IMPACT OF MICRO-FINANCE SREVICES ON ALLEVIATION OF RURAL POVERTY: CASE STUDY ON SPECIALIZED FINANCIAL AND PROMOTIONAL INSTITUTION (SFPI)

A THESIS

SUBMITTED TO INDRA GANDHI NATIONAL OPEN UNIVERSITY

IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE

DEGREE OF M.A IN RURAL DEVELOPMENT PROGRAM

BY

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May, 2014

Addis Ababa, Ethiopia

Declaration

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

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CERTIFICATION

This is to certify that Mr./Miss/Mrs GETACHEW KASSAHUN DEMISSIE student of M.A.(RD) from Indira Gandhi National Open University, New Delhi was working under my supervision and guidance for his/her project Work for the Course MRDP-001.His/Her project Work entitled IMPACT OF MICRO-FINANCE SREVICES ON ALLEVIATION OF RURAL POVERTY: CASE STUDY ON SPECIALIZED FINANCIAL AND PROMOTIONAL INSTITUTION (SFPI), Which he/she is submitting, is his/her genuine and original work.

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ACKNOWLEDGEMENT

First of all I praise the Almighty God and for St. Mary for helping me complete the study. I express my sincere gratitude to Dr.Mengistu Huluka for his support and encouragement starting from the preliminary proposal and his critical professional comments and guidance thereafter and above all for his untiring, meticulous corrections of the study. Also I express my gratitude to the St. Mary University for giving me this opportunity to pursue my Masters program.

This study would have been impossible without the cooperation of many offices and people. I am grateful to Ato Anbsie Chak, operational manager of SFPI, and also my gratitude to Branch managers and loan officers of Holeta, Debere Zete, Akaki, Shano and Fich branches. And I owe a great deal to Ato Lulie Chanayelew for his unreserved professional and moral support and encouragement. I feel obliged to express my gratitude to all employees of AEMFI, whom I often found so hospitable and willing to provide the necessary information.

Finally I am indebted to my family who always support me with their financial and moral support.

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Abbreviation and Acronyms

DBE, Development Bank of Ethiopia

FGD, Focus Grouped Discussion

HICE, Household Income, Consumption and Expenditure survey

IFAD, International Fund for Agricultural Development

MF, Micro Finance

MFIs, Micro Finance Institutions

MOFED, Ministry of Finance and Economic Development

MGDs, Millennium Development Goals

PA, Peasant Association

NBE, National Bank of Ethiopia

PASDEP, plan for Accelerated and Sustained Development to End Poverty

SFPI, Specialized Financial and Promotional Institutions

UNDP, United Nation Development Programme

WB, World Bank

ABSTRACT

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

The study was conducted at the branches of the FSPI by employing the “before” and “after” method so as to evaluate the impact of the microfinance institution on reducing the poverty level of its clients.

Primary data was collected using structured interview, FGD, and observational check-list while secondary data was obtained from the records, journals, proceedings, bulletins, internet and various books. Multistage sampling method was employed to take a sample of clients from the total. Both descriptive and inferential statistics such as mean, percentages, Wilcox on signed rank rest and independent two sample t-test was employed.

In general the credit scheme has increased the mean income of respondents and had improved the ownership of different productive assets, such as, oxen, cows and others. SFPI program has made a positive impact on households’ income, asset ownership, housing condition, expenditure, diet condition,’ access to education and medical facilities. SFPI credit delivery has also improved enterprises’ production capacity and employment opportunity of the local community.

And there was no significant difference between the sexes regarding the socio-economic variables except for saving and the level of income after loan. MFIs have significantly contributed towards improving the living standard of the poor and reduce poverty at household level. Therefore, strengthening the development of MFIs in Ethiopia is an appropriate and appreciated policy instrument.

CHAPTER ONE

1 INTRODUCTION

1.1. Background of the Study

Poverty is multifaceted and its definition has become ever controversial. The recent definition of poverty by the WB (World development Report, 2000/2001) broaden the concept than defining it merely from the traditional ideas of income poverty to a more comprehensive concept incorporating or characterized by a lack of purchasing power, exposure to risk, insufficient access to social and economic services, sense of voicelessness and few opportunities for income generation. Pursuant to the same source, the broader approach which presents poverty as an aggregate view has the advantage of increasing our understanding of its causes, which in turn brings more areas of action and policy on the poverty reduction agenda.

A number of factors are usually described as triggers of poverty; some of these are: lack of asset, employment opportunity, income, skill, technology, education, health and environmental problems (Getahun, 1999). But one factor which is the point of this research is lack of financial resources for capital formation (Wolday, 2003). The majority of Ethiopians are poor and live in rural areas and are mainly engaged in subsistence peasant agriculture (Solomon,1996). The 1999/00 household income, consumption and expenditure survey (HICE) had revealed that 44% of the Ethiopian population was under absolute poverty (MOFED, 2006). The same source reveals that rural poverty is higher than urban poverty by 23%. Poverty is also deeper and severer in rural areas than in urban areas, on average the income of rural poor is 12.1% away from the poverty line while it is 10.1% for the urban poor (Tassew, 2004). Similarly about 27 million people were living under chronic poverty in Ethiopia in the 1990s. Lack of access to financial resources, such as credit, by the poor who are engaged in the informal sector, is one of the causes of poverty, especially in Sub-Saharan African Countries (WB, 1996).

Cognizant of this fact the government of Ethiopia in its Plan for Accelerated and Sustained Development to End Poverty (PASDEP) policy document gave high importance for the role of microfinance service in the endeavor of Ethiopian poverty reduction and alleviation. The document targeted on overall agriculture value added to grow at an annual average real rate of 6.2% during the PASDEP Period (2005/06 - 2009/10). Among other things such progress depended upon the availability of affordable credit through the active promotion of MFIs. Ethiopia has designed interim poverty strategy paper to reducing poverty, on this paper pro poor had been identified, among which agriculture is the most important element for reducing rural poverty of the mass of the people living in rural areas (MOFED, 2002). The same source, the national agricultural development strategy of the Ethiopia government acknowledging that availing micro financial service is an effective means to commercialize agriculture and increase its productivity (MOFED, 2002).

The government had created conducive environment for the development of micro finance institutions by issuing proclamation No. 40/1996. Following the issuance of the proclamation a number of them have been institutionalized. As of 2009, there are 31 microfinance institutions which are registered by the National Bank of Ethiopia (NBE) and are engaged in the business of micro- financing (NBE, 2009).

Specialized financial and promotional Institutions' (SFPI) is one of the micro-finance institutions in Ethiopia, established in the form of a company on November 25, 1997. It has commenced operation in June 1998. As per proclamation No. 40/1996, the SFPI is established as Share Company and currently it has eight share holders with professional mix from banking, professional associations and private individuals. SFPI operates through ten branches both in urban and ruler areas of the country. Out of these branches seven are found in Oromia region and the remaining thee are found in the metropolis.

As indicated in the institution's five year strategic document (2007-2011), the vision of SFPI is to "become sustainable financial institution, active contributor towards poverty reduction effort and to see improvement in the life of low income people." and it has been providing service almost for fourteen years, but no serious attempt has been made to evaluate the impact of such service on increases of rural household income, and in bringing changes in livelihood of rural people as well as in contributing to the reduction of poverty. As a result, this research has provided information to fill this gap and forward feasible recommendation for problems faced by the clients.

1.2. Statement of the Problem

Poverty and hunger instigated and exacerbated by conflict were the country's endemic social and economic problems for most of the second half of the 20^{th} century. In the first decade of the 21^{st} century they still remain as central policy concern to the government of Ethiopia. In spite of tremendous efforts, Ethiopia is still among the poorest countries with an annual average per capita income of $180 in 2005 (PASDEP, 2007). The country is one of the poorest and most underdeveloped countries of the world and with a large population in the sub-Saharan Africa. Its economy is largely dominated by small scale, non mechanized agriculture (Abadi, 2007). To reduce poverty and human deprivation and in turn achieve the targets of MGD_s, developing countries need to develop their own mix of policy which is based on national priorities and local realities (WB, 2000).Microfinance is not a panacea for poverty, but it is one important factor among the antipoverty instruments of the development programs (Harper, 2003).

The best known example on microfinance is that of Muhammad Yunus and the founding of Bangladesh's Grameen Bank (Armendariz and Morduch, 2005). Since the 1980s the development of MF programs gained a worldwide acceptance and popularity, as one method of poverty reduction (Ledgerwood, 1999).

The condition of poverty has been interpreted as one of lack of access by poor households to assets necessary for a higher standard of income or welfare, whether assets are thought of as financial, human, natural, and social (Montgomery and Weiss 2005; World Bank, 1996). And lack of access to financial asset is understandable in terms of collateral that the poor can offer conventional financial institutions; high costs involved in dealing with large number of small amount of loan; limited education and familiarity with loan procedures; exorbitant interest rate (Bekele, 1996; Solomon, 1996; Montgomery and Weiss, 2005). And the goal of microfinance institutions as a development organization is to serve the financial needs of the poor who are engaged in the informal sector and do not completely access the services or under served by the formal financial institutions. It serves as one means of reducing poverty through creating job opportunities and helps existing business grow or diversified (Ledger Wood, 1999).

Cognizant of the potentials of MF, the government of Ethiopia gave high priority for the proliferation of these institutions in its PASDEP strategy (MOFED, 2006). But relative to the experience of other developing countries, its development in institutionalized form is of recent phenomenon (Solomon, 1996). Thus, with the aim of poverty reduction in Ethiopia, there has been provision of financial service to the poor (Wolday, 2003) through MFIs but there has not been sufficiently evaluated impact assessment (Meehan, 1999).

Pursuant to (Ledgerwood, 1999) MF impact assessment the process seeks to determine if the intervention has had the desired outcome of poverty reduction and employment creation. There were very limited research that focused on microfinance impact assessment to improve the financial sector and even these limited researches were more concentrated on institutional sustainability rather than client impact. As a result, studying the impact of micro finance intervention is important to narrow this gap (Wolday, 2003). Similarly, in general, there is no serious attempt made by Ethiopia MFIs and in particular by SPFI to evaluate whether or not the program achieved the institution's goal of poverty reduction within its operational territory. Thus, the rationale of conducting this research is to make impact assessment of the MF service in Oromia region of SFPI and to help the organization to improve its services, as well as to increase its impact on poverty, its efficiency, and to provide accountability to donors and other stakeholders.

1.3. Objectives of the Study

1.3.1. General Objective

The overall objective of this research is to assess the impact of microfinance on poverty reduction and job creation.

1.3.2. Specific Objectives:

1. To assess the change of income as a result of the delivery of financial service;
2. To diagnose the impact of micro-finance on food security;
3. To evaluate the impact of microfinance service on improving asset ownership and empowerment of women;
4. To identify the impact of microfinance service on crop production and food consumption;
5. To evaluate the trend of savings.

1.4. Research questions

1. Has Specialized Financial and Promotional Institution (SFPI) contributed to reduction of poverty?
2. What is the magnitude of change on clients' socio-economic status?

1.5. Significance of the study

As the main purpose of the research is to assess the impact of microfinance service on the beneficiaries' socio-economic condition and wellbeing, that indicates whether there is improvement in living condition, increase production and reduction of poverty. Thus, the finding of this research could have significance in that:-

i. The FPSI management to make informed decision regarding whether to modify the product or/and introduce a new one based on the need or change the way they used to deliver it, to make the service customer centered;

ii. The output of this research can serve as background information for further research work on the area;

iii. It also can be helpful for those who are engaged in policy decision. They can use impact assessment information to influence policy changes and budget allocation decisions;

iv. Also important to donors who support the institution as an information source whether the intervention is having the desired impact.

1.6. Scope of the Study

The study covered the beneficiaries of four branches of SFPI situated at four locations (woredas) in Oromia region. Four kebeles of peasant associations were selected from each woreda. The study was limited to those beneficiaries who had actively been using the financial service since the year 2009.

1.7. Limitation of the Study

As the research only focused on one MFI, the finding of the research only reflect information regarding those beneficiaries who are clients of FSPI and those residing in Oromia administration region. Thus, it may not have a strong scientific justification and validity to generalize about the impact of MFIs on reducing poverty in the entire country.

1.8. Organization of the Paper

This research paper is organized in to five chapters.

- Chapter 1 deals with back ground, problem statement, research questions, Objectives of the study, significance, scope, limitation and conceptual frame work of the study.
- Chapter 2 presents on pertinent literatures and relevant empirical case studies to the research
- Chapter 3 described the research methodology used in the study.
- Chapter 4 and 5 deals with the major findings, conclusion and recommendations for future deployment work and summary. This followed by Questionnaires and bibliography (references).

CHAPTER TWO

2. CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

2.1 CONCEPTEPTUAL FRAMEWORK

The clarification of basic concepts as poverty, impact assessment is crucial before assessing and measuring the impact of microfinance on the life of the poor.

The recent definition of poverty according to World Development Report (2000) broaden the concept than merely a material deprivation measured by income to a more comprehensive concept of lack of opportunities, capabilities, sense of voiceless-ness and vulnerability to external shocks. For the purpose of this paper the definition of poverty incorporates economic and social deprivation of people or household.

Impact assessment is any process that seeks to determine if an intervention has had the desired outcome of poverty reduction.

There are two major schools of thought that are prominent in impact assessment of microfinance. **The first one** use “Proxies” for impact. These proxies generally are institutional outreach and institutional sustainability. The rational for this approach is based on the assumption that a sustainable MFI with wider outreach can extend the choices of people looking for credit and saving services which intern leads to improved micro-enterprise performance and wellbeing of household (Ledgerwood, 1999). Thus, it purely focuses on changes in the organization.

The second approach is the one which measure the impact in direct relationship to the lives of human beings. It should answer the questions such as, who are users of the services. How are the various groups using the service? And how does the intervention affect the livelihood of the beneficiaries? (Abebe, 2006). This approach will be applied in this research.

The unit of analysis employed in this research is that of the household level and enterprise level. At the household level, impact measured by increase in: income (both from specialization or diversification), asset accumulation (house hold assets), and savings, consumption (food) .At the enterprise level, impact is measured by changes in enterprise: income, asset accumulation (capital assets), employment (Ledger wood, 1999).

The rationale of choosing the client oriented method of impact analysis over the other is that, the former approach doesn't give the magnitude of impact. "If an MFI aims at providing financial services to the poor to reduce their poverty level, then the institution cannot take refuge in simply measuring how well it made services available. Because the stated end result of reducing poverty is fully measurable only in direct relationship to the lives of human beings" (Ledgerwood, 1999).

2.2. Literature Review

2.2.1 The concept and causes of poverty.

There is no clear consensus among development experts and policy makers on how to define measure and eradicate poverty (Meehan, 1999). Accordingly, there is no single absolute and standardized definition to it. Getahun (1999) substantiate this argument by saying: various approaches exist in defining poverty that ranges from the objective, quantifiable to those which are subjective and qualitative nature. Thus, poverty has multiple characteristics which make it difficult to capture in a single definition.

There are two concepts of poverty measurement; these are the **absolute and relative** ways of measuring poverty or standard of living Getahun (1999). Both relative and absolute definitions of poverty refer to a cross cutting level below which people are categorized as poor. This cross cutting level is known as poverty line.

Absolute poverty is ethical poverty line derived from globally standardized and ethically justifiable wellbeing indictors (Edward, 2006). That is inability to attain minimal standards of consumption to meet basic physiological and biological needs. For this, the World Bank set that a person who earns less than 1.25 USD a day as a poor (World Bank report, 2004). In absolute sense the poor are materially deprived to the extent that their survival is at stake.

A relative poverty is a standard of living which is below a certain proportion of the national mean per capita income or expenditure. In relative term, this people are also deprived in relation to other social groups whose situation is less constraining (WB, 1990). In the words of Bibangabah (1985), "people are poverty stricken when their income, even if adequate for survival, falls radically behind that of the community. Then they can't have what the larger community regards as the minimum necessary for decency, and they can't wholly escape, therefore, the judgment of the larger community they are indecent. They are degraded, for in the literal sense, they live outside the grades or categories which the community regards as acceptable". Trufat (1996) and Getahun (1999) noted that the concept of relative poverty as such is primarily concerned with the distribution of income and inequality in living conditions among a population. Thus, to eliminate relative poverty requires equalization of the distribution of income.

Poverty and human developing initiatives factors living standards ranging from sanitation and the composition of house hold floorings to child mortality and year of schooling (World Bank report, 2002). As cited by Townesend, (1996), there are three approaches for the definition of poverty. These are: the subsistence poverty approach, the basic needs approach, and the relative deprivation approach. The subsistence approach focuses on the minimum income or resource that helps to maintain the biological and physiological needs, such as, food, water, clothing and shelter. The major importance of basic needs approach is that it is not limited to the physiological and biological need of the individual to survive, but recognizes the importance of a range of community services, such as, safe drinking water, sanitation, transport, health and education. Thus, in this approach poverty is not only lack of income to maintain biological and physiological needs but it is also lack of accessing a range of community services.

The relative deprivation approach maintains that any measurement of poverty is based up on comparison, often with some notion of prevailing living standards in the community being researched. Bhalla and Lapeyre (1999), defines poverty in terms of “relative deprivation” as: "A state of observable and demonstrable disadvantage relative to the local community or the wider society or nation to which an individual, family or group belongs." For them there are two types of deprivation that the poor experience. These are material/physical deprivation and social deprivation (related with education, recreation, family). Thus, one might examine the prevailing pattern of expenditure and consumption and define as poor those whose incomes or resources are not sufficient to provide them with those goods and services that will enable them to live a life that is favorable according to community life styles.

