Institute of Social Studies

Graduate School of Development Studies

The Role of Microcredit Institutions in Urban Poverty Alleviation in Ethiopia:

The Case of Addis Credit and Saving Institution and Africa Village Financial Services

A Research Paper presented by:

Zigiju Samuel Beyene

(Ethiopia)

in partial fulfilment of the requirements for obtaining the degree of
MASTERS OF ARTS IN DEVELOPMENT STUDIES

Specialisation:

Governance and Democracy
(G&D)

Members of the examining committee:

Dr Erhard Burner
Dr Joop de Wit

The Hague, The Netherlands
November, 2008

Disclaimer:

This document represents part of the author's study programme while at the Institute of Social Studies. The views stated therein are those of the author and not necessarily those of the Institute.

Research papers are not made available for circulation outside of the Institute.

Inquiries:

Postal address:	Institute of Social Studies P.O. Box 29776 2502 LT The Hague The Netherlands
Location:	Kortenaerkade 12 2518 AX The Hague The Netherlands
Telephone:	+31 70 426 0460
Fax:	+31 70 426 0799

Acknowledgements

I am greatly indebted to Dr. Erhard Berner, my supervisor, who sacrificed his precious time and exercise his tirelessly effort to provide me constructive comments, suggestions and guidance in organizing and structuring this paper. I have been very fortunate in receiving guidance from him through out the process of writing the paper. His patience and support were a great help in getting me through. I sincerely thank him for his guidance without whose advice this paper would not have been what it is now.

Furthermore, for constructive criticism which has helped me in adding, revising, and avoiding different parts of the paper and for the privilege he accorded me in guiding through this research process, I am deeply grateful to my second reader, Dr. Joop de Wit. His input contributed a lot to the successful completion of this research paper.

My special thanks and central dedication go to my friends Deribe Assefa and Terefe Zeleke in an exceptional way for their countless help in collecting data and providing me all the required supports and information for this study.

Above all, my debt is to God, who makes it all possible; and of course my deepest gratitude and favour to my parents for their overall assistance and continues support during my stay at the Institute of Social Studies.

Table of Contents

List of Tables and Figures 6

List of Acronyms 7

Abstract 8

Chapter 1 Introduction 9

1.1 Background 9

1.2 Problem statement 10

1.3 Relevance and justification 11

1.4 Objective and research questions 11

1.5 Research methods 11

1.6 Scope and limitations 12

1.7 Organization of the paper 12

Chapter 2 Conceptual and Analytical Framework 13

2.1 Concept and definition of (urban) poverty 13

2.2 Debates on MC and poverty alleviation 15

2.3 Subsidy: an essential ingredient for MC program 16

2.4 Approaches of MC lending 16

The financial system approach 16

The poverty lending approach 17

2.5 Microcredit modalities 17

Minimalist vs. integrated approach 17

Individual vs. group credit model 18

Subsidised credit vs. market interest rates model 19

Progressive lending vs. frequent repayment model 19

Consumption smoothing vs. productive use model 19

2.6 Analytical framework 20

Chapter 3 The General Overview of MCIs in Ethiopia and Some Details on the Cases 21

3.1 The general overview 21

Introduction 21

Regulatory framework 22

Operational lending models 22

Sources of fund 22

Performance and sustainability 23
Interest rates 23
Major challenges 23
Impact studies on MCIs in Ethiopia 24
3.2 Some details on the cases: AdCSI and AVFS 25
Addis Credit and Savings Institution 25
Africa Village Financial Service 27
3.3 Conclusion 29
Chapter 4 Targeting the Poor **30**
4.1 Introduction 30
4.2 How does AdCSI target its beneficiaries? 30
Loan product/service design 30
Lending modalities 31
Target groups 32
Selection criteria and requirements 32
4.3 How does AVFS target its beneficiaries? 34
Loan product/service design 34
Lending modalities 35
Target groups 35
Selection criteria and requirements 36
4.4 Conclusion 36
Chapter 5 An Analysis and Discussion of the Results from Primary Data **37**
5.1 Demographic characteristics of the respondents 37
5.2 Previous business background and income sources of the respondents 37
5.3 Improvements in clients' income, savings, employment opportunities, housing conditions, and basic social services 39
5.4 The benefit of AdCSI and AVFS credit programs by gender 42
5.5 Conclusion 44
Chapter 6 Conclusion **45**
6.1 How does AdCSI keep the poor people out? 45
6.2 Why AVFS is unable to effectively improve the life of the poor? 46
References **49**
Notes **53**

List of Tables and Figures

FIGURE 1 Analytical framework 20

FIGURE 2 Loan disbursed, loan repaid, amount of due, and savings (AdCSI) 25

FIGURE 3 Number of clients in terms of sex (AdCSI) 27

FIGURE 4 Loan disbursed, loan repaid, amount of due, and savings (AVFS) 28

FIGURE 5 Number of clients in terms of sex (AVFS) 29

FIGURE 6 Previous business ownership and income source of the respondents 38

TABLE 1 Improvement in economic and social factors of clients and benefit by gender 40

List of Acronyms

AdCSI	Addis Credit and Saving Institution
ADLI	Agricultural Development-Led Industrialization
AVFS	Africa Village Financial Service
BoDs	Board of Directors
CBOs	Community Based Organizations
GNP	Gross National Product
IFAD	International Fund for Agricultural Development
LIF	Loan Insurance Fund
MC	Microcredit
MCIs	Microcredit Institutions
MoFED	Ministry of Finance and Economic Development
MSEs	Micro and Small Enterprises
NBE	National Bank of Ethiopia
NGOs	Non Governmental Organizations
PRSP	Poverty Reduction Strategy Paper
SDPRP	Sustainable Development and Poverty Reduction Program
SNNPRS	Southern Nation Nationalities and Peoples Regional State
ORAAMP	Office of Revision of Addis Ababa Master Plan

Abstract

This paper evaluates the role of microcredit programs in poverty alleviation in Addis Ababa City by taking two microcredit institutions: Addis Credit and Saving Institution and Africa Village Financial Service. Secondary data from different sources as well as primary data from the clients of both institutions were collected and analysed. Moser's Asset Vulnerability Framework is also employed as an analytical tool. It is found that AdCSI and AVFS failed to alleviate poverty in Addis Ababa, for very different reasons: AdCSI has effectively excluded the poor, and AVFS has failed to improve the situation of the poor. The result also implies that both AdCSI and AVFS have benefited men more than women.

Relevance to Development Studies

Poverty is a critical problem of all countries in the world regardless of their level of development. The whole purpose of development and Development Studies is to fight against poverty and reducing both urban and rural poverty in the world to the possible minimum level through different interventions. Microcredit is considered as one of the major interventions in poverty alleviation all over the world. Therefore, it is vital to evaluate the role microcredit programs play in urban poverty alleviation.

Keywords

Microcredit, poverty, the poor, targeting, urban poverty alleviation

Chapter 1
Introduction

1.1 Background

The socio-economic predicament in Ethiopia is deep rooted and a result of the interplay of many factors. Mismanagement of the economy on the part of successive governments and three decades of civil war have greatly contributed to the present poor state of the country's economy. Nonetheless, there have been some encouraging developments since 1991 with the end of the civil war and a change of government.

The existing government, with international organizations, launched a sweeping program of economic reforms aimed at macroeconomic stabilization and poverty reduction since 1992/93. This reform resulted in devaluation of currency /the Ethiopian Birr[1] (ETB), commodity market liberalization and a reduction in urban subsidies as part.

In addition, a ten-year development strategy, called Agricultural Development-Led Industrialization (ADLI), was also laid out by the government. It envisages fostering economic growth with the aim of reducing poverty (FDRE 2000). Indeed, a recurring theme in these programs is the reduction of poverty amongst the population.

The preoccupation with poverty reduction is warranted since a sizable proportion of Ethiopia's population lives in extreme poverty. The Human Development Report, for instance, reports that 81.3 percent of the population survives on less than $US1 a day (UNDP 2003). Although this may tend to overstate the incidence of poverty since the $1 poverty threshold used by the UNDP is much larger than the amount of expenditure needed to purchase the absolute minimum basket in Ethiopia, it is still the case that poverty is a widespread problem in Ethiopia. Recent estimates suggest that about 31 million people (44%) live below the local poverty line[1], which is equivalent to US 45 cents or 3 Ethiopian Birr[2] (ETB) per person a day (MoFED 2005).

Although poverty is higher in rural Ethiopia, it remains a problem in urban areas as most of the country's urban centres including Addis Ababa are currently facing different social and economic challenges.

In its effort to fight against urban and rural areas, the government recognized microcredit services as one of the major poverty reduction strategies and set a legal framework for establishment and operation of Microcredit Institutions (MCIs) to provide financial services to micro and small enterprises (MSEs) and poor rural and urban households. Currently, there are 27 licensed MCIs operating in Ethiopia (Kereta 2007) including the two institutions which are operating in Addis Ababa and the focus of this study, namely: Addis Credit and Savings Institution (AdCSI) established in 2000 as a share company and legally registered by the National Bank[3] of Ethiopia (NBE); and Africa Village Financial Service (AVFS) which established in 1998 and legally registered.

1.2 Problem statement

Although poverty reduction has remained the declared core objective in the government's Sustainable Development and Poverty Reduction Program (SDPRP), it has been giving inadequate emphasis to the problems of urban dwellers. The government's efforts to improve the living conditions of the rural population have begun to bear fruit, whereas the incidence and severity of poverty have intensified in the urban areas in the recent past. Recent researches suggest that the income gap between the wealthy and the poor has been widening in urban centres. Certainly, some work has been going on in the country to improve the lives of the urban population, especially in the recent past. However, most of the country's urban centres including Addis Ababa are still facing various social and economic problems.

Addis Ababa has become the largest and most populous city in Ethiopia being more than 14 times bigger than that of the second larger city Dire-Dawa in the country (MWUD 2006). It contains about 26% of the total urban population. However, Addis Ababa is one of the least developed cities in Africa facing a major challenge of urban poverty and slum proliferation (Haregewoin 2007:4). Like any other major city of Africa, Addis Ababa is presently suffering from a host of social and economic problems including widening income disparity, deepening poverty, rising unemployment, severe housing shortage, poorly developed physical and social infrastructure and the proliferation of slum and squatter settlements (UN-HABTAT 2007: 1).

Addis Ababa is growing at a rate of over five percent a year. Rapid urbanisation has been accompanied by growing numbers of poor people and a parallel increase in the social and economic needs of local communities. Unemployment remains high whilst nearly half the population earns less than what is needed to buy enough food for basic subsistence. A fifth of the city's population has no access to safe water while many people lack adequate toilet facilities and waste disposal systems (Gebremedhin 2006).

Different studies indicate that the economy of the city is service sector dominant and the private; especially the informal economic activity has a greater contribution. So, 80% of the city's dwellers earn very low income of less than 74.5 USD per month (ORAAMP 2002: 24). On top of this, according to Bihon, the high unemployment rate of the city that is more than 40% aggravates the poverty situation of the residents. Hence most of the households spent more than 50% of their income on food (Bihon 2006: 3).

MC therefore is recognized by the governments and NGOs as one of an effective tool to fight against poverty in Addis Ababa by providing financial services to those who do not have access to or neglected by the commercial banks and financial institutions. It is believed that it helps in reducing poverty by providing the poor with credit facility to start a small business and create employment opportunities. It also regarded as a tool for supporting the economic and social conditions of the poor and women by allowing access to education and health facilities and improves their living standards sustainably. This research therefore deliberates on analyzing the role of MC programs in poverty alleviation in Addis Ababa by taking AdCSI and AVFS and their clients as a unit of analysis.

1.3 Relevance and justification

Poverty is a critical problem of Addis Ababa city. Although the focus is in rural area, the government of Ethiopia is currently emphasising on poverty alleviation and the government's PRSP considered MC, among others, as one of the tools to alleviate poverty. Currently, MCIs are working all over the country to provide credit services to rural and urban poor who do not have access to financial services from formal banks.

Therefore, it is important to explore the roles AdCSI and AVFS are playing as MCIs in benefiting the poor and alleviating urban poverty. The study may also help AdCSI and AVFS to evaluate their contribution towards poverty alleviation and revise their programs. In addition, this study may also contribute to the existing literature of MC in the field of development studies.

1.4 Objective and research questions

Objective

The general objective of the study is to highlight the main problems of the poor in the city and to assess the role of MC in urban poverty alleviation.

Research questions

Main question

Does MC help to improve living standards of the poor, benefit women and alleviate urban poverty in Addis Ababa City?

Sub questions:

- What are the implementation modalities of AdCSI and AVFS for microcredit service provision to the poor?
- How do AdCSI and AVFS target the poor?
- To what extent AdCSI and AVFS microcredit schemes help beneficiaries to create employment opportunities, to generate income and meet their basic needs?
- Do men benefit more from AdCSI and AVFS microcredit programs than women?

1.5 Research methods

In order to analyse the role of MC in poverty alleviation in Addis Ababa, this study focuses on a comparative study of two MCIs: AdCSI and AVFS.

In order to gather adequate information for analysis purposes, a combination of quantitative and qualitative methods were applied. In both cases, primary and secondary data were used. Primary data collection was conducted through research assistants who have sufficient knowledge and background in research methods. Closed ended as well as open ended questionnaires were prepared in English, and translated in to local language for the purpose of clarity. Office managers of AdCSI and AVFS were also contacted through email and directly interviewed through telephone by the researcher for qualitative input.

To gather data through questionnaire, 50 respondents (clients from AdCSI and AVFS in Addis Ababa City) were selected and the interview was conducted to 25 clients/respondents from each. There are 10 sub-cities in which these institutions are operating. Two sub-cities namely *Yeka* and *Kirkos* were purposively selected because many of the clients are concentrated in these two sub-cities.

In order to select respondents of the two institutions existing in these two sub-cities, the researcher applied systematic random sampling technique. Taking the lists and the profile (which includes the full address) of clients from the two institutions, the data collectors selected 25 respondents from the whole list of each institution by using systematic random sampling technique.

Secondary data like performance report and other relevant information were collected from the Institutions' head quarter as well as branch offices at sub-city level. Moreover, MC and poverty related websites like http://www.themix.com/, World Bank urban poverty assessment reports, country poverty related assessments, AdCSI and AVFS strategic plan and performance report, Association of Ethiopian Microfinance Institution reports were used as a secondary data sources.

