ST. MARY UNIVERSITY

SCHOOL OF GRADUATE STUDIES

THE IMPACT OF DEDBIT MICROFINANCE ON POVERTY REDUCTIONIN: THE CASE OF SELECTED URBAN KEBELES IN WUKRO KILTE AWULAELO WOREDA WUKERO TOWN, EASTERN TIGRAY, ETHIOPIA

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JUNE, 2019
SMU
ADISS ABEBA

THE IMPACT OF DEDBIT MICROFINANCE ON POVERTY REDUCTIONIN WUKRO KILTE AWULAELO WOREDA, EASTERN TIGRAY, ETHIOPIA

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES, IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF ART IN DEVELOPMENT ECONOMICS

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Declaration

I, the under signed, declare that this thesis is my original work, prepared under the guidance of Maru Shete (PhD). All sources of material used while working on this thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any type of degree.

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TABLE OF CONTENTS

ACKNOWLEDGMENT

First and for most I would like to thank Almighty God which is impossible to finish this project without his help. Then I would like to give the greatest credit to my advisor Dr. Maru Shete for his unreserved professional Key guidance throughout my project work. Beyond the critical scholarly advice, his approach was kind and constructive that deserves profound appreciation. For a successful completion of the study, the role of my family especially my brother –Gmariam T. was indispensable. I would like to extend my deepest gratitude to my best friends for their ample support.

ACRONYMS

CGAP	Consultative Group to Assist the Poorest
MDGs	Millennium Development Goal
MBT	Micro Bankers Trust
MFIs	Microfinance Institutions
MDGs	Millennium development goals
NBE	National Bank of Ethiopia
NGOs	Non-Governmental Organization
PSM	Propensity Score Matching
SACCOS	Saving and Credit Cooperatives
UNDP	United Nation Development Program
USD	United States Dollar
DECSI	Dedebit Credit and Savings Institution

LIST OF TABLE

LIST OF FIGURE

ABSTRACT

The purpose of this study was to assess the impact of microfinance services on poverty reduction. Specifically, this research tries to identify the factors affecting access to microfinance, to examine the constraints of accessing credit from the institution and to examine the impact of microfinance on poverty. A mixed research approach and explanatory research design were used; apparently, both primary and secondary data sources were employed and questionnaires were the main data collection instrument. Data were collected from 151 respondents. The findings of the study shows that, access to extension service and income of the household had a positive and significant effect on access to microfinance. On the other hand, family size of the household, land holding size and distance of household from microfinance office had a negative and significant effect on access to microfinance. The findings of the study further shows that members of microfinance had a better income than non-members which indicate the microfinance had a positive impact on poverty reduction.

Keywords: Impact Poverty Microfinance

CHAPTER ONE

INTRODUCTION

1.1.Background of the Study

The concept of poverty consists of less education, poor livelihood, less facilities of health, and low level of income and consumption and covers all the social dimensions like isolation, vulnerability, insecurity, powerlessness, social exclusion, gender and environmental disparities. The worst most kind of poverty is when people do not have access to the necessities of life like to meet their physical needs (Hussain and Hanjra, 2003). Poverty could be conceived as a situational syndrome consisting of deficiency in food consumption, high mortality and morbidity levels, poor sanitary and housing conditions, low educational levels and the existence of widespread marginal population in all aspects of life (Hadgue 1995 as cited in Daba, 2004). Poverty is multidimensional concept. It includes inadequacy of income, deprivation of basic needs and rights and lack of access to production assets as well as to social infrastructure and markets.

One of the major obstacles facing the poor is access to credit. For the poor urban peddler, access to credit can mean a chance to build a bigger inventory so that she has items on hand when customers request them and can eventually move from the insecurity of being a petty street hawker to the stability of being an established vendor. For the poor rural peasant, access to credit can mean a chance to purchase tools, a draft animal, and small capital goods that can enable him to greatly improve his productivity, diversify crops and move toward commercial farming by producing some cash crops for the market, and eventually move from marginal peasant to established commercial farmer. For the poor rural landless laborer, access to credit can mean a chance to learn skills, purchase raw materials (such as cloth) and tools (such as a sewing machine), and eventually become an established business person. In a working-capital poverty trap, a micro entrepreneur has too little inventory to be very productive at sales. For example, she does not have styles or sizes that match what the customers she encounters that day want. But this means that she will also have too little net income to acquire the resources to hold a larger inventory in the future. Like other Sub-Saharan Africa countries, the socio-economic condition of the country is characterized by low growth rate of income, saving, investment, inadequate social services, high population growth and high unemployment rate. Unbalanced growth rate of population with economic growth is both the causes and consequences of poverty in Ethiopia. Poverty is a broad, multifaceted and multidimensional concept that involves the economic, social, political and environmental well-being of the people. Poverty in Ethiopia is also caused by various factors such as high population growth, high unemployment, low level of literacy, environmental degradation, drought, limited access to resources, health and education services and others (Wolday, 2003).

The solution to poverty is multifaceted as its causes. Microfinance Institutions (MFIs) provide financial services to low-income, economically active, borrowers who seek relatively small amounts to finance their businesses, manage emergencies, acquire assets, or smooth consumption. These borrowers usually lack credit histories, collateral, or both, and thus, do not have access to financing from mainstream commercial banks. For this reason, MFIs are playing a role in the creation of economic opportunity, and in poverty alleviation. Recognizing the importance that several donors had placed on microfinance as a tool to achieve the millennium development goals (MDGs), the United Nations declared 2005 as the “year of micro-credit” (Morduch, 2000). The capacity of the conventional banking sector in Ethiopia has been too weak to serve the need of the rural community. Few woredas in the country have bank branches. Even if there are banks in these woredas, due to high collateral requirements, the rural poor have limited access to the conventional banks.

Making credit available, particularly to the rural poor, is thus considered essential to alleviate poverty and promote economic development. Therefore, the formal microfinance industry began in Ethiopia in 1994/1995 with the government’s the Licensing and Supervision of Microfinance Institution Proclamation designed to encourage MFIs to extend credit to both the rural and urban poor of the country. Accordingly, proclamation No. 40/1996 was enacted to provide for the licensing and supervision of the business of micro financing by empowering the NBE to license and supervise them. Since the issuance of this proclamation in July 1996, 28 MFIs have legally been registered and started delivering microfinance services. These MFIs aim at poverty alleviation through targeting specific groups (reaching the poor) and group-based lending. In a short period of time the MFIs have managed to reach a sizable portion of the rural and urban poor, and in so doing have gained significant experience. Unbalanced growth rate of population with economic growth is both the causes and consequences of poverty in Ethiopia. Poverty is a broad, multifaceted and multidimensional concept that involves the economic, social, political and environmental well-being of the people (WB, 2002). Poverty in Ethiopia is also caused by various factors such as high population growth, high unemployment, low level of literacy, environmental degradation, drought, limited access to resources, health and education services and others (Wolday, 2003). Lack of access to financial services is also among the causes of poverty in Ethiopia. Thus, this study aims at examining the impact of microfinance on asset ownership, income level and expenditure.

1.2.Problem Statement

A micro finance service has been provided since the 1970s. The reason behind is that the prevailing formal financial institutions in many poor developing countries such as Ethiopia is inefficient in providing sustainable credit facilities to the poor. The formal financial institutions like Banks and Insurances that could provide credit services for low-income entrepreneurs, handcrafters, pastoral and farmer's families are very limited in Ethiopia. Majority of the poor accesses financial services through informal channels such as Iqqub, mehabber, money lender, relatives, friends and etc (Wolday, 2002). Another most important reason is that there is assumption that by integrating the poor into productive economic activities, development would be promoted automatically through micro finance (Aguilar, 1999). It is general truth that saving has immense contribution for both clients and MFIs. For clients, savings help smooth consumption patterns during difficult times by covering cost of large expenses such as school fees, medicals. For MFIs, savings increase profitability. By mobilizing savings, MFIs gain access to funds and the potential to decrease their dependency on donor funds if the savings program is successful.

The establishment of microfinance institutions in Ethiopia provides an additional finding source to poor household's enterprises on lending basis. constraint with myriad of problems ranging from managerial to their inability to properly evaluate loan application and improper credit risk management which has resulted to a high degree of unpaid debt and consequently the closure of so many microfinance institutions in the recent past. It is against this that the subject matter is seen as an empirical problem worthy of being investigated. However, Ethiopian microfinance institutions are faced with many problems. Some of these are low outreach, limited funding alternatives, limited financial products, lack of research to understand client needs and weak internal control system (Wolday, 2001). In addition to, it's broad, multifaceted and multidimensional poverty involved in economic, social, political and environmental well-being of the people (WB, 2002). Whereas, developing countries were developed their own national poverty reduction strategies (UNDP, 2003). Thus, microfinance institutions were one of the strategies that help to reduce poverty (Wolday, 2001). However, formal MFIs started in Ethiopia since 1996, provides financial and non-financial service to low income (Deribie et.al, 2013).