As cited in the UNDP (2006), Development practitioners first define and measure poverty before executing in order to minimize poverty. Poverty is defined in five clusters. The first is income poverty or its common proxy/consumption poverty. The Second is material /want poverty, beside income, lack of or little wealth and lack or low quality of other assets such as shelter, clothing, furniture and radio. The third is capability deprivation, what we can or can not do, can or can not be, this includes human capability.

According to the definition given by those experiencing the challenge, a man from Ethiopia defines poverty as: "we are skinny; we are deprived and pale, and speak of life that makes you older than your age". Also a man from Kenya define poverty in such a way that it become important witness that material well-being is very important. The man says: "Don't ask me what poverty is because you have met it outside my house, look at the house and count the number of holes. Look at my utensils and the clothes I am wearing. Look at everything and write what you see. What you see is poverty" (WB, 2000).

Poverty is conventionally measured by the income or expenditure level that can sustain a bare minimum standard of living, but poverty is multifaceted (Getahun , 1999). Rao and Bavaiah (2005) support the argument by saying that poverty is used to be understood from the point of subsistence level of living but now it is widely accepted that the problem of poverty is more deep rooted covering several interlocked aspects such as asset lessness, underemployment, uncertain and relatively unproductive employment, low remuneration, lack of bargaining power, economic vulnerability, illiteracy, proneness to disease, social disadvantage and political powerlessness.

Pursuant to Johnson and Rogaly (1997), the notion of poverty, not only understood as low level of annual income per household, but often it has further dimension which is often the focus of NGO intervention: power lessness and vulnerability to downward fluctuations in income. According to the same source," powerlessness can be experienced in a variety of situations. Within the household, as a result of differences in gender and age and within the community, between socio economic groups, as a result of caste, ethnicity and wealth" (Montgomery and Weiss, 2005).

The World Bank (2002) noted that vulnerability to downward fluctuations in income result from unexpected risks such as crop failure, illness, loss of an asset or natural disasters, violence, and crime. There is increasingly a shift in people's perception of poverty away from viewing it as one dimensional issue towards seeing it as multifaceted problem in which a large number of government and non-governmental organizations and international funding agencies all over the world have been engaged in this seemingly unending war against it (Rao and Bavaiah, 2005; WB, 2000).

As noted on World Bank (2000) the broader approach which present poverty as an aggregate view has the advantage of increasing our understanding of its causes, which in turn brings more areas of action and policy on the poverty reduction agenda. Moreover, the report noted that as the different aspects of poverty interact and reinforce one another, thus, there is a need of understanding that these complementarities in designing and implementing programs and projects that help people escape out of poverty.

The causes of poverty are multiple and highly complex in their interrelationship. Cooksey (1994) cited in Abebe (2006). Getahun (1999) noted that a number of factors are usually described as causes of poverty. He attempted to put forward the triggers of poverty. These are lack of: asset, employment opportunity, income, skill, technology, education, health, motivation, democracy and occurrences, such as land degradation, deforestation, drought, civil war, rapid population growth.

The causes of poverty according to the world development report World Bank (2000) are: lack of income and assets, voicelessness and powerlessness, vulnerability. Most of the labor force engaged in the self employment is predominately in the informal sector. But according to the report this sector is constrained by unstable working condition and vulnerability; it is also characterized by low wages, low productive jobs, temporary activities, unsafe labor conditions.

People in Sub-Saharan Africa together with those in South Asia are among the poorest in the world, both in real income and in access to social services. About 45 percent of the approximately 590 million people in Sub Sahara Africa live below the national poverty line (WB 1996). The causes of poverty in this region as identified by the World Bank's poverty task force, depicted on World Bank (1996) report are as follows:

- Inadequate access to employment opportunities;
- Inadequate physical assets, such as land and capital, and minimal access by the poor to credit even on a small scale;

- Inadequate access to the means of supporting rural development in poor regions;
- Inadequate access to markets where the poor can sell goods and services;
- Low endowment of human capital;
- Destruction of natural resources, leading to environmental degradation and reduced productivity;
- Inadequate access to assistance for those living at the margin and those victimized by transitory poverty;
- Lack of participation failure to draw the poor into the design of development programs.

2.3. Poverty Situation in Ethiopia

Ethiopia is located in the horn of Africa bordering Eritrea in the North, Djibouti and Somali in the East, Kenya in the South and Sudan in the west. The county is one of poorest and least developed, over 38.7 percent of the population is below poverty line (MOFED, 2006). As cited in African development and poverty reduction 2000 paper, agriculture plays a critical role in the Ethiopian economy, accounting 40% of GDP and creates employment opportunity for over 85% of the population.

Wolday (2008), noted that poverty in Ethiopia is not trigged by a single factor but it resulted from a combination of factors such as high population growth, environmental degradation, high unemployment, drought, low level of literacy, limited access to resources, lack of health and educational services.

Despite the high priority given to poverty reduction within the development policy of the country, Degefe (2009) asserted that Ethiopia still remains among the poorest nations of the world with a per capita

GDP of USD 120 in 1995 (MOFED, 2002). Poverty indices have been calculated based on the minimum calorie required for subsistence at 2200 Kcal. The expenditure required for a basket of the recommended calories, adjusted for basic non-food expenditure, is estimated at ETB 1,075 per annum per person (MOFED, 2006). Based on this line, an estimate of the 2004/05 household income, consumption and expenditure survey (HICE), shows that 38.7% of the Ethiopian population is under absolute poverty. That means this portion of the Ethiopian population were unable to meet the minimum required calorie intake, which is 2200 kcal per adult per day. According to the same source, poverty (income poverty) has not declined significantly since 1999/00. However the poverty head count in 2004/05 showed a 12% decline from its level in 1999/00.

Ethiopia's population grows at a rate of 2.7% per annum MOFED (2006) According to the data obtained from MOFED (2006), concerning education, the primary and secondary enrollment ratio was 74% and 23%, respectively, in 2004/05. The school enrollment is on the rise but it is one of the lowest in the world. The health indicators place Ethiopia one among the most disadvantaged countries in the Sub Saharan Africa. Of the poor health service indicators some are that of infant mortality rate, child mortality rate, and that of the maternal mortality rate. Pursuant to the report of World Bank (1998), it is indicated that infant mortality rate is 109 per 1000 live births; child mortality under age five is 177 per 1000 live births and maternal mortality is 87 per 1000 birth.

As reported by IFDI (2011), since 2007, Ethiopia has achieved strong economic growth making it one of the highest performing economies in Sub Saharan Africa. And it remains as one of world’s poorest countries.

About 29 percent of the population lives below the national poverty line, Ethiopia ranks 169th out of 177countries on the human development index.

Furthermore, pursuant to the study of World Bank (1992) cited in IFAD (2011) report; Ethiopia has enormous potential for agricultural development. At present, only about 25 per cent of the country's arable land is cultivated, and the agriculture sector is dominated by subsistence rain-fed farming, using low inputs and characterized by low productivity. The vast majority of farmers are smallholders. About 12.7 million smallholders produce 95 per cent of the agricultural GDP. These farmers are extremely vulnerable to external shocks such as volatile global markets, drought and other natural disasters.

According to African development and poverty reduction (2004) paper, the problem of rural poverty and underdeveloped agriculture are closely linked with both micro as well as macro dimensions. At micro level, the agricultural income, the basic indicator of poverty, is based on land and labor productivity in farm and livestock activities, employment opportunities available to rural households etc, whereas at macro level, the agricultural output is determined by various policy parameters, such as, price policy of agricultural commodities. Availability of human labor and their quality, land, level of technology and above all the agricultural policy of the government. Hence, in agricultural dominant economies, mainly the level of agricultural income and productivity determines rural poverty. Thus, for the reduction of rural poverty, the improvement in land and labor productivity is a prerequisite in such economies.

2.4. The Emergence of Microfinance and the Paradigm Shift

Some tries to define microfinance narrowly from the point of microcredit, it is one among the services provided by the institutions. This is because of the early establishment of subsidized rural credit programs aimed at increasing economic development through promoting high yielding agricultural technologies in most of the developing nations during the post world war second era of the late 1940s and the 1950 (Robinson, 2001). Only government or NGO funded subsidized micro credits are provided to the rural farmers, In view of this early practice, some equate micro-finance with micro credit. But defining microfinance only from the point of microcredit, nowadays is very narrow as most microfinance service includes micro-savings even micro-insurance and payment services.

Ledgerwood (1999) define microfinance as the provision of financial services to low income clients, including the self employed. According to him financial service generally includes savings and credit, but many MFIs provide social intermediation besides financial intermediation. The social intermediations are group formation, development of self-confidence, training in financial literacy and management capabilities among members of group. Thus, the definition of microfinance often includes both financial intermediation and social intermediation.

Robinson (2001) defines microfinance by giving emphasis on the nature of the service, and the consumers of the service. According to him, microfinance refers to small scale financial services primarily credit and savings provided to people who farm or fish or herd, who operate small enterprises or micro- enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small plots of land, vehicle, draft animals, or machinery and tools; and to other individuals and groups at the local level of developing countries, both rural and urban (Robinson, 2000).

Degefe (2003) found the definition of Robinson (2001) as more specific on the potential beneficiaries and the type of financial service. “Microfinance in the 1990s was marked by a major debate between two leading views on how to fill the absurd gap in microfinance: the “financial systems approach and the poverty lending approach” (Robinson, 2001). The main differences between the financial systems approach, they are also called the “Institutionist” financial system camp and the poverty lending approach also called as “Welfarist” (Rice, 2000), are summarized by Robinson, (2001).

The institutionists argued that the poorest of the poor should not be the responsibility of the financial sector rather they need poverty programs, for such purposes as food, water, medicine, etc. to overcome desperate poverty financed by government and donor subsidies and grants. The other difference between them is that of the price of loan. The welfarists provide subsidized credit while the institutionists charge interest rate which allows cost recovery and eventually profit.

The institutionists aim at building sustainable and large scale outreach microfinance service to serve those who are under served by the formal financial institutions through emphasizing on achieving financial self sufficiency, and wide breadth or scale of outreach; the latter refers to the number of clients reached. Welfarists fear that emphasis on financial self sufficiency and building institutional sustainability would bring mission drift from poverty alleviation to profit making. Armendariz and Morduch

(2005) give emphasis on the need to attain sustainability on the part of MFI and they argue that the institutions must have access to market resources in order to build financially self sustainable institutions. Sustainability and wide scale outreach needs to be fulfilled in order to create significant level of employment opportunities and reduce poverty. Schnider (1996) highlighted the important things that help the MFI to insure sustainability both financial self sufficiency and institutional sustainability, these are: - cost coverage through setting appropriate lending rate, insuring high percentage of loan collection, attracting deposits through charging attractive interest rates, control of costs of operation (or promotion of efficiency), good governance structure to insure financial and operational controls, local participation. Degefe (2009) stated that sustainability is not an end in itself; rather, it is a means to expand outreach. Thus, it is obvious that those institutions that continue to exist have a long term impact on the lives of the poor.

2.5. Microfinance Institutions in Ethiopia

Financial services for the poor can be a powerful tool to fight poverty. According to Wolday (2001), the delivery of financial service to the active poor has the potential to reduce poverty through creating employment opportunities from which the poor can increase income and consumption. But as poverty is a multi-dimensional problem, there is no single approach to eradicate it. According to Harper (2003), microfinance is not a panacea for poverty, but it is an important tool among poverty eradication programs.

The microfinance law (proclamation 40/1996) defines “micro financing business as “an activity of extending credit, in cash or in kind, to peasant farmers or urban small entrepreneurs. The loan size of which shall be fixed by the national Bank". The definition narrowed the nature of micro-financing activity, but recently, the NBE introduced regulatory changes such as allowing the MFIs to be engaged in financial services other than mere delivery of credit, halt limitation of credit amount and repayment schedule, prescription of interest rate by NBE is changed; as a result each of the MFIs fix their own interest rate.

Microfinance development in Ethiopia in institutionalized form is a recent phenomenon, but it has a long history in different forms. The majorities of the poor access financial services in Ethiopia through informal channels, like, Iquib, Idir, Moneylenders, friends, relatives. Even though the informal financial service providers have high loan recovery rate and benefit, the borrower with flexible loan terms but interest rates are very high Wolday, (2002). An early practice of providing pro-poor finance may date back to the immediate defeat of Italians with the establishment of the then Ministry of Agriculture in 1943 and Agricultural Bank of Ethiopia in 1945. The bank had the aim of providing microloan, to assist farmers with small farmland of which had been devastated during Italian invasion. The government believed that, through extending microloan for the purpose of purchasing agricultural inputs and repair houses can accelerate socio-economic development in the country.

According to Hailu (2000) and Wolday (2002)), some local and international NGOs granted credits to poor populations beginning from the 1970s and 1980s. This is also evident in Wolday (2008) that besides credit provision, NGOs and donor funded projects had been delivering relief and development services such as emergency food, health, education, water, etc since the 1970s. Degefe (2009), substantiate this argument of the provision of microcredit and saving schemes with the aim of helping those victims of drought and famine to develop self employment opportunities as a result of it improve their livelihood. These are attributed to factors such as, provision of supply led financial service instead of demand driven financial service, lack of loan follow up, inappropriate loan size and terms, insufficiency of risk diversification, low interest rate that did not cover the cost.

According to Degefe (2009), with issuance of proclamation no. 40/1996 which is a regulatory framework used to license and supervise the microfinance sector in the country, all NGOs and government microcredit program were transformed to microfinance institutions. Wolday (2003) noted that the majority of the NGOs credit programs were terminated following the issuance of the proclamation. This allowed for the establishment of the deposit taking MFIs which are based on the new approach (i.e. the financial system approach), of targeting to reach financial sustainability and building sustainable institution. Currently, there are 31 micro finance institutions registered under the NBE (NBE, 2009).

Ethiopia is home to the two largest microfinance institutions in Africa: the Amhara Credit and Saving Institution (ACSI) and Dedebit Credit and Saving Institution (DECSI). But the remaining MFIs have also registered a remarkable growth in outreach, efficiency and sustainability Wolday, (2007). As of December 2006, the 27 MFIs had an active loan portfolio of about 2.2 billion Birr (USD 246 million) delivered to 1.5 million active clients. They also mobilized about 816 million Birr (USD 91 million) of savings from the clients and non-clients as well. And as of June 2007, the 27 MFIs that are registered under the NBE had active loan portfolio of about Birr 2.7 billion (291 million USD), which was delivered to 73 million active clients. They also mobilized about 951 million Birr (102 million US dollars) of saving Wolday (2008).This shows the Ethiopian MFI_s have attained a significant level of outreach. But the demand for microfinance service seekers, according to a study commissioned by the UNDP in 2000, were six million, thus, it should be understood that the 27 microfinance institutions meet only less than 20% for the demand for financial service of the active poor Seyed, (2006); Wolday, (2008).This indicated that there is also a significant amount of unmet demand for microfinance service in Ethiopia.

Though the Ethiopian MF industry has exhibited remarkable progress over the past decade, reaching almost two million clients in a country, of 77 million people, it is also facing certain challenges that must be seriously considered. Some of these are:-

- Most of the 31 licensed MFIs have evolved either from NGO credit programs or credit component of the government programs that are changed to MFI as required by the proclamation no. 40/1996 Degefe, (2009). Also the commercial code of Ethiopia requires all MFIs to be established as share companies, but the shares are mostly owned by regional governments, NGOs, associations and individuals of Ethiopian origin Syed, (2006); Degefe, (2009).
- Even though the MFIs in Ethiopia employ individual lending approach, it predominantly use group lending approach. They also provide limited financial services, which is of the same kind copied from each other. The methodologies employed in delivering financial service and the products are supply driven instead of being demand driven financial service.
- Some study found “NBE removed all interest rate ceilings in the financial sector in 1998, but this has not led to free market based

determination of interest rates in all cases. Most Ethiopian MFIs still maintain a low rate of interest.

2.6. Can Microfinance Reduce Poverty?

Poverty is characterized by a lack of purchasing power (lack of income), exposure to risk, insufficient access to social and economic services and few opportunities for income generation Getahun, (1999). Also, a definition given by the WB World development Report, (2000/2001) broadens the notion of poverty beyond the traditionally, held ideas of material deprivation measured by income or consumption, to more comprehensive concept of lack of capabilities, exposure to risk and vulnerability, voicelessness and powerlessness. Pursuant to the report, this broad understanding of the concept increase our knowledge of its causes, as a result of which brings more areas of action and policy on the poverty reduction strategy or agenda.

Cognizant of the fact that MFI are institutionalized to serve the financial need of the informal sector, the question that one has to ask, can access to financial service by the poor who are engaged in the informal sector, reduce poverty? If poverty is defined from the point of low levels of annual income, reducing poverty is raising average income levels beyond the poverty line. Those who aim to enable poor people, in particular who are engaged in small enterprises, to cross such a poverty line, have focused on provision of credit as one kind of development intervention Johnson and Rogaly, (1997).

