Was the repayment period appropriate for your point of view? □ Yes □ No

If no, specify the reason and recommend an appropriate period:

----

33. Was the loan issued timely? □ Yes □ No

34. Have you had any training or consultancies from ACSI for your business activities?

□ Yes □ No . If yes, what type of training or advice did you get? -------------------------------

35. Do you believe that supervision whether it is from ACSI staff or kebele administration has advantage on loan utilization and repayment? □ Yes □ No

36. Overall, has your live been better after loan than before the program participation?

□ Yes □ No

37. Are you happy (satisfied) with the services rendered by ACSI? □ Yes □ No,

Why? ---

38. Where did you get credit before becoming a member of ACSI?

□ Friends and relatives
□ Local money lenders
□ Banks
□ Others.........

39. Did you have access to bank loans before the programme? □ Yes □ No

Why--

40. For how long have you been a member of ACSI?

□ 0-6 months
□ 6-12 months
□ above one year

41. For what purpose have you taken the loan?

□ Consumption
□ fertilizer and seeds
□ animal fattening
□ Petty trade
□ Others (specify)................................

42 . Did you use the loan entirely for the intended purpose (as stated on the loan application)?
□ Yes □ No. If no, how did you spend the remaining amount?..

43. Did you have any business and your own income source before joining this credit program?
□Yes □ No

44. What is the source of your initial capital?
□ Personal Savings
□ Friends and relatives
□ Loan from ACSI
□ Others----------------------

45. The rate of interest of microcredit provided by this credit institution is reasonable
□ Strongly disagree □ disagree □ agree □ strongly agree

46. The procedure of obtaining loans from ACSI is easier than conventional banking
□ Strongly disagree □ disagree □ agree □ strongly agree

47. Operational assistance received from ACSI was helpful to run the business and to reduce poverty in general
□ Strongly disagree □ disagree □ agree □ strongly agree

48. What is your overall opinion about the program?

Thank you very much for your cooperation