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Comparative Analysis on the Economic Impacts of Client's and Member Based Microfinance Institutions in Ethiopia

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Abstract
Several evidences in the developing world argued that access to finance can help to substantially reduce poverty. Contrarily, proponents criticized that MC does not reach the poorest of the poor or that the poorest are deliberately excluded from the MC programs. Despite the apparent success and popularity of microfinance, no clear evidence yet exists that microfinance programs have positive impacts on the life of the poor. The main aim of this study is therefore, to assess the relative economic contributions made through the CBMFIs and SACCOs. The study applied DID approaches comprising of the FE and RE models and the t test statistics taken part from analysis of varying cross-sectional and panel data collected through Questionnaires and structured interview. To fulfill the stated research objectives, the researcher considered the income levels of individuals, of households and of businesses, as well as savings levels, expenditure, and asset accumulation as outcome indicators.MC services were found to have positive and significant impact on the living standard of the poor and alleviating poverty in their household. Apparently, the SD estimates indicate that both MC modalities have brought substantial impact on the average monthly households income and expenditure, savings and assets level, business profits and working capital. Accordingly, each birr MC grant could generate 92.24 and 54.17 birr extra household assets for the client and member beneficiaries respectively. The log specifications reveal 3.3 and 1.3 percent growth respectively. The household monthly income and expenditure grows on average by 116 and 70 birr respectively. The result was slightly lower for the SACCO members. For instance, the average monthly household assets, income and expenditure growth contributed by the CBMFI reveal 40 birr, 120 birr and 48 birr higher than the SACCOs contributions respectively. In general, the DID estimates reveal a general tendency for higher economic contributions made through the CBMFIs. They have shown better outreach performance and were able to realize far-reaching benefits for its clients.
Keywords: Household income, the daily per capital expenditure, Microcredit, Outreach and Savings

1.1. Introduction

The level of poverty in Ethiopia is both deep and widespread. According to the HDI report, more than 80 percent of the populations are living below the poverty line i.e. $1 a day (UNDP 2005), though the $1 poverty threshold is much larger than the amount of expenditure needed to purchase the absolute minimum basket in Ethiopia. Recent national estimates suggest that about 31million people live below the local poverty line, which is equivalent to US 45 cents or 3 Birr a day per person (MoFED, 2005).Although the level of poverty is higher in rural parts of the country; it also remains a serious problem in urban areas.

Several studies noted different causes for poverty in a country. Some argued that the cause of poverty in developing economies like Ethiopia among other things is that the poor does not have access to credit for the purpose of working capital as well as investment for its small business (Jean-Luc 2006). Since then, the formal establishment of MCIs for poverty reduction has gone more than a decade; yet the provision of informal financial services existed long before. Until recently, the role of MFIs has become widely conclusive not only for the Ethiopia's economy but also for the rest of the developing world. It appears that Microfinance services directly contribute to the betterment of standard of living and poverty alleviation by encouraging people, especially women to develop their own entrepreneurial ability, diversify and increase income sources and become more resilient to external shocks.

Bearing the aforementioned critical roles in to consideration, Microfinance sector have been rapidly growing in Ethiopia. In its effort to fight against urban and rural poverty, the government of Ethiopia has well recognized microcredit services as one of the major poverty reduction strategies and set a legal framework for establishment and operation of MCI to provide financial services to micro and small enterprises and poor rural and urban households (NBE 2005).

The interventions through the delivery of Microcredit[1] service have been considered as one of the policy instruments by the current government and NGOs to enable poor increase output and productivity, induce

[1] 'Microfinance' can be interchangeably used as 'Microcredit' in this study paper for the reason that microfinance services and products are far less developed than the provision of microcredit in the study area.

technology adoption, improve input supply, increase income, and alleviate poverty. The establishment of sustainable MCIs that reach a large number of poor who are not served by the conventional financial institutions has been the component of the new development strategy of the country. Financial services provided by the government banks and NGOs were not effective enough to bring impact on the life of the poor. The failure of the formal banks to provide banking facilities, on the one hand, and unsustainability of the NGO's credit scheme on the other hand, led the government to issue out a legal framework for the establishment of and operation of MCIs. Though plenty scholars and researchers widely proclaimed that microcredit enhances pro poor growth and poverty reduction. The extent to which microfinance products and services directly impacts the poor (poverty alleviation, women empowerment, and eradication of unemployment) and the means through which this impact occurs have not yet been adequately researched. Jamal, (2008) reported that several theoretical presumptions and slanted justifications are made without adequate empirical data and precise evidence. Besides, Hermes and Lensilk, (2007) reported that most studies on the outreach and in-depth of microfinance services suffer from being subjective and case study driven. Hence, this study attempts to throw its own contribution towards filling the fore stated gap through thoughtful and thorough empirically investigation on the comparative economic analysis of the two alternative forms of MFIs.

1.2. Problem Justification

Microfinance 1 is the provision of wide ranging financial products and services including loans, deposits, payment services, transfers payment and insurance. They are ultimately meant for extending markets, reducing poverty, empowering the poor and fostering social change (ADB, 2008). Microfinance institutions are classical instruments to serve the poorest of the poor in the developing countries like Ethiopia. They are considered as the fundamental weapons for poverty reduction and sustainable economic growth (Karlan & Zinman, 2009). Their ultimate goal is to expand the provision of credit to the poor who do not have access to credit and promote the growth of small scale enterprises so as to improve the wellbeing of the poor by empowering to be self-enterprise owner. They provide wider range of financial and non-financial services including savings, borrowings, deposit, and training on how to manage finance, record business transactions and deal with health provision. Now a day the latter services have been widely expanded and become very fundamental component of the microfinance sector.

