

Microfinance in Tigray, Ethiopia Its Impact on poverty alleviation (Daniel Assefa)

Cover Page

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A case study of the Dedebit Credit and Saving Institution (DECSI)

By

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THESIS

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Abstract

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National governments, nongovernmental organizations, and donors view micro finance as a powerful tool to fight poverty. In countries like Ethiopia, where the level of poverty is very high, Microfinance institutions (MFI's) are expected to play a vital role in the reduction and thereby alleviation of poverty. One of the objectives of most MFI's in Ethiopia is alleviation of poverty. To this end, they have been providing credit to poor households mainly in rural areas. However, the question is to what extent does the poverty reduction objective succeeded. Hence, this paper tried to assess the impact of micro finance on poverty alleviation in the case of Dedebit Credit & Saving Institution (DECSI), a MFI in Ethiopia. The outcome of the study reveals that microfinance interventions have achieved positive impact on poverty reduction. Compared to the level of improvement shown by the non-clients, the clients, who participated in the program, have shown significant improvement in terms of increased household income, increased major household asset, improved access to life-enhancing facilities, increased savings for further investment, and social & economic empowerment of people, particularly women.

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CHAPTER I

Introduction

1.1 Background

1.1.1 The role of microfinance in development

Poverty is the main challenge and fundamental issue of economic development in Ethiopia. It is a manifestation of complex factors such as high population growth, environmental degradation, high unemployment, drought, low level of literacy, limited access to resources, health and education services, etc. The total population of Ethiopia is nearly 70 million out of which 85% lives in the rural areas where agriculture is the main stay of the economy. According to the rural development strategy of the government of Ethiopia, nearly 60% of the population lives below the absolute poverty line; those are unable to fulfill the minimum living standard.

Rural development has thus become a primary strategy for improving the standard of living of the majority population, particularly the rural poor. The government has designed an agriculture development led industrialization (ADLI) policy involving the poor as targets as well as actors of the overall development program of the country. Among other interventions, the delivery of microfinance services has been considered as part of the policy instrument to enable poor households increase output and productivity, reduce poverty and attain food security. Many developing countries are using targeted microfinance programs as a tool of alleviating poverty by facilitating equity and economic growth (Rachman, 1998: Webster and Fidler, 1996; Shahidur and Khandker, 1998).

The term microfinance refers to small-scale financial services:- primarily credit and savings provided to people who operate small enterprises, provide services, fish farm or herd, and to other individuals or groups at local level of developing countries both rural and urban areas (Robinson S, 2001 The microfinance revolution: sustainable finance for the poor).

An effective microfinance program provides the poor with access to financial services with the objective of supporting the poor to become self-employed and thus escape poverty. Many of such programs provide credit using social mechanism, 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, other donors, microfinance is emerging as an instrument for reducing poverty and improving the poor access to financial services in low-income countries (Yaron .J 1994 What makes rural finance successful?).

The first section briefly explains the introduction, objective, methodology used and background of the study. The second part explores conceptual and methodological issues of impact assessment in order to provide a theoretical framework for the paper. The fourth section contains the impact results of the Dedebit credit and saving institution (DECSI) microfinance interventions in Ethiopia-Tigray. The last section ties together the key findings and conclusions of the studies.

1.1.2 Determinants of poverty in Ethiopia

It helps to think in terms of people's assets, the returns to (or productivity of) these assets, and the volatility of returns or income to understand the determinants of poverty in all its dimensions. These assets are of several kinds. Some are:

- Human assets, such as the capacity for basic labor, skills and good health;
- Natural assets, such as land;
- Physical assets, such as access to infrastructure;
- Financial assets, such as savings and access to credit; and
- Social assets, such as networks of contacts and reciprocal obligations that can be called on in time of need for political influence over resources.

The return to these assets depends on the access to markets, but returns do not just depend on the behavior of markets, but also on the performance of the institutions of state and society (social capital). Underlying asset ownership and returns to assets are not only economic but also fundamental political and social forces. Access to assets depends on a legal structure that defines and enforces private property rights or customary norms that define common property resources. Access may also be affected by implicit or explicit discrimination based on gender, ethnicity, race or social status. An attempt is made hereto depict the above elements in Figure 1 below.

Volatility results from market fluctuations, weather conditions, and in some societies, turbulent political conditions. Volatility affects not only returns, but also the value of assets. Shocks also undermine health, destroy natural and physical assets, or deplete savings. Moreover, the rural poor sustain their lives by farming marginal lands with inadequate and uncertain rainfall. The urban poor have precarious employment in

the formal or informal sector. All are at higher risk of diseases such as malaria and tuberculosis.

The absence of the rule of law, lack of protection against violence, extortion and intimidation, and lack of civility and predictability in interactions with public officials and all the rest of it place a heavy burden on poor people. They are prevented from taking advantage of new economic opportunities or engaging themselves in activities outside their immediate zone of security. Threats of physical force or arbitrary bureaucratic power make it difficult for them to engage in public affairs, make their interests known, and have themselves taken into account. In addition, unaccountable and unresponsive state institutions (poor governance) are among the causes of the relatively slow progress in expanding the human assets of poor people.

The determinants of poverty usually include (a) the level of education of the household, (b) size and composition of the household, (c) sex and age of the head of the household, (e) region of residence (rural/urban), etc. Some household level studies in Ethiopia, (Dercon, 1999, 2000, Mekonnen, et al.2001) for instance, have shown that ownership of asset such oxen are associated with a low chance of falling into poverty in rural areas. Producers of export crops such as coffee, chat, and cereal crop teff have lower chance of falling into poverty. Primary education of the household head or wife does not seem to have significant effect on the probability of escaping from poverty. The probability of falling into poverty increases with the age of the household head. Households with larger household size and higher dependency ratios and households headed by females are associated with a high incidence of poverty. For urban areas, the effect of household size and age of household head on poverty was found to be similar to rural ones. However, primary education of the head or spouse significantly reduced the

chance of falling into poverty. As expected, casual workers and the unemployed are among the poorest group in urban areas.

Empirical studies demonstrate that demographic processes are linked with socio-economic development and poverty in a complex manner. With growing population and high dependency ratio, total savings in the economy will decline, which means fewer resources for investment in human development in the coming years. Income poverty is also closely linked to degradation of the environment. Poverty depletes natural resources, which in turn accentuates the suffering of the rural poor. The depletion of forest cover in search of cultivable and grazing land and/or fuel-wood threatens agricultural sustainability, with serious consequences for the rural poor. In Ethiopia, high population growth has made land scarcity more acute in the highlands of Ethiopia. With the decline of the average farm size to less than one hectare, most farmers have resorted to monocropping and nutrient mining of the soil with little or no crop rotation or fallowing. The rural poor are largely farmers in drought prone areas, pastoralists, smallholders (with less than 0.5 ha of land), and the landless.

Mekonnen et al. (2001) in their study indicate that households with large family size, high level of dependency ratio, female, as heads of the households tend to be poor. In rural areas, the type of crops that farmers grow has also shown to have effect on the probability of poorness. The probability of living in poverty is the lowest for people who are privately employed and highest among casual laborers.

On the other hand, using household survey data from 15 villages collected between 1989 and 1995 in rural Ethiopia, Dercon (1999) found that access to infrastructure, education, and land ownership are important variables to explain the coming out of households from poverty. The results also indicate that more female heads

and older people stay poor or experience dire poverty compared with male heads and younger people. Dercon (2000) found out that there were signs of consumption poverty reduction and rapid improvements in primary enrolment rates. The results also suggest improvement in primary health care delivery. Stefan and Krishnan (1998) also revealed that households with substantial human capital and physical capital, and better access to roads and town have both reduced poverty levels and are more likely to get better off over time. Human capital and access to roads and towns also reduce fluctuations in poverty across the seasons. The study also reports that households with better physical capital endowment, in terms of land and oxen, had lower poverty levels and saw larger poverty declines.

According to the analysis of the national survey by Tassew and Tekie (2002), firstly, poverty in urban areas is higher for female-headed households than male-headed households. Secondly, incidence, depth and severity are higher for those engaged in farming than those engaged in non-farming activities. The incidence, depth, and severity are higher among the illiterates than for the literate in both rural and urban areas. thirdly, the consumption poverty incidence, depth, and severity sharply decline as the level of education of the households increases. Finally yet importantly, the incidence, depth, and severity of poverty increase with the increase in family size.

1.1.3 Overview of Dedit Credit and Saving Institution (DECSI)

Relief society of Tigray (REST) an NGO working in northern part of Ethiopia, Tigray, had realized that lack of access of finance was one of the major constraints for the rehabilitation of the war-devastated areas of the region. Besides, REST was aware that creating access to financial services for the poor is providing the poor with opportunities for alleviating poverty and enhancing self-reliance through entrepreneurship and empowering the poor, participating women through participatory approaches.

As a result, REST conducted a survey and designed a micro-credit program to help the poor help themselves by providing credit and saving services. After assessing the conventional banks and traditional moneylenders who are charging high interest rate, REST initiated the establishment of a regional saving and credit scheme in Tigray in 1993. Thus, after assessing and evaluating the experience of many developing countries in micro-credit operations, rural credit scheme program established by REST in 1993 and started its operations in March 1994.