Many studies are published on this topics and related issues Hankamo (2018); Luan (2015); Iqbal, (2015); Noreen (2011);Alamirew (2007); Arun, (2006). Studies by Asmelash, 2003 and Mebratu, 2008 investigated empirically impact of microfinance institutions in poverty reduction. Their finding reveals that microfinance brought positive and significant impact on the living standard of participant. Meanwhile, the studies report the current expenditure status of the participants, but give no ideas on the condition of those clients before joining the program. Although, according to Mebratu (2008) poverty in Ethiopia were problems in both rural and urban, but in urban increase in number due to rural-urban migration at least by the amount of the new comers whose needs are not accommodated, in addition to deepening poverty of the existing urban poor. Moreover, study by Bisrat (2011) demonstrates positive impact of microfinance on its participant but not estimates average effect of the intervention regarding to pre-intervention. Hence, this study help in reducing the output bias using matching algorisms and also help to see the only effect of program intervention among the participant. The central question is thus, is it DMFIs have impact on participants households poverty reduction? If yes, how much is the impact? Answering these questions empirically would be of interest to program administrators and policy makers in promoting a major change in the preceding approaches. Apparently, this study examines how DECSI achieves its goal, in sustainable way to make a difference in the livelihood of the poor. The study assesses the impact of microfinance intervention on poverty reduction at the household levels. If the intervention is intended to reduce poverty, it is important to know intervening organization makes an informed decision on whether their work is likely to augment or displace existing poor financial services (Johnson and Rogaly, 1997). This study therefor attempted to assess the impact of microfinance intervention on poverty reduction by taking a case study of microfinance located in wukro Kilteawualo wereda, eastern Tigray regional state.

1.3.Objectives of the study

1.3.1. General objective

The purpose of this research was to estimate the impact of microfinance services provided by DECSI on poverty reduction.

1.3.2. Specific objectives

The specific objectives of the research were including:

- To identify the factors affecting access to microfinance
- To examine the constraints of accessing credit from the institution
- To examine the impact of microfinance on poverty

1.4.Scope and limitation of the Study

This study was conducted to find out the impact of microfinance on poverty reduction; conceptually, the study concentrates on different dimensions of microfinance access and then thereby the implication on poverty. Geographically, the study is conducted on eastern tigrya wukrowereda.

1.5.Significance of the study

Beside these the study was addressing only the users and non-users at household level by increasing income, and expenditure opportunity. Institutional Microfinance is lately emerging phenomenon which had not been given due attention in earlier development paradigm, particularly in Ethiopia. The document in the Association of Ethiopian Microfinance Institution revealed that Ethiopian microfinance institutions are facing some challenges. Among these, lack of research to understand clients' needs is a vital problem. This case study has attempted to address the gap of research on the impact of micro financing programs at the household levels and its role in combating poverty. This study contributes in filling the information gap by assessing the socio- economic impact of microfinance institution in wukrowereda eastern Tigray regional state at a household level. It also adds a body of knowledge in the area.

1.6.Organization of the study

The research report have five chapters; The first chapter deal with back ground of the study, the basis upon which the study will make statement of the problem, basic question research, objectives of the research, significance of the study, delimitations or scope of the study. The second chapter contains basis of the study by reviewing the existing knowledge and literature about physical distribution mentioned by various several scholars. Chapter three presents the method and procedures used in sample selection, data collection, analysis and presentation. It includes; sampling techniques, data collection method, study population, sources of data, sampling and sampling size and analysis method. Chapter four focuses on analysis and interpretation of the data collected through questionnaire. Chapter five also compromise four sections, which include conclusions and recommendations.

CHAPTER TWO

REVIEW OF LITERATURE

2.1. Theoretical Literature Review

2.1.1. The Nature and Scope of Microfinance

Microfinance is coined as the financial service rendered to the deprived group of the people and small entrepreneurs to help them in developing self-employment opportunities and various income generating activities. The small size of the loan, regular savings, small scale entrepreneurs, diversified utilization and simple and flexible terms and conditions are the determining features of its definition. Microfinance is the provision of financial services to poor and low-income households without access to formal financial institutions. According to Rajasekhar (2004), microfinance is the strategy for providing to the poor in rural and urban areas, especially women with savings and credit facilities to set up or expand business, invest in self-employment activities and increase household security. Also, Schreiner and Colombet (2001) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks. Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

Lindvert (2006) said there are two main approaches in the area of microfinance today. One is described as Subsidized Credit Delivery. Which means poor people are considered unable to lend and save, and therefore are in need of subsidized credit services. The other approach is known as Commercialized Sustainable Microfinance which is based on the idea that poor people can and do save and repay their loans to a market-oriented interest rate but need secure financial institutions for doing this. He said this approach has a longer-term perspective with the purpose to create sustainable organizations, communities and markets. Akanji (2001) in her paper on microfinance as a strategy for poverty reduction enunciated the following principles: simplify services, offer small initial loan, offer short term loan, localize services, focus on scale, short turnaround time, motivate repayment, and recognize that the poor do save.

Commentators such as Littlefield, Murduch and Hashemi (2003), Simanowitz and Brody (2004) and International Monetary Fund (2005) have commented on the relevance of microfinance in achieving the Millennium Development Goals of eradication of poverty and hunger, achieve universal education, promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability and develop a global partnership for development. Simanowitz and Brody (2004) stress that microfinance is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the poorest people.

2.1.2. The Nature and Scope of Poverty

Poverty has been described by scholars and experts depending on its nature, place and volume Poverty is a multifaceted concept being perceived by different people while using different criteria to assign a meaning to it, and therefore, this makes it difficult to give a concise meaning to the term (Kurfi, 2009). According to United Nations Development Program, around 2.7 billion people are considered to be living in poverty. These people have a consumption level of less than 2 US Dollars per day. Extreme poverty is defined as living in less than 1 US Dollar per day. Around 1.1 billion of the poor live in extreme poverty. People living in extreme poverty often lack opportunities to have their basic needs met, meaning access to food, clean water, clothes and decent shelter. Most lack education and are vulnerable to diseases (Lindsert, 2006). In a similar vein, Momoh (2005) note that poverty is a multidimensional phenomenon related to the inadequacy or lack of social, economic, cultural, and political entitlements.

Poverty is hunger. Poverty is lack of shelter. Poverty is being sick and not being able to see a doctor. Poverty is not being able to go to school and not knowing how to read. Poverty is not having a job, is fear for the future and living a day at a time. Poverty is losing a child to illness brought about by unclean water. Poverty is powerlessness, lack of representation and freedom (World Bank, 2000). Oyeranti and Olayiwola (2005) maintain that there are three dominant views in the literature on the meaning of poverty. The first view considers poverty in terms of deprivation in some materials of wellbeing which can usually be assessed in terms of money. World Bank (2002) defines it as the lack of what is necessary for material wellbeing. The second view considers poverty as being multidimensional in nature entailing lack of adequate livelihood, assets and failure to achieve basic capabilities in nutrition, health, economic and social life etc.

The third view considers poverty as a phenomenon that is difficult to objectively determine. According to Adebayo (2009), it is subjective in nature and has both physical and psychological dimensions that predispose its sufferers to hunger, violence and crime, insecurity, discrimination, victimization, political repression etc.

According to Brock and McGee (2002), the dynamics of poverty are complex and mostly not easy to explain only by using economic models such as price equilibrium, perfect competition, and surplus extraction and so on. There are different types of poverty such as income poverty, absolute poverty, relative poverty and consistent poverty. Income poverty is type of poverty that is a result of lack of money or limited income. Absolute poverty is a type of poverty where people are starved, living without proper housing, clothing or medical care people who struggle to stay alive. Relative poverty is a type of poverty where people are considered to be living substantially less than the general standard of living in the society. Consistent poverty is a type of poverty that is the combination of income poverty and deprivation (Momoh, 2005).Mboho, and Ibok (2009) argue that poverty alleviation strategies are approaches designed to tackle underdevelopment. These strategies adopted depend on the developer, individuals, groups and institutions. According to Ogwumike (2002), poverty reduction can be group into four strategies. These strategies include.

Economic Growth Strategy: This strategy focuses on ensuring growth especially through increased focus on human capital formation via education, health, nutrition and housing need of the labor force.

Basic Needs Strategy: his is the provision of basic needs such as food, shelter, water, sanitation, health care, basic education etc.

Rural Development Strategy: This strategy considers poverty as a rural phenomenon and that traditional measures of poverty reduction may not work in the rural areas because of its peculiarities. This strategy recommends a multidimensional, multipronged, integrated strategy to poverty reduction through development programmed that provides basic needs and creates income generating opportunities for rural dwellers in general and the poor in.

Targeting Strategy: this strategy focuses on specific groups of women, youths, disabled and etc. in the reduction of poverty in the society. The third view of the concept of poverty grouped poverty reduction into four approaches namely proport approach, rights-based approach, resource-based approach and sustainable livelihood approach. The proport approach aims at ensuring macroeconomic policy that are favorable to the poor to ensure stability of the economy conducive business climate, growth enhancing technological innovation and improved output leading to increased earnings for the poor people (Adebayo, 2009). The rights approach ensures the empowerment and redistribution of political power. This approach emphasizes issues such as improved political participation, good governance, rule of law, credit availability, skill enhancement, accountability etc. There source-based approach aims at redistribution of assets by the promotion of security against risks such as ill health, natural disaster and economic shocks. The Sustainable livelihood approach is people centered and a combination of all the other three approach.

2.1.3. Microfinance and Poverty Reduction

There is an ongoing debate concerning the idea of microfinance alone or microfinance plus being capable of reducing poverty. There are views that microfinance alone is inadequate to fight poverty. The need for other services is also important in this respect. Such views, although, do not negate the role of microfinance; fail to appreciate the role of microfinance on its own advantage. Latifee (2003) says nobody says that micro finance alone is cure for all. Most experts and practitioners believe that microfinance plays a vital role as an instrument of intervention for a poor person to discover her potential and to stride for better living.