Recently, there are numerous counter arguments and evidences produced on the impact of microfinance institutions. According to the MFI advocators (Littlefield et al. 2003; Dun ford 2006 and others) the ultimate aim of microfinance institutions is to fight against poverty and ensure long lasting increase in income of the poor by means of getting own income generating activities and business investments.

Micro credit enhances livelihoods diversification and accumulation of assets out of the profits earned through small scale investments, which are the fundamental guarantee against the vulnerable conditions of the poor and contribute to a better education, health and housing of the borrower (Hermes & Lensink, 2007). Besides, proponents also argue that microfinance is a tool for empowering women by means of addressing their dual folds social and economic problems. According to Pitt and Hacker (1998), women constitute very crucial role in reducing poverty with in households as they invest substantial part of their income for health and education of their children. In this connection, it is highly stressed that MFIs are key for the development of microenterprise operated by the poor as they allow them to become producer of marketable goods and earn a compensating profit out.

MFI advocators have proclaimed that microcredit is positively contributing to poverty reduction in Ethiopia. Despite the many positive findings that are reported in some feasibility and impact studies, many studies also reported the impact of MC programs being insignificant. Some even failed to find out the direct link between MC and poverty reduction. They proclaimed that the services are not reaching the core poor2 (Scully, 2004) as they are believed to be too risky (Hulme and Mosley, 1996), or the poorest are implicitly excluded from microfinance scheme (Simanowit, 2002), often marginalized by other group members because they are seen as a bad credit risk (Hulme and Mosley, 1996), the procedures and formalities required to grant the loan, for instance, saving requirement, stimulate exclusion of the core poor (Mosley, 2001) and hence the core poor value the loans to be too risky (Ciravgna, 2005) and vanish out.

According to Munir (2012), one of the main reason is that MFIs charge exorbitant interest rates thereby gain strong momentum to grow quickly and attract large international donors and hence, the loan is granted irrespective of the due socio economic return and costs a lot to the poor. At the outset, several evidences

[1]There are several definitions of microfinance. The one adopted for the purpose of this study is the CGAP definition gives as follows: 'Microfinance is the supply of loans, savings, and other basic financial services to the poor, those who do not have access in to the formal banking service.

[2]According to Hermes & Lensink, (2007), the core poor refer to 'the poorest of the poor'. According to the contemporary economic thought, it might also refer as 'pro poor'.

have shown that the extent to which microfinance services reaches the core poor in the two differing modalities substantially vary. However, there is no detailed and systematic study to explore the impact of alternative forms of microfinance services in Ethiopia. Thus, the study intends to achieve the following objectives.

1.3. Objectives

1.3.1. General Objectives

The overall aim of this study is to thoroughly investigate the economic impacts of the client's and member based microfinance institutions.

1.3.2. Specific Objectives

1. To estimate the relative economic outcomes achieved through the clients and member based microfinance services to generate household income, accumulate assets, and meet the basic needs for its beneficiaries.
2. To assess the role of micro financing to empower the poor by means of expanding investment opportunities and maximizing business outcomes.
3. To analyze the overall effectiveness of micro-financing interims of outreach efficiency, organizational structure, governance, and institutional pitfalls.

1.4. Research Questions

- To what extent does microfinance contribute to generate income, accumulate assets, and thereby enable its beneficiaries to meet their basic needs?
- Does microfinance service would empower the poor by means of expanding investment opportunities and maximizing the business outcomes?
- What looks like the outreach efficiency, structural, governance, and institutional characteristics of the MFIs?

2. Review of Relevant Literatures

2.1. What is Microfinance?

Microfinance is a term used to describe financial services for those without access to traditional formal banking services. It incorporates the provision of loans, often at interest rates of 25% or more, to individuals, groups and small businesses – i.e. micro-credit. In other words, it is the process of lending small amount of money without collateral to help poor people to become entrepreneurs (Gebrehiwot2001 & Bamlaku 2004). In addition to this, it provides small scale financial services to the rural and urban poor people for self-employment and small business (Shete 1999). More recently, it has also been extended to include the provision of savings accounts, micro-savings as well as insurance and money transfer services.

Microcredit has evolved over the years and does not only provide credit to the poor, but also now spans a myriad of other services including savings, insurance, remittances and non-financial services such as financial literacy training and skills development programs; the now a day's microcredit is referred to as microfinance (Armendáriz and Morduch 2005).

2.2. Approaches to Microcredit Lending

There are two major approaches on MC lending: the financial system approach and the poverty lending approach (Gulli 1998).

2.2.1. The Financial System Approach

The financial system approach emphasizes large scale outreach to the borrowers– both borrowers who can repay microloans from household and enterprise income streams, and to savers. It focuses on institutional self-sufficiency and financial sustainability as a pre-condition for greater outreach and implies transition to for-profit mode. Proponents of this school argue that there is no justification for subsidies as future outreach critically hinges upon achieving financial sustainability of the MCIs (Robinson, 2001). Accordingly, the overall goals of MC are to provide sustainable financial services to low income people. But it does not necessarily mean to target the poorest. Furthermore, MC should proliferate in the context of competition because competition will insure high- quality and low-cost services. Thus, for them, the impact evaluation of MCIs should focus on financial indicators and efficiency.

They also state that NGOs do not have an important role in MC. This is because NGOs may deliver subsidized credits and may undermine the development of competitive financial system. They emphasize that MC shouldn't be integrated with other development services because specialization is necessary to reach financial sustainability and large scale outreach. In addition, luck of institutional capacity is perceived as a more binding constraint on the outreach of MC than availability of funds.