The major objectives that were drawn from the socio-economic study undertaken in 1993 include financing the working capital requirements of small-scale undertakings of the rural poor, in order to make them economically sustainable and create conditions for self-sufficiency and self-reliance that would be the means to alleviate poverty.

The rural credit scheme in Tigray initiated by REST continued to operate by providing credit and saving services to the rural and urban poor until July 1996. Having fulfilled the necessary institutional requirements of the National Bank of Ethiopia, the rural credit scheme has reorganized itself to be a regional micro finance institution.

DECSI renders credit and saving services with the aim of alleviating poverty through mobilization of savings and provision of credit to the poor with priority emphasis to the rural poor, and still with greater priority to women. The poor, particularly the peasants, and in need of credit for various purposes including petty trade, acquisition of livestock, agricultural inputs and implements or smoothen food consumption. However, DECSI under normal circumstances does not encourage credit for consumption purposes. As much as possible loans are extended to be invested in income generating activities to promote self-reliance.

DECSI is the largest micro finance institution in this country. At this time, DECSI has more than 390,000 borrowers and with outstanding loan of 652,000,000 ETH Birr. In addition, DECSI has 178,000 savers with a saving capital of Birr 189,000,000. Moreover, 37 percent of clients of DECSI are women.

1.2 Statement of the problem

The study is implemented in Tigray Regional state, the north most part of Ethiopia. Tigray has a population of about 3.8 million of which 85% depends on rain fed subsistence agriculture. Recurrent drought is one of the main features of agriculture in Tigray and because of this; most of the farmers are not able to produce enough to feed their families from one harvest to the next. The absolute poverty line is estimated to be 1075 Birr (165 USD) per annum per adult. The per capita income level of Tigray is 903 Birr. (139 USD) and is the lowest in the country. The national average is 1087 Birr (167.4 USD).

Microfinance is considered as one of the main tool for poverty alleviation in the development plan of the region. With this consideration the Dedebit Credit and Saving

Institution (DECSI) was established in 1994 to provide credit and saving services to rural and urban poor who are not served by the existing conventional banks in the Tigray region. One of the main objectives of DECSI is improving the livelihood of the poor by enabling them to increase their agricultural production and diversify their means of income. During the last ten years, DECSI has reached more than 360000 clients, with outstanding loan amount reached to 650 million Birr (about 80 million USD) to these clients and mobilized about 180 million Birr (about 23 million USD) of savings.

It is assumed, therefore, that an MFI will have significant impact on poverty reduction, but since monitoring data do not allow this to be assessed, it is important to undertake further analysis of the impact of MFI loans on poverty reduction. Further more impact of microfinance industry has not been well researched and most of the existing studies were focused on the performance and operational activities of the financial institution.

However, analyzing the impact of microfinance intervention is especially important if the interventions are ultimately aimed at poverty reduction. If efforts are not made to determine who is being reached by the microfinance services and how these services are affecting their lives, it becomes difficult to justify microfinance as a tool of poverty reduction. An impact assessment seeks to determine if an intervention has had the desired outcome in terms of poverty reduction. Few impact analysis studies have been undertaken; however, these are not enough as compared to the outreach and size of the institution. Hence, the study is initiated to contribute to the existing knowledge on the impact studies on DECSI in Tigray region.

1.3 Objectives of the study

The over all aim of the study is to gain a better understanding of the impact of credit on the livelihood of the beneficiaries in order to contribute to improvements in program operation. Specific objectives are:

- To assess the positive and negative factors that has contributed to the observed effects on individuals and households.
- To analyze which areas of activities have most impact on poverty reduction
- To analyze the extent to which loans have been successfully targeted to the poor.
- To analyze the impact of credit on the livelihood of beneficiaries in rural and urban areas.
- To understand how financial services improve client capacity to manage, control, and built up their asset base to protect and cope with risk.

1.4. Significance of the study

The significance of the research is summarized as follows:-

- a) To use the assessment for strengthening and expanding the programs and services of the scheme.
- b) To provide disaggregated data and basic information on the impact of microfinance programs and their implications for the government at various level, the institutions.

1.5. Research Hypothesis

In addition to the specific objectives specified above, the research sets out the following hypotheses:

- **The scheme has been and will be instrumental in alleviating the poverty by breaking the vicious circle of low income, low saving and low productivity of the poor households in Tigray.**
- Participation in the microfinance program leads to improved economic and social security through wealth creation, unemployment reduction and empowerment.
- Sufficient business opportunities exist for existing members as well as new entrants since the major constraint is lack of capital and entrepreneurial skills.
- Participation in the program leads to stability and growth of agricultural and non-agricultural activities.

1.6. Methodology of the study

An impact assessment seeks to estimate whether or not a project produces effects different from what would have occurred without the intervention or whether the project increases the probability that the effect will occur. Hence, the main emphasis will be on the economic impact.

The study used both quantitative and qualitative tools of impact assessment.

1.6.1 Quantitative: - impact survey questionnaire will be used as quantitative tool with both control and the experiment groups to make generalizations on the overall participants of the program on some of the main economic impact indicators. The questionnaire will include among others questions related to welfare indicators, such as

source and level of income, ownership of key assets, living condition, and diet, coping with difficulties, education, health condition, employment opportunities, business activities, savings, loans and use of loans. More over other questions related to social condition, housing, and demography are considered.

1.6.2 Qualitative: Although the quantitative methods are good in providing quantifiable and representative result, they do not help to understand the processes how the various impacts arise. Therefore, to understand the process, to capture and monitor not only anticipated outcomes but also unanticipated consequences, the survey also used group discussion with clients, with staff at head office level and with employees at operational levels.

1.6.3 Sampling method used:

A stratified two stage cross sectional sampling method was considered; the first stage is to select one geographical area that would be representative of the programs over all client bases while containing a large concentration of clients within the close proximity of each other. The second stage of the sampling approach was the selection of the experiment groups (frequent clients that includes households who were clients of the program for more than 4 years) and the control groups (non-clients those who are listed to get loan for the first time or not at all.) More over, to provide proportional access on the basis of composition (gender, rural-urban, etc.), the proportion of the different components in each of the selected 3 sub branches with in the Wereda are determined, and included in accordance with their proportion. Then the systematic random sampling, where the nth member of the list will be included, was applied.

Based on the above steps 150 sample respondents were randomly selected with equal number of respondents for each experiment group and control group.

1.6.4 Selection of the Area

Tigray is one of the drought prone areas devastated by famine and long period of civil war. The region is crop dependent area with the most fragmented land, which is highly degraded with frequent shortage of rainfall and less fertile soil. Consequently, it is among the priority list that deserve intervention by the government and other non-governmental organizations. Similarly, DECSI has intensive micro programs. In this study, Dogua Tembien Wereda, which is among the densely populated areas of the highlands of Tigray, was selected.

1.7 Scope and limitation of the study

The performance of microfinance can be measured in different variables such as outreach sustainability and its impact on the lives of the people. However, considering the resource and time constraints, this study is limited to the impact assessment side of the performance measurement variable. The impact of credit on poverty reduction can also be assessed in many ways and it considers economic, social, psychological and political indicators. Nevertheless, this study is limited mainly to economic indicators.

The assessment focuses mainly at household and individual level. Due to time and budget constraints, it was not possible to increase the sample size and composition of the respondents. However, the sample size selected is enough to represent of the population.

CHAPTER II

REVIEW OF RELATED LITERATURE

2.1 Poverty and Micro financing

Over the past two decades, policymakers, international development agencies, nongovernmental organizations have devised various development approaches, and others aimed at poverty reduction in developing countries. One of these strategies, which have become increasingly popular since the early 1990s, involves microfinance schemes, which provide financial services in the form of savings and credit opportunities to the working poor (Johnson & Rogaly, 1997).

Small and micro enterprises (SMEs) are the backbone of many economies in developing countries and hold the key to possible revival of economic growth and the elimination of poverty on a sustainable basis. Despite the substantial role of the SMEs in developing economies, they are denied official support, particularly credit, from institutionalized financial service organizations that provide funds to businesses.

Microfinance Institutions (MFIs) have become increasingly involved in providing financial services to SMEs focused on poverty reduction and the economic survival of the poorest of the poor. There is continuing and quite rapid improvement in understanding how financial services for the poor can best be provided. As part of this learning process, microfinance practitioners, donors, and governments have been interested in knowing to what extent these credit interventions affect the beneficiaries. Consequently, a number of impact assessment studies on the performance of microfinance projects have been undertaken in recent years, with varying and revealing results.

Although there are various aspects of impact assessment studies, this paper focuses on the measurement indicators and the extent of transformation in the lives and businesses of the project beneficiaries as compared to non-beneficiaries.

2.2 Concepts and Techniques of Impact Assessment

2.2.1. Concepts of Impact Assessment

Impact assessment is a management mechanism aimed at measuring the effects of projects on the intended beneficiaries. The rationale is to ascertain whether the resources invested produce the expected level of output and benefits as well as contribute to the mission of the organization that makes the investments. Indeed, for microfinance institutions (MFIs), impact assessment is important in enabling them to remain true to their mission of “working with poor people in their struggle against hunger, disease, exploitation and poverty” (Johnson & Rogaly, 1997).