1.6 Scope and limitations

Even though there are many MCIs in Addis Ababa City Administration, this study focuses only on AdCSI and AVFS and their clients because of time constraints. Detail analysis is made by focusing only on MC scheme to assess the role it plays in poverty alleviation.

Data collection through research assistants is proved to be a limitation of this study. As the researcher was away from the actual research place, it is difficult to directly access the respondents for the primary data intended to be collected through questionnaire and hence rely on the second person for primary data collection.

The other limitation was the difficulty to access the up-to-date data on both institutions. However, this problem has been solved by the researcher to some extent by contacting the Institutions through email and telephone. Moreover, the research assistants contacted the institutions to collect the required up-to-date documents on behalf of the researcher.

1.7 Organization of the paper

The present chapter of this paper deals with the introduction which contains background, problem statement, objective, research questions, methodology, and limitations. In the second chapter, conceptual and analytical frameworks of the research are presented. The general overview of MC in Ethiopia context and some details of the cases are highlighted in chapter three. Chapter four of the paper deals with how the two cases target the poor to provide the credit. The primary data presentation and analysis are undertaken in chapter four. The conclusion of the study is presented in the final chapter.

Chapter 2
Conceptual and Analytical Framework

This chapter deliberates on the theoretical literature related to MC and urban poverty. It contains not only different modalities and approaches that are considered important for the purpose of analysis but also deals with the discussion of different concepts like poverty and MC. The chapter also contains the analytical framework developed by the researcher to be employed in this research.

2.1 Concept and definition of (urban) poverty

The definition and measurement of poverty is vague and fluid. Many authors define poverty in different ways by considering different criteria and indicators of poverty. Some researchers have defined the poor as that portion of the population that is unable to meet the basic nutritional needs. Others viewed poverty as a function of education and/or health using the measurement of life expectancy, child mortality, etc. Level of expenditure and consumption are other criteria used to identify the poor.

Poverty is also linked to lack of access by the poor households to the assets like human capital (access to education), natural (access to land), physical (access to infrastructure), social-political (such as networks and political influence over resources), or financial (savings and access to credit) necessary for a higher standard of income or welfare (World Bank 2000: 10).

People who live in poverty live in a state of deprivation, a state in which their standard of living falls below some minimum acceptable standard (Greenwell et al. 2001). Poverty level can be classified in to absolute and relative poverty. The extent of absolute poverty can be defined in the number of people living below a specified minimum level of income which is one US dollar a day per person.

Wekwete (1999: 37) characterized poverty by among other things, malnutrition, lack of education, low income and assets, environmental risks, low life expectancy, and substandard housing.

According to Johnson and Rogaly (1997) poverty is conceptualized in terms of lack of (a) income; (b) vulnerability (i.e. defencelessness and security linked with assets, such as health and education, houses and domestic equipment, access to infrastructure… etc; and risk to which they are exposed, including illness and death…etc); and (c) powerlessness within household and community due to differences in caste, ethnicity, gender, age, and wealth. Poverty should be understood in broader context which includes empowerment, access to power, and the opportunity to participate in social and political activities.

In Development as Freedom, Sen (1999: 87) defines poverty as the deprivation of basic capabilities that provide a person with the freedom to choose the life s/he has reason to value. From this perspective, poverty is a condition with many interdependent and closely related dimensions which can be categorised as (a) lack of regular income and employment, productive assets (such as land and housing), access to social safety nets, and command over economic resources; (b) lack of access to services such as education, health care, information, credit, water supply and sanitation; and (c) influence on decision-making that affects one's life. It generally seems accepted that poverty should be understood in a holistic way including economic, social, and political dimensions.

Urban poverty has various manifestations and characteristics such as inability to acquire adequate income and productive assets, poor access to basic services, homelessness and inadequate housing, environmental degradation, lack of support from the social networks, social discrimination and exclusion, and poor access to decision making (Wekwete 1999: 43; Dube 1999: 2). Levels of monetisation, commoditisation, spatial distribution of the populace in towns and cities all make a difference when we try to understand urban poverty.

In identifying the characteristics of urban poverty from that of rural poverty, Moser describes urban poverty based on three specific characteristics of urban life: commoditization, environmental hazard, and social fragmentation. By commoditization she refers to the fact that urban households are for the most part obliged to pay for their food, shelter, transport and education than rural dwellers. Moreover, employment is frequently unavailable, insufficient or insecure while shelter is frequently illegal and insecure. The urban poor are affected by environmental problems including lack of environmental services (i.e. sanitation, water, drainage, and solid waste management), poor quality housing, overcrowding, and settlement on marginal or degraded land. These factors increase health risk to the poor. In terms of social fragmentation the vulnerability of urban dwellers may also be high because community and inter-household mechanisms for social security are less likely to operate in urban areas (Moser 1998: 24).

Asset Vulnerability Framework put forward by Moser contributes to the growing evidence that points to the limitations of income poverty measurement and its inability to capture other factors affecting the poor as well as their response to economic difficulty. She summarises these asset vulnerability framework as follows:

- Labour- commonly identified as the most important asset of poor people.
- Human capital- health status, which determines people's capacity to work, and skills and education, which determine the return to their labour.
- Productive assets- for poor urban households the most important is often housing.
- Household relations- a mechanism for pooling income and sharing consumption
- Social capital- reciprocity within communities and between households based on trust deriving from social ties.

From the perspective of this asset vulnerability framework, therefore, poverty is characterized by not only a lack of assets and the poor's inability to accumulate an asset portfolio but also by inability to devise an appropriate coping or management strategy. The key issues in anti-poverty strategies are therefore to build up the asset base of the poor and to expand better their capabilities to manage their existing package or portfolio of assets (Ibid). As this asset vulnerability framework provides a good conceptual base for understanding and dealing with poverty, in this research, it is applied as a tool to determine what role MCIs play in urban poverty alleviation.

2.2 Debates on MC and poverty alleviation

Discourses on MC have presented it as a universal remedy for poverty alleviation. However, when one goes through the literature of impact assessment studies, one can find quite different results.

On the one hand, MC is said to have brought positive impacts on the life of the clients. A growing database of empirical studies shows that MC has positive impacts to boost the ability of poor people to improve the conditions in which they live. It allows poor people to increase their income by starting new enterprises or expanding existing one. Research works indicate that the poor have taken advantage of increased earnings to improve consumption levels (Pitt and Khandker 1998), send their children to school and obtain better healthcare services (Morduch 1998), and build assets. In Indonesia 90% of BRI clients surveyed on the Island of Lombok had moved above the poverty line, with income increases averaging 112% (Panjaitan-Drioadisuryo and Cloud 1999). In Zimbabwe, extremely poor clients of Zambuko Trust, a local MCI, increased their consumption of high protein foods at a time when food expenditures across the country as a whole were decreasing (Barnes 2001). In Tanzania/Zanzibar the income and asset values of borrowers are almost twice that of non-borrowers (Mohamed 2003). In India, in addition to increased economic wellbeing, SHARE clients have shown a striking shift from irregular, low paid daily labour to more diversified sources of income, with a strong reliance on small businesses (Simanowitz 2003). Studies of two separate MCIs in Bangladesh documented a similar shift from informal labour to self-employment among MCI clients. As a result, overall wage rates in the villages served by the MC programs also increased (Khandker, M. 1998; Zaman 1999). In other words, MC programs are able to alleviate poverty through increasing individual and household income levels, as well as improving healthcare, nutrition, education, and helping to empower women (Khandker, S. 2005).

On the other hand, impact assessment studies have challenged the conventional wisdom of the poverty impact of MC. MC is said to play insignificant role towards mitigating the problems of the poor. Kan, Olds, and Kah (2005) studied the evolution, sustainability and management of ten MCIs in Gossas, Senegal, using the data over a period of three years. They found out that MCIs have helped to create some positive changes, but that there was no clear and marked evidence of poverty reduction and stated that the expectations of what MC can do to help lift communities out of poverty is a bit too optimistic (p. 146). Morris and Barnes (2005) provided an overall assessment of the impact of MC programs in Uganda (FINCA, FOCCAS, and PRIDE). The researcher did not find that MC programs help to alleviate poverty in program areas, though results from this study indicated positive impacts.

Thus despite the many positive findings that are reported in some feasibility and impact studies, many studies report the impact of MC programs is insignificant. Many studies also fail to find out the direct link between MC and poverty reduction.

2.3 Subsidy: an essential ingredient for MC program

If MCIs are supposed to reach the poor, they have to be heavily subsidized. Some argues that subsidized interest rates generally benefit only a small number of borrowers for a short period; and interest rate subsidies are an inappropriate use of donors or government funds because they distort markets and lead to low repayment rates. Yet, from the practice, it is known that even large MCIs need subsidies in a continuous basis.

Morduch indicated that the well known MCIs like Grameen, despite reporting profit, are in fact subsidized on a continuing basis. There is a little to indicate that Grameen will be able to survive without subsidies while continuing to serve clients as it does now. Added to this, he mentioned that even when the credit market is functioning perfectly, subsidies may be justifiable on grounds of equity: if raising interest rate means losing clients or decreasing social impacts, subsidy may be justifiable, provided social benefits are commensurate and institutional efficiency can be maintained (Morduch 1999a).

Mallick (2002), also indicated that MC programmes aimed at the poor have, almost without exception, a substantial subsidy provided by governments or their aid agencies. Without this the interest rates would be too high to be viable and the programmes would therefore be unsustainable. Subsidy enables to lower interest rate which obviously results in some 'income transfer' to loan recipients.

The study conducted over 1991-93 by Mosley and Hulme (1998: 784) shows that subsidy is an important ingredient for performance of MCIs aiming at poverty reduction. They measured the financial performance of 13 MCIs in seven countries using two indicators: the proportion of loans more than six months in arrears and the subsidy dependence index, which measures the extent to which interest rates would have to be raised to breakeven in an environment free of all subsidy. They found that the higher they (measures) are, the harder it is for the lender to continue in business without subsidy.

Clarke and Dercon (2008) also offer support to subsidies for MC programs. In their view providing subsidies to MCIs may be a cost effective means of reaching the poor and improving their lives.

2.4 Approaches of MC lending

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

The financial system approach

The financial system approach emphasises large scale outreach to the borrowers – both borrowers who can repay microloans from household and enterprise income streams, and to savers. It focuses on institutional self – sufficiency and financial sustainability as a pre-condition for greater outreach and implies transition to for-profit mode.

Proponents of this school argue that there is no justification for subsidies as future outreach critically hinges upon achieving financial sustainability of the MCIs (Robinson 2001). According to them, the over all goals of MC are to provide sustainable financial services to low income people. But it does not necessarily mean to target the poorest.

Furthermore, MC should proliferate in the context of competition because competition will insure high- quality and low-cost services. Thus, for them, the impact evaluation of MCIs should focus on financial indicators and efficiency.

They also state that NGOs do not have an important role in MC. This is because NGOs may deliver subsidized credits and may undermine the development of competitive financial system. They emphasize that MC should not be integrated with other development services because specialization is necessary to reach financial sustainability and large scale outreach.

In addition, luck of institutional capacity is perceived as a more binding constraint on the outreach of MC than availability of funds.

The poverty lending approach

The poverty lending approach concentrates on reducing poverty through credit, often provided together with complementary service such as skill training and teaching of literacy and numeracy, health, nutrition, family planning and the like.

Under this approach donor-and government-funded credit is provided poor borrowers typically at below market interest rates. The goal is to reach the poor, especially the extremely poor – the poorest of the poor with credit to help overcome poverty and gain empowerment (Ibid). It believes that this commitment will be affected if stress is given to profit motive.

The proponents of this approach claim that the goal of MC is improving the livelihoods and empowerment of the poor. Because of this, subsidies for institutional innovation and expansion are justified. For them, assessing the impact of MCIs should be their effect of the livelihoods and income generating activities of the poor.

2.5 Microcredit modalities

Minimalist vs. integrated approach

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

In contrast to the minimalist approach, the integrated approach, referred to as the 'credit-plus approach' (Johnson and Roglay 1997:118) is grounded within the empowerment framework and attempts to deal with the structural causes of poverty through MC delivery. It is a comprehensive approach aimed at providing a long-term integrated support package, in which loans are combined with social mobilisation, participation, training and education, so as to maximise the income, opportunities and empowerment impacts (McKee 1989). In other words, it incorporates financial and social development issues under its mandate.

Individual vs. group credit model

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

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

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

The theoretical analysis of the group lending mechanism shows that the access to further loans as well as the access to higher loans, which is made conditional on the repayment of all borrowers in the group, creates an incentive for peer monitoring, peer support, peer pressure, and discourage default among the borrowers (Stiglitz 1990; Hulme and Mosley 1996).

As a result, the probability of moral hazard behaviour is sufficiently reduced because a considerable part of the risk is transferred from the lender to the borrowing group.

With joint liability, if any borrower fails to repay (or strategic default) his share of the loan, the whole credit group is considered as being in default and all peers lose access to subsequent loans (Kritikos 1999). Therefore, the group is motivated either to repay for the delinquent partner, or by exerting social pressure to make him reconsider his repayment decision. As a consequence of this set of incentives, lenders are able to achieve with high probability of the repayment of the loans.

The main problem of the joint-liability mechanism is that, at the worst, one defaulting member may cause a domino effect when the fellow group members are not able (or willing) to cover his/her instalments. This outcome is disadvantageous for the MCIs (in particular in comparison to an individual lending scheme) because all other group members - except the defaulting borrower - could have repaid their loans. Moreover, according to Ledgerwood, weekly attendance at group meeting may also be required. More affluent clients usually see this as an inconvenience, which makes the credit attractive only to poorer clients. Client transaction costs are quite high as more responsibility is shifted from the MCI to the clients themselves (Ledgerwood 1999: 35, 71).

Subsidised credit vs. market interest rates model

Under subsidised credit model credit was subsidized because poor people have no capacity to pay high interest rate. Government and donors subsidize MC programs with the objective of contributing to poverty alleviation programs. The critique to this credit model is that credit was seen as a means to impoverishment in a sense that it makes the poor in more debt that they are not able to repay and the program often does not reach low income groups (Holt 1994; Robinson 2001: 72).

On the other hand, market interest rate model refers to a rate that arises from interplay of supply and demand in some defined range of transactions. Market rate is used to refer to the rate at which commercial banks and their conventional customers conduct deposit and loan transactions (Christen 1997a in Robinson 2001: pp 29-30).

Progressive lending vs. frequent repayment model

Progressive lending refers to the system by which borrowers obtain increasingly larger loans if repayment is made promptly. As long as the system is credible and alternative sources of finance are less attractive, this type of incentive can enhance repayments (Murdoch 1999b).