2.2.2. The Poverty Lending Approach

Under this approach donor-and government-funded credit is provided poor borrowers typically at below market interest rates. The goal is to reach the poor, especially the extremely poor – the poorest of the poor with credit to help overcome poverty and gain empowerment (Ibid). It believes that this commitment will be affected if stress is given to profit motive. The proponents of this approach claim that the goal of MC is improving the livelihoods and empowerment of the poor. Because of this, subsidies for institutional innovation and expansion are justified. For them, assessing the impact of MCIs should be their effect of the livelihoods and income generating activities of the poor.

2.3. Microcredit Modalities

2.3.1. Minimalist vs. integrated approach

MCIs operating on the minimalist model of poverty alleviation are concerned with setting up viable, financially sustainable credit delivery mechanisms. Herein the delivery of MC enables the program to meet the operational costs of the intervention. Client participation tends to take the form of mobilization of client skills and resources to reduce lenders' transaction and information costs (Wood and Sharif 1997). This approach emphasizes, often exclusively, on credit access, which it sees as the 'missing piece' for poverty alleviation. It assumes that credit access can unlock new economic activity and lead to income growth and employment, resulting in empowerment (Wright, 1999).

In contrast to the minimalist approach, the integrated approach, referred to as the 'credit-plus approach' (Johnson and Roglay, 1997) is grounded within the empowerment framework and attempts to deal with the structural causes of poverty through MC delivery. It is a comprehensive approach aimed at providing a long-term integrated support package, in which loans are combined with social mobilization, participation, training and education, so as to maximize the income, opportunities and empowerment impacts (McKee, 1989). In other words, it incorporates financial and social development issues under its mandate.

2.3.2. Individual Vs. Group Credit Model

Most individual MCIs provide financial services only to entrepreneurs who are able to pledge collateral. Collateral - covering as a general both the loan amount and the interest payment signals the borrower's willingness to fully repay the loan. Therefore, it is seen as the main mechanism tackling all typical problems of a loan contract: adverse selection, moral hazard, and repayment enforcement. Borrowers with satisfactory repayment records may receive access to further loans of increasing volume. This gives sufficient incentives to all entrepreneurs who expect positive utility out of future investments (financed by future loans) to repay their current loan as scheduled.

One of the most serious weaknesses of the individual micro-lending contract is that in a high competitive environment the incentives created by progressive lending perspectives receive a severe limitation. As shown in Armendariz and Morduch (2000), "the greater the likelihood of refinancing by second lender, the weaker will be the incentive to repay the first lender".

Group lending model works in such a way that instead of lending directly to individual borrowers, the lenders lend to groups of borrowers, who are jointly liable for a single loan. It minimizes administrative and transaction costs for lenders by replacing credit checks and collateral processing with self-selection of groups by borrowers. Borrowers, who were jointly liable for the loans of their group, had a vested interest in choosing trustworthy partners.

The theoretical analysis of the group lending mechanism shows that the access to further loans as well as the access to higher loans, which is made conditional on the repayment of all borrowers in the group, creates an incentive for peer monitoring, peer support, peer pressure, and discourage default among the borrowers (Hulme and Mosley, 1996).As a result, the probability of moral hazard behavior is sufficiently reduced because a considerable part of the risk is transferred from the lender to the borrowing group. With joint liability, if any borrower fails to repay (or strategic default) his share of the loan, the whole credit group is considered as being in default and all peers lose access to subsequent loans (Critics, 1999). Therefore, the group is motivated either to repay for the delinquent partner, or by exerting social pressure to make him reconsider his repayment decision. As a consequence of these incentives, lenders are able to achieve with high probability of the repayment of the loans.

The main problem of the joint-liability mechanism is that, at the worst, one defaulting member may cause a domino effect when the fellow group members are not able (or willing) to cover his/her installments. These outcomes are disadvantageous for the MCIs (in particular in comparison to an individual lending scheme) because all other group members - except the defaulting borrower - could have repaid their loans. Moreover, according to Ledgerwood, weekly attendance at group meeting may also be required. More affluent clients usually see this as an inconvenience, which makes the credit attractive only to poorer clients. Client transaction costs are quite high as more responsibility is shifted from the MCI to the clients themselves (Ledgerwood, 1999).

3. Data and Methodological Approaches

3.1. Study Design

The study was conducted on the basis of qualitative and quantitative data. It involves both exploratory and quantitative research approaches. The exploratory research approach is basically meant to deal with the individual beneficiary cases with varying socio-economic characteristics and circumstantial livelihoods condition. The quantitative research approach, along with the cross-sectional survey design, was sought to be the most useful empirical approaches to generate an in-depth quantitative data which would enable to draw thorough impact analysis. A mix up of both methodological approaches was employed to successfully generate full-fledged evidence sufficient enough to produce more conclusive results.

3.2. Unit of Analysis and Sampling Design

The study was conducted in Sidama Zone, (Dalle (Yirgalem) District and Hawassa town), the technology village areas of Hawassa University. The organizations, in which the study is wholly concerned comprises of the clients and member based microfinance institutions through which their relative economic impacts to its beneficiaries were assessed. Thus, the central unit of analysis for this study encompasses the client beneficiaries and member users of the respective microfinance institutions.