Yunus (2013) advocates microfinance is a human right; once this right is established the entitlement to other rights for leading a dignified life becomes easier. It empowers to break the vicious cycle of poverty by instantaneously creating self-employment and generating income. When in the ultimate analysis nothing can be said to be the panacea, by overemphasizing that microfinance is not a panacea is in a sense overreacting and underestimating the role of finance as an instrument to combat poverty. Microfinance has proved to be a powerful instrument for poverty reduction that enables the poor to build assets, increase incomes and reduce their vulnerability to economic stress. But if it is combined with others, it is definitely more empowering. Studies have shown that microfinance has been successful in many situations.

According to Little, Murduch and Hashemi (2003), “various studies on microfinance and poverty reduction have recorded increases in income and assets and decreases in vulnerability of microfinance clients”. They refer to projects in India, Indonesia, Zimbabwe, Bangladesh, Ethiopia and Uganda which all shows very positive impacts of microfinance in reducing poverty. Mayoux (2001) states that while microfinance has much potential, the main effects on poverty have been Credit making a significant contribution to increasing incomes of the better-off poor, including women, Microfinance services contributing to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies. Khandker (2003) states that it is clear that what microfinance can do for the poor depends on the poor’s ability to utilize what microfinance offers them. He further said that microfinance provides a window of opportunity for the poor to access a borrowing and saving facility. In other countries, these facilities also provide organizational help, training, safety nets, empowerment, and financial and other help during crises.

Microfinance organizations can alleviate liquidity constraints, stabilize consumption, and enhance both income and consumption for the poor, thereby augmenting the poor’s welfare. Kurmanalieva et al. (2003) submission on microfinance and poverty reduction is very interesting. They argue that if access to microfinance can be improved, the poor can finance productive activities that will allow income growth, provided there are no other binding constraints. This is a route out of poverty for the non-destitute chronic poor. For the transitory poor, who are vulnerable to fluctuations in income that bring them close to or below the poverty line, microfinance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself that can be drawn on.

2.1.4. Impacts of Microfinance on Poverty Reduction

There is a significant difference between increasing income and reducing poverty. In a comprehensive study on the use of MF to combat poverty, Hulme and Mosley (1996) argued that well-organized programs can improve income of the poor and help them escape from poverty.

They stated that the impact of a loan on a borrower's income is related to the level of income as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the middle and upper poor. However, they also showed that when MFIs such as the Grameen Bank provided credit to very poor households, those households were able to raise their incomes and their assets (Hulme& Mosley, 1996). Wright (2000) argued that by increasing the income of the poor, MFIs are not necessary reducing poverty. It depends on what the poor do with this money, so focusing only on increasing income was not enough.

The focus needs how to help the poor sustain a specified level of well-being (Wright, 2000) by providing them a variety of financial services to their needs so that their net wealth and income security can be improved. In addition, Johnson and Rogaly (1997) showed examples whereby savings and credit schemes are able to meet the needs of the very poor. They stated that MF experts were beginning to view improvements in economic security, rather than income promotion, as the first step in poverty reduction as this reduces beneficiaries' overall vulnerability (Johnson &Rogaly, 1997). Therefore, improving the resilience of the poor in order to cope with the adverse shocks of them in living and production is more powerful than only providing credit. The involvement of the study is, besides credit, what the other necessary supports meet the needs of the poor and enhance their resilience in order to reduce vulnerability. However, while acknowledging the role MF can have in helping to reduce poverty, concluded from their research on MF that most contemporary schemes are less effective than they might be (Hulme& Mosley, 1996). They stated that MF is not a panacea for poverty alleviation and that in some cases the poorest people have been made worse-off by MF. Therefore, one can question which the main reasons that obstruct the poor to escape poverty.

2.1.5. Microfinance Institutions (MFIs) in Ethiopia

In Ethiopia, though savings and credit programs were operated for a few years by NGOs, microfinance operation in a regulated form is a relatively new phenomenon. The operation was for the first time undertaken by the market Town Program of the World Bank. This program was implemented jointly with the Development Bank of Ethiopia and the Bureaus of Trade and Industry in what was then called: Market Towns in phase one and then spread to all the major towns of the country. Most of the borrowers were women, (Tsehay and Mengistu, 2002).

Microfinance services were introduced after the demise of the Derg regime following the policy of economic liberalization. Microfinance is taken as a shift from government and NGOs subsidized credit programs to financial services run by specialized financial institutions. With this shift some NGOs and government microcredit programs were transformed to microfinance institutions (Degefe, 2009).

Microfinance institutions started proliferating following the issuance of proclamation No 40/1996 which regulated the business of microfinance in the country. The National Bank of Ethiopia, that is the licensing authority, has since been issuing a number of guidelines that underpin the operation of microfinance in the country (Teshay and Mengistu, 2002). The regulatory framework was put in place as part of government's effort to liberalize the financial sector and lay down an alternative institutional frame work to provide financial services mainly to the rural poor to boost agricultural production enable food self-sufficiency and reduce poverty. Most importantly experts observing the unsound financial practices of NGOs, and government agencies recommended the regulatory framework to promote more systematic financial service provision and bring microfinance in the country within the existing financial system (Degefe, 2009). Currently, there are 29 MFIs in the country, of which 12 are licensed to operate in regional states and the rest are licensed to operate nationwide (Haftu et al. 2009). They provide financial service, mainly credit and saving and, in some cases, loan insurance. Almost all microfinance institutions in the country have poverty alleviation as an objective. They are thus meant to address the lower strata of micro-entrepreneurs including those engaged in activities that are started and operated just for survival.

However, most of the microfinance institutions in the country are relatively young. They seem to replicate each other instead of innovating their own approach. Their financial products are almost the same except for a few microfinance institutions that have recently started adding some new products. The loan sizes of most of the microfinance institutions are too small that some of their clients outgrow it very quickly. Some of the causes for high client drop out in both rural and urban areas seem to be small loan size, lack of product diversification on the part of the MFIs, lack of flexibility in approach among others (Haftu, et al. 2009). The Nation Bank of Ethiopia directive issued in 2006(MFI/18/2006) allows MFIs to provide larger loans to individuals using appropriate collateral, subject to single borrower limit of 1% of their capital. On the bases of this framework, some MFIs started extending relatively larger loans for working capital and for investment in cases where government agencies like Micro and Small enterprise development agency are involved in the recovery of loans through different linkage mechanisms.

Relatively bigger amounts of working capital loans are extended to those who have established businesses or can offer collateral in fixed asset form (Haftu, et al. 2009). The potential demand for microcredit in Ethiopia is enormous. However, there is very limited supply of financial services to the poor household (Wolday, 2002). The major sources of loan or financial service in Ethiopia are; formal banks, Microfinance Institutions, Cooperatives, NGOs which are involved in the delivery of financial services, government projects and programs involved in providing loans, semi-formal finance(Iqub, Iddir, Mahiber) and, informal finance(private money lender, traders supplier credits, friends, and relatives) The conventional banking sector in Ethiopia has been too weak to serve the needs of poor people due to limited branch and high collateral requirements. Moreover, the formal bank sector considers the poor as credit risks (Haftu et al. 2009).

Access to institutional credit that contributes to an increase in investment is very limited. The majority of the poor get access to financial services through the informal and semi-formal channels such as private money lenders, Iqub, Iddir, friends, relatives, traders, among other (Wolday and GbereHiewot, 2006). The informal lenders such as the money lenders, traders, friends and relatives enforce loan contracts and their loan recovery rate high and the loan terms are flexible. However, the interest rates are very high. The semi-formal lending institutions such as Iqub and Iddir are the dominant and sustainable traditional institutions which meet the financial and social needs of the poor. Iqub is the dominant form of saving and credit cooperatives in Ethiopia which is popular in both urban and rural areas, Iqub is not a permanent club; it could be continued or dissolved after its members have a turn (Wolday, 2002). The conventional banking sector in Ethiopia has been too weak to serve the needs of poor people due to limited branch and high collateral requirements. Moreover, the formal bank sector considers the poor as credit risks. As a result, the formal banks in Ethiopia do not have the mission of financing the poor in micro and small Enterprise sector (Wolday, 2002). Thus, MFIs and savings and credit cooperatives should be designed to respond to the failure of the conventional banks to serve the financial needs of small farms and micro and small enterprise operators in urban areas. Thus, delivering financial services to the poor requires financial systems that reach the poor and an innovative targeting methodology and credit delivery mechanisms that helps identify and attract only the poor who can initiate and sustain productive use of loans.

2.1.6. Microfinance and Poverty Reduction in Ethiopia

Microfinance and Poverty Reduction is in Ethiopia in a country where almost half of the population barely survives on less than a dollar a day, microfinance offers poor people a unique opportunity to engage in small businesses or improve their livelihood production (Degefe, 2009). With the support of national and international organizations, many institutions across the country extend small loans to poor people in urban areas to help them improve their incomes and overcome poverty. Accordingly, microfinance programs have recently been considered as an important instrument to attain the poverty reduction objectives. Wolday (2001) argued that even though microfinance is not a panacea for poverty and development related challenges, it is nonetheless an important tool in the poverty reduction programs. Cognizant of the advantages it offers, development practitioners and donors have in recent years given considerable emphasis to microfinance activities as a tool to empower the poor and provide them with the financial means to increase access to social services and reduce poverty. This is so because having access to microfinance services means having access to productive resources through loan and saving products. In addition, from socio-political point of view, being a member of a microfinance institution or urban credit association means accepting the existing institutional social structure in place to undertake the given activities, which in turn can lead to attitude changes in daily life (Birgit, 2001). On the same issue, Wolday (2001) also argues that, microfinance alone cannot provide roads, housing, water supply, education and health services; it can certainly play an important role in making the above interventions realized.