There are important roles played by MFIs in reducing poverty. In the first case credit creates an employment opportunities Bekele, (1996). A World Bank study during the period 1985 to 1990 indicated that the number of poor people in the Sub-Saharan Africa has increased to 216 million, of which the largest segment is unemployed or self employed. In such countries there is a need for microcredit service to create employment opportunities through establishment of income generating activities.

At enterprise level, micro finance services, particularly credit are said to have positive impact on increasing the poor's ownership of physical (productive) assets, which increase the income earning capacity of poor entrepreneurs, Bekele, (1996). Also according to the same author, credit can assist in raising the productivity and income of micro and small entrepreneurs. This is because, it alleviate operational constraints such as usage of traditional and labour intensive equipment, incapability of taking advantages of market prices for their products and raw material inputs.

At household level microfinance service is said to have positive impact on household level variables such as: household income, household assets, education, nutrition and coping strategies Getaneh, (2005). This is because of indirect impact of increase in household income generated from micro and small business activities. Also according to same author, MF service plays a major role of empowering individuals, primarily to women, who comprise a majority of clients in many MFIs, with respect to increasing control over resources, increasing savings, self-esteem, orientation to wards the future, etc.

As microfinance institutions have expanded to include provision of micro savings and micro insurance services which can directly address the problem of vulnerability. Getaneh (2005) substantiate the argument that microfinance can potentially reduce vulnerability by helping the poor, who are engaged in micro and small enterprise, through diversifying their sources of household income, increase their savings, expand their options for credit, and improve household money management.

2.7. Micro finance and development policies /strategies

There is gross inequalities in human development worldwide (UNDP, 2002). This fact is depicted on World Development report (2002) of the world's 6 billion people, 1.2 billion – a fifth live on less that $1 a day from which 44 percent living in South Asia. If we take non-income indicators of poverty such as child mortality rate, in rich countries fewer than 1 child in 100 does not reach its fifth birthday, while in the poorest countries as many as a fifth of children do not (World Bank, 2000). Also according to the same source, there is not only world wide variation on the incident of poverty but there has been diverse experience in reducing poverty. For instance, in East Asia the number of people living on less than $1 a day fell from about 420 million to around 280 million between 1987 and 1998.

Despite such encouraging reduction of poverty in these countries the number of poor people in Latin America, South Asia and Sub-Saharan Africa has been on the rise World Bank (2000).

Cognizant of the fact that the world's poverty picture and inequality, the international community has set several goals, called the millennium Development Goals (MDG), in 2000 (UNDP, 2002). It contains eight goals for development and poverty reduction to be achieved by 2015.

According to Abu (2006) "addressing the problems of poverty in the country requires efforts to improve production, production efficiency, productivity, investment in human and physical capital, improving the distribution of resources and opportunities and undertaking sound institutional reforms.

Ethiopia formally embarked on anti-poverty reduction strategy called PASDEP (A Plan of Accelerated and Sustained Development to End Poverty). The plan on five year phase, aimed to achieve the goals and targets set in the MDGs (MOFED, 2006). PASDEP is the comprehensive framework for all development programmes in the country and thus "lay out the direction for accelerated, sustained, and people centered economic development, as well as, to pave the ground work for the attainment of the MDG by 2015 (MOFED, 2006).

PASDEP further argued that "MFIs are playing a significant role in expanding financial services to low income groups, entrepreneurs and traders, who are not usually reached by banks". Thus, one of the objectives under the PASDEP is improving the coverage of MFIs, especially in the less developed regions of the country (MOFED, 2006).

2.8. Impact of Microfinance from Case Studies in Ethiopia.

The idea of poverty reduction through microfinance service has generated enormous enthusiasms among donors and NGOs as an instrument capable of breaking the vicious circle through building productive assets and reducing the vulnerability of the poor (Nazrul, 2009). KofiAnan; the UN secretary General until the end of 2006, support the effectiveness of microfinance as an important instrument in the fight against poverty as follows: "It has been evidenced world wide that microfinance helps the poor to overcome poverty, and not through charity. It is a financial system that serves the poor with financial services in a most effective and productive way" Wolday (2008). The objective of all microfinance institutions in Ethiopia is reducing poverty through provision of sustainable financial service for the poor, but there have been very limited studies which assessed the impact of microfinance institutions on poverty reduction. Some of the findings of the case studies on the impact of microfinance activities in Ethiopia are summarized as follows.

Despite lack of comprehensive research, the results of the few case studies revealed that access to finance for the poor reduce poverty. The fact depicted on the study conducted by the Development Bank of Ethiopia, DBE 1999) support the positive impact of microfinance service on the lives of the beneficiaries. Through accessing formal successive rounds of loans, beneficiaries were able to build capital asset that is better than the control group members. Also the clients were directly benefiting from the program in terms of increased employment opportunity and increased income when compared with their situation that existed prior to the loan and the control group (non-beneficiaries). The program had enabled to create employment opportunity for an estimated total of 30,247 individuals.

Borchgrevink, Helle-Valle, Woldehanna (2003) made a study on the impact of DECSI (Dedebit Credit and Saving Institution) on poverty alleviation in the case of central Tigray. In their research they made comparison between clients and non-clients on changes, such as, assets and living conditions, possibilities of covering emergency expenses and on consumption expenditure. Moreover, the same study by Borchgrevink, Helle-Valle and Woldehanna (2003) on the case of DECSI, revealed another success story of positive impact of microfinance service on the female clients. Similarly, Solomon (1996) made impact assessment in Debre Birhan town considering the case of Financing Micro Enterprises. According to the study, out of randomly taken 65 borrowers, about half

(49%) of the sample households have experienced an increase in income levels. Some of the triggers for such changes according to the study attributed to factors such as:

I. The loan enabled a revival of an activity that used to be performed previously;
II. It enabled to expand and/or diversify income sources;
III. It was secured at relatively low interest rate;

Moreover, the microfinance institutions enjoyed a high loan recovery rate of 93%. According to the study this rate is remarkable even when it is compared with the experience of the Malaysian projek Ikatiar (78%), Nigeria (86%), India (90-95%) and the Grameen Bank (98%).

2.9. Impact of Microfinance from Global Experience

Evaluation of the impact of microenterprise lending programs indicates that such intervention have impact on social relations, partly through their economic effects. Those who claimed such impacts raise the example that through empowering women and changing gender relations in the household and in the community will lead to progressive social change (Johnson and Rogaly, 1997). According to the same author, citing the research work of Hashemietalet.al (1996), assessed the effect of Grameen and BRAC programme on eight indicators of women's empowerment. These are mobility, economic security, ability to make small purchases, ability to make larger purchases, involvement in major household decisions, and relative freedom from domination by the family, political and legal awareness, and participation in public protests and political complaining. The study concluded that, on balance access to credit has enabled women to negotiate within the household to improve their position. Also the fact depicted on Ledgerwood (1999), described about group based microcredit scheme operated by BRAC in Bangladesh was successful in reducing poverty as measured by increases in aggregate wealth of the members. Moreover, other impact study from Bank Rakyat Indonesia (BRI) reveals the fact that its borrowers have obtained net increase in their household income by 75% and net enterprise income by 93% (Webster and Fidler, 1996).

Share Microfinance Limited (SML), founded by Mr. M.Udaia Kumar, is one among many microfinance institutions operating in India. The impact of the programme on reduction of poverty has been remarkable. Rao and Bavaiah (2005) citing the research work undertaken by external experts that is depicted on SML annual report (2003).

Bekele (1996) discussed the experience of the Grameen Bank (GB). Like other microfinance institutions, the pioneers have the main objective of extending financial facilities thereby to raise the income earning capacity of the poor. An impact study on 800 borrowers of Grameen Bank conducted by the World Bank revealed that their income has increased by 28% as a result of participating in the credit program.

3. CHAPTER THREE

3. RESEARCH METHODOLOGY

The study was conducted in rural of Oromia region where SFPI intervention has taken place. The impact of the SFPI was evaluated at four selected sites where MFI's branches of SFPI established, namely Holeta, Debere Zeit, Sheno, Fiche and Akaki.

The study was based directly on the impact of the loan to beneficiaries of the program. The client oriented method of impact analysis was adopted, in accepting the rational that "If an MFI aiming at providing financial services to the poor to reduce their poverty, then the institution cannot take refuge in simply measuring how well it made services available (Ledgerwood 1999). Because, the stated end result of reducing poverty is fully measurable only in direct relationship to the lives of human being.

And the research used the "before" "after" comparison of the beneficiaries' socio-economic position. To achieve the stated objectives of the research, different variables which manifest reduction or aggravating of poverty was formulated.

These are: asset possession (both capital and household assets), income, food consumption expenditure, annual education expenditure and utilization of land assets, utilization of improved seed and fertilizers. Extensive data was collected on these variables and an attempt was made to identify the magnitude of change on the variables by evaluating conditions before and after borrowing.
Moreover, an attempt was made to test statistically the significance of the variation before and after borrowing. The research had also addressed

the differences between male and female beneficiaries regarding the variables. Thus, various hypotheses were formulated and tested.

3.1. Research Design

The type of research design employed for the purpose of this study was descriptive in nature. It intended only to describe the state of affairs of factors affecting the impact of MF in poverty reduction in rural setting.

3.2. Data sources

The study employed both primary and secondary sources of data. The primary sources of data were the beneficiaries from four branches of SFPI. And secondary data has been obtained from the records of the institution, journals, proceedings, bulletins, internet and various literatures.

3.3. Sampling Techniques

Multistage sampling method was employed. To ensure that a sample represents the original population, objective sampling procedures must be adopted. The ideal case is to obtain a random sample in which all individuals in the original population had an equal chance of being chosen. Likewise, a random sample of four peasant associations (PA) from each of the five districts was selected and accordingly a total of 20 PAs were identified. Then from among the clients in the sampled PAs, those who had been participating since 2009 were purposely selected as a sampling frame. One consideration to choose a sampling technique is the objective of the research under study. As the objective of this research is to make impact assessment of the service on the livelihood of the beneficiaries, there was a need for time gap, as the time period of participation in a program can influence the impact on beneficiaries.

The sample respondents were selected from the sampling frame randomly. Regarding the sample size, five beneficiaries from some PAs or six beneficiaries from larger PAs were selected. Therefore, in total 21 beneficiaries from each district and a total of 105 beneficiaries were selected for the study.

3.4. Data collection Methods

There were many factors to consider in choosing data collection methods, but decisions were guided primarily by the aim of the research (Laws with Harper and Marcus, 2003). It is often best to use more than one technique for the investigation in order to triangulate the evidence that has been collected. "Triangulation involves checking data collected from respondents and cross-checking with others to get different point of view of the same phenomenon. Careful use of triangulation helps to deal with the problems of the inherently untrustworthy respondents."

As the essence of the research is to make impact assessment of credit on the socio-economic status of the beneficiaries, extensive data were collected using questionnaires and structured interview, structured observation and focus group discussion. The structured interview used to collect data from households on various dimensions of impact. And prior to interview, the guideline used in the actual research was subjected to pilot testing, the aim of which is to increase the validity of the instrument.

Including the main researcher, four enumerators were used to conduct the interview and the three of them were trained for one day focusing on: the objectives of the study; how to approach respondents; how to record the responses and on detailed contents of the instrument.

The other method of primary data collection was structured observation. The structured observation is employed to assess on asset possession (both capital and productive assets). And it was conducted simultaneously with the interview schedule. For instance, while conducting the interview the enumerator observed whether the materials exist or not. The importance of which is for cross checking data to increase the validity of the data.

Finally, Focus Group Discussion (FGD) with the beneficiaries was made to identify the satisfaction or complaints on the services of the institution, problems they faced and any recommendation they might have. FGD was conducted at Holeta Branch, Debere Zete Branch, Akaki, Shano and Fiche branches. A total of 8 focus groups (2 at three sites and one at two site) were conducted, each focus group containing 4-6 beneficiaries. The four groups were formed based on sex of participants. This is because, if the female beneficiaries are grouped separately, they have opportunity to talk freely rather than mixed together with the male beneficiaries.

3.5. Method of data analysis

The responses of the respondents collected by using the above methods were organized, analyzed, and interpreted in scientific way.

The descriptive statistics were that of computation of the mean, percentages, and frequencies while inferential statistics of Wilcoxon sign ranks test and independent two sample t-test were employed.

The Wilcoxon sign ranks test was employed to evaluate the socio-economic impacts of the program before and after borrowing. The test was designed to evaluate the difference between two treatments, using the data from a repeated-measure experiment. The two treatments in this research were those without program participation (before borrowing) and with program participation (after borrowing). And to compare the male and female beneficiaries, two independent sample t-test was employed. The test used for evaluating whether there is significant difference between the sexes on socio-economic variables after borrowing. For all tests a significant level at alpha 5% was employed.

CHAPTER FOUR

4. RESEARCH FINDINGS

4.1 SOCIO-DEMOGRAPHIC CHARACTERSICS OF RESPONDENTS

The essence of this research is to evaluate the provision of microfinance service of SFPI towards reduction of poverty, job creation and empowerment of women.

Out of the total sample size of 105, 62% and 38% the sample beneficiary household heads were female and male, respectively. Thus, SFPI microfinance service is more targeted towards serving the financial need of women. The finding of the research supports the argument that most of the micro finances' objective is to empower women by increasing their economic position in society (Ledgerwood, 1999). It is also consistent with the institution`s objective is provide financial service to marginalized society giving particular attention to women.

4.1.1 Respondents' children

Out of the total beneficiaries, 5.7 % with no children of their own, 42% had one to three, the majority of the beneficiaries, 44.8%, had children four to six and the remaining 7.6% had 6 or more children. In each group female clients tend to have more children than the male counterparts (Table 4.1).

Table 4.1 Distribution of respondents on the basis of number of children in the family (n=105)

Respondent sex	Number of children under each age class									
	none		1-3 years old		4-6 years old		>6 years old		Total	
	f*	%	f	%	f	%	f	%	f	%
Male	2	1.9	19	18.1	17	16.2	2	1.9	40	
Female	3	2.9	26	24.8	30	28.6	6	5.7	65	61.9
Total	5	4.8	45	42.9	47	44.8	8	7.6	105	100

Source: field survey. *f = frequency

4.1.2 Dependents of respondents

The number of beneficiaries who reported that they had no dependents before the loan were 11.4%, while it decreased to only 4.8% after the loan. Beneficiaries who reported that they used to support 1-3 dependents before loan were 41.9% but this was raised to 43.8% after the loan. And the same thing is true for beneficiaries who supported 4-6 dependants. The reason for increased number of dependents after loan may be attributed to increase in income from the activities financed by the loan.

When categorizing the number of dependents on the basis of gender, female beneficiaries support more dependents as compared to male counterparts. For instance, after loan, the female beneficiaries were able to support 4.2 dependents on average while the male support 1.8 dependents (Table 4.2).

Table 4.2 Number of household dependents (n=105)

Description	Respondent sex	Number of respondents with dependents								Total	
		None		1-3 dependents		4-6 dependents		>6 dependents			
		f	%	f	%	f	%	f	%	F	%
Before the loan	Male	7	6.7	18	17.14	15	14.3		0	40	38
	Female	5	4.8	26	24.8	30	28.6	4	3.8	65	62
	Total	12	11.4	44	41.9	45	42.9	4	3.8	105	100
After the loan	Male	2	1.9	19	18.1	17	16.2	2	1.9	40	38
	Female	3	2.9	27	25.7	29	27.6	6	5.7	65	62
	Total	5	4.8	46	43.8	46	43.8	8	7.6	105	100

Source: field survey.

4.1.3 Marital status

The majority (91%) of the beneficiaries were married; out of these, 3.8% were divorced, and 7.6% were widowed (Table 4.3).

Table 4.3 Respondents' marital status

Descriptions	Male		Female		Total	
	f	Percent	F	Percent	f	Percent
Single	2	1.9		0	2	1.9
Married	37	35.2	54	51.4	91	86.7
Divorced		0.0	4	3.8	4	3.8
Widowed	1	1.0	7	6.7	8	7.6
Total	40	38.1	65	61.9	105	100

Source: field survey.

4.1.4 Literacy rate

Among the total respondents, 54.3% were illiterate. The number of female clients who reached above grade one level accounted to only 6.7% while 16.2% for male clients. But those who attended grade 6 were 7.6% for male clients and only 1% for female (Table 4.4).

Table 4.4 Respondents' educational status

Descriptions	Male		Female		Total	
	f	Percent	f	Percent	f	Percent
Illiterate	8	7.6	49	46.7	57	54.3
Read and write only	15	14.3	9	8.6	24	22.9
Grade 1-6	9	8.6	6	5.7	15	14.3
Grade 7-8	6	5.7	1	1.0	7	6.7
Grade 9-12	2	1.9		0.0	2	1.9
Above 12						
Total	40		65		100	

Source: field survey.

4.1.5 Respondent age group

The largest 30.5% of respondents were with in the age group of 36-40 years. The majority of the clients (91.4%) were in the age group of less than or equal to 50 years age. The implication is that the majority of the beneficiaries were within the working age group. Regarding classification of age based on gender, about 48.6% of females are in the age group of less or equal to 45 years, whereas, only 27.6% of males were within this age group (Table 4.5).