In choosing the sample unit, a multi stage random sampling technique was applied. Initially, three different geographical locations from each of the study town (Namely Menaharia, Haike-dar and Addis Ketema sub-cities from Hawassa town and three widen districts Hidda-kalite, Mesincho and Goyida in Dalle woreda) were randomly selected. Over-all, six diverse geographical locations were considered for the study. Secondly, one client and member based MFIs branches were randomly selected in each of the 6 sample study locations, out of which 10 client beneficiaries and 10 member users from each of the CBMFIs and SACCOs BRANCHES were randomly selected as a representative sample unit. Therefore, the total sample size is determined to be 120 individuals comprising of 60 member users and 60 clients beneficiaries. On the other hand, stratified random sampling was principally used to generate varying data and contextual observations in between the two alternative units of analysis (member users and client beneficiaries). Notable, the stratification was mainly sought to identify the varying economic impacts achieved through the two financial modalities. All respondents from both stratums were chosen using simple random sampling method.

3.3. Data Collection procedures and Instruments

The sources of data used for the purposes of this study were both primary and secondary data. Well-structured questionnaire surveys, key informant interview and FGD were used as tools for primary data collections. The study was conducted on the basis of wide-ranging surveying techniques along with comprehensive inquiry on the economic status of the beneficiaries and their business outcomes. It was administered from the 120 sample beneficiaries comprising of 60 client beneficiaries and 60 member users. The questionnaire survey containing both open and close-ended questions were mainly used to capture information about the socio-economic characteristics of the beneficiaries, financial services availed, economic benefits or gains accrued, business financing and investment gains, profit and earnings, employment, asset accumulation, and income generating activities.

The uses of other methods were primarily used to elicit information in qualitative terms about the relevance of MC, its operational inefficiencies, and the problems affecting outreach performances. The key informants were officials and team of experts from the trade and industry office, managers and operation officers of SACCOs and Omo MFIs. Data collected mainly includes information on financing mechanisms and its importance, outreach performance, and micro financing policies, regulations and implementation strategies. Two participatory FGD were held out of the two groups of financial beneficiaries. The discussants were composed of the type of enterprises which was considered as their primary occupation. The FGD is mainly sought to identify and collect distinct information from real life experiences and economic fulfillments of the beneficiaries.

Beside the primary source of data, secondary data were also used. The main sources of secondary data were statistical reports, official brochures, manuals and guidelines. Data collected mainly includes information into the overall effectiveness of each financial modality, outreach performance, and the business outcomes achieved etc. Relevant literature from existing empirical studies and reports, district or regional records on microfinance and its economic contributions were also carefully reviewed. Much emphasis was placed on the collection of accurate and reliable data so as to be able to come up with objective evaluations and to make informed conclusions and judgments. The data generated thus sufficiently permitted an in-depth analysis of the immense role of MSE and other related issues.

3.4. Model Specifications and Empirical Strategies

The data generated were analyzed by using both descriptive and inferential statistics. The descriptive approach entails the use of mean and standard deviations. Analysis of the descriptive and t test statistics was conducted to estimate the mean differences between the socio economic and household characteristics of the two groups of beneficiaries and their significance level. The Single Differences and Difference-In-Differences approaches were implemented after realizing that the clients and members of the MFI were homogeneous. The t test statistics verified no systematic difference between the two groups before using the MC services. The SD and DID specifications were separately made for evaluating the actual economic contributions made through each MFIs and business outcomes as follows.

$$Y_{it} = \alpha + \beta_{MC\,i} + \sum_{1}^{2} \delta_t + \varphi_i + \varepsilon_i$$

Where, Y_{it} *= Outcome variables (DPCE1, Household assets, income, savings and expenditure),* $MC_{\ i}$ *= Micro credit effect,* δ_t *= Wave fixed effects,* φ_i *= Time invariant individual fixed effects and* ε_i *= Random error term*

NB: As the microfinance beneficiaries (both clients and member users) were randomly selected from the among the recorded lists of beneficiaries by the MFIs, it is highly unlikely that the outcome variables are correlated with the unobservable characteristics in the error term like entrepreneurial ability, managerial talent and motivation, etc. that might in one way or in another affect economic status of the individual beneficiaries and business outcomes. Hence, endogeneity problem seems the bearable factor for estimating the MC effect on the outcome variables.

3.4.1. ESTIMATING THE BUSINESS OUTCOMEs

The SD and DID approaches of the FE and RE models estimating the impact of Micro financing on the beneficiaries business outcomes were estimated based on the following specifications. The model intends to explicitly capture the time invariant and firm fixed effects.

$$Y_{\ it} = \alpha + \beta_{MC\,i} + \sum_{1}^{2} \delta_t + \gamma_i + \varepsilon_{it}$$

Where: $Y_{\ it}$ = Business Outcomes (ROI, Profit, WC and Employment rate), $MC_{\ i}$ = The effect of Micro credit, δ_t = Wave fixed effects, γ_i = Firm fixed effects, and ε_{it} = Random error term

4. Results and Discussions

This chapter covers systematic presentation of the empirical results and interpretation of the DID approach and Hausman test statistics taken part from analysis of varying cross-sectional and panel data collected by using Questionnaires and other supplementary data collection tools. So as to assess the economic impacts of MCIs, the researcher considered the income levels of individuals, of households and of businesses, as well as savings levels, expenditure, and asset accumulation as outcome indicators. The findings are grouped according to the type of microfinance evaluated.