It also empowers the poor and provides them with the confidence, self-esteem and financial means to increase income and access to social services (Abdi, 2007). Providing the poor with access to financial services is one of many ways to help increase their incomes and productivity. Since, traditional financial institutions have failed to provide this service, in many countries, microcredit and cooperative programs have been developed to fill this gap. Their purpose is to help the poor become self-employed and thus escape poverty. Many of these programs provide credit using social mechanisms, such as group-based lending, to reach the poor and other clients, including women, who lack access to formal financial institutions. With increasing assistance from the World Bank and other donors, microfinance is emerging as an instrument for reducing poverty and improving the poor access to financial services in Ethiopia in particular and low-income countries in general (Yaron,1994).

MFI schemes were initiated to meet different objectives. The most commonly mentioned objectives include: poverty alleviation and improved living standards, offering financing to the poor, women‵s empowerment, and the development of the business sector as a means of achieving high standards and reducing market failure (Okibo and Makanga, 2014). Empirical evidences and surveys give mixed results on the performance of MFIs. In some cases, debacle stories have been reported, yet there have been success stories. In other cases, the reasons for failures or successes have not been well documented (Okibo and Makanga, 2014). Linking MFIs with other interventions such as poverty alleviation often complicates the functioning of MFIs by pushing them to areas not considered sustainable. This implies that there is a conflict in measuring financial performance and poverty alleviation. Most of sustainability indicators focus on the MFI as a profitable institution (loan repayment, profitability and degree of subsidization). Thus, for an MFI to meet the microfinance best practices, as given by Consultative Group to Assist the Poorest (CGAP), and be financially sustainable, it has to regard itself as a business venture. Because of this and especially in the rural areas, very few people qualify for a business loan (Okibo and Makanga, 2014).

In addition, Manandhar and Pradhan (2005) state that microfinance is an effective development tool for poverty reduction since the financial services enable the poor and low-income households to take advantage of the economic opportunities to increase their living standards through self-employment. They further note that it is now accepted that the poor do not have much money, so low-income households need financial support. The importance of microfinance particularly in the countries perceived to be poverty stricken has been increasing in recent times which have led to policy makers of many countries to adopt national micro-finance policies and program (Manandhar& Pradhan, 2005). The increasing number of microfinance practitioners around the globe is an indication that microfinance sector can play an important role not only to help attain the government‘s policies on poverty reduction.

2.1.7. Measures of poverty

It is not easy to measure poverty like that of its definitions. Thus, measures of poverty are different in different countries. Conventionally, the income or expenditure level that can sustain a minimum standard of living measures it. Poverty can be commonly measured by constructing a line called poverty line. The cross-cutting level which is constructed from monetary estimates of minimum needs is said to be poverty line (Getahun, 1999). Poverty line is also defined as a threshold level of per capita income or consumption level below which an individual is labeled to be poor (WB, 1991). The poverty line represents a minimum level of economic participation in a given society at a given point in time. People below this threshold is said to be poor. Poverty line can be estimated in two different approaches. These approaches are absolute poverty and relative poverty. Absolute poverty refers to a condition in which people barely exist. In such situation, the availability of the next meal will be a matter of life or death. It is a critical condition in which people live on aid, food relief or their own meager returns from squatter farming, prostitution, scavenging on refuse tips and so on (Todaro, 1997). It tends to identify those who are starving without any comparison made with others. The relative poverty implies that one has less than what others have. It tends to identify with comparison made with others. It tends to identify with comparison of the circumstances one group of people or an entire economy with another one. It refers to a relative income differential of distribution. It may not be a situation of an entanglement in between life and death as of the case in absolute poverty. It exists when the subjects under consideration are "poor" in relation to others (Todaro, 1997).

2.1.8. The effect of micro-credit schemes in developing countries-experience of MFIs globally

Micro- credit schemes have been practiced in many parts of the world for poverty alleviation. According to Sharma (2000), many micro-finance services in Asia and Africa targets women on the assumption that empowering women and targeting service to them leads to better allocation and use of household resources. Several studies in Bangladesh support this assumption, indicating that service directed to women significantly increase assets, incomes and education attainment of children, especially girls (Sharma and Zeller, 1997). Findings from many studies in Africa and Asia also suggest that poor households generally use a combination of savings, credit and increased wage employment to cope with income volatility and unexpected expenditure requirements (Sharma, 2000). The importance of access to financial services increases with the severity of income downturn. When household confront severe events such as floods or drought that depresses their incomes temporarily, access to financial services, especially in the informal sector, enables them to buy enough food to maintain the nutritional status of their children and finance other important activities such as education (Temu, 1998). The insurance covers provided by access to credit and savings also has an effect on the efficiency with which household resources is managed. For example, with the insurance cover, poor households may be emboldened to undertake more efficient, albeit riskier, projects to increase household income, such as adoption of new agricultural technology off-farm micro enterprise (Kashuliza*et al.*, 1998).

In Kenya the micro finance sector reaches more than 11% of population of which the market competition is considered not so high to threaten the situation because of the presence of market segmentation. The IMFs outreach to Kenyan community is so high compared to West-African countries, which have an average of 3-5%. There are 1million members and 1.9 million users of SACCOS in Kenya. These SACCOS are relatively concentrated in both urban and rural areas. The Kenyan apart from befitting from SACCOS they also use NGOs to benefit about 7% of the population. These financial NGOs operate exclusively in urban areas. Staple crop and semi-arid zones are virtually without micro-finance programs (Micro Save-Africa 2000). The micro finance sector in Zambia, on the other hand, is characterized by its relative youth (Micro Save-Africa 2000). The sector emerged in the middle of the 1990s. There are currently about 98 known MFIs of which, 45 are members of the Association of Micro Finance Institutions in Zambia (AMIZ) established in January 1999. In addition, there is a wholesale micro finance lending institution, the Micro Bankers Trust (MBT), established in October 1996. All these MFIs in Zambia put together are reaching less than 1% of the potential clients, suggesting its limited coverage in the country.

In Tanzania the micro finance sector is fairly limited and scope of absence of competition is evident. The demand for financial services in rural area is largely unmet. Recent reforms and market liberalization has led to the withdrawal of banks from rural areas where they were making a loss, and financial NGOs still have limited outreach (Macro-save-Africa, 2000). Furthermore, micro finance in Tanzania seems to be much more embryonic. For example, according to MAFC reports of May, 2006 the number of SACCOS all over the country were 2125 with the following distributions, 1129 SACCOS and 996 SACCOS in urban and rural areas respectively having 1380000 members for both rural and urban. Most of these are concentrated in Kilimanjaro region. On the other hand, NGOs count their clients in thousands (PRIDE, the largest NGOs, has 25000 clients). Total outreach appears to be less than 1% of population. This suggests that whether in terms of geographical scope or outreach, the extent of micro-finance in Tanzania is extremely limited (Micro Save-Africa, 2000).

2.1.9. Determinants of access to microfinance

Most important element of our living standard like education, health & medication, empowerment and income are positively influenced by the financial services or credit being provided by the Khushali Bank Ltd of Pakistan. According to the study it is found that no impact or relationship of expenditure of extremely poor people and microfinance. According to this study it is found that Khsuhali Bank Ltd is a source of credit for every poor people that are lies below the poverty line (Montgomery, 2005). Access to the formal and technical education, health and medication, proper sanitation system, provision of foods, provision of clothes for winter and summer, provision of latest technology and advancement, and better household assets and living conditions are the basic element of living standard that are strongly associated with interest rate. High interest rate mean low access to these elements and low interest rate mean greatest access to these elements (Muhammad, 2010).