2.2.2 Techniques for Impact Assessment

Debates over the techniques used for impact assessment have centered on the application of quantitative or qualitative methods. Conventional approaches often give an unbalanced focus on quantitative and measurable indicators, to the neglect of social and psychological issues that tend to be qualitative in nature. Recent methodological research papers have revealed that there are limitations to a purely quantitative approach as well as to a purely qualitative approach in social science research, be it impact evaluation, poverty assessment, and so forth (Howe & Eisenhart, 1989; Glewwe, 1990; Dudwick, 1995). Each approach has an appropriate time and place, but in most cases, both are

required to address different aspects of a problem and to answer questions that other approaches cannot answer well or cannot answer at all (Car Valho & White, 1997).

One significant innovation in impact assessment studies of late is the injection of participatory approach into the broad methodology. The participatory approach is a tool for learning from experience. Its appeal lies in the fact that it is action oriented and provides the framework for the stakeholders to be intensively involved in data collection and analysis with the process as facilitated by the researcher or resource person (Howe & Eisenhart, 1989). In short, the participatory approach complements conventional methods of data collection in impact assessment studies. The application of these methods in impact assessment studies is illustrated in the case studies presented in this paper.

2.2.3. Difficulties of Assessing Impact

The measurement of the impacts of microfinance projects is obviously fraught with a number of methodological problems. One such problem is the difficulty of estimating the counterfactual situation in order to compare with factual conditions of the target group.

In fact, impact assessment methodologies are being improved through the application of methods like “with” and “without” approach and pre-project baseline studies. The methods help not only in assessing the counterfactual situation but also in reducing errors associated with memory difficulties of respondents (Moser & Kalton, 1971).

Another problem is the difficulty of attributing any change that is found in the circumstances of the beneficiaries specifically to the credit intervention. Normally, microfinance interventions take place alongside a whole array of social and economic projects, all aimed at promoting development.

Consequently, other events and changes occur while the intervention is taking place, and this may make it virtually impossible to separate out the specific impact of credit programs (Johnson & Rogaly, 1997). Here, too, the use of “control and experiments groups” allows, at least to a limited extent, the isolation and capture of project benefits. The foregoing conceptual issues and methodological constraints serve as the context within which the paper is situated. Some of these limitations are addressed in the paper with appropriate assumptions.

2.2.4. Impact study Experiences

Major evaluation efforts influential in understanding economic impact of microfinance institutions and their role in poverty alleviation include the studies reviewed below:

A. Household-Level Impacts—AIMS Project

A five-year US AID-funded AIMS Project (Assessing the Impact of Micro enterprise Services): The AIMS project includes over a dozen desk reviews on impact evaluation topics, in-depth longitudinal impact studies in three program sites and the development and testing of a range of practitioner-oriented client-assessment tools. The AIMS conceptual framework departs from the conventional approach in that it starts with the household rather than the enterprise.

Traditionally, evaluations of small-enterprise credit programs typically focused on enterprise returns and employment creation or hired labor. This is because historically the target clientele was of a higher socioeconomic status and was typically engaged on a full-time basis in a single enterprise activity that used hired labor.

Microfinance programs with a poverty alleviation focus aim to serve relatively poorer clientele. The vast majority of their client households does not have a single source of

livelihood support, but rather pursue a mix of activities depending on seasons and market opportunities, among other factors. The clientele of poverty-lending microfinance is also less likely to make a distinction between household and enterprise funds. The AIMS conceptual framework recognizes that decisions about micro enterprises can be understood more clearly when considered in relation to the overall household economic strategies. It clarifies how micro enterprise interventions can contribute to household security, enterprise stability and growth, individual well-being and the economic development of communities (US AID, 1995).

According to the AIMS framework, a key area in which microfinance is expected to have an impact is a reduction in the risk faced by very poor households. Even if the weekly amount of income earned was relatively unchanged, access to microfinance services facilitates regular and secure earnings, which allow for consumption smoothing and improved ability to plan.

B. Impacts on Poverty, Vulnerability and Deprivation Hulme and Mosley's *Finance against Poverty*, Volumes 1 and 2, include a comparative analysis of the performance of 13 microfinance programs in seven developing countries, including their impact on poverty, vulnerability and deprivation.

Two general and very influential conclusions the authors drew pertaining to the topic of this paper are as follows:

- Well-designed microfinance programs can improve the incomes of poor people, and for a proportion of cases, can move the incomes of poor households above official poverty lines in large numbers.

- Impact of a loan on household income is greater for what may be termed the “middle” and “upper” poor households. These households have a greater range of investment opportunities, more information about market conditions and can take on more risk than the poorest households can without threatening their minimum needs for survival.

Hulme and Mosley further state that in order to use credit effectively, households need to have already reached a “minimum economic level.” Hulme and Mosley (1996) propose that, “*While micro credit may not alleviate extreme poverty in terms of income measures, in terms of non-income measures it may still provide important benefits such as consumption-smoothing and income diversification which ‘protect’ the existing statuses of households by providing a safety net that contributes to crisis-coping capabilities.*”

C. Impacts on Risk Management and Vulnerability

Similarly, in their synthesis study *Microfinance, Risk Management and Poverty*, Sebstad and Cohen propose that, especially for the extreme poor, the key impact is not necessarily income level but their ability to deal with risk and vulnerability. They further suggest that in order for households to survive, they generally need a minimum level of assets and a minimum ability to cope with risk. In their study, risks were defined as shocks and economic stress events that result in an economic loss. Vulnerability was the inability of individuals and households to deal with risk. Assets were also included and defined in terms of their ability to reduce vulnerability by assisting individuals and households to protect against risks ahead of time and manage economic losses following a shock or economic stress event. The study focused on clients and practitioners from seven

microfinance programs operating in Bangladesh, Bolivia, the Philippines and Uganda.

Overall, the results of their study support that microfinance helps clients protect themselves against risk. They emphasize the important role that assets play in reducing poverty and vulnerability of clients and include several key strategies that clients use with program loans. These strategies include the following:

- To build a mixed base of physical assets that can be drawn upon in times of hardship. Assets include investment in housing, vehicles and equipment or items such as jewelry or livestock that can be readily liquidated.
- To diversify sources of household income through investment in new opportunities as they arise in order to smooth, increase and stabilize income and consumption.
- To strengthen other coping mechanisms by building social networks, saving, minimizing expenditures and maintaining access to multiple sources of credit.

D. Differential Impacts by Gender of the Borrowers

Hulme and Mosley's work demonstrated that the socioeconomic status of the borrower influences the ultimate impacts of microfinance. Research conducted by Pitt and Khandker provides evidence that the gender of the borrower is also very influential to the ultimate outcomes. World Bank-funded research focuses on the household and intra-household impacts of the Grameen Bank and similar credit programs in Bangladesh. A methodological contribution of this study is that the analysis is able to separate the estimates of the impact of borrowing by men and by women. The study concludes that program participation had a positive effect on household expenditures, asset accumulation, self-employment, children's schooling, food consumption and

contraceptive use. Credit provided by the Grameen Bank had the most significant impact on variables associated with household wealth, women's power, girls' and boys' schooling, women's labor and assets and total household expenditure (Pitt and Khandker, 1995). However, the effect was greatest when women were the program participants, even in terms of raising household expenditures. A dollar loaned to women raised household expenditures by a greater absolute amount than did a dollar loaned to men. The authors of this study is also noteworthy for the design and econometric techniques that were used to minimize the potential bias. The authors concluded, "Program participation benefits the poor, especially women and children" (Pitt and Khandker, 1995).

CHAPTER III

Data analysis and survey results

3.1 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

3.1.1. Age, Marital Status and gender of respondents

The survey respondents have an average age of between 36 and 49 years. Thirty four percent of the respondents are male, while a significant number of non-married or divorced women clients are found in the urban program area, which implies the non-married women are more participating in DECSI’s micro financing scheme than the married women. The difference in the frequency of marital status between male and female respondents of the survey is statistically significantly, that is more than 45% of the female respondents are non married or divorced while more than 63% of the male respondents are married. However, there is no significant difference between the clients and the control groups in the other indicators for respondents’ characteristics.

Table.1. Age group of the respondents

Age group	Count	Percent
Below 18	0	0.00%
18-35	48	32.00%
36-55	86	57.33%
above 56	16	10.67%
Total	150	100.00%

Table. 2. Marital status of respondents

Marital Status	Clients		Non-Clients	
	Male	Female	Male	Female
Unmarried	18.2%	3.2%	20.0%	25.0%
Married	63.6%	51.6%	67.3%	40.0%
Divorced	15.9%	41.9%	9.1%	35.0%
Widowed	2.3%	0.0%	3.6%	0.0%
Separated	0.0%	3.2%	0.0%	0.0%

This paper reports on a survey of 150 respondents of DECSI’s Credit program clients and non-clients residing in the rural and urban areas of Dogua Tembien Woreda of Central Tigray. The purpose of the survey is to assess the impact of DECSI’s micro financing

scheme and to provide preliminary indicators of the nature and magnitude of benefits resulting from participation in the program.

A cross section of two groups of respondents: current clients, those who have taken loans since the last four years; and a control group of a new or non-clients, those who are in the waiting list to take loans for the first time or those who are not yet beneficiaries of the credit program, were compared in the survey analysis.