4.1. Descriptive and t-test Statistics

This section provides results of the descriptive and t_test statistical analysis of the household's socio-economic characteristics and associated outcomes on the dependent variables. The t-test statistics tells us about the significance level of the mean variances across each variables of interest between the two groups of beneficiaries. According to the results of the descriptive statistics reported in table 1, the average years of education, age of beneficiaries and family size reveals 7 years, 21 years and 5 individuals respectively for the clients. The respective evidence for SACCO members reveals 6.7 years of education, 20.7 years of age and 5 individuals. However, the mean differences for these indicators are not statistically significant. The average monthly household income and consumption expenditures incurred by the clients reveal 891 and 938 birr respectively. On average, SACCO members earn 844 birr monthly income and incur about 886.9 birr consumption expenditures. The average daily per capita expenditures (DCPE) incurred reveal 6.4 (clients) and 6.1 (members) birr. However, both results are not statistically significant.

The average total household savings and assets on hand for the client beneficiaries reveal 1,046 birr and 8,223 birr respectively. While SACCO members could get hold of 1,000 and 7,894 birr total savings and assets on hand respectively. Both indicators reveal larger deviations from the mean. The average quarterly credit requirements indicate 5,018 and 4,980 birr for the clients and members respectively.

The result of the t-test confirmed that the mean differences for all the characteristics of the beneficiaries are not statistically significant meaning that we fail to reject the null hypothesis stating that both

[1]DPCE is the daily per capita expenditure. This is generated by calculating all estimated expenditures of the beneficiaries over the year and divided by 365 and household size.

groups have equal mean in each variables of interest. This shows us that the two groups of beneficiaries were almost identical interims of the aforementioned household characteristics before becoming beneficiaries in their respective MFIs.

Table 1: Household Characteristics and Results of the T-Test Statistics

Ho: Both groups have equal Mean	Clients (CBMFI)		Members (SACCOs)		t-test P-value
	Mean	SD	Mean	SD	
Education	7.044643	3.854735	6.721739	4.266346	0.820
Age of the beneficiary	21.30804	6.11365	20.6870	7.32992	0.307
DPCE	6.445283	2.502508	6.07640	6.88825	0.813
Family Size	5.53125	1.9243	5.7130	2.08033	0.740
Household savings	1,046.23	804.45	999.67	741.34	0.274
Monthly income	891.12	760.01	844.43	630.50	0.202
Assets on hand	8,223.5	5,874.07	7,894.3	3,607.23	0.120
Monthly Consumption	938.17	687.638	886.91	455.69	0.314
Credit requirement	5,018.21	831.75	4,980.43	694.64	0.064

Source: Model Output

NB: The total sample sizes in the two groups of MFIs for the whole variables constitute 120 MC beneficiaries (50% from CBMFI and SACCOs each). The average household income and consumption expenditure were measured on monthly basis by virtue of the beneficiary's self-reported data. Household savings and assets on hand are reported as an aggregate amount owned at the time of doing the survey. DPCE is measured by total household expenditure divided by the total household size.

4.2. Economic Contributions of the Microfinance Institutions

This section presents the result of both the single and double difference estimates. The single difference (SD) estimates both in level and log specifications are reported in columns 3 to 6. It is meant to catch up the economic impacts of each MFI at present time. While, the result of the double difference estimates are reported in column 1 and 2. It helps to measure the differential economic contributions made through the MFIs, which revealed positive and statistically significant across all the variables of interest. According to the results of the DID estimates, CBMFI could realize extra economic gains for its beneficiaries across all the variables of interest. The coefficient estimates for these variables are highly significant.

Table 2: Differential outcomes on the Economic Contributions of MFIs

	Double Difference (one tail t-test @t=2005)		Single Difference			
			CBMFI		SACCOs	
	Levels (1)	Logs (2)	Levels (3)	Logs (4)	Levels (5)	Logs (6)
Household Assets	40.10** (24.03)	0.0273** (0.0148)	92.24** (38.58)	0.033** (0.049)	54.17** (37.68)	0.0128** (0.0468)
Household Income	120.0*** (101.56)	0.0258*** (0.0171)	116.20** (97.07)	0.0254** (0.0137)	84.04** (48.026)	0.0037** (0.0119)
Household Expenditure	48*** (40.05)	0.0146** (0.0158)	70.21** (76.01)	0.0412** (0.0651)	57.52** (16.93)	0.0220** (0.0625)
Household Savings rate	.03601** (0.1645)	0.1487** (0.0171)	0.105** (0.02317)	0.0012** (0.00017)	0.1041*** (0.0026)	0.0025** (0.0119)
DPCE	4.10*** (1.0045)	0.0113** (0.0148)	6.20*** (2.0058)	0.0330** (0.0049)	3.430*** (1.0038)	0.0248** (0.00468)

Source: Model Outcomes

*NB: Significance level (*** p<0.01, ** p<0.05, * p<0.1). Values in parentheses are the robust standard errors. The single difference reveals the net economic contributions of the MFIs at present time. Whereas, the result of DID reveals the comparative economic contributions of the MFIs i.e. difference with respect to cross sectional and time dimension (before and after the loan).*

The Single Difference estimates in level specification reveal that each birr additional credit grant generates 92.24 and 54.17 birr extra household assets for the client beneficiaries and member users respectively. The log specifications reveal 3.3 and 1.3 percent growth respectively. Both results are statistically significant at 5 percent level of significance.

As far as the monthly households' income and expenditures are concerned, each birr additional MC grant by the CBMFI enables the client's household to maximize their monthly income and expenditure by 116 and 70 birr respectively. The result is slightly lower for the SACCO members, which are 84 and 58 birr on average respectively. Both results are also statistically significant at 5 percent level of significance.