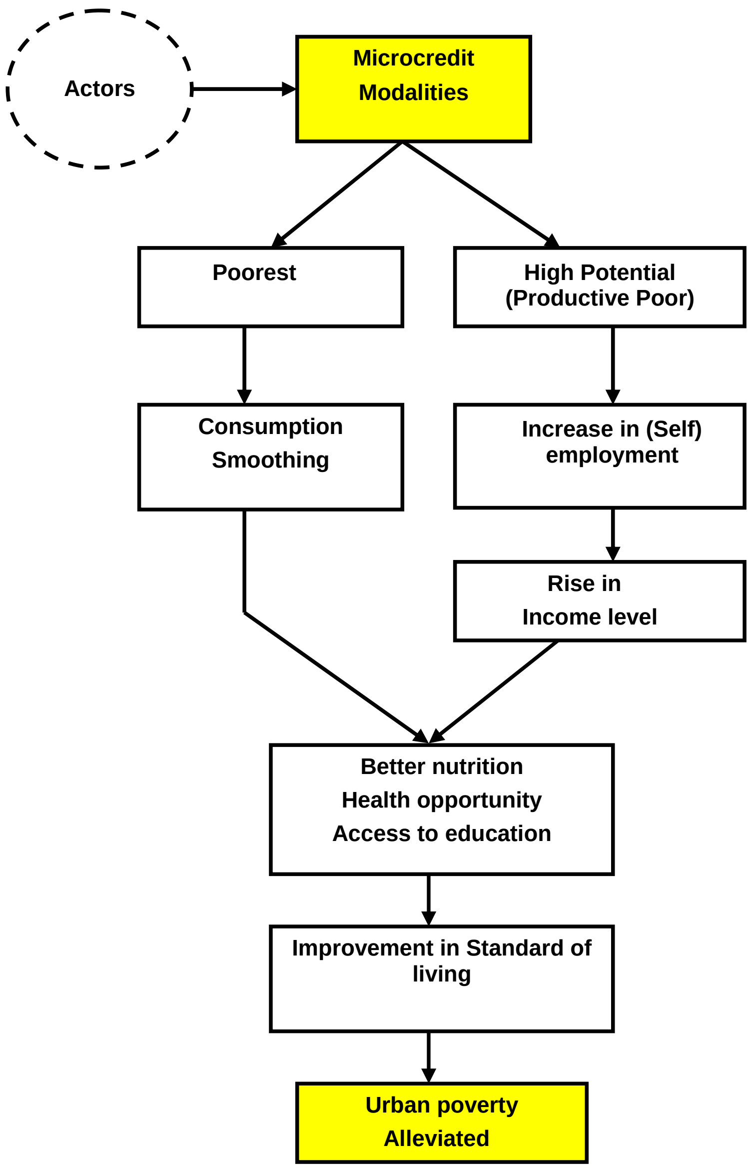
Frequent repayment schedules are also seen to act as an added mechanism to secure repayment. As most MCIs collect repayments before investments bear fruit, they are in fact lending against the borrower's steady income stream and, hence, securing part of the loan repayment even if projects fail (Nissanke 2002: 5).

Consumption smoothing vs. productive use model

Credit is an important instrument that can be used effectively and productively when it is given to the creditworthy among the economically active poor – people with the ability to use loans and the willingness to repay them. The term economically active poor is used in a general sense to refer to those among the poor who have some form of employment and who are not severely food deficit or destitute (Robinson 2001) . When loans are provided to the poorest people, the borrowers may use the loan for consumption smoothing and may not be able to use the loan effectively for productive purpose (Hulme and Mosley 1996).

2.6 Analytical framework

Figure 1
Analytical framework



Chapter 3
The General Overview of MCIs in Ethiopia and Some Details on the Cases

3.1 The general overview

Introduction

Ethiopia is one of the world's poorest countries by any standard. According to a recent World Development Report, the country has the lowest GNP per head in the world, and its purchasing power parity adjusted GNP is ranked 200th out of 206 countries (World Bank 2000). Human development indicators of the United Nations Development Program (UNDP) also attest to the seriousness and extent of poverty in the country. For instance, the Human Development Index (HDI) of Ethiopia is the sixth lowest out of 175 countries in the world. Similarly, the Human Poverty Index (HPI) ranks Ethiopia 91st out of 94 developing countries[4] (UNDP 2003).

The poverty experienced by many Ethiopians is reflected in a range of well being measures of the population. For example, the life expectancy at birth in the country is approximately 46 years, which is substantially lower than the average 77 and 67 years recorded for countries with high and medium Human Development Indices respectively. Moreover, three quarters of the population do not have access to an adequate water source, a figure that is amongst the highest for countries experiencing a low measure of human development. The percentage of population with access to suitable sanitation, which stands at 12 per cent, is significantly lower than the 53 per cent average for the sub-Saharan Africa (Ibid: pp. 237-257). On the other hand, the adult illiteracy rate at around 60 percent is significantly higher than the average for sub-Saharan Africa and other developing countries. According to Amha (2000: 1), the major causes of the high prevalence of poverty in Ethiopia include lack of asset, employment opportunities, income, skill, education, health, etc which is aggravated by soil degradation, deforestation, drought, civil war, and inappropriate government policies.

Though the formal establishment of MCIs for poverty reduction has gone more than a decade; the provision of financial services existed so before. There was credit services in Ethiopia initiated and delivered by local and international NGOs most of which were, however, concentrated in rural areas (Amha 2001).

The interventions trough the delivery of MC service have been considered as one of the policy instruments by the current government and NGOs to enable poor increase output and productivity, induce technology adoption, improve input supply, increase income, and alleviate poverty. The establishment of sustainable MCIs that reach a large number of poor who are not served by the conventional financial institutions has been the component of the new development strategy of the country.

Financial services provided by the government banks and NGOs were not effective enough to bring impact on the life of the poor. The failure of the formal banks to provide banking facilities, on the one hand, and un-sustainability of the NGO's credit scheme on the other hand, led the government to issue out a legal framework for the establishment of and operation of MCIs.

Regulatory framework

The issue of regulatory framework has come to the forefront because MCIs were providing financial services and products to the poor, outside the formal banking system (Ahmed 2002: 10).

The key legal foundation for MCIs is made in 1996. This is "The Licensing and Supervision of the MCIs" Proclamation No 40/1996. This proclamation has laid the well-defined legal basis for the MCIs in Ethiopia. In the proclamation the purposes and duties of MCIs are clearly stipulated. It provides the framework to create, expand and develop MC programs.

Pursuant to this proclamation, the National Bank of Ethiopia (NBE) primarily vests on licensing and supervision of the business of MC. The Bank has made a series of directives regarding the activities of the MCIs. The bank determined the minimum start up capital to begin a MC service at 200,000 Birr (Directive No. MFI 01/96). The envisaged MCIs are also required to organize as a share company. The legal framework clearly stated that MCIs should be owned by Ethiopian nationals or organizations owned by Ethiopians. This, however, restricts the cash that would flow from international NGOs and associations.

Operational lending models

Similar to other parts of the world, MCIs in Ethiopia focus mainly on group–based lending and promote compulsory and voluntary savings. They use a solidarity group approach, whereby clients join into groups of 5-7 members and co-guarantee each other's loans. These groups meet on the weekly or monthly bases to make loan repayments and savings deposit. Working through groups is considered as an effective means to expand outreach and reduces the transaction costs for MCIs. A few MCIs deliver services through traditional social groups like *Idir*[5] whose members also guarantee each other's loans. The co-guarantee mechanism within the groups serves as an alternative form of collateral. In addition to group lending methodology, most MCIs use individual lending on the basis of physical or other collateral.

Sources of fund

As an important service for clients and sources of funds for MCIs, saving mobilization remains central strategy. In Ethiopia, however, according to Teka and Mengesha (2006: 29), the deposit mobilized by the MCIs is rather weak: only a third of the fund lent out by MCIs is covered from internally mobilized funds. Nearly half of the loans have to be funded from other sources including NGOs, International Fund for Agricultural Development (IFAD) and other donors, which is unsustainable. MCIs in Ethiopia obtain donor funds mainly from two sources: The IFAD and African Development Bank (ADB) fund, which is managed and channelled by the Development Bank of Ethiopia (DBE) to the MCIs. This is lent at 6% to the MCIs, which is higher than the 3% deposit rate for most MCIs. However, for government supported MCIs, donated equity finance from regional governments serves as a source of capital.

Performance and sustainability

The two most important products provided by the MCIs are loans and savings deposits. MCIs in Ethiopia in general are highly dependent on donors' funds to meet the credit needs of their clients. Donors' funds are relatively cheap, but the issue of sustainability in terms of the ability to fund the loans they extend from own fund effort is a critical issue for the MCIs. It is argued that donors' fund are relatively volatile and may not be available any time MCIs need them, and at most can be regarded as short term bridging finance and not as long term sources of financing MCIs (Teka and Mengesha 2006: 21).

Financial and operational performances are the main measures of MCIs' success as they determine their sustainability. Although Ethiopian MCIs have not yet reached financial sustainability, some have achieved operational sustainability whereby they cover operating costs. Report from the NBE suggests that only half of the MCIs managed to have generated operational profit for the year. When adjusted for inflation and subsidy, all turn out to be loss making (Teka and Mengesha, 2006: 23).

Interest rates

The interest structure of the MCIs is modestly higher than the formal banks to compensate for the higher risk they assume, but significantly lower than the rate charged by the moneylenders, who generally charge 60-180% pa (Emana et al. 2005). The MCIs rates vary from institution to institution, but generally range from 10% to 24% pa in the case of lending and from 3% to 8% in the case of saving deposit. The interest margin is consequently in the range of 2.5% to 18%. Those MCIs owned by the regional governments tend to have a lower lending rates and interest margin than those whose share is dominantly held by individuals (Teka and Mengesha 2006).

Major challenges

MC as a tool of poverty alleviation in Ethiopia in general faces various constraints and challenges. These can be understood at three different levels: macro, meso and micro. At macro level unstable policies and poor macroeconomic conditions (economic growth and stability) are crucial to MC development. At meso level, inadequacy of institutional capacities such as managerial and financial worthiness, quality of human resource, lack of coordination among the MCIs, entrepreneurial skills, and the issue of sustainability (mainly financial) are the main constraints. Problems related to the creditworthiness and credit discipline of the clients are the micro level challenges.

Amongst the various constraints hindering the development of MC industry is the government interference. The NBE Directive No. 18/2006 indicates that the government apparently does not permit MCIs to operate freely. Concessional loans, loan forgiveness and political handouts, mandates and government directed programs plays direct and indirect adverse role in MC service delivery (Alehegn 2007).

In Ethiopia, the government, local NGOs, non profit civic organizations, associations, and private individuals can be the shareholders MCIs. Although they are subsidized and operating in the name of helping the poor and alleviating poverty, MCIs owned by the government, are misused and carried out for reasons that best serve the political interest. Much credit is diverted to the politically powerful and favoured, away from the poor people and used as a tool to establish strong clientelism and patronage networks that help the government win elections and enhance its political missions.

Impact studies on MCIs in Ethiopia

MCIs are generally evaluated by the impact they have brought about in terms of reducing poverty and raising the income of the target groups-the well-being of the poor. There have been limited studies which assessed the impact of MC activities on poverty alleviation in Ethiopia from which some are mentioned in the following few paragraphs.

On the basis of a study on DECSI (one of MCIs in Tigray region), Borchgrevink et al. (2005) concluded that although the program was able to improve living conditions of the households who spent the loan on the intended activities and did not spend it on consumption to some extent; the youth in the age of 18-30 years, female-headed households, the landless, and the extremely poor were marginalized (P. 58). Moreover, considerable number of credit – financed ventures fails with a possible effect on indebtedness and asset depletion of clients. In addition, a high level of school dropout rates of clients' children was registered.

On the other hand, the finding by Asmelash (2003) from the study conducted in Tigray region reveals that the credit provided to the poor has brought a positive impact on the life of the clients as compared to those who do not get access to these MC services. He showed that MC has brought a positive impact on income, asset building and access to schools and medical facilities in the study area.

The research conducted by Padma and Getachew (2005) on women clients of Omo and Sidama MCIs in Awassa town of SNNPRS shows that some clients were able to send their children to private schools and build assets. However, lack of entrepreneurial skills and low returns in business and marketing were indicated as major obstacles.

Similarly, the study on SFPI and PEACE conducted by Haileselasie (2005), indicates that both MCIs have achieved a good balance in terms of reaching the poor and women, repayment performance, and increment in savings.

Based on the study conducted on Amhara Credit and Saving Institution (ACSI), Getaneh (2005) found out that it has brought a very little impact in poverty reduction and enterprise development. The outreach performance is also minimal.

3.2 Some details on the cases: AdCSI and AVFS

In this section some details about AdCSI and AVFS are presented and analysed based on the secondary data collected from different sources and the institutions themselves.

Addis Credit and Savings Institution

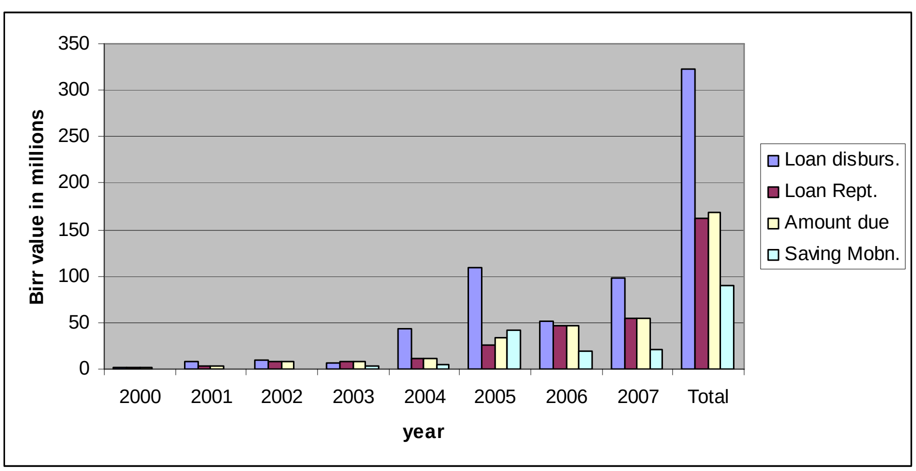
Addis credit and saving institution (AdCSI) is one of the major MCIs of the country operating in Addis Ababa. Since its establishment in 2000, it has attracted a number of clients. It has branches in all the ten sub-cities of Addis Ababa. Each sub-city is again equipped with *Kebele*[6] branches.