Table. 3. Respondents by gender , location and type

	Rural				Urban				Total	
	Clients	%	Non-clients	%	Clients	%	Non-clients	%	ALL	%
Male	31	62.0%	39	78.0%	13	52.0%	16	64.0%	99	66%
Female	19	38.0%	11	22.0%	12	48.0%	9	36.0%	51	34%
Total	50	100.0%	50	100.0%	25	100.0%	25	100.0%	150	100%

3.1.2 Educational Status

Education is one of the key variables that may influence the behavior and efficiency as well as effectiveness of the individuals and enterprises. As can be learnt from the table below Illiteracy rate is higher in the rural as compared to the urban respondents. Only 63% of the rural respondents can only read and write. Based on this, one may expect difference between rural and urban areas in their degree of success. More over 36% and 32% of the urban clients and non-clients respectively have better education level than the rural respondents.

Table. 4. Educational level of respondents

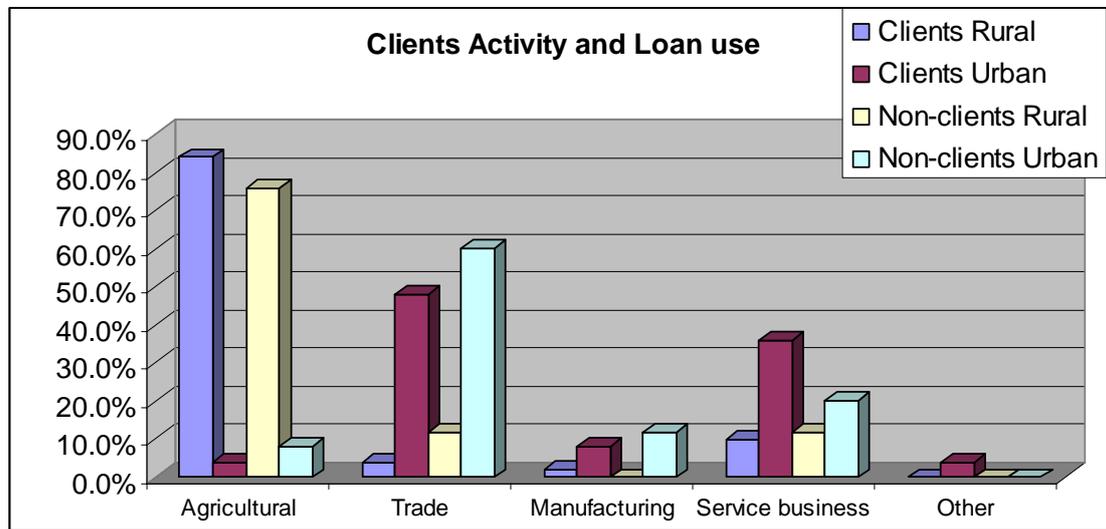
Level of Education	Rural				Urban				Total	
	Clients	%	Non-clients	%	Clients	%	Non-clients	%	ALL	%
Illiterate	13	26.0%	20	40.0%	4	16.0%	3	12.0%	40	26.7%
Read and Write	34	68.0%	29	58.0%	12	48.0%	14	56.0%	89	59.3%
Primary School	3	6.0%	1	2.0%	6	24.0%	8	32.0%	18	12.0%
High School	0	0.0%	0	0.0%	3	12.0%	0	0.0%	3	2.0%
Total	50	100.0%	50	100.0%	25	100.0%	25	100.0%	150	100.0%

3.2 LOAN UTILIZATION AND CLIENTS ACTIVITIES

As shown in chart three the More than 70% of the respondent’s activity is agriculture.

The same is true even in the use of loan for the rural clients.

Chart 1 Clients activity and loan use



In the urban areas majority of respondent’s activity is trade. As indicated in the next table 5, the average number of loan is approximately 3.58 loan cycles in the rural while 4.12 loan cycles in the urban program areas. Moreover, urban clients have reported higher mean value of first loan as compared to the rural clients. The same variation is

also reported for the average amount of current loan, cumulative loan, and current saving balance. Thus, the urban clients have higher loan size and saving balance than the rural clients.

The average current loan amount and current saving balance of urban clients is Br. 2049 and Br. 564.32 respectively, whereas the average loan amount and current saving balance of rural clients is Br. 1603.95 and Br. 278.95 respectively.

Table. 5. Clients participation in the credit and saving services of DECSI

DECSI clients	Area	Mean number of loan	Mean amount of First loan Birr	Mean amount of current loan Birr	Mean cumulative loan Birr	Mean Net saving
	Urban	4.31	1542.25	2772.9655	11042.6	624.66
Male	Rural	3.9	1250	2087.5	8209.15	428.06
	Total	4.02	1331.8	2262.7282	9044.32	509.41
	Urban	3.92	1181.63	1618.8331	6322.61	433.27
Female	Rural	3.05	980.04	1263.27156	3795.29	208.67
	Total	3.39	1001.47	1302.91247	4409.38	297.05
	Urban	4.12	1355.16	2049.00192	8310.11	564.32
All	Rural	3.58	1108.47	1603.95609	5697.82	278.95
	Total	3.76	1229.04	1832.49864	6804.07	411.08

3.4% of the clients from the rural and only 1.2% of the clients in the urban program areas have experienced repayment problem in the last loan cycle and in making compulsory savings. Besides, higher loan diversion/utilizing loan out of the original purpose in the rural clients is reported than the loan diversion in the urban.

3.3 IMPACTS OF THE CREDIT PROGRAM

To evaluate the impact of DECSI’s micro financing intervention, a number of hypotheses about the possible impacts on the clients’ households’ welfare, the empowerment of

women clients, and the stability and growth of business/ farm activities were tested. The results of the survey are consistent with several hypotheses about the potential impact of microfinance, though some differences prevail between the urban and the rural clients.

3.3.1 THE IMPACT OF MICROFINANCE ON WEALTH CREATION

Microfinance is expected to improve the long-term economic and social security of its clients' household through wealth creation. Thus, participation in microfinance program may have a positive impact on the economic welfare of clients' households. The impact may be apparent at the level of household income or certain types of expenditures. In addition, improvement in the household welfare may be evident in the diversification of income sources and in the trend of income, in the food security, in the strategies for coping with difficulties, in the education of children and access to health facilities, in the food consumption patterns, and in the ownership of specific key assets. When considering a number of these impact variables, special attention is given to determine if participation in DECSI's micro financing scheme has a positive impact on the potential welfare variables of the frequent clients' households.

3.3.1.1 INCOME EFFECT: - Household income is a critical indicator of household welfare. Households with higher income levels have more choices, can better meet their basic needs, and enjoy broader opportunities. Thus, one of the objectives of DECSI's microfinance intervention is to reverse the age-old circle of "low income, low saving, low investment, low income." Into an expanding system of high income, high saving, high investment, high income in the intervention areas, through the provision of credit, technical advice and skill training in the intervention areas.

Table 6. Income trend during the last five years
Clients=73 Non-clients=75

Income trend during the last five years	Clients		Non-Clients	
	Rural	Urban	Rural	Urban
Decreased greatly	2.08%	0.00%	6.00%	0.00%
Decreased	14.58%	12.00%	16.00%	16.00%
Stayed the same	35.42%	24.00%	50.00%	36.00%
Increased	39.58%	44.00%	26.00%	36.00%
Increased greatly	8.33%	20.00%	2.00%	12.00%
Average of current Income of Households in Birr				
	3179.48	6312.01	2752.83	4401.54

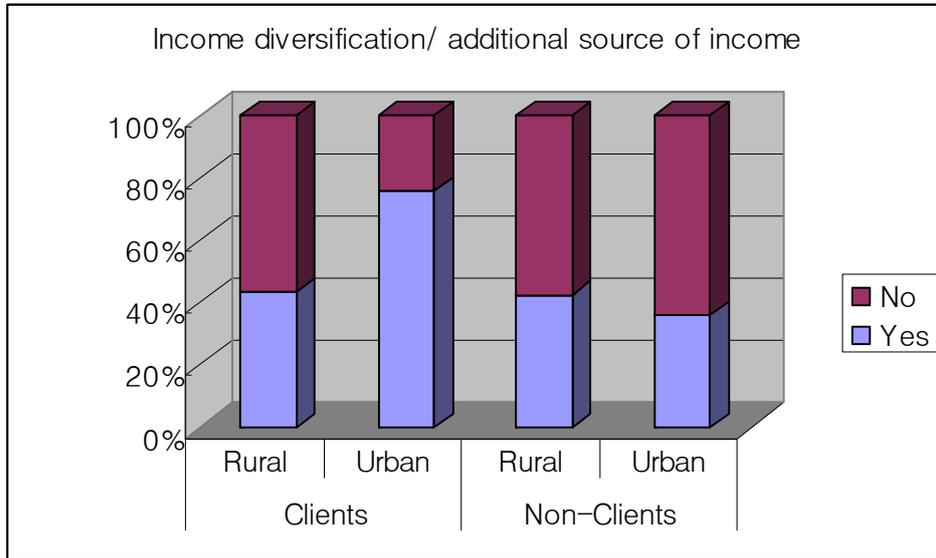
The survey result indicates that the households of the frequent clients averaged higher income level than the households of the non-clients. The survey results indicates that the annual income for the urban clients averaged Br. 6312 which is Br 1910 more than the urban control groups, while the annual income for the rural clients averaged Br. 3179, which is Br. 426 more than the rural control groups. Therefore, this result supports the argument that micro financing scheme has a positive impact on improving the income level of the beneficiaries' household.

