IMPACT ANALYSIS OF THE LOAN INTEREST RATE ON THE POOR:

THE CASE OF TIGRAY, NORTHERN ETHIOPIA

By

Hagos Gemechu Haile

Submitted to the University of South Africa in Partial Fulfilment of the Requirement of literature and philosophy for the Doctoral Degree in Development Studies

PROMOTER: DR. SEVENIA VICTOR MADZIAKAPITA

ABSTRACT

The main purpose of this study is not only to prove the impact of loan interest rates on the poor in the case of Tigray, Northern Ethiopia but also to recommend improvements to address the negative effects of interest rates that could benefit both the borrowers and the lenders. Combinations of quantitative and qualitative analytical tools were used; the data were collected through administration of a questionnaire to a sample of 471 respondents from three regulated MCIs, one cooperative enterprise, and one unregulated NGO. Results were analysed by using SPSS software. A multi-dimensional approach with respect to demand for credit, return on loan, loan repayment, savings, indebtedness, multiple loans, graduation process, and wellbeing was used and results were triangulated to obtain a full picture.

The study has concluded that the interest rate in general, primarily charged by DECSI, eroded the envisaged profits that poor borrowers expected to gain. This caused diversified negative impacts on the poor, those who were entrusted to MCIs. It thus brings into question the efficacy of the social responsibility of MCIs. From a simple analysis, it is found that there is a trade-off between servicing the poor with a low loan cost and securing MCIs operational self-sufficiency. Furthermore, the poor are not only sensitive to the loan interest rate but also to the saving interest rate. Therefore, not only access but also the cost of credit and savings matters to the poor. Moreover, the study identified a positive relationship between the financial capacity of MCIs and lending interest rates. Institutions with higher profitability tend to offer lower interest rates on micro loans but not when commercialization is an issue. The study grasped that socially oriented and responsible MCIs can reach the poorest without compromising financial performances, a "win-win proposition".

Finally, the study offers comprehensive recommendations on policy and practice that address potential changes to how MCIs redesign their loan and savings interest rate. The recommendations also address how MCIs develop graduation processes and self-revolving credit scheme frameworks that strengthen pro-poor microcredit modality. Additionally, the study provides a way forward in the design of future microcredit that could help MCIs deliver on their core social mandate.

KEY TERMS – Microcredit, regulated microcredit, unregulated microcredit, poor, loan interest rate, saving interest rate, graduation, repayment record.

DECLARATION

I declare that “Impact analysis of loan interest rate on the poor: The case of Tigray, Northern Ethiopia” is my own work and that all the resources that I have used or quoted have been indicated and acknowledged by means of complete references.

Signed…… Date……..

Hagos Gemechu Haile

This research project has been submitted for examination with my approval as the University supervisor.

Signed……. Date……..

Dr. Sevenia Victor Madziakapita

ACKNOWLEDGMENT

I wish to extend my sincere acknowledgment to the following people without whose support, encouragement and co-operation the completion of this project would have been very difficult.

First and foremost, I wish to thank the respondents, all microcredit staffs, and Adigrate and Tigray Red Cross office management committees for their time, trust, and honesty.

My sincere gratitude goes to my supervisor Dr. Sevenia Victor Madziakapita for his valuable comments, professional guidance, and encouragement throughout the time of this research project was very instrumental. My special thanks also goes to all external examiners for valuable constructive comments and suggestions that went a long way in to improving the quality of the work.

I also wish to recognize the special financial support of ICRC, Netherland Red Cross, and Austria Red Cross partners. I also thank the Ethiopian Red Cross Society, especially Ms, Frehiwt Werku, for her support and encouragement.

I also in a special way acknowledge the efforts of Mr, Tatek for assisting in data entry and Ms, Meriam Mohammed for her contribution in secretary services.

Last but not least, many thanks to my extremely supportive family. My wife Meargen and my son Zelalem Hagos, with love and dedication, took over the care of our family, and me thus making it possible for me to concentrate on my studies.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

ACSOT	Alliance of Civil Society organization of Tigray
AMFI	Adeday Microfinance institution
CGAP	Consultative Group to Assist the Poor.
CSA	Central Statistical Authority
DECSI	Dedebit Credit and Saving Institution
DESA	Department of Economic and Social Affairs
ECSDC	Ethiopian Catholic Social and Development Coordination
EFDR	Ethiopian Federal Democratic Republic
FGD	Focus Group Discussion
ERCS	Ethiopian Red Cross Society
ETB	Ethiopian Birr (National currency)
HH	Households
ICRC	International Committee Red Cross
IGA	Income generating activity
KII	Key Informant Interview
LMFI	Lideta Microfinance Institution
MCI	Microcredit Institution
MF	Microfinance
MFIs	Microfinance Finance Institutions
MoFED	Ministry of Finance and Economic Development
NBE	National bank of Ethiopia
PASDEP	The Plan for Accelerated and Sustained Development to End Poverty
SCSC	Sasun Credit and Saving Cooperative
SIDA	Swedish International Development Agency
SME	Small Micro Enterprise
SPI	Social Performance Indicators

USD= 20.21 ETB (Ethiopian Birr)

CHAPTER ONE: INTRODUCTION

1.1 Background and rationale of the study

Microfinance has been hailed by many to be one of the most effective tools in fighting global poverty in the developing world. It has been especially effective and beneficial in bringing products such as savings deposits, insurance and credit to the under-served sections of developing and transitional economies, those that do not possess the collateral or credit histories to satisfy the requirements of traditional financial services. In so doing, microfinance aims to "create economic and social development from below" (Julien K 2009:3).

Further, Julien K. (2009:3) clarifies that microfinance has many issues that hinder its ability to be effective. One of those issues, and one of the elements that surprise the newly initiated to microfinance, is the interest rate. Interest rates charged by microfinance institutions on their loans to the poor have traditionally been very high compared with the levels offered through more established financial services in the developed world. These high interest rates are primarily related to the fact that it costs more to service a tiny loan than a large one.

Even though poor and low-income people in developing countries are not viewed as marginal, but rather as central and legitimate clients of their countries' financial systems, they do not have access to formal financial services and very few benefit from a savings account, loan, or convenient way to transfer money (CGAP 2006:1).
CGAP (2006:1) also stated that financial services for the poor, often referred to as microfinance, couldn't solve all the problems caused by poverty. However, they can help put resources and power into the hands of poor and low-income people themselves. This allows them to make daily decisions and chart their own paths out of poverty. Both the potential and the challenge of microfinance are very significant.

In most developing economies financial services are only available to a minority of the population, and frequently to only a very small minority. Although financial sectors are expanding as these economies grow, financial assets usually remain

highly concentrated in the hands of a few. The majority of the people in developing countries have no savings accounts, do not receive credit from a formal financial institution, and have no insurance policies. They seldom make or receive payments through financial institutions. Indeed, the majority in most countries rarely enter the premises of financial institutions. The use of financial services in developed countries could not be more different than what is currently available in developing countries (United Nations 2006:1). It should be noted that lending to the poor or lower income group raises many debates among practitioners and academicians, discussed below. The poor are excluded from credit facilities for many reasons. These include insufficient collateral to support their loans, high transaction costs, unstable income, lower literacy and high monitoring costs (Mead C.D and Liedholm C. 1998: 61).

Even though microfinance has been initiated and widely accepted as a viable policy option for poverty alleviation by the donor community, international organizations, government and non-governmental organizations, the evidence suggests that microfinance has a higher impact for households closer to the poverty line, rather than the poorest of the poor (SIDA 2004:1-3). Hasan M. and Iglebaek M. (2004:3-7) conclude that microfinance is yet to be recognized as important tool for outreach to the poorest of the poor and it is generally accepted that microfinance does not work for this group. Arguments lauding the success of microfinance initiatives have been countered by heavy criticism regarding the exploitation of women, the inability to effectively cater to the target groups, unchanging poverty levels, and high interest rates and loan repayment (Brau J. and Woller G.M 2004: 3-5) (Mallick R. 2002: 153-154).

Hudan M. (2006; 3-34) reports that debates on fair prices have a long history, starting with Aristotle's denunciation of interest as the unnatural fruit of a barren parent. More recently, the fair trade movement initiated a lobby for a fair remuneration for the low-income countries' workers. While high interest rates are still discussed and challenged inside the microfinance sector, the new and growing ethical debate is currently coming from outsiders, the civil society or the political world. Ethical issues, and particularly debates on the interest rate levels, are thus now widely accepted as a major threat to the whole microfinance sector's sustainability.

Currently, microfinance has the attention of academicians and practitioners as an innovative method of fighting poverty; consequently, there are a number of studies and debates around microfinance. These studies and debates primarily concentrate on three key areas. The first area addresses whether or not microfinance reaches the poorest of the poor who are most in need of financial services. The second area addresses the issue of financial sustainability of the microfinance institutions themselves. The third area addresses the impact of microfinance programs on poverty reduction, on changing the lives of the poor. These three areas of microfinance also form the approaches to determine the performance of poverty reduction endeavours. The first and the second areas are related to the means or methodology of microfinance while the third area is related to the end goal of microfinance itself (ETC of ANC 2005: 6-10).

These debates and issues indicate that further study on the microcredit lending interest rate and its effects on the poor are still crucial. This study intends to examine the impact of the loan interest rate on the poor and can contribute to filling the theoretical gaps and solving the empirical problems that exist.

There are different types of interest rates. They include lending/borrowing, deposit rates, and bank rates/microfinance rates. Additionally, within microfinance there is microcredit, which are market based and a subsidized loan interest rate of regulated and unregulated microcredit services. For the purposes of this study, the main focus is on the lending interest rate of microcredit as the study examines the relationship between loan repayment and the building of capital (economic benefit) for clients on one hand, and the relationship between the loan interest rate and demand for credit of ex-clients and non-clients on the other.

As Porteous D., Collins F., and Abrams D. (2010:2) mentioned, high interest rates on small loan remain highly sensitive and politically controversial. There is not enough research for Ethiopia in general and in the Tigray microfinance industry in particular on the effects of the loan interest rate on the poor. For this reason, the purpose of this specific research is to analyse the effect of the loan interest rate on the demand and supply side of microcredit service.

1.2 Statement of the problem

Currently, there is an overabundance of those citizens in Ethiopia in general and in Tigray in particular who require micro financial services to engage actively in productive activities and improve their standard of living. Over time, MFIs across Ethiopia have not been able to help the poor adequately with fair and affordable lending interest rates to enable them to change their lives significantly.

Most MFIs in Ethiopia have been scaling up, leading to aggressive saving mobilization, high interest rates, multiple loans, service to the upper echelon of the poor, and poor client's inability to save for the future. This trend has changed MFIs into profit-seeking entities, experiencing 'mission drift', deviating from their core mandate. Further, the number of privately owned MFIs in Ethiopia has continued to increase significantly, which has not yet triggered competition between the MFIs to better benefit the poor. Of note, despite the increased number of MFIs, interest rates have remained high.

Letenah E. (2009:11) indicated that Ethiopian MFIs are poor performers on depth of outreach and their sustainability seems to have a correlation with their size. It seems that lowering interest rates even further to reach more poor will secure their sustainability from economy of scale and size, rather than from charging high rates from the upper end of the market.

Furthermore, Amha W. (2010:33-35) indicated that despite the emergence of many financial providers, the PASDEP document indicates that only 6% of smallholder farmers in Ethiopia have access to financial services. Furthermore, the inclusive financial sector in Ethiopia is young and there are very limited financial providers competing in the market. Lack of competition has a negative impact on the prices (interest rates) charged by finance providers and customer services.

Amha W. (2011:10-11) reported that there are currently about 31 MFIs in Ethiopia, serving 2.5 million clients throughout the country. However, a group based lending modality excluded the poorest sectors of the community. A lack of transparency around the loan interest rate, and unclear social performance management of the operating MFIs are other common limitations. These impact their original mission

and demand a controlling mechanism for social performance management of the MFIs.

The interest rate charged on microcredit is one of the most-discussed issues in microfinance, capturing the attention of both the media and industry analysts alike. At the heart of this discussion, the question of how microfinance institutions (MFIs) can fulfil their social missions while charging their clients interest rates that are higher than those offered by non-microfinance financial institutions, such as traditional commercial banks remains. A rhetorical question usually follows: Are high microcredit interest rates not a sign that these institutions that proclaim development objectives are, in fact, gouging the poor? (Adrian G. 2010:1).

On the other hand, while high interest rates have helped the industry to grow and enabled many millions of poor and low-income households to gain access to credit, there are still those who cannot afford such loans because of their high cost. Microcredit has not reached a majority of the poorest people and is not widely used for financing farming activities. Only those who can generate a sufficiently high surplus of funds can afford high interest rates on microcredit. More specifically, a borrower's realized rate of return on investment needs to be greater than the interest rate to service the loan (Nimal A. 2006:2-7).

The debate on the fairness of microcredit interest rates can be embedded in the larger debate on fair prices. While the literature on the fairness of microcredit interest rates is relatively new, one will find relevant and valuable insights in the recent literature on fair prices (Hudan M. 2006:3-34).

In Ethiopia, the field of microfinance institutions (MFIs) in general and the interest rate in particular is still a fairly recent topic in economic research; like the industry itself, microfinance literature in Ethiopia is still embryonic. Most studies have either concentrated on the impact of the industry on poverty alleviation or the financial performance of the MFIs.

In Tigray, impact analysis on the loan interest rate, which is one of the most crucial issues for the poor, has not yet been studied adequately. This, when done, will

motivate others, enhance constructive debates within the microcredit market, and can help to improve the performance of other microcredit providers.

The foregoing explains why this study was necessary. It was conducted to explore the extent to which interest rates charged by MCIs affect the poor, how microcredit providers keep the proper balance between reaching the poorest and institutional financial sustainability and how to establish loan interest rates that are conducive for both poor borrowers and credit providers, a "win-win proposition". It also recommends possible practical solutions to the challenges of microcredit.

1.3 Objectives of the study

a) General objective

The main objective of this study was to analyse the impact of loan interest rates on the poor in Tigray Region.

b) Specific objectives

The specific objectives were to:

1. Examine the pull and push factors of microcredit institutions in Tigray,
2. Investigate how interest rates are calculated and charged by different microcredit providers in Tigray region and how these motivate or de-motivate the poor to participate.
3. Assess the impact of interest rates of microfinance on the poor
4. Examine the relationship between non-clients of microcredit access to informal credit market
5. Examine the complementarities of different types of microcredit programs on reaching the poor.
6. Assess the integration of microcredit providers in enhancing inclusive microcredit financial service.
7. Examine the ownership structure of microcredit institutions.
8. Develop a framework for guiding interest rates that benefits the poor without undermining the financial sustainability of microcredit providers.

1.4 Research questions

To meet the above objectives, the following research questions were utilized as guidance.

The main research question of the study was "***What is the impact of the micro credit loan interest rate on the poor?***

The sub-questions of the study included:

1. a. What attracts clients to loans?

   1.b. What motivates microcredit institutions to give loans in Tigray?

2. How do beneficiaries respond to different loan interest rates by microcredit providers?
3. What impact does a loan interest rate have on the poor?
4. To what extent do non-clients of microcredit have access to the informal credit market?
5. What mechanisms are in place that encourages different microcredit providers to complement one another and work jointly?
6. To what extent do microcredit providers manage financial inclusiveness?
7. What is the impact of the ownership structures of MCIs on the poor?
8. What are the suggestions for developing guidelines that improve sustainability of fair interest rates?

1.5 Significance of the study

This research will contribute to the following:

1. Review and revision of their loan modalities and complementarities to improve their social and financial performances by both regulated and unregulated microcredit providers
2. Filling the theoretical gap and practical problems of loan interest rates of micro credit to enable the poor (clients, non-clients, and ex-clients) to benefit from microcredit services in an inclusive manner.

3. Review of the existing microfinance regulation, helping build the cooperation of all regulated and unregulated micro credit providers for the benefit of the poor clients and micro credit providers.
4. Knowledge on the subject, leading to the development of a loan interest rate framework that can be useful in other regions and countries.

1.6 Scope of the study

Microcredit is an area of research in which most researchers focus on specific areas. This study, therefore, covers how interest rates of microcredits affect the poor, those taking credit from regulated and unregulated microcredit providers. Furthermore, this study is also aware of how other microcredit modalities (loan amount, repayment period, multiple loans, enforcement mechanism, etc.) affect the poor.

Due to the homogeneous nature of all MCIs in Ethiopia, this study focuses in one zone of Tigray Regional State as a study area. There is an assumption that findings from Tigray Regional State may represent other regions.

1.7 Limitations and challenges of the study

The major limitations and challenges of this study related to the bureaucratic and time consuming processes of microcredit institutions for data collection as well as a lack of transparency. This was addressed by using multiple means of access and a dissemination of the objectives of the study. Further, an emphasis on the importance of the study to make a difference on the performance of the sampled microcredit providers in communications with them helped.

Even though there are other factors that impact the decision of the poor on whether or not to get a loan, this study mainly focused on the loan interest rate. Thus, a challenging issue was controlling or measuring the factors other than the loan interest rate that impact whether the poor would get a loan or not. This challenge was treated by including factors other than loan interest rates that affect the decision of the poor to procure a loan.

A low literacy rate of most microcredit clients affects the availability of clear information of the impact of the loan interest rate and other factors on the poor households. Designing appropriate questionnaires and using multiple means of getting accurate information handled this.

The reality of the microfinance service in general and the microcredit service in particular at national, regional, and zonal levels is homogeneous in terms of their credit methodologies and procedures. Thus, the national and regional microcredit providers and their clients are deliberately excluded from this study by the researcher in order to conduct this study in a confined area.

In some cases, MFI in this study is used to mean microcredit. Even though this study focused consistently on microcredit as the main topic of the study, due to the interchangeable nature of MFI and microcredit, in some cases this study was forced to use these terms interchangeably,

1.8 Structure of the study

The study was structured as follows: The first chapter deals with the introduction, the central problem of the study, key research questions that the study addresses, and explains the reason why this study is of interest. Four other chapters followed logically; each dealt with more specific issues of microcredit loan interest rates that assisted the reader to follow the logic of the study.

Following the brief overview in Chapter One, it was important for this study to review prominent theories in the field. Thus, Chapter Two focuses on a literature review of the theory regarding the schools of thought that influence microcredit loan interest rates and their effect on the poor. It is important to review the said theory, as it contributes to an appreciation of how microcredit loan interest rates and the poor are related. Chapter Two describes key principles and mechanisms of microcredit, the relationship between microcredit and the poor, perspectives and debates on microcredit loan interest rates, the pull and the push factors of microcredit and the social performance management of microcredit. All these different views and/or

perspectives in terms of microcredit loan interest rates and the poor constitute the review of the theory for this study.

Chapter Three covers the review of the empirical research. It was useful to review the empirical studies that have been conducted in the field as this permitted the researcher to ascertain whether the theories reflected the reality and whether it would be valuable to revisit the policy and regulations. Thus, the reviews of empirical research in this field permitted the researcher to draw alternative views with regard to microcredit loan interest rates and the poor. Since the study focused on different microcredit modalities (regulated and unregulated), it was good to provide an overview of the principles, modalities, and complementarities of these microcredit modalities. This helped to better understand the acknowledged differences between them (regulated and unregulated) and manage the study effectively and efficiently.

Chapter Four deals with the methodology of the research and offers details on both research techniques and the sample. Discussion of the sample deals with the size of the group, criteria for the selection of the group and the microcredit providers, location, the administration of the questionnaires, and the constraints that faced the research methodology.

Chapter Five offers a discussion and analysis of the results. The study employs various indicators and variables including microcredit loan interest rate settings, social performance indicators, dropouts, push and pull factors, the graduation process of the clients, and perceptions. The results of this chapter permit the researcher to categorically state whether or not the loan interest rate of the sampled microcredit providers attracts the borrowers to benefit from the services or discourages the borrowers from benefitting from the services. The results of this chapter throw light on whether the loan interest rates affect the poor; this enables the study to contribute something new to the microcredit loan interest rate literature.

The final chapter (Chapter Six) summarizes and concludes this study by providing a general summary of the major findings as well as policy implications. Areas for further research are also included in this chapter.

1.9 Conclusion

The review of the interest rates charged for microcredit loans help provide detailed information on the challenges of the microfinance institutions (MFIs) to fulfil their social missions while charging their clients interest rates. The chapter assisted in formulating the study problems related to the impact of loan interest rates on the poor in Tigray Regional State. It also articulated the objectives of the study, and the questions that need to be addressed by the study in order to propose possible and practical solutions of loan interest rates that benefit the poor without undermining the financial sustainability of microcredit providers. The chapter also provided an overview on the methodology of the study and how the study is structured.

The next chapter will focus on the literature review of different microcredit objectives, policies, theories and concepts related to microcredit the loan interest rate modalities that affect the poor in general and the Tigray microcredit clients in particular on their access to, benefit from, and decision making for microcredit services.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter focuses on a theoretical review, dedicated to those selected areas that are highly relevant to the topic's objective and research questions.

2.2 Historical background of microfinance/microcredit

Clarifying the historical origin of financing for the poor, Seible H.D. (2005:2-3) points out that microcredit is not a recent development. He also provided a historical mapping of microfinance institutions, showing that while microfinance in Europe dates back to the 16th and 17th centuries, the origins of India's indigenous microfinance predate the German and Irish systems by around 3000 years. While there has been no systematic study done on microfinance in Africa, Seibel noted that microfinance existed in Nigeria at least as early as 500 years ago, namely in the form of rotating savings and credit associations.

On the other hand, Yonus M. (2006: 1-4), the pioneer of microcredit, explains that the term "microcredit" did not exist before the seventies. Now, it has become a buzzword among development practitioners. In the process, the term has been used in ways that suggest it can mean almost anything. No one is shocked if someone uses the term "microcredit" to mean agriculture credit, or rural credit, or cooperative credit, or consumer credit, or credit from the savings and loan associations, credit unions, or money lenders. Further, if someone suggests that microcredit has a thousand-year history, or a hundred-year history, few find that an exciting piece of historical information.

Yonus's assertion that microcredit emerged in the seventies, as noted above, was supported by Woodworth W. and Woller G. (2001: 267-268) who asserted that prior to the early 1980's financial services were essentially unavailable to the world's impoverished populations, and that the first attempt was the creation of the Grameen Bank in Bangladesh in 1983. Since that time, the microfinance movement has

gained both momentum and success, with thousands of MFIs operating in almost every country in the world.

Microfinance emergence coincided with the advent of neo-liberalism, a major new development paradigm that encompassed important ideological notions and policy measures. This became a platform for the promotion of microfinance as a strategic development tool. Neo-liberalism advocated market driven development policies, encouraged private initiative and entrepreneurship and promoted the reduction of the state's role in development matters (Lucarelli B. 2005:78).

Furthermore, Brigg M. (2001:233-234) emphasized that instead of being passive aid recipients, subject to state and international policies and political will, poor people could take responsibility for their poverty. They could, then, with a little initiative, determination and capital improve their living conditions and escape or mitigate poverty. This sounded appealing in light of the failure of large-scale government-led programs to foster development and alleviate poverty.

When examining the evolution of microfinance, Legerwood J. (1999:2-34) summarized that microfinance arose in the 1980s as a response to doubts and research findings about the delivery of subsidized credit to poor farmers. In the 1970s, government agencies were the predominant method of providing productive credit to those with no previous access to credit facilities. Government and international donors assumed that the poor required cheap credit and saw this as a way of promoting agricultural production. In addition, donors set up credit unions inspired by the Raiffeisen model developed in Germany in 1886. The focus of these cooperative financial institutions was mostly on savings mobilization in rural areas in an attempt to teach poor farmers how to save. Beginning in the mid-1980s, the subsidized, targeted credit model supported by many donors was object of the criticism because most programmes accumulated large loan losses and required frequent re-capitalization. This led to a new approach that considered microfinance as an integral part of the overall financial system.

Relevant to the history of loan interest rates, Hudan M. (2006: 3-34) points out that, before the 70s, interest rates charged to poor entrepreneurs, particularly the rural

ones, were very low in development projects. In due course, in the 70s and 80s, there were very serious debates on these low interest rate policies; the debates further covered the emergence of the very costly microcredit loans. Accordingly, Adams D., Graham D., and Von Pischke J.D. (1984:75) came up with a countervailing view to the rural poor having low, but also very subsidized interest rates. They held that cheap credits would destroy the incentives to save in financial forms and distort the way lenders allocate funds. The rationale is that "low interest rates on loans to rural people end, paradoxically, by restricting their access to financial services" (Von Pischke J.D. 1983:176).

2.3 Theoretical and conceptual literatures of microcredit interest rate

This section explores the link between microcredit loan interest rates and the poor. The basic question of the study is *"What is the impact of microcredit loan interest rates on the poor?* The concept of microfinance and microcredit is difficult to differentiate in most literature; most authors used them interchangeably. Nevertheless, this study tried to focus consistently on the main topic of the study, which is microcredit. However, due to the interchangeable nature of MFI and microcredit in some cases, this study was forced to use the terms interchangeably.

2.3.1 School of thoughts of microfinance/microcredit

Brau M. and Woller G.M. (2004:3-5) point out that the different perspectives on which microfinance performance is to be measured have created two opposing schools of thought, with the same goals in the microfinance industry. The first perspective is called 'Welfarists' and the second perspective is 'institutionalism'. Welfarists argue that MFIs can achieve sustainability without achieving financial sustainability. They contend that donations serve as a form of equity and as such donors can be viewed as social investors. Unlike private investors, who purchase equity in a publicly traded firm, social investors don't expect to earn monetary returns. Instead, these donor investors realize a social (intrinsic) return.

Similarly, Woller G., Dunford C, and Woodworth W. (1999:29-31) offer a clear description of these perspectives. On the one side, there are “Institutionalists”, those who are mainly concerned with the creation of financial systems that are financially self-sufficient. They assume the positive clients’ impact the outreach to the poor. On the other hand, there are “Welfarists”, who emphasize the depth of outreach and focus on improving the wellbeing of the participants. Their focus is on maximizing the effect of access of financial services. Jonathan M. (2000:617) termed these opposing points of views the microfinance schism, an ongoing debate shaping the future of microfinance.

Each school of thought, or perspective, evaluates the effect of MFIs in a different way, depending on their particular conceptualization of the intent of microfinance. The Institutionalist school views microfinance as a method of wealth creation, similar in nature to capital on a larger scale in more developed countries (Hoque M.Z 2004:33). This perspective judges success by the participants’ ability to consistently pay back loans, expand the operations of their microenterprise, and eventually graduate out of the MFI into the formal financial sector as their microenterprises become self-sustaining (Wright G. 2000:43).

The Welfarist school does not view MFIs as an exact equivalent of capital in more developed countries, where capital is used to increase and not to stabilize returns. These theorists view microcredit as a separate system, which increases income by smoothing consumption (Martin I., Hulem D., and Rutherford S. 2002:273-276; Weber H. 2004:367; Zohir S. 2004: 318) and allowing participants to draw progressively larger amounts to expand their enterprises (Yunus M. 1999:298). In their view, MFIs should not transition individuals and groups onto more traditional types of financial institutions. Instead, MFIs act as a system that lessens the frequency and severity of household budgetary shortfalls and provides insulation from macroeconomic shocks.

Microfinance scholars may therefore be classified broadly into two groups. On the one side are those taking the narrower point of view of financial efficiency. They emphasize the necessity for being financially solvent. Adherents of the other side emphasize microfinance’s proven capacity to reach those who would otherwise

remain outside the orbit of formal financial services. Accordingly, these scholars do not want microfinance to charge a high interest rate and thereby neglect the poor in order to become financially viable. In fact, many of them have argued that it is worthwhile to provide subsidies to microfinance, at least until it reaches financial viability, calling such subsidies "smart subsidies" (Jonathan M. 1999:1569-1641).

Gert M. (2004:17-75) classified the two schools of thought into the "sound business school" and the "development school". The details are summarized as follows;

Table 2.1: "Sound business school" and the "Development school".

School of thought	Primary view or focus and justification	Differences
The "sound business school"	• Primary focus is on the development of institutions that function properly and meet well-defined organizational and financial criteria. • At the core of this approach is the belief that profitability is within the reach of well-organized institutions and therefore must be one of their primary objectives - because profit is the ultimate proof of effectiveness, efficiency, and sustainability as an economic entity. • The result is that the definition of success has changed: success is now being defined and measured by the pace of their progression toward ultimate profitability. Cost recovery has become as	• **The first difference is in the setting of the interest rate.** The *sound business* school expects the MFI ✓ To set the interest rate at such a level that with a proper growth of the portfolio the break-even point/profitability can be reached within a reasonable period of time; ✓ To relate - like any bank - the interest rate to the costs (cost of funds, operating costs, loan loss provision) plus a mark-up to arrive at a fair profit; ✓ To compare the interest rate to be charged with the alternative options for "un-bankable". As long as the MFI rate is more favorable than the rate moneylenders charge, it is a good and helpful alternative. • **The second difference**

	important as loan recovery. • They promise that once profitability is achieved, microcredit institutions will no longer depend on benevolent funders, but can attract new capital on normal capital markets. They will even be able to "securitize" part of their business (i.e. selling part of their profitable portfolio to banks) and use the proceeds for expansion.	**has to do with growth and outreach.** The *sound business* school ✓ Is keen that the scheme's growth does not postpone the break-even point for too long: *"try to become profitable and let your growth not reduce that profitability."*
The "development school"	• Primarily views microcredit not as a business instrument but rather as a development instrument directed at the poor. • The primary measure of success is therefore the effect or impact of credit on the lives of the recipients. • They judge the success of an MFI primarily in terms of the loan repayment rate. If that rate is above 95%, it proves in retrospect that the product (i.e. the microloan) is relevant. • If that were not the case, their clients would not have been able to increase their income and to produce *in masse* such a repayment rate. • The question of cost recovery, leaving aside	• **The first difference is in the setting of the interest rate.** The *development* school expects the MFI ✓ To treat "unbankables" not too differently from "bankables" (the latter label is what they deserve to be called if the repayment rate is higher than 95%); ✓ Therefore, to set the interest rate not much higher than the rate "the bankable neighbor" would pay; being the market rate for those who are better off; ✓ To aim within that context to reach break-even point, which is most likely reached somewhat later than if the clients were charged with the actual costs from the start. • **The second difference has to do with growth and outreach.**

	profitability, is of another nature. That question is not related to how the *target group* is doing (development impact), but how the *financial intermediary* is doing (in mere financial terms).	The *development* school ✓ promotes organic and gradual growth, seeing how many more clients could be served with this approach; ✓ is prepared to accept that reaching the break-even point is postponed until the MFI has reached a proper size/outreach; ✓ Believes that as long as sufficient development funds can be mobilized for microcredit, relevant growth is more important than profitability.

Additionally, Gert M. (2004:17-75) noted that the differences between these two schools are not only philosophical, but also have consequences for daily practice; he states that the prospect of a full cost recovery depends to a large extent on:

- The size of the portfolio;
- The average size of the loans;
- The geographical reach of the programme (number of villages served);
- The degree of labour-intensiveness;
- The cost of living in the country (reflecting on the salaries they have to pay to qualified staff members);
- The interest rate charged.

Negash Z. (2008:12) views microfinance institutions as operating under a twin mission system: a commercial mission and a social mission (also called commercial and developmental objectives). Their commercial mission basically refers to financial viability that of recovering costs and potentially making profits. The social mission involves serving the poor who are marginalized by the formal banking system, addressing poverty alleviation and minimizing income inequality. Microfinance institutions work to harmonize these objectives (commercial and social), which are not necessarily reconcilable.

Furthermore, Robinson M. (2001: 29-71) describes that microfinance providers gained substantial recognition in the 1990s and 2000s for providing financial services to the poor, but largely failed to reach households in extreme poverty. While this gap was widely acknowledged, the response varied considerably. It basically divided into two camps along the lines of the "financial systems approach" vs. the "poverty lending" approach.

1. Financial systems proponents focus on the appropriateness of microfinance for the very poor, arguing the very poor need a more intensive suite of services. They note that while microfinance may not reach the very poor, there are millions of unbanked households who deserve access to financial services.
2. Poverty lending proponents focus on targeting: if we can make it easier to identify the very poor we can encourage them to participate in microfinance programs.

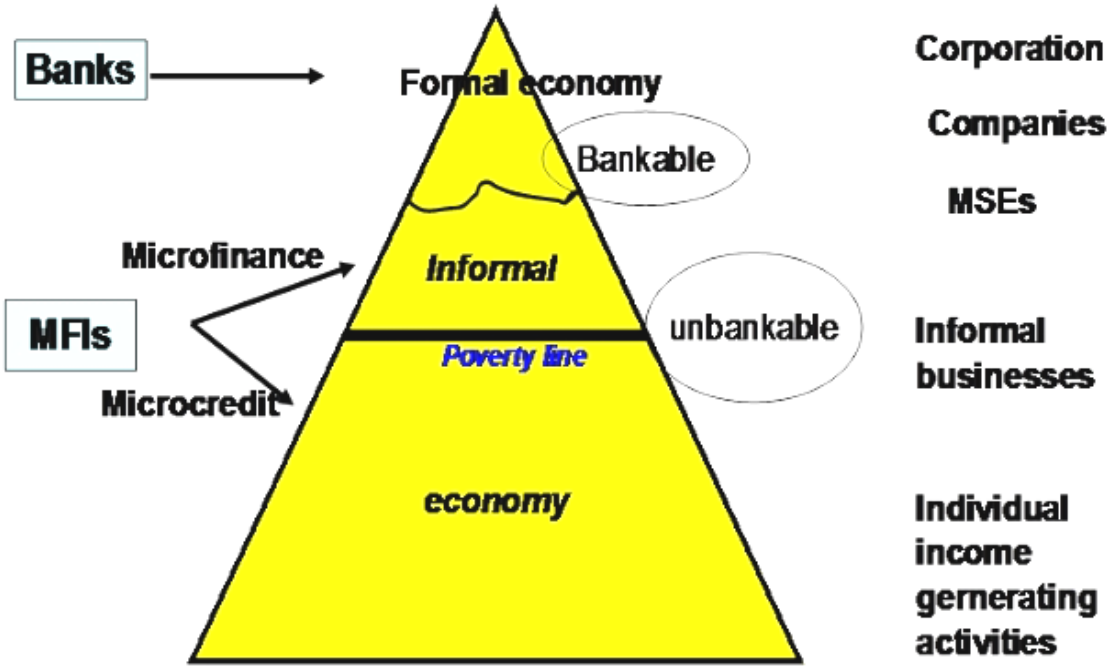
The debate between the two schools of thought (camps) is still going on. The important issue is how to find out the "ideal area" or common ground between these two extreme ideas. This 'ideal area' would which find the trade-offs that benefit both the poor and the credit providers. This study does address possible practical solutions that benefit both microcredit providers and the poor sector of the community.

2.3.2 Business or Development? / Institutionalists or Welfarists?

Gert M. (2004:17-75) illustrates the issues to be examined when choosing 'business or development'. First of all, the answer depends on the type of clients the MFI wants to serve. If the MFI aims at clients deep in the poverty pyramid, the approach of the development school should prevail. The service to be given to these clients is much more than simply providing them with loans and collecting repayments. If an MFI is looking for clients who could eventually 'graduate' to the formal sector, such as the downscaling banks, the business school approach is more logical. The problem arises when one of the schools claims territory that should be reserved for the other. That problem also occurs when donors make no such distinction and

expect MFIs to serve the very poor within a business model that is based on potential graduates (See Figure 2.1).

Figure 2.1: Businesses or Development? / Institutionalism or Welfarists?



Source: Gert Van Maanen (2004:55)

Gert M. (2004:17-75) addresses the dangers for MFIs. The first danger is that the pressure to reach sustainability pushes MFIs up to the higher layers of the pyramid. The other danger is that they are under pressure to charge higher interest rates to the poor in order to bring sustainability and profitability within reach. Justification for that approach is that the major problem of the poor is access to credit, not the level of the interest rate. The researcher finds the first half of this statement to be true, while the second part is partially true as it holds only in cases where potential clients have no alternatives.

In constructing the analysis, Luckshmi S., Brain S., and Kate G. (2012:6) described a series of six hypotheses, which form the basis of a double bottom line business case. These hypotheses illustrate how operational methodologies targeted at the very poor could potentially enhance an MFI's ability to meet its double bottom line goals. Providing tailored products to very poor households could enable the MFIs to:

1. Increase the depth of poverty outreach of the MFI.
2. Show a greater developmental impact on clients reached in the targeted product versus the mainstream product.
3. Open up new markets to the MFI by expanding the pool of possible clientele.
4. Create greater customer loyalty by targeting an under-served customer.
5. Identify more profitable customers.
6. Provide a quantifiable financial contribution to the MFI.

Luckshmi et al. (2012:6) elaborate an analysis aimed at ascertaining whether by actively targeting a poorer group of clients and customizing products and services catered to their needs, an institution was creating a sound business model for reaching very poor households, often excluded from traditional microfinance programs, that would have a positive effect on their lives. The first three hypotheses address the MFI's social bottom line, from depth of poverty outreach to expanding the number of clients. The last three hypotheses address the financial bottom line, from customer retention to the financial sustainability of reaching the poorest customers. This range of methodologies provides a broad scope of evidence to support whether the MFIs have a double bottom line business case.

The issue of the loan interest rate to be charged to the poor is determined by these schools of thought; that is why it remains complicated and continues to be one of the sensitive issues in the microcredit arena. This study examines the effect of loan interest rates on the poor from a practical rather than theoretical point of view.

2.3.3 Microfinance and Neo-liberalism

Lucarelli B. (2005:78) clarifies that the emergence of microfinance coincided with the advent of neo-liberalism, a new major development paradigm that encompassed important ideological notions and policy measures and became a platform for the promotion of microfinance as a strategic development tool. Neo-liberalism advocated market driven development policies, encouraged private initiative and entrepreneurship and promoted the reduction of the state's role in development matters. Furthermore, Brigg M. (2001:233-234) emphasized that instead of being

passive aid recipients and subject to states and international policies and will, the poor could take responsibility for their poverty and with a little initiative, determination and capital they could improve their living conditions and / or escape or mitigate poverty. This had an appeal in light of the failure of large-scale government-led programs to foster development and alleviate poverty.

Microfinance embodied all the main ideas of neo-liberalism. It was intended to create both incentives and the means for the poor to become active agents in improving their well-being by providing them access to credit. This access would thus enable them to take up self-employment and income-generating activities; consequently, this would increase the income of the poor and help them escape or alleviate poverty. As formal lending institutions were not willing to give loans to the poor because of their lack of collateral, high transaction costs and low profits, the role of microfinance was to fix this "market failure" by supplying credit to the 'unbankable' poor. Another advantage of microfinance was that it channelled funds directly to the poor, circumventing the state whose inefficiency and corruption was partly to blame for the failure of the large-scale development programs (Snow D.R. and Buss T.F. 2001:296). Thus, microfinance materialized the neoliberal notion of a market-led approach to development, offsetting the market's failure to provide credit to the poor and the state's failure to mitigate poverty.

Microfinance, as a neoliberal tool to alleviate poverty, received severe criticism. Karnani A. (2008:77-78) attacked the entrepreneurial approach to fight poverty. He noted that the neoliberal movement and microfinance assumed that poor people were more likely to engage in entrepreneurial activities than their counterparts in advanced countries, 90% of whom were employees rather than entrepreneurs. "While many poor people own businesses, this seems to be more a survival strategy than something they want to do." Furthermore, Banerjee A.V., and Duflo A. (2008:333-334) elaborated that the emphasis on self-reliance and initiative of the poor downplayed the role and the responsibility of the state in creating legal, regulatory and social mechanisms to protect the most vulnerable people of the society. Brigg M. (2001:233-234) called it an 'individualization of poverty' and pointed out that putting the responsibility for the improvement of the well being on

the poor themselves, depoliticized poverty and understated the importance of sound macro policies in alleviation of entrenched poverty.

Additionally, the implementation of neoliberal policies reduced the role of the state in the provision of the services of social welfare (Karnani A. 2008:77-78). In some countries, the provision of these services was already substandard because of the instability and weakness of the state. Thus, the poor had to rely on microfinance to acquire services that state was unable to provide. Also, as microfinance started to gain recognition as a poverty alleviation tool, the state governments began to contribute to it by subsidizing the loans, which "may imply a transfer of public resources from other public spending, leading to cuts in public health, sanitation and education expenditure" (Selinger A. 2008:5). Some authors argue that, by supporting microfinance, the state opts for the easier and less expensive path to help the poor instead of building an accessible social service system and creating employment opportunities (Banerjee et al. 2008:333-334).

In addition, Karnani A. (2008:77-78) explains that a libertarian movement that emphasizes free markets to reduce poverty has grown strong in recent years. It views the poor as resilient and creative entrepreneurs and value-conscious consumers. This romanticized view of the poor is far from the truth and harms the poor in two ways. First, it results in too little emphasis on legal, regulatory and social mechanisms to protect the poor who are vulnerable consumers. Second, it results in over-emphasis on microcredit and under-emphasis on fostering modern enterprises that would provide employment opportunities for the poor. More importantly, the libertarian proposition grossly under-emphasizes the critical role and responsibility of the state for poverty reduction

The proponents of microfinance point out that macro policies are important, but it takes time for them to have an impact; the poor are facing poverty and destitution at the present time. Therefore, tools for immediate action are necessary that would "directly attack poverty at the grass-roots level" and microfinance is one of the tools to achieve that. Furthermore, in many developing countries the poor are forced to take up entrepreneurial activities in the informal economy, as there are few other employment opportunities. However, to start or expand income-generating activities,

investment is required and the poor often do not have that capacity (Woller G.M. and Woodworth W. 2001:270).

Therefore, the role of microfinance is to provide credit that would enable the poor to take advantage of these productive activities, increasing the chances of the poor to escape or alleviate poverty (Woller G.M. and Woodworth W. 2001:270). In addition, the advancement of microfinance was assumed to be contributing to the development of the financial sector, which was considered as one of the prerequisites for economic development and growth. The expansion of the financial systems can be particularly important for the poor as developed financial systems help reduce income inequality by distributing it more fairly; the expansion may also mitigate poverty by alleviating credit constraints and by insuring against shocks (Claessens S. 2006: 209).