The vision and mission of AdCSI is to be an exemplary MCI in Ethiopia and Africa as well by creating a sustainable financial base and making contribution to poverty reduction and employment creation. The major objectives of the institution includes: provision of sustainable and reasonable loan service, making the low income segment of the community beneficiary of the service, develop the saving culture of the community, and encourage the community to develop self-confidence with particular attention to women.

Addis Ababa City Government is the major owner of the company and provides many supports to realize its vision and mission. AdCSI is highly subsidized and gets financial sources (97%) from Addis Ababa City Gvernment (Alehegn 2007). As per the commercial code of Ethiopia, next to the general assembly of share holders, the highest and the decisive governing body of AdCSI is the Board of Directors (BoDs).

Since its establishment AdCSI has provided loans at an increasing rate. Figure 2 shows the loan disbursed, loan repaid, loan outstanding, and savings.

Figure 2
Loan disbursed, loan repaid, amount of due, and savings (AdCSI)



Source: AdCSI (2007), own computation

The amount of loan disbursed, repaid and saving is relatively high from the year 2005 to 2007, while all other years have found to be rather minimal. In the year 2004 and 2005, the total disbursed loan was around 44 million Birr and 109.5 million Birr respectively, yet the repayment and saving amount was very small. Similarly, the figure further reveals that the total loan disbursement of AdCSI has increased from 1.799 million Birr (in the first year of service provision) to more than 97.8 million Birr in the year 2007. The loan given has shown a rapid growth in the last three years. In general, AdCSI has provided more than Birr 322.7 million to clients so far.

The gap between the loan disbursed and repaid is due to the repayment period which varies from 6 months to 24 months based on the loan type.

The number of clients increased from 1521 in the year 2000 to 18,294 in the year 2007. Currently the institution has 96,390 total numbers of clients (see Annex 1).

The amount of loan repayment also grew from time to time though it can not be a sole indicator of good performance. Of course whether there is change in the life of the poor or not should be measured using various indicators such as the level of income. As indicated in Figure 2, the difference between amount due and repaid loan is insignificant in almost all years except 2005 which may indicate that the institution has performed well in terms of repayment rate (see annex 1). This is mainly because the institution serves the non-poor simply considering their repayment ability.

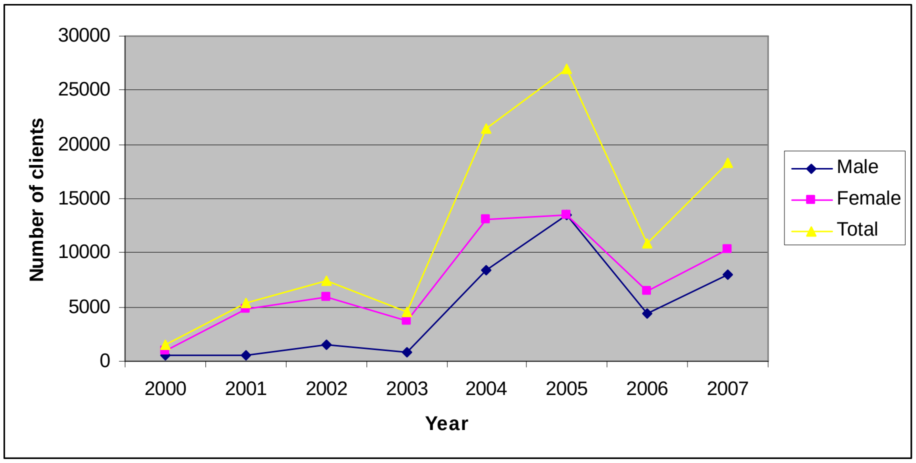
In 2005, the amount of loan repaid is lesser than the amount due because the number of female clients (who believed to demonstrate higher repayment rates, Ledgerwood 1999: 38) reduced to the level equal to the number of male clients in that particular year.

The total amount of saving also shows an increasing trend. It grew from less than a million in the year 2000 to more than Birr 20.5 million in the year 2007. Similarly, the interest income grew from less than a million in the year 2000 to more than Birr 9.8 million in the year 2007. The institution has collected a total amount of around Birr 30 million so far.

Although the institution started its function eight years ago, its growth rate was slow particularly for the first four years. In general, however, it has shown a good progress in terms of loan disbursement, repayment, and saving since 2004.

The institution provides loans for both men and women clients. Figure 3 shows the number of male and female clients received loan from the institution from the year 2000 – 2007.

Figure 3
Number of clients in terms of sex (AdCSI)



Source: AdCSI (2007), Own computation

As shown in Figure 3, the number of women clients is higher than that of male clients except in the year 2005 where the number of female clients is almost equal to male clients. This is because in that particular year the institution introduced activities like metal and wood work (Alehegn 2007) which is uncommon to invite women clients in Ethiopian context.

Generally, the institution has given more coverage for women clients. However, the question of whether men benefit more than women from the outcome of the program is to be seen soon in this paper.

Africa Village Financial Service

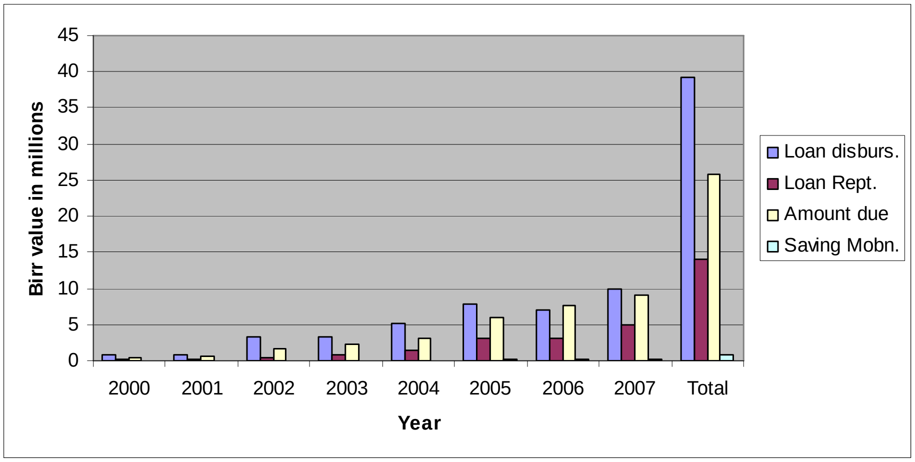
Africa Village Financial Services Share Company (AVFS) started with 6 shareholders. It is registered and started operation in 1998 with five board members.

The vision of AVFS as a MCI is to provide a variety of accessible, reliable, efficient financial services to MSE operators to increase their income. Moreover, AVFS has a mission of providing professional, sustainable and profitable financial services to MSEs to increase their profitability and to create employment opportunities with special focus on women's enterprise. The overall goal of AVFS is to effectively address the poverty in the country in a constructive manner. Its objective is to support the development of money and capital markets, in particular for providing financial services to MSEs.

AVFS is governed by the BoDs from different backgrounds which is assigned by the General Assembly and contains five members. They meet every two-month to receive updated activity reports and to closely continue guiding the organization.

The loan provided by AVFS is shown in Figure 4. The figure shows the loan given, loan repaid, amount due, and savings from the year 2000-2007.

Figure 4
Loan disbursed, loan repaid, amount of due, and savings (AVFS)



Source: AVFS (2007), Own computation

In terms of loan disbursement, repayment, and savings the institution has an increasing trend since its establishment. Figure 4 shows that the amount of loan disbursed is increased from Birr 784,753 in the year 2000 to around Birr 10 million in the year 2007. However, in all years the loan disbursed is less than 10 million. In general, AVFS has disbursed around Birr 39 million loans to clients since establishment. The loan disbursed in all years is higher compared to loan due and loan repayment because of the fact that the disbursed loan in a given year is not necessarily expected to be repaid within the same year as the repayment period of AVFS varies from 6 months to 24 months depending on the loan type. It also related to the high number of defaulters as a result of a relatively high interest rate.

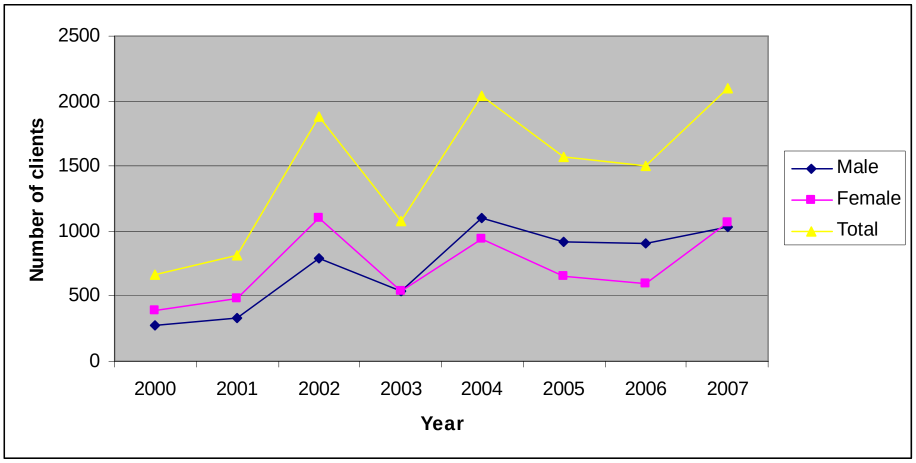
The figure of loan repayment also shows an increasing trend. However, there is a very big difference between the outstanding loan and amount of repayment in all years. This difference may be attributed to the fact that the number of women clients is less than men clients. It is generally accepted that the more the number of female clients than men the greater expected rate of repayment.

Improvement in saving was also insignificant which can not be sufficient to cover different costs and loans.

Though the institution has started operation in 1999, its performance and growth rate is low in general and the least in the first five years specifically.

The number of clients has increased from 783 in the year 2000 to 10,247 in the year 2007. The institution provides credit services to both men and women clients. Figure 5 shows the number of clients in terms of sex.

Figure 5
Number of clients in terms of sex (AVFS)



Source: AVFS (2007), Own computation

In the first three years, since establishment, the institution attempted to reach more women clients in terms of coverage. As shown in Figure 5, in the first three years the number of female clients was greater than that of male clients. In the rest of the years, however, except in the year 2003 and 2007 where the number of male and female clients is almost equal, the number of male clients is more than that of female clients. This is because women are poorer than men and obviously reaching such kinds of clients is more costly. For MCIs like AVFS which lacks an essential ingredient – subsidy, it is likely to be challenging to reach more women clients than men.

3.3 Conclusion

With the consideration that they have contribution to poverty reduction; and protecting the poor from exploitation of local money lenders (i.e. interest rate of 5-15% per month/ 60-180% per annum), MCIs in Ethiopia has been given recognition from the government through proclamation No. 40/1996. Most MCIs in Ethiopia use a solidarity group as well as individual lending. Saving mobilizations are rather weak and hence nearly half of the loans have to be funded from other sources. Although Ethiopian MCIs are not yet reached financial sustainability, some have achieved operational sustainability. The results of few and limited impact studies show that MCIs have some positive impacts in poverty reduction.

With respect to AdCSI and AVFS, in terms of the total population and number of poor in Addis Ababa that they managed to address, one could argue that they still need to go further. Although whether the poor are reached and benefit from the outcome of the program is something to be seen else where in this paper, the coverage made by AdCSI in terms of loan disbursement, amount due, loan repayment and repayment rate, savings, number of clients, and number of branches (see annex 5) so far within a relatively short period of time since its establishment is impressive compared to AVFS. Moreover, it has also performed well in terms of accessing more female clients; yet, the question of whether men benefit more than women clients from the outcome of the program is examined else where.

Chapter 4
Targeting the Poor

4.1 Introduction

This chapter generally deals with the issue of targeting the poor. The purpose of the chapter in particular is to discuss how ACSI and AVFS design their programs, what modalities they employ and how they are targeting their beneficiaries in terms of selection criteria and requirements.

MCIs need to determine where there is unmet demand for MC services and which target groups match their objectives and deserve their services most (Ledgerwood 1999: 34). Experience shows that unless there is an appropriate targeting tool, the poorest will either be missed or they will tend to exclude themselves.

The majority of poverty-focused MC programs incorporate client selection criteria which attempt to limit participation of non-target groups. This method relies upon field workers to screen prospective members, usually applying objectively measurable eligibility criteria such as income level, asset values and housing conditions (Hickson 1996).

Most programs fail, however, to maintain a focus on the poor. Targeting failure occurs when non-target groups are included and when appropriate target groups who deserve the credit service are excluded.

4.2 How does AdCSI target its beneficiaries?

The major objective of AdCSI as one of MCIs is making the low income segment of the community (with especial attention to women and making unemployed and new business start ups its ultimate target clients) beneficiary of reasonable loan and saving service. The loan product/services, lending methodology, target groups, and selection criteria applied by AdCSI to achieve this objective are discussed here below.

Loan product/service design

The service provided by AdCSI include loan, saving, consultancy, and managing third party money. The loan service is given for different activities such as weaving and tailoring, metal and woodworks, food processing, hairdressing, production of construction materials, small trade activities, construction, leather works, urban agriculture, etc. The amount of loan varies depending on the period of repayment-short term, medium term, and long term. Clients shall be residents in Addis Ababa and must be 18 or more years old.

There are different types of loan products/service. These are (a) micro-business loan sometimes called general loan which has a nature of instalment repayment and disbursed for high turn over activities; (b) a small business loan which is disbursed for technical and vocational school graduate students who want to inter in to productive venture and the size of the loan is usually greater than Birr 5000 to 50,000 for each entrepreneur; (c)micro lease loan in which clients choose the machines for their operations and AdCSI purchases these machines and hand it over to them. The operators assume ownership after completion of payment. This type of loan is rendered mostly to people who are organized into cooperatives; and (d) housing loan product which aims to enable clients to construct a new house or complete a construction in progress. The maximum loan size is Birr 50,000 with loan term of 60 months and payable monthly; (e) consumer loan product which targets government and related employees that have fixed monthly salary; the loan is guaranteed by employers and deducted from payroll on monthly basis. The loan size depends on the borrower's salary and loan term is up to 24 months; and (f) short term loan which is repayable with in a maximum of six months. It targets clients that face very urgent financial problem or working capital shortage to do some urgent businesses.