Furthermore, as indicated in Table .7, 47% and 64% of the rural and urban clients respectively reported that their overall household income has increased during the last 5 years, while 28% and 48% of the rural and urban control groups respectively reported that their household income increase. Thus, a higher percentage of the frequent clients have seen a more income increase during the same period than for the non-clients (control groups).

3.3.1.2 INCOME DIVERSIFICATION:-

According to the survey result, 43% and 76% of the rural and the urban clients respectively have reported that they have additional income other than their primary income sources of the household. whereas 42% and 36% of the new rural and urban clients respectively reported that, the existence of additional income sources in the household.

Chart 2. Income diversification and additional source of income



Since the diversification of income sources is often considered as a strategy to spread risk and to create a steady flow of income, the result of the frequency analysis reveals that the households of the rural frequent clients have significantly similar secondary income sources as the rural new clients. However, a significant numbers of the frequent urban clients have better secondary income sources than the new urban clients have. Accordingly, this result disproves the hypothesis that assumes participation in DECSI’s micro financing program has a positive impact on diversification of income sources for the rural clients, while a small positive impact is reported in the urban program area.

3.3.1.3 EFFECT ON HOUSEHOLD ASSETS: -

The assessment sought to determine if DECSI’s microfinance intervention has an impact on investment in household durable assets. Ownership of durable household assets is regarded as indicator of improvement in the households’ welfare.



Household durable assets, such as livestock, improvement or addition of house furniture and appliances, represent improvement in the wealth and quality of life. Accordingly, the survey result indicated that the clients have better key household assets ownership than their counterpart control groups.

Table 7. Ownership of Major Asset

Estimated value of Asset	Clients =68		Non-Client =54		All =122	
	5 years ago	Now	5 years ago	Now	5 years ago	Now
less than 1000 birr	30.9%	19.1%	31.5%	22.2%	20.0%	13.2%
less than 2000 birr	57.4%	33.8%	51.9%	50.0%	35.3%	26.3%
less than 3000 birr	8.8%	27.9%	7.4%	13.0%	5.3%	13.7%
less than 4000 birr	2.9%	13.2%	5.6%	1.9%	2.6%	5.3%
less than 5000 birr	0.0%	4.4%	3.7%	5.6%	1.1%	3.2%
more than 6000 birr	0.0%	1.5%	0.0%	3.7%	0.0%	1.6%
Mean value	1838.2	2544.1	1981.5	2269.2	1221.1	1672.4

A hypothesis test has also been made to check whether the difference in livestock ownership between clients and non-clients is statistically significant or not and the result indicates the difference in asset ownership between these two groups is significant.

Where (p<0.5)

3.3.2 Impact on living condition

The study reveals that DECSI program has had a positive impact on the lives of the clients. Compared to non-clients, clients have been significantly have improved their life situation over the past five years. Considering the impact indicators 77.33%, 54.67% of clients respond that they were better off in their Housing and quality of food respectively and this is significantly higher than the control group.

**Table. 8. Changes over the last five years in various living condition indicators
Clients=75 Non-clients=75**

Indicators	Respondents	Decreased greatly	Decreased	Stayed the same	Increased	Increased greatly
Quality of food	Clients	2.67%	9.33%	30.67%	54.67%	2.67%
	Non-clients	4.00%	21.33%	48.00%	25.33%	1.33%
	All	3.33%	15.33%	39.33%	40.00%	2.00%
Quantity of food	Clients	1.33%	6.67%	34.67%	52.00%	5.33%
	Non-clients	1.33%	16.00%	37.33%	44.00%	1.33%
	All	1.33%	11.33%	36.00%	48.00%	3.33%
Health	Clients	0.00%	13.33%	24.00%	62.67%	0.00%
	Non-clients	1.33%	16.00%	36.00%	46.67%	0.00%
	All	0.67%	14.67%	30.00%	54.67%	0.00%
Housing	Clients	0.00%	5.33%	9.33%	77.33%	8.00%
	Non-clients	2.67%	12.00%	65.33%	18.67%	1.33%
	All	1.33%	8.67%	37.33%	48.00%	4.67%
Clothing	Clients	0.00%	9.33%	57.33%	32.00%	1.33%
	Non-clients	0.00%	10.67%	49.33%	37.33%	2.67%
	All	0.00%	10.00%	53.33%	34.67%	2.00%

When respondents were asked for the reasons why their living condition increased during the last 5 years, those clients who replied for an increase in their household living condition reported that their living condition had increased because they received loan from DECSI, which was 65% and 63% in case of the rural and urban clients respectively. While more investment and able to engage in new income generating activities were also

other reason mainly reported in the urban area. In both cases, the percentage of client respondents is higher than in the case of non-clients.

Table .9. Reasons for positive changes in Household living condition during the last 5 years

Living condition	Rural		Urban		Total		
	Clients	Non Clients	Clients	Non Clients	Clients	Non Clients	ALL
Number of respondents	29	24	15	13	44	37	81
%	35.8%	29.6%	18.5%	16.0%	54.3%	45.7%	100.0%
Credit from DECSI	65.52%	0.00%	60.00%	0.00%	63.64%	0.00%	34.57%
Credit from other sources	6.90%	16.67%	6.67%	38.46%	6.82%	24.32%	14.81%
More investment in other activities	51.72%	41.67%	80.00%	61.54%	61.36%	48.65%	55.56%
Good agricultural season	24.14%	37.50%	0.00%	0.00%	15.91%	24.32%	19.75%
Increased demand and sales	17.24%	29.17%	73.33%	30.77%	36.36%	29.73%	33.33%
Engaged in new income generating activities	31.03%	29.17%	86.67%	84.62%	50.00%	48.65%	49.38%
Food for work and other relief aid	3.45%	8.33%	0.00%	0.00%	2.27%	5.41%	3.70%
Remittance	0.00%	4.17%	13.33%	0.00%	0.00%	2.70%	1.23%
other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

However, table 10. Shows the most common reason for the decrease of the household living condition reported by those who have shown a decrease in the overall household living condition was because of poor sales in the urban areas and low level of production of agricultural product due to a shortage of rainfall or poor agricultural season in the case of rural respondents.

Table.10. Reason for decreasing living condition

	Rural		Urban		Total		
	Clients	Non Clients	Clients	Non Clients	Clients	Non Clients	ALL
Number	13	16	7	10	20	26	46
%	28.26%	34.78%	15.22%	21.74%	43.48%	56.52%	100.00%
Poor sales	15.38%	43.75%	85.71%	90.00%	40.00%	61.54%	52.17%
Natural disaster(drought, flood)	30.77%	37.50%	42.86%	40.00%	35.00%	38.46%	36.96%
Poor agriculture season	84.62%	87.50%	0.00%	20.00%	55.00%	61.54%	58.70%
Indebted due to DECSI credit	0.00%	0.00%	14.29%	0.00%	5.00%	0.00%	2.17%
Household members being sick/ dead	7.69%	50.00%	28.57%	0.00%	15.00%	30.77%	23.91%
Could not get credit	0.00%	12.50%	0.00%	30.00%	0.00%	19.23%	10.87%
Death of livestock (Ox, cow, Goat, Sheep)	23.08%	31.25%	0.00%	40.00%	15.00%	34.62%	26.09%
No more/ additional job	0.00%	0.00%	71.43%	80.00%	25.00%	30.77%	28.26%
other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

3.3.3. EFFECT ON HOUSING TENURE AND IMPROVEMENT: -

Housing investments can serve both to increase the household's standard of living and to improve its income-generating opportunities. For many households, the house, if it is owned, is the most valuable asset. As a house is improved, it appreciates in value, increasing a household's material wealth, it provides shelter and contributes directly to the material well-being of the household, but it can also serve as the foundation for strategies to generate additional income. Housing improvements can serve to create or enhance a business premise. Some housing improvements create a storage space for inventory of other enterprise-related items. Rooms and storefronts can be added to the house to be used for rental or enterprise purposes. Such improvements can help households to diversify and to add a steady income stream to their economic portfolio.

Rental units can provide a source of income after retirement. In these ways, housing improvements can be an integral part of the household members' long-term economic strategies. The findings of the survey are clearly consistent with the hypothesis. The survey result indicated that a far higher percentage of frequent clients 77% than the non clients 13% made improvements and repairs to their housing during the last five years.

A test of hypothesis has also been made in order to examine whether the difference in the frequency of residential houses improvement between the clients and the non-clients is statistically significant. From this result, it is possible to say that DECSI's micro financing scheme has a positive impact on the improvement of residential houses of its beneficiaries.