2.4 Microcredit definitions and key principles

2.4.1 Introduction

In various literature, the terms of microcredit and microfinance are often used interchangeably; however, it is important to highlight their differences because the terms are often confused. There are many terminologies that microcredit and microfinance are associated with and are commonly used; these include 'poor', 'poverty reduction' and 'loan interest rate'. 'Who are the poor?', 'what is poverty reduction?', and 'how are loan interest rates determined?' are important questions to be addressed to clarity these terms. A proper understanding of the terms used in microcredit and microfinance enable us to more clearly differentiate the objectives, the type of customers, procedures, and modalities of the microcredit providers. This also permits us to identify the areas of complementarity between microfinance and microcredit for collective social change. For the purpose of this study, the clarification of these terms is very crucial. The following are some of the definitions used in literature.

2.4.2 Definition of microcredit

Some of the definitions of **Microcredit, also** known as **micro lending** (see Table 2.2):

Table 2.2: Definitions of microcredit

	Definition	Author
1	An extremely small loan given to impoverished people to help them to become self-employed through income generating activities that will improve the borrowers' living standard. Usually the loan pays high interest rates because of the high cost in running micro credit programs.	Norhazian N. (2010:153)
2	The delivery to poor families and micro-enterprises of very small loans to help them engage in productive activities or develop their own tiny business. In contrast to the typical loan awarded by a commercial bank, a microcredit loan is basically an unsecured loan (where there is no perspective of the legal; enforceability of the security element). Microcredit loans are considered small in view of the local context and standards.	EUROPEAN COMMISSION (2008:3-4)
3	The most common microfinance product is microcredit: ideally a small loan that provides people with the means to invest in an income-generating activity, and thereby have a chance at increasing their financial capital.	Yunus M. (1999:298)
4	More narrowly, 'microcredit' emphasizes the provision of credit services to low-income clients, usually in the form of small loans for micro enterprise and income generating activities. It has been argued that 'microcredit' should really be called 'micro debt'.	Ledgerwood J. (1999:2-34)

Microcredit is not only one of the main products in any microfinance scheme but also one of the 'established' identities of microfinance. Some pioneer providers still like to keep the name microcredit, though they also provide other financial services along with savings and credit (UN-HABITAT 2011:47).

Mohammad A.K, Suman D., and Mohammad S.I (2012:33) summarize the major objectives of microcredit schemes as follows:

1. To stop the exploitation of the poor caused by expensive informal credit;
2. To provide small loans to poor people at a relatively lower cost as compared to accessible informal loans;

3. To finance economically and socially viable projects that cannot be financed otherwise;
4. To empower women within households as decision makers and in society through active economic participation;
5. To create maximum employment opportunities;
6. To create self-sufficient and self-employed people and most importantly;
7. To reduce poverty, accelerate growth and improve the living standards on a sustainable basis.

2.4.3 Definition of microfinance

Table 2.3: Some definitions of microfinance

	Definition	Author
1	'Banking for the poor.' Microfinance programmes provide loans, savings and other financial services to low-income and poor people for use in small business.	Chris Okoye S. (2008:9)
2	A range of financial services (credit, savings mobilization, insurance schemes, payment systems, etc.) aiming at serving the poor population (normally neglected by the formal financial system made up of both micro enterprise and poor households)	EUROPEAN COMMISSION (2008:3-4)
3	As the supply of small-scale financial services such as credit, savings accounts and insurance to poor and low-income people. Microfinance is also called 'women's finance' or 'poor man's finance'.	United Nations (2005:1-2)
4	A small-scale financial service, primarily credit and savings, provided to people who operate small enterprises or micro enterprises at the local level of developing countries in both rural and urban areas.	Robinson M. (2001:29-71)
5	Programs that extend small loans to poor people for self-employment projects that will generate income	Woodworth G.M. and Woller W. (2001:267-278)
6	As '"small loans offered to poor households to foster self-employment and income generations" defined by the founder and director of the microfinance organization Bangladesh Rural Advancement Committee (BRAC).	Abad H. (2000: 2)
7	A provision of a broad range of financial services such as savings, credit, insurance and payment services to the poor or low-income group who are excluded from the normal banking sectors	Legerwood J. (1999: 2-34)

Microfinance is a much-researched area of study; however, although there is significant literature on microfinance, there is hardly any agreement on a universally accepted definition of microfinance. Researchers and microfinance practitioners are divided in their opinions when it comes to microfinance, its range and its recipients. As Sriram M. and Upadhyaula R.S. (2002:1) said, “it appears that what microfinance means is well understood, but not clearly articulated”.

In a narrow sense, microfinance is often referred to as microcredit for the tiny informal businesses of micro-entrepreneurs; the services are mainly delivered by socially oriented non-governmental organizations (Christen R., Lyman T., and Rosenberg R. 2003:1-14).

From the above definitions it can be observed that:

- The definitions of Microfinance and micro credit proposed by some authors and organizations are seemingly different from one another. Microfinance is seen as comprehensive services while microcredit is not. Microcredit is part of microfinance, which includes other services. However, the essence of the different definition is basically the same.
- In all definitions, the most commonly used terms are: “the poor”, “low-income people”, “income generating” “un-banked”, “banking for the poor”, “small loan”. Therefore, microcredit is a component of microfinance that involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services. As Woller G. and Parsons R. (2002:133-136) described it, microfinance was the second revolution in credit theory and policy. The first revolution was microcredit.

In the field, Gert M. (2004:17-75) noted that MFI practitioners make no sharp distinction between microcredit and microfinance. Originally, the concept of microcredit was used for small loans to poor individuals to finance ‘income-generating investments’. When MFIs started to add other financial services such as savings (and later insurance), the concept of microfinance was introduced to make it

clear that the product range was broader than just credit. There is, however, no sharp line dividing the two. MFIs are free to use the label they want. From a management point of view, the distinction is relevant, because in the case of larger loans and a wider range of financial service, the staffs of the MFI need to have more banking skills than in the case of microcredit only.

Even though most literature uses microfinance and microcredit interchangeably, the main focus of this study is on microcredit.

2.5 Key principles of micro-credit / finance

As noted above, the interchangeable usage of microfinance and microcredit is still reflected in the guiding principles of microfinance postulated below. However, these key principles of microfinance can help us to evaluate how microfinance and microcredit are consistent in implementing these principles.

Yunus M. (2006:1-4) describe the general features of Grameen credit as follows:

1. It promotes credit as human rights.
2. Its mission is to help the poor, particularly poor women.
3. The most descriptive feature of Grameen credit is that it is not based on any collateral or legally enforceable contracts. Rather, it is based on 'trust', not on legal procedures and systems.
4. It is offered to create self-employment through income–generating activities and housing for the poor, as opposed to consumption.
5. It was initiated as a challenge to conventional banking, which rejected the poor by classifying them to be 'not creditworthy'. As a result, it rejected the basic methodology of conventional banking and created its own methodology.
6. It provides service at the doorstep of the poor, based on the principle that the people should not go to the bank, the bank should go to the people.
7. In order to obtain loans, a borrower must join a group of borrowers.
8. Loans can be received in a continuous sequence. A new loan becomes available to a borrower if her previous loan is repaid.

9. All loans are to be paid back in instalments (weekly, or bi-weekly).
10. A borrower can receive more than one loan simultaneously.
11. It comes with both obligatory and voluntary savings programmes for the borrowers.
12. Generally, those loans are given through non-profit organizations or through institutions owned primarily by the borrowers. If it is done through for-profit institutions not owned by the borrowers, efforts are made to keep the interest rate at a level, which is close to a level commensurate with sustainability of the programme rather than bringing an attractive return for the investors. Grameen credit's rule of thumb is to keep the interest rate as close to the market rate prevailing in the commercial banking sector, without sacrificing sustainability. In fixing interest rates, the market interest rate is taken as a reference rate, rather than the moneylender's rate. Reaching the poor is its non-negotiable mission. Reaching sustainability is a directional goal. Grameen credit gives priority to building social capital.

Of the issues delineated above by Yunus M., the most important are the issue of fixing the interest rate as 'market interest rate' and 'reaching the poor' as a non-negotiable mission'. These two are also the most debated areas in the microfinance area in general and microcredit in particular.

2.6 Microcredit modality

The following are the most widely acknowledged microcredit modalities.

a) Minimalist vs. integrated approach

Wood G.D. and Sharif I.A. (1997:7) demonstrate that, from their point of view, microcredit institutions operating on the minimalist model of poverty alleviation are concerned with setting up viable, financially sustainable credit delivery mechanisms. Thus, the delivery of microcredit enables the programme to meet the operational costs of the intervention. Client participation tends to take the form of mobilization of client skills and resources to reduce lenders' transaction and

information costs. Wright G.A.N. (1999:41) emphasizes this approach, often used 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.

Johnson S. and Roglay B. (1997:118), in contrast to the minimalist approach, promote the integrated approach, referred to as the 'credit-plus approach', which is grounded within an empowerment framework and attempts to deal with the structural causes of poverty through microcredit delivery. Furthermore, McKee K. (1989:993) noted that it is a comprehensive approach aimed at providing a long-term integrated support package, in which loans are combined with social mobilization, participation, training and education to maximize the income, opportunities and empowerment impacts. In other words, it incorporates financial and social development issues under its mandate.

b) Individual vs. group credit model

Armendariz B. and Jonathan M. (2000:410-412) mentioned that most individual microcredit institutions provide financial services only to entrepreneurs who are able to pledge collateral. Collateral, covering 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 including adverse selection, moral hazard, and repayment enforcement. Borrowers with satisfactory repayment records may receive access to further loans of increasing amount.

Armendariz B. et al (2000:410-412) reveal that one of the most serious weaknesses of the individual micro-lending contract is that in a highly competitive environment, the incentives created by progressive lending can be a severe limitation. They concluded that the greater the likelihood of refinancing by a second lender, the weaker will be the incentive to repay the first lender.

Additionally, Armendariz B. et al (2000:410-412) clarify that the 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 are jointly liable for the loans of their group, had a vested interest in choosing trustworthy partners.

Commenting on the advantage of group lending, Joseph E.S. (1990:351-352) points out that 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 discourages default among the borrowers. 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.

Regarding joint liability, Kritikos A.S. (1999: 393-394) indicates that if any borrower fails to repay (or makes a 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. Therefore, the group is motivated either to repay for the delinquent partner, or to exert social pressure to make him reconsider his repayment decision. As a consequence of this set of incentives, lenders are able to achieve the repayment of the loans with high probability of success.

Moreover, according to Kritiko A.S. (1999: 393-394), the main problem of the joint-liability mechanism is that, at the worst, one defaulting member may cause a domino affect when the fellow group members are not able (or willing) to cover his/her instalments. This outcome is disadvantageous for the microcredit institutions (in particular in comparison to an individual lending scheme) because all other group members, except the defaulting borrower, could have repaid their loans.

c) Subsidized credit vs. market interest rates model

Under the subsidized credit model, credit was subsidized because the poor had no capacity to pay a high interest rate. Government and donors subsidize microcredit 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 increase impoverishment in that it increases their debt and the program often does not reach low-income groups (Robinson M. 2001: 29-71).

On the other hand, the market interest rate model refers to a rate that arises from the interplay of supply and demand in a defined range of transactions. The market rate refers to the rate at which commercial banks and their conventional customers conduct deposit and loan transactions (Robinson M. 2001: 29-71).

d) 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 (Jonathan M. 1999: 1569-1614).

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; hence they can secure part of the loan repayment even if projects fail (Nissanke M. 2002: 5).

Regardless of the borrower's income and profit from the credit, both progressive lending and frequent repayment models treat the repayment modality as a mechanism to secure repayment and reduce client's defaults. The difference between the two models is that the progressive lending model handles repayment with an incentive mechanism while the frequent repayment model focuses only on the repayment mechanism, without any incentive to the borrowers.

e) Consumption smoothing vs. productive use model

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 D., and Mosley 1996:119-221). Consumption smoothing could be considered as one of the important impacts of microcredit for the poor. The effect of high interest rates on the poor from the perspective of Sen's, A. (1999:47) in 'Development as Freedom', is important. He notes that "when you have nothing to eat till the harvest, you may be willing to pay a lot for a loan: yes, the interest will cost you tomorrow, but if you do not eat, there will be no tomorrow". Thus, the impact of microcredit for the poor should go beyond the slight improvement of consumption smoothing of the poor households. Consumption smoothing is a means not an end of the objective of microcredit services.

Weiss and Montgomery (2005:395-396) identified two purposes of microloans. The 'protection loan' allows the borrowers to deal with their immediate needs. The 'promotional loan' is for investment purposes.

2.7 Financial sustainability, outreach, and impact

Outreach is traditionally conceived as consisting of two dimension, breadth and depth. Schreiner M. (2001:1-10) proposes that outreach consists of six dimensions, each of which arguably has a component social value. He defines the six dimensions as follows:

1. *Worth of Outreach:* The client's willingness to pay. "Worth hinges on the terms of the financial contract and on the tastes, constraints, and opportunities of clients". Repeat purchases are the simplest and most straightforward measure of worth. Several relatively simple measures of dropout have already been proposed. Indices of customer satisfaction are also useful and relatively simple indicators of worth.

2. *Cost of Outreach:* "The sum of price costs and transaction costs". In other words, the interest rate charged on loans and client transaction costs. In lieu of actual interest rates, the portfolio yield is a simple and widely available proxy. In lieu of actual transaction costs (admittedly very difficult to estimate), proxies may be used, such as the average time spent in meetings per week, the average time and distance required to travel to conduct financial transactions, the average time spent completing the loan application, or the average time elapsed between the loan application and loan disbursement.
3. *Scope of Outreach:* "The number or types of financial contracts (products and services) supplied". That is, the number of different types of loan, savings, insurance, and other products offered broken down by product lines or product types.
4. *Length of Outreach:* "The time frame of the supply of microfinance". This includes the financial self-sufficiency or some other indicator of financial performance, such as return on equity, profit margin, or return on assets, in addition to indicators that suggest institutional sustainability, such as operational self-sufficiency, number of years of operation, average yearly change in equity (regardless of source), average yearly cash flow, portfolio-at-risk, loan write-offs, or customer satisfaction indices. Additional indicators explicitly recognize that financial self-sufficiency is neither necessary nor sufficient for institutional sustainability, and they give other relevant factors weight in assessing length of outreach.
5. *Depth of Outreach:* "The value that society attaches to a net gain of a given client" or the average loan size broken down by size dimensions. Average loan size by itself is a blunt and possibly inaccurate measure of depth. According to Schreiner M. (2001:1-10), a more useful way to use average loan size is to break it down into its seven distinct dimensions, each of which, as Schreiner demonstrates, can be measured: dollars disbursed, average balance, term to maturity, dollars per instalment, time between instalments, number of instalments, and dollar years of borrowed resources. Smaller values along each dimension generally mean smaller loans and poorer borrowers. Using each of the seven dimensions gives a fuller understanding of loan size and depth of outreach, and it avoids the deficiencies of relying

solely on average loan size or the average loan size as a percentage GNP per capita.

A true measure of depth of outreach also requires that the poor who save but do not borrow be counted. At MFIs that offer both loans and voluntary savings, the number of savers typically exceeds the number of borrowers by large multiples.

6. *Breadth of Outreach:* “The number of clients” or the number and percentage change of clients served. For a more complete understanding of breadth, the number and percentage change of clients served should be broken down by major products lines or product types, such as enterprise loans, consumption loans, savings, and insurance.

Navajas S., Schreiner M., Meyer R.L., Gonzalez C., and Rodriguez J. (2000:335-346) similarly indicated that there are six aspects of measuring outreach: *depth, worth of users, cost to users, breadth, length and scope.* Here the depth of outreach refers to "the value the society attaches to the net gain from the use of the microcredit by a given borrower. This measure is to identify the poor clients because; the poor are the ones who fail to get access from formal financial institutions as they fail to demonstrate that they can repay their loan. Worth of outreach to users refers to "how much a borrower is willing to pay for a loan”. Similarly, cost of outreach to users refers to "the cost of a loan to a borrower". These costs to users might consist of costs like interest rates and various payments that they have to pay, which could be revenue to the lender as well as other loan related transaction costs like expenses on documents, transport, food, taxes, etc.

Furthermore, Navajas S., et al. (2000:335-346) elaborate that social value is determined by the interaction of each of the six aspects of outreach. No single aspect or combination of aspects can be considered in isolation from the others, thus rendering as moot the dichotomous trade-offs implied by the outreach-versus-sustainability debate. Three simple examples will illustrate this point.

1) *An MFI adopts a poverty-targeting tool that increases administrative costs*. Depth of outreach increases, but breadth of outreach decreases, because the

marginally poor and non-poor are now excluded from access to loans. If the costs to administer the tools are passed on to customers, cost of outreach increases, but if they are not, operating margins fall, and length of outreach may fall. If the MFI goes down market with appropriate products and services and with appropriate terms, worth and scope of outreach increase, as does length. If not, then length, worth, and scope of outreach all decrease.

2) *An MFI charges a high rate of interest that covers operational, funding, and imputed funding costs*. Breadth and depth of outreach fall (assuming reasonable price elasticity), cost and length of outreach increase, and worth of outreach falls, all else being equal. Scope of outreach is unchanged.
3) *An MFI offers savings with flexible terms*. Scope and worth of outreach increase. Breadth and depth of outreach also increase, because people who do not operate businesses or are otherwise too poor to borrow can still save. Length of outreach increases, because savings are a more stable source of long-term funds than donations. Relative to donated funds, the cost of outreach increases, but relative to commercially borrowed funds, cost of outreach falls.

There are different arguments concerning how to evaluate the performance of microfinance institutions. Meyer R.L. (2002:2-5), Citing from Zeller 2002:3 indicated that there is what is called "Critical Micro-Finance Triangle" that we need to look at to evaluate Micro-finance institutions based on their objective. The triangle can be depicted as below (Meyer R.L. 2002: 2-5).

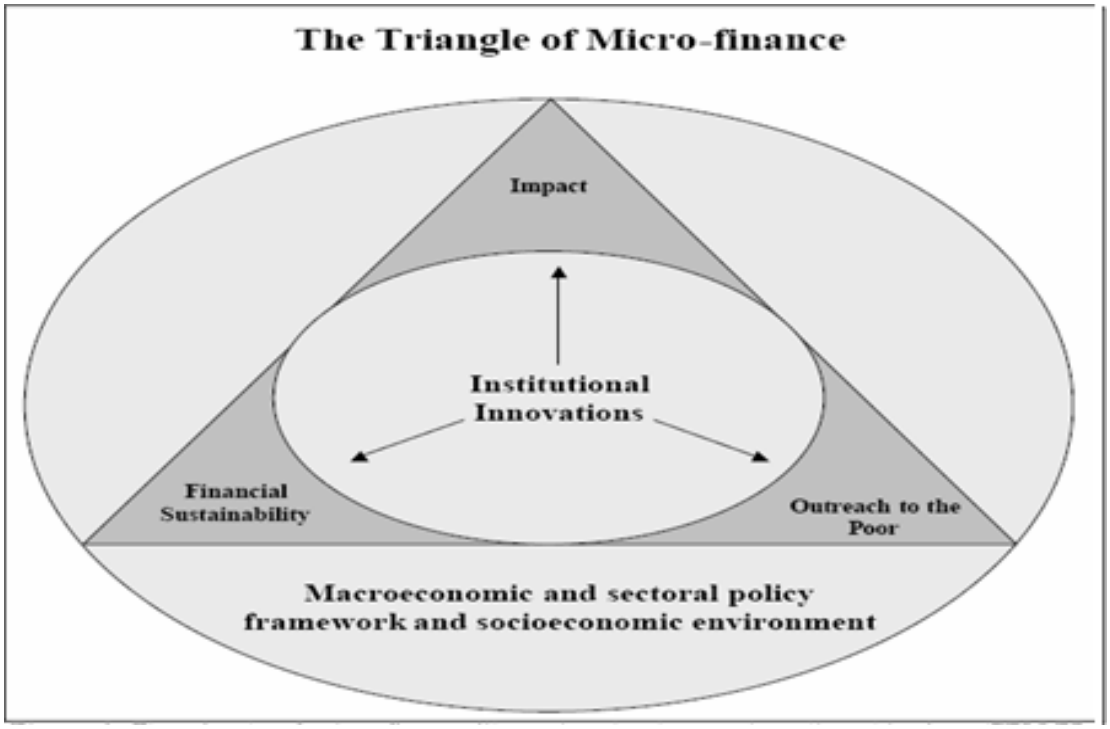


Figure 2.2: Critical microfinance triangles
Source: Meyer R.L 2002:2-5

Meyer R.L (2002: 2-5) explains that the corners of the triangle represent *outreach to the poor, financial sustainability* and *welfare impact.* Further, “performance criteria are required for each objective and all three must be measured thoroughly to evaluate micro-finance performance". Meyer also explains that "the inner circle in the Figure represents MFI innovations in technology, policies, organization, and management that affect how well each objective is met. The outer circle represents the environment within which micro finance operates that also affects performance. This environment broadly includes the human and social capital possessed by the poor, the economic policies of the country, and the quality of the financial infrastructure that supports financial transactions. Improvements in the environment make it easier for MFIs to reach the three objectives".

It is argued that the length of a loan matters, because if the microfinance institutions support the poor only in the short run, it will hamper the social welfare of the society in the long run. For example, if the client of the microfinance institution knows that he/she will not receive an additional loan in the future they would have no incentive to repay their loan and a short-term loan would worsen the welfare of the poor (Navajas S., et al. 2000:335-346).

Meyer R.L. (2002:2-5) also stated that the financial unsustainability in the MFI arises due to a low repayment rate or if funds promised by donors or governments do not materialize. He also mentioned that there are two kind of sustainability that we could observe in assessing MFIs performance: operational self-sustainability and financial self-sustainability.

Arguing that some trade-offs exists between financial self-sufficiency and depth of outreach, Gary W., and Mark S. (2002:13-22) concluded that the two are not mutually exclusive, arguing instead that they are or can be complementary. This does not imply that there are no trade-offs between the two however. For example:

- A poverty lender that follows a best practice convention and charges an interest rate exceeding its operating costs, funding costs, and imputed funding costs while in the process of achieving financial self-sufficiency, it will necessarily price certain market segments, including presumably segments of the poor, out of the market for loans, assuming a reasonably elastic demand curve. Thus, even though the MFI might achieve a reasonable depth of outreach, its depth of outreach will still be lower than it would have been had it charged a lower interest rate or had it been willing to accept donated or below-market funding.
- In contrast, another poverty lender might be so focused on reaching poor borrowers that it overlooks legitimate market opportunities to serve a somewhat better off clientele as well. By thus failing to take advantage of potential benefits of cross-subsidization, the MFI jeopardizes its long-term financial viability. To compensate, it charges a higher interest rate, thereby pricing certain poor clients out of the market.
- Finally, consider a poverty lender that has achieved admirable financial self-sufficiency and depth of outreach as a result of offering a narrow set of standardized products coupled with highly inflexible loan terms. Its 'success', however, may be accompanied by a high rate of client desertion, because the range and quality of products offered do not meet clients' needs or create value commensurate with the products' high price. As a result, short-term success threatens long-term viability.

Based on the above examples, Gary W., and Mark S. (2002:13-22) demonstrate that the relationship between depth of outreach and financial self-sufficiency is multidimensional. The two do not stand in stark contrast to each other, locked in a duel for supremacy, but each relates to the other indirectly through a myriad of intervening factors. Viewed in this way, their end or ultimate relationship in a given situation may go in either direction. In this, a critical conceptual flaw emerges in microfinance, which has significant implications for poverty lenders.

Supporting the opinion of Gary W., and Mark S. (2002:13-22), Meyer R.L (2002:2-5) clarifies that outreach and financial sustainability are complementary; as the number of clients increases, MFIs enjoy economies of scale and hence reduce costs that helps them to achieve financial sustainability. On the other hand, Hulme D., and Mosely P. (1996:119-221) argued that there is an inverse relationship between outreach and financial sustainability. Here the argument is that higher numbers in outreach mean higher transaction costs in order to get information about creditworthiness of clients and hence make MFI financially unsustainable.

2.8 Combining outreach and sustainability

Figure 2.4 is a matrix, which is split into four sectors signifying the integration of conflicting goals of sustainability with outreach in the microcredit industry.

1. This is the ideal position for achieving the twin goals of sustainability and outreach to clients. It would resemble microfinance banks that are able to combine the best practice of their formal banking experience in terms of sustainability along with the development non-governmental organizations' (NGOs) goal of reaching numerous low income people. A good example of this financial lending approach would be BRI (Bank Rakyata Indonesia).
2. This portrays the official traditional banking segment that is equipped to address sustainability but has little exposure to poorer clients.
3. This is the worst possible situation and relates to institutions, probably NGOs, that are unsustainable and are not reaching their poor clients.
4. This is representative of many NGOs that are attempting to provide credit to their clients but since they are heavily subsidized there is little illustration of

sustainability. An example would be Grameen Bank (Fisher T., and Sirma M.S. 2002:20).

	High sustainability		
Low access	**2.**Unsustainabie financial services with low access by target clients	**1.** Sustainable financial services reach target clients	**High access**
	3. Highly subsidized financial services with low access by target clients	**4.** Highly subsidized financial services reach target clients	
	Low sustainability		

Figure 2.3: Outreach and Sustainability Matrix
Source: Fisher T., and Siram M.S. 2002:20

There is no consensus around which is the better approach. Schreiner M. (2001:1-10) pointed out that the outreach approach helps to serve a greater number of the poorest people, but it offers only short-term solutions, while the sustainability approach strives to provide financial services to the less poor and stands for a long-term solution. He further noted that the objective of sustainability provides more incentives and motivation for innovations and improvement of efficiency.

In support of the outreach approach, Conning J. (1999:55-57) argued that striving for self-sufficiency would exclude the poorest borrowers from the target group, since they induce the highest costs. This would also divert the attention from important social goals such as empowerment. The pursuance of financial objectives also requires strict policies toward the collection of loan instalments, high interest rates to cover the administration and operational expenses and less flexibility, which could adversely affect the clients' possibilities to continue the banking relationship.

The empirical examination showed that it is possible to achieve trade-offs between sustainability and outreach and to successfully become self-sufficient while

accomplishing the goal of serving the poor. However, if trade-offs can be attained in one environment it does not necessarily follow that it can be achieved in all environments. The external factors like regulatory mechanism, infrastructure, client's education level etc., as well as internal factors such as staff incentives, management, the range and quality of services and products provided etc. differ from one country to another; thus, one experience cannot be easily replicated and implanted in another environment (Jonathan M. 1999:1569-1614).

Further, in a report prepared for the 2011 Micro Credit Submit, Waterfield (2011, no page number) argues that 'the pricing of microloan products forms a critical component in achieving the delicate balance between being financially sustainable and socially responsible'. He calls for 'responsible commercialization' in the sector, which is related to three intertwined factors; the delivery costs of the microfinance institution, the product prices that institutions charge, and the prices that clients can afford.

2.9 Microcredit and the poor

2.9.1 Microcredit and serving the poor

Yunus M. established the Grameen Bank, which is the most well-known microcredit organization, after he concluded that "people are poor because they have no money". Redefining poverty as the victimization of the poor placed the fault on societal structures and institutions rather than on the poor themselves. This paved the way for Yunus' M. Grameen Bank to offer financial services to the poor. Because the poor simply do not have money, Yunus M. set out to prove that they are not risky borrowers or prone to default on loans. Rather, when provided with funds, he predicted they would invest in income-generating projects to improve their standard of living. Yunus' M. new perspective on poverty has forced the financial world to consider the social good and even the profitability of lending to the poor (McMillan C., and Hanley M. 2003:2).

Sunita P. (2003:9-21) describes that one of the misconceptions amongst practitioners is that an MFI targets the poorest of the poor, the landless, those

without assets, and the destitute. However, the study has demonstrated that for an MFI such a client profile will not ensure returns and increase profits. It is precisely such a beneficiary profile that is unattractive and and thus the client is unlikely to become a potential borrower. The changing policy environment puts more pressure on and competition for the scarce resources between the poorest of the poor and the 'not-so-poor'.

Yunus M. (2007:69-96), the founder of Grameen Bank in Bangladesh and the originator of the concept of microfinance, believes that 5% of Grameen Bank's clients exit poverty each year. However, there are surprisingly few credible estimates of the extent to which microcredit actually reduces poverty. A recent study concluded by the Bangladesh Institute of Development Studies and the World Bank in Bangladesh provides a strong indication that Microcredit does help the poor in consumption smoothing as well as in asset building. Thus, the continuing intense debate about the impact of microfinance on poverty reduction is not surprising (Anis C. 2009:1-6).

Jonathan M., and Haley D. (2002:31) argue that microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorest strata of society. The poorest emerge from the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance. This shows that, for the poorest, losing access to microfinance is highly related to the exclusion of all types of basic social services.

Related to exclusion of the poor, Hasan M., and Iglebaek M. (2004:3-7) point out that many NGOs think it is impossible to reach the hard-core poor. Using the Grameen and other conventional models, only a few NGOs are trying to evolve different methodologies for reaching the poorest of the poor. While the group and standardized financial services system were introduced to bring the poor people, including the poorest, together in the same platform, the reality was that the extreme poor were being left out and this exclusion increased over time.

Others like Hulme D., and Mosley P. (1996:119-221) give limited evidence that microfinance increases income. Nevertheless, they also show that the impact highly depends on the level of income. Specifically, the poorest borrowers seem not to benefit from a sufficient income increase. To the contrary, Khandker R. (2005:265-266) found that access to microfinance contributes significantly to poverty reduction and that this is especially true for poor women. Not only participants seem to benefit, but the whole local community.

Navajas S., et al. 2000:335-346 stated that a growing body of evidence suggests that very poor households are excluded from accessing microfinance programmes. According to these authors, increasingly extremely poor people are seen to be dropping out of credit programmes after having failed to keep up with repayment instalments. Some critics also question the efficacy of microcredit in reaching extremely poor people. They argue that, while micro-credit has contributed positively to the wellbeing of poor people in general, it has failed to reach the poorest of the poor. Most microfinance institutions tend to serve not the poorest of the poor, but rather those near the poverty line.

Other researchers see 'targeting' by microfinance programmes as being effective in reaching the poorest of the poor. Even a well-designed microfinance programme is unlikely to have a positive impact on the poorest unless it specifically seeks to reach them through appropriate product design and targeting (Wright G.1999: 41). Experience has shown that unless there is a targeting tool, the poorest will either be missed or they will tend to exclude themselves because they do not see the programmes as being for them, do not have the correct clothes, etc., (Navajas S., et al. 2000:335-346).

Zoom (2004:1) describes three different ways that the issue is being approached.

1. Those who think that microfinance cannot really reach the poorest in a sustainable way;
2. In contrast, those who believe that such a thing is possible and can be accomplished at a large scale;

3. Finally, those who admit that it is not an easy task, but underline that research on innovative measures to consolidate microfinance services for the poorest must be maintained.

The first group denies that there is a demand while the second approach offers the opposite perspective: there is a strong demand for microcredits from the poorest. The intermediary approach considers that the poorest can profit from microfinance services as long as innovative models to facilitate their access continue to be developed. The approach also believes that subsidies play an essential role in developing sustainable mechanisms to reach the poorest (Zoom, 2004:1).

Related to reaching the ultra-poor, Fazle H.A (2000: 8-13) stated that it is a lesson learnt through experience that all the poor do not benefit from microfinance programmes. A question is very often raised: “if the microcredit programmes have not reached the poorest of the poor, how effective are they for poverty alleviation?”

Fazle H.A (2000: 8-13) explains that two decades of microfinance experience have generated the learning that NGOs are not unable to bring all poor in their fold, but that microfinance with its present structure and components is not necessarily the way out for the poorest. Experience also suggests that normal microfinance programmes cannot attract the extreme poor. Special programmes with start-up support, training in marketable skills, credit, and essential health care can be a useful development package for this group. It has also been observed that if safety nets and wage employments are provided, the ultra-poor could be attracted toward credit facilities.

Moreover, Fazle H.A (2000: 8-13) stated that there are many complex reasons why poor and low-income customers do not seek or are not offered more access to microcredit services. In some cases, there is a latent demand that innovative financial service providers can bring out. In other cases, the financial products or delivery methodologies currently being offered cannot satisfy the demand. In all cases, poor and low-income people want financial services that match their needs to better manage their households and businesses. Their requirements are practical

and convenient, affordable, flexible, permanently available, reliable and safe financial services.

Thus, analysing the effects and impacts of microcredit in general and the loan interest rate 'only' in particular is not easy. It calls for further empirical, comprehensive, and contextual studies, a major interest of this study.

2.9.2 Microcredit and the poverty pyramid

In line with the microfinance background, poverty is defined as: "a condition in which people lack satisfactory material resources (food, shelter, clothing, housing), are unable to access basic services (health, education, water, sanitation), and are constrained in their ability to exercise rights, share power and lend their voices to the institutions and processes which affect the social, economic and political environments in which they live and work" (Vandenberg P. 2006:14).

To address the diverse needs of different clientele in the microfinance sector, the microfinance network divided the microfinance sector into six different layers, according to its target borrowers or 'market'.

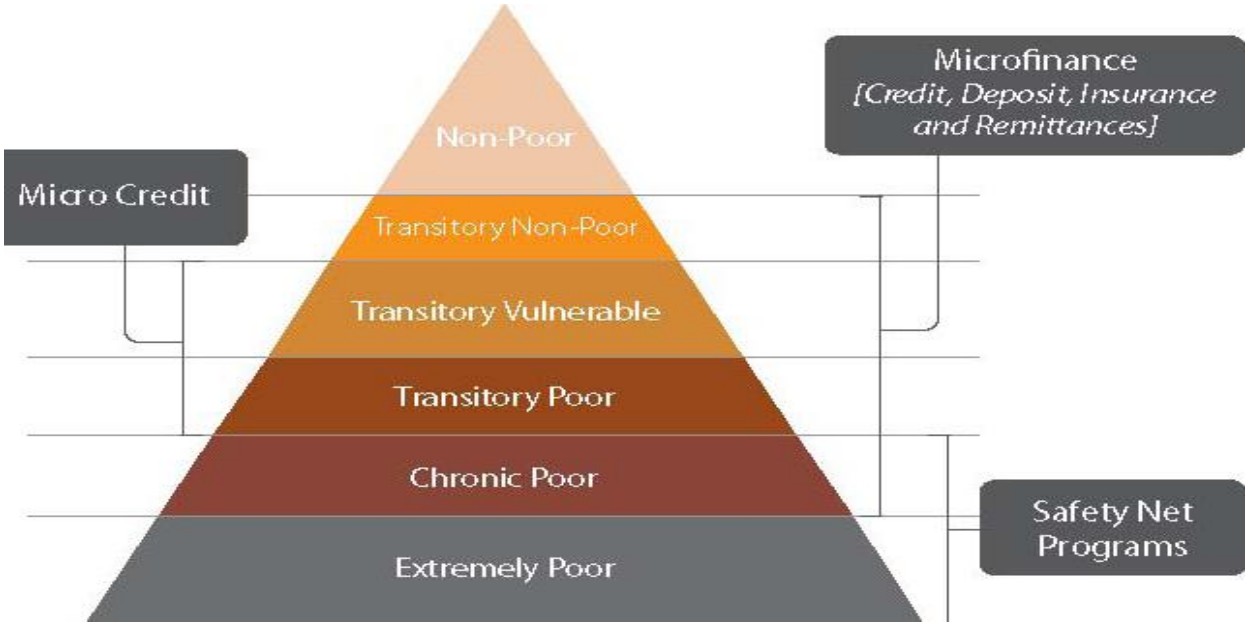


Figure 2.4: Microcredit and poverty pyramid

Source: (Pakistan Microfinance Review 2010:9)

The ‘extremely poor’ represents those individuals who suffer from several dimensions of poverty. These individuals suffer from food deficiencies; they are unable to fulfil the basic needs of all family members, or they are unable to give basic education to their children and, in the case of unemployment, one of the family members may beg to support the family. These conditions can only be alleviated by government and other donor subsidies/grants which provide food, employment and other basic requirements (Robinson M. 2001:29-71).

Hulme D., and Mosley P. (1996:119-221) suggested that when loans are provided to the extremely poor, they may not be able to use it effectively because of lack of self-employment opportunities; that is why these extremely poor remain outside of the conventional microfinance programmes. Moreover, it can put them into indebtedness.

Yet another category of poor who experience intense poverty is the ‘chronic poor’. This consists of people who experience poverty for long periods of time or throughout their lives. Over half of the poor are these individuals or households, a varied group who commonly live in remote rural areas, suffer from disabilities, lack social networks and/or experience social discrimination in its many and diverse forms (Hulme D. 2003:399).

However, those in some of the upper categories of the pyramid in Figure 2.4, such as ‘transitory poor’ and ‘transitory vulnerable’, are part of microcredit as well as microfinance programmes. Transitory or ‘transient poverty’ can be defined as the temporary state of poverty which lasts for a short period of time; however, they are highly vulnerable people who can slip into the chronic or extremely poor category with a slight adverse shock in their life, such as the death of a sole earner etc. Microfinance services can help these groups of people to overcome poverty (Jalan J., and Ravallion M. 2000:82).

Microfinance banks offer services to the poor who are ‘economically active’ and generally speaking, NGOs will serve the poorest of the poor or chronic poor whose needs are different. ‘Economically active’ refers to those who have some form of work and do not suffer severe food shortage (Robinson M. 2001:29-71).

2.9.3 Targeting tool of microcredit and the poor

The mission and target of an MFI strongly depends on its institutional form. NGOs, as donor-financed structures mostly directed toward social and economic welfare, chiefly target the poorest, lending very small amounts with a higher risk of default. However, given their limited resources, their overall outreach is not as great as that of the banks, which explains the following comment from Dichter T. (1999:2-3): "Commercial banks serve more underserved poor clients than do NGOs." Moreover, the author notes another difference in targeting: "NGOs tend to offer small and short-term loans in the service, small manufacturing and commercial sectors, while banks and credit unions are more likely to provide funds for agriculture, housing and consumption as well".

Ledgerwood J. (1999:2-34) also clarifies that targeting the poor clients depends on the objectives of the microfinance service provider and the perceived demand for financial services. These objectives include: to reduce poverty, to empower women or other disadvantaged population groups, to create employment, to help existing businesses grow or diversify their activities, to encourage the development of new businesses etc.

Ledgerwood J. (1999:2-34) classified targeting the poor into direct or indirect. Direct targeting refers to the allocation of a specific amount of funds to provide credit to a particular sector of the economy or population like poorest of the poor, women, the indigenous population or the economically active poor whereas indirect targeting is when the service is designed to exclude the non-poor through relatively high interest rates, small loan sizes, group guarantees and the holding of compulsory regular meetings to qualify for loans and to make repayments.

Why target? Julie V.D. (2007:9) notes that governments may seek to target resources to poor communities and households for a variety of reasons:

1. To increase overall economic growth rates as persistent inequalities can be a drag on economic growth;

2. To promote more balanced growth and development between regions via targeted infrastructure and service development in underserved areas;
3. To optimize resource expenditures in the face of budget constraints. Public funds are limited and leakage of budget resources outside of the intended beneficiary group has opportunity costs and inefficiencies;
4. To redistribute wealth via public resources transferred to poor households in order to pursue societal equity objectives;
5. To maximize impact on key development indicators. To meet the Millennium Development Goals, like substantial reductions in infant and maternal mortality, Governments may get the biggest bang for their buck by targeting investments where service coverage or welfare rates are lowest.
6. To solidify nation-building, reduce conflict and/or ease regional or interethnic tensions, for example by ensuring that investments reach minority groups or hinterland areas; and
7. To address crisis and vulnerability, Government's may develop targeted programs to respond to natural disasters that affect a certain portion of the population, like earthquakes, drought or locust invasions, or more generalized risks and shocks such as malaria or malnutrition against which a certain segment of households are particularly vulnerable.
8. To support political objectives, particularly in democratic settings where delivering services to the poor and underserved regions are typically a strong part of electoral promises.

Further, Julie V.D. (2007:9) describes that there is no 'one size fits all' targeting strategy. The best targeting mechanism will reflect the local context, including institutional frameworks, information availability, degree of inequality, governance factors, and the demographic profile, including presence of ethnic minorities. Design of targeting mechanisms should be explicitly linked to a program's objectives.

Discussions on the role of microfinance in poverty eradication lead us to question whether microfinance effectively caters to its target groups and Brau J., and Woller G.M (2004:3-5) outline two main issues in client targeting. These are gender targeting and poverty targeting.

In addressing approaches for targeting the poor, Par Verónica G.A (1999:4) makes clear that MFIs have developed a range of strategies to identify the poor. These poverty-targeting strategies include several complementary components:

- Ways of identifying the poor;
- Ways of attracting the poor;
- Ways of excluding the non-poor; and
- Ways of discouraging the non-poor.

For effective targeting, all these components have to be included in a complementary way.

Hulme D., and Mosley P (1996: 119-221) reveal that while targeting the poorest is critical to our ultimate goal of poverty reduction, if a program is not able to undertake this activity in a cost-effective manner, the potential to achieve IFS (Institutional financial self-sufficiency) might be greatly reduced or even eliminated, jeopardizing the long-term viability of a program.

Hulme D., and Mosley P. (1996: 119-221) raise the concern that "targeting on the poor of credit imposes costs of research (finding out who is eligible), communication with the eligible and monitoring to prevent access by the ineligible, which may, if pushed too far, outweigh the benefits of poverty reduction". Fortunately, proven, cost-effective strategies have been developed and refined which enable programs to identify the poorest while also maintaining the quality measures necessary to ensure that only the poor and poorest are admitted to the program (David S.G and Jennifer W.M. 2000:25-26).

Regarding targeting failure, Jonathann M., and Haley D. (2002:31) reveal that there are a few microcredit institutions that have specific aims to target the poorest; however, even with high levels of commitment to the goal of targeting there is evidence that the focus on the poorest has to be constantly re-evaluated as mission creep can lead to a tendency to focus on better off clients.