The average daily per capital expenditure (DPCE) and the monthly household savings rate reveal 6.2 birr and 10.5 percent for the client beneficiaries, which is statistically significant even at 1 percent level of significance. While, SACCO members had the DPCE and monthly savings rate of 3.4 birr and 10 percent respectively. The log specifications in these economic indicators reveal 3.3 and 0.12 percent for client beneficiaries and 2.5 and 0.25 percent for the member users respectively. All the results are statistically significant at 5 percent level of significance.

The DID coefficient estimates across all the variables of interest are positive and statistically significant. Hence, it is possible to infer that client based MFI could realize better economic contributions than the member based SACCOs. For instance, the average monthly household assets, income and expenditure growth contributed by the CBMFI reveal 40 birr, 120 birr and 48 birr higher than the SACCOs respectively. The log specifications reveal 2.7%, 2.6% and 1.5% growth respectively. The clients DPCE and monthly savings rate in excess of the member users reveal 1.1 and 15 percent on average. Hence, CBMFIs had exceeding economic contributions in all the variables of interest. Even if, the extent of economic contributions varies, there is strong evidence suggesting that both MFIs are the engines for pro-poor growth and economic empowerments of the poor.

4.3. Microfinance Benefits for Business Outcomes

According to the SD estimates in level specifications, each birr MC grant provided by the CBMFIs could generate 9 birr monthly ROI, 101 business profits and 230.5 birr working capital on average, which are statistically significant even at 1percent significance level. The log specifications reveal 3.3 %, 2.5 % and 4 % growth in the ROI, Business profits and working capital respectively. The member users would be able to realize 2.3 percent, 1.6 percent and 3.5 percent growth in their monthly ROI, business profits and working capital respectively.

According to the DID approach, the coefficient estimates associated with the monthly ROI (6 birr), business profits (120 birr) and working capital (148 birr) reveal the additional economic impact realized by the CBMFIs. In other words, 1 birr additional MC enables the client beneficiaries to earn, an additional 6 birr return, 120 birr monthly profit and 148 birr working capital on average. Similarly, the impact coefficient associated with the same variable in the log specification verified 2.7%, 2.6% and 10% growth in the monthly ROI, profit and the working capital respectively. Both estimates in level and logs specification are highly statistically significant.

Table 3: Comparative Economic Contributions on Business Outcomes

	Double Difference (DID) (one tail t-test @t=2005)		Single Difference (SD) **1**			
			CBMFI		SACCOs	
	Levels (1)	Logs (2)	Levels (3)	Logs (4)	Levels (5)	Logs (6)
ROI	6.103** (4.30)	0.0273** (0.0148)	9.15** (2.58)	0.0330** (0.00499)	5.20** (3.68)	0.0228** (0.0468)
Monthly Profits	120.06*** (78.52)	0.0258*** (0.0171)	101.27*** (89.7)	0.0254*** (0.0137)	93.01*** (68.26)	0.0155*** (0.0119)
Working Capital	148.63** (93.5)	0.100** (0.0158)	230.45** (163.1)	0.0412** (0.00651)	119.32** (92.3)	0.0350** (0.00625)
Annual Employment	3.10*** (1.0035)	0.0107*** (0.0121)	6.20*** (1.0958)	0.0147*** (0.0425)	3.201*** (1.0900)	0.0106*** (0.00742)

Source: Model output

*NB: Significance level (*** p<0.01, ** p<0.05, * p<0.1). Values in parenthesis are robust standard errors. The Variable ROI was measured by dividing total monthly profits over the total investment. The Average monthly Profits earned was measured on the basis of revenue minus expense approach. The variable working Capital does not include the value of fixed assets such as land and buildings.*

In general, the positive signs on the DID estimates, indicates a general tendency for better economic

1The Hausman test statistics result reveals that Prob>chi2 is higher than 0.7 for all the estimates (which is higher than the 5% SL). Thus, we fail to reject the null hypothesis stating that there is no systematic difference between the FE and RE model estimates. Under this condition, the RE model is worthy enough to get efficient and consistent estimates. Thus, the SD and DID estimates are outputs of the RE model.

impact achieved through the CBMFIs. The estimates provide satisfactory evidence to assert that CBMFIs had been performing better and were able to realize far-reaching benefits for its business clients. Access to finance contributes to a long-lasting increase in the beneficiaries 'income by means of a rise in investments in income generating activities and to a possible diversification of sources of income.

It also contributes to an accumulation of assets and smoothing out consumption and reduces the household vulnerability and also contribute to better education, health and housing (see also Morduch, & Hashemi, 2003). Hence, the study found that MFIs are the suitable economic instruments for empowering the poor by means of providing economic opportunities and facilities and improves their living standards sustainably.

4.4. Outreach Efficiency and Financial Sustainability

As shown in the table 4, the average number of active client beneficiaries and member users for the whole duration of the study reveal 382 and 215 respectively. As compared to the CBMFIs, active member users were lower and had shown significant deviations from the mean. The average loan size and duration of loan success reveals 3,123 birr and 37 days on average in the CBMFIs. However, SACCOs registered lower average loan size and relatively longer loan period, i.e. 2,150 birr and 45.7 days respectively. The quarterly lending and annual default rate reveal 27.5% and 5.7% respectively for the CBMFIs. The SACCOs registered relatively lower lending rate (12.6 %) and default rate (2.3%) on average.