The saving service rendered by the AdCSI includes two major types: voluntary and compulsory. The first one is saving made by clients and non-clients while the second one is for clients only who are required to save until the loan repayment is successfully completed. The amount of interest rate for saving ranges from 4 to 5% based on the type of saving. The institution charges an interest rate on loan which ranges from 10% to 15% and additional 3% service charge.

Lending modalities

Since its establishment, AdCSI has been using solidarity group lending model which relies on group collateral. Though such approach is an advantageous because of the group collateral, Borchgreving et al (2005) and others pointed out that group formation is one of the factors that contributed to the marginalization of the youth, the landless, the women and generally the poor. The fact that the youth and the landless are mobile would mean that they would be regarded as high risk by those with land, family and settled life.

The group lending used by AdCSI for delivery of loans itself, has become a barrier and source of marginalization of the poor, and has left them at the mercy of the moneylenders. It turns against the MCIs main objectives because group members and the community level Credit and Saving Committee tend to exclude and screen out individuals with limited asset and perceived to be of high risk, but able to generate income. This leads to the perpetuation of marginalization of the poor and the practice born out is that properties including land are serving as implicit collateral although groups were meant to replace property collateralization as a condition for loan granting. An important group of people-the poor would therefore be outside the service of AdCSI.

AdCSI also employs individual lending model which depends on personal guarantee and/or collateral basis. The collateral includes property guarantee which involves land, house, vehicles, machineries, regular job salary, and …etc. It has this strong instrument of collateral with too strict requirements which is obviously difficult for the poor particularly women clients because they are usually unable to meet the requirements. Such practice certainly leads to screening out the poor as they do not have capacity to meet the collateral requirements.

Moreover, AdCSI employs a frequent/regular repayment model. This is seen by AdCSI to act as an added mechanism to secure repayment and it is scheduled on a weekly basis which begins soon after loan receipt. As most MC organizations collect repayments before investments bear fruit, they are in fact lending against the poor borrower's steady income stream and, hence, securing part of the loan repayment even if projects fail (Nissanke 2002: 5). Such a mechanism obviously works against the poor and favour the non-poor as the poor, especially women, can not pay the loan before they properly start their businesses. In such cases, if the poor have to benefit from the credit, a grace period is needed to be given to let the poor properly start their business without frustration and proceed confidently. Otherwise the non-poor will continue to be the favoured beneficiary of the credit program while the poor remain marginalized.

Target groups

Basically unemployed and new business start ups are the ultimate target clients of the institution. With the mentioned lending models AdCSI targets to reach MSE operators and potential operators. These include unemployed youth and women, legally registered co-operatives, local CBOs, and new business start ups such as fresh graduates of high school, college, or even universities. Such borrowers shall be recruited or selected by the Credit and Savings Committee of their respective Local Administration (*Kebele*).

AdCSI reaches its target groups through the 10 branch offices established at sub-city level and Service Delivery Posts established in *Kebeles'*. Added to this, there are Credit and Saving Committees to select clients.

Selection criteria and requirements

The requirement to access the loan includes: letter of approval from *Kebeles'* which shows that they are residents in Addis Ababa, certification letter for cooperatives and CBOs from the Trade and Industry Bureau of Addis Ababa City Government, license and registration for joint ventures, the activity should be implemented in Addis Ababa City only, loan taken from the institution or similar institutions should be settled before hand, and preparation and submission of business plan/proposal. Moreover, comments and decisions by the Credit and Saving Committee at *Kebele* Administration level is one of the major requirements.

Letter of approval from *Kebelles*' is one of the major requirements needed by AdCSI to ensure that the poor (applicants) are residents in Addis Ababa. This requirement creates a space for marginalization of the poor through different malpractices in the process of offering this evidence. For the poor people to get this evidence, it takes a long way for different reasons. The poor in Addis Ababa live either dependently in some ways or in rented substandard rooms. The *Kebele* needs the address where the applicant stays in order to give this letter. In this case the owner of the house with whom the applicant lives is required to sign proofing that the person is living with him/her either as a dependent individual or as a renter/paying guest depending on the situation. However, the owners of the house are usually unwilling to sign for the poor living with them not only because they do not want to add external person as a member of the family but also with the intention to conceal that they rent a substandard rooms. Second, in case when the owner of the house gives his/her confirmation, the procedure in the *Kebele* it self takes a couple of months to deliver the evidence to the poor while the better off and politically influential people can get the evidence from *Kebele* within a maximum of one day either using the power of money or political power and informal networks.

The issue of obtaining certification letter as a cooperative, and license as a joint venture from the Trade and Industry Bureau of Addis Ababa City Government are also very complicated task which is far beyond the access and capacity of the poor in the context of Ethiopian rigid bureaucratic system. In a situation where the poor people have no sufficient awareness and exposure about the bureaucratic system and where favouritism and patronage networks work more dominantly, and where the service delivery system works rather inefficiently, it is very unlikely that the poor people can get easy access to obtain the required certification letter and license. Hence, it takes several months, if at all possible, for the poor people to get there.

AdCSI also requires the clients to submit business plan/proposal in order to approve the credit for the clients. This is a bit complicated for poor people who are uneducated and mostly lack the required skill to prepare business proposal and obviously such practice discourages the poor from applying for the loan. Moreover, AdCSI mainly works in line with guaranteeing repayment of the loan and hence gives emphasis to the better off. The *Kebele* level Service Delivery Posts and community level Credit and Saving Committee tend to ignore/discriminate the poor simply by taking the issue of guaranteeing loan repayment in to account and this practice obviously leads to the perpetuation of marginalization of the poor.

Exclusion of the appropriate target groups from accessing MC services may result from a simple failure to identify them but very often it is also the result of deliberate efforts to impede the poor.

As largely owned by the Addis Ababa City Government, AdCSI uses the existing bureaucratic structure and works with officials at different hierarchies of the City Government (especially *Kebele* Administration) for activities like selection of clients. The fact that the comments and decisions of the Credit and Saving Committee of the *Kebele* Administration is needed as one of the major criteria for selection witnesses that the body of the City Government particularly *Kebele* Administration has a big say in deciding who should be the recipients of the credit.

This creates a kind of plat form for the government to intervene in credit service of the institution indirectly in order to use it for a political game. People who are politically powerful, influential and better off are usually selected to get access to credit services. This situation may create and exacerbate, as argued by Gibbons and Meehan (2002), the patronage system and biasness which makes the distribution of credit based on better connections and in favour of the better off and politically active and powerful people. The City Government uses this mechanism to handle and benefit influential and better off people who are highly acceptable and dominant within and among the society. By doing so, it establishes a strong patron – client relationship that serves as a network and plays a vital role to run political missions and activities especially during the election. In that sense the institution is politicised and indirectly used as a political instrument.

4.3 How does AVFS target its beneficiaries?

The objective of AVFS is providing credit and creating a sustainable financial base and employment opportunity for the poor or the low income groups and thereby reducing poverty. Giving priority to women, as they are the most vulnerable groups to poverty, is also one of the major elements of the objective of the institution. In order to reach its target groups and achieve these objectives, AVFS has employed different loan products/service, lending modalities, and selection criteria which are discussed below.

Loan product/service design

The services provided by AVFS include saving and credit. It provides three types of loan products to meet the various needs of clients.

The first is productive loan which may be used by the groups, cooperatives, associations or individuals. Productive loan includes such sectors as manufacturing (i.e. metal and wood works), processing (i.e. foods and drinks), textile (i.e. spinning, weaving, and dress making), retailing (i.e. kiosk and shops), transport (i.e. donkey/horse drawn cart and three wheel motors), service (small restaurants and hair saloons), and construction (rooms and barns).

The second type of loan called consumption loan is a loan provided for purposes like buying food supply, school uniform and fee payments, buying furniture, medicine … etc.

The equipment leasing loan is the third type which may be used by individuals, groups, associations, and cooperatives who want to acquire equipment or machinery to start their businesses. The equipment is purchased in the name of AVFS, and when the borrower makes his/her full payment, the ownership of the equipment is passed on. These equipments/machines may include building materials input making machines, water pump, bee hive, milk churner, baking oven, sewing machine…etc.

AVFS has four types of savings i.e. compulsory savings, voluntary savings, non-client saving, and loan insurance fund (LIF). Voluntary saving is payable during collects and may be withdrawn only at the time clients leave the program after making all payments while LIF is payable before the loan is disbursed. It is kept with AVFS till the time the clients have made full payment and withdrew from the program. Savings earn interest rate of 4% to 5% per annum based on the type of saving. The institution charges an interest rate 16% on loan and additional 3-4% service charge.

Lending modalities

AVFS basically uses solidarity group lending model. This solidarity group model requires that services are delivered to participants after they form a group and are willing to guarantee each other's loans. It provides loan to groups which are called *Budin* with 5-7 individuals who have mutual respect and trust. In order to give loans to *Budin* it always works with local CBO called *Iddir* from which the *Budin* is formed. The *Iddir* acts as an umbrella organization for the solidarity groups and assign social pressure to rehabilitate/correct members when there is deviation.

However, when the clients in the group reach 4th cycle of loans and are credit worthy the institution starts to provide individual loan on personal guarantee and/or collateral basis. In other words, in order to get individual loan, one should not only organized but also stay as a group till the 4th cycle. This approach is a good mechanism to include the poor and exclude the better – off/the non-poor from the program. The non-poor are not attracted with this kind of approach because they go for large individual loan based on personal guarantee/collateral right from the beginning.

AVFS applies progressive lending or successive higher credit as an added mechanism which refers to the system by which borrowers obtain increasingly larger loans if repayment is made promptly. This feature serves as an incentive for the clients to repay the loan on time.

Moreover, the institution also provides business and entrepreneurial skill development and other trainings in collaboration with Centre for Enterprise and Entrepreneurship Development (CEED) to help clients know how to manage and use the loan for the intended purposes. This indicates that the institution applies the credit – plus/integrated lending which is a comprehensive approach in which loans are combined with training, education, and other social mobilizations so as to maximise the income and opportunities.

Target groups

The target groups of AVFS are low income community members who do not have access to financial services to start their enterprises. This target groups are classified in to two categories: group, cooperatives, and association as one category; and individual clients as another. The group, cooperative, and association category of clients is provided loans based on group collateral. Individual target groups are the people who able to fulfil the collateral and guarantor requirements and can graduate to take individual loans.

AVFS reaches these target groups mainly through *Iddir* and *Kebele* to some extent. However, as privately owned MCI; AVFS is unlikely to acquire the required support from *Kebele* Administrative. This is because instead of providing the required support, the *Kebele* Administrative tries to interfere in the operation of the institution in order to misuse it for different purposes other than the objective of the institution.

Selection criteria and requirements

The criterion that potential clients expected to meet is that they must belong to the *Iddir*. *Iddir* usually constitutes a large number of people joined together on voluntarily basis for different social purposes. AVFS provides loan to the groups formed out of this *Iddirs* by the members. *Iddir* generally plays a supervisory role towards their members and is responsible for taking care of smooth functioning of the whole system. In most cases *Iddirs* are established by the people with common goals, have established leadership, undertake specific activities, and are sustainable over the long-term. These features make it effective instrument in reaching and selecting clients and maintaining a smooth operational system.

A person to be selected as a member of the group should bring a valid *Iddir* membership card that can, of course, easily obtained from their respective *Iddir* without many ups and downs. The potential borrowers then required to submit a simple loan application format prepared by the institution. The format has to be filled by applicants with the assistance of the institution's loan officers and then signed by the client and the spouse in order to receive the loan.

Getting the approval and signature of the spouse on the loan agreement form is considered as one of the essential criteria for clients to get the loan from AVFS. This may of course exacerbates the possibility that loans borrowed by women clients spend by their husbands unnecessarily. It is common that some irresponsible persons particularly young husbands, uses the credit obtained by their women for drinking alcohols, chewing *Chat*[7], and smoking purposes.

Agreement of the clients to the regular monitoring of his/her business by loan officer and group/*Budin* members in order to follow up the loan use is also one of the requirements. This follow up is mainly to the benefit of the clients because it helps them to get important guidance, comments, and feedbacks to improve their performances and utilization of the loan.

4.4 Conclusion

The issue of targeting is an important ingredient of MCIs. Even a well designed MC program is unlikely to have a positive impact on the poor unless it specifically seeks to reach them through appropriate targeting. Experiences shows that unless there is an appropriate targeting, the poor will either be missed or they will tend to exclude themselves because they do not see the programs as being for them.

Both institutions aim at making the low income segment of the society beneficiary from the credit program. The lending modalities as well as selection criteria applied by AdCSI are not only targeted to the non-poor but also misused for another mission other than the credit program. On the other hand, AVFS applies the modalities and selection criteria that seem more viable and easier for poor people to get access to the credit services.

Chapter 5
An Analysis and Discussion of the Results from Primary Data

In this chapter the presentation and analysis of results are undertaken based on the primary date collected from the clients of AdCSI and AVFS.

5.1 Demographic characteristics of the respondents

As regarding to the demographic characteristics of the respondents of AdCSI, 48% of the respondents are female and the family size of the majority is more than 5 members. In addition, the large proportion falls in the age range of 30-40 and above. Majority of the respondents have attended above primary school level and almost 90% are married.

On the other hand, 48% of AVFS's respondents are female and majority of the respondents are in the age range of 18-30. In addition, 80% of the respondents are single and the family size of the majority is more than 5 members. The significant proportion has attended their education only up to primary school level.

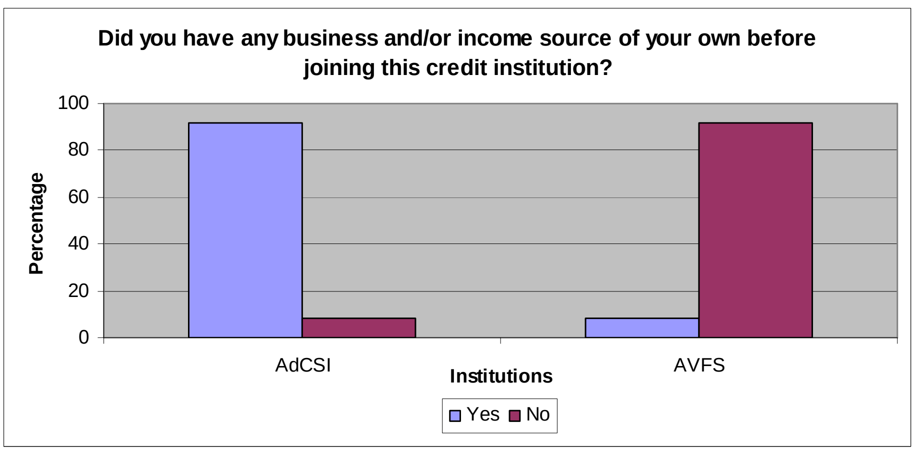
The characteristics of the respondents of both institutions are different except in terms of family size and gender. AdCSI's respondents are characterised by relatively better educated and more elders while AVFS respondents are relatively younger and less educated. Both are similar in terms of family size because they are living with extended family.