3.3.4 IMPACT ON ACCESS TO EDUCATION:-

Since children and other school age dependents of the poor households have marginal access to educational facilities, credit provision for income generating activities is expected to improve this situation (Berhanu, 1999). Therefore, the hypothesis of this section is that in addition to the improvement in income, housing and ownership of key household assets, microfinance is also expected to improve the possibility of additional expenditures in education of beneficiaries' household members. According the result of the survey, 46.3% and 83.3% of the rural and urban clients respectively reported that their educational expenses is increased during the last 12 months, while 25.6% and 91.3% of the rural and urban non clients respectively reported that their annual household expenses of the current school years is higher than their last school years educational expenses. The result also indicates that average number of school age children currently attending school for the clients is significantly larger than the average number of school age children currently attending school for their counterpart control groups.

Table 11. Education Expenses and level of attaining school in the last 12 Months

Description	Rural		Urban		All	
	Clients	Non-clients	Clients	Non-clients	Clients	Non-clients
Percent whose household school expense for the current year have increased	46.3%	25.6%	83.3%	91.3%	57.6%	50.0%
Average number of school aged children	3.8	3.3	2.8	2.9	3.3	3.1
Percent of school aged children who are attending school	84.1%	80.8%	97.2%	96.0%	87.3%	86.0%
Percent of school aged children who are unable to attend school	1.9%	1.6%	2.0%	4.5%	1.9%	2.6%

3.3.4 IMPACT ON ACCESS TO MEDICAL FACILITIES:-

During the survey, 62.67% of clients and 46.67% of the non-clients have reported that they have show an improvement in their ability to pay for medical expenses and improved their health condition during the current year compared to last year. This shows that higher percentages of the clients have reported an improvement in their ability to pay for medical expenses than the control groups.

Almost half of the rural respondents reported that, their main source of income for medical expense is free medical services from public health centers like clinics and hospitals, while most of the urban respondents have indicated that their main income source for medical expenses is business profit.

3.3.5 IMPACT ON DIET AND COPING WITH DIFFICULTIES:-

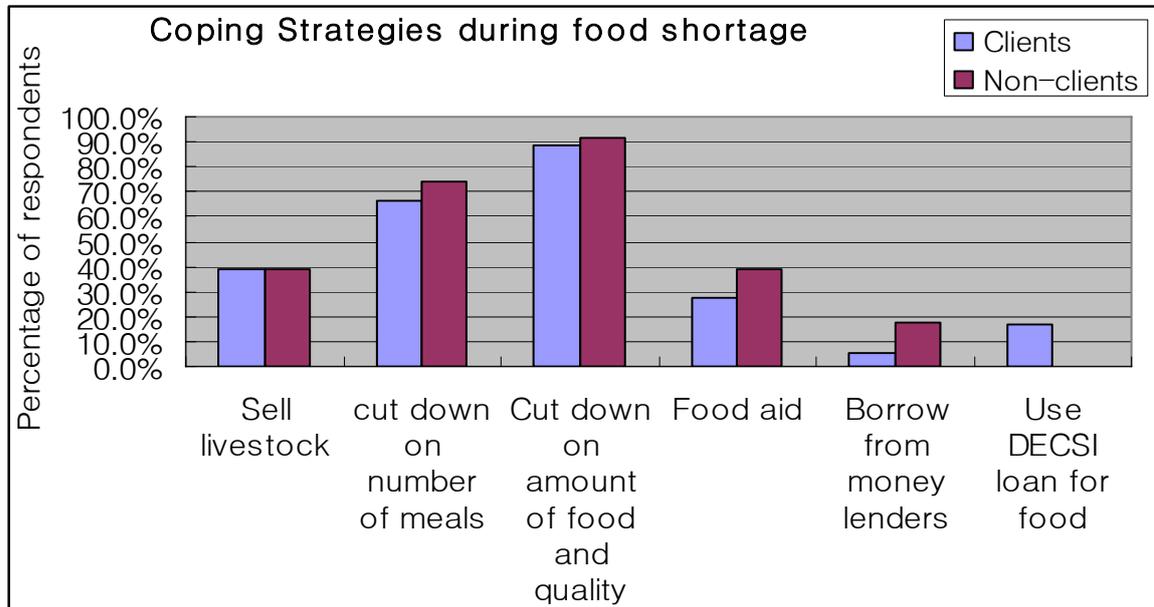
The general trend in household diet condition is better for the frequent clients than for the control groups. During the survey, 49.9% of the rural and 34.2% of urban the frequent borrowers have shown an increase in their household diet during the last 12 months.

Whereas, only 43.1% and 21.1% of the rural and urban non clients respectively have shown an improvement in their household diet during the last 12 months, indicating that DECSI's micro financing scheme has a positive impact on the improvement of household diet condition of its clients. However, the mean test result indicates that the above difference in diet improvement is significant in the urban program area whereas insignificant in the rural program area. This implies that DECSI's microfinance scheme has better positive impact in urban area than in the rural area with respect to diet improvement.

With regard to coping with difficulties the questionnaire included a section to investigate whether the households were faced food shortages and how households respond to-or cop with-the food shortage. The survey reveals that 51.9% of the rural clients and 22.8% of the urban clients have experienced food shortages during the last 12 months. While 52.3% of the rural non-clients and 27% of the urban new clients have reported that they have experienced food shortages during the last 12 months is significant both for the frequent and the non-clients (control groups), the frequent clients are less likely to report food shortages than the new clients are.

When a comparison is made, however, between the program areas, a higher percentage of the rural clients have experienced more food shortages than the urban clients are. Perhaps this result should be treated with some caution. This may be mainly due to the previous shortages of rainfall, and the rural areas are more affected by the situation than the urban area. That is, since the rural areas are highly dependent on rain fed agriculture they are more vulnerable to low level of production and food shortages than the urban area during such season.

Chart .3. Coping mechanism during food shortage



Respondents were also asked how they respond to such food shortage or if they received aid or support from any sources during the last 12 years. Accordingly, the survey result demonstrated that most of respondents more than 87% cut the amount of food quality and more than 66% cut down on their number of meals they usually used. Further more, in all the mechanisms for coping the food shortage particularly food aid and borrowing from moneylenders, the non-clients percentage is higher than in the clients. This indicates that vulnerability is higher in the non-clients than in DECSI clients. It can be said that most of the rural and urban clients are not dependent on food aid. There is a big change in the dependency on food aid particularly in the rural areas. This result is not similar to the findings of Meehan (2002) a study on usage and impact of DECSI’s credit provision in rural Tigray. Therefore, based on the above results it is possible to say that DECSI’s

Credit program has a positive impact on reducing the level of vulnerability and risk of food shortages.

3.3.6 THE IMPACT ON EMPOWERMENT OF WOMEN CLIENTS

In recent years, much attention has given to describing how microfinance might lead to increased empowerment of the borrower. In many cases, the focus is on women borrowers and changes in their status within the household and the community. From “the gleam in someone’s eyes,” to the new-found ability to travel and speak in public, to a more equitable distribution of resources between husbands and wives, to the ability to plan and work for a better future, the individual-level changes that come with microfinance are many and varied.

*Women DECSI Clients
Participating in Women
Cooperative Association*



In this study, participation in a microfinance program is hypothesized to positive impacts on empowerment of the individuals who receive and use the microfinance services, particularly female clients. This increased empowerment may take the forms of improved decision-making role of women clients in their community and household, as well as building of social and human capital due to their access information and knowledge through social intermediations offered by the micro finance. During the survey, 79.2% of the rural clients, 85.7% of the rural non-clients, 49.1% of the urban clients, and 64.9% of the urban non-clients have identified themselves as groups or association members of community.

Therefore, based on the above frequency result, we can say that membership in a group or association seems to be higher among the non-clients than among the clients both in the rural and urban program areas. This implies that the non-clients have more decision-making role as well as interaction and mobility in the community than the frequent clients' have. As a result, it is also possible to conclude that micro finance intervention has a negative impact on the decision-making role and on the social interaction of its clients in the community. A test of hypothesis has also been made in order to evaluate whether this difference is statistically significant or not. Accordingly, the test result indicates that the participation of the urban clients in any group or association is significantly lower than of the non-urban clients. On the other hand, the impact of micro financing intervention on group or association membership is not significant for the rural clients. Moreover, participation in microfinance scheme and being a member of any group or association is negatively correlated.

This study also tried to assess the gender dimension within the household. That is, an assessment was also made to evaluate patterns of decision-making and the role of the married women in the household and business activities, as they become member of microfinance program. The survey sought to determine if clients gained more control over decisions on the use of revenue from their matched enterprise. In addition, it sought to identify if there is great individual decision making among the clients on applying for loan funds.

Predominantly, decisions concerning borrowing loan use, only the married women clients in consultation with the husband make purchase and sales of business merchandises. It has been reported that, in the rural areas 39.1% of the clients and 28.3% of the rural married women non clients alone make decisions concerning loan taking, i.e. without the

interference of their husbands, while 68.6% and 45.8% of the clients and married women non clients respectively make decisions regarding loan taking together with their husbands.

Moreover, in the urban areas 27.4% and 26.8% of the clients and the urban married women clients make decisions regarding loan taking themselves, and 41.3% of both the and the married women clients make decisions concerning loan taking together with their husbands. Similar patterns of decision-makings also prevail in the other households and business decisions, while non-involvement of less involvement of women clients in business or household decisions is very insignificant.