Related to methods of exclusion, Simanowitz A., and Walter A. (2002:40-41) note that microcredit institutions exclude the very poor in a number of ways. These exclusions take several distinct forms; some are deliberate while others are inadvertent. The forms of exclusion of the poorest clients include:

1. *Formal exclusion by the institution.* The institution has eligibility criteria that will formally exclude certain individuals. For example, borrowers may need to have an existing micro-enterprise to qualify for a loan.
2. *Informal exclusion by clients.* A lack of confidence could result in poor persons excluding themselves from applying for a loan on the assumption that the credit services offered by the institution are not for them. Where group-based lending is in operation, groups can exclude the poorest in society due to stereotypical reasons such as perceived laziness or uselessness; thus, with group liability some are excluded due to being perceived as too great of a risk.
3. *Client exit.* If the institution is not implementing pro-poorest policies, a client may choose not to take out subsequent loans after their first, and therefore exit the organization, often without fanfare.
4. *Informal exclusions by the institutions.* Cultural or methodological biases may exclude very poor clients who should not formally be excluded. For example, loan officers' perceptions of the poorest may lead them to deem the client too much work to warrant inclusion in the program. Also, the terms of a loan such as compulsory savings, mandatory loan size increments and group liability rules may further informally exclude potential customers.

On how to effectively target the poor, Alison M. (2001:6) reveals the following ways:

1. *Ways of identifying the poor* - All the groups had a geographic focus, which specifically targeted communities with certain income characteristics. Various techniques, from surveys to census, were used to identify which communities qualified. Within these communities, attempts were also made to rank the wealth of various individuals and develop ways to identify the poor and exclude those who should be outside of a program.

Means tests are used in some cases, housing indexes in others. Targeting women has often been used since research has shown that women are more likely to channel resources for the benefit of the family and are in the lowest income categories.

2. *Ways of reaching the poor* - Most of the programs had active promotion of the microfinance services within the targeted area by field workers, including house-to-house visits, community meetings, and promotion to existing groups.

3. *Ways of attracting the poor* - The techniques for delivering savings and credit programs need to be done in a manner which recognizes the specific needs and constraints of the poor. The poor have limited access to formal financial services partly because of the manner in which they are delivered. A spectrum of techniques is used by MFIs which overcome these hurdles including: developing innovative methods to deliver services; replacing collateral requirements with group guarantees; having a simple application process; and having low savings and loan limits.

4. *Ways of excluding or discouraging the non-poor* - Two primary vehicles are used to exclude or discourage the non-poor in the targeted communities from participating. The first is self-exclusion. Many features of MFI programs are not attractive to the non-poor. For example, high interest rates, small loan sizes, and frequent group meetings partly discourage the participation of the non-poor who see these as high costs for accessing the services. The second technique is establishing eligibility criteria that focus on factors such as minimum levels of income, observable housing characteristics, or other assets.

It is unrealistic to expect all microcredit institutions to target the poorest. However, it is important that they are all mindful of the mechanisms of exclusion outlined above when they develop their policies. Honest and transparent representation of the institution's targeted population allows other institutions to develop strategies for those not targeted, which this study is looking for.

2.9.4 Cost-effective targeting

David S.G., and Jennifer M.W (2000:25-36) explain that instead of using the style of the house, PWR relies upon the knowledge of the villagers themselves to identify the poor and poorest among them, eliminating the initial interview process. Villagers are called upon to map the village and to rank households into groups by poverty status; only then do field staffs interview those who have been identified as eligible. On average, both methodologies take about five minutes per poor and poorest household.

Finally, David S.G et al (2000:25-36) recommend that the key is increasing cost-effectiveness so that the appropriate interest rate to the poor and the poorest can be minimized. Furthermore, the authors elaborate the key steps to increasing institutional efficiency as:

1. Cost-effective targeting;
2. Maximizing both institutional and field staff efficiency through management information systems, formal business planning, maintenance of loan portfolio quality with client incentives, and staff incentives; and
3. Customizing financial products. For mainstreaming to occur in some of the poorest countries, key policy changes will have to take place. First, interest rate caps on loans to the poor and poorest must be removed where they still exist. Second, a suitable legal identity for providing microfinance to the poor and poorest (perhaps exclusively, to minimize leakage to the non-poor) has to be created and provided with a regulatory system supportive to the overriding objective of reducing poverty through the provision of microfinance to the poor and poorest.

Moreover, to maximize their benefits to the poor and poorest, David S.G et al (2000:25-36) emphasize the MFIs could be sold (franchised) to their clients once they attain institutional financial self-sufficiency (IFS). The Grameen bank, which is majority owned by its clients shows that this is possible. In this way, the poor and the poorest would be able to enjoy some of the profits of providing them with financial services. Also, this should remove any remaining concern about charging

them ‘high’ interest rates. Finally, it would free the franchiser to get on with establishing more franchises to reach and benefit more of the poor and poorest households, although it would have to ensure that quality was maintained in the franchises according to the franchise agreement. In this way, truly large numbers could be reached and assisted out of poverty.

2.9.5 Exclusive Focus on the Poor and Poorest

Christen R.P., Elisabeth R., Robert C., Vogel, and Cressida M. (1995:24) pointed out that by focusing their efforts exclusively on the poor and the poorest, MFIs can use funds allocated for their use most effectively and efficiently. As these funds are normally limited in supply, it is vital to ensure they get into the hands of the intended beneficiaries. Leakage to the non-poor should be minimized.

However, Christen R.P. et al (1995:24) share a counter argument: “It is scale, not exclusive focus that determines whether significant outreach to the poor is achieved”. Programs serving several strata of clients, not just the poor and the poorest, may be able to expand faster and to reach larger numbers. If they do, large numbers of the poor and the poorest may benefit. Moreover, such programs have the possibility of cross-subsidizing lending to the poorest from their more profitable lending to the non-poor due to larger initial average loan size, and thus could achieve institutional financial self-sufficiency (IFS) more rapidly.

2.9.6 Who are the poor and why they need microcredit?

Poverty is sometimes difficult to define. Sometimes using an absolute standard of welfare (e.g. amount of income, consumption, life expectancy, housing conditions), one can be described as poor. As against this absolute measure of poverty, there is also the relative measure, which identifies the poor by relating their position to another individual or an international average. Sometimes we identify the poor by certain characteristics. Usually, the extreme poor (also sometimes referred to as the ‘hard-core poor’) are more likely to be underweight, susceptible to illness, and have higher mortality rates; they are the least likely to own assets (e.g. land) and have severe fluctuations in their employment status. Their immediate challenge is to obtain adequate food/nutrition in order to survive. If their income increased, they

would spend proportionately more on food than anything else (Nii K. Sowa C., and Accra, D. 2002:8).

Strengthening the above definition, Gert M. (2004:17-75) notes that “poverty cannot be captured in terms of money and income alone”. If poverty is seen as a lack of opportunity to acquire lasting control of resources in order to strengthen one’s capacity to acquire the basic necessities of life, it’s important to note that microcredit focuses only on one aspect: access to credit. That focus is of vital importance but as such, it is not sufficient to solve all the other deficiencies.

In recent years, it became increasingly more difficult to distinguish ‘poor’ and other forms of ‘poor’ on the basis of distinctive characteristics. Most of the MFIs serve a wide range of clients, which fall below and above the poverty line (Sebstad G., and Cohen T. 2000:19.21). In literature, different terms have come into usage to classify those who experience different form of poverty. Among the most common are ‘chronic poor’ (Hulme D. 2003:399), ‘moderately poor’ (Sebstad G., and Cohen T. 2000:19-21), ‘ultra-poor’ and ‘transitory poor’.

According to Martin I., Hulme D., Rutherford S. (2002:273-276) “the poor are not a homogeneous group, such as small farmers or landless people, but have many different characteristics and thus will need different forms of assistance”. At the heart of their discussion is the notion that the poor are heterogeneous and need different form of financial and non-financial services; that is why different levels of poverty require different levels of state subsidy as well as varied instruments.

The ‘extremely poor’ represent those individuals who suffer from several dimensions of poverty. These individuals suffer from food deficiencies, unable to fulfil the basic needs of all family members, or they are unable to give basic education to their children and, in the case of unemployment, it may be that one of the family members begs to support the family. These conditions can only be alleviated by government and other donor subsidies/grants that provide food, employment and other basic requirements (Robinson M. 2001:29-71).

Yet another category of the poor who experience intense poverty is the 'chronic poor'. It consists of people who experience poverty for long periods of time or throughout their lives. Over half of those classified as 'poor' fit into this group and their other characteristics vary: they commonly live in remote rural areas, suffer from disabilities, lack social networks and/or experience social discrimination in its many and diverse forms (Hulme D. 2003: 399). The above different categories of poor will influence the targeting strategy of different microcredit service providers, which will apparently affect their level of addressing the 'poor' stratum.

Weiss and Montgomery H. (2005:395-396) stated that any microcredit program would prefer to see the loans used for productive purpose. The flexibility in the purpose of the loan also play a role as to why most of the poor are engaged in loan activity – 'free loan market'. Many microcredit schemes are not rigid with regard to the purpose of loan because the poor need all kinds of loan. The success of a microcredit program is very much dependent on its clients starting a new business or expanding their existing business. For the poor, it is obvious that they have to try hard to meet their need in any way possible, including involvement in different economic activities through mainly credit fund sources.

The above literature finds that there is a trade-off between servicing the poor with low cost loans and securing MCIs operational self-sufficiency. Thus, microcredit has insufficiently penetrated the poorest strata of society, which was the main objective with which microcredit was entrusted.

2.10 Microcredit loan interest rates and the poor

Subrata K.M. (2009:87-88) stated that poverty alleviation is a primary obligation of microfinance; reaching out to the poor is the social mission of microfinance, which differentiates it from formal financial systems. Microfinance has travelled a long journey and has provided microfinance loans exceeding several billions of dollars. However, profiteering concepts are replacing the original idea of service to the poor. Yunus M. himself has expressed his dissatisfaction around the growing commercialization of microfinance. In an interview with CNN Money.Com, Yunus

criticized those involved with for-profit microfinance by saying that “poor people should not be considered an opportunity to make a profit.” He believes that the profit maximization motive of commercial microfinance is a distortion and microfinance should avoid capital markets to retain its non-profit ideology. An MFI, to remain viable, may charge the cost of borrowing plus a small percentage just to cover operating expenses. Those who charge more than 15% over the cost of funds have “just left the micro-credit area and joined the loan-shark area”.

Subrata K.M (2009:87-88) cited from (Nimal A. 2006:2-7, and Dehejia et al 2005:5), the following arguments are generally put forth in support of high interest rates.

1. Interest rates charged by moneylenders are overwhelmingly higher than MFI rates.
2. Poor borrowers/entrepreneurs can generate greater benefit from additional units of capital than a highly capitalized business can.
3. For a poor micro entrepreneur, the cost of a microcredit loan represents a small portion of her total business cost.
4. MFIs charging very high interest rates almost always find that demand for loans outstrips their ability to supply them. Many poor people take repeated loans. This demonstrates that loans allow them to earn more than the interest they have to pay.
5. Range of investment opportunities available to the rural poor is endless. A large corporate house cannot pay as high an interest rate as a poor micro entrepreneur, because they already have a lot of capital and have already “used up” most of the profitable investment options available to it. A micro entrepreneur on the other hand can derive greater relative benefit from additional units of capital, simply because she has so little capital. So she can pay a higher interest rate and still come out ahead.
6. The access to finance for the poor is a much more important issue than the cost of finance.
7. When the poor are willing to pay high interest rates to MFI loan, why talk about high interest rates? Any cap on interest rates is likely to be detrimental for the growth of MFI and neither will it be in the interest of the poor.

A recent systematic review that looked at the evidence of the impact of microfinance on the poor in sub-Saharan Africa (Stewart, R., van Rooyen C., Dickson K., Majoro M., and de Wet) concluded that high interest rates were among a number of reasons why microcredit can sometimes fail to increase the well being of poor people. The report stated that: "some people are made poorer, and not richer, by microfinance, particularly microcredit clients." This seems to be because they consume more instead of investing in their futures; their business fail to produce enough profit to pay high interest rates; their investment in other longer-term aspect of their futures is not sufficient to give a return on their investment; and because the context in which microfinance clients live is, by definition, fragile'.

Dehejia R., Montgomery H, and Jonathan M. (2005:5) argue that it is widely thought that micro loan customers are not very sensitive to interest rate charges. If true, this would reduce competition's downward effects on rates, profits, and, costs. But two recent studies have found considerable price sensitivity among customers of a Bangladesh micro lender and South African consumer finance provider.

This study examines the reasons of the demand for credit and 'willingness' to accept almost any price of the poor on the one hand and the concern of the poor on access to credit in relation to the level of the interest rate on the other hand. Furthermore, this study intends to investigate the reasons of 'willingness' to accept microcredit at any price and the knowledge of the poor on the difference between a fair, high or very high price of credit from a theoretical and/or practical point of view.

2.10.1 Perspectives on microcredit loan interest rate

Perspectives on microcredit loan interest rates are highly related to the schools of thoughts and perceptions of microfinance missions and objectives.

a) Definition of microcredit loan interest rates

Edwin A., Acquan K., and Asmah E. (2003:10-17) defined interest rates as "the premium received by the lender after a stated period of time". From the borrower's point of view, it is the cost of capital at the time of obtaining a loan. There are several

schools of thought regarding the interest rates. According to the Classical school, the rate of interest is the main determinant of savings and investment. The Neo-Classical school maintains that the interest rate is determined by supply (savings) and demand (marginal efficiency of capital). Furthermore, Hoff, K., and Joseph E.S. (1990:235) explained that the modern view of interest rates is based on an imperfect information paradigm.

b) Microcredit loan interest rate settings

During the early phases of the 'microcredit movement', one of the arguments for establishing special microcredit delivery institutions, aimed at addressing the needs of the poorest of the poor, was the issue of interest rates. It was argued that market interest rates were too high for the rural poor, especially the poor micro-entrepreneurs, female petty traders and vendors. Thus it was considered to be one of the issues hindering satisfactory access and increased outreach to the poor clients (Sunita P. 2003:9-21).

This recognition, and the continued interest in fighting poverty effectively, resulted in applying subsidies, or slightly lower interest rates than those in the market, which would make microcredit affordable but not entirely free. Since then, new evidence shows that subsidized interest rates are actually detrimental to the competitiveness and growth of the poor clients and would make them further dependant on 'free hand-outs'. The resulting outcome from these two consecutive evolutions has been that most MFIs charge market interest rates. In addition, further administrative and risk premiums are also charged, which result in MFI loans being more expensive than commercial loans (Sunita P. 2003:9-21).

The debate on interest rates is one of the major controversies of the rural microfinance world. During recent years, the supporters for an interest rate that would respect market rules have clearly progressed in a field affected by globalization and liberalization. Subsidizing interest rates appears more and more as an archaism supported by some 'development experts'. Still, this practice existed and still exists in a lesser measure in favour of farmers in developed countries. Therefore, it seemed appropriate to take stock of this question, while at the same

time reminding ourselves what an interest rate means and highlighting the arguments used by both the experts and the users (Zoom 2003:1-7).

Most MFIs operate in environments where their only competitors are local moneylenders, who charge rates significantly above market, often between 5% and 10% per month, to their clients, including the poorest. MFIs thus have significant liberty in setting interest rates before they are out-priced by local supply. Because MFIs' effective interest rates are set not by the free market forces of supply and demand, but rather by monopolistic or oligopolistic institutions, there is a grave danger that inefficiencies and delinquencies can flourish but remain hidden under 'appropriate interest rates,' and that innovation can be stifled. While there is no doubt that the poorest should pay full cost for their financial services, they should not be asked to bear the burden of incompetent MFI management and inefficient operations (David S.G., and Jennifer M.W. 2000:25-36).

High micro loan interest rates have been criticized since the beginning of the modern microfinance movement in the late 1970s. But the criticism has intensified in the past few years, and legislated interest rate caps are being discussed in a growing number of countries. Part of the reason for the increased concern about rates is simply that microfinance is drawing ever more public attention, including political attention. Another factor is that quite a few MFIs are now being transformed into private commercial corporations and charging high loan interest rates that impact the ability of the poor to get a loan (Rosenberg G., and Susham N. 2009:3-5).

Furthermore, Rosenberg G., and Susham (2009:3-5) point out that there are four main components reflected in MFIs interest rates: cost of funds, loan loss expenses, operating expenses, and profits. MFIs use their interest rate to cover costs and the difference between income and costs is profit (or loss). A simplified version of the relevant formula is: income from loans = cost of funds + loan loss expense + operating expenses + profit. Lowering interest rates would require lowering one of the four components on the right side of the equation. If we want to judge whether interest rates are reasonable, the most direct approach is to look at the relative importance of each of those elements after income tax.

Alan D. (2008:3) points out that all interest charges by MFIs are not justifiable. Sometimes MFIs, especially ones that are founded by donors, are not aggressive enough in containing transaction costs. The result is that they pass on unnecessary high transaction costs to their borrowers. Sustainability should be informed by cutting costs as much as possible, not just by raising interest rates to whatever the market will bear. Competition among suppliers of financial services will assist in the downward pressure on costs.

According to Yunus M., and Adrian G (2010:1), the interest rate charged on microcredit is one of the most discussed issues in microfinance, capturing the attention of both the media and industry analysts alike. As the financial crisis brings global attention back to lending and credit risks, and microfinance is scrutinized as a tool for providing credit in developing countries, interest rates have once again captured public interest, and alternative models for looking at interest rates and operating costs have received renewed attention. At the heart of this discussion is the question of how microfinance institutions (MFIs) can fulfil their social missions while charging their clients interest rates that are higher than those offered by non-microfinance financial institutions, such as traditional commercial banks.

On the distribution of the costs, Rosenberg G., et al (2009:3-5) further notes that worldwide, operating expenses consume more than half of the income, followed by funding costs, profit, and loan losses. The majority of MFIs' interest income goes to pay operating costs (salaries and administrative costs), which are about 60 per cent of total MFI costs. Some express disappointment that the growth in size of MFIs has not improved efficiency as much as they expected.

David S.G., and Jennifer M.W. (2000:25-36) hold that an 'appropriate' interest rate is one that will allow MFIs to cover all adjusted operating costs from its adjusted operating income within a reasonable period of time. Four to five years is thought to be the maximum time available as the patience of donors/investors providing grants and other subsidized funding is not likely to extend beyond that.

Generally, healthy MFIs have administrative expense rates between 10-25%, targeted capitalization rates between 5-15% and loan loss rates between 1-2% (UN Department of State 2009:8-9).

Yunus M. (2007:69-96) proposed a new methodology for the evaluation of microcredit interest rates. The proposed methodology is based on an interest rate premium, defined as the difference between the interest rate charged by the MFI and the cost of funds at the market rate paid by the MFI. In particular, this methodology defines three zones:

1. Green Zone: (Interest Rate–Cost of Funds) ≤ 10 percentage points. According to Professor Yunus, these are the "poverty-focused" microcredit programs.
2. Yellow Zone: (Interest Rate–Cost of Funds) ≤ 15 percentage points.
3. Red Zone: (Interest Rate–Cost of Funds) > 15 percentage points. Professor Yunus labels institutions operating in this zone as 'profit-maximizing' MFIs, adding that these programs are "commercial enterprises whose main objective appears to be earning large profits for shareholders or other investors." He also refers to this zone as the zone of moneylenders and loan sharks.

Zoom (2003:1-7) stated that differentiated interest rates should be applied based on the use of the loan. Short-term activities (shops, crop year) can normally sustain higher rates as compared to medium-term or long-term investment loans. A lower interest rate for medium-term loans is also justified in economic terms. Management expenses are usually lower and there can be material guarantees, for instance, through the promotion of instalment plans.

2.10.2 Amount of profits and effects of loan interest rates

It is one thing to earn profits, and quite another to earn profits that are high enough to attract investors who have no concern with social missions. To them, below

average profit rates would be a ‘non-event’ and fail to bring competitors into the sector (Cull, R., Demirguc-Kunt A., and Jonathan M., 2008:184-186).

Out of the four components of microcredit interest rates, profit is the one most obviously subject to management control. It is also the most controversial. Some observers are uncomfortable with the notion of private parties making any profit from micro lending, which they view as a service to poor people, and not as a business opportunity. Others accept the idea of private profits in micro lending, but are concerned that MFIs will exploit the weak bargaining position of their borrowers to extract abusive levels of profit. Still others think that high profits in the early stages are a positive good, because high returns will attract more investment and more rapid outreach of services to people who need them, and because they are confident that competition will eventually moderate those profits (Rosenberg G., and Sushma N. 2009:15-18).

Furthermore, there have been concerns about the effects of the seemingly high interest rates typically charged by MFIs lending money to poor people. It has been argued that high interest rates can erode surpluses generated by borrowers, leaving them with little net gain. There is also concern that high rates reduce the demand for and uptake of financial services (Claire M. 2013:1-3).

Moreover, in India’s Andhra Pradesh State, a controversy around high-interest rates, unethical collection methods and allegations that the suicides of 10 women in the Krishna district was linked to their inability to repay their MFI loans spurred government officials to close 50 branches across two MFIs. The influx of commercial capital ignited further debate around profits, interest rates and commercial approaches to microfinance. With the demand for microfinance far outweighing the number of clients served, proponents argue that commercial funding enables the industry to grow faster and provides needed services to those still waiting. Opponents worry about the rapid flood of commercial funding and the ability to effectively serve the double bottom line, balancing positive social impact and financial sustainability with pressures for high returns for investors (Elyse R. 2010:1-2).

2.10.3 Determinants of microcredit loan interest rates

David L.W., and Dewan A.H. (2004:3-5) show how much variation there can be in the lending rates charged by NGO-MFIs related to the four determinants of interest rate on microcredit; further, they show that any lender has costs comprising these four basic components which should determine the interest rate charged:

1. *Cost of funds.* The cost of funds is usually a composite Figure, as any lender is likely to be utilizing funds from a variety of sources that have been obtained at different rates. For example, from donor capital that has been provided in the form of a grant and some surplus income or equity from his or her own operations. Whilst there is no interest as such to be charged on these two sources of equity, account should be taken of the rate of inflation in order to maintain its 'real' value. In some cases, an MFI will have funds from a foundation or trust which has provided 'patient capital'. Other capital will be the savings collected from members or customers on which different rates of interest are being paid if, as is often the case, there is a mixture of savings products offered to customers. Finally, there will be loans from lending institutions, notably the commercial banks. The average cost of funds depends therefore both on what proportion of an MFI's resources comes from all these different sources, as well as what rates of interest are being paid (or should be charged) on each source.
2. *Operating or processing costs.* Operating costs are relatively straightforward. They include the costs of: staff identifying clients, checking their creditworthiness, processing loan applications, disbursing loans, monitoring and collecting repayments, and following up non-repayments. In addition, there is also all the overhead in running any operation. However, the percentage cost of lending will vary enormously depending on a number of factors, notably: (i) the size of the actual loans; (ii) pay structure, notably of the loan officers; (iii) the efficiency of the organization, the number of borrowers/loan officers often being taken as a good indicator; and (iv) its scale of operations.
3. *Cost of risk or loan losses.* The cost of risk or loan losses may also vary considerably. Almost all lending institutions make a standard provision for

loan losses at the time of disbursement. A well-managed institution, which carefully selects and then closely monitors repayments by its customers, will have to write off only a small proportion of its loans, say 1-2%. One which is poorly managed and/or lending to customers who either do not have the resources to repay their loans, or who refuse to do so, possibly for political reasons, will suffer much higher loan losses, say 10-30% per annum.

4. *Net income, surplus or profit.* Finally, there is the net income or surplus, often misunderstood, especially if the word 'profit' is used. Generating some surplus income is essential for a number of reasons. These include a) when an MFI is looking to expand or improve its systems as well as b) the need for financial organizations to have reserves against unforeseen contingencies and demands. Additionally, c) many NGO-MFIs in Bangladesh look to finance, at least in part, their social programmes, notably health and primary education. Finally, d) If sufficient net surplus can be generated from their microfinance operations, then this reduces their dependency on donor or government funds, which has obvious benefits.

David L.W., and Dewan A.H. (2004:3-5) gave one example of the sort of Figures for (a), (b) (c) and (d) that might be seen in South Asia, a comprehensive analysis that has been carried out by CASHPOR (Credit and Savings for the Hard-core Poor), a Network of Asian MFIs. That provided estimates of appropriate microfinance interest rates. It claims that the typical ranges for MFIs in Asia of the four standard components of the interest rate calculation are:

Table 2.4: The four standard components of the interest rate calculation

Description	Percentage
(a) Average Cost of Funds	12-15%
(b) Administrative Expenses	15-25% of average loan portfolio outstanding
(c) Loan losses	2%
(d) Desired Capitalization Rate	6-8%
(e) Annual Effective Interest Rate	***35-50%***

Finally, David L.W., et al (2004:3-5) concluded that the variation of lending rates charged by NGO-MFIs relate to the four components discussed above.

2.10.4 Comparison of microcredit loan interest rates

It is generally very difficult to compare interest rate levels. The social and economic environment of lenders, customs, taxes, currencies, or laws can easily differ. Nevertheless, as Homer S., and Sylla R. (2005:9) argue, "We should not refuse to compare effects because causes have changed".

MFI's main objective is to provide poor and low-income households with an affordable source of financial services. Interest charged on loans is the main source of income for these institutions and, because they incur huge costs, the rates are correspondingly high. However, microcredit interest rates are often compared with those charged by both commercial banks and excessively subsidized lending organizations. Such comparisons are inappropriate (Nimal A. 2006:2-7).

Gert M. (2004:17-75) argues that, in the opinion of the 'development school' the benchmark should not be the moneylender around the corner; rather, as a matter of principle, what the bankable neighbour is charged for the same loan by a normal bank. It is not wrong if an MFI charges, for example, 26% or 28% if the market rate for a bankable household is 22%. Some surcharge is justified in view of the much higher costs. As a matter of principle, MFIs should never compare themselves with loan sharks, but with normal banks. This is particularly true if the MFI is funded at a very low cost by agencies that want to enable the poor to stay out of the grip of loan sharks.

Zoom (2003: 1-7) raised a question: how do you define a rate that complies with the market? How can we compare the interest rate applied by a decentralized financial system (DFS)? They are often compared to those of the informal sector (usurers), usually between 10 and 20% per month. Such a comparison is of course favourable to the DFS and puts an end to any discussion, except if we refuse to consider the informal rate as an acceptable reference.

Further, Zoom (2003: 1-7) stated that the comparison with formal bank rates is often unfavourable. However, the banks are not interested in the same customers as those of the DFS. So, there's no real competition between the former and the latter for the same target group of customers.

Moreover, Zoom (2003: 1-7) acknowledged that another reference could be applied. The interest rate should rather be seen from the perspective of the return obtained from the operation. It is generally considered that the average financial cost represents 10% of the return. However, this estimation is not systematically valid.

It is, however, possible to highlight some points to put an end to the vain debate between development experts defending low rates without taking into account financing mechanisms and microfinance experts essentially motivated by performance and sustainability related to bank criteria. It should also be noted that the discussion on rate levels has also progressed within the world of microfinance between those who favour real rates and others who think that the DFS should benefit from structural subsidies because of their specific role in the fight against poverty (Zoom, 2003: 1-7).

The funding situation of MFIs is associated with their degree of commercialization. Cull, R., Demirguc-Kunt A., and Jonathan M., (2009:190-192) found that microfinance banks rely predominantly on commercial funding and deposits. NGOs rely mainly on donations and non-commercial borrowing. Credit unions, as member based financial institutions, rely predominantly on deposits provided by their own members.

Table 2.5: *Shares of funding by institutional type (2005-2007)*

	Donations	Non-commercial borrowing	Equity	Commercial borrowing	Deposits
Banks	2%	1%	13%	13%	17%
Credit unions	11%	3%	16%	6%	64%
Nonbank financial institution	23%	11%	18%	28%	21%
NGO financial institutions	39%	16%	8%	26%	10%
Total	26%	11%	13%	23%	27%

Source: Cull et al (2009b: 190-192)

The literature cited above shows that interest rates determined by the MCIs including all costs and risks to the poor substantially influence all loan performances. There is a trade-off between the social mission of MCIs and the profit seeking of MCIs. Thus, microcredit has charged higher loan interest rates, which affect the economic benefit of the poor from the micro loans.

2.11 Criticisms of microfinance/microcredit

The fact that microfinance programs are expanding both coverage and range of services offered can be seen as *prima facie* evidence of their success and thereby argues for them for an even broader role. However, microfinance has also been dogged by many criticisms, including those concerning microfinance's (i) financial viability, (ii) ability to reach the extreme poor, (iii) propensity to charge high interest rate, (iv) limited macroeconomic impact, (v) difficulty in scaling up of operations, etc. (Jonathan M. 1999: 1569-1614).

Furthermore, high micro loan interest rates have been criticized since the beginning of the modern microfinance movement in the late 1970s. The criticism has intensified in the past few years, and legislated interest rate caps are being discussed in a growing number of countries. Part of the reason for the increased concern about rates is simply that microfinance is drawing ever more public attention, including political attention. Another factor is that quite a few MFIs are now being transformed into private commercial corporations (Rosenberg G., and Sushma N. 2009:3-5).

Additionally, Dambisa M. (2009:129-130) notes that microfinance is not without its naysayers. Lending to the poor is criticized as loan-sharking (charging punitive and exorbitant rates), as fuelling Ponzi schemes (borrowing from one lender to pay off another) and as simply supporting reckless consumption. However, with ever-increasing numbers of micro-lenders, and growing participation in this type of lending, the interest rates charged inevitably become lower and, in this sense, more competitive. As to the Ponzi scheme criticism, the objection merely points to the need for more information concerning borrowers, who is a good risk and who is a bad risk. This, by the way, is exactly the information asymmetry that the Grameen

model mitigates. And the issue of consumption versus investment applies to any loan, anytime, anywhere.

The criticisms also often contradict each other. For example, it is difficult to complain about microfinance's inability to reach the extreme poor while at the same time insisting that it remains financially solvent. Similarly, it is not very reasonable to demand that microfinance remains financially solvent and yet complain about high interest rates. In the same vein, it is contradictory to urge microfinance to reach the extreme poor while at the same time demanding that it scale up the size of its loans, allowing the borrowers to engage in (relatively) large scale production and marketing operations (Nazrul, I. 2009:15-17).

Researchers have traditionally followed the division of MFIs, evaluating microfinance's effectiveness from either a purely economic or social standpoint. Analysis using an economic framework treats MFIs as a derivative of formal financial institutions (FFIs) and focuses narrowly on the institutions' ability to maintain fiscal sustainability. Analysis that uses a public policy framework sets aside the fiscal solvency aspect, focusing shallowly on MFIs as social welfare programs. The drawback of these perspectives is that one can select a specific type of MFI to validate any theory (Woller G., and Woodworth W. 2001:8-270), rather than using a unified approach to evaluate all MFIs.

2.12 Global trends of the microfinance market

Although there has been remarkable progress worldwide, in terms of growth in the number of MFIs and their outreach, there is still a lot to do. As MFI outreach to the poorest families is only 38% in Asia, 8.5% in Africa and the Middle East, 11.6% in Latin America and the Caribbean and 1.7% in Europe and the NIS, there are millions of poor people in different regions who can be and should be reached with microfinance to help them overcome poverty (Latifee H.I. 2006:11).

"The microfinance revolution is a commercial revolution", explains Robinson M. (2001:29-71). Simply opposing the claims that "the *win-win* rhetoric promising

poverty alleviation with profits has moved far ahead of the evidence" challenges the original objective of microfinance (Jonathan M. 1999:1569-1614).

Microfinance will no doubt continue to expand and become a greater part of the financial mainstream. Experience so far, though, suggests that the profile of commercial banks that offer microfinance in low-income communities looks different from that of non-profit microfinance institutions run by nongovernmental organizations. Commercial microfinance banks are more likely to have a for-profit status and to involve an individual lending method, larger loans, fewer women customers, lower costs per dollar lent, higher costs per borrowers, and greater profitability. Nongovernmental microfinance organizations are more likely to be a non-profit employing a group lending method, giving smaller loans, serving more women, employing subsidies more heavily, facing higher costs per dollar lent, and being less profitable (Cull, R., et al 2009:190-192).

Jansson T. (2001:1) points out "the early success of non-profit grassroots organizations in serving this sector has led to two important developments". First, commercial banks, realizing that there might be a profit to be made in microfinance, are starting to pay serious attention to how they can serve this segment of the market. Second, between grassroots non-profit organizations and profit-driven commercial banks, there is an emerging breed of professional financial institutions that specialize in microfinance. These are former non-profit organizations that have requested and received a license to operate as regulated and supervised finance companies or banks.

UN, Department of State (2009:8-9) suggested two trends. On the one hand, some MFIs are raising their interest rate so high that they are not only becoming financially viable but also as highly profitable to attract private sectors. Some other MFIs are also venturing into purely commercial enterprises in order to diversify their services or to generate a higher benefit, which can be ploughed back into microfinance operations. Such expansion into commercial operations may therefore help a MFI to be financially solvent as a whole, even if its microfinance part is not. On the other hand, in a move in the opposite direction, some MFIs are taking initiatives to reach the poorest of the poor. Thus, some MFIs have devised a special type of loan

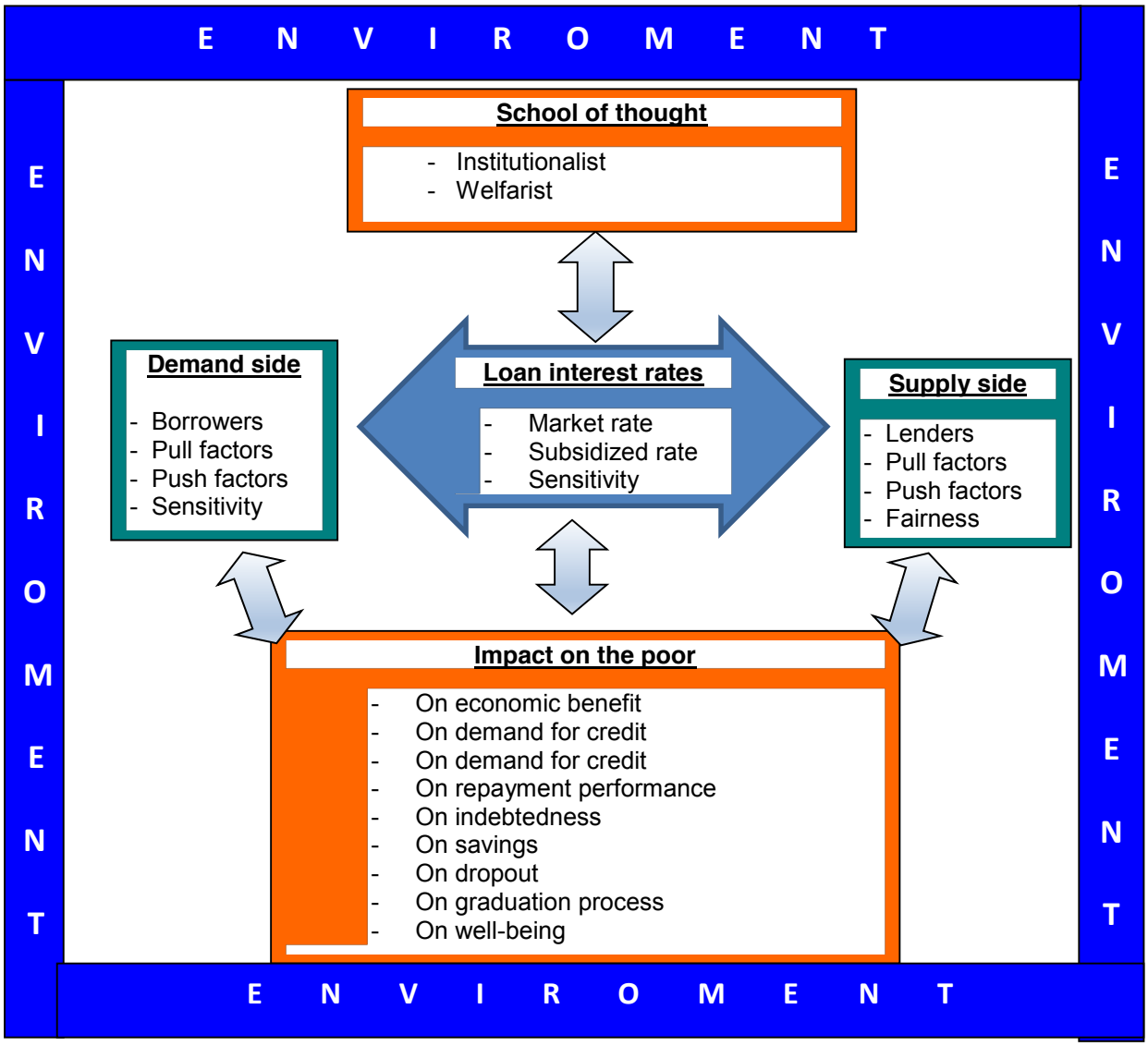
suitable for the purpose. Others are combining various programs of microfinance and programs of welfare benefits (in cash and in kind) and training that can help MFIs to reach even the ultra-poor. The world of microfinance is changing, and it will be interesting to see where these changes lead microfinance in the coming year.

2.13 Relevance of the theories to the study

After examining many relevant ideas in the theoretical review, the researcher has summarised and utilized them as the basis for the development of the conceptual framework of this study; this framework helps to apply, present, and understand the theories easily.

A conceptual framework is a collection of inter-related ideas that are broadly based on theories. That is, a set of propositions derived from and supported by data or evidence taken from fields of inquiry that are relevant (Masese P.B. 2011:5).

Figure 2.5: Conceptual framework of the study



Source: The researcher

This conceptual framework/model is not static. The factors indicated are subject to constant change that induce or reduce the effect of loan interest rates on the poor. As it takes time to examine if and how the changes on the side of demand, supply, and/or environment within which the microcredit operates affect the client's affordability of loan interest rates, the study deals with the above framework and the factors of loan interest rates that affect the poor.

2.14 Conclusion

The main thrust of this chapter was to review relevant literature and present the theoretical framework of this study for analysis of the impact of loan interest rates on the poor. The chapter used the term ‘theoretical’ to describe a result which has been predicted by theory but has not been adequately tested. In order to obtain a clearer idea about the impact of loan interest rates on the poor, it is important to consider the results of empirical studies that have been conducted in the field. The next chapter will be devoted to this.

CHAPTER THREE: EMPIRICAL LITERATURE REVIEW

3.1 Introduction

Empirical literature on microfinance is still anaemic and most studies focus on evaluating the impact of the industry on the poor community. What explains microfinance lending interest rates is a poorly understood phenomenon and it can be attributed to the youthfulness of the industry and low level of research in Sub-Saharan African (Tijssen R. 2007:209).

The theoretical literature mentioned above will be checked against global, regional, national, and local empirical studies showing the extent of participation of the poor in microcredit services, reasons for not participating or inadequate participation, and the economic benefit to the poor from microcredit services.

3.2 Historical Journey of Microfinance across the Globe

Sanjeev K. (2011:20-21) summarizes the historical journey of microfinance across the globe as follows,

Table 3.1: Historical journey of microfinance

Period	Events
Early 1700s	• Irish Loan Fund system started by Jonathan Swift (300 funds by 1840)
1800s	• Various larger and formal savings and credit institutions began to emerge in Europe. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives
1900	• Increase in commercialization in rural banking, especially Latin America
1950s to 1970s	• Governments and donors focused on providing agricultural credit to small and marginal farmers • Supply-led government interventions in the form of targeted credit through state-owned development finance institutions, or farmers' cooperatives

1980s	• Experimental programs in Bangladesh, Brazil, and a few other countries extended tiny loans to solidarity groups of poor women to invest in micro-businesses in which every member of a group guaranteed the repayment of all members
Late 1990s	• *Global microcredit summit* organized in Washington DC. Grameen Bank showcased its work of the past two decades and was acknowledged as an effective methodology to grant small loans to the poor. The high profile support from the then first lady *Hilary Clinton and the Queen of Spain* drew the attention of several interested parties.
2000s	• International Year of Microcredit (2005) declared by the UN • Noble Peace prize conferred to Yunus M. and Grameen Bank, Bangladesh

Citing from mixed market data, Chitra K., and Sangeetha S. (2013:40-48) describe how the growth and performance of the microfinance sector from a global perspective during the recent years has shown distinct differences among regions like Africa, East Asia and the Pacific, Eastern Europe, Central Asia, Latin America and the Caribbean, Middle East and North Africa, and South Asia (see Table 3.2 below).

Based on Table 3.2, Chitra K., and Sangeetha S. (2013:40-48) said that:

> "The number of MFIs has gone up for LAC, MENA, and SA regions, while in the other regions, it is observed to have larger increase of MFIs from 2007 onwards. Furthermore, the decline in active borrowers has been reflected in the reduction in deposit too. The huge decline in number depositors' (sum) statistics shows an alarming picture throughout the world. Moreover, the loan loss rate is found to be very high in MENA compared to other regions which accounts for 6.38% of the loan portfolio during the year 2011. In spite of having a large loan portfolio, LAC has only 1.83% extent of loan loss rate, which promotes additional portfolio growth".