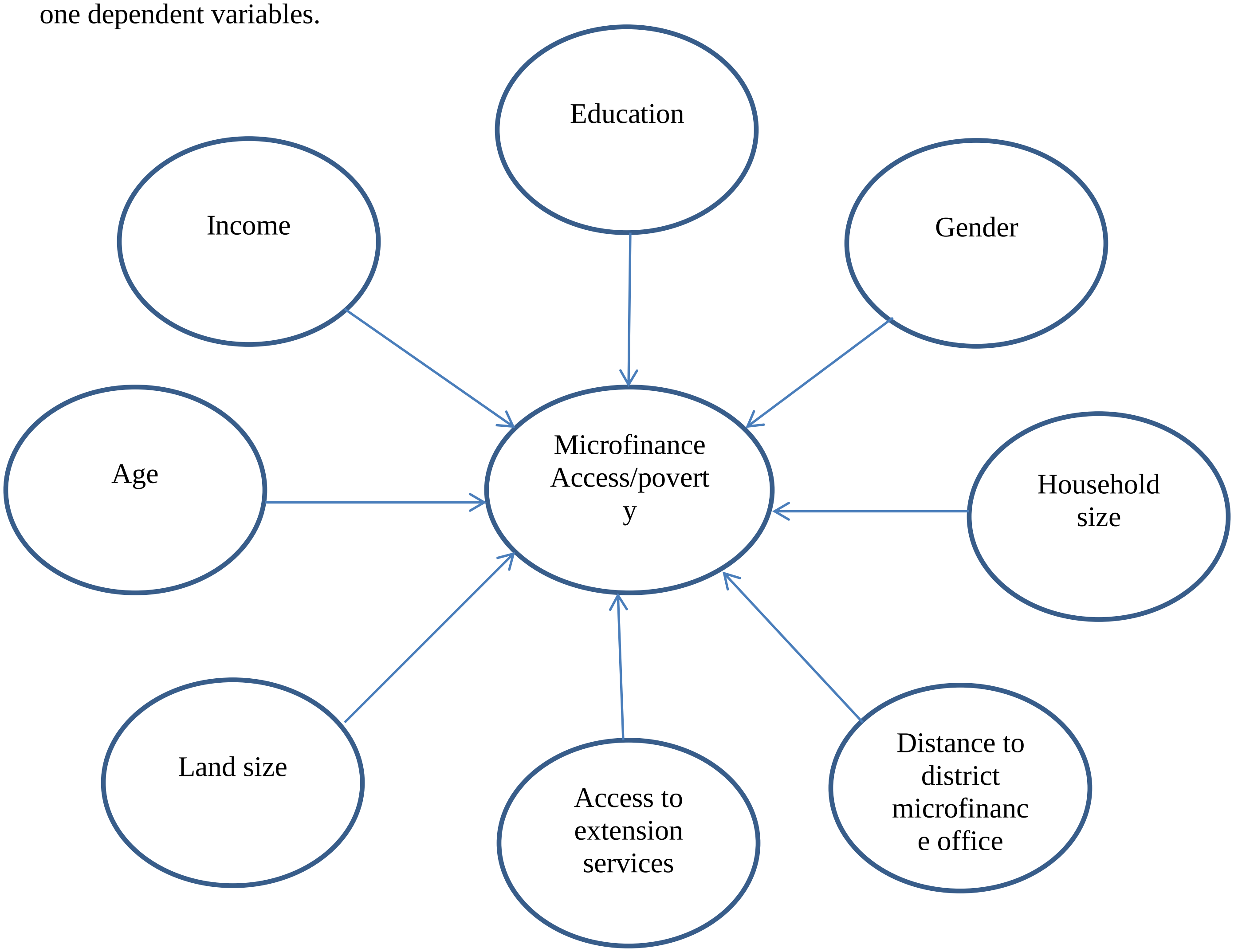
Low income is an associated with overall economic development. High income of individual also put a positive impact on overall economy as well as low income of individual also put a negative impact on overall economy. The high income of individual leads to the better quality of life and living standard whereas the low income of individual put a negative impact on living standard and quality of life. So, income is important element for overall survival, growth and stability of economy and income of poor people can be change or improve through the financial services being offered by the Microfinance Institutions (MFIs) (Bentu, 2008). Income level is associated with microfinance. A positive relationship was found between microfinance and income level. Increase in more microfinance services leads to increase in income and less microfinance access leads to decrease in income. Whereas an opposite relationship was found between microfinance, income live and poverty was observed. More access to microcredit or more income resulting decrease in poverty as well as less access to microcredit services or less income becomes a cause increasing poverty (Remenyi et al, 2000).

2.2.Empirical Literature Review

Olivares and Polance (2005) have analyzed average outstanding loans used as proxy for depth of outreach, as dependent variable with other explanatory variables like age of institution, lending methodology, sustainability, competition, and gender. Their results reported negative relationship between age and loan size which means that older MFIs give loan of small sizes. Another study conducted by Mersland and Strom (2009) document that average loan size is a main proxy of serving the poorest of the society. They find a positive relationship between average profit and average loan size indicating that the increase size of loan represents increase urge for profit by MFIs. Wagenaar (2012) has worked on institutional transformation and mission drift in microfinance institutions. According to him, there is huge pressure from donors on microfinance institutions to be profitable. Due to this reason some MFIs have transformed from nonprofit to profit oriented institutions. He argues that financial sustainability may lead toward less reaching to the poorest of the poor. Results show that transformed MFIs have significantly higher loan size and have lower percentage of female borrowers. This shows that transformation effects outreach that cause deviation from social mission towards profitability. Cull et al. (2011) investigate regulated and non-regulated microfinance institutions. The results show that regulated MFI has high loan size than non-regulated NGO type microfinance institutions. The operating cost increases as loan size decreases by lending to poorer segment. To minimize or absorb this operating cost MFI are more tempted towards better off clients and restrict outreach to poorer segment and increases loan size is reported. Therefore, regulated microfinance institutions are more likely to experience deviation from social mission than non-regulated NGO type institutions.

2.3.Conceptual Framework

The conceptual framework shows the relationship between the dependent and independent variables; as we have seen in the conceptual framework, there are eight independent variables one dependent variables.



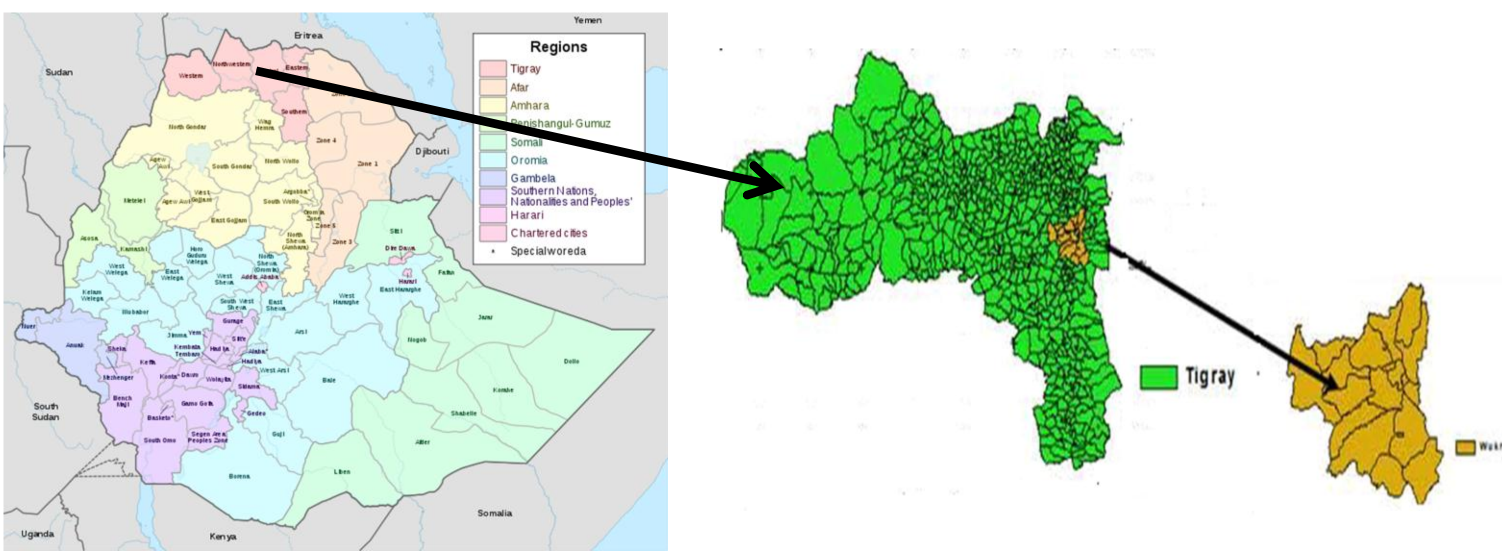
CHAPTER THREE

RESEARCH METHODOLOGY

3.1.Description of the Study Area

The was undertaken at KilteAwulaelo is one of the woredas in the Tigray Region of Ethiopia. Part of the Misraqawi Zone, KilteAwulaelo is bordered on the south by the Debub Misraqawi (Southeastern) Zone, on the west by the Mehakelegnaw (Central) Zone, on the northeast by Hawzen, on the north by SaesiTsaedaemba, and on the east by AtsbiWenberta. Towns in the KilteAwulaelo woreda include Agula, Tsigereda and Maymagden. Town of Wukro is surrounded by KilteAwulaelo. Based on the 2007 central statistical agency of Ethiopia (CSA) has a total population of 99,708 people.

Figure 3.1 map of the study area



3.2.Research Design and Approach

As it is stated in the objective, the very essence of this research was determine the impact of microfinance on poverty reduction specifically in the KilteAwulaelowereda. The study used mixed research approach, which includes both qualitative and quantitative data. By qualitative data, the description is in words rather than numbers by believing it helps the study to go beyond the statistical results that are reported in the quantitative research. As well for this study the researcher usedcausal research design to identify the determinants of access to microfinance and to investigate the impact of access to MFIs on poverty.

3.3.Population and Sampling Procedure

The target population of this study is the members and non-members of the microfinance who are living in selected kebeles of the woreda. Further, to address the research question the researcher used probability and Nonprobability sampling technique. Using non-probability purposive sampling technique one kebele were selected who has considerable numbers of microfinance users. In these kebles there are a total of 4325 households among these households 1575 are members and the rest 2750 are non-members. The sample size was calculated based on Yamane’s formula (Yamane, 1967)

$$n = \frac{N}{1 + N(e)^2}$$

Where, n = the sample size

N= the size of population

e = the error of 8 percentage points

$$N = \frac{4325}{1+4325(o.o8)2} = 150.8019 \approx 151$$

By using Yamane's formula of sample size with an error 8 % (Yamane, 1967), out of the total population of 4325 a sample of 151 were determined. The distribution for each keble is made proportionally. Therefore, using proportional sampling 55 from treated group and 96 from controlled group was taken as a sample.

3.4.Data Sources,Variables and Hypotheses

To conduct the study, the researcher was use both primary and secondary sources of data. Primary data will be collected using the questionnaire method. The questionnaire will be designed to obtain information from respondents. Interview guide will be used to generate data. The data collection instruments were constitute questions on household general characteristics, asset ownership, income level and expenditure, housing conditions/types, education level and health condition. Secondary data will be also collected from different institutions that are found in the study district.