Table 4.5 Distribution of respondents' by age group (n=105)

Age group	Male		Female		Total	
	f	Percent	F	Percent	F	Percent
18-20						
21-25						
26-30	2	1.9	5	4.8	7	6.7
31-35	6	5.7	11	10.5	17	16.2
36-40	12	11.4	20	19.0	32	30.5
41-45	9	8.6	15	14.3	24	22.9
46-50	7	6.7	9	8.6	16	15.2
51-55	2	1.9	7	6.7	9	8.6
56-60	2	1.9			2	1.9
> 60						
	40	36.1	65	61.9	105	100

Source: field survey

4.2 Access, amount, trend, sufficiency and purpose of loan

4.2.1 Previous access to loan

According to Ledgerwood (1999), provision of micro-credit is one way of increasing income and consequently reduce poverty level of beneficiaries by encouraging them to start own micro-businesses or expand the existing ones. Khandker(1998), Webster and Fidler (1996) noted that lack of capital and savings make poor people not to be able to get the benefits of engaging in micro and small scale business activities. Despite such benefits of credit the poor, who were engaged in the informal sector were denied access to credit from the conventional financial institutions (Bekele, 1996; Solomon, 1996; Montgomery and weiss,2005). The findings of this research seem to support the argument presented above.

The beneficiaries were asked whether they had access to credit from other financial sources prior to participating in SFPI microfinance program. The majority (86.7%) of respondents were denied access to financial service from other sources (Table 4.6).

Table 4.6 Respondents access to loan before intervention of SFPI (n= 105)

Previous access to loan	Male		female		Total	
	f	Percent	f	Percent	f	Percent
Yes	9	8.6	5	4.8	14	13.3
No	31	29.5	60	57.1	91	86.7
Total	40	38.1	65	61.9	105	100

Source: field survey

With regard to financial sources available to farmers, 57.1% of respondents obtained loans from relatives and family, 28.6% from local money lenders and the remaining 14.3 % obtain from savings in Equib i.

e the kind of revolving traditional savings. None of them had access from the conventional financial institutions (Table 4.7).

Table 4.7 Respondents source of loan before SFPI

Source of loan	Male		female		Total	
	f	Percent	F	Percent	f	Percent
Relatives and friends	5	35.7	3	21.4	8	57.1
Local money lenders	4	28.6		0.0	4	28.6
Equib		0.0	2	14.3	2	14.3
Others		0.0		0.0		0.0
Total	9	64.3	5	35.7	14	100.0

Source: field survey

4.2.2 Access of loan from SFPI

One of the reasons for the deny of access to credit from the conventional financial institutions is lack of collateral required by those institution (Bekele, 1996; Montgomery and Weiss, 2005). Microfinance service institutions have come to serve the financial needs of the poor with easy, affordable and diversified options for collateral (property) (Khandker, 1998). These innovative approaches of securing loan were group/social collateral. SFPI is one among the MFIs in Ethiopia which make use of this new innovative approach. In this study, respondents were asked on the guarantee/ collateral type they offered to access the loan from SFPI.

All of the beneficiaries of SFPI (100%) were using the innovative approach of securing loan. Thus, it can be said that SFPI is serving the financial needs of those who cannot provide collateral (property) to a bank.

On focus groups discussion held with a range of people, many had agreed on the importance of this innovative approach of securing loan. In this study, 95% of the focus group discussants mentioned that they were denied access from the conventional financial institutions due to lack of collateral (property). Hence, they strongly had appreciated the new approach of securing loan, such as group or social collateral.

The majority of the focus group discussants stated that they would have not been able to get the benefits from businesses they were engaged in had it not been due to SFPI loan. Thus, most of those in focus group had agreed that SFPI has created easy access to loan. In general, SFPI had met Ledgerwood's (1999) objective in that "MFIs need to supply services that fill the gaps and integrate the un-served groups into the market".

Next to guarantee, the beneficiaries were asked about the number of times they were able to access loan from SFPI. According to them, it varies from individual to individual. The majority 41% of the beneficiaries had access to loan from SFPI for three times (Table 4.8). The assumption is that, the more the number of rounds of loan, the more would be the benefits obtained in terms of increased income to the beneficiaries. For instance, pursuant to a study made by Development Bank of Ethiopia (DBE) (1999), by assessing formal and successive rounds of loan, beneficiaries were able to build capital assets and were directly benefiting from increased employment opportunity and increased income.

Table 4.8 Loan cycle of respondents' (n= 105)

Loan cycle	f	Percent	f	Percent	f	Percent
Third	18	17.1	25	23.8	43	41%
Fourth	13	12.4	20	19	33	31.4%
Fifth	9	8.6%	14	13.3%	23	21.9%
Sixth			6	5.7	6	5.7%
Above sixth						
Total	40	38.1%	65	62%	100	100%

Source: field survey.

4.2.3 Amount, trend and sufficiency of SFPI Loan

The average loan size obtained by beneficiaries had shown great variation. During the first cycle, the average loan size received was ETB 1184.15 but during the fifth loan cycle the average loan had grown to ETB 4216.25 (Table 4.9). The implication of this is that with successive loan, beneficiaries tend to get engaged in more business activities which require more capital than the prior situation. The institution's policy also ensures to raise the loan amount for those clients who repay the previously taken loan on time.

When the loan size granted to women was compared with that of males, the average loan taken by female clients was less than the male counterpart. This implies that females are engaged in business activities which require fewer capitals, which in turn will have an impact on the level of profit earned from the business (Table 4.9).

Table 4.9, Mean loan size in each cycle

Loan cycle	For male	for female	Total mean
First	1414.3	954	1184.15
Second	2416	1574	1995
Third	3304	1926	2615
Fourth	4267	2453	3360
Fifth	4937.5	3495	4216.25
Above fifth		4216	4216

Source: field survey

The beneficiaries were asked about the sufficiency of the loan disbursed to run their activities. The majority, (77.1%) had considered that the loan amount was sufficient to run their businesses (Table 4.10).

Table 4.10 Respondents' view on sufficiency of loan disbursed (n= 105)

The Loan size is sufficient	Male		female		Total	
	f	Percent	f	Percent	f	Percent
Yes	27	25.7%	54	51%	81	77.14%
No	13	12.4%	11	10%	24	22.86%
Total	40	38.1%	65	62%	105	100%

Source: field survey.

The same question was raised during FGD to 8 focus groups. More than 50 percent had agreed that, it was sufficient to run their business activities. Hurley (1990) argued that even small loan can have dramatic and transforming influence on the lives of the poor people.

4.2.4. Utilization of the loan

The beneficiaries need the loan for different purposes. The major portion of the loan was utilized for purchasing fertilizer and improved seed, as all beneficiaries were engaged in agricultural production, to help them promote productivity and thereby lead to increase their income. Next to fertilizer and improved seed, 23.4% of the loan was utilized for cattle fattening purposes (Table 4.11)

Table 4.11 Respondents view on utilization of loan

Purpose of the loan	Male		female		Total	
	f	Percent	f	Percent	f	Percent
To purchase fertilizer and seed	25	12.2	29	14.1	54	26.3
To buy farm oxen	18	8.8	17	8.30	35	17.1
For fattening and dairy cows	13	6.30	35	17.1	48	23.4
To lease land	23	11.2	16	7.80	39	19
To take back leased land	8	3.9	15	7.3	23	11.2
To buying and selling grain		0	6	2.9	6	2.9
For consumption		0		0	0	0
For Others purposes		0		0	0	0
Total	87	42.4	118	57.6	205	100

Source: field survey.

4.3 Loan repayment status

Financial self sufficiency and institutional sustainability of MFI could only be reached through insuring high percentage of loan collection (Degefe, 2009). In this study, the beneficiaries who had not been repaying the loan according to the schedule were only 10.5% from the total sampled beneficiaries (Table 4.12). It can be said that SFPI is on the way of building sustainable institution through insuring high rate of loan collection.

Table 4.12 Respondents' loan repayment status (n=105)

Loan repayment status	Male		female		Total	
	f	Percent	f	Percent	f	Percent
Fully repaid as schedule always	35	33.3	59	56.2	94	89.5
Full repaid lately same times	5	4.8	6	5.7	11	10.5
No repaying	0	0	0	0	0	0
Total	40	38.1	65	61.9	105	100

Source: field survey.

The reason for not repaying according to the schedule was mainly due to illness and death of family member (63.6%). The remaining 27.2% and 9.1% had reported due to market fluctuation, such as fall in price of products and poor sales, and due to being less productive of the asset they were utilizing to generate income, respectively. For instance, death of cows is for those who earn income by selling milk (Table 4.13).

Table 4.13 Respondents' reason for late repayment (n=11)

Reason for late repaying	Male		female		Total	
	f	percent	f	percent	F	percent
Illness	1	9.1	2	18.2	3	27.2
Death of family member	2	18.2	2	18.2	4	36.4
Loss of asset			1	9.1		
Market related problem	2	18.2	1	9.1	3	27.2
Bad weather condition						
Inconvenience of repayment period						
Other						
Total	5	45.5	6	54.5	11	100

Source: field survey.

4.4). View of beneficiaries on: time of loan payment, interest rate of lending and promptness in loan issuance.

4.4.1 Time of repayment

Rural beneficiaries of the SFPI credit scheme are expected to make loan repayment on term basis once a year. In this regard, 64.8% of respondents claimed that the time set for loan payment is suitable, which coincides with harvesting period of agricultural products.

4.4.2 Interest rate of lending

As per the directive No MFI 11/98, each MFI in Ethiopia can set its interest rate. A Board of Directors of each micro-financing institution is the concerned body to set the interest rate, which reads, "the interest rate to be charged on loans and advance extended by a micro-financing institution shall be determined by the Board of Directors of each micro financing institution" and also the recent directive No /20/2010) approve the same. The lending interest rate on loan of Ethiopian MFIs varies with in 12.5% to 25% (Wolday, 2002). Moreover, he argued that the lending interest rate of MFIs in Ethiopia has been low to cover the operational and financial cost of microfinance institutions.

Concerning SFPI interest rate on loan, there are two types of rates on loan. In the rural settings, they charge 24% and in urban areas it was 16%. The reason is that the rural loan, as it was discussed above, the payment method is on term basis but the urban loan payment method is on installment basis. In evaluating the attitude of clients towards the interest rate of SFPI on lending, 31.4**%** of respondents had reported that the lending interest rate as moderate, while 19% noted that the rate was high. But, 46.7% of respondents had stated that they did not have information on lending interest rate of the institution (Table 4.14).

Table 4.14 Respondents' view on interest rate of loans

Rank	Male		Female		Total	
	f	Percent	f	Percent	f	Percent
High	9	8.6	14	13.3	23	21.9
Moderate	14	13.3	19	18.1	33	31.4
Low		0.0		0.0	0	0.0
Don' know	17	16.2	32	30.5	49	46.7
Total	40	38.1	65	61.9	105	100.0

Source: filed survey

4.4.3 Promptness of loan issuance

The time of issuing loan is an important factor to purchase agricultural inputs and productive assets to begin their farming operation for the season. Respondents' views were assessed on loan issuance process of MFIs especially on time it takes to get the loan.

Table 4.15 Respondents' view on promptness of issuance of loan (n=105)

MFIs Prompt in issuance of loan	Male		Female		total	
	f	Percent	f	Percent	f	Percent
Yes	37	35.2%	63	60%	100	95.2%
No	3	2.9%	2	1.9%	5	4.8%
Total	40	38%	65	38%	105	100%

Source: filed survey

Almost all of the respondents (95.2%) stated that the process takes a short time (Table 4.15). During the FGD discussion and in interview with the focus groups they had agreed with responds on loan issuing process being short and satisfactory.

4.5 Respondents' saving culture

Micro-finance institutions have significant contribution in promoting saving culture in rural Ethiopia. Regarding money saving, respondents view was assessed on their culture of saving prior to SFPI intervention. The majority of the respondents (90.5%) did not have a culture of saving before being clients of SFPI, but few respondents were saving in traditional ways, such as equb, or purchase an asset or hoard liquid cash in their home (Table 4.16)

Table 4.16 Respondents' saving culture before being client of SFPI (n=105)

Did you save before being a client of SFPI	Male		Female		Total	
	f	Percent	f	Percent	f	Percent
Yes	6	5.7	4	3.8	10	9.5
No	34	32.4	61	58.1	95	90.5
Total	40	38.1	65	61.9	95	100

Source: filed survey

Institutional savings services provide security, convenience, liquidity and returns and represents a crucial financial service for low income people

(Marguerite Robinson, 1995). Low income people will substantially increase their voluntary savings if provided with a safe and convenient place to deposit their savings (www.Woccu.org). Reasons for not saving vary from client to client.

Table 4.17 Respondents reason for not saving before being a client of SFPI (n=105)

Reason for not saving	Male		female		Total	
	f	Percent	f	Percent	f	Percent
Lack of access	13	13.7	25	26.3	38	40
Low income	9	9.5	13	13.7	22	23
Lack of awareness	14	14.7	21	22.1	35	37
Others		0.0		0.0		0
Total	36	37.9	59	62.1	95	100

Source: filed survey

A large number (40%) of the respondents were unable to save due to lack of accessibility to financial institution, due to lack of awareness and due to low income (Table 4.17). Thus, low income was not the major factor for not saving; rather accessibility and awareness were the major factors for low/no savings.

Microfinance institutions are designed not only to extend loan but also to serve as saving service. In order to bring an impact on poverty reduction, there is a need for increasing the capacity and awareness of the poor towards saving. There are two approaches for saving. One is compulsory, in that clients are forced to save after the loan on monthly basis and the other type of saving is on voluntary basis in that it depends on clients' willingness to save.

All respondents are required to save at SFPI compulsorily in order to be entitled to credit service. The purpose for compulsory saving is to ensure repayment of the loan rather than to change the saving culture. If we see it from the point of the poor, saving services enable them to accumulate very small surplus to be used at a later date in case of emergencies (Webster and fiddler, 1996). As poverty can be understood as vulnerability to downward fluctuations in income, interventions which can reduce such vulnerability and protect livelihoods also reduce poverty (Johnson and Rogaly, 1997). Such interventions like MFI reduce the risk faced by the poor through, among other things, provision of saving services. According to Wolday (2008), the proliferation of those microfinance institutions which can mobilize or pool small sums of saving from the poor are a recent phenomenon, which is followed with the issuance of the first MF legislation in 1996 (proclamation 40/96). In order to have the desired impact on poverty, MFI should work in a way that can increase the saving capacity of the poor to a higher level.

And saving is also important from the point of the MFI itself, as savings are the key to MFIs success for achieving full financial self-sufficiency and in turn insure institutional sustainability because they provide a sustainable local, cheap source of loan. The finding of the research had revealed that the mean total voluntary saving was 619.10 ETB that is very low as compared to compulsory saving. And the institution is also able to mobilize saving (voluntary) from 36 beneficiaries or 34.3% out of the total sampled respondents. Voluntary saving mobilized by female beneficiaries was 145.5 ETB while for the male it was 473.6 ETB. Based on this data, males tend to save more than women clients (Table 4.18).

Table 4.18 Level of saving through compulsory and voluntary approaches

Saving type	Female (mean)	Male (mean)	Total
Voluntary saving(ETB),(valid n=36)	145.5	473.6	619.1
Compulsory savings(ETB) valid n=91)	1435.85	1478.95	2914.8
Total mean	1581.35	1952.55	3533.9

Source: field survey.

4.6) Respondents' view on the trend and interest rate of saving

The minimum interest charged on deposit is set by the national bank of Ethiopia. According to the directive No /20/2010), "the minimum interest rate that shall be paid per annum by microfinance intuitions on saving shall be 5%." Based on this directive, SFPI pays 5% interest on saving account.

As stated above, SFPI charges two types of interest rates on loan. I Interest rate paid by SFPI on savings was 5%, which is very low as compared to interest rate they charge on loans, particularly to rural clients. The gap between interest rate on loan and saving is very wide in the rural context.

Beneficiaries were asked for their views on the interest rate paid by the institution on their saving account. The majority (78.1%) of the beneficiaries expressed that they did not have the information on interest rate for their savings. The remaining 21.9% stated that the interest rate on saving was high. In spite of the training and client orientation programs given by the institution, 78.1% of the beneficiaries unable to say the interest rate on their savings. The implication of this finding is that there is a gap in communication with regard to this issue (Table 4.19).

Table 4.19 Respondents' view on the interest rate paid on savings (n=105)

Description	Indictors	Male		Female		Total	
		f	Percent	f	Percent	F	Percent
Interest rate on saving	High	13	12.4	10	9.5	23	21.9
	Less		0.0		0.0		0.0
	Has non information	27	25.7	55	52.4	82	78.1
Total							
Trend of saving compared to that before the loan	Significantly increased	7	6.7	21	20.0	28	26.7
	Increased	33	31.4	44	41.9	77	73.3
	Decreased						
	Stayed the same						

Source: filed survey.

Beneficiaries were asked on the trend of saving after the loan as compared to the capacity of saving before program participation. Out of the total, all respondents stated that their saving culture and ability to save had increased as compared to the period prior to participation in the program (Table 4.19).

With regard to source of saving, the money was generated from the business promoted by the loan.

Table 4.20 Respondents' source of saving after joining SFPI

Source of saving	Male		female		Total	
	f	%	f	%	F	%
Selling milk product	17	10.6	26	16.3	43	26.9
Selling grain	22	13.8	18	11.3	40	25.0
Selling local beer		0.0	13	8.1	13	8.1
Selling eggs	12	7.5	21	13.1	33	20.6
Selling dung cake	8	5.0	15	9.4	23	14.4
From others	5	3.1	3	1.9	8	5.0
Total	64	40.0	96	60.0	160	100.0

Source: filed survey.