Table 3.2: Number of active borrowers, depositors, and deposits (Sum)

Year	Number of active borrowers and depositors	Africa	East Asia & Pacific	Eastern Europe & Central Asia	Latin America & the Caribbean (LAC)	Middle East & North Africa (MENA)	South Asia (SA)
2003	Number of MFIs	183	95	157	166	31	132
	Borrowers	2,496,988	4,493,322	690,076	3,464,294	507,120	1,312,280
	Depositors	4,448,059	1,304,673	890,716	943,675	6,886	13,403,380
	Deposit	260,607,065	3,307,549,344	131,088,591	757,481,525	69,147	173,593,793
	Loan loss rate	0.34	0.45	0.27	0.85	0.04	0.0
2004	Number of MFIs	183	119	189	218	38	197
	Borrowers	3,324,066	5,408,477	972,016	4,742,094	803,425	17,882,185
	Depositors	5,705,409	1,542,817	1,186,099	3,210,057	5,539	15,941,327
	Deposit	520,564,877	105,719,602	35,398,226	2,218,487,228	172,475	223844342
	Loan loss rate	0.54	0.13	0.07	0.65	0.06	0.0
2005	Number of MFIs	241	131	237	280	42	214
	Borrowers	4,281,183	9,468,511	1,289,100	7,805,509	1,241,019	24,383,439
	Depositors	7,554,102	2,097,382	1,587,235	6,350,983	13,589	19,136,200
	Deposit	859,701,224	3,966,765,831	1,248,003,627	5,044,425,869	248,514	659,507,361
	Loan loss rate	1.11	0.07	0.00	0.62	0.06	0.0
2006	Number of MFIs	255	159	256	304	49	207
	Borrowers	5,279,867	10,725,120	1,845,936	9,443,992	1,736,626	29,960,927
	Depositors	9,191,585	6,593,152	2,714,996	7,640,896	87,664	26,438,711
	Deposit	1,342,872,904	5,347,192,014	2,240,602,281	6,799,566,116	1,251,398	897,861,876
	Loan loss rate	0.50	0.00	0.04	0.56	0.07	0.0
2007	Number of MFIs	284	183	323	370	59	196
	Borrowers	6,187,181	8,783,244	2,447,050	12,053,183	2,255,182	36,393,712
	Depositors	11,696,536	3,255,613	3,911,986	9,710,388	81,397	30,171,105
	Deposit	3,257,611,106	6,010,140,130	5,040,390,748	8,718,352,564	62,938,252	1,189,312,415
	Loan loss rate	0.40	0.04	0.00	0.58	0.21	0.0
2008	Number of MFIs	280	182	314	392	68	222
	Borrowers	7,099,295	15,456,165	3,062,732	13,058,610	2,484,605	42,461,106
	Depositors	17,137,730	4,614,980	5,244,592	13,564,741	97,489	32,018,765
	Deposit	4,002,407,301	6,159,925,688	6,164,505,179	10,009,971,646	75,047,789	1,998,511,287
	Loan loss rate	0.31	0.07	0.00	0.95	0.02	0.0
2009	Number of MFIs	266	149	255	386	70	219
	Borrowers	8,208,512	13,911,940	2,787,687	14,305,288	2,500,362	49,996,298
	Depositors	20,572,668	4,899,512	2,799,959	17,168,351	63,748	32,306,744
	Deposit	5,282,132,767	8,442,068,436	5,235,699,452	13,352,583,689	118,854,318	2,545,011,110
	Loan loss rate	0.23	0.06	0.06	1.05	0.03	0.0
2010	Number of MFIs	196	123	213	369	64	208
	Borrowers	5,122,529	15,794,001	2,773,436	15,724,890	2,215,603	58,594,977
	Depositors	17,060,833	5,830,700	2,832,014	15,449,440	89,552	26,769,982
	Deposit	4,882,793,790	11,775,131,989	6,422,831,882	15,263,926,637	121,964,001	3,299,839,062
	Loan loss rate	0.26	0.33	0.19	1.19	0.02	0.0
2011	Number of MFIs	NA	NA	NA	NA	NA	NA
	Borrowers	33,867	629,458	287,611	4,029,773	28,450	0
	Depositors	57,975	634,999	10,114	4,119,481	0	0
	Deposit	9,420,885	36,435,971	28,064,933	7,251,412,544	0	0
	Loan loss rate	0.31	0.41	-	1.83	6.38	0.0

Source: Compiled Chitra K., and Sangeetha S. (2013:40-48)

Furthermore, Chitra K., et al (2013:40-48) conclude that the global scenario is not promising for the MFI industry as such. Though some economies had booked loans, they are struggling hard to manage their expenses. State of the Microcredit Summit Campaign Report 2012 said that a number of initiatives like values of responsibility, corporate ethics and social performance management have emerged to address the field' challenges. MFIs have to adopt new strategies to bring back their customers and as well reduce their operating and administrative expenses.

Supporting the conclusion of Chitra K., et al and (2013:40-48), Micro Rate (2009:1-3) describes that the rapid growth of microfinance investment seen in years past took a significant hit in 2008 as the financial crisis started ramping up and investors became cautious and more prudent, questioning the resilience of microfinance against the global financial market.

Moreover, Micro Rate (2009:1-3) also concludes that investment in microfinance was previously characterized by an exuberance fed from its success and social mission of helping poor entrepreneurs. Growth of MIVs (Microfinance Investment Vehicles) far exceeded MFI growth and concerns were beginning to arise regarding how long this could continue without jeopardizing asset equity. From this point of view, the slowdown in 2008 may have been a blessing in disguise.

3.3 Microcredit service in Africa

3.3.1 Overview of microfinance in Africa

Over 50 per cent of Africans live on less than $2 a day. Moreover, all of the 21 countries listed in the United Nations' low human development ranking are in sub-Saharan Africa. There are several positive signs: more than 35 per cent of Africans live in economies that have seen sustained growth of more than 4 per cent a year for the last 10 years, setting the stage for many Africans to enjoy a better life. However, the continent is still under-served by financial services. The cost of bringing micro finance services to Africa is higher than in other regions of the world because Africa has many vast and sparsely populated rural areas, higher rates of illiteracy and HIV/AIDS, and a widespread lack of identity documents (The World Bank 2008:54).

Furthermore, the World Bank (2008:54) mentioned that Africa is on the move. Total gross domestic product (GDP) in the region is currently growing at 5.7 per cent, although the country-by-country distribution of this growth is quite uneven. Governance is improving, food security is a growing priority of policymakers, and commitments to universal primary education have increased dramatically. The stage is set for many Africans to enjoy a better life. But without access to basic financial services – savings, credit, insurance – Africans will remain at the margins of economic opportunity with little hope of realizing their tremendous creative potential. Beginning in the 1970s, a microfinance revolution swept through Asia and Latin America, helping countless millions of poor people get the economic boost they needed to start small businesses and work their way out of poverty. Somehow, the revolution bypassed Africa.

There is good news on the access to finance front. Worldwide, the global cellular market is growing the fastest in Sub-Saharan Africa (SSA), with more than 65 per cent of the population living within reach of wireless voice networks. Kenya is the shining example globally for how this technology can be leveraged to offer financial services at greater scale and lower cost. Investor interest is increasing, albeit from a low base, and is spurring the growth of new institutions. Policy makers are engaged and making reforms to improve the rules and regulations for markets. More institutions are for-profit, paving the way for more efficiency, sufficient capital for scale, and innovations. Uptake of deposit services is broad, even greater than for credit services (CGAP and MIX 2010:2-18).

Yet, serious challenges persist and threaten this positive momentum. Many of these challenges are not new. Operating expenses remain among the highest in the world. Returns are falling. Portfolio quality has been stubbornly poor, and, in some markets, it has gotten worse over the course of the year. Supervision is very weak. And the successes remain far too concentrated in certain markets and specific institutions, with the overall penetration still very slow and progress toward reaching scale sluggish (CGAP and MIX 2010:2-18).

A large number of MFIs have set up networks in many African countries, taking advantage of increased pressure on governments to deregulate the economy and

the financial sector, encourage competition in all sectors, and create a conducive environment for increased production. Thus, micro-finance delivery has become an attractive business over the last decade in Africa. Such MFIs operate in a niche market because they address the needs of those clients who are considered 'high-risk' by bigger banks (Sunita P. 2003:9-21).

Moreover, Sunita P. (2003:9-21) shares that field observations show that most MFIs in Malawi and Ethiopia can be categorised as profit oriented, with a clear business approach, with a good network into the rural areas, and with minimum expenditures on training or group mobilisation, allowing for high repayment rates with minimum risk exposure. Discussions with different stakeholders revealed an underlying assumption that simply the existence or operations of an MFI in an area will automatically address poverty. MFIs, on the other hand argue that they are not required to and do not always have the responsibility for justifying whether their activities reduce poverty. Some MFIs have, however, undertaken impact analysis studies on a need-basis, which reveals that income has been increased amongst their clients. Nevertheless, this is very much anecdotal and limited to some cases and cannot be proven or established as a long-term trend.

3.3.2 Scope of financial services offerings in Africa

Table 3.3 lists the top 10 countries by penetration rates of borrowers as well as savers. Incidentally, these 10 countries had the greatest penetration rates for both groups. Five of them are from West Africa, indicating that microfinance is likely already meeting more of the demand here than in the other regions. Despite having three countries in this list, East Africa continues to exhibit rapid growth; the market here is not yet saturated.

Table 3.3: Top ten countries in borrowers and savers by penetration rates

Country	Sub region	Penetration (Thousands)	Borrowers (Thousands)	Penetration Rate	Savers (Thousands)	Penetration Rate
Kenya	East	34,000	877	2.6%	3,172	9%
Togo	West	6,000	90	1.5%	344	6%
Senegal	West	12,000	221	1.8%	654	5%
Mali	West	14,000	216	1.5%	409	3%
Ghana	West	22,000	315	1.4%	902	4%
Burkina Faso	West	13,000	129	1.0%	523	4%
Cameron	Central	16,000	135	0.8%	400	3%
S. Africa	Southern	47,000	632	1.3%	783	2%
Uganda	East	29,000	216	0.7%	482	2%
Ethiopia	East	71,000	1,427	2.0%	732	1%

Source: CGAP and MIX-2008, p.3-9

The central region was the only region to experience a decrease in the number of borrowers, exhibiting a drop of 3 per cent. The eastern region continued to exhibit the highest numbers across all volume Figures. Despite their size, these large scale MFIs still managed to meet Africa-wide growth rates of 25 per cent, adding over half a million borrowers. The southern region demonstrated the largest percentage growth in borrowers with nearly a 48 per cent increase over the previous year. This region also exhibited the greatest increase in average loan size as well as loan balance over GNI per capita, which grew by 27 per cent from 2006 to 2007 (see Table 3.4).

Table 3.4: Borrowers and depositors, by Sub-region and charter type (thousands)

	Central		Eastern		Southern		West		Total	
	Borrowers	Depositors	Borrowers	Depositors	Borrowers	Depositors	Borrowers	Depositors	Borrowers	Depositors
Bank	10	109	955	6,506	903	1,801	127	722	1,892	9,139
Cooperatives	188	655	16	205	50	248	610	3,917	865	5,056
NBFI	108	154	3,161	4,671	70	57	184	773	3,522	5,654
NGO	65	85	386	424	98	65	835	1,159	1,388	1,732
Total	374	1,033	4,519	11,806	1,121	2,171	1,757	6,571	7,771	21,582

Source: CGAP and MIX-2010

The market structure across SSA has been changing over the past few years. Though there are still more non-profit financial service providers than for-profit providers, the landscape is clearly evolving. Fifty-seven per cent of new institutions, the majority of which are NBFIs, are for-profit, compared to 43 per cent for young, and mature financial service providers. Despite being fewer in number, for-profit providers accounted for over 70 per cent of the total gross loan portfolio and 71 per cent of total deposits in SSA in 2009, with banks alone accounting for 53 per cent of loan portfolio and 60 per cent of deposits. Credit unions/financial cooperatives and NBFIs accounted for 20 per cent of gross loan portfolio, and 25 per cent and 10 per cent of deposits, respectively. Commercial microfinance is taking hold (CGAP and MIX 2010:2-18).

Table 3.5: Fastest growing financial services providers (borrower growth)

Rank	Financial service provider	Country	Charter	2009 borrows	Absolute growth	Percentage growth
1	Equity Bank	Kenya	Bank	715,969	173,720	32%
2	Capitec Bank	S.Africa	Bank	801,809	163,193	26%
3	KWFT	Kenya	NBFI	334,188	126,178	61&
4	OCSSCO	Ethiopia	NBFI	458,762	94,178	26%
5	SEAP	Nigeria	NGO	116,808	71,087	155%
6	OMO	Ethiopia	NBFI	280,232	61,628	28%
7	SMEP	Kenya	NBFI	85,678	49,029	134%
8	BRAC—UGA	Uganda	NGO	103,489	40,880	65%
9	Camccul	Cameron	Credit union	66,153	27,457	71%
10	DECSI	Ethiopia	NBFI	488,922	24,300	5%
11	BRAC—TZA	Tanzania	NGO	89,818	20,316	29%

Source: CGAP and MIX-2010

Regarding financial structure, CGAP and MIX (2010:2-18) explain that deposits are the largest source of funding for financial service providers in SSA. Even with the slowdown in depositor growth, deposits, as a percentage of the overall funding structure of providers, remained stable in 2009 at nearly 60 per cent. This focus on deposits is one factor that contributes to SSA having the lowest financial expense ratio of all regions globally at 2.8 per cent.

The institutional types, with deposits as the lion's share of their funding structure, have the lowest financial expense ratios. Credit unions/financial cooperatives have the lowest financial expense ratio of all charter types in SSA at just 1.3 per cent. NBFIs and NGOs, many of which cannot legally mobilize deposits, have the highest financial expense ratios at 3.6 and 3.7 per cent, respectively.

Table 3.6: Funding Structure Trends Data by Sub-region (USD mil)

		Savings	Commercial borrowing	Other Debt	Equity
Africa	2006	1,148	243	376	557
	2007	1,839	343	680	912
	% Increase	60%	41%	81%	64%
Central	2006	135	5	21	19
	2007	232	9	23	38
	% Increase	72%	81%	12%	103%
East	2006	472	116	196	183
	2007	799	183	413	436
	% Increase	69%	58%	111%	138%
Southern	2006	144	30	35	198
	2007	254	36	54	228
	% Increase	76%	20%	54%	15%
West	2006	196	93	124	557
	2007	533	114	190	912
	% Increase	40%	24%	53%	64%

Source: CGAP and MIX-2008:

When looking at savings vs. credit, CGAP and MIX (2010:2-18) display that depositors in SSA outnumber borrowers three to one, with 21.6 million depositors and 7.8 million borrowers. The number of depositors has almost doubled in the past three years. SSA is one of three regions in the world where depositors outnumber borrowers; this is partly explained by the historical weight of cooperatives in providing financial services in the region. Additionally, SSA is the only region where grants are used as widely as debt.

SSA continued to have by far the highest operational expenses worldwide due to operating expenses of 19 per cent, compared to the global levels of 14 per cent. High operating expenses are due to high staff expenses common in markets with scarce skilled labour, high transaction costs of reaching rural areas, and high costs of managing savings. Additionally, the consistently high and increasing risk may lead to high operating costs as staffs spend additional time following up on outstanding loans (CGAP and MIX 2010:2-18).

In contrast to operating expenses, financial expenses are some of the lowest globally. SSA's median financial expense ratio in 2009 was 2.8 per cent compared with the global median of 5 per cent. Two factors contribute to this trend: the predominance of deposits as a source of funding and the widespread availability of concessional loans with interest rates lower than market rates for a relatively large portion of financial service providers in SSA (CGAP and MIX 2010:2-18).

Non-deposit liabilities (NDLs) and equity are the two other sources of funding for financial service providers. Borrowings account for just over 20 per cent of funding, while equity accounts for just fewer than 20 per cent (Ibid).

Table 3.7: Five countries with largest NDLs (USD amounts), with local and cross-border breakout

Country	Local NDL (USD Mil)	Cross-border NDL (USD Mil)	Total NDL (USD Mil)
Kenya	57	175	232
Mali	20	122	141
Benin	35	21	56
Uganda	11	44	56
Ethiopia	45	9	54

Source: CGAP and MIX-2010

Sunita P. (2003:9-21) indicted one of the most important outcomes of the analysis. While most MFI programmes aim to reduce poverty and empower women through their programme, there is usually no clear implementation mechanism to fulfil these aims; they continue to be programmes with the same requirements and characteristics. Perhaps the second most important constraint is the insufficient empirical evidence from Africa. The microcredit model most commonly replicated and known internationally was to a great extent born in South East Asia and Bangladesh, particularly. Thus, much of the research and studies on successes, failures, weaknesses, and opportunities of microcredit are measured with this framework and context in mind. This is a mismatch, which is most likely to brand the African experience to be 'inadequate'.

Furthermore, Sunita P. (2003:9-21) notes that microcredit programs have progressively increased over the last decades in Africa. In comparison, there is nearly no convincing and/or comprehensive evidence to show that poverty has been reduced sustainably amongst a certain group of clients. Indicators such as repayment rates and 'demand' for credit do not result in poverty reduction; they simply mean that there is a 'need', as always, for more resources. Furthermore, a repayment being made simply indicates that the clients are in a position to pay back their loans; where and how they get funds for that repayment is not scrutinized.

3.4 Microcredit services in Ethiopia

3.4.1 Introduction

Despite five years of rapid growth, Ethiopia is among the world's poorest countries with a Gross National Income (GNI) per capita of USD 130 (2006). Recently, high inflation (May 2007: 17.2%, NBE) has become a threat to economic development. Among the 77 million Ethiopians, about two million are clients of MFIs and SACCOs, in addition to the urban savers of the banking sector. The remaining population has no access to formal financial services. Apart from these micro loans, small loans for productive and other purposes are hardly available.

3.4.2 Ethiopia's main social indicators

Table 3.8: Ethiopian main social indicator

	Indicators	Base line 2009/10	2010/2011		Target for 2014/15
			Planned	Actual	
1	**Macro Economics and Public Finance Indicators**				
1.1	**Macro Economy**				
	Real GDP growth rate (%)	10.6	11.0	11.4	11.4
	Per Capita GDP at Current Market Prices (USD)	377		392	482/523
	Total Consumption Expenditure (PFCE) as % of GDP	98.4	92.6	91.2	85.0
	Gross Domestic Capital Formation as % of DGP	22.3	25.3	25.5	28.2
	Gross Domestic Saving as % of GDP	5.2	7.4	8.8	15.0
1.2	**Poverty & Welfare**				
	Total poverty Head Count (%)	38.7 (2004/05)	27.7	29.6	22.2
	Food Poverty Head Count (%)	38 (2004/05)	26.6	33.6	21.2
2	**Economic Sectors**				
2.1	**Agriculture and allied activities**				
	Growth rate of agriculture value added	7.6	8.5	9.0	8.7
	Number of extension service beneficiaries (thousands)	5090	8521	9044	14640
	No. of beneficiaries benefited productive safety net (million)	7.1	5.1	7.7	1.3
2.2	**Industry**				
	Growth rate of industrial value added	10.6	14.0	15.0	23.7
3	**Social development**				
3.2	**Education**				
	Primary school Net enrolment ratio	82.1	89.7	85.3	100
	Adult education enrolment rate (%)	36	47.8	37.5	95.0
	Adult literacy rate (%)	36	47.8	37.5	95
3.2	**Health**				
	Primary Health Services Coverage (%)	89.6	100	96	100
	Under Five Mortality Rate (per 1000)	123 (2005 EDHS)	-	88	68
	Infant mortality rate (per 1000)	77	-	59	31
	Maternal mortality rate (per 100,000)	673 (2005 EDHS)	503	676 (2011 EDHS)	267
	Transmission of HIV/AIDS (%)	*2.4*	-	*2.3*	*2.4*

Source: Ministry of Finance and Economic Development (MoFED) 2010/2011

According to the Ethiopia Mini demographic and Health Survey, the national household headship was 77.0% male and 23.0% female (CSA 2014:14). Further, a glance at the demographic structure of Ethiopia (total est. population of 96,633,458) revealed that 42.2 per cent of the population are less than 15 years old and 2.8 per cent are above 65 years old (CSA 2014 projection). The total national dependency ratio is 83.5 per cent, which is 77.2 per cent for youth, and 6.3 per cent for the elderly.

3.4.3 Evolution of Microcredit in Ethiopia

Before the 1980s, the Ethiopian experience in microfinance was limited to Self Help Groups, Rotating Savings and Credit Associations, Cooperative Unions, Community Savings Collectors and Local Money Lenders. They were all informal and largely unregulated. They were mainly microcredit savings mechanisms. Their strengths were associated with good repayment records due to peer pressure and other cultural mechanisms. However, their weaknesses lay in low-level access to capital and limited range due to informal non-structured frameworks.

In Ethiopia only about 1% of rural households maintain bank accounts. Thus, the informal financial sector is one of the most important sources of rural finance and accounts for about 78% of total agricultural credit. The major sources of finance in this sector are relatives and friends (66%), and moneylenders (15%). In Ethiopia, there are a number of commonly found community based indigenous savings and credit groups, which are also widely used by women (Dejene A. 1996:6).

One of the Community Based Organisations (CBOs), known as Ikub is an informal, ad-hoc association organized by members for the purpose of pooling their savings in accordance with rules established by the group. Members agree to deposit monthly or weekly contributions of a fixed sum with an elected treasurer or, where accessible, in a bank. Lots are drawn weekly or monthly by turns and members in need can purchase the winner's lot by paying a premium (Sunita P. 2003:19-21).

The other common CBO is an Iddir, which is an informal association whereby savings are made primarily for the purpose of covering the cost of funerals or weddings. Mehaber is an informal, religious association that draws its members from the church to raise money for medical and burial expenses. In this sense, moneylenders are well positioned, with terms and conditions that are quick, simple, convenient and flexible, for the most accessible source of funds for the rural poor outside of family and friends, albeit at an annual rate of interest as high as 245% or more. Therefore, CBOs play a significant role in savings and beneficiary mobilization, and are considered to be effective ways of targeting clients as some of the CBOs are uniquely controlled and owned by women (Sunita P. 2003:19-21).

Savings and Credit Cooperatives (SACCOs) are almost entirely urban based with membership largely drawn from salaried employees and generally people who share a common purpose and locality. Currently there are about 670 urban SACCOs with approximately 150,000 members. Reportedly, these SACCOs have consistently performed quite well, largely due to their political and financial independence. Most of the SACCO members are men. Members are required to save 3% to 5% of their salaries on a monthly basis. Borrowers are charged 1.5% per month and savers paid the regular bank savings rate, which is currently around 6% per annum. All cooperative societies, including SACCOs, are governed and supervised by the Regional Cooperative Promotion Bureaus (Sunita P. 2003:19-21).

The loan products among MFIs in Ethiopia generally follow the Grameen model with some slight variations. Most of the MFIs have two types of loan products, namely loans for on-farm activities, which are due in four to twelve months, and off-farm investments with more flexible repayments on a weekly or monthly basis (IFAD 2001:19). On average, 60% of the MFI portfolio represents loans for on-farm investments while income generating activities and petty trading accounted for about 40%. There are two types of savings offered by MFIs, namely compulsory, which acts as collateral and will be withheld by the MFI in case of default, and voluntary savings which the individual can withdraw at any time. Compulsory savings are the most common and the interest rate on savings is about 6% per annum (Dejene A. 1999:6).

In comparison to Malawi, the interest rates on loans in Ethiopia can be said to be at acceptable levels; this is mainly because of the highly controlled nature of the Ethiopian economy and the inflation rate. Interest rates vary among MFIs, ranging from 12.5% to 15% per annum, in addition to a loan application fee of about 2% (Sunita P. 2003:19-21). Furthermore, Sunita P. 2003:19-21 mentioned that in Ethiopia the MFIs are themselves limited to a specific region by government regulation. In the case of Ethiopia, this gives a particular MFI the advantage of a in the region and exclusive operation rights. This has a negative impact on operations efficiency, competitiveness, and service quality for the end user clients.

Discussions from Malawi revealed that about five to eight years ago, differences in microcredit delivery strategies resulted in social inequalities and disruption. Some programmes pursued subsidised interest rates with a grace period, while others followed market interest rates and immediate repayments. This affected the social cohesion in the communities because some households benefited from the cheaper loans while others had to pay more expensive charges. Although coordination in microcredit delivery has improved since then, field evidence reinforces the argument that MFIs in particular are not in a position to actually reduce poverty; rather they are in the business of providing finance to those who qualify.

Adeno K. (2007:11-12) points out that the demand for microcredit in Ethiopia is indeed increasing. However, the actual capacity of the existing regulated microfinance institutions is limited. Moreover, he points out that there are 27 MFIs operating with two in the pipeline to join the industry, and still the market is largely untapped given that half of the institutions are working in Addis Ababa. Furthermore, Adeno K. (2007:11-12) estimated that Ethiopia needs at least 300 MFIs to satisfy the growing demand for microfinance services. Amha W. (2007:9-13) also concludes that twenty-seven MFIs meet only less than 15 per cent of the demands for financial service of the active poor.

Pfister M.W., Gesesse D., Amha W., Mommartz R., Duflos W., and Steel E. (2008:1) said that Ethiopian microfinance has made remarkable progress over the past decade, reaching almost two million clients in a country of 77 million people. Nevertheless, financial services for the low-income population, poor farmers and small and medium enterprises are still characterized by limited outreach, high transaction costs for clients, a generally weak institutional base, weak governance and a nominal ownership structure as well as dependence on government and NGOs.

The available evidence suggests that the operational modalities of existing micro-finance institutions need a thorough examination vis-à-vis their contribution towards alleviating the financial needs of the poor. Observations made in some of the regional states have pointed to a number of weaknesses in the operations of the existing MFIs. Some of these include inflexible repayment periods, overemphasis on

the need of the group collateral, problems with group membership, and lack of effective loan screening mechanisms. In addition, there is a need to examine the managerial capacity of the microfinance institutions so that they can provide more efficient services to their clients (MoFED 2008/2009:73-74). Regarding saving mobilization patterns, Amha W. and Anteneh (2011.16-19) mentioned that voluntary savings grew at a rate of 38% in 2009 versus prior years and represented 29% of the sector gross loan portfolio.

Table 3.9: Ethiopia microfinance outreach indicators

MFIs	No. of active borrowers (A)	Per cent of women borrowers (B)	Gross Loan portfolio (C)	Average Loan balanced Per borrowers (D)	Voluntary savings (E)	Compulsory savings (F)
Peer Group-Small MFIs						
Degaf	1,249	78%	1,224,132	980	74,277	452,973
Letta	433	90%	3,529,387	1,132	16,440	7,678
Meket	3,356	74%	3,320,865	990	157,207	131,622
Shashemene	2,800	46%	9,439,225	3,371	289,135	1,307,545
Lefyeda	211	75%	455,244	1,158	37,845	91,985
Dynamic	319	27%	1,972,899	6,185	992,592	376,309
Total	**8,369**		**19,942,079**	**13,995**	**1,567,496**	**2,368,112**
Average	**1,395**	**65%**	**2,414,936**	**2,332**	**258,621**	**394,685**
Peer Group-Medium MFIs						
Aggar	3,707	28%	10,543,553	2,305	1,347,090	1,474,187
AVFS	11,306	74%	11,215,745	992	984,662	3,108,015
Gasha	12,851	23%	14,503,934	1,129	287,525	4,445,283
Harbu	12,541	70%	11,362,231	906	3,145,703	2,485,373
Meklit	12,980	39%	20,659,910	1,498	2,016,721	5,648,573
Metemamen	14,154	77%	10,157,104	718	0	2,635,316
Total	**67,539**		**76,442,478**	**7,547**	**7,781,701**	**19,796,747**
Average	**11,257**	**52%**	**12,740,413**	**1,258**	**1,296,950**	**3,299,458**
Peer group-Large MFIs						
ACSI	687,586	63%	1,656,863,562	2,410	678,505,638	309,602,588
ADCSI	152,260	45%	321,197,819	2,110	32,575,541	53,513,483
Banshangule	28,649	17%	42,484,447	1,483	6,676,803	2,645,743
BussaGonofa	42,146	72%	48,928,779	1,161	0	8,647,584
DECSI	407,780	38%	1,359,117,217	3,333	477,379,679	51,053,122
OCSSCO	364,584	39%	734,540,219	2,015	97,992,729	260,958,337
Omo	296,638	32%	462,403,284	1,559	93,160,933	69,392,023
PEACE	18,174	81%	42,511,836	2,339	6,205,076	4,839,433
SEPI	29,044	53%	33,984,970	1,170	2,400,708	13,687,835
Wassa	42,276	46%	64,066,939	1,515	10,641,953	10,365,369
Wisdom	56,302	66%	95,822,168	1,702	8,469,013	13,151,823
Total	**2,125,439**		**4,861,921,240**	**20,796**	**14,008,073**	**797,857,340**
Average	**193,222**	**50%**	**441,992,840**	**1,891**	**128,546,188**	**72,532,485**
All MFIs						
Total	**2,201,423**		**4,958,319,098**	**40,266**	**1,423,246,733**	**819,498,645**
Average	**95,714**	**55%**	**215,341,449**	**1,712**	**61,880,293**	**35,630,376**
Average Africa	**11,322**	**60%**	**N/A**	**5,028**	**N/A**	**N/A**

Source: Amha W., and Anteneh-2011,

The study observed from Table 3.9 that the total of all MFIs mobilized 28.7% (E*100/C) and 16.5% (F*100/C) from voluntary savings and compulsory savings respectively of the sector gross loan portfolio. Based on this data, the total MFIs mobilized 45.2% from both voluntary and compulsory savings of the total sector grass loan portfolio.

Furthermore, Table 3.9 shows that DECSI, one of the market leaders, accumulated 90% of its total savings from voluntary deposits followed by Dynamic (73%) and Benshangul (72%). However, Metemamen and Buusa have not collected voluntary savings. MFIs mobilized Birr 819,498,645 million in compulsory savings, which represents 37% of total savings and 17% of the sector gross loan portfolio.

In addition, Table 3.9 also shows that DECSI accumulated 35% and 3.8% from voluntary savings and compulsory savings respectively of the sector gross loan portfolio. Additionally, DECSI mobilized 38.8% from both voluntary and compulsory savings of the total sector grass loan portfolio.

3.4.4 Financial structure average for MFIs peer-groups

Table 3.10 shows that deposits to loan of all MFIs comprises 33% of the financial structure, which represents 29%, 36%, and 34% from small, medium, and large Ethiopian MFIs. This indicates that a significant share of the financial structure of Ethiopian MFIs is generated from deposits.

Table 3.10: financial structure average for MFIs peer-groups

Indicator	Ethiopia				MBB
	Small	Medium	Large	All MFIs	All African
Capital Asset Ratio	60%	45%	37%	45%	24%
Debt Equity Ratio	0.80	1.60	2.40	1.80	2.40
Deposits to loan	29%	36%	34%	33%	56%
Portfolio	83%	75%	78%	77%	63%

Source: Welday and Anteneh-2011,

The above empirical evidence indicates that the significant contribution of deposits to loans of all Ethiopian MFIs financial structures could not affect the loan and saving interest rate determination of the Ethiopian MFIs.

3.4.5 Ethiopian microcredit ownership structure

The ownership structure of Ethiopian microfinance institutions is the direct effect of regulatory provisions (Degefe 2009:11). According to the Proclamation No. 40/1996 of the Business of Micro Financing Institutions, microfinance institutions should be owned fully by Ethiopian nationals and/or organizations wholly owned by Ethiopian Nationals and registered under the laws of, and having its head office in, Ethiopia. This legislation excluded international NGOs and other overseas agencies from owning and running microfinance institutions in Ethiopia.

Furthermore, Degefe (2009:11) said that today there are 31 MFIs registered with the National Bank of Ethiopia and serving clients. The Ethiopian microfinance market is dominated by a few large MFIs, all of which are linked to regional state government ownership. The three largest institutions account for 65% of the market share in terms of borrowing clients, and 74% in terms of loan provision. These are Amhara (ACSI), Dedebit (DECSI) and Oromia (OCSSCO) Credit and Savings Institutions.

Table 3:11 shows that the ownership structure of Ethiopian MFIs varies and is highly linked with the regional government directly, or through government led associations. This enables the regional governments to regulate the MFIs. Except DECSI, all Ethiopian MFIs are regionally based MFIs, which affects the cross regional competition of the MFIs.

Furthermore, Table 3:11 shows that the ownership structure of a significant number of Ethiopian MFIs are linked to individuals, which indicates that the Ethiopian MFI industry attracts private investments for profit. The effect of this type of ownership structure matters as it is can potentially enhance competition that could lower the loan interest rates, not yet realized. Most of the privately owned MFIs are urban based and the level of competition among MFIs is still anaemic. That is why the lending interest rate is determined on a market basis that doesn't consider the social objectives of MFIs.

Table 3.11: Year of Establishment and Ownership Structure of MFIs in Ethiopia

	Microfinance Institutions	Year of Establishment	Ownership Structure (Percent of Equity Capital)			
			Regional Government	Associations and NGO's	Individuals	Total
1	Amhara Credit & Savings Institution S.C.	1995	25	75	-	100
2	Dedebit Credit & Savings Institution S.C.	1994	25	75	-	100
3	Oromia Credit & Savings Institution S.C.	1997	25	70	5	100
4	Omo Microfinance Institution S.C.	1997	80	19.5	0.5	100
5	Specialized Financial & Promotional Institution S.C.	1997	-	80	20	100
6	Gasha Micro-Financing S.C	1998	-	61.9	38.1	100
7	Wisdom Micro-Financing Institutions S.C	1998	-	-	100	100
8	Sidama Micro-Financing S.C	1994	-	70	30	100
9	Asser Micro-Financing S.C	1998	-	97	3	100
10	Africa Village Financial Services S.C	1198	-	-	100	100
11	BuussaGonofa Microfinance S.C	1999	-	19.6	80.4	100
12	Meeket Microfinance Institution S.C	1999	-	-	100	100
13	PEACE Microfinance Institution S.C	2000	-	16	84	100
14	Addis Credit and Savings Institution S.C	2000	96.7	3.3	-	100
15	Meklit Microfinance Institution S.C	2000	-	91	9	100
16	Ehet Microfinance Institution S.C	2000	-	20	80	100

Source: National Bank of Ethiopia, 1999

3.4.6 Cooperatives in Ethiopia

3.4.6.1 Introduction

A cooperative is an association of persons who have voluntarily joined together to a common end through the formation of a democratically controlled organization, making equitable contribution to the capital required and accepting a fair share of the risks and benefits of the undertaking, in which the members actively participate (Bezabih E. 2012.3). Similarly, Veerakumaran G. (2007:5) defines a cooperative as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Stirling S. (2004:20-25) reveals that cooperatives have a number of important roles to play in securing the rights and livelihoods of the poor. He said, "Cooperatives are schools for democracy, providing services the state cannot, or services captured by

elites, business co-operation, and capital accumulation. They are important for disadvantaged groups who do not have access to credit".

3.4.6.2 Historical overview of cooperatives in Ethiopia

Bezabih E. (2012.3) explains that cooperation among people of Ethiopia has existed since time immemorial. Strengthening Bezabih's idea, Veerakumaran G. (2007:5) notes that the people of Ethiopia have a very long social history of working together to fulfil their socio-economic needs.

In Ethiopia there are three well-known traditional cooperatives or self-help groups:

1. *Edir:* **-** Edir is one of the traditional forms of cooperatives still operating in almost in all parts of Ethiopia, urban and rural. It is similar to burial cooperatives or organizations that perform burial ceremonies, offer condolence, as well as assisting family members of the deceased with financial and labour assistance, helping them to overcome the difficulties that arise due to the occurrence of death in the member's family.
2. *Ekub:* Ekub is other form of traditional cooperative or traditional self-help group in Ethiopia. Ekub is a financial form of a traditional cooperative formed voluntarily. It is a rotating saving and credit type association whose members make regular contributions to a revolving loan fund. The formation of "Ekub "is based on classes of people who have identical (similar) earning or income. Unlike saving and credit cooperatives, it does not bear interest on the money saved (collected).
3. *Debo/Wenfal/Lefenty:* This form of traditional cooperative or mutual help group is an important form of traditional cooperatives in Ethiopia. This is mainly a cooperative formed in the rural areas in different parts of the country where most of the people are farmers. Debo is a system of farmer's cooperation during the time of farming, weeding, harvesting, trashing, and house construction etc. Debo/Wenfale/Lefenty does not have a system of administration like the other form of associations; it is based on each farmer's

equivalent contribution of labour or material (oxen). It is a mechanism by which all farmers are helping each other on a rotating basis.

3.4.6.3 Cooperatives by year

Table 3:12 below shows that the number of primary cooperatives and cooperative unions increased every year proportionally. However, the number of primary cooperatives and cooperative unions is not satisfactory compared with the Ethiopian population in general and the disadvantaged group in particular. Not just the numbers but also the overall capacity of cooperatives should be strengthened, because these are the reliable and sustainable community based institutions that can support the marginalized groups in all social aspects, including fair credit services.

Table 3.12: Number of cooperative unions in Ethiopia by year

Cooperatives	Year								
	1974	1974-1991	1991	2006	2007	2008	2009	2010	2011
Number of primary cooperatives	149	10,524	7,366	20,437	22,275	24,935	26,672	35,527	37,247
Number of cooperative unions	-	-	-	112	145	162	174	212	245

Source: Federal Cooperatives Agency, 2012

3.4.6.3 Cooperatives by regions

Table 3.13 shows that the not only unequal distribution of the number of unions between the regions but also the absence of unions and primaries in all pastoralist regions, such as; Afar, Somalia, and Gambella. Tailored unions and primary formation for the pastoralist is very crucial.

Table 3.13: Number of cooperative unions in Ethiopia by region

Regions	No of Unions	No of primaries	Membership			Capital in Mill. Birr
			Male	Female	Total	
Tigray	20	160	86,514	30,159	116,673	5.11
Benshangul	1	8	21,157	273	2,430	0.13
Addis Ababa	3	165	-	-	8,012	1.74
Oromia	43	1163	462,807	50,854	513,661	37.73
SNNP	13	273	183,163	14,243	197,406	15.35
Amhara	26	483	430,726	45,435	476,161	24.22
Total	106	2252	1,165,367	140,964	1,314,341	84.28
Percentage			89	11	100	

Source: Federal Cooperatives Agency, 2012

Furthermore, Table 3.13 shows that the participation of males and females in the unions and primaries is not healthy. Establishment of female-based unions and primaries should be encouraged.

3.5 Microcredit studies in Tigray

3.5.1 Introduction

Tigray National Regional State is one of the regional states within the structure of the Federal Democratic Republic of Ethiopia, located at the northern tip of the country.

3.5.2 Tigray's main socio-economic indicators

Tigray is highly vulnerable to recurrent droughts and a trend of reduced natural resources. Though the region has potential resources that can minimize poverty and improve the socioeconomic situation of the region, there are still financial access issues, poverty, drought, and unemployment, which are among the major development challenges of the region.

Table 3.14: Tigray's main socio-economic indicators

	Description	Year					Average
		2005/06	2006/07	2007/08	2008/09	2009/10	
1	**Population**						
1.1	Total population		4,314,456				
1.2	Male		49.2%				
1.3	Female		50.2%				
1.4	Urban		19.5%				
1.5	Rural		80.5				
1.6	Population growth		2.5%				
2	**Regional GDP growth by economic sector**						
2.1	Total regional GDP	11.2	11.3	11.8	10.2	10.5	11.0
2.2	Agricultural sector	9.6	9.2	11.4	7.9	9.6	9.5
2.3	Industrial sector	10	9.5	9.0	9.4	10.1	9.5
2.4	Services sector	14.0	14.4	13.7	13.0	11.6	13.2
3	**Sectorial share to Regional GDP (in percentage)**						
3.1	Agriculture	40.9	40.1	39.9	39.1	38.7	39.4
3.2	Industry	20.4	20.1	19.6	19.4	19.4	19.6
3.3	Services	38.7	39.8	40.5	41.5	41.9	41.0
	Total	100	100	100	100	100	100
4	Real per capita income (In USD)	168				232	
5	**Poverty**						
5.1	Regional poverty rate	48.5%				41%	
6	**Unemployment**						
6.1	Regional					19.0%	
6.2	Male					11.2%	
6.3	Female					16.2%	
7	**Infrastructure**						
7.1	Electrification coverage					12%	
7.2	Health coverage-Regional	75%				83%	
7.3	Infant mortality rate (per 100 000)	870				673	
7.4	Under five mortality rate (per 100000)	169				73	
7.5	HIV/AIDS prevalence						
	Urban					2.9%	
	Rural					1.3%	
7.5	PoTable water coverage						
	Urban	50%				72%	
	Rural	41%				60%	

Source: Tigray Bureau f planning and Finance (2010/11-2009/2015) Regional GTP

Dedebit Credit and Saving Institution (DECSI) is the only licensed microfinance institution in Tigray. The history of microfinance in Tigray is linked to the evolution of Relief Society of Tigray (REST) (Borchgrevink A., Valle J.H., and Woldehanna T. 2003:1).

Amha W. (2007:9-13) reports that as of September 2006, the main funding sources of DESCI included:

Table 3.15: Funding sources of DECSI

Funding Sources	Percentage
Loan from Bank	48.2
Savings Mobilization	31.1
Grant/donation	8.3
Loan from Rural Intermediation Program (RUFIP)	7.2
Net income from lending	4.4
Paid up equity	0.8

Source: Amha W., 2007

Table 3.15 clarifies that the major funding sources of DECSI are loans from the bank followed by savings mobilization, which indicates the main funding sources of DECSI are acquiring funds from the bank with a lower loan interest rate (9% per annum) and loaning this money out with high loan interest rates (18% per annum) on the one hand, and savings mobilization with 9% savings interest rates per annum and resale for 18% loan interest rates. Buying public funds at a low less interest rate and selling them with a high loan interest rate, is an urgent issue that needs corrective measures for the sake of establishing a fair loan interest rate that benefits the poor of the community.

Furthermore, Table 3.15 shows that grants/donations is the third funding source of DECSI. Understanding the objective and how DECSI manages the grants/donations funding source matters. Such types of funding sources are supposed to enhance the social contribution of DECSI through a pro-poor microcredit modality, including loan interest rates. Thus, the utilization of the grants/donations funding should be audited against its effect on the poor. Generally, this type of funding source is more important and effective for small MCIs than a large MFI like DECSI.

Table 3:16 shows that the growth rate in percentage of DECSI was decreasing and even negative for the year 2006. This can be a result of dropouts, exclusion of the poor, high amounts of loan for small numbers of clients, among other reasons.

Table 3.16: The growth rate percentage of DECSI

Year	Growth rate in percentage
2004	49
2005	25
2006	-6.3
2007	7.4
2008	12.7

Source: Amha W.

Apart from DECSI, the Alliance of Civil Society Organizations of Tigray (ACSOT) reports that there are about 51 registered members of the alliance, which are operating in different parts of Tigray with different legal status, capacities, target groups, methodologies and operational procedures, but commonly working for the wellbeing of the disadvantaged sector of the community (Gemechu H. 2010:74-75).

The Women's Association of Tigray, Ethiopian Red Cross Society, Ethiopian Catholic Social and Development Secretariat, Save the Generation of Tigray, and Youth Association of Tigray are among the members of ACSOT, which are prohibited by the proclamation of the National Bank of Ethiopia to be involved in microcredit service. The prohibition is mainly due to low interest rates that could distort the microcredit market and its financial sustainability. However, these unregulated microcredit providers are still operating microcredit services (Gemechu H. 2010: 74-75).