Hence, from the above figures we can assert that, married clients in the rural program area have more participation in decision-making role of business and household activities than their counterpart control groups have. Moreover, the married clients of the urban program area have more involvement in decision-making activities than the urban clients, while the difference between frequent clients and new clients in participation of decision-making activities is insignificant. As a result, we can say that, DECSI's micro financing scheme has a positive impact on the empowering of its rural women clients to participate in the decision-making process of household and business activities, whereas its impact on empowering the urban women clients to participate in decision making of household and business activities is insignificant.

3.3.7 IMPACT ON EMPLOYMENT OPPORTUNITY

This assessment also sought to determine if DECSI's program has an impact on the enterprise for which they had secured their loans. In particular, the study concentrated on stability and growth of enterprises through business expansion and employment of clients. According to the survey result, the frequent borrowers have shown better improvement in their employment opportunities during the last 12 months than the non-clients. In the rural program area 37.2% of the clients have shown an improvement in their employment opportunities during the last 12 months, which is higher figure than their counterpart rural control groups, while 50.9% of the urban clients and 43.9% of the urban non clients respectively have shown an improvement in their employment opportunities during the last 12 months. Thus, urban program area have shown better improvement in employment opportunities than the rural program area, indicating that DECSI's microfinance scheme intervention has significant impact on improving employment opportunities in the urban program area than in the rural program area.

3.3.8 Impacts at community level

It is very difficult to quantify the impacts at community level as this study as its own limitation in terms of time and scope. However, certain parameters are used to access the impacts of credit program at the community level.

A. Access to credit: - outreach in terms of poverty reduction

As almost more than half of the clients belong to the poorest population groups, DECSI has been successful in terms of poverty outreach. DECSI has attained a good balance in terms of the wealth profile of the clients.

B. Outreach in terms of gender

Among the client respondents women comprises 41%. Moreover, the over all coverage of women clients of the institution DECSI is 39%. Although these percentages are below those of the population in general, given the traditional position of women in the Ethiopia Tigray society, the figures represent a considerable achievement in terms of reaching women. As there is high, representation of women headed household in the poverty line group, this number of women clients is significant and its impact on poverty reduction is of paramount.

C. Other impacts at community level

Certain changes can be sited at community level. Changes such as agricultural production, number of livestock, number of schools and enrollment of students has increased. In this study, it is tried to compare the status 10 years ago and now considering the Dogua Tembien wereda surveyed.

Table - 12 Over all Wereda level status of some selected indicators

Description	Population size 10 years ago 1995	Population size at current year 2006	% change during the last 10 years (1995-2006)	Annual change
Livestock				
oxen	9893	32495	228.5%	22.8%
Cow	5227	29449	463.4%	46.3%
Sheep	3733	23009	516.4%	51.6%
Goat	10640	44141	314.9%	31.5%
Poultry	29307	40283	37.5%	3.7%
Bee hives	933	5195	456.8%	45.7%
Education				
Number of Schools	11	51	363.6%	36.4%
Number of Students	2896	20373	603.5%	60.3%
Schools lacking basic facility and with out class rooms	7	31	342.9%	34.3%
Population				
population	81824	116794	42.7%	4.3%
House hold	15440	26862	74.0%	7.4%

Although it is not possible to conclude that these changes are due to DECSI's credit program, one of the institutions credit program is agricultural package program whereby majority of the loan goes to purchase livestock animals. Thus, it can be said that package clients increased their number of livestock ownership as the result of using the loan from DECSI.

D. Reduced money lenders interest rates

One of the main sources of money for majority of the rural who had no access to any formal banks has been loans from the Private moneylenders at extremely very high interest rate. Ten percent per month seems to be a common rate. However, the borrowers' capacity or productivity per month has never reached 10%. They never pay back their loans without sever harm in their household economy or asset.

DECSI as one of its objectives is to offer credit at reasonable price that will reduce the interest rate charged by moneylenders. The study shows that the common interest rate charged by moneylenders has gone down from 10% to 2% and 4% per month in the surveyed area.

E. Increased saving culture of the people

The Ethiopian and particularly the Tigray economy is agrarian and subsistent economy, which is rainfall dependent. Despite the level of poverty, saving money and resources for further investment have not been the culture and practice particularly in the rural areas. Consumption is very high and unwise utilization of resource is high. These associated with the deep-rooted poverty have been killing the investment. Since the establishment and introduction of the credit and saving services by DECSI in the rural Tigray the level of saving amount dramatically increased, and to some extent the saving for future investment sentiment has developed among the poor rural farmers who have been considered for decades as non bankable sector of the population.

3.3.8 Negative impacts of the credit program

The credit provision methodology used by DECSI is group collateral lending methodology. Borrowers have to form groups of 3-5 persons and they have to agree that they will be liable for their own and for the defaulter's loan during repayment. This system helps both the institution that it will have guarantee whenever there is defaulter and, as the same time the poor who could not provide physical collateral to take loan individually will benefit from being a group member. However, from discussion, I made with some non-clients, the very poor or the poorest of the poor were excluded during group formation because the experience shows that most of the defaulters were the poorest of the poor. In addition, the assumption that the poorest will not have the capacity to pay back is considered as justifiable and rational by the existing clients and even by the DECSI loan officers. As a result, the poorest are marginalized.

CHAPTER IV

Summary and conclusions

4.1. Summary

The DECSI credit and saving program has been successful along several dimensions, and it has achieved this success under extremely difficult conditions such as the region is among the poorest region in Ethiopia where little and unfertile land, periodic drought and with very limited economic opportunity.

Despite these difficulties, the survey result indicates that the households of the frequent clients averaged higher *income level* than the households of the non-clients.

- 47% and 64% of the rural and urban clients respectively reported that their overall household income has increased during the last 5 years, while 28% and 48% of the rural and urban control groups respectively reported that their household income increase. Thus, a higher percentage of the frequent clients have seen a more income increase during the same period than for the non-clients (control groups).
- 43% and 76% of the rural and the urban clients respectively have reported that they have of additional income other than their primary income sources of the household, whereas 42% and 36% of the new rural and urban clients respectively reported that, the existence of additional income sources in the household.

Since the *diversification of income* sources is often considered as a strategy to spread risk and to create a steady flow of income, the result of the frequency analysis reveals that the households of the rural frequent clients have significantly similar secondary income sources as the rural new clients. Accordingly, this result disproves the hypothesis that assumes participation in DECSI's micro financing program has a positive impact on

diversification of income sources for the rural clients, while a small positive impact is reported in the urban program area.

- During the survey, 79.2% of the rural clients, 85.7% of the non-rural clients, 49.1% of the urban clients, and 64.9% of the non-urban clients have identified themselves as groups or association members of community.

Therefore, based on the above frequency result, we can say that membership in a group or association seems to be higher among the non-clients than among the clients both in the rural and urban program areas. This implies that the non-clients have more decision-making role as well as interaction and mobility in the community than the frequent clients' have. As a result, it is also possible to conclude that micro finance intervention has a negative impact on the decision-making role and on the social interaction of its clients in the community.

Employments opportunity in urban program area have shown better improvement in than the rural program area, indicating that DECSI's microfinance scheme intervention has significant impact on improving employment opportunities in the urban program area than un the to rural program area.

DECSI has been successful in terms of **poverty outreach**. DECSI has attained a good balance in terms of the wealth profile of the clients.

The over all coverage of women clients of the institution DECSI is 39%. Although these percentages are below those of the population in general, given the traditional position of women in the Ethiopia Tigray society, the figures represent a considerable achievement in terms of **reaching women**. As there is high, representation of women headed household in the poverty line group, this number of women clients is significant and its impact on poverty reduction is of paramount.

Although it is not possible to conclude that *changes at community level* are due to DECSI's credit program, one of the institutions credit program is agricultural package program whereby majority of the loan goes to purchase livestock animals. Thus, it can be said that package program clients increased their number of livestock ownership as the result of using the loan from DECSI.

One of the DECSI's objectives is to offer credit at reasonable price that will reduce the interest rate charged by moneylenders. The study shows that the common *interest rate charged by moneylenders* has gone down from 10% to 2% and 4% per month in the surveyed area. Since the establishment and introduction of the credit and saving services by DECSI in the rural Tigray the level of saving amount dramatically increased, and to some extent the *saving for future investment* sentiment has developed among the poor rural farmers who have been considered for decades as non bankable sector of the population.

The poorest of the poor segment of the population are being excluded during group formation because the experience shows that most of the defaulters were the poorest of the poor. In addition, the assumption that the poorest will not have the capacity to pay back is considered as justifiable and rational by the existing clients and even by the DECSI loan officers. As a result, the *poorest are marginalized*. This could be explained as the negative impact of the regular loan.

4.2. Conclusion

- The scheme has been successful in achieving its objectives and contributing towards alleviating the poverty by breaking the vicious circle of low income, low saving and low investment of the poor households in Tigray.
- Participation in the microfinance program has improved the economic and social

security of participants or the clients of the program through wealth creation, unemployment reduction and empowerment.

- Sufficient business opportunities exist for existing members as well as new entrants since the major constraint is lack of capital and entrepreneurial skills.

Participation in the program leads to stability and growth of agricultural and non-agricultural activities.