5.2 Previous business background and income sources of the respondents

The respondents of both institutions were asked if they had their own sources of income or any business activities that helped them generate income and create employment opportunity before joining the credit program. As shown in Figure 6, only 8% of the respondents of AVFS had their own business and income sources previously. On the other hand, 92% of the respondents of AdCSI had their own business from which they generate income and creating employment opportunity before joining the credit program. This may be a good indicator that AdCSI is mainly targeting to the better off and non- poor segment of the society in its credit service provision. For instance, AdCSI provides what it calls "consumer loan product" which is based on employer guarantee and/or asset collateral. This is a service provided to monthly paid employees of different organizations. Their employers get involved by providing written comments to AdCSI that they will deduct from the monthly salary of the employee and submit the required monthly payment to AdCSI. According to the telephone interview made with the officer of AdCSI, this is working out very well as the repayment is guaranteed and the cost per credit is less.

However, more focus to the well to do segments simply by taking in to account that they will be able to pay the loan back may lead to implicit exclusion of the poor. In contrast to the various positive impact and strengths of MC, some researchers have found the problems and negative impacts produced by the implementation of MC programs. As argued by Morduch (1998), Copestake et al. (2001), and Dugger (2004), MC programs benefit the moderately poor more than the very poor or destitute, and thus impact can vary by income group (better off benefit more from MC). This found to be true from the primary data collected for this research as the data clearly signifies and supports it. One of the respondents from AdCSI for example mentioned that he is working for government and earning a monthly salary of Birr 1145. This reveals that AdCSI is serving more of the better-off and non-poor who are living far above the local poverty line which is, according to MoFED, 0.45 dollar a day (equals to 3 Ethiopian Birr). If the credit service is meant to serve the poor, it should be delivered to those people living along the mentioned local poverty line.

Figure 6
Previous business ownership and income source of the respondents



Source: Survey data (2008)

Both institutions have set in their objective that they contribute to poverty alleviation by giving credit and create a sustainable financial base and employment opportunity for the poor or the low income groups. Choudhri (2002) found that the main issues […] confronting almost all MC programs aim at poverty alleviation in varying degrees, are identification of the poor […] nature and causes of poverty, identification of appropriate income generating activities, and appropriate institutional support mechanism. Although the clients business background and experience is important for proper utilization of the credit and of course for guaranteeing repayment, more focus to the better off and well to do segments who have their own business but in need of more money to further expand their business may lead to implicitly neglecting the poor who can work but unable to start their own business because of financial constraints.

5.3 Improvements in clients' income, savings, employment opportunities, housing conditions, and basic social services

The major objective of MC is to create income among poor households and thereby alleviate poverty. The increase or decrease in the level of income may have an implication on the life standard of the individuals. An increase in income, for instance, can pave the opportunity to open business, employment, entrepreneurship, access to health services, education, and house ownership.

In her Asset Vulnerability Framework (AVF), Moser emphasised that the development of human capital – one of the element of her framework, is closely linked to the economic and social infrastructure provision. Social services such as education, according to her, ensure that people gained skills and knowledge, while economic infrastructure such as water, transport, and electricity – together with health care – ensure that they used their skills and knowledge productively (Moser 1998: 31). There is now a growing evidence that social capital can have significant impact on development processes and outcome, in helping build human capital (Colman 1990), and contributing to household welfare (Narayan and Pritchett 1997). In this regard, both institutions contributed to the formation of social capital because they encourage, work with, and approach borrower groups and individuals through different CBOs.

Critical to the issue of MC services is also its employment creation among the poor society where many can use their "labour – commonly identified as the most important asset of the poor" (Moser 1998: 25) to generate income. It has been noted that in many countries of the world, MC programs, provides access to small amount of start up capital for entrepreneurial projects which will then presumably help individual to create employment opportunities.

Apart from serving people as shelter, a house is the most valuable asset people should have. In urban area when the house is improved, its value boosts and can be used for rental or enterprise purposes for generating income and thereby increases an individual and household's material wealth. In line with this, Moser found housing ownership as the most important productive asset of the urban poor that cushions households against severe poverty (Ibid: 32).

The following table clearly shows that there is a clear difference between the two programs and their clients. Improvement for AdCSI participants is remarkable. As shown in Table 1, the income has increased for almost all of them and that led to improvement in the overall quality of living as indicated by improved access to education, health care, housing, employment opportunities, clothing, and nutritional foods. Similarly, in terms of their ability to afford different expenses like clothing, nutritional foods, and basic social services; compared to before, they indicated that they have gained more ability to afford after joining the credit program.

This is basically because as clearly shown in Figure 6, AdCSI is providing credit to non-poor or the better off people who are doing paid jobs, have their own business, and have additional source of income even before joining the credit program.

Table 1
Improvement in economic and social factors of clients and benefit by gender

	AdCSI					AVFS				
	M	%	F	%	Total in %	M	%	F	%	Total in %
Income has increased	13	100	11	92	96	6	46	4	33	40
Savings have increased	13	100	12	100	100	5	39	1	8	24
Access to education has improved	13	100	11	92	96	7	54	5	42	48
Access to healthcare has improved	13	100	11	92	96	7	54	4	33	44
Employment opportunities have improved	13	100	11	92	96	8	62	2	17	40
Housing conditions have improved	12	94	9	75	84	7	54	2	17	36
Ability to afford medical expenses (better after joining the credit program)	13	100	9	75	88	7	54	3	25	40
Ability to afford school expenses (better after joining the credit program)	13	100	10	83	92	7	54	4	33	44
Ability to buy clothing (better after joining the credit program)	13	100	10	83	92	6	46	4	33	40
Ability to pay for varieties of foods (better after joining the credit program)	13	100	10	83	92	6	46	2	17	32

Source: survey data (2008)

Only 40% of the respondents of AVFS indicated that their income has increased. Consequently, the majority of the respondents reported that their overall quality of life is not improved. This clearly shows that the institution is not so successful in improving the living condition of the poor.

In terms of improvement in housing conditions 84% of AdCSI's respondents gave positive response. Among other issues asked to AdCSI participants, this figure is the only one which is relatively less perhaps because the housing issue is a very critical problem in urban areas even for the better off as it is related to the issue of land and different complicated legal aspects.

Although, the responses of AVFS clients to the improvement in income and overall quality of their life is less than 50% in each cases, the discrepancies predominantly in terms of savings and to some extent in terms of improvement in housing conditions, and ability to pay for nutritional foods is high.

The discrepancy in terms of savings is clearly higher than all the other factors. It is revealed in Table 1 that for only 24% of AVFS participants, the programs has improved their savings, but for the majority of the people it has even become worse. This shows that the poor are unable to start savings. They are in trouble to maintain the actual standard of expense and are not in a position to think of starting savings. Moreover, the compulsory saving mechanism used by the institution poses additional burden especially in the already limited capacity of beginner clients.

In addition, the divergence in terms of housing condition is relatively higher compared to others. Only 36% of respondents reported that their housing condition has increased. The fact that housing issue, as indicated by Moser, is always attached to complicated process of formal legal title (Moser 1998), makes it procedurally more difficult for the poor people who have no exposure and knowhow to pass related complex legal and bureaucratic constraints.

Similarly, in terms of ability to buy variety of dietary foods, only 32% of the respondents have reported that they have got better ability after joining the credit program. This may be related to the reality with the existing living situations and increasing prices of food items. As many respondents indicated, the price of almost all food items is increasing from time to time. Respondents mentioned that the price of a kilo of beef which was Birr 20 has tripled and now it is bought for Birr 60. They also mentioned that they never eat such kinds of foods as butter, meat, egg, fish and the like as they do not have money to do so.

The discrepancies mentioned above in AVFS may attribute to the interest rate. As it has no subsidy AVFS charges a relatively high interest rate which seems a bit difficult for clients. One of the respondents said "you do not believe how headache the interest rate is. For instance if you borrow 3000 Birr, you must pay 3480 Birr. 480 Birr is, therefore, interest rate which is an additional burden to the loan taker. In this environment how can the poor are helped to reduce their poverty?" Many respondents indicated that they sold their tools and properties to pay the loan. One lady for instance mentioned that she sold the (gold chain) neck ornament she got when her mother passed away just to pay her loan.

This in general can be a good indication that unsubsidized credits programs hardly contribute to improving the living conditions of the poor people.

Generally, in all cases the situation is always good for AdCIS's respondents and bad for AVFS clients and this makes clear that there is a difference among the two institutions along the line of poor and non-poor. In other words, AdCSI addresses the non-poor while AVFS addresses the poor.

5.4 The benefit of AdCSI and AVFS credit programs by gender

In just three decades a series of breakthroughs has shown that women — especially poor women — are creditworthy and make excellent consumers of financial products.

Today the majority of MC clients worldwide are women. Not only is MC good for women, but it also turns out that women are good for MC. Women are highly motivated savers and repay their loans at a higher rate than men.

In many cases, however, women may be used as a mechanism by husbands to access the benefit of credit and hence the benefit of most credit program does not reach women. As argued by Goetz and Gupta for instance most MC programs target women (due to higher repayment rates), which may result in men requiring wife to get loans for them (Goetz and Gupta 1995). Debts are therefore registered in the women's names, which leaves them vulnerable in case of death, illness or separation

MC is supposed to safeguarding women's equal access to healthcare, employment, housing, and education. Women are typically targeted for MC initiatives around the globe because studies indicate that involving women in the benefit of MC often plays a role in increasing gender equality. As compared to men, providing women more access to financial resources and enabling them benefit from the outcome of MC program helps increase the stability of the family unit (Cheston & Kuhn 2002).

According to Mayoux (2001) Women need to be targeted to benefit from the outcome of MC programs because of their characteristically high levels of poverty and responsibility for maintaining and running the family unit. Cheston and Kuhn (2002) argue that while women typically contribute all of their financial resources to their families, men rarely do so. According to Mayoux (2001), when women are given decision-making power, they generally make decisions that will be optimal for their families. As a result, women will tend to make financial decisions that will promote nutrition, health and literacy within their families, whereas men may allocate some of their resources towards activities that are not helpful (and sometimes harmful) to the family. Given the consideration that women are poorer than men, they are expected to benefit more than men from MC programs. In other words, if MC programs are supposed to contribute to poverty alleviation, women have to benefit more than men from the outcome of the credit programs.

It is revealed in Table 1 that there is no difference between the two institutions in their ability to benefit women because in both cases men benefit more than women from the outcome of the credit programs. But the difference is quit massive in the case of AVFS as indicated in the Table. The reason why such discrepancy is deeper in AVFS than AdCSI is basically attributed to the fact that AVFS lacks subsidy as an essential ingredient. As addressed else where in this paper, subsidy is an important ingredient for MCIs to help the poor (especially women as they usually constitute larger part of the poor) benefit from MC services. Unsubsidized MC programs contribute less in terms of helping the poor benefit from the out come of the credit program.

The Table also reveals the difference between men and women within the respective institution in terms of benefit from the outcome of the program. Compared to men clients, especially in AVFS, considerably smaller percentage of women clients accepted that there is an improvement in their situations in terms of all factors. More importantly, there is a great discrepancy with respect to saving, employment opportunities, housing, ability to afford medical care, and ability to buy varieties of foods.

As regarding to savings, 39% of male and only 8% of female clients of AVFS accepted that their savings have improved. This huge difference between men and women clients occurred because women usually pay high attention to household matters than men and spend the money for maintaining and running the family unit. Moreover, their money is usually spent by their husbands unnecessarily for non-productive activities.

When paying jobs are available, they usually tend to go to men. Therefore, for poor women to earn money, they often must rely on self-employment which is supposed to be achieved through MC. In these particular cases, however, this did not work out as the difference between men and women respondents in terms of benefiting from employment opportunity is very significant especially in the case of AVFS. Table 1 reveals that employment opportunity has improved only for 17% of female respondents while this remains true for 67% of male respondents. This is highly related to the socio-cultural barriers that limit women to household works only. In that sense, though the loan is taken in their name, women are not the direct beneficiary of self-employment.

House is the most essential asset women should have. As Moser argued housing ownership is the most important productive asset of the urban poor that cushions them against severe poverty (Moser 1998: 32). The data in Table 1 shows that women benefit less than men in terms of housing in both programs though the problem is more severe in the case of AVFS. While 54% of male clients accepted that they gained benefit in terms of housing, only 17% of female clients do benefit in that regard. Despite the fact that women are quite happy to be able to avail the housing loans in their names, the benefit goes to the families, as they do not have the land title. In case of separation of a woman from her family and husband, the house remains with the family and the woman ends up getting nothing.

The discrepancies between men and women in terms of ability to afford medical care expenses and ability to buy varieties of foods are also significant particularly in the case of AVFS. Regarding the ability to afford medical expenses, 54 % of male and only 25% of female respondents agreed that they gained more ability after joining the credit program. Although the health care problem in Addis Ababa City is generally attributed to both men and women, the latter are the primary victims of the problem. They are more often exposed to health problems as a result of pregnancy and lack of nutritional food that may lead to diseases like pneumonia and malaria. This is because, among other things, in case when there is an inadequate food at a time, they usually give priority to their husband and children.

The number of women clients who reported that they have gained better ability of buying and eating dietary foods is 17%, while men are 46%. The load of keeping house, feeding and taking care of children is remained to be the responsibility of women. In addition to taking these responsibilities, the expensiveness of the living conditions and increase in prices of all food items in the recent years poses additional burden on women and constrain them to increase their benefit from MC as compared to men.

5.5 Conclusion

The findings in this chapter clearly show that there is a clear difference between the two programs in that they address two different groups. AdCSI is addressing the non-poor while AVFS is addressing the poor. Improvement for AdCSI participants is remarkable. The income has increased for almost all of them and that led to improvement in the overall quality of living. On the other hand, AVFS was not able to effectively improve the life of the poor.

It is also becomes clear in this chapter that men benefit more than women from the outcome of both programs. There is a difference between men and women within the respective institution in terms of benefiting from the outcome of the program though it is massive in the case of AVFS. From this, one can see that though it is generally difficult for the poor to benefit from the credit programs, the situation is more difficult for women and even the worst for the poor women.