Recognizing the existence and positive contribution of ERCS (unregulated microcredit provider), Amha W. (2011:18) stated that the experience of externally funded projects or programs reveals that "when loans are financed by an early injection of external funds from donors/NGOs or government, these projects appear to fail so consistently that this model of microfinance support is never a prudent gamble" (CGAP 2006). Furthermore, he mentioned that contrary to the experiences in many countries, the performance of the microcredit program of ERCS, in terms of repayment and loan collection has been very impressive in the last years. The repayment rate of the microcredit program has been 100%. Even for a beneficiary who passed away, his family repaid the loan.

The unregulated microcredit providers are targeting specific sectors of the community, which are highly linked with the specific objectives of the institutions and are following a poverty lending approach. Some of these are noted in Table 3.17.

Table 3.17: Outreach performance of some unregulated microcredit providers

S/n	Name of Organization	IGA activities	Beneficiaries	Remarks
1	**Women's Association of Tigray (WAT)**	• **Rural** (Agriculture activities; Cattle fattening, Poultry, Sheep & goat rearing • **Urban** (mini-business activities, Urban agriculture)	More than 10,000 total beneficiaries in the Region	Individual and group IGAs, But more focus on individual IGA
2	**Save the Generation Association Tigray**	• In 15 sub -branches • Urban & Rural IGAs	• 100% HIV/AIDS Victims • 680 beneficiaries in 2012 budget year	• All types of IGA projects are Grant Type, There is no revolving fund program
3	**Women Association of Tigray (WAT)** • On a formation process, very soon will be recognized as microfinance, which will be independent, but under the supervision of the Tigray Women's Association board of directors.	• The Main objective for formation of the micro finance is to regulate the money that has been dispensed for many years by the WAT in collaboration of different donors. • It is believed to be more than 60 million birr revolving in the 11 thousand beneficiaries of WAT IGA different projects, so, the above money will be the initial capital for the under formation Micro Finance.	• 11000 beneficiaries of WAT from different IGA projects in different • 70 % will be poor women who can have access to credit starting from birr 500 – 10,000 • 30 % will be other beneficiaries • Saving service will be provided for all	• Interest rate will be 12.5% decline method • Micro Credit service on commission on behalf of the organizations who wants to engage in micro credit schemes for poor house- hold families.

Source: Compiled from quarterly report of ACSOT, 2013

One important issue is why the existing regulation cannot prohibit the unregulated microfinance services funded by donors, including the Ethiopian Government. This study will address this issue.

The above literature review clearly indicates that there are theoretical and empirical gaps. Agreement could not be reached between a wide range of academicians and development experts regarding the effect of loan interest rate on the poor, its extent and manifestations. This reveals that the issue of loan interest rate still requires further study and discussion. As a result, this study will present empirical evidence on the issues related to the loan interest rate and its implications, contributing to the knowledge gap within the theories and practices.

3.6 Empirical reviews of some other countries

This section presents some empirical reviews of other countries in the area of the impact of loan interest rates within microfinance for the poor.

Table 3.18: Summary of empirical reviews of some other countries

	Title	Author	Year	Microcredit modality	Outcomes
1	Impact of Interest Rate on Loan Repayment of MFIs in Tanzania. (International Journal of Business and Economics Research)	Othman A. and Hon Z.	2016	Multiple loans with high interest rate	Loan default has significant relationship with interest rate
2	Measuring the Impact of Microfinance: Looking to the future. (Study of eight countries: Morocco, Mexico, Uganda, Peru, Philippines, Pakistan, Kenya, and India) (Grameen Foundation Publication)	Kathleen E.	2015	Credit, savings, and insurance - credit packages	Business expansion but not necessarily to greater business profit and little evidences of sustained increases in income or consumption.
3	Effects of interest rates on loan performance of MFIs in Naivash sub-city, Kenya. (International Journal of Economics, Commerce and Management)	Kariuki M and Ngahu S.	2016	High loan interest rate to enhance MFIs financial performances and reduce liquidity risks	Low loan performance, repayment failure and MFIs faced liquidity risks.
4	The impact of microfinance on welfare and poverty alleviation in Southern Nigeria (PhD thesis)	Taiwo J.N	2012	Loan demands determined by type of business the clients engaged in	Loan demand is interest rate insensitivity.
5	Empirical study of the impact of Microfinance Bank on small and medium growth in Nigeria. (International Journal of Academic Research in Economics and management Sciences)	Olowe F.T., Moradeyo O.A, and Babalola O.A	2013	Collateral, high interest rate, and short loan duration	Crippled the expansion of Small and Medium Enterprises (SMEs) in Nigeria
6	What influences Microfinance Lending Interest Rates in Sub-Saharan Africa (SSA) (292 MFIs drawn from 34 SSA countries) (Executive Business Centre, Boumemouth University, UK)	Sydney C.	2012	Finance costs, operating expenses, return on assets and inflation largely drive MF lending interest rates in SSA.	MF clients suffer from hgh interest rates, the exorbitant rates viewed as a poverty penalty.

Source: Compiled by the author

Even though the impact of lending interest rates on the poor is not yet adequately studied, Table 3.17 a summary of globally dispersed countries revealed that loan interest rates is a global problem that challenges the performance of the microcredit industry, which strengthens the importance of the empirical review of Ethiopia.

3.7 Closing remarks

Microcredit programs have progressively increased over the last decades in all parts the world. Like any development tool, there is still ongoing debate within the microfinance field. Indicators such as repayment rates, 'demand' for credit and the rise of MFIs results on poverty reduction are still debatable. The 'demand' simply means that there is a 'need', as always, for more resources. The critical issue is how the demand of the poor for microcredit service can be addressed, and to what extent loan interest rates affect the demand and benefits from microcredit services, a question with which this study deals.

The Institutionalist and Welfarist approaches to microfinance disagree on almost all the core issues of microcredit/finance. Since this study seeks to utilize their respective theories without undermining them, this study evaluates the relative achievement and complementarities of both types of microcredit/finance in giving loans to previously economically excluded actors and thus raising their standard of living. This approach will be used instead of focusing on what each school purports to be the most important aspect of micro-credit/finance (social change or fiscal solvency). Furthermore, the study assesses which loan interest rates modality actually affects their clients' standard of living. These effects may occur at the individual level, raising or stabilizing income, or at the social level, reconfiguring the market system to provide more mutually beneficial transactions between members of the informal sector, and providing loans large enough to allow clients to increase their finances in a manner that protects clients from macroeconomic shocks.

The chapter contributed to understanding the global, regional, national and local historical journey, outreach, financial structure, growth and trends of microfinance services. From the Ethiopian and some other globally dispersed countries empirical

reviews, it can be observed and learnt that lending interest rates is a global MCI problem that should be studied properly. Impact analysis of MCIs on the poor should not exclude lending interest rates.

The next chapter is devoted to the research methodology and research techniques that will assist in executing the research. These methodologies and techniques aid in specifying the location of the sample population and area and informing the management of the whole process of the data collection. Further, they assist in the analysis of the information and help study how best to assess the impact of a microcredit loan interest rate on the poor in Tigray region.

CHAPTER FOUR: RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction

This chapter explains how the study was designed and carried out. The section also describes the methodology used in collecting data to answer the research questions and address ethical concerns. The scope and limitation subsection discusses necessary cautions observed in interpreting the findings of this study.

4.2 Study area

The section deals with the rationale for the study area selection; the profile, the geographical location and administration divisions as well as the demographic pattern of the study area.

4.2.1 Selection of the study area

The study area selection carefully considered based on the socio-economic situation of the area, geographical representation of both urban and rural populations, the relatively long history of microcredit involvement in the community, engagement of different microcredit actors with different program modalities, and distance for logistical reasons. This was also the rationale for the selection of the Eastern Administrative zone out of the six zones in Tigray Regional State and subsequently the selection of districts and villages from the selected zone.

4.2.2 Profile of the study area

The Eastern Administrative zone of Tigray is one of the most severely impacted by recurrent drought. Additionally, the Eastern zone was the war front of Ethio-Eritrea conflict. As a result, various devastating social problems have occurred (Eastern Administrative zone of Tigray five years' strategic plan, 2008). Because of its socio-economic and geo-political situation, this zone, with all its districts and villages, has been the target of microcredit services for more than a decade. Examining different

microcredit actors following diverse microcredit modalities and loan interest rates was very important for this study. Therefore, this area was ideal for the study.

Table 4.1: Basic socioeconomic indicators of the study area

		Type of residence			Migrants	Unemployment rate (Age 10+)	
		Total	Orphanage	Homeless	Percent		
1	**Regional**						
	Both sex	4,316,988	839	1,124	19.9	5.8	
	Male	2,126,465	409	967	19.0	5.0	
	Female	2,190,523	430	157	20.8	6.7	
1.1	**Urban**						
	Both sex	844,040	690	916	52.7	22.6	
	Male	398,795	331	833	51.6	16.8	
	Female	445,245	359	83	53.8	29.0	
1.2	**Rural**						
	Both sex	3,472,948	149	208	11.9	2.5	
	Male	1,727,670	78	134	11.5	2.7	
	Female	1,745,278	71	74	12.4	2.2	
2	**Eastern zone**						
	Both sex	755,343	187	152		26.6	
	Male	359,638	118	80		17.9	
	Female	395,705	69	72		34.2	
2.1	**Urban**						
	Both sex	146,064	68	80			
	Male	66,321	54	69			
	Female	79,743	14	11			
2.2	**Rural**						
	Both sex	609,279	119	72			
	Male	293,317	64	11			
	Female	315,962	55	61			

Source: Compiled from population and Housing Census, 2007

4.2.3 Demographic and geographical location of the study area

The study was carried out in the Eastern Administrative zone of Tigray, which is one of the six administrative zones of Tigray Regional State, consisting of nine woredas with a total population of 840,196 of which 399,508 (48%) and 440,688 (52%) are male and female respectively (CSA 2011).

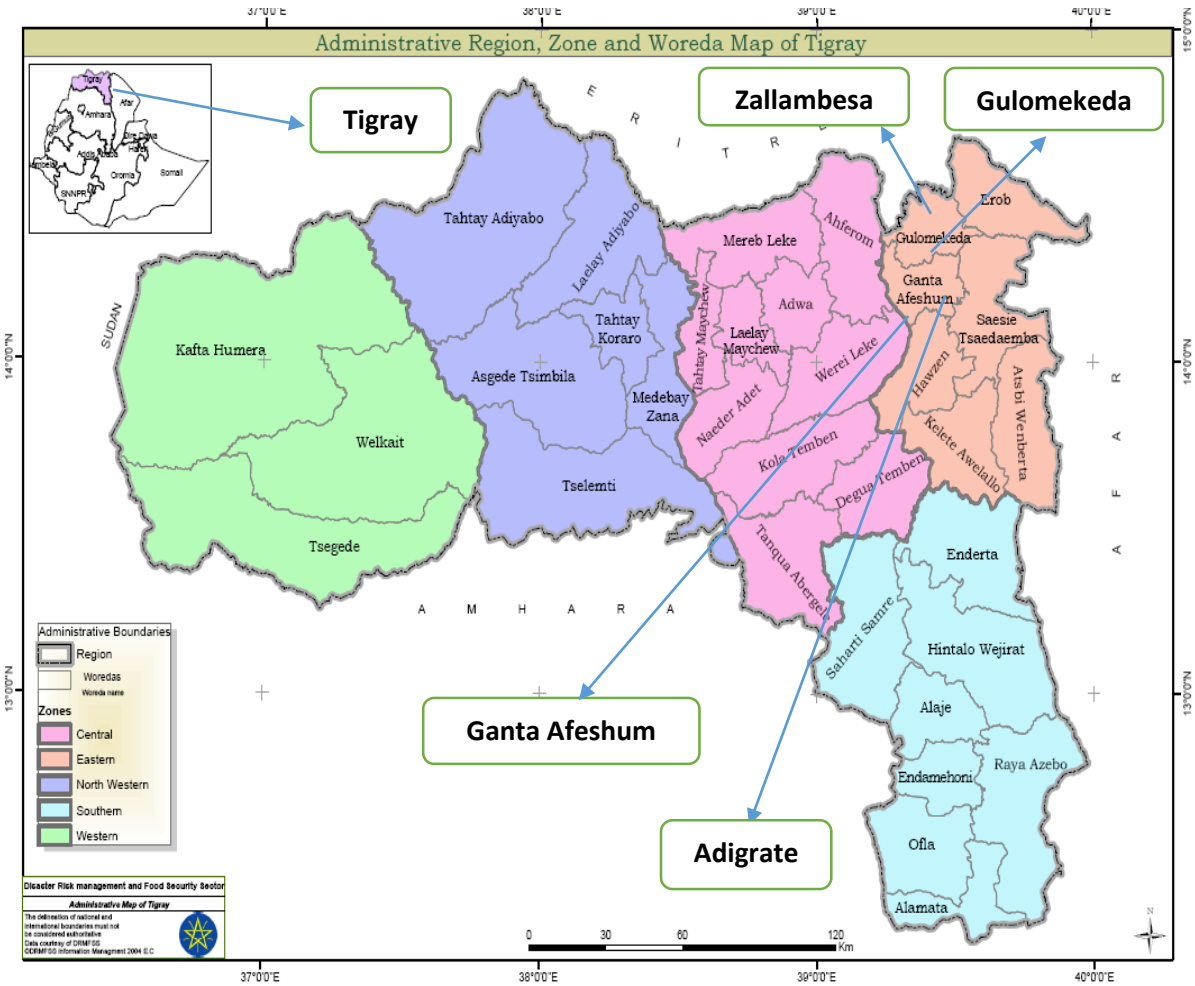


Figure 4:1 Map of study area

4.3 Selection of microcredit providers

For a meaningful analysis, the stratification of microcredit providers based on their type and legal status was very important. In Tigray, there are very few microcredit providers; however, these differ based on different legal status, which was one of the basis for the selection of the microcredit providers.

As noted above, the Eastern Administrative Zone has different types of microcredit service providers. Accordingly, microcredit providers were stratified according to regulated and unregulated microcredit actors. Thus, five microcredit providers (four from regulated, and the other from unregulated) were selected purposively taking into account those that have been serving for a minimum of four years. These included Dedebit Credit and Saving Institution (DECSI), Sasun Credit and saving

Cooperatives (SCSC), Lideta Micro Finance Institution (LMFI), and Adeday Micro Finance Institution Share Company (AMFISC) from the regulated microcredit providers, and the Ethiopian Red Cross Society (ERCS) from the unregulated microcredit providers.

Since mid 2013, DECSI was the only MFI and SCSC was one of the credit and savings cooperatives in Tigray, which provided financial services to the poor and low income population. ERCS and Ethiopian Catholic Social and Development Coordination (ECSDC) were two of the humanitarian NGOs involved in microcredit activities applying microcredit modalities that differ from the formal microcredit providers. Over time, ECSDC transformed to a formal MFI called Lideta Micro Finance Institution (LMFI) in April 2012, and another new MFI called Adeday Micro Finance Institution Share Company (AMFISC) was established in April 2013. As a result of these changes, the number of licensed microfinance service institutions in Tigray increased from one to three MFIs.

4.4 Sampling of the study

"How large does the sample size have to be?" Claire B., et al (2008: 43-133) suggested that the best answer is, "it depends". It depends on the kind of data analysis the researcher plans, on how accurate the sample has to be for the researcher's purposes, and on population characteristics. Generally speaking, a large number is more representative but very costly. A small sample, on the other hand, is much less accurate but more convenient. However, a large sample size alone does not guarantee a representative sample. A large sample without random sampling or with a poor sampling frame is less representative than a smaller one with random sampling and an excellent sampling frame.

Moreover, regarding the size of a sample, Bless T., and Higson-Smith, C. (2000:93); Mitchell M., and Jolley J., (2001:496) advocate that the larger the population, the smaller the percentage of that population the sample needs to have. If the population itself is relatively small, the sample should comprise a reasonably large percentage of the population. Larger samples enable researchers to draw more representative

and more accurate conclusions, and to make more accurate predictions than in smaller samples, although this is costlier.

The sample construction for this study considered three initial requirements that were used to create sample distribution among the microcredit providers shown below.

4.5 Sampling of microcredit providers

The study was supposed to engage four microcredit providers, two from regulated and another two from unregulated microcredit providers. However, due to their transformation from unregulated to regulated and newly established MFIs, the number of regulated sampled MFIs increased from two to three (DECSI, LMFI, and AMFISC) while the number of unregulated microcredit provider decreased from two to one (ERCS).

While there is variation in the legal status and years of microcredit service provision of the sampled microcredit providers, the number of microcredit providers operating in the study area was few in number. Thus, for the best interest of the study, all operating microcredit providers were included in the study. Furthermore, in order to secure fair representation of each sampled microcredit provider, the distribution of the sample respondents among the sampled microcredit was fair.

a) Sampling of the geographical location (study area)

The study was carried out in two weredas (Gantaafeshum and Gullomekeda) of the Eastern Administrative zone of the Regional State of Tigray, one urban area from each wereda (Adigrate and zallambessa) and one rural area from each weredas where both types (regulated and un-regulated) of microcredit providers are still operating. The same principle of fair representation of each microcredit provider and respondents among the actors was followed.

b) Sampling of respondents

The sample of respondents consisted of two main groups and four sub-groups. The first main group consisted of clients that came from old and new MFIs and the other main group consisted of non-clients including ex-clients, and non-clients who had never participated. The sample was divided proportionally between rural and urban areas.

The first means of ensuring representative samples was the use of a complete and correct sampling frame. Given these requirements, this study established the following sample distributions. This was the sampling list of all units from which the samples were drawn.

c) Sampling stages and distribution of target population

This study addressed different target populations of different microcredit providers, clients, ex-clients, and non-clients. Due to the heterogeneous nature of the target populations and microcredit providers of this study, multiple and series of sampling procedures were crucial.

Therefore, in order to define the target population of this research, multi-stage sampling methods were used as follows;

- *First stage -* the selection of sample micro credit providers**.** For meaningful analysis, stratification of micro credit providers based on their type and legal status was important. In Tigray Regional State there are different types of microcredit providers enjoying different legal status. These are categorized into regulated and unregulated microcredit providers. Regulated microcredit providers include Dedebit Credit and Saving Institution (DECSI), which is the only strong and old institution operating in both urban and rural areas, Lideta microfinance institution (LMFI), Adeday Microfinance Institution Share Company (AMFISC), established one year ago and operating mainly in limited urban areas, and a few savings and credit cooperatives (like SCSC) operating in the rural areas. On the other hand, there are a few unregulated

microcredit providers comprised of NGOs (like ERCS), and Community Based Associations operating on a project-by-project funding system, mainly in urban and some rural areas.

For the best interest of this study, microcredit providers were stratified based on their status of being regulated or unregulated microcredit providers. Thus, five microcredit providers (four from regulated, and the other from unregulated) were selected purposively. Those that have operated for a minimum of four years include DECSI, LMFI, AMFISC, and SCSC from regulated microcredit providers, and ERCS from unregulated microcredit providers.

- *Second stage* - the selection of study areas where the sampled micro credit actors operate. Two weredas, one urban and one rural, were selected purposively, namely Adigrate and Zalambesa towns (urban), and Gantaafeshum and Gulomekedda (Rural) from the area where the sampled microcredit providers operated for a minimum of 4 years.

- *Third stage* - the selection of total sample population among the two categories. Clients and non-clients were selected through a random and non-probability sampling technique respectively. The selection of the client respondents was from the available data (lists) of the microcredit providers while the non-respondents sampling technique was non-probability where the selection of sampling was quite arbitrary. This was the convenient sampling for the study where non-respondent data was not available. The representation of non-clients was about 21% of the total sample population. The reason for the relatively high sample population from non-clients was because of the high number of households, which have no microcredit access; this was based on the observation by Amha W. (2010:33-35) that currently only 6% of smallholder farmers in Ethiopia have access to financial services. So, as a result of significant number of smallholder farmers who do have not access to financial services, adequate sample representation of non-clients for this study was very crucial. This helped to explore crucial

elements of the research questions adequately including 'how and to what extent does loan interest rate exclude the poor from microcredit financial services?' and 'why do some people participate in microcredit services while others do not?'.

- *Fourth stage* - the disproportional distribution of client respondents among the sampled regulated and un-regulated microcredit actors. This kept the balance of representation of clients among microcredit actors by taking a small sample size from a large population and vice versa. This was based on the size sampling principle suggested by Bless T., and Higson-Smith, C. (2000:93); Mitchell M., and Jolley J., (2001:496), which was relevant for this study. This helped to avoid minimizing representation bias. The other assumption was the high possibility of some clients who may be clients of more than one of the sampled microcredit actors. Thus, taking the loan history of the sampled respondents was considered important in order to evaluate why they engaged with more than one microcredit service provider and why they changed their membership from one microcredit service provider to another.

- *Fifth stage* - the distribution of non-clients among old clients (who were clients of any one of the sampled actors) and those who have never been a member of any one of the sampled microcredit service providers. For this, purposive sampling was appropriate, thus inviting those who are not currently a member of any microcredit service for interviews.

- *Sixth stage* - the geographical distribution of all sampled respondents. This was proportionally distributed among the sampled urban and rural areas. This helped to deal with the proposed research questions in urban and rural areas, which have different features.

In order to be consistent with the research questions and to avoid both confusion and unfair comparisons, all sample client respondents were microcredit service beneficiaries. In the case of DECSI, which provides both microfinance and

microcredit services using different modalities; the selection from this institution was only from its microcredit clients. The remaining sampled actors are entirely operating on micro credit services.

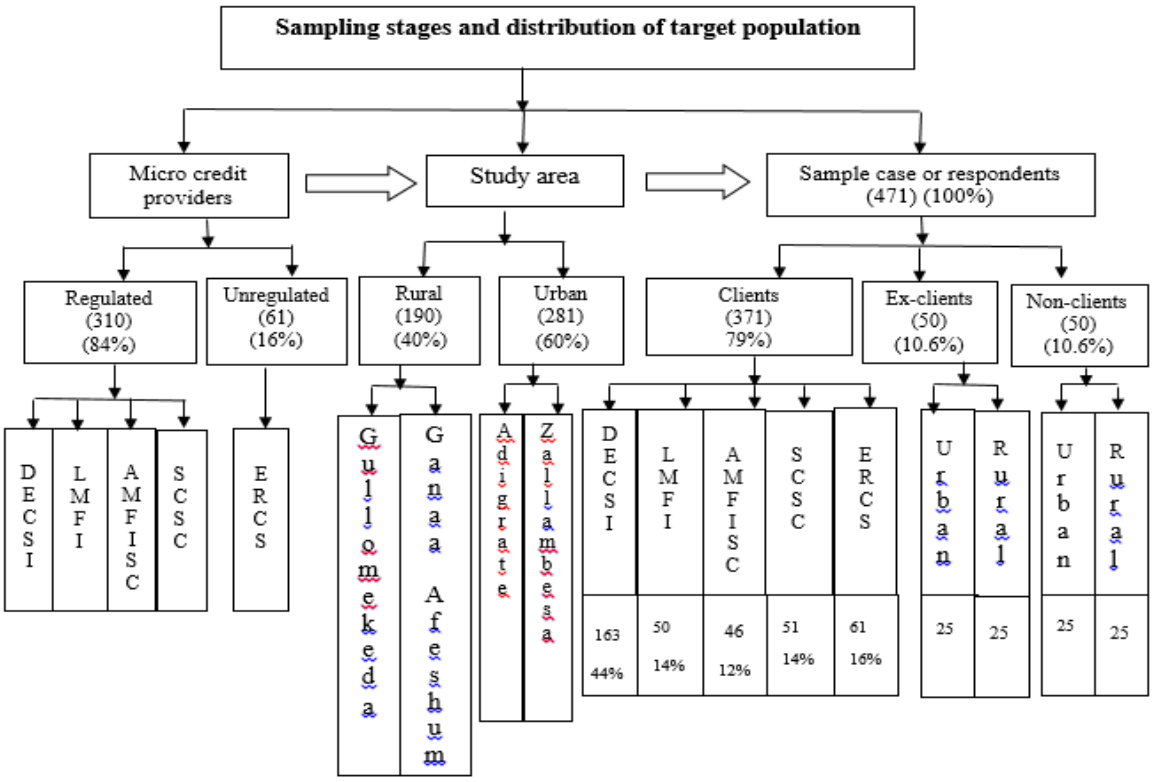


Figure 4.2: Sampling stages and distribution of target population

4.6 Background of the research strategy and design

The research methodology and design were intended to address the purpose and objectives of the study. The overall aim of the study was to understand the impact of loan interest rates on the poor in the Tigray region and thereby develop a comprehensive framework upon which future work can be based. The study used a two-phase, with sequential mixed methods approach that helped to obtain statistical, quantitative results from a sample of household respondents and then followed up with in-depth interviews of a few individuals to probe those results in more depth.

The two-phase, sequential mixed methods approach helped to investigate the extent to which loan interest rates affect the poor, to assess the pull and push factors of

microcredit on the credit clients and microcredit institutions, and other research questions of this study in Tigray. The credit supply aspect intended to address the factors that affect the ability of poor clients to obtain effective and efficient loan microcredit services and covered the following specific issues as stated on section 1.5: -

1. What motivates micro-credit institutions to give loans in Tigray?
2. Why are loan interest rates determined by different micro credit providers?
3. How and to what extent does loan interest rate exclude the poor from micro credit financial services?
4. Does loan interest rate influence social mission (performance) of microcredit providers? And if so, how and to what extent?
5. What is the effect of the ownership structure of microcredit on loan interest rates? And why?

The second theme addresses the issue of demand factors that affect the ability of the poor to obtain credit from lending institutions and specifically covered the following questions.

1. What attracts poor clients to get loans from microcredit institutions?
2. How do loan interest rate attributes affect access to credit of the poor?
3. Why do some poor people participate in a microcredit service while others do not?
4. How, why and to what extent do non-clients of microcredit have access to the informal credit market?

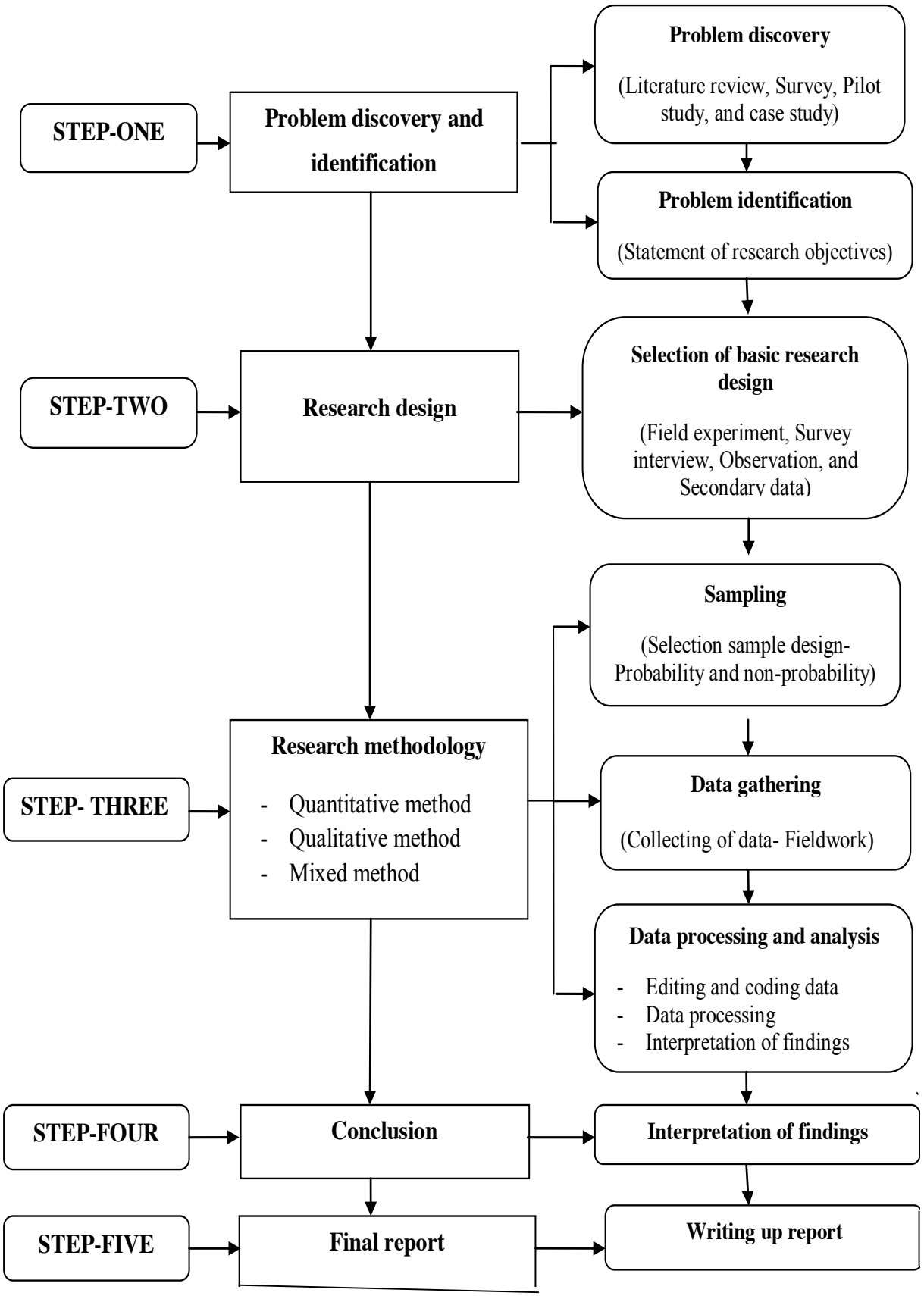


Figure 4.3: Flow chart of the research design and methods of the study

4.7 Research methodology

Research methodology describes how the researcher plans to control the process of data collection, and then manages the data to produce information and knowledge relevant to the research problem.

This study employed multiple types of research methodologies including descriptive, both quantitative and qualitative, as well as applied types of research methods. This was because; the study intended to examine specific problem related with the loan interest rate effects on clients and non-clients in terms of their participation and changes to their socioeconomic situations. This necessitated using both descriptive and analytical methods.

This study used mixed methods to address the research questions adequately. The mixed methods employed a sequential explanatory design, which is one of the major six mixed approaches and consists of two distinct phases: quantitative methods followed by qualitative methods. It is not enough to simply collect and analyse quantitative and qualitative data; they need to be 'mixed' so that together they can form a more complete picture of the problem that the study is examining.

The details of the quantitative, qualitative, and mixed methods of this study are elaborated below.

4.7.1 Quantitative research methods of the study

This study used survey research, which is one of the common approaches of quantitative research. This survey research also addressed sampling, questionnaire design, questionnaire administration and data analysis.

The type of survey research of this study was household interviews that took place at the respondent's home. The household interview instrument was first tested by the researcher and ultimately used to conduct research by trained enumerators. This quantitative research method helped find answers to some of the research questions of this study.

Quantitative research methods of this study included a predetermined instrument based on close-ended questions that helped to measure attitude, performance, rating behaviours, and others for statistical analysis.

4.7.2 Quantitative research sampling procedure of the study

The quantitative research of this study involved random/probability sampling. This was chosen because it is imperative that each person in the population should have an equal and independent chance of being selected in this sample. The following was the application of random sampling of this study.

This study used a systematic sampling procedure in drawing a sample from DECSI, LMFI, AMFISC, SCSC, and ERCS microcredit clients. Additionally, this study used a snowball sampling procedure in drawing a sample from eligible non-clients consisting of both dropout clients, and non-clients who had never participated.

4.7.3 Quantitative research sample size of the study

For the interest of this study the sample size was determined based on an un-proportional way of random sampling method. Accordingly, a smaller percentage sample was drawn from microcredit providers with large clients (population) (DECSI) while a relatively high percentage sample was drawn from microcredit providers with small clients (LMFI, AMFISC, SCSC, and ERCS). This satisfied the fair sample representation from both regulated and unregulated microcredit providers.

Due to the fact that the target populations of this study had different characteristics, this study required different target populations of microcredit providers, clients, ex-clients, and non-clients. As a result, multiple and series of sampling procedures were used. In order to define and distribute the target population of this research among microcredit providers and urban/rural areas, multi-stage sampling methods were used.

These are:

- The first stage was the selection of a total of 471 sample population (respondents) from the two categories noted below. These were 371 (79 per cent) from clients and 100 (21 per cent) from non-clients who were selected

randomly and non-randomly. For the interest of this study, an adequate sample representation of non-clients was crucial for comparison.

- The second stage was the un-proportional distribution of 371 sample client respondents among the sampled microcredit providers. This kept the balance of representation of clients among microcredit providers by taking small sample size (percentage) from a large population (DECSI) and a reasonably large sample size from microcredit providers with small population (LMFI, AMFISC, SCSC, and ERCS). Accordingly, the researcher decided to get samples of 163 (3%), 50 (5.5%), 46 (5.2%), 51 (10%), and 61 (9.6%) from the sampling frame of DECSI, LMFI, AMFISC, SCSC, and ERCS respectively. On the other hand, the samples from DECSI, LMFI, AMFISC, SCSC, and ERCS constituted 44%, 14%, 12%, 14% and 16% respectively if one examined them in terms of the total sample. Based on this distribution, 310 (84%) and 61 (16%) were sample clients from regulated and unregulated microcredit providers respectively.

- The third stage was the distribution of 100 non-clients among defaulters (who have been clients of any one of the sampled micro-credit providers) and those who never were members. The distribution was 50 from each group. Non-clients were used as a control group (comparison) to compare the effect of loan interest rate on participants, non-participants, and dropouts. Furthermore, the researcher explored the reasons for joining, discontinuing, and not joining the credit service.

- The last stage was the geographical distribution of all sampled respondents among urban and rural areas, which was done proportionally. This helped to deal with the proposed research questions in urban and rural areas, which have distinct features.

In order to answer the research questions of this study and to avoid confusion and unfair comparisons, the sample household respondents of this study were entirely from micro credit service providers. As a result, the researcher deliberately excluded

microfinance clients of DECSI because the amount, purpose of loan and client's type of micro credit and micro finance are different.

Sample distribution of quantitative research of this study was drawn as follows;

Table 4.2: Sample distribution of quantitative research

	Micro credit providers (Sample elements)	No of micro credit clients of sampled microcredit providers in the study areas (wereda)	Proportion of respondents to the total micro credit clients of sampled microcredit providers (percentage)	Sample size					
				Clients			Ex-clients and Non-clients		
				Urban	Rural	Total	Urban	Rural	Total
1	**Regulated**						50	50	100
	DECSI	5307	3	74	89	**163**			
	LMFI	902	5.5	50	0	**50**			
	AMFISC	890	5.2	46	0	**46**			
	SCSC	499	10	0	51	**51**			
	Sub total	7598	4.1	170	140	**310**			
2	**Unregulated**								
	ERCS	250	9.6	61	0	**61**			
	Sub total	**250**	**9.6**	**61**	**0**	**61**			
3	**Grand total**	**7848**	**4.7**	**231**	**140**	**371**	**50**	**50**	**100**

For simplicity, DECSI`s urban and rural clients sample distributions were proportionally drawn. Furthermore, LMFI, AMFISC, and ERCS were operating entirely in urban while SCSC was operating in the rural area. That is why the rural sample clients of LMFI, AMFISC, and ERCS and ECSDC and the urban sample clients of SCSC are zero.

The reality of the microfinance service in general and the microcredit service in particular at national, regional, and zone level is homogeneous in terms of their credit methodologies and procedures. Thus, in order to study the confined area, the national and regional microcredit providers and their clients are deliberately excluded from this study by the researcher.

4.7.4 Quantitative data collection of the study

Ilan K. (2006:1); Kothari C.R. (2004:1-95); and Scott M. (2010:37-39) describe that there are two types of data source, *primary and secondary data sources* (secondary

information). The *primary data* are those, which are collected fresh and for the first time, and thus original in character. Primary data is data collected for the researcher's current research project. Primary data is often collected from a respondent, an individual who provides information either passively through the observation of his or her behaviour, or actively through verbal response. On the other hand, the second data has already been collected by someone else or agencies for purposes other than the problem at hand, which have already been passed through a statistical process.

Furthermore, Scott M. (2010:37-39) points out that secondary data falls into two categories, data that is available within the company (internal data) and that which must be obtained from outside sources (external data). The key, of course was to know where data were held and how to access them. In addition, Ilan K. (2006:1) describes three basic types of secondary data, two external and one internal to the program:

- Administrative data produced by organizations and agencies outside the program for their own purposes, but which can be harnessed by the evaluation.

- Research or survey data collected by governments through other agencies, census panel studies etc. for their own purposes.

- Management information produced by the program itself for accountability purposes in the form of progress reports, process data, financial data etc.

The study employed both primary and secondary data sources. The primary data was collected from the empirical fieldwork while the secondary data was mainly quantitative statistical information to complement the primary data. Regarding secondary data, this study took up the three basic types of secondary data sources, which enabled some triangulation of data for better accuracy.

On the one hand, structured and semi-structured interviews of this study were held with a total of 471 respondents as per details stated above. During the unstructured interviews, respondents were requested to share their experiences as freely as possible. There was minimal intervention from the researcher except for occasional guidance to keep the interview on track.

By far the most ideal way to examine the effect of microcredit loan interest rates on the poor was an experimental and/or comparison between clients of regulated and unregulated microcredit providers on the one side and clients and non-clients of micro credit on the other side.

The most frequent methodology used among the quantitative approaches was the quasi-experimental method. This methodology compares the results achieved on selected variables or indicators with questions of why some people participate in microcredit service while others not, push and pull factors of microcredit services to the clients and the microcredit providers, and effects of loan interest rates on profit, repayment and repetitive loans of poor clients. The quasi-experimental method of this study was mainly carried out through a comparison between statistically relevant groups of different microcredit providers.

At the same time, one of the most common methods of carrying out the quasi-experimental approach on the effect of loan interest rates is to create a sample comparing clients of different microcredit providers (regulated and unregulated) (with respect to the different loan interest rate settings of the sampled microcredit providers). This compares clients of different microcredit providers with eligible non-clients. This method provided additional detailed and significant results in terms of the effects of the loan interest rate for this study.

A second method of the quasi-experimental approach compared active clients of different microcredit providers (regulated and unregulated). This method was relatively simpler in terms of data collection as it drew exclusively upon the microcredit database of clients of the participant microcredit providers, thereby diminishing costs and potential bias in the selection of non-clients. This last point was particularly important, as the characteristics between clients and non-clients are

often significant and have a greater influence on poverty levels, perceptions on loan interest rates, and other subjective and objective factors than participation in a microfinance program.

This quantitative study employed both primary and secondary data sources. The primary data was collected from the empirical fieldwork while the secondary date was mainly quantitative statistical information (reports, journals, internet sites, and other publications) to complement the primary data. Here are the details:

a) Empirical field survey

Vos A., Strydom, H., Fouche, CB, and Delport. CSL (2002:198-209) classified questionnaires into mailed questionnaires, telephonic questionnaires, personal questionnaires, questionnaires delivered by hand, and group administered questionnaires. The selection of the type of questionnaire depends on factors such as time limitations, financial aspects, manpower issues, political situation, social environments, and the experiences of respondents. As a matter of fact, due to inadequate experience and the illiteracy of respondents, expecting them to complete questionnaires by themselves was unrealistic. Thus, this study employed a personal questionnaire.

In order to address the objectives of the study, primary data was collected through in-depth interviews with microcredit clients of sampled microcredit providers on the one hand and ex-clients and non-clients on the other hand. This helped to collect primary data from microcredit clients and loan officers (qualitatively) about their experiences and perceptions regarding the impacts of loan interest rates on the clients, ex-clients, and non-clients as well as how different loan modalities of the sample microcredit providers influence the credit access and benefits of the poor. Furthermore, it enabled the researcher to understand perceptions related to the loan interest rates of respondents (clients and providers) that have not yet been significantly studied.

b) Secondary data

The study collected necessary secondary data from different sources that included the following:

- MX Market Inc. website (www.themixmarket.com). The Mix Market is a not –for-profit initiative that disseminates information among the MFIs.
- Reports
- Publications
- Other

4.7.4.1 Quantitative data analysis of this study

The survey data generated from the questionnaires was analysed using both exploratory and confirmatory statistical techniques. A data entry capture template was designed in the Statistical Package for Social Scientists (SPSS), used for data entry. After data entry and clean up, exploratory statistical data analysis was conducted using frequency distribution Tables to summarize and display the respondents' views on the questions of this study.

The outputs are presented using tabulation and cross tabulation of relevant variables with averages and percentage values in descriptive and statistical analysis as stated in the next chapter.

- A correlation analysis of loan interest rates versus impact on microcredit participation was employed. This helped to examine the relationship of loan interest rates and being a client or not.
- This study also analysed the difference between clients, ex-clients, and non-clients on one side and clients of different sampled microcredit providers on the other side. This helped to examine the economic benefits of the clients of different microcredit providers who are using different loan interest rate settings.

Additionally, the study tried to analyse the household's level of poverty of the clients of the sampled microcredit providers using direct and indirect economic indicators, the accepted local wealth ranking system of the rural and urban community of the research area, and the national poverty index. This enabled the researcher to evaluate the influence of socioeconomic characteristics of the sampled respondents as clients, dropouts, economic benefits, and others.

4.7.4 Qualitative research methods of the study

Martin B., Kevine D., and Desmond P. (2006:21-462) suggested that qualitative research makes sense in situations in which it is difficult to say what the variables are, which ones are important, or how to measure them? In such cases, engaging in the kind of open-ended, inductive exploration made possible by qualitative research is indicated.

Kumar R. (2005:57-58) describes that in qualitative research the issue of sampling has little significance, as the main aim of most qualitative inquiries is either to explore or describe the diversity in situations, phenomenon or issue. You can, thus, select even one individual as your sample and describe the aim of your inquiry. Qualitative research methods helped to find answers to the research questions of this study such as 'how do loan interest rates exclude the poor from microcredit services'?, 'how and why are loan interest rates determined by different microcredit providers?', 'what influence do loan interest rates have on the microcredit social mission'?, 'what is the correlation between loan interest rates and financial sustainability'?, etc.