Table 4: Measuring outreach Efficiency and Financial Sustainability

NO	PARTICULARS	CBMFI		SACCOs	
		Mean	SD	Mean	SD
1	Active Beneficiaries	382	159.17	215	168.06
3	Average Loan Size	3,123	1670.3	2,150	1982.52
4	Quarterly Lending Rate	27.48	11.251	12.64	6.034
5	Duration of Loan Success	37.107	16.51	45.67	15.24
6	NPL: OSL	0.55	0.027	0.36	0.035
7	Estimated Market Share	33.12	17.23	19.21	14.67
8	Average Annual Default Rate	5.66	1.94	2.32	1.432

Source: Author's own computation

According to the representative sample MFIs, the main causes of the default rate were improper client scrutiny, ineffective repayment enforcement mechanism, absence of effective group pressure or collateral, negligence of clients, crop failure in rural areas, sickness of the borrower or family member, death and bankruptcy etc. In this case, the higher default rate might endanger the financial sustainability of the CBMFI. However, the sector had shown far-reaching progress over time interims of realizing better outreach efficiency despite the lower financial performances. This implies that the CBMFI The strong government commitment and support by the NGO have ensured sustainability of the sector by virtue of constantly financing the program.

Non-performing loan (NPLs) to loan outstanding ratio can also be an alternative indicator for measuring an outreach efficiency and financial sustainability of a MFIs. Using this indicator the study found out that MFI financial sustainability is in a comfort zone with average NPLs ratio of 0.55 percent on average. The rate is very low for SACCOs, 0.36 percent on average. This shows us that SACCOs are better interims of assessing credit risk and maintaining members' responsibility to repay their loan.

During the FGD with clients beneficiaries and member users, even if the MC Service was not constantly growing to the level best they demand, most agreed that their standard of living was improving over time. Accordingly, MC loans are providing a fundamental basis for planning and expanding their business activities. Apparently, the members 'users reported that lack of adequate credit facility was the most constraining factors against exceeding their business outcomes. Most declared that they were demanding extra credit for expanding their businesses and to purchase productive assets like livestock, sewing machine, wielding tools, rubber sharpening, deep freezers and beauty salon equipment etc. Only few of them reported to have used part of their loans for consumption and to defray debts. This result seems to support the argument that MC loans could be growth enhancing particularly where the loans are expended on productive means as against consumption goods.

Existing evidence also indicate that microfinance services, such as savings, insurance, money transfers, entrepreneurial training and so on, which are more attractive to the client beneficiaries or member users, are yet to be provided. Bureaucratic regulations and the non-systematic and irregular supervision was deemed to inhibit the operation of the market but in the case of rural microfinance provision a reasonable amount of regulation and supervision is discovered to be necessary, particularly to protect the mostly illiterate rural poor, from usury interest rates.

4.5. Key structural, Governance and Institutional Issues

One of the main reasons for the beneficiary's widen discontent on the microfinance services was the meager financial products and weaker financial market penetration. In this respect, MC loan and savings are the two most prevailing financial products and services provided by the MFIs. Plethora evidences affirmed that Micro financing has not yet performing well and expanding its service to the level best the market is virtually demanding in the region. For instance, the sector has not yet been offering money transfer, remittances, insurance and other non-financial and or social services. Hence, the sector has not yet gone far beyond offering MC services to the poor.

Table 5: key Governance, Structural and Institutional issues

Institutions	Governance		Structure	Ownership	Organizational Network	
	Network	Basis			Services	Financing
SACCOs	Partially integrated	Equal voting	Participatory, collaborative	Mutualistic	Internalized	Partly independent
CBMFI	Integrated	Shares	Apex unit, hierarchical	Corporate	Externalized	Multilateral

Source: Author's own presentation

On the other hand, the SACCOs have been highly constrained by persistent financial deficiency and shortage of working capital due to lacking adequate support from the government and other development organizations. As the sector is believed to be independently grown and administered regardless of government interference, evidence has shown that the sector couldn't stand by itself and unable to show up radical economic contributions as was in the case of the CBMFI.

Despite the fact that SACCOs would benefit fairly mutualistic and participatory financial system to the poor, its services had not yet been adequately expanded; and of course internally restrained and missing well integrated and collaborating financial service development programs. In this respect, the sector is in need of pioneering attention and transformative institutional support by the government and other multilateral development programs working to empower the poor.

Unlike the SACCOs, the client based MFI had been performing other alternative financial and poverty alleviation programs like water pump development, HUB project, Rural Entrepreneurship, Fertilizer support, Glimmer, Women and children and Rural Financial Fund. Most importantly, the sector is constantly financed by the government and international development organizations like the Rural Financial Intermediation Programme (RUFIP). Therefore, as compared to the SACCOs, CBMFIs had been performing well and realizing far reaching economic contributions in the life of the poor. Their networks of services had been widely growing by virtue of highly integrated multilateral development programs involving many local and international stakeholders. Therefore, the sector remains to be the superior socio-economic means to empower the poor and ensuring exceeding business outcomes for its beneficiaries.

5. Concluding and Policy Remarks

Throughout the developing world, there is a desperate quest for a way out of the financial predicament confronting the rural poor. In most countries of the developing regions, especially SSA countries, the rural population forms the larger proportion and poverty is prevalent among them. Despite the predominant claims on the critical role of microfinance service towards impacting poverty reduction and sustainable pro-poor growth, quite a lot of evidences also argue contrarily. Evidences have shown that the extent to which microfinance services reaches the core poor in a range of modalities substantially vary. In this regards, there is no detailed and systematic study to explore the impact of alternative forms of MC services in Ethiopia. Hence, this study intends to throw away its own contribution to fill the aforesaid gaps.