Chapter 6
Conclusion

Poverty has remained to be a daunting challenge to developing countries. It is a problem for all the countries irrespective of their level of development and can be observed in many forms. It has both income and non – income dimensions. It may be a lack of income or resources, a lack of coping capacity, a lack of basic human capabilities, a lack of institutional defences or in extreme cases a lack of all of these. In a wider sense, it may be a combination of economic, social and political deprivations.

To address this problem different strategies have been implemented by developing countries depending on their existing situations. Recently MC has been given due weight as one of the means to fight against poverty. MC Programs extend small loans to poor people aiming at enhancing self – employment projects that generate income to improve the living conditions of the poor and alleviate poverty.

Ethiopia as part of the developing countries has adopted MC programs where many MCIs are delivering the credit services to the poor in order to mitigate the effects of poverty among the poor sections of the society

This study examined the role of MCIs in urban poverty alleviation in Addis Ababa by taking two institutions as a case: AdCSI and AVFS.

It is found that AdCSI and AVFS are fundamentally different programmes, with almost no overlaps in the actual target groups. They both failed to alleviate urban poverty, for very different reasons: AdCSI has effectively excluded the poor, and AVFS has failed to improve the situation of the poor.

6.1 How does AdCSI keep the poor people out?

AdCSI effectively exclude the poor using different ways. First, it has strong instrument – too strict collateral requirements, which enable to screen out the poor and bring the non-poor in. This collateral includes property guarantee which involves land, house, vehicles, machineries, regular job salary …etc. Collateral is obviously difficult for the poor particularly women clients because they are usually unable to meet the requirements. If credit is only to people who have capacity to meet these strict collateral requirements, it is all fine but we can not call it helping the poor out of poverty trap.

Second, the group lending used by AdCSI for delivery of loans itself, has become a barrier and source of marginalization of the poor, and has left them at the mercy of the moneylenders. The group members and the community level credit and saving committee tend to exclude individuals with limited asset. And properties including land are serving as implicit collateral although groups were meant to replace property collateralization as a condition for loan granting.

Third, AdCSI starts collecting repayments before business activities of the borrowers bear fruit to secure part of its loan repayment. This mechanism in fact works against the poor borrowers. The frequent repayment schedule begins soon after loan receipt before the borrowers properly start their businesses and basically does not allow a grace period.

Fourth, AdCSI requires the clients to submit business plan/proposal to approve the credit for the clients which is a bit complicated for poor people who are uneducated and mostly lack the required skill to prepare business proposal. Hence, it is a discouraging criterion that implicitly blocks the poor people from applying for the loan. Moreover, AdCSI mainly works in line with guaranteeing repayment of the loan and hence gives emphasis to the better off. It provides credit to the non-poor people who are doing paid jobs, have their own business, and have additional source of income even before joining the credit program.

Fifth, the institution implicitly decided to stay away from the cost of providing small loans to the poor clients and hence provides credit to the non – poor clients by setting such requirements as certification letter for cooperatives; license and registration for joint ventures which is a more complicated task and far beyond the access and capacity of the poor in the context of Ethiopian rigid bureaucratic system. Moreover, AdCSI requires the poor to bring letter of approval from *Kebele* as a resident of Addis Ababa. This still plays a significant role in keeping the poor away from accessing the credit services. *Kebele* takes a couple of months to deliver the evidence for the poor while the better off and politically influential people can get the evidence from the *Kebele* within a maximum of one day either using the power of money or political power and informal networks.

Finally, as owned by the government, AdCSI is highly politicised. People who are politically powerful, influential, and better off are usually selected to get access to credit services. The government itself uses the institution in order to establish strong patron – client relationship that can serve as a network to run political activities especially during the election. In that sense the institution is indirectly used as a political instrument.

6.2 Why AVFS is unable to effectively improve the life of the poor?

AVFS actually reaches and addresses the poor people in its credit service. This is because the groups to which it provides credit is formed out of the local CBO called *Iddir* which is formed by low income group people with common goals. AVFS basically works with this *Iddir* in order to reach the group. *Iddir* serves as a smooth object both for the institution and the poor because it is familiar with all situations of the poor and plays a role to assign social pressure to rehabilitate/correct members when there is deviation. It also plays a role in handling the problems of exclusion arise through self-selection.

Moreover, the institution has a good mechanism to exclude the non – poor from the credit. The credit is provided based on personal guarantee and/or collateral basis as an individual loan only when the clients in the group reach 4th cycle of loan and are credit worthy and able to fulfil the collateral and guarantee requirements. The non-poor, as they do not want to join the group, are not attracted with this kind of approach because they go for large individual loans based on personal guarantee/collateral right from the beginning.

In addition, the selection criteria and requirements are not so complicated for the poor to pass through and get credit access. The poor also get all the necessary supports required from the officers as well as *Iddir* in the process of fulfilling the requirements.

However, AVFS is unsuccessful in effectively improving the over all life of the poor it serves. One of the main reasons related to this problem is the absence of subsidy.

MCIs need to be subsidized if the poor are supposed to benefit from the credit services. Even when the credit market is functioning perfectly, subsidy may be justifiable on grounds of equity. Plenty of theoretical approaches support that if MCIs are supposed to reach the poor, they have to be heavily subsidized. Even large MCIs need continuous subsidies. The well known MCIs like Grameen are in fact subsidized on a continuing basis. Without this the interest rates would be too high to be viable and the programmes would therefore be unsustainable.

On the basis of the data in this research, it is impossible to say that AVFS is worse in design because with its target group (the poor) the ineffectiveness in performance is not unexpected. This is because its performance is in line with the expectation from theory i.e. AVFS is a non-subsidized credit program and it is clear from theories that unsubsidized credit programs do not work for the poor. Hence, the fact that AVFS lacks subsidy has highly contributed to its failure in changing the life of the poor clients it serves. In some cases of course it gets funds from different organizations but these funds are required to be repaid at around 5% rate.

The problem of high interest rate poses burden in already limited capacity of the clients. As it lacks subsidy, AVFS charges a relatively high interest rate that most clients complain it posing an extra burden.

Getting the approval and signature of the spouse on the loan agreement form is considered as one of the essential criteria for clients to get the loan from AVFS. This may exacerbates the possibility that loans borrowed by women clients spent by their husbands unnecessarily.

Given the consideration that women are poorer than men, to contribute more to poverty alleviation, MC services are supposed to be provided to women. From the analysis and result of the impact of the two programs by gender, however, it is found that both AdCSI and AVFS have benefited men more than women. AdCSI does not benefit women, but if it does, that is only for the non-poor. AVFS, the program for the poor, if it does something positive for the poor, that is only for the men. Therefore, women, specifically poor women, are marginalized from the benefit of the credit programs. This clearly shows that if one is a poor, s/he is unlikely to get the benefit of the credit program; if one is a woman, she is less likely to get the benefit of the credit program; but if one is a poor women then it is really impossible and troublesome for her to get the benefit of the credit program.

Just to revisit the theory slightly, it is important to look at the nature of the two institutions (the cases) in line with some of the theory that has been discussed earlier. As discussed in chapter two, the term MC is an umbrella for at least two very different approaches: One of them is a very simple business approach. A lot of organizations use MC simply as an income source. They give credit to people who bring collateral and who are not poor. They offer regular commercial credit for productive use at bank-like conditions including requirement of business plan, collateral and/or regular employment, and succeed because incompetent and corrupt (often state-owned) banks offer little competition. It has characteristics of attracting even those with a good business. They do make a profit but behave like a good/an approachable bank. In this case indeed we do not have to subsidize credit. The second type is subsidized MC to groups (of women) for consumption and micro-business, using peer pressure and/or successive higher credit as incentives to repay. As plenty of theoretical approaches support, if it is supposed to reach the poor, then this type of MC has to be heavily subsidized.

The nature and performance of the two cases pretty much go with these theories. AdCSI seems to run the former approach disguised as the later; while AVFS runs the latter approach but lacks subsidies as an essential ingredient. This is inline with the finding that AdCSI has effectively excluded the poor and succeeds in giving credit to the non-poor who can prepare business plan and fulfil collateral requirements; and AVFS has reached the poor by providing micro-business through peer pressure and progressive lending, though ineffective in improving their situation because of the absence of subsidy.

References

Addis Ababa City Government ORAAMP (2002) *Assessment of Addis Ababa's Housing Sector. Key Areas of Intervention, Strategies and Policy Measures for a Housing Policy*. Addis Ababa.

Addis Credit and Saving Institution (2007) Reports on Major Activities, (Amharic Version, Unpublished).

Africa Village Financial Service Operational Manual (Amended Version, October 2000).

Ahmed, S. (2002) 'Poverty and Micro-credit: New Realities and Strategies Issues', Bangladesh: Palli Karma-Sahayad Foundation (PKSF).

Alehegn, E. (2007) *Evaluating the Effects of Microfinance Service on Urban Poverty Reduction: The Case of Arada Sub-city*. Paper presented at the conference '5th International Conference Paper', Addis Ababa: Ethiopian Economic Association.

Amha, W. (2000) Review of Microfinance Industry in Ethiopia: Regulatory Framework and Performance, Association of Ethiopian Microfinance Institution. Occasional Paper No. 2. Addis Ababa, August.

_________ (2001) *Development of Microfinance Industry in Ethiopia: Performance, Problems, and Prospects*. Paper presented at the conference 'The 11th Annual Conference of the Ethiopian Economy'. Adama, Ethiopia.

Armendariz, D.A.B. and J. Morduch (2000) 'Microfinance Beyond Group Lending', *Economics of Transition* 8(2): 401-420.

Asmelash, B. (2003) 'The Impact of Microfinance in Ethiopia: the case of DECSI in Ganta Afeshum Woreda of Eastern Tigray'. MA Thesis, AAU, Addis Ababa.

Barnes, C. (2001) 'Microfinance Program Clients and Impact: An Assessment of Zambuko Trust, Zimbabwe'. AIMS Paper. Washington D.C.: Management Systems International.

Bihon, A. K. (2006) Housing for the poor in Addis Ababa, Online resource <http://www.hdm.lth.se/fileadmin/hdm/alumni/papers/sdd2006/sdd2006-12.pdf> accessed on January 30, 2008.

Borchgrevink, A., W. Tassew, A. Gebrehiwot and T. Woldeab (2005) Marginalised Groups, Credit and Empowerment: The case of Dedebit Credit and Saving Institution of Tigray, Occasional Paper No. 14, Addis Ababa, Ethiopia.

Cheston, S. and L. Kuhn (2002) 'Empowering Women Through Microfinance', online resource <http://www.microcreditsummit.org/papers/+5cheston_kuhn.pdf> accessed on January 5, 2008.

Choudhri, Z.A. (2002) 'Action Research Pilot Project Implementation Experiences in Pakistan ', *Afro-Asian Journal of Rural Development* XXXV (2): 27-36.

Christen, R.P. (1997a) *Banking Service for the Poor: Managing for Financial Success*. Somerville, Mass.: ACCION International.

Clerk, D. and S. Dercon (2008) 'Insurance, credit, and safety nets for the poor in a world of risk'. Background paper presented for *World Economic and Social Survey* 2008.

Coleman, J. (1990) *Foundations of Social Theory*. Cambridge: Harvard University Press.

Copestake, J., S. Bhalotra and S. Johnson (2001) 'Assessing the Impact of Microcredit: A Zambian Case Study', *Journal of Development Studies* 37(4): 81-100.

Dube, A. (1999) *Tackling Poverty in the Developing Countries: The Role of Local Governments*. Paper presented at the conference 'The 7th Aula Regional Conference'. International Conference Center, Kampala, Uganda (4-8 October 1999).

Dugger Celia, W. (2004) 'Debate Stirs over Tiny Loans for World's Poorest'. *New York Times.*

Emana, B., K. Gemtessa, D. Lemessa & G. Ayele (2005) Informal Finance in Ethiopia. Association of Ethiopia Microfinance Institutions. Occasional Paper No.13. Addis Ababa, Ethiopia.

Federal Democratic Republic of Ethiopia (2000) Interim Poverty Reduction Strategy Paper 2000/01-2002/03. Addis Ababa.

Gebremedhin, T.A. (2006) The Analysis of Urban Poverty in Ethiopia. The University of Sydney. Online resource <http://editorialexpress.com/cgi-bin/conference/download.cgi?db_name=ACE2004&paper_id=168> accessed on May 16, 2008.

Getaneh, G. (2005) *Microfinance Development: Can Impact on Poverty and Food Insecurity be Improved up on?* Paper presented at the conference 'International Conference on Microfinance Development in Ethiopia', Awassa, Ethiopia.

Gibbons, D. and J. Meehan (2000) *Financing Microfinance for Poverty Reduction*. Paper presented at the plenary session at the Microcredit Summit, November. New York.

Goetz, A.M. and R. S. Gupta (1996) 'Who Takes the Credit? Gender, Power and Control over Loan Use in Rural Credit Programs in Bangladesh', *World Development* 24(1): 45-63.

Greenwell, H., R. Lloyd, and A. Harding (2001) 'An Introduction to Poverty Measurement Issues'. Discussion paper No. 55. National Centre for Social and Economic Modelling, Canberra: University of Canberra.

Gulli, H. (1998) *Microfinance and Poverty: Questioning the Conventional Wisdom* New York: Inter-American Development Bank.

Hailesellasie, T. (2005) *Financial Sustainability of MFIs: A case study of SFPI and PEACE*. Paper presented at the conference 'International Conference on Microfinance Development in Ethiopia', Awassa, Ethiopia.

Haregewoin, Y.M. (2007) *Integrated Housing Development Programs for Urban Poverty Alleviation and Sustainable Urbanization (The Case of Addis Ababa).* Paper presented at the conference 'ENHR International Conference on Sustainable Urban Areas'. Rotterdam (25-28 June 2007).

Hickson, R. (1996) 'Impact Evaluation - TRDEP Microfinance Program', Bangladesh Research and Development Technical Assistance, Manila: ADB.

Holt, S. (1994) 'The Village Bank Methodology: Performance and prospects ', in Otero, M. and E. Rhyne (eds), *The New World of Microenterprise Finance*. USA: Kumarian Press.

Hulme, D. and P. Mosley (1996) *Finance Against Poverty* (Vol. I & II). London: Routledge.

Johnson, S. and B. Rogaly (1997) *Microfinance and Poverty Reduction*. Oxford: Oxfam Publishing.

Kah, J.M.L., D.L. Olds and M.M. O.Kah (2005) 'Microcredit, Social Capital, and Politics ', *Journal of Microfinance* 7(1): 121-151.