4.7.4.1 Qualitative sampling design of this study

Sampling utilized in qualitative research, is less structured, less quantitative and less strictly applied than in the case of quantitative research (Sarantakos S. 2000:156). Furthermore, Rubin A., and Babbie E. (2001: 399) rightly stated that field researchers' attempt to observe everything within their field of study; thus, in that sense they do not sample at all. In order to satisfy the qualitative data collection and investigation of observation and deep interviewing, this study employed non-probability sampling design almost without exception.

4.7.4.2 Qualitative sampling procedure of this study

Sarantakos S. (2000:156) clearly described that sampling in qualitative research was relatively limited, based on saturation, not representative, the size not statistically determined, involving low cost and not being time consuming. It can thus be inferred that in qualitative investigations non-probability sampling is used almost without exception. Sarantakos S. (2000:156) adds that in qualitative studies non-probability sampling methods are generally utilized and, in particular, theoretical or purposive sampling techniques rather than random sampling are used.

The qualitative data of this study involved non-probability sampling techniques, which are mentioned below.

a) Purposive sampling

This study employed purposive sampling procedures, which is one of the non-probability techniques in qualitative research in drawing a sample from DECSI, LMFI, AMFISC, SCSC, and ERCS micro credit officers.

b) Snowball sampling

Babbie E. (2001:180) points out that snowball sampling has particular application value in qualitative research since it is directed at the identification of hard-to-reach individuals. Furthermore, he described that in snowball sampling, the researcher collects data on the few members of the target population he can locate, then seeks information from those individuals that enables him to locate other members of that population. This study used snowball sampling mainly to collect data from non-clients who applied for microcredit services, because it was difficult to reach them.

4.7.4.3 Qualitative data collection of this study

Cathermin T. (2000:35-36) points out that there are two types of qualitative research: the depth interview and the group interview. The depth key Informant interview is unstructured (there is an interview guide but no questionnaire), of variable length (but may take up to five hours), and may be extended into repeat interviews at later dates

(for example, to find out how individuals' perspectives change in response to some experience or event in their lives). The second method is the focus group, which consists of a group discussion or group interview between four and 12 people (eight being optimal) to discuss the topic of concern for one to two hours with the guidance of a moderator.

In order to address the objectives of this study, in-depth interviews collected primary data from clients about their experiences regarding the effect of loan interest rates on the supply and demand of the microcredit scheme. As recommended by different scholars, in-depth interviews for this study were carried out using unstructured and semi-structured interview approaches. Unstructured or in-depth interviews are a flexible way of encouraging respondents to share their thoughts on a particular issue. The researcher's role was to be as unobtrusive as possible, to introduce a theme or topic and then let the respondent develop his or her own ideas. Moreover, in-depth interviews afford participants an opportunity to express themselves fully on issues that they would not openly reveal in focus group interviews

This dissertation employed both types of qualitative research, which are the depth interview using key informant interviews, and group interviews through focus group discussion. The details of each are below.

a) Key informants

Kumar R. (2005:57-58) points out that the choice of the entire sample rests upon the choice of individuals at the first stage. If they belong to a particular faction or have strong biases, the study may be biased. It is also difficult to use this technique when the sample becomes fairly large.

Consequently, this study employed 7 key informants from the sampled microcredit providers who are directly involved in the microcredit services and knowledgeable about the research topic. Furthermore, the key informants of this study were selected using purposeful sampling. Sample distribution of key informants of this study was as follows:

Table 4.3: Sample distribution of key informants

	Sample elements	Key Informant	Remark
1	**Regulated**		
	DECSI	2	One each from wereda coordinators
	LMFI	1	
	AMFISC	2	One each from wereda coordinators
	SCSC	1	
2	**Unregulated**		
	ERCS	1	
	Total	7	

For the best interest of this study, the key informant's depth interview employed in-person interviews using a guide.

The in-depth interview of different key informants answered some of the main research questions such as 'how the interest rate is set in their respective microcredit institutions and why', 'how loan interest rates encourage demand for clients', 'why some households are involved in microcredit service while others are not', 'perceptions on amount of loan interest rates', 'possible solutions in relation to loan interest rates and the demand of clients', etc.

b) Focus group discussion

Morgan, D.L. (1997:6) defines focus group discussion as a research technique that collects data through group interaction on a topic determined by the researcher. Furthermore, Neuman W. L. (2004:11-300) describes that the focus group has a special group discussion setting. The procedure used is that a researcher gathers 6-12 people in a room with a moderator to discuss a few issues in a discussion that usually lasts about 90 minutes. Focus group should be homogenous, but not include close friends and relatives. In a typical study, a researcher uses four to six separate groups. Claire B., Craig Higson S., Ashraf K. (2008: 43-143) suggests that the success of this technique depends in large part upon the skill of the group facilitator.

In order to satisfy the heterogeneous nature of the sampled population, such as geographical location, membership status, and legal status of microcredit providers, this study planned to conduct seven focus group discussions (five FGDs from clients

of sampled microcredit providers and two (from non-clients), each consisting of eight homogeneous respondents (in terms of clients and non-clients). According to Cathermin T. (2000:35-36), eight is the optimal number of FGD respondents suggested in most literature.

Due to the homogeneous nature of clients and non-clients in both urban and rural areas, this study conducted four FGDs (two each from urban and rural) through a snowball sampling selection of FGD members, especially for the selection of non-clients, that included clients from all sampled microcredit service providers with gender consideration. The distribution of FGD members among sampled microcredit providers considered the volume and coverage of each actor who were not included in personal interviews. This helped avoid duplication of respondents and it increased the number of respondents.

The FGDs was focused on the main research questions including 'why some households are involved in microcredit service while others are not', 'reasons for their preferences of microcredit institutions', 'perceptions on setting loan interest rates', etc. The FGD guide was formulated and pre-tested in one FGD. In order to focus on the interest of the topic, the researcher, who provided enough freedom for respondents to steer the conversation, guided all FGDs.

4.7.4.4 Qualitative Data Analysis of this study

Microcredit interest rates are often compared with those charged by both commercial banks and excessively subsidized lending organizations. Such comparisons are inappropriate (Nimal A. 2006:2-7). In order to solve this problem, this study used both independent and inter-actor comparisons. In the case of independent comparisons, data from each sampled microcredit provider versus their own clients was examined using the direct and indirect socioeconomic performance or indicators of the clients before and after participating in microcredit during 3-5 years. On the other hand, the study examined data based on inter-actor comparison, 'peer-group' comparisons of credit service providers with similar mission, objectives, and characteristics, etc. This helped to compare the effect of loan interest rates on clients

of similar objectives and types of clients on repayment rate, default, and economic benefits that influence the graduation of clients from one or another schemes to satisfy their progressive demand.

The analysis of data generated by the focus groups and key informants was mainly a simple descriptive narrative that sought to generalize findings in terms of the group or individual key informants using terms such as most, very few, and the majority. The content of the discussion was examined relevant to its particular implication for the research question that emphasizes the reliability and replicability of observations and subsequent interpretation on why something was said. Furthermore, the content of the FGD discussion and key informants was examined as to the meaning and its implication for the research questions at hand.

4.7.5 Mixed method approach of this study

With the development and perceived legitimacy of both qualitative and quantitative research in the social and human sciences, mixed methods research, employing data collection associated with both forms of data, is expanding. This study used mixed method, which addressed the research questions adequately. The mixed method employed sequential explanatory designs, one of the major mixed approaches that consists of two distinct phases: quantitative followed by qualitative. It was not enough to simply collect and analyse quantitative and qualitative data; they need to be 'mixed' in some way so that together they can form a more complete picture of the problem that this study intended to examine.

4.8 Interview procedure

Prior to the visit, the researcher notified the local authority and microcredit actors about the intention of the survey in the area. The respondents were first asked for their consent and informed about the purpose of the study, which was for academic purpose only. This was to avoid unnecessary expectations of the respondents and to give value for their spare time. They were also informed that it was anonymous and any information revealed would be kept confidential.

4.9 Research reporting and presentation

The structure of this report was based on the research strategy or approach this study followed, mixed method using the sequential approach. The final report of this study followed the following structure;

- Quantitative results are presented using Tables, diagrams and analysis followed by qualitative information and analysis.
- In the conclusions or interpretation phase of the study, there are comments on how the qualitative result findings helped to elaborate on or extend the quantitative results.

4.10 Measures for reliability and validity

Reliability and validity are central issues in research (Neuman 2004:11-300). They represent the yardsticks by which the quality of all kinds of research − quantitative, qualitative or participatory – are evaluated. The following sections explain how this was done, especially using the questionnaire surveys.

1. **Reliability**

The reliability of the results of this study materialized through a particular question relevant for the survey research that gave the same results over time and when applied to different groups or samples.

2. **Validity**

The validity of the results of this study was ensured not only by the consistency of results but also by the quality of the questionnaire that was developed to measure all areas relevant to the research issue.

4.11 Ethical considerations

This study followed the necessary ethical principles and guidelines of research and respects all conditions of the Research and Higher Degrees Committee in the College of Development Studies at UNISA. Ethical approval of this research was obtained from the Higher Degrees Committee before research was conducted in the Eastern Zone of Tigray, Ethiopia and ethical procedures were followed.

4.12 Conclusion

This chapter focused on the research methodology and set of data that this study uses. Further, it explained how the research was done. Having presented the methodology and discussed the data used, the study reports the results/findings of this research and analyses the results in the next chapter.

CHAPTER FIVE: RESEARCH RESULTS AND DISCUSSION

5.1 Introduction

This chapter presents the results of the exercises performed to answer the main research questions of the study, derived from both quantitative and qualitative data. Quantitative data was analysed and presented by descriptive statistical tools such as mean, percentage (%), standard deviation (SD) and frequency distribution (n). Likewise, qualitative data was compiled, organized, summarized and presented in a narrative form. Furthermore, an overview of the kinds of tests performed and the numerical statistical tests performed using SPSS Version 2015 to answer the research questions are presented. The study also made an effort to triangulate both quantitative and qualitative data of relevant discussions. Finally, the chapter closes with a conclusion.

5.2 Results of descriptive analysis

Like any other development programme, it is understood that microcredit programme eligibility criteria, demographic and socioeconomic characteristics of a certain sector of the community, determine participation in microfinance in general and the microcredit program in particular. Analysing these characteristics was very relevant to examine characteristics that influence both the participation in microcredit services and the impact of loan interest rates on the poor. Furthermore, the respondents were distributed among the sampled regulated and unregulated microcredit providers. In general, 471 respondents from different categories (clients, ex-clients and non-clients) were interviewed, and the findings are presented and discussed below.

5.2.1 Descriptive analysis of the continuous variables

This sub section presents the result of the continuous variables of the sample distribution of the three groups (clients, ex-clients and non-clients) of the respondents. Demographic variables (sex, age, marital status, household type, family size, respondent's area, and educational level), economic variables (income sources, dependency ratio and active economic forces, expenditures, coping of

shock and savings) and microcredit service eligibility criterion (objective of microcredit services, level of poverty, and ability to work) were discussed.

5.2.1.1 Sample distribution of respondents

Initially, the sample design of the microcredit providers was to have two samples from regulated and other two from unregulated microcredit providers. However, due to the establishment of one new regulated microcredit (AMFISC) and the transformation of another one from unregulated to regulated microcredit service (from ECSDC to LMFI), this was changed. Thus, the actual sample microcredit providers and household respondents of this study were four from regulated (DECSI, LMFI, AMFISC, and SCSC) and the other one from an unregulated microcredit providers (ERCS). All MCIs (regulated and unregulated) operating in the study area are included in this study.

Therefore, Table 5.1 shows the total number of households interviewed for this research as 471 (clients, Ex-clients and non-clients), 57 per cent more than the initial sample design of the households, which improved the information source of this study.

Table 5.1: Sample size of respondents

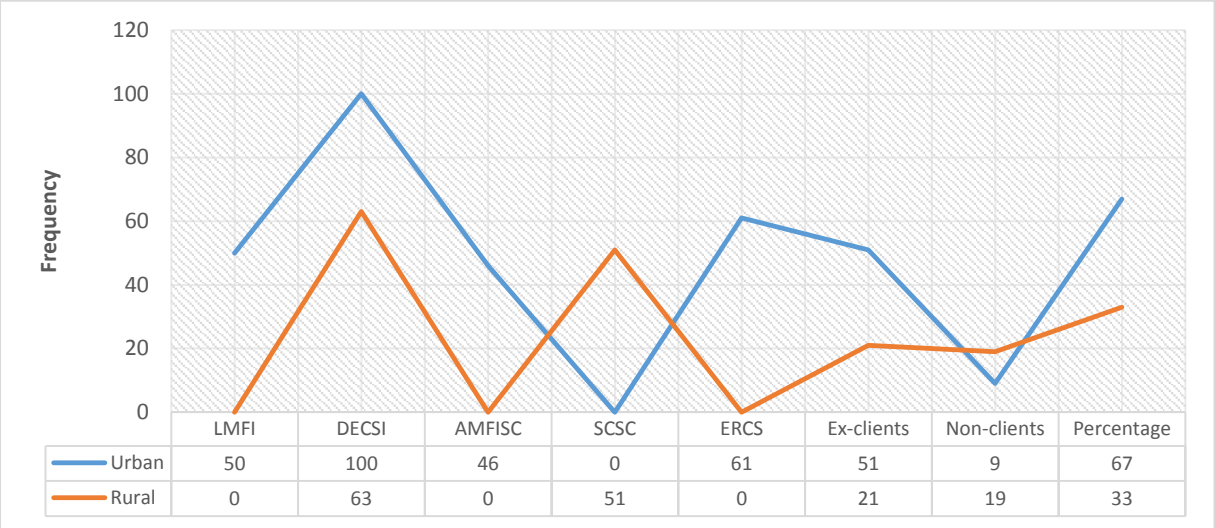
Legal status	MCIs	Design sample of Households						Actual sample of households					
		Client			Ex-clients and Non-client			Client			Ex-clients and Non-client		
		Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Regulated	DECSI	35	40	75				100	63	163			
	LMFI	0	0	0				50	0	50			
	AMFISC	0	0	0				46	0	46			
	SCSC	0	50	50				0	51	51			
	Sub total	**35**	**90**	**125**				**196**	**114**	**310**			
Unregulated	ERCS	40	0	40				61	0	61			
	ECSDC	35	0	35				0	0	0			
	Sub total	**75**	**0**	**75**				**61**	**0**	**61**			
Grand total		**110**	**90**	**200**	**50**	**50**	**100**	**257**	**114**	**371**	**60**	**40**	**100**

Source: Data from fieldwork 2014

As can be seen from Table 5.1, in terms of types of microcredit service providers (regulated and unregulated), area coverage (urban and urban) and category of respondents (clients, ex-clients, non-clients), this study was inclusive.

5.2.2 Respondents and MCIs area distribution

As shown in Figure 5.1, 67% and 33% of respondents were from urban and rural areas respectively. Furthermore, Figure 5.1 shows that three of the sampled microcredit service providers (LMFI, AMFISC, and ERCS) were operating in urban areas, one (DECSI) was operating in both urban and rural while the other one (SCSC) was operating only in rural areas. Moreover, it can be calculated from Table 5.1 that the sample representation of ex-clients and non-clients was 60 per cent from urban and 40 per cent from rural areas.



	LMFI	DECSI	AMFISC	SCSC	ERCS	Ex-clients	Non-clients	Percentage
Urban	50	100	46	0	61	51	9	67
Rural	0	63	0	51	0	21	19	33

Figure 5.1: Respondents area distribution

Source: Data from fieldwork, 2014.

The study observed that the area distribution of the sampled microcredit providers was mainly due to their immediate objectives, influenced by their financial and managerial capacity. The dominant urban settings of most sampled microcredit providers limited the access of the rural population to credit markets, which affects the bargaining power of the rural poor.

5.2.3 Sex composition of respondents

Figure 5.2 shows the sex composition of respondents in each sample category. This came to 63 per cent of the total respondents being female while 37 per cent were male. Furthermore, the sex composition among the sample categories was; 100%,

94%, 75%, 74%, 61% 45%, and 24% female from the total number of sample respondents of AMFISC, LMFI, ex-clients, ERCS, non-clients, DECSI, and SCSC respectively.

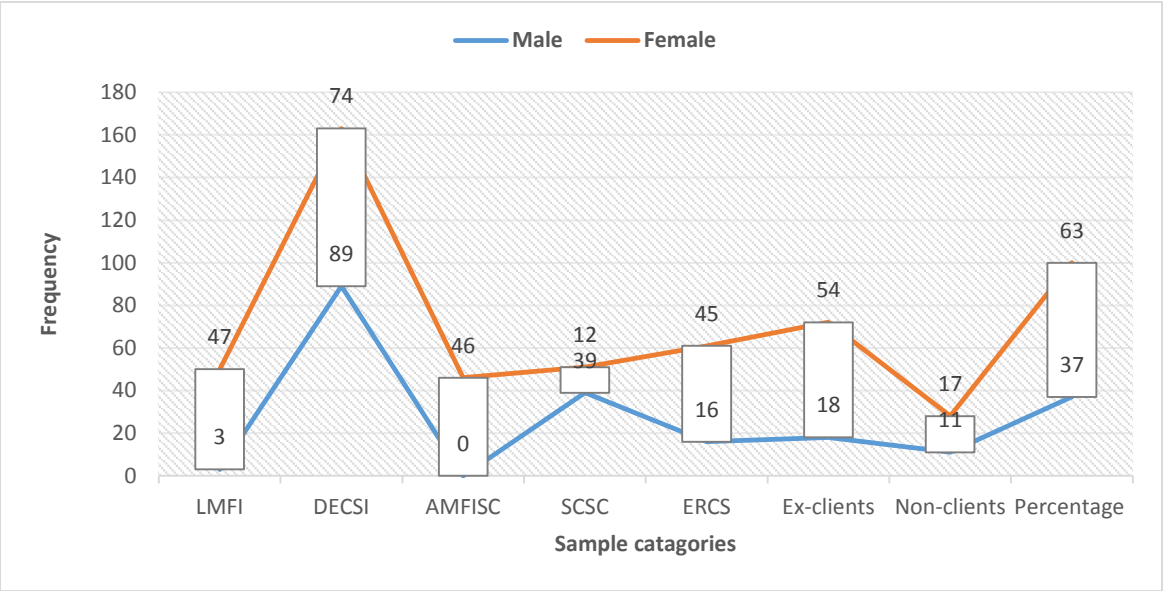


Figure 5.2: Sex composition of respondents

Source: Data from fieldwork, 2014.

Furthermore, Figure 5.2 shows that the female representation varied significantly. It can be concluded from the above survey data that the main target of all MCIs was female, except DECSI and SCSC, while AMFISC entirely targeted females. This was critical, especially when one considers the feminization of poverty theory. The 100 per cent targeting of females by AMFISC was mainly related to its objective to support poor women in Tigray, which was initiated and led by Women Tigray Association (WTA). Moreover, it can also be observed that majority of the ex-clients and non-clients were female, which was supposed to be the main objective of MCIs. Therefore, the sex composition of dropouts should be monitored against the stated objective of MCIs.

Moreover, it can also be deduced from the above survey findings that 45 per cent of the sample respondents from DECSI were female. This was also similar to the ratio of female DECSI microcredit clients reported during the study in the study areas. Thus, in order to keep its original objective, DECSI should monitor the adequate

participation of females in general and poor female households in particular in microcredit services.

In addition, SCSC female sample respondents were the lowest (24%), which can indicate that the participation of female clients in the community led cooperatives was not good. This indicates that female clients could easily be marginalized in all MCIs except in the female led AMFISC MCIs. Therefore, in order to secure the participation of female clients in MCIs, female led MCIs should be strengthened in both urban and rural areas.

In addition, it can also be deduced from Figure 5.2 that the highest number of ex-client and non-client sampled respondents were female. This indicated that not only were female clients more vulnerable to dropout but there is also a sector of the poor community not yet addressed by any appropriate MCIs, which affects the main objective of the MCIs. This is in line with what Fazel H.A. (2000:8-13) and Amha W. (2010:33-35) stated in sections 2.9.1 and 1.6 respectively.

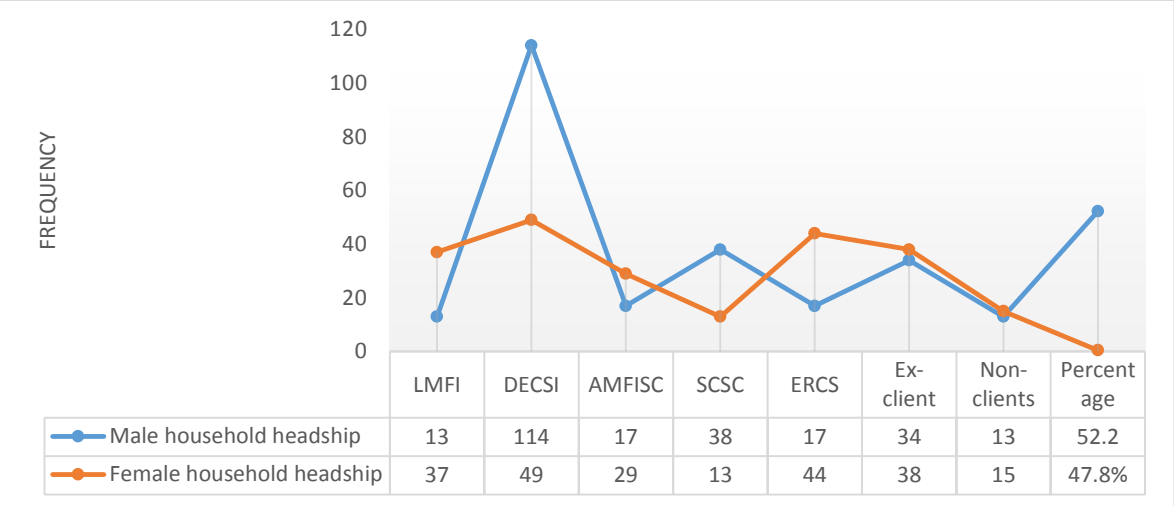
Finally, the study suggested that sampled MCIs are often believed to be an ultimate source of empowerment for poor people in general and for the poorest women in particular. Nonetheless, this does not necessarily guarantee that all female clients of each microcredit loan were the poorest of the poor.

5.2.4 Household Headship of respondents

Figure 5.3 depicts that out of the total sampled household respondents, 52.2% were male household headship while female household headship were at 47.8%. Even though the ratio of male and female household headship of the sampled microcredit providers varied, all sampled microcredit providers made an effort to address all categories of household headships in the study areas.

Similarly, it can be calculated from Figure 5.3 that the majority of DECSI (70%) and SCSC (74.5%) respondents were male-headed households while the majority of LMFI (74%), ERCS (72.1%), and AMFISC (63%) respondents were female-headed households. On the other side, the ratio of household headship of ex-clients and

non-clients were similar. This indicates that there was a diversified household head structure of the respondents, which could help to assess the level of economic burden of the households.



	LMFI	DECSI	AMFISC	SCSC	ERCS	Ex-client	Non-clients	Percentage
Male household headship	13	114	17	38	17	34	13	52.2
Female household headship	37	49	29	13	44	38	15	47.8%

Figure 5.3: Household Headship of respondents

Source: Data from fieldwork, 2014.

Moreover, as calculated from Figure 5.3, the total household headship of respondents were different from the national Figures in that this sample had higher female household headships and lower male household headships than the national Figure mentioned in section 3.4.2 of this study. This could be the result of a high number of female-headed households repatriating from Eritrea and a high number of male migrants from the study area. Due to the proximity to the Ethio-Eritrea border, and prone to border conflict, there is a high prevalence of youth migration as a common practices in the study area.

Finally, it can be concluded from the survey findings above that it was important to examine the type of household headships for each sampled MCI because this was associated with the number of female clients addressed by each sampled MCI, and one of the major social objectives of all MCIs. Thus, this study concluded and suggested that female and female headed households were not consistently addressed by the old and big MCIs (DECSI) and community led cooperatives (SCSC). Therefore, female led in general and female-headed households in

particular should be strengthened and supported through special credit modalities by MCIs.

5.2.5 Age of respondents and their household

Table 5.2 clearly revealed that the total dependency ratio of respondents was 71 per cent, which is 67 per cent for youth, and 4 per cent for the elderly.

Furthermore, Table 5.2 illustrates that the respondent's household total child dependency ratio was higher while the total aged dependency ratio and the average dependency ratio was lower than the national dependency ratio, mentioned in section 3.4.2 of this study.

Additionally, Table 5.2 shows that the comparison of total dependency ratios of the sampled respondents ranges from 63 per cent of ex-clients to up to 80 per cent of ERCS respondents. This Figure indicates that households with a high dependency ration should design a mechanism to diversify their income through increasing the number of HHs income earners and/or looking for secondary jobs and microcredit engagement of other family members. From a microcredit service objective point of view, all MCIs should also consider the dependency ratio of their clients in general and the poor households in particular. Therefore, the household profile of their clients matters in order to manage the microcredit service effectively and efficiently; this could increase the success of both the borrowers and the microcredit providers.

During the key informant interviews with the credit officers, this study found that there was no complete and standardized client registration format in all sampled microcredit providers, which could help the MCIs classify and monitor their client's dependency ratio and its impact in managing IGA.

Table 5.2: Age of the respondent's household

MFI		Age				
		0-5	6-14	15-30	31-64	65 and above
LMFI N=50	Count	14	29	38	32	6
	Mean	1.14	1.79	1.79	1.13	1.00
	Std. Deviation	.363	.819	1.044	.336	.000
	Sum	16	52	68	36	6
	Child dependency ratio	65				
	Aged dependency ratio	6				
	Total dependency ratio	71				
DECSI N=163	Count	69	122	123	140	15
	Mean	1.29	2.03	2.02	1.66	1.20
	Std. Deviation	.457	1.128	1.184	.745	.414
	Sum	89	248	249	233	18
	Child dependency ratio	70				
	Aged dependency ratio	4				
	Total dependency ratio	74				
AMFISC N=46	Count	11	37	36	41	3
	Mean	1.09	1.92	1.94	1.46	1.00
	Std. Deviation	.302	.795	.984	.505	.000
	Sum	12	71	70	60	3
	Child dependency ratio	64				
	Aged dependency ratio	2				
	Total dependency ratio	66				
ERCS N=61	Count	21	39	48	49	10
	Mean	1.43	2.00	1.90	1.22	1.30
	Std. Deviation	.598	.973	1.276	.422	.483
	Sum	30	78	91	60	13
	Child dependency ratio	71.5				
	Aged dependency ratio	8.6				
	Total dependency ratio	80				
SCSC N=51	Count	11	45	48	46	1
	Mean	1.09	2.04	1.69	1.65	1.00
	Std. Deviation	.302	.737	.689	.604	.
	Sum	12	92	81	76	1
	Child dependency ratio	66				
	Aged dependency ratio	0.6				
	Dependency ratio	67				
Ex-clients N=78	N=78	20	54	61	60	6
	Mean	1.25	1.83	1.92	1.52	1.17
	Std. Deviation	.444	.863	1.069	.504	.408
	Sum	25	99	117	91	7
	Child dependency ratio	60				
	Aged dependency ratio	3				
	Dependency ratio	63				
Non-clients N=22	Count	7	21	21	26	3
	Mean	1.71	2.19	2.05	1.46	1.00
	Std. Deviation	.756	1.167	1.161	.508	.000
	Sum	12	46	43	38	3
	Child dependency ratio	71.6				
	Aged dependency ratio	3.7				
	Dependency ratio	75				
Total N=471	Count	153	347	375	394	44
	Mean	1.28	1.98	1.92	1.51	1.16
	Std. Deviation	.479	.970	1.090	.619	.370
	Sum	196	686	719	594	51
	Percentage of sum	8.7	30.5	32	26	2
Total Child dependency ratio		**67**				
Total Aged dependency ratio		**4**				
Average Dependency ratio		**71**				

Source: Data from fieldwork, 2014

5.2.6 Family size of households

For the poor, family size has its own advantages and disadvantages in managing microcredit. This data enables us to evaluate the dependency rate and the capacity to use multiple loans to engage capable members of the family to enhance and diversify the family's income.

Table 5.3 reveals that the average family size of the total respondents was 4.9 which was 4.6 for urban and 5.4 for rural respondents, higher than Figures shared at the national level.

Table 5.3: Family size of households

	Family size															
MFI	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**	**13**	**Total**	Sum	Mean
LMFI	8	4	12	10	8	3	2	2	0	0	0	0	1	**50**	193	3.9
DECSI	5	4	27	33	22	27	22	13	5	4	0	1	0	**163**	853	5
AMFISC	0	6	7	13	5	4	6	4	1	0	0	0	0	**46**	217	4.7
SCSC	1	1	4	10	16	8	8	3	0	0	0	0	0	**51**	273	4.5
ERCS	5	9	7	9	11	9	7	3	0	0	1	0	0	**61**	263	5.2
Ex-clients	5	7	5	12	16	11	11	4	0	1	0	0	0	72	347	4.8
Non-clients	3	2	3	4	3	6	4	0	1	2	0	0	0	28	140	5
Total	**27**	**33**	**65**	**91**	**81**	**68**	**60**	**29**	**7**	**7**	**1**	**1**	**1**	**471**	**2286**	**4.9**
% of total	**6**	**7**	**14**	**19**	**17**	**14**	**13**	**6**	**1**	**1**	**0**	**0**	**0**	**100**		
Area distribution of family size of respondent households																
Urban	18	20	42	64	56	48	45	18	2	1	1	1	1	**317**	**1455**	**4.6**
Rural	9	13	23	27	25	20	15	11	5	6	0	0	0	**154**	**831**	**5.4**
Total	**27**	**33**	**65**	**91**	**81**	**68**	**60**	**29**	**7**	**7**	**1**	**1**	**1**	**471**	**2286**	**4.9**
% of total	**6**	**7**	**14**	**19**	**17**	**14**	**13**	**6**	**1**	**1**	**0**	**0**	**0**	**100**		

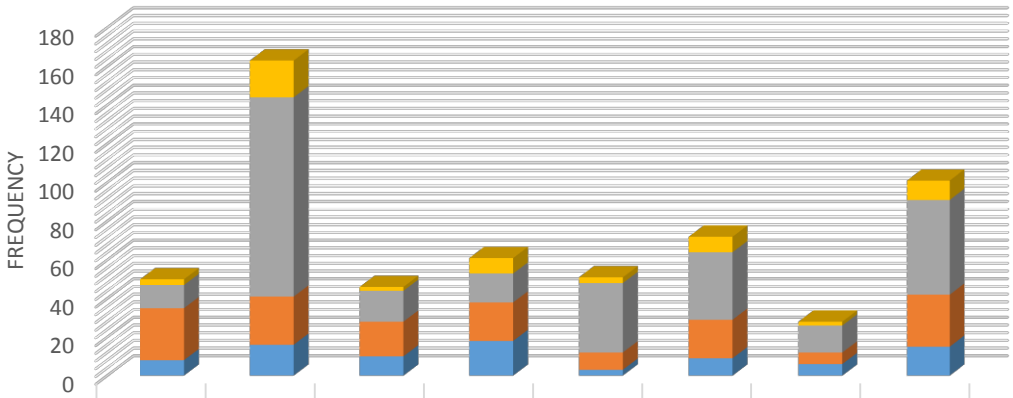
Source: Data from fieldwork, 2014

5.2.7 Marital status of respondents

According the Ethiopia Mini Demographic and Health Survey, twenty-six per cent of women aged 15-49 have never married, 60 per cent are currently married, 4 per cent are living together with a man, and 11 per cent are divorced, separated, or widowed. The low proportion (less than 1 per cent) of women age 45-49 who have never been married indicates that marriage is nearly universal in Ethiopia. Over the past fifteen years, the proportion of Ethiopian women who have never married has not changed much (CSA 2014:14-25).

Figure 5.4 presents the per cent distribution of respondent's marital status, according to sampled MCIs. The term 'married' refers to legal or formal marriage, while the term 'single' designates one who has never married.

As shown in Figure 5.4; 49%, 27%, 15%, and 10% of respondents were married, divorced, widows, and single respectively. This research finding indicates that the per cent of married respondents was less while the percentage of divorced, widowed, and single (never married) was higher than the national data.



	LMFI	DECSI	AMFISC	ERCS	SCSC	EX-clients	Non-clients	%
Single	3	19	2	8	3	8	2	10
Married	12	103	16	15	36	35	14	49
Divorced	27	25	18	20	9	20	6	27
Widow	8	16	10	18	3	9	6	15

Figure 5.4: Marital Status of Respondents

Source: Data from fieldwork, 2014.

Furthermore, it can be calculated from Figure 5.4 that out of the total of 49% of married respondents, 45% of the respondents were from DECSI. During the household interview, the researcher observed that this was mainly due to the social collateral 'group based' lending modality of DECSI that discourages others.

Even though each sampled microcredit providers fairly addresses all marital status of respondents, the highest ratio of widowed and divorced were from LMFI, AMFISC, ERCS, and ex-clients. This was mainly due to the individual loan modality of the microcredit providers that avoids group lending and encourages individual efforts and responsibilities.

5.2.8 Educational level of respondents and their family

This section deals with the educational level of respondents and their household members, which is one of the key factors of individual opportunities, attitudes, and economic and social status. Even though educational attainment is not the major factor, some studies have consistently shown that educational attainment has an effect on managing microcredit income generating activities.

The current system of formal education in Ethiopia is based on a three-tiered system with eight years of primary education, followed by four years of secondary education, and three to seven years of tertiary education.

a) Educational level of respondents

As shown in Table 5.4, 42 per cent of the total respondents (42 per cent from each from clients and non-clients) were illiterate, 26 per cent can only read and write, and 18 per cent of them were in grades 1-4.

Table 5.4: Educational level of respondents

MCIs	1-4	5-8	9-12	Diploma	Only read and write	Illiterate	Total
LMFI	9	5	2	1	13	20	50
DECSI	33	18	4	0	37	71	163
AMFISC	9	3	1	0	12	21	46
ERCS	13	12	3	0	15	18	61
SCSC	4	3	0	0	18	26	51
Ex-clients	8	10	2	1	21	30	72
Non-clients	10	1	0	0	5	12	28
Total	**86**	**52**	**12**	**2**	**121**	**198**	**471**
Percentage	**18**	**11**	**3**	**0**	**26**	**42**	**100%**
Male	31	33	8	2	65	37	176
Female	55	19	4	0	56	161	295
Total	**86**	**52**	**12**	**2**	**121**	**198**	**471**
Percentage	**18**	**11**	**2.6**	**0.4**	**26**	**42**	**100%**

Source: Data from fieldwork, 2014

Furthermore, it can be calculated from Table 5.4 above that 40%, 44%, 46%, 30%, 51%, 42%, and 43% of LMFI, DECSI, AMFISC, ERCS, SCSC, Ex-clients, and non-client respondents were illiterate. Additionally, as can be calculated from Table 5.4 that 55% of all females were illiterate and this represents 34% of all who were

sampled. Generally, the study observed that 42% of the total respondents were illiterate. This finding was not surprising as the microcredit schemes are directed toward mainly the poor families where educational level was not one of the selection criteria.

b) Educational level of respondent's family member

From Table 5.5, it can be calculated that 85.4% were primary, secondary, and above, which is 2.96 mean ratio of the respondents. Even though the ratio seems relatively good, most of the educated mentioned below were from the urban area.

Even though the educational level was not a criteria of MCIs, this study observed that the academic level of the respondents' family members was important in bridging the academic gap of the borrower households in assisting with technical knowledge of recording and market information that could contribute to the success of the credit management of their family.

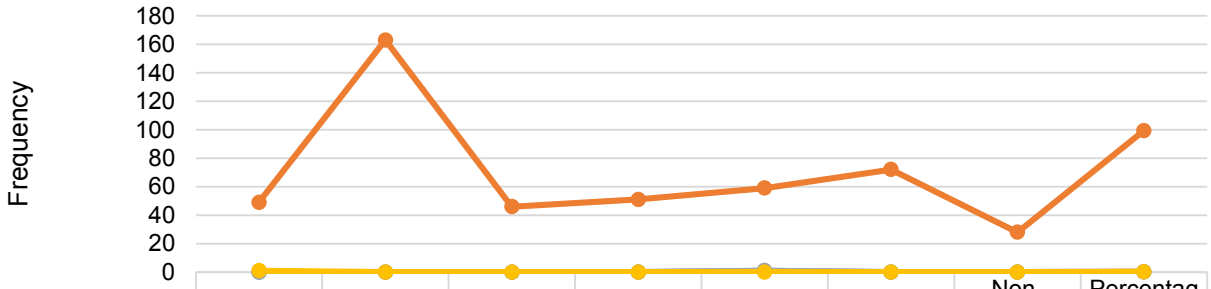
Table 5.5: Educational level of respondent's family members

MFI		Variables								
		KG	1-4	5-8	9-12	Diploma	1st Degree	Above 1st degree	Can read & write	Illiterate
LMFI N=50	Mean	.18	.50	.62	.94	.06	.06	.04	.06	.16
	Sum	9	25	31	47	3	3	2	3	8
	% of Sum	13.8%	7.7%	6.5%	9.7%	5.3%	6.5%	40.0%	17.6%	5.1%
DECSI N=163	Mean	.20	.72	.90	1.02	.18	.11	.00	.02	.23
	Sum	33	118	147	166	30	18	0	3	37
	% of Sum	50.8%	36.5%	30.8%	34.2%	52.6%	39.1%	0.0%	17.6%	23.7%
AMFISC N=46	Mean	.17	.72	1.22	1.15	.13	.17	.04	.07	.04
	Sum	8	33	56	53	6	8	2	3	2
	% of Sum	12.3%	10.2%	11.7%	10.9%	10.5%	17.4%	40.0%	17.6%	1.3%
ERCS N=61	Mean	.10	.87	.98	.95	.07	.03	.02	.07	.70
	Sum	6	53	60	58	4	2	1	4	43
	% of Sum	9.2%	16.4%	12.6%	11.9%	7.0%	4.3%	20.0%	23.5%	27.6%
SCSC N=51	Mean	.00	.71	1.63	1.25	.08	.04	.00	.00	.49
	Sum	0	36	83	64	4	2	0	0	25
	% of Sum	0.0%	11.1%	17.4%	13.2%	7.0%	4.3%	0.0%	0.0%	16.0%
Ex-clients N=72	Mean	.07	.60	1.07	1.00	.08	.17	.00	.06	.39
	Sum	5	43	77	72	6	12	0	4	28
	% of Sum	7.7%	13.3%	16.1%	14.8%	10.5%	26.1%	0.0%	23.5%	17.9%
Non-clients N=28	Mean	.14	.54	.86	.93	.14	.04	.00	.00	.46
	Sum	4	15	24	26	4	1	0	0	13
	% of Sum	6.2%	4.6%	5.0%	5.3%	7.0%	2.2%	0.0%	0.0%	8.3%
Total N=471	**Mean**	**.14**	**.69**	**1.01**	**1.03**	**.12**	**.10**	**.01**	**.04**	**.33**
	Sum	**65**	**323**	**478**	**486**	**57**	**46**	**5**	**17**	**156**
	% of total sum	**4%**	**19.8%**	**29.3%**	**29.7%**	**3.5%**	**2.8%**	**0.3%**	**1%**	**9.6%**

Source: Data from fieldwork, 2014.

5.2.9 Religious affiliation of respondents

In Ethiopia, the religion composition is Orthodox 43.5%, Muslim 33.9%, Protestant 18.6%, traditional 2.6%, Catholic 0.7%, and other 0.7% (2007 Census). Whereas, in Tigray Regional state of Ethiopia Orthodox 95.5%, Muslim 4%, Protestant 0.1%, and Catholic 0.4% (CSA 2007:14-25).



	LMFI	DECSI	AMFISC	SCSC	ERCS	Ex-clients	Non-clients	Percentage
Islam	0	0	0	0	1	0	0	0.2
Orthodox	49	163	46	51	59	72	28	99.4
Protestant	0	0	0	0	1	0	0	0.2
Catholic	1	0	0	0	0	0	0	0.2

Figure 5.5: Religious affiliation of respondents

Source: Data from fieldwork, 2014.

From Figure 5.5 it can be clearly seen that 99.4 per cent of the respondents were Orthodox. Even though this is mainly due to the dominant proportion of the Orthodox population in the study area, this was not proportional compared with the national and regional statistics mentioned above. Religious affiliation can affect engagement of the Muslim community in acquiring interest rate based loans, which is not significant in the study area.

5.3 Income status of the respondent's household

This section deals with the number of income earners in the respondent households from primary, secondary and occasional incomes that could affect their livelihoods and help to assess their economic status.

5.3.1 Income earners of households

Table 5.6 shows 60.3%, 32.1%, 5.7%, and 1.9% of the respondent's households have one, two, three, and four income earners in their respective households.

Table 5.6: Number of income earners in respondent's households

Variables						
		Number of income earners in HH				
MFI		1	2	3	4	Total
LMFI	Count	37	10	0	3	50
	% of Total	7.9%	2.1%	0.0%	0.6%	10.6%
DECSI	Count	106	50	6	1	163
	% of Total	22.5%	10.6%	1.3%	0.2%	34.6%
AMFISC	Count	25	15	5	1	46
	% of Total	5.3%	3.2%	1.1%	0.2%	9.8%
ERCS	Count	45	14	1	1	61
	% of Total	9.6%	3.0%	0.2%	0.2%	13.0%
SCSC	Count	16	28	6	1	51
	% of Total	3.4%	5.9%	1.3%	0.2%	10.8%
Ex-clients	Count	34	29	7	2	72
	% of Total	7.2%	6.2%	1.5%	0.4%	15.3%
Non-clients	Count	21	5	2	0	28
	% of Total	4.5%	1.1%	0.4%	0.0%	5.9%
Total	Count	284	151	27	9	471
	% of Total	60.3%	32.1%	5.7%	1.9%	100.0%

Source: Data from fieldwork, 2014

Furthermore, Table 5.6 shows proportionally that the highest respondents with two income earners were from SCSC (28 respondents), which represent 55% of their respondents. The study also observed during the household interview that the reason why the majority of SCSC respondents had more than one income earner was because of their involvement in both farming and non-farming income generating activities. Additionally, it can also be deduced from Table 5.6 above that majority of non-clients (55%) respondents were with one income earner in their respective households.

Additionally, this study observed from the household interviews that a high number of income earners in the household reduce the dependency ratio at the household level, which was very useful for the household livelihood. The size of the household was assumed to influence the number of income earners in the households but it was not necessarily true for all households. This could be affected by different

internal and external factors, such as capacity (financial, skill, age, and exposure), access to 'fair' credit, market, and other factors.