For all respondents their sources of saving were petty businesses financed by the loan (Table 4.20) and the result from the interview schedule and FGD substantiate the above findings.

4.7) Purposes of saving

Respondents save for different purposes, out of which, the majority (58.3%) were saving for business expansion (Table 4.21)

Table 4.21, Purposes of saving (n=105)

Reason for saving	Male		Female		Total	
	f	Percent	f	Percent	f	Percent
For expansion of businesses	7	19.4	14	38.9	21	58.3
For emergency purposes	4	11.1	4	11.1	8	22.2
For loan repayment	4	11.1	3	8.3	7	19.4
For getting interest						0
Others						
Total	15	41.7	21	60	36	100

Source: Filed survey.

Some of them (22.2%) save for emergency purposes and 19.4% for loan reimbursement. None of the respondents had expressed interest as a reason for their savings. The implication of this finding is that the beneficiaries desire to save in order to engage in income generating activities.

4.8 Socio economic impact of microfinance

4.8.1 Impact of SFPI on income of beneficiaries

According to Khadker(1998), Webster and Filder (1996), lack of capital and savings led poor people not to get engaged in micro and small scale enterprises. The benefit, according to Lidgerwood (1999), of micro-credit is to enable entrepreneurs to startup their own businesses, and as a result, it increases their income and consequently reduce the level of poverty. Similarly, the prime objective of the program is to improve income levels through provision of credit and other financial services in order to alleviate poverty and unemployment prevailing in a country. The impact of intervention of SFPI is presented on (Table 4.22)

Table 4.22 Impacts of SFPI's intervention on income generation (n= 105.)

Indictors	Male		female		Total	
	f	Percent	f	Percent	F	Percent
Significantly increase	18	17.1	41	39.0	59	56.2
Increase	22	21.0	24	22.9	46	43.8
Stayed the same		0.0		0.0		0
Decrease		0.0		0.0		0
Total	40	38.1	65	61.9	105	100

Source: field survey.

In this study, all respondents (100%) of the beneficiaries of the program had benefited by increasing their income, but to a different degree. All had reported that their income has increased as compared to their income prior to participating in the program.

After observing this positive impact of credit on the beneficiaries' income, respondents were asked the reason for positive changes in income. The majority (35.8%) of respondents claim the increment of income was due to the loan, which had enabled them apply new technology (such as fertilizer, improved seed), 28.9% of the responses stated that the loan had created on opportunity to expand the existing businesses (Table 4.23).

Table 4.23 Respondents' reasons for income increment

Reason	Male		female		Total	
	f	Percent	f	Percent	f	Percent
Start new business	2	1.1	18	9.5	20	10.5
Expand exiting activities	20	10.5	27	14.2	47	24.7
Engaged in to additional business	18	9.5	37	19.5	55	28.9
Apply new theology (fertilizer, improve seed & others)	21	11.1	48	25.3	68	35.8
Total	61	32.1	129	67.9	190	100.0

Source: Field Survey

The increment of the income in this study was solely as a result of interventions by SFPI. Similarly, case studies conducted by Solomon (1996), entitled, "Credit to poor Households: the case of Financing Micro Enterprises in the Debre Berhan Town" had shown that almost half (49%) of them experienced an increase in income level out of a randomly selected 65 borrowers.

Other studies conducted by Borchgrevink, Helle-valle, Woldehanna (2003) on the impact of DECSI on poverty reduction in the case of central Tigray had shown that 57% of the clients had obtained improved income. Thus, as compared with their findings, in this study, the impact of SFPI in raising income of its clients is by far greater.

As an illustration, a case study of one successful borrower in Holeta will be presented. He is 41 years old and a father of two children. He had leased his plot of land due to lack of plough oxen and became a daily labourer. His income then was from hand to mouth, barely enough for daily survival. In 2008, he obtained a loan amounting to 2000 ETB from SFPI for the first time for the purpose of purchasing a farm ox. He bought an ox and he had retrieved the land leased. He then shared one additional ox with his friend for use in turn. That way, he had generated income from the sale of products and able to pay the first loan. Following repayment of the first loan, he was able to borrow 3,500 ETB during the second round of loan. With this loan he had bought another ox, fertilizers and improved seed. After having two oxen, he was fully employed him-self to his farm. As a result, his income had significantly increased and was able to pay the second loan. In addition, he was able to buy a cow to provide milk to his children. For the third time he took a loan to get engaged in fattening. In so doing his yearly income grew to more than 15,000 ETB. Currently, he is in a better position to meet not only basic material needs of his family, but also bought more household assets.

Table 4.24 Respondents' income before and after obtaining the loan. n=105

Income	Before the loan						After the loan					
	Male		Female		Total		Male		Female		Total	
	f	%	F	P%	F	%	f	P%	f	%t	f	%
<6000	.	3.8	15	14.3	19	18.1						
6000-7500	12	11.4	21	20.0	33	31.4		0	7	6.7	7	6.7
7500-10000	10	9.5	11	10.5	21	20.0	5	4.8	13	12.4	18	17.1
10000-12500	7	6.7	6	5.7	13	12.4	8	7.6	18	17.1	26	24.8
12500-15000	3	2.9	3	2.9	6	5.7	11	10.5	15	14.3	26	24.8
15000-17500	2	1.9		0.0	2	1.9	9	8.6	9	8.6	18	17.1
17500-20000				0.0		0.0	3	2.9			3	2.9
20000-22500				0.0		0.0	3	2.9		0	3	2.9
>22500				0.0		0.0		0.0		0.0		0.0
Don't know	2	1.9	9	8.6	11	10.5	1	1.0	5	4.8	6	5.7
Total	40	38.1	65	61.9	105	100	40	38.1	65	61.9	105	100

Source: Field Survey

The study shows in the (Table 4.24), prior to the loan, a large number of beneficiaries income was less than or equal to 6000 ETB/year which is considered as low and cannot fulfill their basic need. But after the loan, the income level has increased. The number of respondents who reported a yearly income of less than 10,000ETB were 69.5% before loan, whereas, after loan the number decreased to 23.8%. And before the intervention, the number of beneficiaries who claimed their income is greater than 10,000 ETB were only 20% but the number increased to 72.4% after the loan. Thus, the credit scheme of SFPI has positive impact on the beneficiaries' income. But to know whether there is significant variation in mean income after program participation, Wilcoxon Signed Ranks test was employed. This test helped to decide whether the provision of credit had significant impact on income improvement. The hypotheses were:

Ho: Yearly income before loan= Yearly income after loan.

H_1: Yearly income before loan does not equal to Yearly income after loan.

Table 4.25 Wilcoxon Sign Rank tests result for income of beneficiaries before and after loan.

Ranks	N	Mean rank	Sum of Ranks	Z-value	Z-tabulated
Negative Ranks	0[a*]			-22.56.962	1.96
Positive Ranks	94[b*]	14,122.5	1,327,515		
Ties	0[c*]				
Total	94				

Source: Field survey

a. Yearly income after loan< Yearly income before loan.

b. Yearly income after loan> Yearly income before loan.

c. Yearly income after loan= Yearly income before loan.

The test result of Wilcoxon test had shown a significant increase in average yearly income following loan program participation, ($T=0$, $P<0.05$), with the ranks for increase totaling 1,327,515 and the ranks for decrease is none. Thus, we reject the null hypothesis (Ho) and accept yearly income after loan greater than yearly income before loan and concluded that borrowing is the cause for raising income of the beneficiaries

To analyze the impact of borrowing on income of men and women beneficiaries' independent two sample t-test was employed. The hypothesis was:

Ho: Mean Yearly income for male after loan = mean Yearly income for female after loan.

H1= Mean Yearly income for male after loan is not equal to mean Yearly income for female after loan.

Table 4.26 T-test results of yearly income difference for male and female beneficiaries after loan.

Sex	N	Mean	Std.deviation	Mean difference	Std error	T-value	Sig.	df
Male	38	16203.3	3513.9	1092.9	357.11	3.0604	0.031	92
Female	56	12041.7	3353.84					

Source: Field Survey

The result of the T-test, as shown on table 4.27, has indicated that there is a significant difference in income between men and female beneficiaries after loan. ($t(92)=3.0604$, $P<0.05$). Thus, the income of male beneficiaries was greater than the female beneficiaries after loan. Thus, borrowing has greater impact on raising income of Male beneficiaries than those of women.

4.8.2 Impact of SFPI on employment opportunities

The causes of poverty in Sub-Saharan Africa identified by the World Bank (1996) poverty Task force are many, and inadequate access to employment opportunity is one among them. According to Wolday (2008), the existence of high unemployment rate is among the causes of poverty in Ethiopia as well.

The objective under the PASDEP was the development of MFIs to alleviate urban and rural poverty through employment creation in the informal sector (MOFED, 2006). Thus, as unemployment is one of the causes of poverty, the impact of SFPI on poverty reduction should be evaluated from the point of employment creation.

Table 4.27 Respondents' employment opportunities before loan. (N=105)

Type activities	Male		Female		Total	
	F	Percent	f	Percent	F	Percent
Cultivating crops	26	24.8	37	35.2	63	60.0
Cultivating crops and fattening	10	9.5	6	5.7	16	15.2
Petty trading		0.0	9	8.6	9	8.6
Cultivating crops and trading		0.0	4	3.8	4	3.8
Being daily laborers	4	3.8	2	1.9	6	5.7
unemployed			7	6.7	7	6.7
Total	40	38.1	65	61.9	105	100.0

Source: field survey

The survey result had indicated in the (Table 4.27), 60%of the respondents were engaged in cultivating crops. Being a seasonal work, all of them were semi-employed, and as result heir income was very low before joining the program. The remaining was engaged in other local activities such as petty trade and serving as daily laborer. Beside to activities respondent engaged in, survey was conducted on type of laboure applied on the activities (Table 4.28).

Table 4.28 Type of labour used by household in the farm (n=92)

Type labour	Before the loan						After the loan					
	Male		Female		Total		Male		female		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
self only	5	5.4	9	9.8	14	15.2		0	2	2.2	2	2.2
Self and family members	31	33.7	47	51.1	78	84.8	31	33.7	44	47.8	75	81.5
Hired labor and family members		0.0		0.0		0.0	5	5.4	8	8.7	13	14.1
Hired labor and self		0.0		0.0		0.0		0.0	2	2.2	2	2.2
Total	36	39.1	56	60.9	92	100.	36	39.1	56	60.9	92	100

Source: field survey

Respondents with no help in their farm activity before loan were 15.2%, but after loan it decreased to 2.2%. It means that after loan, the whole families were engaged to perform the farm activities. Prior to obtaining the loan none of the respondents use hired labor but after loan 16.3% use hired labor to herd their cattle (Table 4.28).

Such result indicates that the program not only created employment opportunity to the whole families of beneficiaries it has also opened opportunity to daily laborers from outside.

4.8.3 Impact of SFPI on improving asset possession

Credit is usually viewed in terms of its ability to help people break away from poverty trap through allowing the poor acquire productive capital assets to improve their capacity to generate income, savings and investment. The income earning capacity of the entrepreneurs in the informal sector is low because they lack income generating assets. One method of transferring economic resources to the poor is through provision of financial services with which a poor person can buy anything helpful for generating income (Bekele, 1996; Nazrul, 2009). Therefore, as capital assets are the key for generating income, the impact assessment of credit on reducing poverty should be evaluated from the point of increasing assets possession of clients (both capital and household assts).

In this study, the number of livestock owners, pack animals, poultry and beehives had increased after the loan. For instance, the number respondents who own oxen and cows were 69 and 48, respectively, but after the loan the number has raised to 91 and 77, respectively (Table 4.29).

Table 4.29 Respondents' possession of livestock

House hold asset	Before the loan					After the loan				
	Male	Female	Total	Mean asset		Male	Female	Total	Mean asset	
				Male	Female				Male	Female
Oxen	32	37	69	2	1	38	53	91	3	2
Cows	21	27	48	1	1	29	48	77	2	2
Bulls	2	1	3	1	1	18	24	42	1	1
Heifers	6	9	16	1	1	13	27	40	1	2
Calf	18	22	40	1	1	14	42	56	1	2
Goats	0	0	0					0		
sheep	33	59	92	3	2	35	60	95	6	5
Horses	8	2	10	1		20	5	25	1	1
Donkeys	21	19	40	1	1	29	34	63	1	1
Hen	28	50	78	3	4	32	56	88	4	5

Source: field survey

Besides owning livestock, respondents were able to construct grain store, "gotera", and barn or stable for storing grain and to serve as shades for animals, respectively. Others develop beehives for production honey and poultry cages (Table 4.30).

Table 4.30 Type of productive assets constructed after obtaining the loan

Type of asset	Average value of asset (ETB)	Male		Female		Total	
		F	%	f	%	f	%
Barns	2000	12	11.4	9	8.6	21	20
Stables	1400	24	22.9	37	35.2	61	58.1
Grain stores	800	23	21.9	18	17.1	41	39.0
Beehives	600	7	6.7	0	0.0	7	6.7
Poultry cages	300	6	5.7	16	15.2	22	21.0
Others	200	12	11.4	9	8.6	21	20

Source: field survey

Change in household asset possession is one of the impact indicators of microfinance intervention. The assumption is that accessing loan to the poor from MFIs increase income which in turn increases the capacity of owning better household assets. Pursuant to Getaneh (2005), microfinance service is said to have positive impact on household level variables such as: household income, household assets, education and nutrition. The household asset possessions of the beneficiaries increase due to program participation (Table 4.30).

Thus, measuring asset accumulation at household level is an approach that is recommended as a focus of impact study (Ledgerwood, 1999).

Table 4.31 Households' Asset possession before and after the loan. (n= 105)

Type of assets	Before the loan						After the loan					
	Male	Female	Total	%	Mean asset		Male	Female	Total	%	Mean asset	
					Male	Female					Male	Female
Chair	11	23	34	32.4	2	3	22	43	65	61.9	3	5
Table	9	14	23	21.9	1	1	18	37	55	52.4	1	2
Bed	18	26	44	41.9	1	,	28	45	73	69.5	1	1
Radio	9	3	12	11.4			30	12	42	40	1	1
house with corrugated iron							8	4	12	11.4	1	1
Mobile telephone							15	6	21	20	1	1

Source: field survey.

Beneficiaries in this study were asked about their asset accumulation at the household level, by attaching a current money value to assets that existed before and after participation of the program. Prior to program participation some of the respondents had possessed modest household assets with low quality, such as chair, table, bed and radio, but after the program participation more households respondents own these assets (Table 4.31). The most common household assets were chairs, a table and a bed. None of beneficiaries had assets with higher monetary value, such as a house with corrugated iron sheet and mobile phone before the loan. But after the program participation, the percentage of respondents having these assets had increased by 11.4% and 20% households respectively.

Thus SFPI's credit scheme has a positive impact on increasing household as well as capital asset accumulation.

Table 4.32 Value of asset possessions by respondents before and after the loan (n=105)

Value of total house hold and capital assets(ETB)	Before the loan						After the loan					
	Male		Female		Total		Male		Female		Total	
	f	%	f	%	f	%	f	%	f	%	F	%
<10000	6	5.7	19	19.0	26	24.8	2	1.9	6	5.7	8	7.6
10000-20000	11	12.4	16	17.1	31	29.5	7	6.7	18	17.4	25	26.7
20000-30000	9	9.5	13	14.3	25	23.8	9	9.5	14	15.2	26	24.8
30000-40000	7	6.7	10	11.4	19	18.1	7	7.6	11	11.4	20	19.0
40000-50000	3	2.9		0	3	2.9	6	5.7	7	7.6	14	13.3
50000-60000	1	1.0		0	1	1.0	4	4.8	2	1.9	7	6.7
60000-80000		0.0		0		0.0	2	1.9		0.0	2	1.9
80000-100000		0.0		0		0.0		0.0		0.0	0	0.0
>100000												
Don't know	3		7				3		7			
Total	40	38.1	65	61.9	105	100	40	38.1	65	61.9	105	100

Source: Field survey

Prior to the loan, the number of respondents with assets valued less than or equal to 10000 ETB was 24.8% but after program participation the respondents decreased to 7.6%. Before loan, 45.8% of the respondents reported the value of their valuable assets to be greater than 20,000 ETB whereas after program participation the percentage increased to 65.7%. As one sign of poverty is lack of assets, Getahun (1999) noted that the income earning capacity of the entrepreneurs in the informal sector is low because they lack the necessary capital assets for income generation. Such result is an indication of how credit provision increased asset possession of the beneficiaries.

Concerning the effect of credit on the value of asset possession by gender, 18.1% of male household heads and 36.1% of female household heads had reported the value of their assets possession before loan to be less or equal to 20000 ETB, but after loan they shift to more valuable assets (Table 4.32). But the impact of borrowing on the value of asset holdings by women is better than by men. The value of assets for male beneficiaries with less or equal to 20000 ETB were 18.1% and after the loan 9.5% of them had grown to higher value of assets, but for female beneficiaries, from 36.1% to 13%. To assess the validity of the variation in value of asset accumulation before and after loan Wilcoxon Signed Rank Test was employed.