Kereta, B.B. (2007) *Outreach and Financial Performance Analysis of Microfinance Institutions in Ethiopia*. Paper presented at the conference 'African Economic Conference'. United Nations Conference Center (UNCC), Addis Ababa, Ethiopia (15-17 November 2007).

Khandker, M. (1998) *Socio-economic and psychological dynamics of empowerment of Grameen Bank and BRAC borrowers*. Paper presented at the conference 'Recent research on microfinance: Implications for policy', Brighton: University of Sussex.

Khandker, S.R. (2005) 'Microfinance and Poverty: Evidence Using Panel Data from Bangladesh', *The World Bank Economic Review* 19(2): 263-286.

Kritikos, A.S. (1999) 'Micro-credits with incentive guided solidarity action', *Kredit and Kapital* 32: 393–425.

Ledgerwood, J. (1999) *Microfinance Handbook: An Institutional and Financial Perspective* Washington, D.C.: The World Bank.

Licensing and Supervision of Micro Financing Institutions Proclamation No. 40/1996, 30 C.F.R. (1996).

Mallick, R. (2002) 'Implementing and evaluating microcredit in Bangladesh ', *Development in Practice* 12(2): 153-163.

Mayoux, L. (2000) 'Microfinance and Women's Empowerment: Rethinking 'best practice", *Development Bulletin*, No. 57, 76-81.

McKee, K. (1989) 'Micro-level Strategies for Supporting Livelihoods, Employment and Income Generation of Poor Women in the Third World: The Challenge of Significance. '*World Development* 17(7): 993-1006.

Ministry of Finance and Economic Development (2005) *Ethiopia: Building on Progress: A Plan for Accelerated and Sustained Development to End Poverty (PASDEP)* (2005/6-2009/10). Addis Ababa.

Ministry of Work and Urban Development (2006) *Urban Development & Construction Industry Component of PASDEP*. Addis Ababa.

Mohamed, K. (2003) 'Access to Formal and Quasi-Formal Credit by Smallholder Farmers and Artisanal Fishermen: A Case of Zanzibar' (No. 03.6): Research on Poverty Alleviation (REPOA).

Morduch, J. (1998) 'Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh' MacArthur Network, Princeton University.

Morduch, J. (1999a) 'The role of subsidies in microfinance: evidence from the Grameen Bank', *Journal of Development Economics* 60(April 1999): 229-248.

Morduch, J. (1999b) 'The Microfinance Promise', *Journal of Economic Literature* XXXVII (December 1999): 1569-1614.

Morris, G. and C. Barnes (2005) 'An Assessment of the Impact of Microfinance ', *Journal of Microfinance* 7(1): 40-54.

Moser, C.N. (1998) 'The Asset Vulnerability Framework: Reassessing Urban Poverty Reduction Strategies', *World Development* 26(1): 1-19.

Mosley, P. and D. Hulme (1998) 'Microenterprise Finance: Is There a Conflict Between Growth and Poverty Alleviation?' *World Development* 26(5): 783-790.

Narayan, D. and L. Pritchett (1997) 'Cents and Sociability: Household Income and Social Capital in Rural Tanzania.' Policy Research Working Paper No. 1796 Washington, DC: World Bank.

National Bank of Ethiopia (1996) Operational Directive No MFI 01/96, Addis Ababa.

Nissank M. (2002) "Donors' Support for Microcredit as Social Enterprise: A Critical Reappraisal". Discussion Paper No. 2002/127, United Nations University: WIDER.

Padma, M. and A. Getachew (2005) *Women Economic Empowerment and Microfinance: A Review on Exercises of Awassa Women Clients*. Paper presented at the conference

'International Conference on Microfinance Development in Ethiopia', Awassa, Ethiopia.

Panjaitan-Drioadisuryo, R.D.M. and K. Cloud (1999) 'Gender, self-employment and microcredit programs: An Indonesian case study - the challenge of significance ', *The Quarterly Review of Economics and Finance* 39(5): 769-779.

Pitt, M.M. and S.R. Khandker (1998) 'The Impact of Group-Based Credit Programs on Poor Households in Bangladesh: Does the Gender of Participants Matter?' *Journal of Political Economy* 106 (5): 958-996.

Robinson, M. (2001) *The Microfinance Revolution: Sustainable Finance for the Poor.* Washington, D.C.: World Bank.

Sen, A. (1999) *Development as Freedom* Oxford: Oxford University Press.

Simanowitz, A. (2003) 'Appraising the Poverty Outreach of Microfinance: A Review of the CGAP Poverty Assessment Tool (PAT)', Imp-Act Occasional Paper No. 1, Brighton: IDS.

Stiglitz, J. (1990) 'Peer Monitoring and Credit Markets', *World Bank Economic Review* 4(3): 351-366.

Teka, G. and Y. Mengesha (2006) *Integrating Financial Services into the Poverty Reduction Strategy: The Case of Ethiopia.* Paper presented at the conference 'East Africa Sub-regional Workshop-integrating Financial Services into Poverty Reduction Strategies'. Dar es Salaam, Tanzania (28-30 June 2006).

UNDP (2003) 'Human Development Report'. New York: Oxford University.

UN-HABITAT (2007) 'Situation Analysis of Informal Settlements in Addis Ababa'. Nairobi.

Wekwete, K.H. (1999) 'Mainstreaming Urban Poverty Reduction in Sub-Saharan Africa', *Regional Development Dialogue* 20(1): 37-51.

Wood, G.D. and I.A. Sharif (1997) *Who Needs Credit? Poverty and Finance in Bangladesh.* London: Zed Books.

World Bank (2000) 'World Development Report 2000/2001: Attacking Poverty'. New York: Oxford University.

Wright, G.A.N. (1999) 'Examining the Impact of Microfinance Services – Increasing Income or Reducing Poverty', *Small Enterprise Development* 10(1): 39- 47.

Zaman, H. (1999), 'Assessing the poverty and vulnerability impact of micro-credit in Bangladesh: a case study of BRAC', Policy Research Working Paper Series No. 2145, World Bank, Washington D.C.

Notes

[1] A local poverty line estimated by Ministry of Finance of Ethiopia

[2] Birr is the name of the Ethiopian currency. One USD is approximately equals to 8.63 Ethiopian Birr

[3] Under proclamation number 40/1996 National Bank of Ethiopia holds the mandate to license and supervise MCIs operate in the country

[4] The HDI and HPI measures provide an average measure of achievement and deprivation in three dimensions of human development including longevity and health status, knowledge and standard of living attained

[5] Locally organized community based organization voluntarily formed for different social purposes including illness and death.

[6] Lowest level administrative structure of government

[7] A kind of green leaf with stimulating characteristics that cultivated locally and chewed mostly by young people

Annexes

Annex 1
No. of clients, loan given, loan repaid, repayment rate, saving mobilization, and interest income (AdCSI)

	2000	2001	2002	2003	2004	2005	2006	2007	Total
No. of client	1521	5321	7429	4500	21523	26944	10858	18294	96,390
Loan dis-burs.	1,799,5 13	7,617,487	9,988,75 0	6,896,00 0	44,062,4 50	109,559, 000	51,007,9 43	97,812,0 55	322,743,198
Loan Rept.	2,101,9 97	2,639,128	5,405,89 3	7,330,50 0	11,281,7 73	33,096,6 86	45,910,9 37	54,433,6 89	162,200,603
Amount due	2,489,9 00	3,435,930	7,652,15 9	7,697,93 4	11,403,3 67	33,668,0 43	46,800,9 37	55,601,3 10	168749580
Rept. rate	96.4%	98.8%	97.8%	98%	98.7%	99.3%	99.1%	99.9%	
Saving Mobn.	114,54 8	69,391	121,334	2,528,00 0	4,466,90 9	42,238,5 62	19,829,0 58	20,599,3 12	89,967,114
Interest incm.	434,52 3	504,005	1,122,39 1	1,509,34 1	2,216,30 8	5,423,55 0	9,077,09 8	9,860,54 9	30,147,765

Source: AdCSI, 2007

Annex 2
Loan Disbursement in terms of sex (AdCSI)

Year	Male		Female		Total		Remark
	No. of Cli-ents	Amt. of Loan disbursed	Number of clients	Amt. loan disbursed	No. of clients	Amt of loan dis-bursed	
2000	609	719,805	912	1,079,708	1,521	1,799,513	60% female
2001	565	1,177,995	4756	6,439,492	5,321	7,617,487	89% female
2002	1,571	2,370,950	5858	7,617,800	7,429	9,988,750	78.9% female
2003	837	1,490,800	3663	5,405,200	4,500	6,896,000	81.5% female
2004	8,452	19,276,260	13071	24,786,190	21,523	44,062,450	60.7% female
2005	13,418	70,653,700	13,526	38,905,800	26,944	109,559,000	50.2 female
2006	4,456	26,478,738	6,402	24,529,205	10,858	51,007,943	59% female
2007	7,994	51,409,357	10,300	46,402,698	18,294	97,812,055	56% female
Total	37993	173577605	58397	149165593	96,390	322,743,198	

Source: AdCSI, 2007

Annex 3
No. of clients, loan given, loan repaid, repayment rate, saving mobilization, and interest income (AVFS)

	2000	2001	2002	2003	2004	2005	2006	2007	Total
No. of client	783	968	2,146	3,054	3,383	5,591	7,744	10,247	
Loan disburs.	784,753.32	999,753	3,459,483	3,438,536	5,268,020	7,863,191	7,101,250	10,118,700.00	39,248,686.32
Loan Rept.	0,225,135.61	0,287,167.99	1,477,800.30	1,476,502.53	1,157,393.63	3,327,635.78	3,350,424.09	5,325,961.54	14,721,832.18
Amount due	380,807.00	654,324	1,718,775	2,233,603	3,275,955	6,496,843	7,766,423	9,072,966.00	9,072,966.00
Saving Mobn.	20,000	20,000	50,000	60000	100,000	129,000	150,000	250,000	5,688,068.51
Interest incm.	51,490.41	115,418.94	187,190.33	291,423.13	506,420.16	631,857.84	958,941.21	1,263,370.41	4,013,613.35

Source: AVFS, 2007

Annex 4
Loan disbursement in terms of sex (AVFS)

Year	Male		Female		Total		Remark
	No. of Cli-ents	Amt. of Loan disbursed	Number of clients	Amt. loan disbursed	No. of clients	Amt of loan dis-bursed	
2000	270	404,000.00	391	380,753.32	661	784,753.32	
2001	334	408,212.00	484	591,541.00	818	999,753.00	
2002	788	1,446,960.00	1101	2,012,523.00	1884	3,459,483.00	
2003	536	1,717,666.00	537	1,720,870.00	1073	3,438,536.00	
2004	1100	2,839,207.00	941	2,428,813.00	2041	5,268,020.00	
2005	916	4,590,620.00	653	3,272,571.00	1569	7,863,191.00	
2006	903	4,464,106.00	601	2,637,144.00	1504	7,101,250.00	
2007	1029	5,200,541.00	1067	4,918,159.00	2096	10,118,700	
Total	5988	21,198,512.00	5889	18,050,174.32	11877	39,248,686.32	

Source: AVFS, 2007

Annex 5
Outreach performance indicators of both AdCSI and AVFS as of June 30, 2007

Performance indicators	AdCSI	AVFS
Number of active clients	68,275	10,047
Loan outstanding	168749580	9,072,966.00
Loan disbursed	322,743,198	39,248,686.32
Number of Branches	10	5
No. of savers	65,985	10,047
Savings	89,967,114	5,688,068.51
Repayment rate	97.8%	95%

Source: AdCSI, 2007; AVFS, 2007

Annex 6

Questionnaire to be filled by clients of both AdCSI and AVFS

Dear Respondents,

This is a questionnaire that intended to assess the role of microcredit institutions in urban poverty alleviation. The information you provide is totally sought for academic purposes and shall be kept strictly confidential. Please feel free to share your comments and experiences regarding the credit service you are receiving from Addis Credit and Savings Institution (AdCSI) or Africa Village Financial Services (AVFS). Thank you in advance for your kind cooperation.

1) Gender: □ Male □ Female
2) Age breakup: □ 18-30 years □ 30-40 years □ Over 40 years
3) Education: □ Illiterate □ Up to primary □ Primary pass
4) Marital status: □ Divorced □ Single □ widowed □ Married
5) Family size: □ less than 2 □ 2-5 members □ More than 5
6) Did you have any business and your own income source before joining this credit program? □Yes □ No
7) From which credit institution are you getting credit services currently?□ AdCSI □ AVFS
   I. What requirements and criteria are required to be considered as a client of this institution? ____
   II. Are you happy (satisfied) with these requirements/criteria the institution applying? □ Yes □ No Why? __________________________
8) Is there any situation in which you have sold your own asset or property to repay your loan after joining this institution? □Yes □ No
   I. If yes, why? ____
9) The rate of interest of microcredit provided by this credit institution is reasonable
   □ Strongly disagree □ disagree □ agree □ strongly agree
   I. Explain why you agree or disagree_____________________________
10) After joining the loan/credit program:
   I. The income has increased
   □ strongly disagree □ disagree □ Agree □ strongly agree
   If agree, explain ______________________________________
   II. The saving has increased
   □ Strongly disagree □ disagree □ Agree □ strongly agree
   If agree, explain ____
   III. Better access to education
   □ Strongly disagree □ disagree □ Agree □ strongly agree
   If agree, explain ____
   IV. Better access to healthcare
   □ Strongly disagree □ disagree □ Agree □ strongly agree
   If agree, explain ____
   V. Better housing conditions
   □ Strongly disagree □ disagree □ Agree □ strongly agree
   If you agree, explain what kind of improvements and changes you have done or achieved in your housing and related facilities ________

VI. Employment opportunities have increased
□ Strongly disagree □ disagree □ Agree □ strongly agree
If agree, explain ______________________________

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

12) How do you explain the differences (in terms of before and after joining the credit/loan program) in affording to pay the schooling expenses of your children?
□ Better before joining the credit program
□ Better after joining the credit program
Explain why______________________________

13) How do you explain your ability to buy clothing for self and for your children in general?
□ Better before joining the credit program
□ Better after joining the credit program
Explain why______________________________

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

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

16) Do you think that the criteria by which you are being allowed to get access to credit services are suitable?
□ Yes □ No
a) Explain how ______________________________

17) What is the influence of your husband in terms of your loan utilization and management? __________

Thank you very much for your cooperation!