Following the above survey findings, the study also made an effort to test the correlation of the number of income earners in HHs with relevant variables to check whether those variables are related.

Table 5.7: Correlations of number of income earners with family size

Correlations of number of income earners with family size			
		Number of total earners in HH	Family size
Number of income earners in HH	Pearson Correlation	1	.354**
	Sig. (2-tailed)		.000
	N	471	471
Family size	Pearson Correlation	.354**	1
	Sig. (2-tailed)	.000	
	N	471	471

**. Correlation is significant at the 0.01 level (2-tailed).

It is clear from the above correlation analysis of this study that the number of income earners in the HHs is positively correlated with the family size of HHs, which means that when the family size increased, the number of income earners in the HHs increased and vice versa. Furthermore, the study also assessed the correlation of number of income earners in HHs with the respondent's category, being a microcredit client or not.

Table 5.8: Correlations of number of income earners with respondent's category

Correlations of number of income earners with respondent's category			
		Number of total earners in HH	Respondent's Category
Number of income earners in HH	Pearson Correlation	1	.043
	Sig. (2-tailed)		.348
	N	471	471
Respondent's Category	Pearson Correlation	.043	1
	Sig. (2-tailed)	.348	
	N	471	471

**. Correlation is significant at the 0.01 level (2-tailed).

It can be concluded from the correlations reported above that the number of income earners in the HHs is positively correlated with the microcredit membership status of households. Thus, the number of family income earners was influenced by whether or not the HHs was engaged with microcredit services.

Moreover, this study also assessed the relationship of the number of income earners with the HHs school dropout. It is clear from the correlation result below that the number of income earners in the HHs is positively correlated with the number of school dropouts in HHs. This indicates that, regardless of the reason of school dropout, those who discontinue school were involved in the income earning of the households.

Table 5.9: Correlations of number of earners with school dropout

Correlations of number of earners with school dropout			
		Number of total earners in HH	Number of family members school dropout
Number of income earners in HH	Pearson Correlation	1	.143*
	Sig. (2-tailed)		.044
	N	471	198
Number of family members school dropout	Pearson Correlation	.143*	1
	Sig. (2-tailed)	.044	
	N	198	198

*. Correlation is significant at the 0.05 level (2-tailed).

The study made an effort to assess the sex distribution of income earners in the households. Thus, it can be seen from Table 5.10 below that the total mean of the sex distribution of income earners in the households for male and female was 1.13 and 1.07 respectively. Even though, the male mean of income earners was slightly higher than the female, it can be also calculated from the total sum of the Table 5.10 below that the total number of female income earners was higher (55.5%) than the male (44.5%). This indicated that relatively higher number of female income earners were in the respondent's households. It seems that many of the wives of those men who were beneficiaries of the loan were also earning some income from other sources.

Furthermore, it is also clear from Table 5.10 that the highest per cent (41.9%) of male income earners was from DECSI. This is related not only to the majority number of sampled respondents of DECSI who were male (54.6%) but also related to the male children of the households who were encouraged to get involved in IGAs.

Table 5.10: Sex distribution of income earners in respondent's households

Variables		Respondents							
		LMFI	DECSI	AMFISC	ERCS	SCSC	Ex-clients	Non-clients	Total
Male	Minimum	1	1	1	1	1	1	1	1
	Maximum	3	2	2	2	2	2	2	3
	Mean	1.29	1.07	1.20	1.10	1.20	1.14	1.12	1.13
	Sum	18	131	24	23	48	50	19	313
	% of Total Sum	5.8%	41.9%	7.7%	7.3%	15.3%	16.0%	6.1%	100.0%
Female	Minimum	1	1	1	1	1	1	1	1
	Maximum	2	2	2	2	2	2	1	2
	Mean	1.04	1.01	1.14	1.08	1.07	1.18	1.00	1.07
	Sum	51	97	50	57	46	71	18	390
	% of Total Sum	13.1%	24.9%	12.8%	14.6%	11.8%	18.2%	4.6%	100.0%
Total	Minimum	1	1	1	1	1	1	1	1
	Maximum	4	4	4	4	4	4	3	4
	Mean	1.38	1.40	1.61	1.31	1.84	1.68	1.32	1.49
	Sum	69	228	74	80	94	121	37	703
	% of Total Sum	9.8%	32.4%	10.5%	11.4%	13.4%	17.2%	5.3%	100.0%

Source: Data from fieldwork, 2014

5.3.1.1 Income earning pattern /sources of households

This section deals with the earning patterns or sources and amount of income of the respondent households on which their livelihood depends, factors that could help to understand both the sustainability and the level of vulnerability of their incomes.

According to the Ethiopia Mini Demographic and Health Survey, the overall Gini Coefficient for Ethiopia is 0.44. It is higher in rural areas (0.31) than in urban areas (0.20), indicating a more unequal distribution of wealth in the rural population than in the urban population (CSA 2014:14-25).

a) Household's Income from primary job

A primary job refers to the main income from a permanent source or occupation, on which the individual or household livelihood depends. Due to the absence of records and the variance of the permanent activities the respondents engaged in, the researcher tried to calculate the household's income using the simplest way, which the respondents could respond to. That is why some gaps exist in the income pattern or variables shown on the Table 5:11.

From Table 5.11, it can be calculated that 58%, 6%, 12.7% and 23.4% of the respondent's primary income was earned on a daily, weekly, monthly, and annual basis respectively. The study observed during the household interview that the daily,

weekly, and monthly earning sources of the respondents were mainly from non-farming mini-trade activities while the annual primary job earnings were from rural agriculture activities. This indicated that 76.7% of the respondent's household primary income depended mainly on mini business activities, a relatively high risk and vulnerable means of income.

Table 5.11 also shows that the gap between minimum and maximum income from primary jobs or sources of respondent's household income was high. This indicated that there were high-income gaps among the respondent's households that could affect the expenditures and lives of the respondent's households.

It can also be calculated from Table 5.11, that 58% of the respondents were at the poverty line and 18.7% were above the poverty line; 23.4% of those below the poverty line those were earning below two USD daily. Those respondents at the poverty line (58%) who were earning equivalent to two USD daily were in a vulnerable position; the sustainability of their household depends on their future income trends. The researcher suggests that those respondents above the poverty line who can relatively afford a market based loan interest rates could mislead the result of the evaluation of the effect of the loan interest rate on the poor, the purpose of this study.

Additionally, it can also be calculated from Table 5.11 that the cumulative result of the households of each category below the poverty line from daily, weekly, monthly and yearly primary income was 100% 92%, 89%, 76%, 57%, 21.4%, and 11.5% from SCSC, DECSI, AMFISC, LMFI, Ex-clients, Non-clients, and ERCS households respectively. This indicates that rural households who depend mainly on farming in general and SCSC and DECSI households in particular were more poor and vulnerable than the urban households. This is in line with the Ethiopia Mini Demographic and Health Survey (CSA 2014:14-25) as stated above. Thus, integration of farming with non-farming activities will be helpful for the rural households.

Table 5.11: Household's income from primary job (Birr)

Variables		Respondents							
		LMFI	DECSI	AMFISC	ERCS	SCSC	Ex-clients	Non-clients	Total
Daily	Count	38	95	38	54	8	31	9	**273**
	Minimum	20.00	15.00	10.00	15.00	30.00	5.00	30.00	**5.00**
	Maximum	300.00	200.00	100.00	200.00	60.00	150.00	150.00	**300.00**
	Mean	41.00	40.50	33.00	51.00	44.00	65.00	63.00	**45.00**
	% of count								**8.0%**
Weekly	Count	6	5	3	0	0	10	4	**28**
	Minimum	200.00	200.00	300.00	0	0	200.00	$350.00	**200.00**
	Maximum	1,000.00	5,000.00	7,000.00	0	0	500.00	$500.00	**7,000.00**
	Mean	516.00	1,260.00	3,100.00	0	0	335.00	438.00	**850.00**
	% of count								**6.0%**
Monthly	Count	6	8	5	2	0	30	9	**60**
	Minimum	500.00	2,100.00	300.00	400.00	0	300.00	300.00	**300.00**
	Maximum	5,000.00	15,000.00	2,100.00	500.00	0	7,000.00	5,000.00	**15,000.00**
	Mean	2,600.00	6,387.00	980.00	450.00	0	1,103.00	2,344.00	**2,112.00**
	% of count								**12.7%**
Annual	Count	0	55	0	5	43	1	6	**110**
	Minimum	0	1,000.00	0	2,000.00	5,000.00	3,500.00	5,000.00	**1,000.00**
	Maximum	0	40,000.00	0	11,500.00	20,000.00	3,500.00	10,500.00	**40,000.00**
	Mean	0	7,060.00	0	7,780.00	8,883.00	3,500.00	6,833.00	**7,762.00**
	% of count								**23.4%**

Source: Data from fieldwork, 2014

Moreover, the researcher observed during the household interviews that, due to the type of jobs they engaged in, the incomes from primary sources of the respondents varied. Therefore, each microcredit borrower should look for income activities that encourage more participation of their household members in all possible ways (daily, weekly, monthly, and annually). Thus, increased income sources that are making profit not only feed their families but also serve to maintain and scale up the IGAs they are engaged in.

Absence of a record keeping skills and recording culture made it difficult to get the exact periodical earning amounts of the respondent's households, which is poor financial portfolio of the clients.

b) Household's income from secondary job and occasional income

A secondary job refers to the secondary income source or occupation to diversify incomes and complement the individual or household livelihoods.

Table 5.12: Household's income and occupation from secondary job

MFI	Secondary job							Occasional income				
	Birr							Birr				
	100	150-300	400-600	800-1100	4000-5000	8000	Total	50-500	3000-5000	7000-10000	12000-14000	Total
LMFI	1	0	1	0	0	0	**2**	0	0	0	0	**0**
DECSI	3	3	1	3	3	1	**14**	1	1	0	0	**2**
AMFISC	0	0	0	0	0	0	**0**	0	0	0	0	**0**
SCSC	0	1	2	1	0	0	**4**	0	0	1	3	**4**
ERCS	1	0	0	0	0	0	**1**	0	1	1	0	**2**
Non-clients	0	3	0	1	0	0	**4**	1	0	0	0	**1**
Total	**5**	**7**	**4**	**5**	**3**	**1**	**25**	**2**	**2**	**2**	**3**	**9**
Percentage from the total respondents (471)							**5%**					**2%**

Source: Data from fieldwork, 2014

From Table 5.12, it can be seen that 5%, and 2% of the respondents households benefited from secondary and occasional incomes respectively. 56% of the secondary job income earners were from DECSI respondent's households. This was mainly due to the fact that most DECSI's client's households were from rural areas whose income source was from both farming and non-farming activities and further, encouraged their children to engage in IGAs.

c) Sex composition of primary income earners

Figure 5.6 indicates that the sex composition of primary income earners were 51% and 49% female and male respectively. This is similar with the findings of Table 5.10 above, which is 55.5% female of the total income earners. There was more than one female job earner in some respondent households and females managed most of the petty trade. Thus, females were significantly contributing to the main income of the respondent households, which their lives depend on.

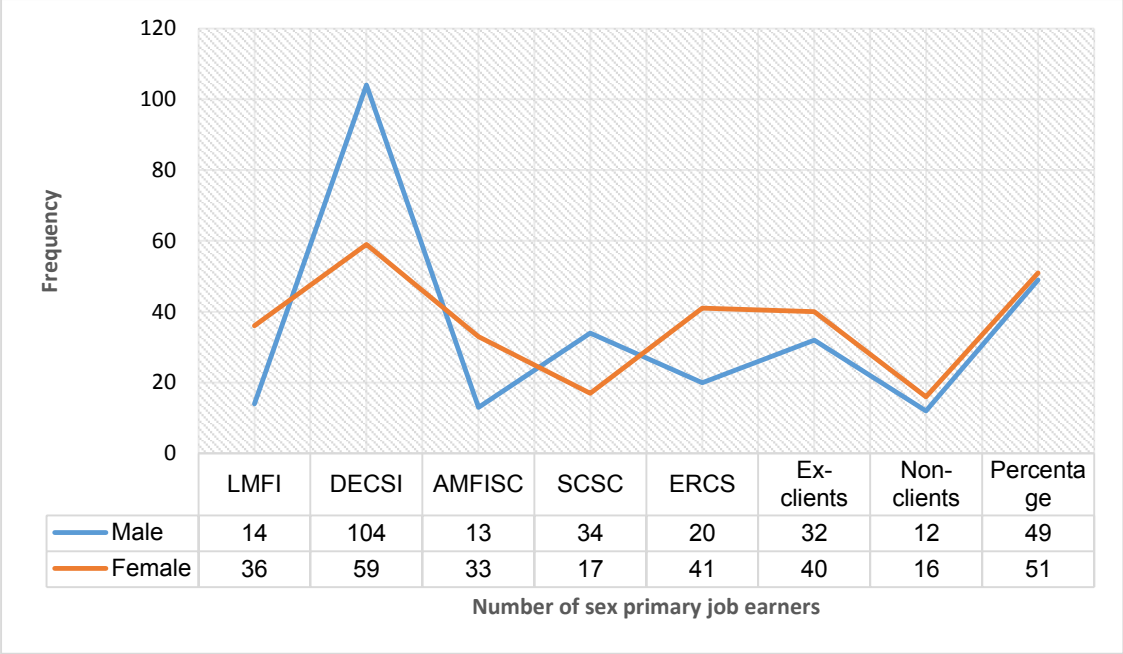


Figure 5.6: Households' sex composition of primary income earners

Source: Data from fieldwork, 2014

5.3.1.2 Expenditures of sample HHs in last month (January)

This section deals with the expenditures of sample households that helps to compare their income with the consumption and investments that affect their future livelihoods.

Table 5.13 shows that major expenditures included food related expenditure (79%) followed by 8% and 5% for house rent and firewood. Moreover, Birr 100.00 was the minimum while Birr 9,000.00 was the maximum food related expenditure and the mean was Birr 939.09, the standard deviation (SD0 was Birr 1,024.76). This indicated that the expenditures of respondents varied according to their income, which is in line with what Nii K. Sowa C., and Accra D. (2002:8) said in section 2.9.6 above. Similarly, expenditure gaps of the respondent's households are also in line with the income gaps of the respondent's households discussed on Table 5.11.

It is clear from Table 5.13 that the food related expenditure was the major expenditure (79%) of the most respondents. This is also in line with what Nii K. Sowa, CEPA, and Accra (2002:8) talked about in section 2.9.6.

Table 5.13: Summary of sample HH expenditures in last month (January) (in Birr)

Variables									
MFI		Food	Firewood	Education	Resident house rent	business house rent	Social occasion	Medical	other expense
LMFI	Min	300.00	0	0	0	0	0	0	0
	Max	2,000.00	700.00	705.00	1,000.00	2,500.00	200.00	400.00	200.00
	Mean	848.00	104.40	34.40	248.60	119.60	16.60	14.20	4.00
N=50	SD	452.65	118.90	112.01	259.65	399.00	48.90	64.20	28.30
	Sum	42,400.00	5,220.00	1,720.00	12,430.00	5,980.00	830.00	710.00	200.00
DECSI	Min	200	0	0	0	0	0	0	0
	Max	9,000.00	500.00	650.00	3,200.00	1,400.00	500.00	100.00	0
	Mean	1,228.04	39.60	12.88	97.98	57.79	7.36	0.92	0.00
N=163	SD	1,545.32	58.10	83.18	283.83	187.80	49.14	8.70	0.00
	Sum	200,170.00	6,455.00	2,100.00	15,970.00	9,420.00	1,200.00	150.00	0.00
AMFISC	Min	105.00	0	0	0	0	0	0	0
	Max	3,000.00	500.00	360.00	600.00	400.00	400.00	0	0
	Mean	855.54	81.76	20.33	146.09	15.65	30.00	0.00	0.00
N=46	SD	575.80	109.75	69.40	167.20	66.10	74.70	0.00	0.00
	Sum	39,355.00	3,761.00	935.00	6,720.00	720.00	1,380.00	0.00	0.00
ERCS	Min	150.00	0	0	0	0	0	0	0
	Max	1,500.00	400.00	400.00	500.00	30.00	300.00	180.00	100.00
	Mean	600.98	51.07	31.89	34.75	0.49	75.51	11.48	7.87
N=61	SD	294.20	80.14	73.20	78.00	3.85	70.50	30.65	24.60
	Sum	36,660.00	3,115.00	1,945.00	2,120.00	30.00	4,606.00	700.00	480.00
SCSC	Min	200.00	0	0	0	0	0	0	0
	Max	6,000.00	230.00	200.00	0	0	300.00	50.00	0
	Mean	985.20	58.63	4.71	0.00	0.00	63.33	0.98	0.00
N=51	SD	780.34	71.73	28.45	0.00	0.00	86.23	7.00	0.00
	Sum	50,245.00	2,990.00	240.00	0.00	0.00	3,230.00	50.00	0.00
Ex-clients	Min	100.00	0	0	0	0	0	0	0
	Max	2,500.00	1,000.00	250.00	1,100.00	600.00	200.00	400.00	0
	Mean	730.28	88.75	14.72	79.58	23.33	26.39	13.33	0.00
N=72	SD	439.87	141.10	45.00	169.30	106.16	49.88	54.67	0.00
	Sum	52,580.00	6,390.00	1,060.00	5,730.00	1,680.00	1,900.00	960.00	0.00
Non-clients	Min	200.00	0	0	0	0	0	0	0
	Max	2,100.00	400.00	0	700	400	100	1,500	0
	Mean	746.43	49.29	0.00	64.64	25.00	3.57	53.57	0.00
N=28	SD	500.54	97.56	0.00	160.91	87.67	18.90	283.47	0.00
	Sum	20,900.00	1,380.00	0.00	1,810.00	700.00	100.00	1,500.00	0.00
Total	Min	100.00	0	0	0	0	0	0	0
	Max	9,000.00	1,000.00	705.00	3,200.00	2,500.00	500.00	1,500.00	200.00
	Mean	939.09	62.23	16.99	95.07	39.34	28.12	8.64	1.44
N=471	SD	1,024.76	9.18	73.00	220.00	180.50	63.75	76.20	13.00
	Sum	442,310.00	29,311.00	8,000.00	44,780.00	18,530.00	13,246.00	4,070.00	680.00
	% of sum	79	5	1	8	3	2	1	0.1

Source: Data from fieldwork, 2014

Following the above survey findings, the study also made an effort to test the correlation of household food expenditures with household size and number of income earners in the household.

Table 5.14: Correlations of HHs food expenditure with family size

Correlations of HHs food expenditure with family size			
		HH food expense in last month	Family size
HH food expense in last month	Pearson Correlation	1	.112*
	Sig. (2-tailed)		.015
	N	471	471
Family size	Pearson Correlation	.112*	1
	Sig. (2-tailed)	.015	
	N	471	471

*. Correlation is significant at the 0.05 level (2-tailed).

It can be seen in the Table 5.14 correlations that food expenditures in the HHs is positively correlated with the family size of the households, which means food expenditure was influenced by family size of the HHs. However, family size is not the only factor that determines the food expenditure of HHs; small family size can also spend more food expenditure than high family size.

Table 5.15: Correlations of HHs food expense with number of income earners in the HHs

Correlations of HHs food expense with number of income earners in the HHs			
		HH food expense in last month	Number of total earners in HH
HH food expense in last month	Pearson Correlation	1	.090
	Sig. (2-tailed)		.050
	N	471	471
Number of income earners in HH	Pearson Correlation	.090	1
	Sig. (2-tailed)	.050	
	N	471	471

**. Correlation is significant at the 0.01 level (2-tailed).

It can also be concluded from the Table 5.15 correlations that the food expenditure in the HHs is positively correlated with the number of income earners in the HHs, thus the food expenditure was influenced by the number of income earners in the HHs.

However, the number of income earners is not the only factor that determines the food expenditure of HHs. A high number of income earners may be earning less income than a smaller number of income earners. That is why not only the number but also the amount of income earning in the HHs matters.

5.3.1.3 Household coping mechanism with shock and stress

Even though risk is part of life, poor households in particular face risks that others don't face. This section deals with the households who faced shocks, their coping mechanisms and their response mechanisms in case of urgent financial needs.

a. Households who faced shock and stress (last year)

From Figure 5.7, it can be calculated that 67.3 per cent of the total respondent households had faced shocks and stresses of different types and to different extents last year. Thus, the majority of the households were vulnerable to different types of shocks, which could affect both the borrowers and the MCIs.

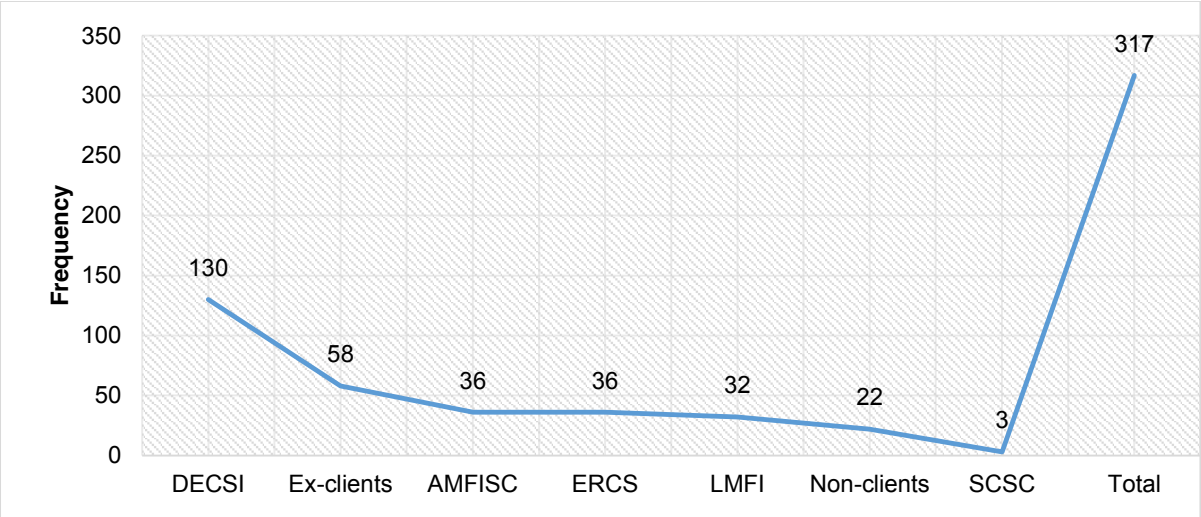


Figure 5.7: HHs facing shock and stress (last year)

Source: Data from fieldwork, 2014

Furthermore, it can be also calculated from Figure 5:7 that 81%, 80%, 79%, 78%, 64%, 59%, and 6% households who had faced shocks/stress were from ex-clients, DECSI, non-clients, AMFISC, LMFI, ERCS, and SCSC, respectively.

It can be noted from the above data that both clients and non-clients were affected by shocks and stress. This indicated that there was no significant difference between clients and non-clients on shock vulnerability and mitigating risks.

The researcher also observed the main reason for less SCSC households who had faced shocks was due to their family engagement with both farming and non-farming activities that enabled them to diversify their income to a greater extent than those who depend on only non-farming activities. However, this may not hold true for all potential shocks and stress. In managing microcredit services efficiently and effectively, a proper understanding of the borrowers' level of vulnerability matters.

b. Type of shocks and stress households faced last year

As shown in Table 5.16, the increment of food price increases (42%), business failure (27%), and natural disaster (17%) were the major types of shocks and stress the majority of the respondents' households faced last year.

Furthermore, from Table 5.16 below it can be concluded that poor economic capacity causing economic shocks was the main factor of their vulnerability for different types of shocks and stress of the households.

Table 5.16: Type of shocks and stress households faced last year

Variables	N	Mean	Std. Deviation	Sum	% of sum
Acute increment of food price	317	.73	.444	232	42
Business failure	317	.48	.500	151	27
Theft	317	.01	.097	3	1
Health problem	317	.06	.232	18	3
Death of HH head	317	.01	.097	3	1
Death of breadwinner	316	.07	.594	23	6
Marriage breakup	317	.00	.056	1	0
Natural disaster	316	.30	.459	95	17
Other shocks	317	.08	.579	26	5

Source: Data from fieldwork, 2014

Moreover, during the household interviews, the researcher observed that some households suffered multiple types of stress (economic, heath problems and others). In addition, during the household interview the researcher also observed that an

inadequate economic benefit from microcredit service was one of the factors that contributed to the household's economic stress. Thus, loan repayment and re-investment of the microcredit clients was affected and some of them were forced to get a fresh loan in order to pay the old loan. Therefore, pro-poor microcredit service devices should be designed for shock or drought prone households.

c. Household's coping mechanisms

It is clear from Table 5.17 that borrowing from microcredit (30%), borrowing from relatives (22%), withdrawing savings (17%), food aid support (15%), and labour wage (11%) was the major coping mechanisms applied by clients', ex-clients', and non-clients' households.

Furthermore, from Table 5.17 it is clear that the importance of microloan and micro-savings was helpful for some households, not only to run their mini-trade, but also to respond to poverty induced shocks and stresses. The important issue is to identify those households who withdrew savings as a coping mechanism.

The researcher made an effort during the FGDs to identify the households who withdrew savings as a coping mechanism. The majority of the FGD participants' opinion was; "those HHs who had savings were relatively better off than others. Like those who were living in their own house and running better income generating activities". Therefore, microcredit providers should envision appropriate microcredit modalities for the poorest of the poor who are permanently struggling to survive.

Moreover, as also shown from Table 5.17, 30% of the coping mechanisms applied by the client households included borrowing from microcredit; this included getting fresh loans not only to mitigate the consequence of the shock but also for loan repayment and continuation of their economic activities as the shock had the potential to affect reinvestment and their future lives. On the other hand, borrowing from microcredit for some ex-client households was not only to mitigate the shock-induced problems; the shock was what propelled them to join microcredit services in the first place. Therefore, the shock induced pull factor of microcredit devices should be appropriate for the shock-affected households.

The researcher understood during the household interviews that borrowing from moneylenders was not an option as a coping mechanism for both poor clients and non-client poor households. Rather, it was used by relatively better off households, who could afford the extremely high loan interest rate charged and its consequences.

Table 5.17: Household coping mechanisms

Variables	N	Mean	Std. Deviation	Sum	% of sum
Withdrawing savings	313	.28	.450	88	17
Labour wage	314	.18	.386	57	11
Selling jewellery	314	.00	.056	1	0
Reducing no of meals	314	.01	.080	2	0
Sending children to beg	314	.00	.056	1	0
Sending children to work	314	.02	.148	7	1
Selling firewood	314	.01	.080	2	0
Looking for food aid	313	.25	.435	79	15
Borrowing from relatives/friends	313	.36	.481	113	22
Borrowing from microcredit	313	.50	.734	156	30
Borrowing from money lenders	313	.02	.148	7	1
Other HH coping mechanisms	313	.04	.296	14	3

Source: Data from fieldwork, 2014

Additionally, the researcher suggested that assessing the coping mechanisms applied by the household matters, not only to understand their capacity to respond and recover but also to realize to what extent the recovery process was managed without compromising their future livelihoods. Poor households are more vulnerable and face more risks while simultaneously possessing a lower economic response capacity and fewer alternatives.

d. Response in case of urgent financial needs

This sub-section deals with how most poor households in general, and microcredit clients in particular, respond to urgent financial needs to run their business and manage their livelihoods. This is important for several reasons including the level of difficulty in managing urgent financial needs for poor households.

From Table 5:18, it can be seen that borrowing from microcredit (37%), withdrawing from savings (23%), looking for an extra job (14%), selling assets (11%), and borrowing from relatives (10%) were the major responses of respondents to meet urgent financial needs.

Furthermore, the researcher observed during the household interview that most of the client respondents were consistently looking for fresh microcredit loans and withdrawing savings; the majority of the ex-clients and non-clients were looking for extra jobs or IGAs, and borrowing from relatives as approaches to use in case of future urgent financial needs. This aligns with the coping mechanism applied in the sub-section Table 5.17.

Table 5.18: Response in case of urgent financial needs

Variables	N	Mean	Std. Deviation	Sum	% of Total Sum
Assets sale	331	.03	.180	11	11
Borrow from relatives	331	.16	.370	54	10
Borrow from other MFI	331	.62	.486	205	37
Borrow from money lenders	331	.02	.122	5	1
Pull out children from school	331	.06	.239	20	4
Reduce consumption expenditure	331	.00	.055	1	0
Extra work hours	331	.08	.279	28	5
Looking for extra job	330	.24	.720	80	14
Withdraw from saving	331	.38	.487	127	23
Take other action	331	.07	.304	22	4

Source: Data from fieldwork, 2014

Moreover, the researcher also learned from the FGD that the irregular, unpredictable and inadequate economic benefit from the microcredit service they engaged in forced them to look for fresh fund and exhaust savings, often a small amount, which affected not only the repayment but also the reinvestment process of the microloan activities, on which their future livelihood was dependent.

From the above findings, it can be concluded that the majority of the credit client respondents were dependent on fresh microloans while others were withdrawing savings as a coping mechanism and response to future potential financial needs. This indicated that most of the client respondents could not build financial security on

income loan returns; not only for shocks they currently faced but also for future economic shock they might face. Similarly, ex-clients and non-clients were vulnerable to different types of risks that depend mainly on withdrawing savings and getting microloans as a means to mitigate risks.

5.3.2 School dropout of children

This sub-section deals with the reasons, frequency, and sex proportion of the school dropout rate for respondents' children that may help to understand the contribution of microcredit services to this issue.

Table 5.19 shows that 30.0%, 16.2%, 13.9%, 13.5%, 11.9%, 8.3%, and 6.3% of the total student dropouts were from DECSI, ex-clients', ERCS, SCSC, LMFI, AMFISC, and non-clients' households respectively. Moreover, it is also clear from Table 5.19 that not only the majority of the HHs whose children dropped out but also the majority of female dropouts were from DECSI, the oldest and largest MFI.

Table 5.19: School dropout of children

MCIs	Variables									
	Frequency						Sex			
							Male	Female	Total sum	% of Total Sum
	N	Min	Max	Mean	Sum	% of Total Sum	Sum	Sum		
LMFI N=50	26	1	3	1.38	36	11.9%	22	14	36	11.9%
DECSI N=163	59	1	4	1.54	91	30.0%	45	46	91	30.0%
AMFISC N=46	18	1	3	1.39	25	8.3%	11	14	25	8.3%
ERCS N=61	26	1	4	1.62	42	13.9%	18	24	42	13.9%
SCSC N=51	25	1	2	1.64	41	13.5%	19	22	41	13.5%
Ex-clients N=72	32	1	4	1.53	49	16.2%	23	26	49	16.2%
Non-clients N=28	11	1	3	1.73	19	6.3%	11	8	19	6.3%
Total N=471	197	1	4	1.54	303	100.0%	149	154	303	100.0%

Source: Data from fieldwork, 2014

Furthermore, it can be calculated from Table 5.19 that 42% of the total households included children who dropped out of school. This indicated that school discontinuation was a shared phenomenon of clients, ex-clients, and non-clients. In

addition, Table 5.19 shows that the highest mean of school discontinuation was from non-clients' households.

Additionally, it can also be calculated from Table 5:19 that 51% of the total school dropouts were female and the remaining were male. The researcher suggests that regardless of the reason for the female school dropout, this affects households as well as individuals and contradicts the principles and objectives of microcredit providers.

The reasons for school discontinuation of the respondents' children are presented in the following Table 5:20.

Table 5.20: Reasons for children's school dropout

		Variables							
MFI		Financial problem	Health problem	Family problem	Personal problem	Academic failure	Marriage	Look for job	Other reasons
LMFI	Sum	14	16	15	17	15	16	18	15
	Mean	1.40	.64	.60	.68	.60	.64	.72	.60
N=50	% of Total Sum	41.2%	51.6%	62.5%	34.7%	13.3%	30.8%	48.6%	65.2%
DECSI	Sum	2	1	0	5	43	6	10	2
	Mean	1.00	.02	.00	.09	.74	.10	.17	.03
N=163	% of Total Sum	5.9%	3.2%	0.0%	10.2%	38.1%	11.5%	27.0%	8.7%
AMFISC	Sum	1	0	2	4	10	1	2	1
	Mean	1.00	.00	.11	.22	.56	.06	.11	.06
N=46	% of Total Sum	2.9%	0.0%	8.3%	8.2%	8.8%	1.9%	5.4%	4.3%
ERCS	Sum	9	2	1	6	14	9	1	2
	Mean	1.00	.07	.03	.21	.48	.31	.03	.07
N=61	% of Total Sum	26.5%	6.5%	4.2%	12.2%	12.4%	17.3%	2.7%	8.7%
SCSC	Sum	1	0	1	8	8	13	3	0
	Mean	1.00	.00	.04	.33	.33	.54	.13	.00
N=51	% of Total Sum	2.9%	0.0%	4.2%	16.3%	7.1%	25.0%	8.1%	0.0%
Ex-clients	Sum	7	11	4	7	14	6	3	3
	Mean	1.00	.38	.12	.21	.42	.18	.09	.09
N=72	% of Total Sum	20.6%	35.5%	16.7%	14.3%	12.4%	11.5%	8.1%	13.0%
Non-clients	Sum	0	1	1	2	9	1	0	0
	Mean	.00	.08	.08	.17	.75	.08	.00	.00
N=28	% of Total Sum	0.	3.2%	4.2%	4.1%	8.0%	1.9%	0.0%	0.0%
Total	Sum	34	31	24	49	113	52	37	23
	Mean	1.13	.16	.12	.25	.57	.26	.19	.12
N=471	% of Total Sum	9%	9%	7%	14%	31%	14%	10%	6%

Source: Data from fieldwork, 2014

As Table 5.20 shows, 31 per cent of the dropouts was due to academic failures followed by personal problems and marriage (each 14%), looking for a job (10%), financial problems and health problems (each 9%), and family problems (7%). Other reasons (6%) were mainly due to joining military service and pregnancy.

Furthermore, the reason for the high number of academic failure was discussed seriously during the FGDs and HHs interviews. The opinion of the urban respondents was; “we were forced to send our children during the half off school day plus evening to sell sweets and homemade products to contribute to the household income”. This was the common situation not only in the study area but also in most urban poor households. Beyond the small economic contribution of the children, they were influenced to develop different bad behaviours and practices (developed personal problems) that challenged their academic performance and gradually forced them to dropout, a scenario that could affect their future. Therefore, in this case, academic failure was associated with the economic situation of the households.

Even though the association between education and income is not always dependable, the researcher learned from the household interviews that some households were affected by multiple factors; further, almost all factors for school dropout of the respondents’ children mentioned above were highly related with the poor economic situation of the households. Thus, the economic benefit of the respondents from the micro service they engaged in was not yet able to satisfy one of the important social needs (education for their children) of the poor households, which is one of the objectives of microcredit service providers. Hence, the sampled microcredit providers should revise their microcredit strategies and instruments that aligns with their original objectives and enhances the economic benefits to the poorest of the poor.

5.3.3 Households microcredit history

This section deals with the micro loan history of respondents and helps assess the intention of the loan, repayment behaviour and other important perceptions of the respondents on microcredit modalities.

5.3.3.1 Vocational training of respondents

Table 5.21 shows that 59.6% of the total respondents (except non-clients) were trained in different skills related to the business they were engaged in; some of the SCSC respondents were trained with more than one type of training.

Table 5.21: Vocational training of respondents

Variables		Name of MCIs						Total
		LMFI N=50	DECSI N=163	AMFISC N=46	ERCS N=61	SCSC N=51	Ex-clients N=72	N=443
Mini-trade	Count	13	53	8	14	5	19	112
	% of Total	4.7%	19.2%	2.9%	5.1%	1.8%	6.9%	42.4%
Embroidery	Count	0	1	1	0	0	0	2
	% of Total	0.0%	0.4%	0.4%	0.0%	0.0%	0.0%	0.8%
Woodwork	Count	1	2	1	0	0	1	5
	% of Total	0.4%	0.7%	0.4%	0.0%	0.0%	0.4%	1.9%
Metalwork	Count	1	0	0	0	0	1	2
	% of Total	0.4%	0.0%	0.0%	0.0%	0.0%	0.4%	0.8%
Electrical work	Count	0	0	0	0	0	1	1
	% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.4%
Tailoring	Count	1	0	1	1	0	1	4
	% of Total	0.4%	0.0%	0.4%	0.4%	0.0%	0.4%	1.5%
Driving	Count	0	1	2	0	0	1	4
	% of Total	0.0%	0.4%	0.7%	0.0%	0.0%	0.4%	1.5%
Hairdressing	Count	1	1	5	1	2	3	13
	% of Total	0.4%	0.4%	1.9%	0.4%	0.7%	1.1%	4.9%
Handcrafts	Count	2	0	5	3	0	2	12
	% of Total	0.7%	0.0%	1.9%	1.1%	0.0%	0.7%	4.6%
Urban farming	Count	0	0	5	9	2	4	20
	% of Total	0.0%	0.0%	1.9%	3.3%	0.7%	1.5%	7.8%
Rural farming	Count	0	11	0	27	46	4	88
	% of Total	0.0%	1.5%	0.0%	10.1%	17.2%	1.5%	33.3%
Other	Count	0	0	0	1	0	0	1
	% of Total	0.0%	0.0%	0.0%	0.4%	0.0%	0.0%	0.4%
Total	Total count	19	69	28	56	55	37	264
	% of Total count	7.2%	26.1%	10.6%	21.2%	20.8%	14.0%	100.0%
% from the N		38.0%	42.3%	60.7%	91.8%	107.8%	51.4%	59.6%

Source: Data from fieldwork, 2014

Furthermore, it can be shown from Table 5.21 that mini-trade (42.2%) and rural farming (33.3%) were the major skill trainings provided for 45.1% clients and ex-client respondents.

From the above data, it can be concluded that most of the microcredit service provision was supported by mini-trade vocational trainings that helped the borrowers manage the mini-trade activities in which they engaged. However, the impact of the skill training should be monitored professionally in post-training evaluation.

5.3.3.2 Loan history of households

This section deals with the reasons for the preference of microcredit providers (pull factor), purposes of loans, repayment behaviours, source of repayments, duration of loans, and multiple loans of the respondents.

a) Clients and ex-clients' reasons to prefer a microcredit provider

Table 5.22 revealed that the main factors affecting client respondents' preference of MCIs were a lower interest rate (41.8%) followed by adequate loan amount (35.6%), individual credit modality (28.3%), convenient loan disbursement (26.4%), simple procedures (25.9%), and others (short repayment time and accessibility) (16.2%). Similarly, Table 5.22 shown that the factors influencing ex-clients' preference for MCIs were lower interest rates (69.4%), convenient loan disbursement (52.8%), others (short repayment time and accessibility) (43.1%), simple procedures (33.3%), and adequate loan amount (18.1%). This indicated that a lower interest rate was the one of the main pull factors of both clients and ex-clients for their MCI preference.

Furthermore, it is also clear from Table 5.22 that 100%, 62%, 52.2%, 35.3%, and 12.9% from ERCS, LMFI, AMFISC, SCSC, and DECSI respondents respectively that their MCI preference was based on the interest rate charged by the MCIs they were engaged with. Moreover, an adequate loan amount (64.4%) was the main reason for DECSIs respondents to prefer DECSI.

The respondents' selection criteria of MCIs were also discussed during the FDGs. They noted, "We all are poor who were forced to look for lower interest rate MCIs that enable us not only to generate better economic benefit but also to smooth our repayment performance. If not, we were exposed for accumulated sizeable interest payment that affects both our lives and future".

During the FGDs, different opinions were also shared from some DECSI respondents. They said, "Our criteria was to look for MCIs who can provide us a high amount of loan that enables us to expand our business. That is why we prefer to get loan from DECSI. Sometimes, we were also forced to look for loans from informal

sources with higher interest rate to manage our immediate financial needs". Therefore, it can be concluded from the above results that the respondents' MCI selection criteria varied and was highly associated with their economic situation. The researcher realized that there is no one microcredit modality that fits all. Thus, MCIs should design different microcredit modalities that can satisfy different sectors of the community and complement each other.

From the above presentation, it can also be concluded that the reasons of respondents for their preference of microcredit providers was related with the microcredit interest rate modality, mainly associated with the amount of the loan interest rate charged by the sampled microcredit providers. The determination of the loan interest rate was market based (DECSI) and subsidized (other sampled MCIs).

Table 5.22: Clients and ex-clients' reasons to prefer microcredit providers

MCIs		Lower Interest rate	Simple Procedure	Convenient loan Disbursement	Individual Credit modality	Compulsory Saving	Voluntary Saving	Adequate Loan amount	Adequate grace time	Long Repayment time	Accessibility
Client respondents											
LMFI	N	50	50	50	50	50	50	50	50	50	50
	Sum	31	28	6	27	0	0	11	0	2	20
	% of Total Sum	20%	29.2%	6.1%	24.7%	.	.	8.3%	.	11%	33.3%
	% of sum from N	62%	56%	12%	54%	.	.	22%	.	4%	40%
DECSI	N	163	163	163	163	163	163	163	163	163	163
	Sum	21	19	43	27	0	25	105	2	5	17
	% of Total Sum	13.5%	19.8%	43.9%	25.7%	.	58.1%	79.6%	14.3%	27.8%	28.3%
	% of sum from N	12.9%	11.7%	26.4%	16.7%	.	15.3%	64.4%	1.2%	3.1	10.4%
AMFISC	N	46	46	46	46	46	46	46	46	46	46
	Sum	24	5	13	5	0	0	7	2	3	14
	% of Total Sum	15.5%	5.2%	8.6%	4.8%	.	.	5.3%	14.3%	16.7%	23.3%
	% of sum from N	52.2%	10.9%	28.3%	10.9%	.	.	15.2%	4.4%	6.5%	30.4%
ERCS	N	61	61	61	61	61	61	61	61	61	61
	Sum	61	13	15	30	0	0	4	10	5	4
	% of Total Sum	38.3%	13.5%	15.3%	28.6%	.	.	9.5%	2.7%	1.4%	1.1%
	% of sum from N	100%	21.3%	24.6%	49.2%	.	.	6.6%	16.4	8.2%	6.6%
SCSC	N	51	51	51	51	51	51	51	51	51	51
	Sum	18	31	21	16	0	18	5	0	3	5
	% of Total Sum	11.6%	32.3%	21.4%	15.2%	.	41.9%	3.8%	.	16.7%	8.3%
	% of sum from N	35.3%	60.8	41.2%	31.4%	.	35.3%	9.8%	.	5.9%	9.8%
Total	N	371	371	371	371	371	371	371	371	371	371
	Sum	155	96	98	105	0	43	132	14	18	60
	% of Total Sum	100%	100%	100%	100%	.	100%	100%	100%	100%	100.0%
	% of total sum from total N	41.8%	25.9%	26.4%	28.3%	.	9.1%	35.6%	3%	4.6%	16.2%
Ex-client respondents											
Ex-clients	N	72	72	72	72	72	72	72	72	72	72
	Sum	50	24	38	11	0	0	13	3	2	31
	% of sum from N	69.4%	33.3%	52.8%	15.3%	.	.	18.1%	4.2%	2.8%	43.1%

Source: Data from fieldwork, 2014

Additionally, the study learned from the FGDs that the major factor affecting the preference of microcredit service of DECSI (79.6%) was an adequate loan amount, which other sampled microcredit providers could not afford and did not offer. This was mainly due to the scope of business that DECSI's respondents engaged in that demands a relatively high level of funding. Thus, it can be concluded that the level of loan interest rate sensitivity of the DECSI respondents was low while the other respondents was high. This was mainly related with the economic status of the respondents that forced them to look for relatively smaller loan with lower loan interest rate to engage in petty trade. Consequently, this study realized that it was difficult to separate loan interest rate sensitivity and other loan modalities from the economic status of the borrowers. This is in line with what Martin I., and Hulem D. (2002: 273-275) mentioned in section 2.9.6.