CHAPTER V

Recommendation

The institution should think more of expansion and growth in terms of outreach. The clients are not likely to constitute a single homogenous group. As a result, their demand for financial services tends to diversify. Thus, the loan size, the repayment period and frequency of payment need to be adjusted in accordance with needs and demand of the beneficiaries with a view to providing services that are valuable to clients.

DECSI should undertake impact assessment for each type of products before the loan outstanding is fully repaid because it helps the organization to make corrective action on problems obtained from the assessment.

The Institution should promote diversification of economic activities particularly for the rural people. To do so it is better to create awareness that clients be engaged in diversified activities rather than sticking in very similar activities. Most of the clients in rural areas are engaged in animal fattening, livestock development and crop farming thus there are many alternative investments in which the people should be involved. Moreover, this will help the clients to manage the risks associated and the vulnerability issue as well.

DECSI, in addition to its focus on poverty alleviation, there should also be a need to give attention to what level is the responsiveness of its financial products by undertaking market research, and develop built-in tools to measure the impact of its program on the needs of its clients. Hence this will assist the institution to collect information and

make continuous developmental changes that makes it financially and operationally sustainable. .

DECSI should try more to reduce the high degree of vulnerability with regard to agricultural input loans by analyzing the viability of the following possibilities:

- Guarantee granted by the regional government
- Guarantee scheme organized through the farmers' organization
- Establish crop/livestock insurance scheme in which all farmers concerned participates (by charging an extra fee for insurance at the moment of the loan disbursement).

To meet various needs of its clients DECSI needs to provide a mix of short, medium and long term saving deposit products such as time deposit, non-interest bearing but commission based saving service in addition to the existing saving products that offer a range of liquidity, rates of return, convenience and flexibility. From pass book savings to investment plans it can find a variety of products to increase its ability to reach clients who are denied access to those product.

DECSI should incorporate some mechanisms to encourage savings mobilization like better interest rate, bonus for those clients who are demonstrating higher amount of savings and for those sub branches that are collecting more deposits and cover the majority of their loan able fund from savings.

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Survey questionnaire

Survey of the impact of microfinance on poverty reduction

The purpose of this survey is to identify the basic characteristics of the clients reached, not reached, and the type of financial services provided, and the extent of outreach and impact of the microfinance services on poverty reduction.

To the respondent:

- The result of this survey will be used for academic purpose; respondent’s identity will be kept confidential.
- Please feel free to give your opinion in addition to the answers you give to the questions asked.
- Your objective and candid response to our question will greatly contribute to the quality of this research.

Thank you for your kind cooperation!

I Identification

Sub branch.....Village..... Area/Woreda... Rural...Urban...
 Date joined program (day/mm/yyyy)..... Total month in program.....
 No of loan cycles..... Is saving more than required Y.....N....
 Amount of first program loan Amount of current loan
 Cumulative value of all loans..... Is client behind repayment Y.... N ...

II Client Profile

1. Gender Male... Female...
2. How old are you?
3. Marital status Single... Married...Divorced...widow/widowed.... Separated....
4. Educational status None....Basic education.... Primary...Secondary and above...
5. Religion Orthodox... Muslim...Catholic.....Protestant.....other...
6. Number of family members Adults (above 18 years)...children(less than 18)...
7. How many persons in your household are engaged in work that earns income?.....

8. How many persons in your household are engaged in job that earns them a regular income?.....
9. How many children in your household are school-aged (5-17 years of age)?
10. How many of these children currently attend school?.....
11. How many of your children have never attended school?.....
12. How do you value this year's amount of school expense compared to last years?
Decreased...Increased... Stayed the same... Do not know....not applicable....

III Type of client business and Loan use

13. Permanent source of income (main engagement)
A, crop farming...B, animal husbandry... C, retail trade... D, Food & drinks sale....
E, micro and small enterprise..... F, wage employment...G, other...
14. Are you currently an active client of MFI? Yes... No... (if no go to question no 18)
15. Did you invest any of the last loans you took from the program into an income generating activity? Yes... No... I do not know...
16. How did you invest the last loan you took from the program? (Purpose of loan).
A. Commerce... B, Agriculture...C, service...D, manufacture.....E, House construction... F, purchase of oxen.... G. Purchase of pack animals.... H. Consumed for food... I. other...
17. Did you use portion of the loan to...?
A. buys food for household. Yes... No...
B. buy clothes or other household items Yes... No ...
C. to pay school expenses Yes... No...
D. To pay other unpaid loans Yes... No...
E. Give the money to other family members or using it for marriage Yes... No...
F. Keep the money on hand to use for emergency purpose Yes... No...

18. Over the last 3 years, has your household over all income...?
- A. increased... B. Decreased ... C. stayed the same.... D. Increased greatly....
E. Decreased greatly... F. I do not know...
19. Over the last 12 months, has your household over all income...?
- A. increased... B. Decreased ... C. stayed the same.... D. Increased greatly....
E. Decreased greatly... F. I do not know...
20. If income decreased, why?
- A. one of the household member has been sick.
B. poor sales
C. unable to get input
D. Low level production
E. Lost job
F. other (specify).....
21. If income increased, why?
- A. Expanded existing enterprise D. Got new job
B. Able to get input at cheaper price E. Got Aid/Assistance
C. good sales F. Other (specify).....
22. When was the last time you got financial or food aid assistance including remittance from family members living outside the household? Amount received
- A. Not at all B. Last year C. Two years ago D. 3 years ago
E. 4 years ago F. 5 years ago G. Still getting aid
23. If income increased is the answer for question 18 &/or 19 in what three main ways did you use your additional income in order of amount spent, 1,2,3
- Buy food.....Buy clothing...Save.....School expense..... health
expense... House. construction... Oxen/Cow.....
sheep/goat..... donkey/mule/camel...Others.....

IV. Ownership of asset and relationship with MFI

24. Ownership of key asset five years ago and now (number)

	Five years ago	Now	Reason for the change
1. Ox
2. Cow
3. Goat/sheep
4. Donkey/other
5. Beehive/other
6. Main business
7. Residential house
8. Furniture
9. Generator
10. Television
11. Radio/Tape
12. Bicycle
13. Other

25. Have you ever had problem in repaying your loan on time? Yes... No ...

26. What was the reason for failing to pay on time?

- A. crop failure....B. Death of cattle... C. Loss of property... D. health problem.....E. defaults by other group members... F. market price fluctuation for products..... G. Other...

27. Is the income from your business sufficient to cover the loan repayment and the periodic savings contribution? Yes... No...

28. If your answer is no for the above question, from what other source do you fill the gap?

- A. Sale of Asset... B. borrowing....C. Employment income... D. Other...

29. Do you think the loan size is enough to fulfill your need? Yes... No...

30. Did you borrow from other sources other than the MFI? Yes... No...

31. If yes, is the answer, from which source?

- A. Cooperatives... B. Relatives and friends... C. private moneylenders... D. Banks... E. other NGOs or Governmental institutions.....

32. What interest rate do you pay on the loan from such source?

- A. equal to MFI...B. More than MFI...C. Bank rate...D. Lower rate...E. None....

33. How did you invest the loan you took from these sources? Purpose of loan.

- A. Commerce... B, Agriculture...C, service...D, manufacture.....E, House construction... F, purchase of oxen.... G. Purchase of pack animals.... H. Consumed for food... I. other... J. To pay other loan from MFI...

V. Economic and living standard changes

34. During the last 12 months, did you make any of the following changes?

	Yes,	No	opposite happened
A. Expand size of enterprise
B. increased amount & type of production
C. Bought new equipment/tools
D. Hired more workers
E. Improved food quality consumption
F. Bought properties and increased wealth
G. lends money to others
H. Improved or construct house

35. During the last 12 months, has your household diet...?

- A. Worsened B. Stayed the same..... C. Improved

36. If worsened how it has worsened?.....

37. If improved how it has improved?

- A. Able to buy more ingredients of crops. D. Able to eat three meals a day
 B. Able o buy vegetables and others legumes. E. Other.....
 C. Able to eat more animal/dairy products

37. During the last 12 months, was there a time when it was necessary to eat less than the normal time due to lack of food or lack of money to buy food. Yes..... No ..

38. What did your household do to get through this difficult situation?

- | | |
|----------------------------|---------------------------------|
| A. reduced number of meals | E. Borrow food from relatives |
| B. Reduced quality of food | F. Use DECSI's loan to buy food |
| C. Food aid | G. borrow from money lenders |
| D. Sell livestock | H. Use savings to buy food |

VI. Client satisfaction

39. Name three things you like most about the credit program

- | | |
|--|-----------------------------|
| A. Lower interest rate than other sources of credit (informal) | |
| B. steady source of working income | E. Fast financial service |
| C. group solidarity | F. Other financial services |
| D. training and technical assistance | G. Other..... |

40. Name three things you dislike most about the credit program.

- | | | |
|-------------------------------------|-----------------------------------|---------------|
| A. High interest rate. | E. Repayment policy | I. Other..... |
| B. Small size of loan | F. Guarantee policies | |
| C. Loan cycle too long or too short | G. client management | |
| D. group lending | H saving policy compulsory saving | |

41. If you could change something about the program to make it better, what would you change?