Table 4.33 Wilcoxon signed ranks test result for the value of assets before and after the loan.

Ranks	N	Mean rank	sum of Ranks	Z-value	Sig.	Z-tabulated
Negative Ranks	1[d*]	543.5	543.5	-12.368	0.00	1.96
Positive Ranks	91[e*]	895.5	90445.5			
Ties	3[f*]					
Total	95					

Source: field survey

d. The value of total assets after loan< the value of total assets before loan.

e. the value of total assets after loan> the value of total assets before loan.

f. the value of total assets after loan= the value of total assets before loan.

The test results had shown that there is a significant increase in value of assets after program participation (T= 543.5, P< 0.05) with the ranks for increases totaling 90,445.5 and the ranks for decreases totaling 543.5. Thus, provisions of credit significantly increase assets accumulation (Table 4.33).

To compare the impact of borrowing on value of household assets between men and women clients, independent two sample t-test was employed.

Table 4.34 T test result on value of assets between male and female after the loan.

Sex	N	Mean	Std. deviation	Mean difference	Std. Error	T-value	Sig	Df
Male	37	32837.84	16647.5	7665.42	3237.94	1.071576	0.089	93
Female	58	31172.41	13177.8					

Source: field Survey

The result of the t-test had shown that there is no significant difference in value of assets after loan between male and female beneficiaries (P>0.05)

4.8.4 Impact of SFPI on improving food consumption

At household level microfinance service is said to have positive impact on household variables such as: household income; household assets, education, nutrition and coping strategies (Getaneh, 2005).This is because of indirect impact of increase in income generated from the activities engaged. With regard to change observed on food consumption due to the intervention of FSPI, the large Majority (67.6%) of the respondents had reported that they used to eat twice a day before the loan. But after loan the number of respondents who eat three times a day had increased to 76.2% (Table 4.35).

Table 4.35 Respondents' habit of eating per day after and before the SFPI intervention

Indicator	Before the loan						After the loan					
	Male		Female		Total		Male		Female		Total	
	f	%	f	%	F	%	f	%	f	%	f	%
Once												
Twice	25	23.8	46	43.8	71	67.6	4	3.8	7	6.7	11	10.5
Three times	15	14.3	19	18.1	34	32.4	31	29.5	49	46.7	80	76.2
More than three							5	4.8	9	8.6	14	13.3
Total	40	38.1	65	61.9	105	100	40	38.1	65	61.9	105	100

Source: Field Survey

When the beneficiaries were asked about the overall household diet condition after program participation, in total, 55.2% of the beneficiaries had reported that their overall diet condition has improved significantly since program participation (Table 4.36).

In general 96.2% of the respondents had reported that such betterment in diet was due to loan access from the institution (Table 4.36).

Table 4.36 households' diet condition after the loan

Descriptions	Indicator	Male		Female		Total	
		f	%	f	%	f	%
House hold diet condition after the program participation	Increase significantly	22	21.0	36	34.3	58	55.2
	Increase	18	17.1	29	27.6	47	44.8
	Stayed the same		-	-	-	-	-
	Decrease						
Is the improvement	Yes	37	35.2	64	61	10	96.2

due the loan						1	
	No	3	2.9	1	1	4	3.8
Was any loan diverted for food consummation	Yes	40	38.1	65	61.9	10 5	100.0
	No		-	-	-	-	-
Was there time to eat less for payment of loan	Yes	40	38.1	65	61.9	10 5	100.0
	No		-	-	-	-	-

Source: Field Survey

The same question was raised during FGD and the majority had agreed that due to participating in the program they were able to eat better quality and quantity of food. The majority claimed that they used to eat less quality food items but after program participation they were able to eat what they called “better quality” food such as meat, egg, butter and so on.

Regarding expenditure on food, 16.2% of the respondents’ monthly food consumption expenditure was less than 500 ETB before the loan, whereas after loan, the number decreased to 6.7%. It means that most of the respondents who used to be within this consumption level before loan shifted to higher level of food consumption expenditure after program participation . The number of beneficiaries, who reported monthly expenses for food to be greater than 700 ETB, was 38% before intervention but after the loan it had increased to 67.6%. Thus, borrowing has positive impact on securing food consumption level of the household (Table 4.37).

Table 4.37 Respondents' expenditure for food (n=105)

Monthly expenditure for food (ETB)	Before the loan						After the loan					
	Male		Female		Total		Male		Female		Both	
	f	%	f	%	f	%	f	%	f	%	f	%
<500	5	4.8	12	11.4	17	16.2	2	1.9	5	4.8	7	6.7
501-700	18	17.1	23	21.9	41	39	9	8.6	11	10.5	20	19.0
701-900	6	5.7	14	13.3	20	19	11	10.5	14	13.3	25	23.8
901-1100	5	4.8	9	8.6	14	13.3	8	7.6	13	12.4	21	20.0
1101-1300	4	3.8	2	1.9	6	5.7	5	4.8	9	8.6	14	13.3
1301-1500		0		0	0	0	3	2.9	6	5.7	9	8.6
1500-1700		0		0	0	0		0.0	2	1.9	2	1.9
>1700												
I don't know	2	1.9	5	4.8	7	6.7	2	1.9	5	4.8	7	6.7
Total	40	38.1	65	61.9	105	100	40	38.1	65	61.9	105	100

Source: Field Survey

To assess the validity of the variation in mean expenditure for food before and after loan Wicoxon Signed Ranks test was employed (Table 4.38).

Table 4.38 Wilcoxon Sign Ranks test result for average monthly food consumption expenditure before and after the loan.

Ranks	N	Mean rank	Sum of Ranks	Z-value	Sig.	Z-tabulated
Negative Ranks	4g*	35.23	140.92	-12.052	0.0	1.96
Positive Ranks	93h*	107.86	10030.5			
Ties	1i*					
Total	98					

Source: field survey

g average monthly food consumption expenditure after loan< the average monthly food consumption expenditure before loan.

h. average monthly food consumption expenditure after loan> the average monthly food consumption expenditure after loan.

i. average monthly food consumption expenditure after loan= the average monthly food consumption expenditure before loan.

There was a significant increase in average monthly expenditure for food following program participation (t= 140.92, P<0.05) (Table 4.38).

Concerning the impact of borrowing on securing food consumption based on gender, 21.9% of male headed household and 33.3% of female headed household respondents had spent less than 701 ETB before program participation. However, after the loan, only 10.5% of the male and 15.2% for female clients spent that much for food. The impact of borrowing on female beneficiaries is greater than the males as 18.1% of the female beneficiaries were able to shift from lower consumption level to a higher level, whereas only 11.4% of the male beneficiaries shifted to a higher consumption level (Table 4.37).

Generally, for both sexes, borrowing has increased food security to beneficiaries; especially the female beneficiaries tend to have higher monthly food expenditure. This may relate with the finding that female clients have more number of dependents than their counterparts which may be attributed to higher expenditure for food by women clients. To assess the impact of borrowing on men and female beneficiaries on monthly expenditure for food, independent two sample t –test was employed (Table 4.39).

Table 4.39 T-test result on monthly food expenditure between male and female after the loan.

Sex	N	Mean	Std. deviation	Mean difference	Std. Error	t-value	Sig.	df
Male	38	1152.63	406.9	38.5	54.5	0.706	0.481	96
Female	60	1198.8	418.8					

Source: field survey

The result of the test revealed that there is significant differences between male and female beneficiaries concerning expenditure for food (P>0.05).

4.8.5 Impact of SFPI on improving access to education

Lack of educational opportunity is one of the most powerful determinants of poverty and unequal access to educational opportunity is strongly correlated with income inequality (Assefa, 2004). Thus, creating access to education is one area of intervention under the poverty reduction strategy. Poor people rarely afford educational access to their children. Even if educational access is achieved, the poor cannot cover the costs related with education, such as, uniforms, books, and other related expenses, due to lack of sufficient income.

It is expected that through the microcredit service the beneficiaries start their own businesses or expand the existing one, as their income increases (Ledgerwood, 1999). Through the increased income the beneficiaries are expected to provide better education to their household members. The research attempted to evaluate the impact of the SFPI's credit program on annual educational expenditure of respondents. Out of the sample beneficiaries, 91.4% had school age children and can afford to send their children to public school (Table 4.40).

Table 4.40 Number of respondents with school age children (n=105)

Existence of school age children	Male		Female		Total	
	f	%	f	%	f	%
Yes	34	32.4	62	59.1	96	91.4
No	6	5.7	3	2.9	9	8.6
Total	40	38.1	65	61.9	105	100

Source: field survey.

In general, 15% of the respondents sent none of their children to school before the loan, whereas, this figure had decreased to 6.3% after the intervention of SFPI. In addition, 45.8% of the respondents sent more than 2 children to school before the loan, whereas after loan, the number had increased to 61.5%. It means that 15.7% of the respondents can afford to send more children to school after the loan (Table 4.41)

Table 4.41 Distribution of Respondents on the basis of number children who had access to school (n=96)

Number of children attend school	Before the loan						After the loan					
	male		Female		total		male		female		total	
	f	%	f	F	%	f	f	%	F	%	f	%
none	4	4.2	11	11.5	15	15.6	2	2.2	4	4.0	6	6.3
1	13	13.5	26	27.1	39	40.6	8	8.3	14	14.6	22	22.9
2	7	7.3	18	18.8	25	26.0	11	11.5	17	17.7	28	29.2
3	6	6.3	5	5.2	11	11.5	6	6.6	12	12.5	18	19.1
4	3	3.1	2	2.1	5	5.2	4	4.2	8	8.3	12	12.5
5	1	1.0		0.0	1	1.0	2	1.8	5	5.2	7	7.1
>6	0	0.0	0	0.0	0	0.0	1	1.0	2	2.1	3	3.1
Total	34	35.4	62	64.6	96	100.	34	35.4	62	64.6	96	100.

Source: Field Survey

The result of this study revealed that as family income increases, affordability to avail all necessary educational materials to children increases.

Table 4.42 Respondents' annual educational expenditure before and after the loan (n=96)

Education expense	Before the loan						After the loan					
	Male		Female		Both		Male		Female		Both	
	F	%	f	%	f	%	f	%	f	%	f	%
<500	8	8.3	19	19.8	27	28.1	3	3.1	7	7.3	10	10.4
500-750	13	13.5	33	34.4	46	47.9	7	7.3	11	11.5	18	18.8
750-1000	8	8.3	7	7.3	15	15.6	11	11.5	24	25.0	35	36.5
1001-1250	3	3.1	3	3.1	6	6.3	6	6.3	10	10.4	16	16.7
1250-1500	2	2.1		0	2	2.1	4	4.2	6	6.3	10	10.4
1500-1750		0		0	0		3	3.1	4	4.2	7	7.3
>1750												
Total	34	35.4	62	64.6	96	100	34	35.4	62	64.6	96	100

Source: Field Survey

With regard to educational expenditure 76% of the beneficiaries' annual education expenditure was below or equal to 750 ETB, but after program intervention only 29.2% of the clients spend that much. Those beneficiaries who could afford to spend greater than 1000 ETB were only 8.4%, but after the intervention, 34.4% of them were able to spend that much for their children's education (Table 4.42). To check the validity of variation of expenditure "before" and "after" intervention for educating their children Wilcoxon Signed Rank Test was employed(Table 4.43).

Table 4.43 Wilcoxon signed ranks test result for annual educational expenditure before and after the loan.

Ranks	N	Mean rank	Sum of Ranks	Z-value	Sig.	Z-tabulated
Negative Ranks	3[j]	52.4	157.2	-9.4	0.00	1.96
Positive Ranks	89[k]	62.7	5580.3			
Ties	4[l]					
Total	96					

Source: field survey

The result of the test had revealed that there is significant variation or differences in education expenditure before and after loan ($p < 0.05$). This indicates that participation in the program had helped respondents to be able to expend more to fulfill educational materials and equipments for household members.

The issue was raised during FGD, and the majority of the focus groups had agreed that due to increased income they were able to send their children to school. At FGD, the clients had claimed that the children used to wear the same uniform each year which was and of poor quality due to shortage of income, but now as a result of additional income, they were able to purchase sufficient exercise books, new school uniform, shoes and book each year. In addition, some participants in the FGD noted that they were able to educate their children up to secondary level further way from their residences which mean that they were able to rent houses and cover other costs related to their education. Thus, it can be said that SFPI has positive impact on education of household members of the beneficiaries.

Table 4.44 Respondents' reason to send their children to school

Description	male		female		Total	
	f	Perc	f	Perc	f	Perc
New school built in area	8	8.9	12	13.3	20	22.2
Family awareness for education	6	6.7	10	11.1	16	17.8
Better opportunity for children	15	16.7	33	36.7	48	53.3
Others	3	3.3	3	3.3	6	6.7
Total	32	35.6	58	64.4	90	100

Source: Field Survey

With regards to reason for sending their children to school, 53.3% of respondents had claimed that they are creating better opportunity for the children's life in the future.

4.8.6 Impact of SFPI services on improving access to medical facilities.

Poverty hinders poor people to get access to a range of community services such as safe drinking water, sanitation, transport, health and education. Through increased income access to health facilities improves. . Those who earn low level of income have no or little access to public services such as medical facilities. Similar to improving educational facilities, SFPI's credit scheme is expected to improve access to medical facilities as well. To assess the impact of SFPI on medical services, one needs to identify the existence of a sick person in the household 'before' and 'after' the intervention (Table 4.45).

Table 4.45 Member of households who were sick before and after the loan (n=105)

Sick person	Before the loan						After the loan					
	Male		Female		Total		Male		Female		Both	
	f	%	f	%	f	%	f	%	f	%	f	%
Yes	9	8.6	23	21.9	32	30.5	6	5.7	14	13.3	20	19
No	31	29.5	42	40.0	73	69.5	34	32.4	51	48.6	85	81
Total	40	38.1	65	61.9	105	100	40	38.1	65	61.9	105	100

Source: field survey.

In general, 30.5% of respondents had reported that members of the household were ill before the loan, whereas, after the loan, only 19% of respondents had claimed that their household members were sick. The study revealed that sickness in the family might have decreased because of change in the balance diet in the household. The main issue is accessibility of medical services to the sick member of the household.

Table 4.46 Household access to medical services before and after the loan.

family member received medical treatment	Before the loan n=32						After the loan n=20					
	Male		Female		Total		Male		Female		Both	
	f	%	f	%	f	%	f	%	f	%	F	%
Yes	3	9.4	6	18.8	9	28.1	5	25	8	40	13	65
No	6	18.8	17	53.1	23	71.9	2	10	5	25	7	35
Total	9	28.1	23	71.9	32	100	7	35	13	65	20	100

Source: field survey.

Only 28.1% of respondents had received medical treatment before the loan. But after the loan, 65% had received medical treatment. Concerning the impact of borrowing on medical treatment on gender basis, 9.4% of male and 18.8% of female clients had received medical services before the loan, but after the loan, 25% and 40% for male and female respondents, respectively. More female respondents were supported by medical services after the loan (Table4.46).

The respondents were asked the sources of fund for medical treatment for the sick household member before and after SFPI intervention. The response of the beneficiaries' source of income for medical treatment is presented on (Table 4.47).

Table 4.47 Source of income for medical treatment

The source	Before the loan n=9						After the loan n=13					
	Male		Female		Total		Male		Female		Total	
	f	%	f	%	f	%	f	%	f	%	f	%
Selling asset	1	11.1	2	22.2	3	33.3	1	7.7	2	15.4	3	23.1
Saving		0.0		0.0	0	0.0		0.0		0.0	0	0.0
Borrowing from friend and relatives	2	22.2	3	33.3	5	55.6		0.0	1	7.7	1	7.7
ncome form the activities financed by loan							4	30.8	5	38.5	9	69.2
Other		0.0	1	11.1	1	11.1		0.0	0.0	0.0	0	0.0
Total	3	33.3	6	66.7	9	100	5	38.5	8	61.5	13	100

Source: field survey

For 55.6% of beneficiaries who had medical treatment before the loan, the source of fund was borrowing from family and friends, whereas, after the loan, the number of clients had decreased to 7.7%. After the loan, however, 69.2% of those who received medical treatment, their sources of fund were income from economic activities financed by the loan. Thus, the intervention of SFPI has impact on medical treatment of the beneficiaries' household.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATION

5.1 CONCLUSION

The majority of the beneficiaries were denied access to credit from both the formal and informal financial institutions for a long time, and as a result, they could not engage either in new agricultural businesses or expand the existing one in order to reduce poverty. The new financial institutions had created an easy, affordable guarantee system, i.e. group collateral, and as a result, all respondents had benefitted by taking the loan under this system. The existence of group collateral had enabled marginalized people to access the services. Accordingly, all clients were able to access loan 3 or more times from the institutions.
The Majority of respondents utilized the loan for purchase of fertilizers, improved seed, leasing land, and for fattening animals and own dairy cows to increase their productive capacity and income.

Overall, credit provision had a significant impact on income of the beneficiaries who were engaged in diversified agricultural operation, including farming, milk production, fattening and retailing grain. The reasons for positive changes in income of the beneficiaries were the loan obtained to finance productive capital assets and working capital of the business activities.
SFPI program has also a positive impact on enterprise expansion - in increasing job opportunities of the household members and the community at large. The SFPI intervention has also encouraged institutional savings of respondents as their overall savings has increased after SFPI intervention.