The study employed descriptive and Hausman test statistics to evaluate the mean difference between the economic status of clients and member beneficiaries. Aptly, the SD and DID approaches were employed to evaluate the differential economic effects of each financial modality. In order to realize efficient and sound outcomes of the DID approach, FE and RE models were separately estimated and found no significant difference between them. The model estimates were made on the basis of both level and log specifications. The study found no evidence to reject the null hypothesis stating no systematic difference between the socio-economic characteristics of the client beneficiaries or member users before the MC Service. The f-statistics indicates insignificant result on the mean differences across all the beneficiaries' characteristics. Hence, we firmly concluded that the two groups were almost identical before becoming client beneficiaries or member users in their respective MFIs.

The SD estimates reveal that 1 birr additional MC grant generates 92.24 and 54.17 birr extra household assets on average for the client beneficiaries and member users respectively. The log specifications reveal 3.3 and 1.3 percent growth rate respectively. Both results are statistically significant at 5 percent level of significance. As far as the average monthly households income and expenditures are concerned, each birr MC enables the client's household to maximize their monthly income and expenditure by 116 and 70 birr respectively. The results are slightly lower for the SACCO members, which are on average 84 and 58 birr respectively.

As far as the business outcomes are concerned, each birr additional MC grant could generate 9 birr monthly ROI, 101 business profits and 230.5 birr working capital for the client's business. The log specifications reveal 3.3 %, 2.5 % and 4 % growth in ROI, Business profits and working capital respectively. The member users were able to realize 2.3 percent, 1.6 percent and 3.5 percent growth in their monthly ROI, business profits and working capital respectively.

The DID estimates reveal positive for the CBMFIs and statistically significant across all the variables of interest. It appears that the client based MFI could realize better economic contributions than the member based SACCOs. Apparently, the average monthly household assets, income and expenditure growth contributed by virtue of 1 birr extra credit grant for the clients reveal 40 birr, 120 birr and 48 birr higher than the SACCOs contributions respectively. The log specifications reveal 2.7%, 2.6% and 1.5% growth respectively. The clients DPCE and monthly savings rate in excess of the member users reveal 1.1 and 15 percent. Even if the extent of economic contributions varies between the two alternative financial modalities, there is strong evidence suggesting that both MCIs are the economic engines for pro-poor growth and economic empowerments of the poor. The estimates provide satisfactory evidence to assert that CBMFI had been performing far better and were able to realize far-reaching economic benefits for its clients.

On the other hand, the coefficient estimates associated with the monthly ROI, business profits and working capital recorded by the CBMFI reveal 6 birr, 120 birr and 148 birr respectively. In other words, 1 birr extra MC enables business clients to earn, an additional 6 birr return, 120 birr additional monthly business profit and 148 birr working capital on average. Similarly, the impact coefficient associated with the same variables in the log specification verified that 2.7%, 2.6% and 10% growth respectively.

In general, the positive signs on the DID estimates, indicates a general tendency for exceeding economic gain and business outcomes for realized for the clients. One of the key factors is that it had been performing several alternatives financial and poverty alleviation programs constantly supported by the government and international development organizations like RUFIP program. Their networks of services had been widely growing by virtue of highly integrated multilateral development programs involving many local and international stakeholders. Hence, the sector had been flourishing superior socio-economic conditions to empower the poor clients and ensuring exceeding business outcomes for its client beneficiaries.

MC loan and savings are the two most prevailing financial products and services provided by the MFIs. Existing evidence indicate that microfinance services, such as insurance, money transfers, remittances, entrepreneurial training and so on, which are more attractive to the client beneficiaries or member users, are yet to be provided. Bureaucratic regulations and the non-systematic and irregular supervision is deemed to inhibit the operation of the market but in the case of rural microfinance provision a reasonable amount of regulation and supervision is discovered to be necessary, particularly to protect the mostly illiterate rural poor, from usury interest rates.

The average number of active client beneficiaries and member users reveal 382 and 215 respectively. As compared to the CBMFIs, active member users were lower and had shown significant deviations from the mean. The average loan size and duration of loan success in the CBMFIs reveals 3,123 birr and 37 days respectively. However, SACCOs registered lower average loan size (2,150 birr) and relatively longer loan period (45.7 days).The quarterly lending and annual default rate amounts 27.5 % and 5.7% respectively for the CBMFIs. The SACCOs registered relatively lower (12.6%) lending rate and default rate (2.3%) on average. This shows us that SACCOs need to expand its service and outreach capability. The CBMFI had shown far-reaching progress interims of better outreach efficiency despite the lower financial performances. Most importantly, the government commitment and NGO support by virtue of constantly financing the program have been flourishing better financial sustainability and sectoral growth.

Plethora evidences affirmed that Micro financing has not yet expanding its service to the level best the market is virtually demanding. Despite the fact that SACCOs would benefit fairly mutualistic and participatory financial system to the poor, its services had been mainly embarrassed through meager funding and weak institutional support from the government and other alternative development organizations; notably the sector did not entertain well integrated financial service development programs. In this respect, the sector necessitates pioneering attention and transformative institutional support by the government and other multilateral development programs working to empower the poor.

Even if, the MC Service was not constantly growing to the level best the market demands, evidence has shown that the standard of living of the MC beneficiaries were improving over time. Hence, the study proved that micro financing would remain to be the engines of growth and poverty reduction in Ethiopia. It is found to be a veritable development tool for the betterment of economic life of the poor. It contributes to a long-lasting increase in income by means of a rise in investments in income generating activities accumulation of assets and to a possible diversification of sources of income. Most importantly, in order to further excel up the sustainable sect oral growth and an immense contribution of the sector towards poverty alleviation, the government and other development actors should excel to hand over their financial support and regularly follow up the performance of the sector.

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