Table 3.1 Variables and their expected sign

Variable	Description	Type	Expected sign
Microfinance membership	1 = Yes, 0 = No	Dummy	
Income	Monthly income of households	Continuous	+
Consumption Expenditure	Monthly consumption expenditure of households	Continuous	-
Education	Education level of respondents; it is considered as discrete variable	Discrete	+
Gender	Male = 1, Otherwise = 0	Dummy	
Age	Age of the household	Continuous	+
Land size	Total cultivated land in hectare		-
Household size	Number of dependent families		-

Access to agricultural extension services	Does households have access to extension agents 0 = No, 1= Yes	Dummy	+
distance of the household to the district microfinance office	The distance of the household to the district center is used to capture household access to information	Continuous	-

3.5.Data Analysis and Model Specification

After collecting all the data, the data was processed, edited, classified and organized in order to enable the researcher to interpret and summarize the data. Data was analyzed using both descriptive and inferential statistical techniques. In descriptive statistics, the research were used percentages, and frequencies as well as mean and standard deviation that help to analyze the data where as in the inferential techniques which is known as the binary logistics and T-test were used. The raw data will be processed and analyzed using STATA software.

3.5.1.1. Logit Model: determinants of access to microfinance

In order to identify the factors that determine the accessibility of microfinance loan in the study area, the logistic regression model was adopted. Logit and probit models are the binary choice models usually used to analyse the accessibility of households to credit in literature (Xia, Chistopher, & Baiding, 2011). Based on the fact that the dependent variable for the model of this study is dichotomous, it would not be appropriate statistically to use linear regression of ordinary least squares (Green, 2012). To this end, the logit model is considered as most efficient to estimate the model since logit model possesses the ability to approximate the normal distribution very well and for the fact that it exhibits analytical convenience (Xia, *et al*., 2011).

Following Gujarati and Porter (2009:555) in the estimation of Logit model, we find the natural log transformation of the equation as follows:

Following Gujarati and Porter (2009:555) in the estimation of Logit model, we find the natural log transformation of the equation as follows:

$$L_i = \ln\left(\frac{Pi}{1-Pi}\right) = Z_i$$
$$= \beta_0 + \beta_j \sum_{j=1}^{k} X_i + u_i$$

$$L_i = ln\left(\frac{Pi}{1-Pi}\right) =$$

This implies that L, the log of the odds ratio, is linear in both Xs and the parameters.

It should also be noted that as P varies from 0 to 1, Z goes from-∞to+ ∞.

In the same vein, model for this study can be specified as follows:

$f(X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8, X_9, X_{10})$

where,

P_i is a binary Dependent variable. P_i=1; if the person is Microfinance member

P_i = 0; if the person is Microfinance loan non-member but eligible applicant.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1.Characteristics of respondents

Totally there were 151 respondents; out of these respondent's 90.73 percent of the respondents were male and the rest 9.27 percent of them were female. In terms of age category, 15.23 percent of the respondents are below 25 years of age, 58.94 percent of the respondents were 26 to 35 years of age. The rest 25.83 percent of the respondents were in the age range of 36 to 50 years of age. In terms of religion 94.70 percent of the respondents were orthodox Christian and the rest 5.30 percent were Muslims. Apart from these, 68.87 percent of the respondents were married and the rest 31.13 percent of the respondents were singles. Moreover, 41.06 percent of the respondents didn't have formal education, 52.98 percent of the respondents were learn up to primary first cycle, 5.30 percent of the respondents learn up to primary second cycle and the rest 0.66 percent of the respondents were high school completed.

Table 4.1 Characteristics of respondents

Sex	**Without access**	**Have access**	**Freq.**	**Percent**
Male	88	49	137	90.73
Female	8	6	14	9.27
Total	**96**	**55**	**151**	**100.00**
Age category			**Freq.**	**Percent**
less than 25	16	7	23	15.23
26 to 35	58	31	89	58.94
36 to 50	22	17	39	25.83
Total	**96**	**55**	**151**	**100.00**
Religion			**Freq.**	**Percent**
Orthodox Christian	89	54	143	94.70
Islam	7	1	8	5.30
Total	**96**	**55**	**151**	**100.00**
Marital status			**Freq.**	**Percent**
Married	60	44	104	68.87
Single	36	11	47	31.13
Total	**96**	**55**	**151**	**100.00**
Educational			**Freq.**	**Percent**
No formal education	38	24	62	41.06
Primary first Cycle	52	28	80	52.98

Primary Second cycle	5	3	8	5.30
High school completion	1	0	1	0.66
Total	**96**	**55**	**151**	**100.00**

Source: Own survey data (2019)

4.2.Results of Descriptive Statistics for the study Variables

Under this sub-topic the average statistics of some selected variables is discussed; accordingly, the statistics is done for members and non-members; accordingly, members of the microfinance had an average age of 32.98 and non-members are 31.36 years of age. Members had an average family size 4.74 dependent family; whereas non-members had average family member of 4.59. Apart from these, members of the microfinance had an average yearly income of 12222.87 birr; whereas non-members had an average income of 8081.29 birr. Apparently, the average expenditure of members were 7967.27 birr whereas, non-members of the microfinance had 4842.70 birr. Moreover, considering the overall situations of the statistics; in the study area the average age were 31.95 years of age; where the maximum were 49 and the minimum were 22 years of age. Apart from these, on average a household had 4.64 family sizes; the maximum family sizes were 10 and the minimum were no dependent family.

Table 4.2 Descriptive statistics of variables

	Have access	**Without access**	**Total**			
Variable	**Mean**	**Mean**	**Mean**	**St. Dev**	**Min**	**Max**
Age	32.98	31.36	31.95	8.27	22	49
Family size	4.74	4.59	4.64	2.11	0	10
Expenditure	7967.27	4842.70	5980.79	5916.89	500	25000

4.3.Income trend of respondents

The income trend shows majorities of the member's income increases; out the total 55 respondents who are members of the microfinance 35 of them replied that their income were increased and 13 of them also mentioned that their income were increased significantly; on the other hand 7 of the microfinance members mentioned that their income didn't increased rather it stayed the same. On the other hand, the majority of the non-members income didn't increase; out of 96 non-members 58 of them replied that their income was remained the same with in the last two years. On the other hand, 22 respondents out of those members are replied that their income was increased. Apart from these, respondents were also asked about the reasons for why their income stayed the same or decreased; accordingly, majority of them gives two basic reasons loosing of employment and crop failure. Furthermore, majority of the respondents are the major bearers of their household expenditure.

Table 4.3 Income trend of respondents

Overall income trend of the last two years	**Member**	**Non-member**	**Total**
Increased significantly	13	1	14
Increase	35	21	56
Remained the same	7	58	65
Decrease	0	13	13
Decreased significantly	0	3	3
Total	55	96	151
Bearer/source of expenditure in the Household	**Member**	**Non-member**	**Total**
Yourself	49	87	136
Other family members	6	9	15
Total	55	96	151
Reasons for same or decreased income trend	**Freq.**	**Percent**	**Cum.**
Lack of credit	3	18.75	18.75
Crop failure	7	43.75	62.50
Family member lost employment	6	37.50	100.00
Total	16	100.00	

4.4.Nutrition and Consumption between members and non-members

Under this sub topic the nutritional status of respondents would be discussed. Overall, 25.17 percent of the respondents had only one meal time per day; 34.44 percent of the respondents eat twice a day, and the rest 35.10 and 5.30 percent of the respondents eat three times and more than three times a day respectively. However, when we see for the two different categories; majority of the non-members eat twice a day followed by once in a day; whereas, majority of the members had a meal three times a day and two times a day respectively. Apparently, out of the total respondents 44.37 percent of them replied that their meal type and number were improved, whereas, for 41.06 and 14.57 percent of the respondents their meal were stayed the same and decreased respectively. In terms of the two categories, the majority of member's meal number and type were improved; however, for non-member doesn't had any change, it stayed the same. Apparently, out of the total respondents 53.64 percent of the respondents confirmed that their consumption expenditure were improved, however, for 46.36 percent of respondents their household diet were not improved; in terms of proportion, more than half of the members household diet were improved. Out of the total respondents only 67 (44.37%) of them were mentioned their income were improved, these 67 respondents were asked about the major improvements of their meal, accordingly, out of those respondents who had meal improvement 35.82 percent of them were answered that they able to buy more cereals and staples such as teff, maize, 32.84 percent of them were able to buy and consume vegetables and fruits and the rest 13.43 and 17.91 percent of the respondents mentioned that they able to buy dairy products such as milk, meats and they able to eat three meals a day respectively. Apart from these, out of the total sample respondents only 19.87 percent of the respondents face food shortage, the rest 80.13 didn't face a food shortage.

Table 4.4 consumption trend of households

Household meals per day	Without access	Have access	Total	
Once	36	2	38	25.17
Twice	49	3	52	34.44
Three	10	43	53	35.10
More than three times	1	7	8	5.30
Total	96	55	151	100
Number & types of meals improvement last two year	**No**	**yes**	**Total**	
Improved	26	41	67	44.37
Stayed same	53	9	62	41.06
Decreased	17	5	22	14.57
Total	96	55	151	100
Increase in consumption expenditure or household diet	**No**	**yes**	**Total**	
Yes	48	33	81	53.64
NO	48	22	70	46.36
Total	96	55	151	100
Major improvements of diet/meal	**No**	**yes**	**Total**	
Able to buy more cereals and staples such as teff, maize, etc.	12	12	24	35.82
Able to buy vegetables and fruits	5	17	22	32.84
Able to buy dairy products such as milk, meats, etc.	5	4	9	13.43
Able to eat three meals a day	4	8	12	17.91
Total	26	41	67	100
Have you faced shortage of food for the last twelve months	**Non-members**	**Members**	**Total**	
Yes	21	9	30	19.87
No	75	46	121	80.13
Total	96	55	151	100

4.5.Nutrition and Consumption Expenditure poor Vs non-poor

The researcher further classified the respondents in to poor vs non-poor; majority of the poor's eat once and twice a day; whereas the non-poor eat twice and three times a day. Furthermore, majority of the poor and non-poor replied their meal types are improved and for the others stayed the same and reduced. The major improvements for the poor's are the become able to eat three meals a day; furthermore, majority of the poor's got food shortage.