The findings of this study had revealed that the average yearly income of most households rose after the loans from SFPI. As a result of increase in income, households' had improved their residences after they joined SFPI program. The program has also raised households' asset ownership. Even marginalized households had constructed houses with corrugated iron sheet and purchased mobile phone after taking loans from SFPI.

Microfinance provision had enabled the clients to generate income that could be spent on improving facilities which in turn improves the living standard of households.
The average yearly expenditure of respondents for social services had shifted from the lower category to the next higher category after joining SFPI program. The increased income generated by the credit input had a positive and significant impact on household food supply, educational provision for children, asset accumulation (both productive and capital assets) and medical provision.

All of the socio-economic variables showed statistically significant change after program participation. With regard to the impact related with gender, there are no statistically significant differences between male and female beneficiaries in socio-economic variables , except for the level of income.

Thus, while the credit provision have a positive impact on reducing the poverty level of the beneficiaries through creating employment opportunity, increasing income levels, increasing access to education, medical facilities and improving diet condition, it had encountered the following problems:

- Some of the respondents had claimed that the loan was not sufficient;
- The time of repayment was not convenient to some of the respondents in that the institution claim payment when all farmers supply their product to the market when the price of agricultural product fall;
- Despite the clients orientation programs given by the institution, a large number of the beneficiaries had no information on the interest rate of lending and saving;
- Respondents had not developed a culture of saving because only few of them save voluntarily with the institution;
- The majority of respondents do not seem to know the amount saved, for lack of transparency by the institution;
- With respect to gender in saving, the average saving amount of the females was lower than the male beneficiaries;
- There is a significant difference between male and female clients regarding mean income after program participation. Thus, the impact of the program in raising income is less for female clients.

5.2 Recommendations

The positive effect of the credit scheme on beneficiaries' socio-economic conditions had shown that the credit program was achieving its ultimate objective of poverty reduction. Therefore, such program should be encouraged and supported to increase its outreach so as to serve the un-served market to reduce the prevailing unemployment rate and poverty level of the region.

The financial institution need to change the time of loaner payment as beneficiaries were required to pay back the loan during harvesting time when the price of agricultural products are below production costs.

The effort of the institution must be strengthened to develop saving culture because all beneficiaries save for the sake of getting a loan. The institution should mobilize volunteer savings in order to develop a saving culture and strengthen its capacity to reach many people.

The institution lack transparency in informing the saved amount, interest charged on loan, and interest generated on savings.

Special attention should be given to women, whose income from the business is lower than male clients, and in skill development. Women should be encouraged to take higher loan so as to engage in higher profit making business activities because the average loan taken by the female clients is lower than that of the male. Even though the institution cannot provide such skill, it has to exploit the potential from other institutions.

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Appendix

Appendix I Questionnaire for SURVEY

SURVEY ON THE IMPACT OF MICRO-FINANCE ON THE ALLEVIATION OF RURAL POVERTY; THE CASE STUDY ON SECIALIZED FINANCIAL AND PROMOTIONAL INSTITUTION

Your answers are completely confidential, your name will not be written on this form, and will never be used in connection with any of the information you tell me. Thank you for your cooperation!

A). General Information

1. Respondent's address

Woreda____

Peasant association______________________________________

Branch name____

B). Personal information about borrowers

1. Borrower's sex a. Male b. Female
2. Borrower's age ______________ 4. Educational Level _________________
3. Marital Status______________
4. How many children do you have?___________________

C). INFORMATION ON LOAN

1. Why did you need the loan?

a. to purchase fertilizers and improve seed

b. to buy plough oxen

c. to get back my asset such land that has been already leased to others

d. to lease agricultural land from other

e. for home consummation

f. others

2. Did you get loan from other sources other than SFPI? a. Yes b. No

3. If "Yes," from which source? ____

4. For how many rounds did you take loan from SFPI? ________________________

5. Specify the amount you borrow in each round

1st__________ Birr 2nd______________ Birr 3rd ______________ Birr

4th _____________ Birr 5th _________________ Birr

6. What is the type of collateral offered? _____________________________

   a. Group /social collateral)
   b. Property (physical asset)
   c. Third party guarantee
   d. Other (please specify)___________________________________

7. Was each round loan sufficient to meet your objective?

   a. yes b. No

8. Was the loan issued timely?

   a. yes b. No

9. What type of repayment modality was applied for loan payment?

   a. term b. installment

10. Is the time of repayment comforts you?

   a. yes b. No

11. What is your opinion regarding the interest rate of SFPI?

   a. High
   b. Moderate
   c. Low
   d. Don't know

12. What is the status of your loan repayment?

   a. Fully repaid

b. Repaying according to schedule
c. Not repaid according to schedule
d. Other (please specify)________________________________

13. Was there any late payment for the loan?

a. yes b. No

14 If your answer for question no is yes, what are the reasons?
____

D). Information on saving

1. Did you save before the client of SFPI? a. Yes b. No
2. IF your answer is no, Why? ______________________________________

____

3. Do you save after the client of the SFPI? a. Yes b. No
4. IF your answer is yes, what is your current total amount of saving in birr? ____
5. What type of saving are you depose in SFPI?

a. Compulsory b. volunteer c both compulsory and volunteer

6. What is your source of money for saving?

a. From business profit financed by the loan?
b. From other sources of income
c. Other (please specify) __________________________________

7. Why do you save in SFPI?

a. it is mandatory to save after the loan
b. For loan repayment
c. To withdraw during emergency
d. for business expansion
e. The interest charged on saving is attractive

f. Other (Please specify)

8. How long you save in SFPI

   a. weekly   b. biweekly   c. monthly   d. quarterly

   e. other specify ________________________

9. What are your sources of saving in SFPI?

____

____

10. What do you think about the interest rate SFPI charged on saving?

   a. Less than the market rate
   b. Greater than the market rate
   c. Have no information about the interest rate

11. What is the trend of your saving after loan compared to before the loan?

   a. Increased
   b. Stayed the same
   c. Decreased

E). Information on income of the beneficiaries

1. What is the average income of your activity yearly in birr?

   a. before loan_____________________

   b. after loan___________________

   c. I don't know my yearly income

2. What is happen to your income after taking loan relative to before the loan?

   a. Increased significantly   b. Increased slightly

   c. stayed the same   d. decreased

3. If your income is increase, what are the reasons

____

____

4. If your income is decrease, what are the main reasons?

   a. Indebted because of SFPI credit.
   b. I have been sick
   c. Household members being sick and thus lost helper in my activity.
   d. Crop failed due to bad weather
   e. Other (Please specify ____________________________________

D. Employment condition

1. What is your employment condition before and after the loan

	Employment type	Before the loan	After the loan
	Full employed on own activities		
	Semi employed on own activities		
	Daily labourer		
	unemployed		

What kinds of occupation or activity are you engaged before loan?

   a. Farming
   b. Farming and fating
   c. Trade
   d. Farming and trade
   e. Informal wage labor /employee of others

2. How many employees involve in your occupation before the loan

   a. Family members and yourself__________________
   c. Hired labor, family members and yourself __________________
   d. Hired labor and yourself ________________________________
   e. Other (please specify) __________________________________

3. Specify your occupation in which you are engaged after the loan

____

4. How many labors engage in your occupation after the loan?

a. family members and yourself ________________________
b. Hired labor, family members and yourself

   ____
c. Hired labor and yourself _________________________
d. Other (please specify) _____________________________

E. ASSET POSSESSION

1. What was the value of your total household and productive assets before program participation in birr?

____

2. What is the value of your total household and productive assets after program participation in birr? _____________________________

3. Would you write amount the household assets you have (in table below)

No	Asset type	unit	Acquired	
			Before loan (number)	After loan (number)
1	Oxen	No		
2	Cows	No		
3	Bulls	No		
4	Heifers	No		
5	Calf	No		
6	Goats	No		
7	Sheep	No		
8	horses	No		
9	Mule	No		
10	donkeys	No		

11	Hen	No		
12	Chair	No		
13	Table	No		
14	Bed	No		
15	Radio	No		
	Mobile phone	No		
16	Constructed house with corrugate iron sheet	No		
	Others (please specify)	No		

4. Did you bought new productive assets using the loan you have taken?

a/ Yes b/ No

5. If the answer is 'yes' specify the productive assets you have bought/ construct with the loan

Item	unit	Quantity	Total price

F. Household food consumption expenditure

1. How much your house hold the average monthly food expenditure of before loan?

a) Before the loan birr ________________ b) After the loan birr______________

2. How money times did your house hold eat meal per day?

a. Before the loan? ____

b. after the loan? ____

3. What happen on your food diet?

a. Increased significantly b. Increased slightly c. stayed the same d. decreased

4. Is there any loan diversion for consumption of food? a. Yes b. No

5. Was there a time when your household eat less to pay the loan?

a. Yes b. No

G. Access to education and Education Expense

1 Do you have school aged children? a. yes b .no

2. How many of them attend the school?

a. before the loan ______________ b. after the loan __________________

3. If the number of children attending a school increases, what are the reasons?

a. New school built in the area
b. New childe age reach for shool
c. Increased house hold awareness towards education
d. Income improvement due to the activity financed by loan.
e. Other (please specify) _______________________________________

4. How much was your average annual household educational expense?

a. before the loan ______________

b. after the loan _________________

H. Access to medical service and Health condition of the household

1. Did you or members of your family attend modern medical treatment for illness /injure before the loan? a. Yes b. No
2. If is “yes” what was your source of money?
   a. By the exciting asset
   b. Borrowed from other sources at cost
   c. From my saving
   d. Borrowed from friends and relatives
   e. From business profit.
   f. Other (please specify ______________________________
3. Do you or members of your family attend modern medical treatment for illness /injure after the loan? Yes No
4. If yes, where did you get the money you paid for medical treatment? ____

5. In general, do you think your access to medial facilitates after the loan?
   a. Increased
   b. Stayed the same
   c. Decreased

Appendix II Questionnaire for Focused Group Discussion

1) How do you explain SFPI requirements and process to get loan?
2) What is your attitude towards collateral types?
3) What is your idea about the amount of loan disbursed to you?
4) What do you think about loan repayment schedule?
5) What is your comment on saving types, and access of withdrawal?
6) What is your source of saving?
7) What changes do you observe in your life due to SFPI intervention?
   - ⇒ Is the total income of the house hold changed?
   - ⇒ Is household durable assets changed?
   - ⇒ Is the food consumption of the house hold changed?
   - ⇒ Is the productive asset of yours changed?
   - ⇒ Are you able to cover educational expense of your children better than before program participation?
   - ⇒ Are you able to access modern medical service after the loan?
   - ⇒ Are you empowered economical and social in the society after the loan? How you express it?
8) What are the problems regarding the service of SFPI that you want it to be solved to make SFPI's microfinance credit even better?
9) What need to be done to solve the problem regarding the service of SFPI?
10) Do you have saving account with other financial institutions other than SFPI? Why?

Appendix III, Observational checklist

A. Do you see the following durable household assets in the household? (Use this mark(/).

No	Name of items	Present	Absent
1	Tables		
2	Chairs		
3	Beds		
4	Radio		
5	house with corrugated iron		
6	Other /please specify		
7			
8			
9			

B. Can you name productive or capital assets of the activities area of the client?

No	Name of productive assets	Present
1		
2		
3		
4		
5		

C. Can you name animals off the client?

No	Name of productive assets	Present
1		
2		
3		
4		
5		

Appendix Iv

Research proposal

IMPACT OF MICRO FINANCE SREVICE ON THE ALLEVIATION OF RURAL POVERTY THE CASE STUDY ON SPECIALIZED FINANCIAL AND PROMOTIONAL INSTITUTION

RESEARCH PROPOSAL SUMMITTED TO INDRA GANDHI NATIONAL OPEN UNIVERSITY IN PARTIAL FULFILMENTN OF THE REQUIREMENT FOR DEGREE IN MA PROGRAM IN RURAL DEVELOPMENT

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March 2013

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CHAPTER ONE

1 INTRODUCTION

1.1. Background of the Study

Poverty is multifaceted and its definition has become ever controversial. The recent definition of poverty by the WB (World development Report 2000/2001) broaden the concept than defining it merely from the traditional ideas of income poverty to a more comprehensive concept incorporating or characterized by a lack of purchasing power, exposure to risk, insufficient access to social and economic services, sense of voicelessness and few opportunities for income generation. Pursuant to the same source, the broader approach which presents poverty as an aggregate view has the advantage of increasing our understanding of its causes, which in turn brings more areas of action and policy on the poverty reduction agenda.

A number of factors are usually described as triggers of poverty; some of these are: lack of asset, employment opportunity, income, skill, technology, education, health and environmental problems (Getahun, 1999). But one factor which is the point of this research is lack of financial resources for capital formation (Wolday, 2003). The majorities of Ethiopians are poor and live in rural areas and are mainly engaged in subsistence peasant agriculture (Solomon1996). The 1999/00 household income, consumption and expenditure survey (HICE) had revealed that 44% of the Ethiopian population was under absolute poverty (MOFED, 2006). The same source reveals that rural poverty is higher than urban poverty by 23%. Poverty is also deeper and severer in rural areas than in urban areas, on average the income of rural poor is 12.1% way from the poverty line while it is 10.1% for the urban poor (Tassew 2004). Similarly about 27 million people were living under chronic poverty in Ethiopia in the 1990s. Lack of access to financial resources such as credit by the poor, who are engaged in the informal sector, is one of the causes of poverty, especially in Sub-Saharan African Countries (WB 1996).

Cognizant of this fact the government of Ethiopia in its Plan for Accelerated and Sustained Development to End Poverty (PASDEP) policy document gave high importance for the role of microfinance service in the endeavor of Ethiopian poverty reduction and alleviation. The document targeted on overall agriculture value added to grow at an annual average real rate of 6.2% during the PASDEP Period (2005/06 - 2009/10). Among other things such progress depended upon the availability of affordable credit through the active promotion of MFIs. Ethiopia has designed interim poverty strategy paper to reducing poverty, on this paper pro poor had been identified, among which agriculture is the most important element for reducing rural poverty of the mass of the people living in rural areas (MOFED, 2002). The same source, the national agricultural development strategy of the Ethiopia government acknowledging that availing micro financial service is an effective means to commercialize agriculture and increase its productivity (MOFED, 2002).

The government had created conducive environment for the development of micro finance institutions by issuing proclamation No. 40/1996. Following the issuance of the proclamation a number of them have been institutionalized. As of 2009, there are 31 microfinance institutions which are registered by the National Bank of Ethiopia (NBE) and engaged in the business of micro- financing (NBE, 2009).

Specialized financial and promotional Institutions' (SFPI) is one of the micro-finance institutions in Ethiopia, established in the form of a company on November 25, 1997. It has commenced operation in June 1998. As per proclamation No. 40/1996, the SFPI is established as Share Company and currently it has eight share holders with professional mix from banking, professional associations and private individuals. SFPI operates through ten branches both in urban and ruler areas of the country. Out of these branches seven are found in Oromia region and the remaining thee are found in the metropolis.

As indicated in the institution's five year strategic document (2007-2011), the vision of SFPI is to "become sustainable financial institution, active contributor towards poverty reduction effort and to see improvement in the life of low – income people." and it has been providing service almost for fourteen years, but no serious attempt has been made to evaluate the impact of such service on increases of rural household income, and in bringing changes in livelihood of rural people as well as in contributing to the reduction of poverty. As a result, this research will provide information to fill this gap and forward feasible recommendation for problems faced by the clients.

1.2. Statement of the Problem

Poverty and hunger instigated and exacerbated by conflict were the country's endemic social and economic problems for most of the second half of the 20th century. In the first decade of the 21st century they still remain as central policy concern to the government of Ethiopia. In spite of tremendous efforts, Ethiopia is still among the poorest countries with an annual average per capita income of $180 in 2005 (PASDEP, 2007).

The country is one of the poorest and most underdeveloped countries of the world and with a large population in the sub-Saharan Africa. Its economy is largely dominated by small scale, non mechanized agriculture (Abadi, 2007). To reduce poverty and human deprivation and in turn achieve the targets of MGD_s, developing countries need to develop their own mix of policy which is based on national priorities and local realities (WB, 2000).Microfinance is not a panacea for poverty, but it is one important factors among the antipoverty instruments of the development programs (Harper, 2003).

The best known example on microfinance is that of Muhammad Yunus and the founding of Bangladesh's Grameen Bank (Armendariz and Morduch, 2005). Since the 1980s the development of MF programs gained a worldwide acceptance and popularity, as one method of poverty reduction (Ledgerwood, 1999).

The condition of poverty has been interpreted as one of lack of access by poor households to assets necessary for a higher standard of income or welfare, whether assets are thought of as financial, human, natural, and social (Montgomery and Weiss 2005; world Bank, 1996). And lack of access to financial asset is understandable in terms of collateral that the poor can offer conventional financial institutions; high costs involved in dealing with large number of small amount of loan; limited education and familiarity with loan procedures; exorbitant interest rate (Bekele, 1996; Solomon, 1996; Montgomery and Weiss, 2005). And the goal of microfinance institutions as a development organization is to serve the financial needs of the poor who are engaged in the informal sector and do not completely access the services or under served by the formal financial institutions. It serves as one means of reducing poverty through creating job opportunities and helps existing business grow or diversified (Ledger wood, 1999).