Household meals per day	Poor	Non-poor	Total	
Once	23	15	38	25.17
Twice	30	22	52	34.44
Three	28	25	53	35.10
More than three times	2	6	8	5.30
Total	**83**	**68**	**151**	**100**
Number & types of meals improvement last two year	**Poor**	**Non-poor**	**Total**	
Improved	35	32	67	44.37
Stayed same	36	26	62	41.06
Decreased	12	10	22	14.57
Total	83	68		100
Increase in consumption expenditure or household diet	**Poor**	**Non-poor**	**Total**	
Yes	47	34	81	53.64
NO	36	34	70	46.36
Total	83	68		100
Major improvements of diet/meal	**Poor**	**Non-poor**	**Total**	
Able to buy more cereals and staples such as teff, maize, etc.	5	7	12	35.82
Able to buy vegetables and fruits	4	5	9	32.84
Able to buy dairy products such as milk, meats, etc.	10	12	22	13.43
Able to eat three meals a day	16	8	24	17.91
Total				100
Have you faced shortage of food for the last twelve months	**Poor**	**Non-poor**	**Total**	
Yes	67	14	81	19.87
No	16	54	70	80.13
Total	83	68	151	100

4.6.Access to Medical Facilities Information

Respondents were asked if they respond themselves financing to get medical facilities to their family, accordingly, 70.20 percent of them replied that they were financing their families whereas 29.90 percent of the respondents replied that they can’t afford to finance their family. Looking proportionally the members and non-members, in both categories majority of the respondents finance their families’ medical expense by their own selves. Out of those who replied yes, majority of them cover by their own selves whereas small amounts of respondents mentioned that the expenses were covered by donors. Out of the total respondents, 55.63 percent of the respondents said that they had access to health services; whereas, 44.37 percent of the respondents didn't have health service access. In terms proportion, in both categories majority of the respondents had access to health services. Apparently, since the last two years according to 50.33 percent of the respondents the responsiveness of access to medical facilities were improved, however, for 49.67 percent of the respondents it was not improved. If the responsiveness were improved, respondents were asked what the reasons were; 39.47 percent of the respondents said that their medical responsiveness improved due to they can access money from the loan able activities, 31.58 percent of the respondents were mentioned that it was improved due to better local treatment and the rest 19.74 and 9.21 percent of the respondents justify that it due to borrowed from other sources and sold the assets from the loan activities.

Table 4.5 description of medical access

Could you respond yourself financing to get medical facilities to your family	**Non-members**	**Members**	**Total**	
Yes	67	39	106	70.20
No	29	16	45	29.80
Total	96	55	151	100
If yes, who could the bearer of the expenditure	**No**	**yes**	**Total**	
Yourself	58	34	92	86.79
Donors	9	5	14	13.21
Total	67	39	106	100
Access to health services	**No**	**yes**	**Total**	
Yes	51	33	84	55.63
No	45	22	67	44.37
Total	96	55	151	100
Access to medical facilities responsiveness has been improved	**Non-members**	**Members**	**Total**	
Yes	45	31	76	50.33
No	51	24	75	49.67
Total	96	55	151	100

If yes, what are the main reasons	**Non-members**	**Members**	**Total**	
Access of money from the loan able activities	14	16	30	39.47
Better local treatment	16	8	24	31.58
Borrowed from other sources	8	7	15	19.74
Sold the assets from the loan activities	7	0	7	9.21
Total	45	31	76	

4.7.Accesses to Loan and Perception

Those respondents who are members of the microfinance were asked whether they accessed loan or not, accordingly, out of those respondents who are members of the microfinance 45.45 percent of the respondents had access loan from the microfinance, on the other hand, 54.55 percent of the respondents didn't get a loan. Among whom accessed loan 10 was poor and 15 were non-poor. 36 percent of the respondents replied that they pay their loan from the revenue generated from their micro-business, 56 percent of them pay their loan from their income comes from wage and the rest 4 and 4 percent of respondents replied that they will pay their loan through borrowing from informal network and other loans. Out of those who pay their loan through microfinance business 4 was poor, those who pay their loan through wage 5 of them were poor's.

Furthermore, respondents were also asked whether they had been late to pay their loan, accordingly, out of those who took the loan 48 percent of the respondents were late to pay their loan and the rest 52 percent paid their loan without being late. Apparently, 32 percent of the respondents were satisfied with the loans terms, conditions and repayment schedule, on the other hand, 68 percent of the respondents were not satisfied with the loans terms, conditions and repayment schedule of the microfinance. Those respondents who were not satisfied were justified that they were dissatisfied because of too many requirements, high interest rates and short grace periods. Apart from the existing loans, only very small amount of respondents want to take additional loans.

Table 4.6 Access to loan services from MFI

Loan access	**Poor**	**Non-poor**	**Total**	
Yes	10	15	25	45.45
No	15	15	30	54.55
Total	**25**	**30**	**55**	**100.00**
Source of payment for loan installments	**Poor**	**Non-poor**		**Percent**
Micro-business revenues	4	5	9	36.00
Wage	5	9	14	56.00
Other loan	1	0	1	4.00
Borrowing from informal networks	0	1	1	4.00
Total	10	15	25	100.00
Late in repaying loan installments	**Poor**	**Non-poor**		**Percent**
Yes				48.00
No				52.00
Total				**100.00**
Satisfaction with the loans terms, conditions and repayment schedule	**Poor**	**Non-poor**		**Percent**
Yes	2	6	8	32.00
No	8	9	17	68.00
Total	**10**	**15**	**25**	**100.00**
If not, why?	**Poor**	**Non-poor**		**Percent**
Too many requirements and papers needed	1	2	3	17.65
High interest rates	2	2	4	23.53
Short grace periods	5	4	9	52.94
No grace periods	0	1	1	5.88
Total	8	9	17	100.00
Would you like to have another loan	**Poor**	**Non-poor**		**Percent**
Yes	2	12	14	20.00
No	8	3	11	80.00
Total			**25**	**100.00**

4.8.Determinants of microfinance access: binary logit model

In order to estimate access to microfinance logit regression model was employed; totally there were eight independent variables; accordingly, out of the total estimated independent variables five were significant the other three variables didn't show a significant association with access to microfinance. The details of each variable effect are discussed below.

The first variable that show a significant relationship with microfinance access was land holding of households; this particular variable show a negative and significant ($p<0.05$) relationship with access to microfinance; the negative coefficient suggested that the higher the land holding size the lower will be the probability of joining the microfinance; meaning that those households who has higher land holding size had a lower probability to join the microfinance scheme. Moreover, households home distance from the microfinance office had negative and significant ($p<0.05$) effect on participating on microfinance. The analysis suggested that as the household house distance from the microfinance office increases the probability of joining the microfinance will decrease. Family size of households has significant effect on practicing irrigation; family size had negative and significant ($p<0.05$) effect on the access of microfinance. The negative coefficients of this variable suggested that as the total family size of households increases the probability of joining the microfinance is decreased.

Access to extension services had a significant ($p>0.05$) and positive effect on adoption of microfinance services. The positive coefficients of this variable suggested that those who accessed extension services had the higher probability of joining microfinance programs.Income of the household had also a positive and significant effect on access to microfinance; the positive coefficient of this variable suggested that as the income of the household increases the probability of joining the microfinance also increases.

Table 4.7: Determinants of microfinance access

Logistic regression Log likelihood = -56.236338				Number of obs = 151 LR chi2(8) = 85.58 Prob > chi2 = 0.0000 Pseudo R2 = 0.4321	
Member	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]
Age	.0074709	.0313111	0.24	0.811	-.0538978 .0688396
Sex	1.646347	.8980836	1.83	0.067	-.1138645 3.406559
Educational	-.1038763	.4244184	-0.24	0.807	-.9357211 .7279685
landholding	-1.498821	.7164315	-2.09	0.036	-2.903001 -.0946407
distance	-.4056036	.1179402	-3.44	0.001	-.6367621 -.1744451
DAaccess	1.836285	.531958	3.45	0.001	.7936661 2.878903
Family size	-.419823	.1273743	-3.30	0.001	-.6694719 -.170174
Income	.0000894	.0000279	3.20	0.001	.0000347 .0001441
_cons	.1810776	1.894994	0.10	0.924	

4.9.Gross Income

4.9.1. Gross Income Obtained by the Respondents' Household

The results in Table 4.8 show that out of the total respondents household (83%) had obtained annual gross income from 1000-20,000birr.However, microfinance user respondents' household (56%) had obtained annual gross income from 1000-20,000birr whileout of the total irrigation non-user respondents' household (86%) had obtained annual gross income from 1000-10,000birr. The mean annual gross income obtained by microfinance user and non-user respondents' household was 20363 and 3371.5 respectively.

The t-value also shows that at 1% significant level, the mean of annual gross income obtained by microfinance user respondents' household was significantly differs and better from that was obtained by microfinance non-user respondents' household.As a result,the microfinance user respondents' household obtained excess of 5972 birr of mean gross income thatwas obtained by microfinance non-user respondents' household. Therefore, these implications show that, the use of microfinance might be made the significant difference on the mean annual gross income between microfinance user and non-user respondents' household.