Cognizant of the potentials of MF, the government of Ethiopia gave high priority for the proliferation of these institutions in its PASDEP strategy (MOFED, 2006). But relative to the experience of other developing countries, its development in institutionalized form is of recent phenomenon (Solomon, 1996). Thus, with the aim of poverty reduction in Ethiopia, there has been provision of financial service to the poor (Wolday, 2003) through MFIs but there has not been sufficiently evaluated impact assessment (Meehan, 1999).

Pursuant to (Ledgerwood, 1999) MF impact assessment the process seeks to determine if the intervention has had the desired outcome of poverty reduction and employment creation. There were very limited research that focused on microfinance impact assessment to improve the financial sector and even these limited researches were more concentrated on institutional sustainability rather than client impact. As a result, studying the impact of micro finance intervention is important to narrow this gap (Wolday, 2003). Similarly, In general, there is no serious attempt made by Ethiopia MFIs and in particular by SPFI to evaluate whether or not the program achieved the institution's goal of poverty reduction within its operational territory. Thus, the rationale of conducting this research is to make impact assessment of the MF service in Oromia region of SFPI and to help the organization to improve its services, as well as to increase its impact on poverty, its efficiency, and to provide accountability to donors and other stakeholders.

1.3. Objectives of the Study

1.3.1. General Objective

The overall objective of this research is to assess the impact of microfinance on poverty reduction and job creation.

1.3.2. Specific Objectives

6. To assess the change of income as a result of the delivery of financial service,
7. To diagnose the impact of micro-finance on food security,
8. To evaluate the impact of microfinance service on improving asset ownership and empowerment of women
9. To identify the impact of microfinance service on crop production and food consumption,
10. To evaluate the trend of savings.

1.4. Research questions

1. Has Specialized Financial and Promotional Institution (SFPI) contributed to reduction of poverty?
2. What is the magnitude of change on clients' socio-economic status?

1.5. Significance of the study

As the main purpose of the research is to assess the impact of microfinance service on the beneficiaries' socio-economic condition and wellbeing, that indicates whether there is improvement in living condition, increase production and reduction of poverty. Thus, the finding of this research could have significance in that:-

v. The FPSI management to make informed decision regarding whether to modify the product or/and introduce a new one based on the need or change the way they used to deliver it, to make the service customer centered.

vi. The output of this research can serve as background information for further research work on the area.

vii. It also can be helpful for those who are engaged in policy decision. They can use impact assessment information to influence policy changes and budget allocation decisions.

viii. Also important to donors who support the institution as an information source whether the intervention is having the desired impact.

1.6. Scope of the Study

The study covered the beneficiaries' four branches of SFPI residing in Oromia region. The branches are situated at four Woredas and from each woreda four kebeles of peasant associations will be selected. And it will be limited to those beneficiaries who have actively been using the financial service since the year 2009.

1.7. Limitation of the Study

As the research only focused on one MFI, the finding of the research only reflect information regarding those beneficiaries who are clients of FSPI and those residing in Oromia administration region. Thus, it may not have a strong scientific justification and validity to generalize about the impact of MFIs on reducing poverty in the entire country.

1.8. Organization of the project Paper

This research paper is organized in to five chapters.

- Chapter 1 deals with back ground, problem statement, research questions, Objectives of the study, significance, scope, limitation and conceptual frame work of the study.
- Chapter 2 presents on pertinent literatures and relevant empirical case studies to the research
- Chapter 3 described the research methodology used in the study.
- Chapter 4 and 5 deals with the major findings, conclusion and recommendations for future deployment work and summary. This followed by Questionnaires and bibliography (references).

CHAPTER TWO

2. CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

2.1 CONCEPTEPTUAL FRAMEWORK

The clarification of basic concepts as poverty, impact assessment is crucial before assessing and measuring the impact of microfinance on the life of the poor.

The recent definition of poverty according to World Development Report (2000) broaden the concept than merely a material deprivation measured by income to a more comprehensive concept of lack of opportunities, capabilities, sense of voiceless-ness and vulnerability to external shocks. For the purpose of this paper the definition of poverty incorporates economic and social deprivation of people or household.

Impact assessment is any process that seeks to determine if an intervention has had the desired outcome of poverty reduction.

There are two major schools of thought that are prominent in impact assessment of microfinance. **The first one** use “Proxies” for impact. These proxies generally are institutional outreach and institutional sustainability. The rational for this approach is based on the assumption that a sustainable MFI with wider outreach can extend the choices of people looking for credit and saving services which intern leads to improved micro-enterprise performance and wellbeing of household (Ledgerwood, 1999). Thus, it purely focuses on changes in the organization.

The second approach is the one which measure the impact in direct relationship to the lives of human beings. It should answer the questions such as, who are users of the services. How are the various groups using the service? And how does the intervention affect the livelihood of the beneficiaries? (Abebe , 2006). This approach will be applied in this research.

The unit of analysis employed in this research is that of the household level and enterprise level. At the household level, impact measured by increase in: income (both from specialization or diversification), asset accumulation (house hold assets), and savings, consumption (food) .At the enterprise level, impact is measured by changes in enterprise: income, asset accumulation (capital assets), employment (Ledger wood, 1999).

The rationale of choosing the client oriented method of impact analysis over the other is that, the former approach doesn't give the magnitude of impact. "If an MFI aims at providing financial services to the poor to reduce their poverty level, then the institution cannot take refuge in simply measuring how well it made services available. Because the stated end result of reducing poverty is fully measurable only in direct relationship to the lives of human beings" (Ledgerwood, 1999).

2.2. Literature Review

2.2.1 The concept and causes of poverty.

There is no clear consensus among development experts and policy makers on how to define, measure and eradicated poverty (Meehan, 1999). Accordingly, there is no single absolute and standardized definition to it. Getahun (1999) substantiate this argument by saying: various approaches exist in defining poverty that ranges from the objective, quantifiable to those which are subjective and qualitative nature. Thus, poverty has multiple characteristics which make it difficult to capture in a single definition.

There are two concepts of poverty measurement; these are the **absolute and relative** ways of measuring poverty or standard of living Getahun (1999). Both relative and absolute definitions of poverty refer to a cross cutting level below which people are categorized as poor. This cross cutting level is known as poverty line.

Absolute poverty is ethical poverty line derived from globally standardized and ethically justifiable wellbeing indictors (Edward, 2006). That inability to attain minimal standards of consumption to meet basic physiological and biological needs. For this the World Bank set that a person who earns less than 1.25 USD a day as a poor (World Bank report 2004). In absolute sense the poor are materially deprived to the extent that their survival is at stake.

A relative poverty is a standard of living which is below a certain proportion of the national mean per capital income or expenditure. In relative term, this people are also deprived in relation to other social groups whose situation is less constraining, (WB, 1990). In the words of Bibangabah (1985), "people are poverty stricken when their income, even if adequate for survival, falls radically behind that of the community. Then they can't have what the larger community regards as the minimum necessary for decency, and they can't wholly escape, therefore, the judgment of the larger community they are indecent. They are degraded, for in the literal sense, they live outside the grades or categories which the community regards as acceptable". Trufat (1996) and Getahun (1999) noted that the concept of relative poverty as such is primarily concerned with the distribution of income and inequality in living conditions among a population. Thus to eliminate relative poverty requires equalization of the distribution of income.

2.3. Poverty Situation in Ethiopia

Ethiopia is located in the horn of Africa bordering Eritrea in the North, Djibouti and Somali in the East, Kenya in the South and Sudan in the west. The county is one of poorest and least developed, over 38.7 percent of the population is below poverty line (MOFED, 2006). As cited in African development and poverty reduction 2000 paper, agriculture plays a critical role in the Ethiopian economy, accounting 40% of GDP and creates employment opportunity for over 85% of the population.

2.4. The Emergence of Microfinance and the Paradigm Shift

Some tries to define microfinance narrowly from the point of microcredit, it is one among the services provided by the institutions. This is because of the early establishment of subsidized rural credit programs aimed at increasing economic development through promoting high yielding agricultural technologies in most of the developing nations during the post world war second era of the late 1940s and the 1950 (Robinson, 2001). Only government or NGO funded subsidized micro credits are provided to the rural farmers, In view of this early practice, some equate micro-finance with micro credit. But defining microfinance only from the point of microcredit, nowadays is very narrow as most microfinance service includes microsavings even microinsurance and payment services.

2.5. Microfinance Institutions in Ethiopia

Financial services for the poor can be a powerful tool to fight poverty. According to Wolday (2001), the delivery of financial service to the active poor has the potential to reduce poverty through creating employment opportunities from which the poor can increase income and consumption. But as poverty is a multi-dimensional problem, there is no single approach to eradicate it. According to Harper (2003), microfinance is not a panacea for poverty, but it is an important tool among poverty eradication programs.

2.6. Can Microfinance Reduce Poverty?

Poverty is characterized by a lack of purchasing power (lack of income), exposure to risk, insufficient access to social and economic services and few opportunities for income generation (Getahun, 1999). Also, a definition given by the WB (World development Report, 2000/2001) broadens the notion of poverty beyond the traditionally, held ideas of material deprivation measured by income or consumption, to more comprehensive concept of lack of capabilities, exposure to risk and vulnerability, voicelessness and powerlessness. Pursuant to the report, this broad understanding of the concept increase our knowledge of its causes, as a result of which brings more areas of action and policy on the poverty reduction strategy or agenda.

2.7. Micro finance and development policies /strategies

There is gross inequalities in human development worldwide (UNDP, 2002). This fact is depicted on World Development report (2002) of the world's 6 billion people, 1.2 billion – a fifth live on less that $1 a day from which 44 percent living in South Asia. If we take non-income indicators of poverty such as child mortality rate, in rich countries fewer than 1 child in 100 does not reach its fifth birthday, while in the poorest countries as many as a fifth of children do not (World Bank, 2000). Also according to the same source, there is not only world wide variation on the incident of poverty but there has been diverse experience in reducing poverty. For instance, in East Asia the number of people living on less than $1 a day fell from about 420 million to around 280 million between 1987 and 1998.

2.8. Impact of Microfinance from Case Studies in Ethiopia.

The idea of poverty reduction through microfinance service has generated enormous enthusiasms among donors and NGOs as an instrument capable of breaking the vicious circle through building productive assets and reducing the vulnerability of the poor (Nazrul, 2009). KofiAnan; the UN secretary General until the end of 2006, support the effectiveness of microfinance as an important instrument in the fight against poverty as follows: "It has been evidenced world wide that microfinance helps the poor to overcome poverty, and not through charity. It is a financial system that serves the poor with financial services in a most effective and productive way" Wolday (2008). The objective of all microfinance institutions in Ethiopia is reducing poverty through provision of sustainable financial service for the poor, but there have been very limited studies which assessed the impact of microfinance institutions on poverty reduction.

2.9. Impact of Microfinance from Global Experience

Evaluation of the impact of microenterprise lending programs indicates that such intervention have impact on social relations, partly through their economic effects. Those who claimed such impacts raise the example that through empowering women and changing gender relations in the household and in the community will lead to progressive social change (Johnson and Rogaly, 1997).

In the finial document, chapter two and sub title under this chapter will be further elaborate and described.

3. CHAPTER THREE

3. RESEARCH METHODOLOGY

The study was conducted in rural of Oromia region where SFPI intervention has taken place. The impact of the SFPI was evaluated at four selected sites where MFI's branches of SFPI established, namely Holeta, Debere Zete, Sheno, Fiche and Akaki.

The study was based directly on the impact of the loan to beneficiaries of the program. The client oriented method of impact analysis was adopted, in accepting the rational that "If an MFI aiming at providing financial services to the poor to reduce their poverty, then the institution cannot take refuge in simply measuring how well it made services available Ledgerwood (1999). Because, the stated end result of reducing poverty is fully measurable only in direct relationship to the lives of human being.

And the research used the "before" "after" comparison of the beneficiaries' socio-economic position. To achieve the stated objectives of the research, different variables which manifest reduction or aggravating of poverty was formulated.

These are: asset possession (both capital and household assets), income, food consumption expenditure, annual education expenditure and utilization land assets, utilization of improved seed and fertilizers. Extensive data was collected on these variables and an attempt was made to identify the magnitude of change on the variables by evaluating conditions before and after borrowing.

Moreover, an attempt was made to test statistically the significance of the variation before and after borrowing. Also, the research addressed whether there is significant difference between male and female beneficiaries regarding these variables. Thus, various hypotheses were formulated and tested.

3.1. Research Design

The type of research design employed for the purpose of this study was descriptive in nature. It intended only to describe the state of affairs of factors affecting the impact of MF in poverty reduction in rural setting.

3.2. Data sources

The study employed both primary and secondary sources of data. The primary sources of data were the beneficiaries from four branches of SFPI. And secondary data has been obtained from the records of the institution, journals, proceedings, bulletins, internet and various literatures.

3.3. Sampling Techniques

Multistage sampling method was employed. To ensure that a sample represents the original population, objective sampling procedures must be adopted. The ideal case is to obtain a random sample in which all individuals in the original population had an equal chance of being chosen. Likewise, a random sample of four peasant associations (PA) from each of the five districts was selected and accordingly a total of 20 PAs were selected.

Then from among the clients in the sampled PAs, those who have been participating since 2009 will be purposely selected as a sampling frame. One consideration to choose a sampling technique is the objective of the research under study. As the objective of this research is to make impact assessment of the service on the livelihood of the beneficiaries, there is a need for time gap. Because, to make impact assessment the length of time period of participation is matters a lot.

The sample respondents were selected from the sampling frame randomly. Regarding the sample size five beneficiaries from some PAs or six beneficiaries from few PAs were selected because the study must focus on selecting samples from each site equally so that the research finding reflect the impact of the micro-finance on rural intervention. Therefore, 21 beneficiaries from each district and total 105 beneficiaries were selected.

3.4. Data collection Methods

There are many factors to consider in choosing data collection methods, but decisions should be guided primarily by the aim of the research (Laws with Harper and Marcus, 2003). It is often best to use more than one technique for the investigation in order to triangulate the evidence that has been collected. "Triangulation involves checking data collected from respondents and cross-checking with others to get different point of view of the same phenomenon. Careful use of triangulation helps to deal with the problems of the inherently untrustworthy respondents."

As the essence of the research is to make impact assessment of credit on the socio-economic status of the beneficiaries, thus, to attain this

objective of the research, extensive data was collected using questionnaires and structured interview, structured observation and focus group discussion. The structured interview used to collect data from households on various dimensions of impact. And prior to interview guideline used in the actual research subjects pilot testing was conducted, the aim of which is to increase the validity of the instrument.
Including me four enumerators were hired to conduct the interview and the three of them were trained for one day which focusing on: the objectives of the study; how to approach respondents; how to record the responses and on detailed contents of the instrument.
The other method of primary data collection was structured observation. The structured observation is employed to assess on asset possession (both capital and productive assets). And it was conducted simultaneously with the interview schedule. For instance, while conducting the interview the enumerator observed whether the material exists or not. The importance of which is for cross checking data to increase the validity of the data.

Finally, Focus Group Discussion (FGD) with the beneficiaries was made to identify the satisfaction or complains on the services of the institution, problems they faced and any recommendation they might have. FGD was conducted at Holeta Branch, Debere Zete Branch, Akaki, Shano and Fich branches. A total of 8 focus groups (2 at three site and one at two site) were conducted, each focus group containing 4-6 beneficiaries. The four groups were formed based on sex. This is because, if the female beneficiaries are grouped separately, they have opportunity to talk freely other than mixed together with the male beneficiaries.

3.5. Method of data analysis

The responses of the respondents collected by using the above methods were organized, analyzed, and interpreted in scientific way.

The descriptive statistics were that of computation of the mean, percentages, and frequencies while inferential statistics of wilcoxon singed ranks test and independent two sample t-test were employed

The wilcoxon signed ranks test was employed to evaluate the socio economic impacts of the program before and after borrowing. The test was designed to evaluate the difference between two treatments, using the data from a repeated-measure experiment. The two treatments in this research are those without program participation (before borrowing) and with program participation (after borrowing). And to compare the male and female beneficiaries, two independent samples t-test was employed. The test used for evaluating whether there is significant difference between the sexes regarding on socio-economic variables after borrowing. For all tests a significant level at alpha 5% was employed.

Time Schedule

	January, 2013	April, 2013	April-May, 2013
proposal submission			
Data collection			
Writing & Editing			
Correction			
Final work			
preparing questionnaires			
Data collection			
Data analysis			
Writing & Editing			
Submission			
Correction			
Final submission			

Budget

Activities	Units of quantity	Unit cost in birr	Total cost in birr
Data collection			
Stationary			
Flash Disk	2 GB	600.00	600.00
Diskette	5 pieces	10.00	50.00
Packet of paper	4 packets	100.00	400.00
Pens	5 pieces	3.00	15.00
Pencils	2 pieces	1.50	3.00
Eraser	1 pieces	2.50	2.50
	Sub total		**10 70.50**
Research and data analyses			
Transportation & meal			1000.00
Mobile card			350.00
Internet cost out of office			400.00
Purchase of books			500.00
Purchase of different magazines, news papers, manuals			250.00
Research writing			500.00
Printing, photocopy & binding			500.00
	Sub total		**3,500.00**
	Total cost		**3,570.50**