Table 4.8 Annual gross income obtained by the respondents' household in 2015/16.

Income	User		Non-user		Total	
	N	%	N	%	N	%
<1000	-	-	45	46.87	45	29.80
1000 - 10000	14	25.45	39	40.62	53	35.09
10001 - 20000	17	30.90	12	12.5	29	19.20
20001 - 30000	10	18.18	-	-	10	6.62
30001 - 40000	14	25.45	-	-	14	9.27
Total	55		96		151	
Mean	13363		7391.5		13183.35	
SD	2097		298		14958	
t- value9.885***						

Source: Own field survey, 2018. P-value = 0.000 ***, Significant at 5% level.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1.Conclusion

Under the conclusion part the findings of the study would be summarized; accordingly the purpose of these research was to estimate the impact of microfinance services provided by DECSI on poverty reduction; specifically this research tries to identify the factors affecting access to microfinance, to examine the constraints of accessing credit from the institution and to examine the impact of microfinance on poverty. A mixed method research was used and both primary and secondary data were employed to collect the data. Data were collected from 151 respondents where 55 members and 96 non-members. Nine independent variables were hypothesized from literature which believed to have a significant effect on microfinance membership, income, education, gender, age, land size, household size, and access to agricultural extension service and distance of household from microfinance office. The findings of the study shows that, extension service access and income of the household had a positive and significant effect on access to microfinance, on the other hand family size of the household, land holding size and distance of household from microfinance office had a negative and significant effect on access to microfinance. The research finding further shows those members of microfinance had a better income than non-members which indicate the microfinance had a positive impact on poverty reduction.

5.2.Recommendation

In line with the findings of the research the researcher forwards the following recommendations

- The findings of the study shows that members of the microfinances had a better income; therefore, the government stakeholders should have work more to bring the peoples to join the microfinance
- The findings of the study also shows that those households who are near to the microfinance offices had a better probability to join the microfinance institutions; and hence it is advisable to open branch microfinance offices to make other households

member of the microfinance, since microfinance had an implication on living standard of the households

- Also households who had better education had more joined microfinances, therefore, increasing the awareness of the society through training and development program helps households to join microfinance and increase their income.

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APPENDIX

Questionnaire

SECTION-1: PERSONAL PROFILE

1.1) Age: ___________________

1.2) Sex: a) Male b) Female

1.3) Religion: a) Christianity c) Catholic b) Islam d) Others_____________

1.4) Educational Background:_____________________________

1.5) Marital Status: a) Married b) Singlt c) Widow d) Separated

1.6) Total number of family ____

No	Age category in year	Male	Female	Total
1	<10			
2	10-13			
3	14-16			
4	17-50			
	>50			

1.7) How far is your house from the district's town _________________ kilometers

SECTIO-2: INCOME INFORMATION

2.1) What is the average monthly expenditure for:

- For Food ________________Birr
- For Non Food (cloth, recreation, health expenses, children's school)________________Birr
- For Fixed asset annually (house equipment,)________________________

2.2) How much is your monthly income from different sources combined together?--------Birr

Income From crop sales ________________________

Income From animal sales ______________________

Income from other sources _____________________________

2.3) For the last two years, what has been the trend in the level of your overall income?

a) Increased significantly b) Increased c) Remained the same d) Decreased e) Decreased significantly

2.4) Why did your income increased (if increased)?

a) Able to buy inputs b) Able to purchase of business assets d) Expand existing business

e) Got jobs f) Others______________________

2.5) Is your income did stay the same or decreased or increased (if stayed same or decreased)?

2.5)1.1. If increased why ____________________________________

2.5)1.2. If decreased or no change, because of

a) Lack of credit **b)** Crop failure **c)** Family member lost employment

d) Illness or death in the family **e)** Others________________________

SECTION-3: NUTRITION AND CONSUMPTION EXPENDITURE INFORMATION

2.1) Who was the bearer (source) of expenditure in your household?

a) Yourself b) Your spouse c) Other family member's d) Other, please specify _________

2.2) How many times do your households eat meals in a day?

a) Once b) Twice c) three times d) More than three times

2.3) How'd the number and type of your meals for the last two years?

a) Improved b) Stayed same c) Decreased

2.4) What is the approximate monthly consumption expenditure of your household for the last twelve months? Amount in birr ____________

2.5) Is there an increase in consumption expenditure or household diet of your household for the last twelve months? a) yes b) No

i) If yes, why?

a) ______________________________

b) ______________________________

c) ______________________________

ii) If no, why?

a) ______________________________

b) ______________________________

c) ______________________________

2.6) If your household diet is improved, what have been the major improvements?

a) Able to buy more cereals and staples such as teff, maize, etc.

b) Able to buy vegetables and fruits

c) Able to buy dairy products such as milk, meats, etc.

d) Able to eat three meals a day

e) Others ________________________

2.7) If your household diet has not been improved for the last twelve months, what are your major reasons?

a) ________________________________

b) ________________________________

c) ________________________________

3.10) Have you faced shortage of food for the last twelve months?

a) yes b) No

If yes, what was the reason(s)? __________________________And for how many days/months?------------

SECTION-4: ACCESS TO EDUCATION INFORMATION AND EXTENSION AGENTS

4.1) Number of children who go to school presently

a) Public schools ______ b) Private schools ________

4.2) If you have children and other school-age family dependents, how many of them are currently attending school? ____________

4.3) What is your average educational expenditure per year? Amount in birr ___________

4.4) Does the number of your family attending school for the last two years is

a) Increased b) stayed same c) Decreased

I) If increased, why?

a) Income improvement

b) Building school

c) Others

ii) If decreased, why?

a) Low level of income c) No need of attending school

b) Too far school) Others

4.5) If there are school-age children, not attending school, why?

a) Needed for help in the business activities d) Insufficient money

b) Needed for help in non- business activities) Disabled

c) Too far school f) Lady child

g) No need of school

h) Has attained enough (specify his/her grade)

4.6) Do you have access to extension agents? A) yes B) No,

If yes how many times per month or per year________________________

SECTION-5: ACCESS TO MEDICAL FACILITIES INFORMATION

5.1) Do you have access to health services?

a) Yes b) No

5.2) If YES, mention the type of services

a) Traditional b) Public c) Private d) Both traditional and public services

e.) Both public and private services

5.3) In the last twelve months, was there any ill or injured member of the household not taken for medical attention or treatment because the household lacked the money to pay for it?

a) Yes b) No

5.4) Do you think that your access to medical facilities or your responsiveness has been improved? a) Yes b) No

If yes, what are the main reasons?

a) Access of money from the loan able activities

b) Better local treatment

c) Borrowed from other sources

d) Sold the assets from the loan activities

e) Others (specify)

5.5) Could you finance medical facilities to your family for the last 12 months? a) Yes b) No

If yes, who could the bearer of the expenditure?

a) Yourself b) Relatives c) Donors d) Others

5.6) What is the average annual household medical expenditure Amount in birr__________?

SECTION 6 ACCESSES TO LOAN AND PERCEPTION

6.1) What is the total value of your active microfinance loans in Birr? __________________

6.2) what are the annual interest rates on your loans? Please list them all if the rate is different from loan to another.____

6.3) What is your main source of payment for loan installments? (you can select more than one)

A) Micro-business revenues

B) Wage

C) Other loan(s)

D) Borrowing from informal networks

E) Other_______________

6.4) Have you ever been late in repaying your loan installments?

a) Yes b) No

6.5) if you say yes how many times?_______________________

6.6) Are you satisfied with the loan terms, conditions

a) Yes b) No

6.7) Are you satisfied with the repayment schedule?

a) Yes b) No

If not, why? Please check all that apply.

A) Too many requirements and papers needed

B) High interest rates

C) Short grace periods

D) No grace periods

E) Bad treatment by loan officers

F) Loan value is small

G) High penalty fees on late repayment _ Hard loan conditions

H) Other____________________

6.6) Would you like to have another loan?

a) Yes b) No

6.7 If you would like to take another loan, what would you do with it? Please check all that apply.

A) Expand my business

B) Start a new business

C) Cover personal/family expenses

D) Other__________________

6.8 If not, why wouldn't you take another loan? Please check all that apply.

A) Inability to pay the loan and interest and become subject to jail

B) Loans are not that useful

C) Country conditions are bad and the business does not make much profit to repay the installments with interest

D) People do not accept you as a woman involved in business

E) In order to avoid family problems with my spouse who does not like loans

F) Requirements to obtain a license for the business

G) Difficulty to access supplies

H) Taxes

I) Other____

SECTION-7: EMPLOYMENT AND BUSINESS ACTIVITIES

7.1) What are the major types of activities? (you can select more than one)

a) Agricultural activities

b) Animal husbandry

c) Food production

d) Local drink preparation

e) Retail trade

f) Wood or metal work

g) others

7.2) Do you think that your employment opportunities have been improved?

a) Yes b) No

7.3) Have you improved number for your business activities? a) Yes b) No

7.4) Do you think that your income has been improved because of improvement in job opportunities, which is financed from the loan? a) Yes b) No

7.5) Have you used hired labor in your business activities? a) Yes b) No

7.5.1 If yes, a) How many _______

- Is it seasonal or permanent? ___________
- For which activities? __________________________

7.5.2 If no, why?

a) ______________________________

b) ______________________________

c) ______________________________

7.6) For the business, which gives you the greatest earnings, who in your household decides?

a) Husband only b) Mostly husband c) Husband and wife equally d) Mostly wife

e) only you (for single)