From the above presentation and findings, it can be concluded that the main factors affecting respondents' preference for an MCI were varied. This demands diverse microcredit modalities to satisfy the diversified needs of the respondents (borrowers). Therefore, the intervention of different microcredit providers with diverse microcredit modalities is crucial to more accurately respond to the borrower's needs. This creates the availability of amore and appropriate choices for the poor clients, which in turn enhances their negotiation power and encourages microcredit providers to complement each other. Ultimately, this approach operates in the best interest of both the borrowers and lending schemes.

b) Purpose of loans of clients and ex-clients

Table 5.23 shows 56.7%, 47.9%, 6.1%, and 4.3% of the loan money of client and ex-client respondents was used to for mini-trade activities, livestock breeding, other (consumption and health fees), repayment of debt respectively.

Moreover, as can be calculated from Table 5.23, many of the respondents were involved in multiple IGAs; 94.7% of the loan was used for income generating activities while 5.3% of the loan was used for shock/stress mitigation.

Similarly, the data from the qualitative study obtained from FDGs also agreed with the above views. During client and ex-client FDGs, the participants reported that "they spent the loan money on new and diversified income generating activities while another small number of FDG participants spent the loan money to deal with their immediate consumption and shocks. This is in line with what Weiss and Montgomery (2005:395-396) presented in section 2.9.6 while contradicting with the opinion of Hulme D., and Mosley P. (1996:119-221) mentioned in section 2.6.

Table 5.23: Loan purpose of clients and ex-clients

MFI		Variables											
		Petty trade	Embroidery	Metalwork	Woodwork	Hairdressing	House construction	House maintenance	Livestock breeding/trade	Cart service	Repayment of debt	Educational fee	Other (Consumption and health fee)
LMFI	N	50	50	50	50	50	50	50	50	50	50	50	50
	Sum	45	1	0	0	1	0	0	4	0	0	0	4
	% of Total Sum	17.9	25.0	.	.	33.3	.	.	1.9	.	.	.	14.8
	% of sum from N	90	2	.	.	2		.	8		.	.	8
DECSI	N	163	163	163	163	163	163	163	163	163	163	163	163
	Sum	94	1	0	1	1	2	0	61	0	19	0	19
	% of Total Sum	37.5	25.0	.	100	33.3	40.0	0.0	28.8	0.0		0.0	70.4
	% of sum from N	57.7	0.6	.	0.6	0.6	1.2	.	37.4		11.7	.	11.7
AMFISC	N	46	46	46	46	46	46	46	46	46	46	46	46
	Sum	39	1	0	0	0	2	0	17	0	0	1	0
	% of Total Sum	15.5	25.0	0.0	0.0	0.0	40.0	0.0	8.0	0.%	.	100	0
	% of sum from N	84.8	2.2	.	.	.	4.3	.	37		.	2.2	.
ERCS	N	61	61	61	61	61	61	61	61	61	61	61	61
	Sum	35	1	1	0	0	0	0	46	1	0	0	1
	% of Total Sum	13.9	25.0	50.0	0.0	0.0	0.0	0.0	21.7	100	.	0.0	3.7
	% of sum from N	57.4	1.6	1.6	.	.	.	.	75.4		.	.	31.2
SCSC	N	51	51	51	51	51	51	51	51	51	51	51	51
	Sum	3	0	0	0	0	0	0	49	0	0	0	3
	% of Total Sum	1.2	0.0	0.0	0.0	0.0	0.0	0.0	23.1	0.0	.	0.0	11.1
	% of sum from N	5.9	.	.	.	.	.	.	96.1	.	.	.	5.9
Ex-clients	N	72	72	72	72	72	72	72	72	72	72	72	72
	Sum	35	0	1	0	1	1	1	35	0	0	0	0
	% of Total Sum	13.9	0.0	50.0	0.0	33.3	20.0	100	16.5	0.0	.	0.0	0.0
	% of sum from N	48.6	.	1.4	.	1.4	1.4	1.4	48.6	.	.	.	.
Total	N	443	443	443	443	443	443	443	443	443	443	443	443
	Sum	251	4	2	1	3	5	1	212	1	19	1	27
	% of Total Sum	100	100	100	100	100	100	100	100	100	100	100	100
	% of sum from N	56.7	0.9	0.5	0.2	0.7	1.1	0.2	47.9	0.2	4.3	0.2	6.1

Source: Data from fieldwork, 2014

Even though the loan request was not rigid and monitored properly, the purpose of loan money of almost all client and ex-client respondents was used for income activities and thus a 'promotional loan'. Therefore, the opinion of Weiss and

Montgomery (2005:395-396) was applicable and aligns with this study. However, this finding is contrary to what Humley D. and Mosley P. (1996:119-221) said about this in section 2.6.

Furthermore, the reason why poor households were forced to spend the loan on a productive use of loan was discussed with FDGs of clients and ex-clients. They said the following: “if we do not make any money from the IGAs loan, it is hardly to repay the loan with interest, which is very costly for us to tolerate indebtedness that aggravates the enforcement, exclusion especially by the regulated microcredit providers”. Therefore, utilization of loan money for IGAs was not an option but necessary, especially for the poorest borrowers.

Additionally, as Table 5.23 depicts, 11.7% of DECSI clients were those who used the loan money for their repayment of debt. During the HHs interview, the researcher made an attempt to investigate the reasons that forced them to use loan money for repayment. They said that “our income from the income generating activities was inadequate to cover the loan including interest rates and in some households this was due to health problem of the primary income earner of the households. We know its effect on increasing our indebtedness. However, this was the only solution we have in order to continue our IGA and avoid enforcement that affects our lives and future”. Thus, this study suggested that all microcredit providers should monitor and design a problem solving mechanism for such type of borrowers, such as; flexible loan modality including cost of loan, and monitoring, follow-up.

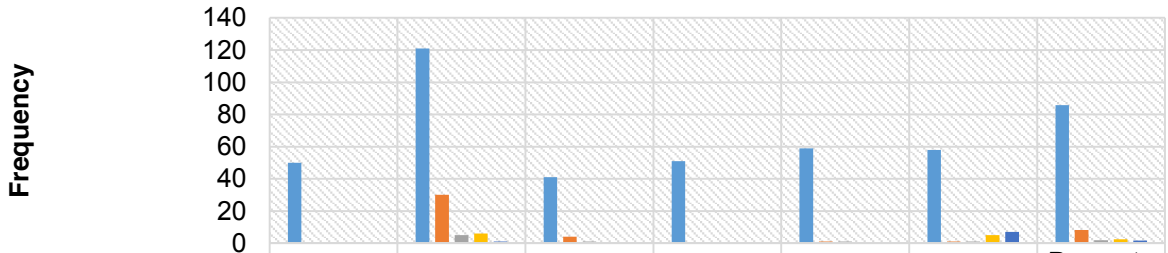
From the above survey findings, it can be concluded that the micro loan was not only invested for income generating activities but it was also a means for the poor borrowers to address basic consumption and other needs.

c) Repayment performance of clients and ex-clients

Figure 5.8 revealed that 86% of the total respondents’ repayment performance was always on time. This was followed by mostly on time (8%), sometimes on time (2%), rarely on time (2.5%), and failed to pay (1.6%).

As can be calculated from Figure 5.8, the distribution of 'always on time' repayment performances among the clients and ex-clients was 100% from LMFI and SCSC each, followed by 98% (ERCS), 89% (AMFISC), 81% (ex-clients), and 74% (DECSI). This survey finding witnessed that ex-clients were not only good on repayment performance but also better than DECSI's clients, which seems a paradox. The researcher discussed this during the HHs interview using the following question. Why do ex-clients with good repayment performance dropout while DECSI's clients with relatively poor repayment performance continue their membership?

The interesting opinion of both clients and ex-clients was "Old DECSI clients were reluctant on timely repayment. This was mainly due to the trust built among the old clients and DECSI". This study suggested that trust building and fair tolerance or flexibility could be one of the incentives for old clients but MCIs should be aware of the danger of distinguishing the 'elites' from the poor sector of the community, which aggravates marginalization of the poor.



	LMFI	DECSI	AMFISC	SCSC	ERCS	Ex-client	Percentage
Always in time	50	121	41	51	59	58	86
Mostly in time	0	30	4	0	1	1	8
Sometimes in time	0	5	1	0	1	1	2
Always not in time	0	6	0	0	0	5	2.5
Failed to pay	0	1	0	0	0	7	1.6

Figure 5.8: Repayment performance of clients and ex-clients

Source: Data from fieldwork, 2014

In addition, individual ex-client respondents with good repayment performances were asked to give their opinion on the reason for their good repayment performance on the one side and their dropout from the MCI on the other. Their opinion was the following: "due to market problems, cost of basic needs, cost of the loan, we could not benefit from the loan money; rather, our indebtedness was increasing and finally

we decided to drop out safely and look at other options (wage labour etc.)". Therefore, good repayment performance was not always a result of a good loan benefit.

The other concern of the researcher from the presentation in Figure 5:8 was the reason for the 100% repayment performance of LMFI and SCSC and lower repayment rates of other sampled MCIs. The researcher raised a question. What is the linkage between repayment performances and the ownership structure of MCIs? During the household survey, individual respondents were asked to give their opinions on this. Respondents from LMFI said the following: "LMFI is newly established by Women Association of Tigray (WAT) to support specially us (female). LMFI is ours. The loan interest rate of LMFI (12%) is less than DECSI (18%). Thus, the strength of LMFI will enhance our capacity and empowerment". On the other hand, SCSC similarly said the following: "SCSC was established by our own local community members, managed by our own community representatives, it is very close to us, and serves us with fair and transparent loan interest rate (9%), which is less than DECSI (18%)". This indicated that the ownership structure of MCIs is one of the factors that influences the sense of ownership of the borrowers and offers a transparent credit modality, which was very crucial for good microcredit performances that benefit both borrowers and lenders.

Based on the survey findings, qualitative study focused, from both rural and urban clients' FDGs, on why repayment performance of borrowers varies and why most borrowers in some MCI repayment performances was good while others not. They replied "We are primarily worried more on our repayment than satisfying our needs and further investment. The cost of repayment failure is high (detention, exclusion, sales of property etc.). That is why we all were forced to perform good repayment even by compromising our basic needs. Especially, for most poor borrowers like us, repayment was not necessarily a result of a good profit from the microcredit activities; even some of us repaid the loan while our income was at loss." The survey findings of FDGs similarly illustrate that all good repayment performance was not necessarily the result of good economic benefit from loan IGAs.

Further, the qualitative study in both rural and urban ex-clients' FDGs on why most of the ex-clients repayment performance was good and yet they dropped out from the MIC services elicited the following responses. The ex-clients' FDGs participants pointed out "we realized that excessive enforcement was done for those who failed repayment, we don't want to be similarly victimized. Thus, good repayment performance is crucial, not only to continue but also to safely drop out from the MCI. Additionally, due to various reasons we could not adequately earn or benefit from the micro loan activities, which can cover the loan and its interest rates. Therefore, we prefer to drop out safely and look at other activities with what we have including wage and daily labourer jobs where we can earn sometimes better than the income from the microcredit IGAs we were engaged with."

In connection to the opinions of the household interviews and FDGs report on the repayment behaviour of respondents mentioned above, the key informant Interviews (KIIs) reflected a contrasting opinion, as follows: "Our institutions have good repayment rate records. This was because of fair and affordable loan interest rate charged and the good benefit our clients gained from the microcredit we provided them. Thus, a good repayment rate is associated with an affordable interest rate and better economic benefit of our clients".

Furthermore, the KIIs opinion on why ex-clients with good repayment records drop out from the MCI also contrasted with the ex-clients' perspectives. "Some of them could be those who earned better money from the microcredit activities and prefer to continue without a further loan and others might have their own reason. However, our institution doesn't have a standard drop out monitoring system".

From the survey results shown in Figures 5:8 above, it can be concluded that the client respondent's repayment behaviour of the sampled MFIs varied. This was mainly associated with the sense of ownership of the borrowers (LMFI and SCSC), better advantage on loan interest rate, and the level of satisfaction on the credit service modality that encouraged them to continue their engagement, maintaining their good repayment records. In addition, a relatively better repayment rate of client respondents was recorded in small-regulated MFIs (LMFI and AMFISC), cooperatives (SCSC) and NGOs funded unregulated microcredit schemes (ERCS)

than the big regulated MFI (DECSI). This is in line with what Amha W. (2011:18) said in section 3:5.

It can be also concluded from the above survey data results that good repayment performances of borrowers do not necessarily indicate a result of a good profit from the microcredit activities; some of the borrowers repaid the loan while their income was at a loss. Therefore, all MCIs should monitor not only the repayment performance but also its source as well as a 'genuine repayment source'. Additionally, the researcher observed that ex-clients were good repayment performers without enjoying the economic benefit from the credit and maintaining their microcredit service engagement. Therefore, good repayment records of MCIs do not necessarily indicate a healthy or successful relationship with the borrower and their economic well being.

Furthermore, the researcher found out through key informant interviews that experts of some sampled regulated MCIs considered high repayment rate as the best indicator for a fair loan interest rate charged and is a result of an adequate economic return from the borrowers; this is not always right. On the other side, experts of unregulated microcredit providers agreed that, even though high interest rates were not the only factor for negative repayment performances, but they make it more difficult for the poorest to perform well on loan repayment.

d) Source of timely payment and reasons for not paying loans on time

As shown in Table 5.24, timely repayment of clients and ex-clients respondents was 98.3% from income of micro loan related activities and the remaining balance was from their own income, which is not loan related. The researcher observed during the household interview that ex-clients used their own income for their timely repayment. This could indicate that the ex-clients were not only repaying from the income of the micro loan related return without economic gain but also from their own resources, that aggravated their loss 'for the sake of safely exiting'.

Table 5.24: Reasons for always on time and not on time repayment

Variables			Name of MFI						Total
			LMFI N=50	DECSI N=163	AMFISC N=46	ERCS N=61	SCSC N=51	Ex-clients N=72	N=443
Loan repayment sources for paying always on time	From loan related activity	Count	50	121	41	59	51	54	376
		% of Total	13.2%	31.8%	10.2%	15.5%	13.4%	14.2%	98.3%
	Own income (not loan related)	Count	0	0	0	0	0	4	4
		% of Total	0.0%	0.0%	0.0%	0.0%	0.0%	1.1%	1.1%
Total		Count	50	121	41	59	51	58	380
		% of Total	13.2%	31.8%	10.2%	15.5%	13.4%	15.3%	100.0%
Reason for not paying loan on time	Inadequate income	Count	0	4	0	0	0	5	9
		% of Total	0.0%	36.4%	0.0%	0.0%	0.0%	45.5%	81.9%
	High HH consumption	Count	0	2	0	0	0	0	2
		% of Total	0.0%	18.2%	0.0%	0.0%	0.0%	0.0%	18.2%
Total		Count	0	6	0	0	0	5	11
		% of Total	0.0%	54.6%	0.0%	0.0%	0.0%	45.5%	100.0%

Source: Data from fieldwork, 2014

Furthermore, from Table 5.24 it can also be calculated that the source of timely repayment from micro loan related income of each sampled MCI was 100% (LMFI and SCSC each), 96.7% (ERCS), 89.1% (AMFISC), 75% (Ex-clients), and 74.3% (DECSI) of their respondents. This survey result is similar with the survey findings of the repayment behaviour of clients and ex-clients mentioned above. This seems good provided that the income from microloan related activities does not compromise the 'fair' economic benefit of the borrowers from the loan related activities, which is 'fair repayment'.

Furthermore, Table 5.24 revealed that inadequate income (81.9%), and high HHs consumption (18.2%) were the reasons of clients' and ex-clients' respondents for not timely repaying the loan. Those respondents were from DECSI (54.6%) and ex-clients (45.5%).

From the above survey results, the researcher suggests that repayment performance should be a result of a 'fair' benefit of both borrowers and lenders. However, the distribution of economic benefit should be more for poor borrowers than the lenders. Thus, repayment from the income of loan related activity should not be at the expense of the economic benefit of the borrower from IGAs they engaged in, which is 'harmful repayment'.

e) Duration and number of loans (mobility of respondents)

As can be calculated from Table 5.25, 63%, 58%, 54%, and 53% of AMFISC, LMFI, ERCS, and SCSC respondents respectively were microcredit clients of DECSI at one time. The issue is why the mobility from a well-established MFI to less equipped credit service provision? During the household interview, the respondents said that "our mobility from-to happened after we got other opportunities that could better satisfy our diverse interest through credit modality, access, loan interest rate, and close follow-up". Therefore, mobility or shifting of respondents from one to another MCI was highly associated with looking for better MCIs that can satisfy their diverse interests.

Moreover, Table 5.25 shows 42%, 28%, 14%, 10%, and 8% of client respondents were DECSI's clients for 1-4, 5-8, 9-12, 13-16, and 17-20 years respectively. Additionally, Table 5.25 shows 21.7%, 13.9%, 8.9%, 7.8%, and 0.4% of DECSI's respondents have been clients of DECSI for 1-4, 5-8, 9-12, 13-16, and 17-20 years respectively with a loan frequency of 1-4 (41.0%), 5-8 (8.3%), 9-12 (11.6%), 13-16 (4.2%), and 17-20 (2.1%). It can be perceived from this survey results that DECSI's current client respondents enjoyed the highest percentage of loan duration and frequency of loan with the highest mean of 7.66 years of loan and 5.30 of frequency of loan followed by SCSC respondents mean of 4.43 years of loan and 3.43 of frequency of loan.

The issue is why and how these clients continued for such a length of time? What is the economic benefit (reward) of their long stay while others shift to other microcredit service providers? Based on the above survey results, the qualitative study obtained from both rural and urban client FDGs on why some clients stay long while others shift to other MCI, rural respondents said that "most of the sampled credit service providers (LMFI, AMFISC, and ERCS) were operating in urban areas. Thus, lack of credit service options forced us to stay with DECSI for an unreasonable time without sustained improvement in our economic status."

On the other hand, urban FDGs said, "Our main reason for our long membership years in DECSI was the amount of loan which other MCIs could not offer to give us".

Therefore, the duration of credit membership matters not only for evaluation of the impact of the microcredit for the poor borrowers but also to evaluate why long time participation and to look for possible solutions.

During the in-depth interview with the KIIs on the presence of graduation strategy and guidelines in their respective MCIs, their response was “there was no written and clear national or regional credit clients’ graduation strategy and guideline of microcredit clients in their respective MCIs.” The researcher learned from KIIs survey that the absence of a microcredit graduation strategy and guideline in all sampled MCIs not only made it difficult to monitor the economic and social efficiency and effectiveness of the credit programs but it also developed a false perception of the MCIs actors. They felt that a long duration of clients was the best indicator of client retention. They were ‘loyal clients’. This misperception can affect and mislead the leadership of the microcredit providers and misdirect energies away from the stated objectives for their clients.

The study also tried to examine, through FGDs, whether those households who participate for a longer period benefit more compared to those participating for shorter periods. The shorter period may enable them to afford the current loan interest rates charged and encourage them to graduate sooner. Both urban and rural FDGs said, “There was no significant and sustained economic improvement among the households who had a long or short loan duration (years). The only difference was that households who participated for a long loan period were able to secure their credit sources while others were shifting to other means, such as wage employment and others”.

Moreover, this study positively concludes that when the poor were forced to long-term participation, not only in one but also in another similar microcredit provider without a reasonable economic benefit, the poor were paying an unnecessary cost for their future. Long stay microcredit participation has a cost for the lenders as well. Therefore, it matters. The duration of participants should be associated and managed with the ‘graduation’ of the participant ‘from-to’. A ‘graduation modality’, is highly associated with adequate net economic benefit from the micro loan. This is in line with what Wright G. (2000:43) said in section 2.3.3.

Table 5.25: Duration and number of loans of clients

Loan from	Loan of year		Variable														
			Respondents									Frequency of loan (Number)					
			LMFI	N=50	DECSI	N=163	AMFISC	N=46	ERCS	N=61	SCSC	N=51	Total	N=371	LMFI	DECSI	AMFISC	ERCS	SCSC	Total
DECSI	1-4	Count	10		61		12		15		15		113		25	99	25	4	9	162
		Percentage of total	3.6%		21.7%		4.3%		5.3%		5.3%		40.2%		10.3%	41.0%	10.3%	1.7%	3.7%	67.0%
	5-8	Count	7		39		8		13		12		79		4	20	3	0	0	27
		Percentage of total	2.5%		13.9%		2.9%		4.6%		4.3%		28.1%		1.7%	8.3%	1.2%	0.0%	0.0%	11.2%
	9-12	Count	9		25		5		1		0		40		5	28	2	0	0	35
		Percentage of total	3.2%		8.9%		1.8%		0.4%		0.00%		14.2%		2.1%	11.6%	0.8%	0.0%	0.0%	14.5%
	13-16	Count	1		22		2		3		0		28		0	11	1	0	0	12
		Percentage of total	0.4%		7.8%		0.7%		1.1%		0.00%		10%		0.0%	4.2%	0.4%	0.0%	0.0%	4.6%
	17-20	Count	2		16		2		1		0		21		0	5	1	0	0	6
		Percentage of total	0.7%		0.4%		0.7%		0.4%		0.00%		7.5%		0.0%	2.1%	0.4%	0.0%	0.0%	2.6%
	Total	Count	29		163		29		33		27		281		34	163	32	4	9	242
		Percentage of total	10.3%		58%		10.3%		11.7%		9.6%%		100%		14.1%	67.4%	13.2%	1.7%	3.7%	100%
	Minimum		1		1		2		1		1				1	1	2	1	1	
	Maximum		4		20		2		3		15				4	19	2	2	15	
	Mean		2.00		7.66		2.00		2.00		4.43				2.25	5.30	2.00	1.50	3.43	
	% of count from N		58%		100%		63%		54.1%		53%		75.7%							
AMFISC	1-4	Count	3		1		46		2		0		52		3	1	44	2	0	50
		Percentage of total	5.7%		1.9%		88.5%		3.9%		0.0%		100%		6%	2%	88%	4%	0.0%	100%
	Total	Count	3		1		46		2		0		52		3	1	44	2	0	50
		Percentage of total	5.7%		1.9%		88.5%		3.9%		0.0%		100%		6%	2%	88%	4%	0.0%	100%
	Minimum		1		1		1		2						1	1	1	1		
	Maximum		4		3		3		2						4	20	2	1		
	Mean		1.67		2.00		1.17		2.00						2.50	3.91	1.02	1.00		
	Percentage of count from N		6%		0.6%		100%		3.3%											
LMFI	1-4	Count	50		4		6		5		0		65		41	4	6	0	0	51
		Percentage of total	76.9%		6.2%		9.2%		7.7%		0.0%		!00%		80.4%	7.8%	11.8%	0.00	0.00	100%
	Total	Count	50		4		6		5		0		65		41	4	6	0	0	51
		Percentage of total	76.9%		6.2%		9.2%		7.7%		0.0%		!00%		80.4%	7.8%	11.8%	0.00	0.00	100%
	Minimum		1		1		1		2						1	1	1			
	Maximum		6		17		9		2						10	12	4			
	Mean		2.14		7.38		3.25		2.00						2.75	3.94	2.33			
	Percentage of count from N		100%		2.5%		13.0%		8.2%											
SCSC	1-4	Count	0		5		0		0		45		50		0	6	0	0	50	56
		Percentage of total	0.0%		8.6%		0.0%		0.0%		77.6%		86.2%		0.00	10.4%	0.00	0.00	86.2%	96.6%
	5-8	Count	0		2		0		0		6		8		0	1	0	0	1	2
		Percentage of total	0.0%		3.5%		0.0%		0.0%		10.3%		13.8%		0.00	1.7%	0.00	0.00	1.7%	3.5%
	Total	Count	0		7		0		0		51		58		0	7	0	0	51	58
		Percentage of total	0.0%		12.1%		0.0%		0.0%		87.9%		100%		0.00	12.1%	0.00	0.00	87.9%	100%
	Minimum				1						1		2			1			1	
	Maximum				4						10		4			4			10	
	Mean				2.00						1.77		2.50			1.67			1.59	
	% of count from N				4.3%						100%									
ERCS	1-4	Count	1		1		1		61		0		64			2		61	0	64
		Percentage of Total	1.6%		1.6%		1.6%		95.3		0.0%		100		1.6%	3.2%	1.6%	95.3	0.00	100%
	Total	Count	1		1		1		61		0		64		1	2	1	61	0	64
		Percentage of Total	1.6%		1.6%		1.6%		95.3%		0.0%		100%		1.6%	3.2%	1.6%	95.3	0.00	100%
	Minimum		2		1		2		1						1	1	1	1		
	Maximum		2		1		2		4						2	3	2	2		
	Mean		2.00		2.00		2.00		2.50						1.05	2.00	1.05	1.02		
	Percentage of count from N		2.0%		0.6%		2.2%		100%											

Source: Data from fieldwork, 2014

In addition, it can also be deduced from Table 5.25 that the short-term leavers (1-4 years) were 100% from AMFISC, LMFI, and ERCS each followed by 86% from SCSC, and 40% from DECSI. The majority of short-term leaver's respondents were from late established and smaller MCIs. However, as mentioned above, over 50% of

late established sampled MCIs client respondents were DECSI members at one time. This indicated that the highest ratio of the client mobility to other MCIs was from DECSI. As also mentioned above, the push and pull factors for this mobility was highly associated with looking for MCIs which can offer better economic benefits, highly related with the cost of the loan, a cost that includes the loan interest rate.

Based on the above survey results the researcher suggested that it is important to understand the impact of a long duration of the poor in microcredit participation, the pattern of mobility of households from–to MCIs, the push and pull factors for mobility, and a tentative time path of the graduation process.

Finally, from the above survey findings and observations, this study insists that not only well-established sampled old regulated MFIs (DECSI) but also new established regulated microcredit service providers and un-regulated microcredit providers learn from the existing experiences on how to manage effective and efficient microcredit service with less cost that benefits both the borrowers and lenders. Especially, the extended participation of the poor in microcredit service should be managed progressively and professionally rather than considered as a mechanism of client retention.

f) Loan history of ex-clients

This section deals with the investigation of the duration and number of loans of the sampled ex-clients in the sampled microcredit service providers and their effects.

As it can be shown in Table 5.26, the length of the participation of the ex-clients respondents was 1-4 years (64.4%), 5-8 years (26.4%), 9-12 years (4.6%), 13-16 years (3.5%), and 17-20 years (1.2%). Furthermore, the Table shows that the number of loans of the ex-clients was 90.5 per cent (1-4 loans), 3.8 per cent (5-8 loans), 4.8 per cent (9-12 loans), 0 per cent (13-16 loans), and 1 per cent (17-20 loans). It can be observed from the above survey results that majority (64.4%) of the ex-clients' respondents were short-term loan leaver's.

From the above survey results, it can also be concluded that a high percentage of ex-clients with short loan durations (64.4%) and a low frequency of loan (90.5%) witnessed that their stability was not only short but also early. Regardless, the push factor for their subsequent loan and the early exit of clients is one of the ways of exclusion for the poor. This is in line with what Simanowitz A. and Walter A. (2002:40-41) said in section 2.9.3.

Why do some households drop out while others do not? This was one of the research questions discussed during the rural and urban ex-clients' FDGs. Both expressed similar opinions. "We were forced to drop out to look for microcredit with lower loan interest rates and less enforcement. Meanwhile, we prefer to look for a wage and daily labour where we can earn relatively better than the income from the loan IGAs".

On the other hand, when the same question was asked to KIIs, they responded differently. "Those who drop out are those who failed repayment due to various reasons, mainly due to their own internal problems". Can it be concluded from the different opinions of FDGs and KIIs on why some households drop out while others not? There are different perspectives on the impact of loan interest rates among borrowers and lenders and repayment failure was considered as a problem of borrowers 'externalization', which is not fair.

Table 5.26: Duration and number of loan of ex-clients

Loan of years and frequency		Loan from N=72						Frequency of loan N=72					
		DECSI	AMFISC	LMFI	SCSC	ERCS	Total	DECSI	AMFISC	LMFI	SCSC	ERCS	Total
1-4	Count	33	2	1	6	14	**56**	38	2	2	4	30	**76**
	% of Total	37.9%	2.3%	1.2%	6.9%	16.1%	**64.4 %**	45%	2.4%	2.4%	4.8%	35.7%	**90.5%**
5-8	Count	8				15	**23**	3					**3**
	% of Total	9.2%				17.2%	**26.4%**	3.6%					**3.8%**
9-12	Count	4					**4**	4					**4**
	% of Total	4.6%					**4.6%**	4.8%					**4.8%**
13-16	Count	3					**3**						**0**
	% of Total	3.5%					**3.5%**						**0.0%**
17-20	Count	1					**1**	1					**1**
	% of Total	1.2%					**1.2%**	1.2%					**1.2%**
Total	**Count**	**49**	**2**	**1**	**6**	**29**	**87**	**46**	**2**	**2**	**4**	**30**	**84**
	% of Total	**56.3%**	**2.3%**	**1.2%**	**6.9%**	**33.3%**	**100%**	**54.8%**	**2.4%**	**2.4%**	**4.8%**	**35.7%**	**100%**
Minimum		**1**	**1**	**3**	**2**	**1**		**1**	**1**	**2**	**2**	**1**	
Maximum		**20**	**6**	**6**	**4**	**6**		**20**	**2**	**4**	**3**	**5**	
Mean		**4.67**	**3.50**	**4.50**	**2.50**	**4.14**		**3.41**	**1.50**	**3.00**	**2.25**	**2.27**	

Source: Data from fieldwork, 2014

Another question discussed with KIIs was whether there was an exit interview mechanism for ex-clients? They replied, “there was no formal exit interview for drop out clients but some effort was made on individual ex-clients”. These results indicate that there was no drop out monitoring mechanism that could not only benefit ex-clients to re-join but also to retain the existing clients, attract potential clients and to identify positive and negative aspects of the drop out of clients that enabled MCIs to evaluate one of their social performances.

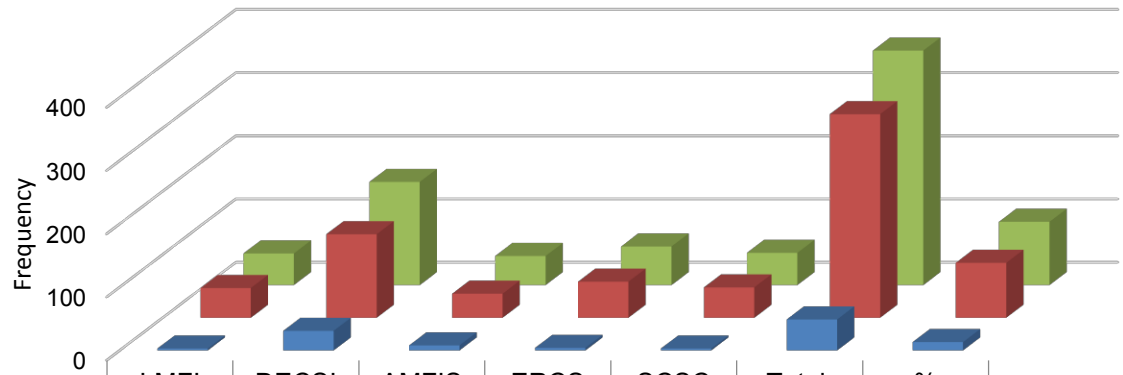
As Table 5.26 shows, 56.3% of ex-clients were from DECSI followed by 33.3% from ERCS. Why there was such a high number of ex-clients from DECSI and ERCS was discussed during the KIIs of DECSI and ERCS. The DECSI KIIs replied, “Compared to the coverage and years of the establishment of DECSI, the number of ex-clients compared with other MCIs was obviously high, not because of specific problems within DECSI.” On the other side, ERCS KIIs replied, “Due to fund flow problems from donors, and a lack of timely repaid loans, continuity of loan disbursement was jeopardized”. This indicated that donor funded and NGO led microcredit services are very vulnerable and need special management systems for sustainability.

From the above findings, the researcher realized that not only the importance of analysing why clients drop out but also analysing the ex-client’s loan history was crucial to evaluate the consequences of dropping out on ex-clients and microcredit providers. This appears to be a significant contribution of this study to the literature that rests on empirical observations that motivate the microcredit providers to revisit their credit modality, including loan interest rates.

g) Clients with multiple loans

Venkata N.A., and Veena Yamini A. (2010:1-2) mentioned that the trend of multiple loans was reinforced by the commercialization of the sector, which is often characterized by increased competition for clients and a clear objective to seek profitability, resulting in more than one microfinance provider (MFI) operating in an area. While this offers members a scope to borrow from multiple sources, it can also lead them to over-indebtedness.

Figure 5.9 shows that 13.2% of the total clients of the sampled MCIs were clients of more than one microcredit service providers. In addition, it can also be calculated from Figure 5.9 that DECSI clients were the majority borrowers from multiple microcredit sources. Furthermore, it can also be calculated from Figure 5.9 that 19% of DECSI followed by 17.4% of AMFISC, 6.6% of ERCS, and 6% each from LMFI and SCSC of their total respondents were clients of more than one microcredit institutions 'overlapping of households'. Regardless of the ratio, all sampled MCIs were exposed to multiple loans to clients.



	LMFI	DECSI	AMFISC	ERCS	SCSC	Total	%
Yes	3	31	8	4	3	49	13.2
No	47	132	38	57	48	322	86.8
Total	50	163	46	61	51	371	100

Figure 5.9: Multiple loans of respondents (Overlapping households)
Source: Data from fieldwork, 2014

Why do some households go for multiple loans from the same or different MCIs? This was discussed during both household interviews and FGDs. They said similarly, "We could not satisfy all our needs from one MCI and we tried to exploit lower interest rates from one and a higher loan amount from the other MCI, to engage our house members with IGA and diversify our income, to manage financial crises and repayment for another loan, and for business expansion".

Thus, the researcher noticed during the HHs interview that one of the reasons of multiple loans of the non-poor respondents was mainly for income diversification while the poor respondents was mainly for repaying a loan of other loan, which

aggravates their over-indebtedness. This was related mainly with inadequate income from the microloan activities that could be also affected by other different reasons as well.

The researcher attempted to discuss the presence of multiple loan policy or guideline and its management with some KIIs. They replied, “there was not any policy or guideline. All credit officers were running mainly to maintain and increase their clients. Thus, the monitoring mechanism of multiple loans was poor”. Multiple loans of different households were aggravated due to the unfair competition of MCIs instead of complementing each other. This is in line with what Venkata N.A., and Veena Yamini A. (2010:1-2) mentioned above.

From the above research results it can also be concluded that regardless the extent and reasons for taking multiple loans, multiple loans were a common phenomenon in all sampled MCIs. Thus, keeping the balance of looking for unmet demands and other reasons of client’s is adequate reason to design on how to manage multiple loan for the best interest of both the borrowers and lenders, which could help to utilize the scarce resources of MCIs for more effective credit projects. The demand of borrowers and supply of lenders for multiple loans should not be a result of socially irresponsible competition among MCIs rather it should be a result of socially responsible complementarities of MCIs.

Furthermore, based on the above research, the researcher suggests that the decision of borrowers for taking multiple loans should be based on the choice of the borrowers of borrowing more to either invest more and scale up their business or remain working with what they have until they feel comfortable. This is preferable to being pushed by the irresponsible competition of the MCIs that aggravates the indebtedness of the borrowers, a situation which could affect both the borrowers and lenders. Additionally, it can also be deduced from the above survey results that the decision of borrowers for multiple loans should not be only a last option under extreme shocks and stresses of the borrowers. Thus, the financial situation of the poor borrower is quite vulnerable and needs the socially responsible support on initiation and management of multiple loans.

Moreover, the researcher also perceived the following attitude from the household interviews with some of the respondents. “Those clients who took repetitive loans monopolize the credit membership and scarce resources that create a barrier to entry”. This indicates that there was a possibility for an ‘elite’ sector of the community to exploit the existing scarce resources of credit programs that exclude others. Therefore, a client’s selection biases should be checked critically. Thus, all MCIs should have clear multiple loan guidelines and a management modality that can benefit both borrowers and lenders.

5.3.3.3 Household saving performances

This section deals with households’ savings, reasons for savings or not, and perceptions on savings of clients’, ex-clients’, and non-clients’ respondents.

The importance of savings for the poor and poorest alike was realized in the early 1990s. It was the introduction of savings provisions along with credit that charged the paradigm in the world of microcredit and the combination came to be known as microfinance (Armendariz B. and Jonathan M. 2005:199-245).

a) Household amount of savings

Regardless of the amount of their savings, Table 5.27 shows 61.2 per cent of the total sampled HHs have savings in different saving led financial institutions. Additionally, it can be calculated from Table 5.27 that the respondents’ savings were in MCIs (63.9%), cooperatives (24%), and banks (12.2%). Moreover, it can also be calculated that out of the total HHs savings of ex-clients and non-clients, respondents’ savings was 6.6% in MFIs, 5.9% in Bank, and 0.4% in cooperatives.

From the above survey results, it can be observed that majority of the households’ savings was in savings led MCIs. The researcher learned during the household interviews that the main reason of client HHs for savings in MCIs was related with their affiliation with the savings led MCIs and for former lending of the clients; the reasons for ex-clients and non-clients was to build trust for future credit service and

accessibility. Therefore, savings is serving as a pull factor of MCIs for ex-clients and non-clients.

Furthermore, it can be shown from Table 5.27 that 98%, 89.1%, 73%, 44%, and 14.4% respondents of SCSC, AMFISC, DECSI, LMFI, and ERCS respectively have savings in different savings led MCIs.

The researcher realized from the credit and savings regulation of the sampled savings led MCIs that except ERCS (NGO led credit provider), the remaining were using voluntary savings (AMFISC, DECSI, and SCSC), and forced savings (LMFI and SCSC).

Table 5.27: Household savings areas

Loan from	Years		MCIs							Total N=471
			LMFI N=50	DECSI N=163	AMFISC N=46	ERCS N=61	SCSC N=51	Ex-clients N=72	Non-clients N=28	
Bank	Less than 1 year	Count	0	1	1	4	0	2	1	9
		% of Total	0.0%	2.9%	2.9%	11.4%	0.0%	5.7%	2.9%	25.7%
	1-2 years	Count	1	2	0	0	0	2	1	6
		% of Total	2.8%	5.7%	0.0%	0.0%	0.0%	5.7%	2.8%	17.1%
	Above 2 years	Count	3	2	2	1	0	11	1	20
		% of Total	8.6%	5.7%	5.7%	2.9%	0.0%	31.4%	2.9%	57.1%
Total		Count	4	5	3	5	0	15	3	35
		% of Total	11.4%	14.3%	8.6%	14.3%	0.0%	42.6%	8.6%	100.0%
MFIs	Less than 1 year	Count	3	71	16	4	0	6	1	101
		% of Total	1.6%	38.6%	8.7%	2.2%	0.0%	3.3%	0.5%	54.9%
	1-2 years	Count	9	19	10	0	1	6	1	46
		% of Total	4.9%	10.3%	5.4%	0.0%	0.5%	3.3%	0.5%	25.0%
	Above 2 years	Count	6	15	6	0	5	5	0	37
		% of Total	3.3%	8.2%	3.3%	0.0%	2.7%	2.7%	0.0%	20.1%
Total		Count	18	105	32	4	6	17	2	184
		% of Total	9.8%	57.1%	17.4%	2.2%	3.3%	9.2%	1.1%	100.0%
Cooperatives	Less than 1 year	Count	0	0	3	0	0	1	0	4
		% of Total	0.0%	0.0%	4.3%	0.0%	0.0%	1.4%	0.0%	5.8%
	1-2 years	Count	0	4	3	0	5	3	2	17
		% of Total	0.0%	5.8%	4.3%	0.0%	7.3%	4.3%	2.9%	24.6%
	Above 2 years	Count	0	5	0	0	39	4	0	48
		% of Total	0.0%	7.3%	0.0%	0.0%	56.5%	5.7%	0.0%	69.7%
Total		Count	0	9	6	0	44	8	2	69
		% of Total	0.0%	14.3%	8.7%	0.0%	63.8%	11.6%	2.9%	100.0%
Grand total		Count	22	119	41	9	50	40	7	288
		% of Total	7.6%	41.3%	14.2%	3.1%	17.4%	13.9%	2.4%	100.0%
% of grand total count from N			44%	73.0%	89.1%	14.4%	98.0%	55.6	25%	61.2%

Source: Data from fieldwork, 2014

Furthermore, the researcher also observed from the household interviews that voluntary savings in AMFISC and SCSC were mainly related with the sense of ownership and strong institutional affiliation that emanated from the objective of the microcredit institutions. AMFISC is under the strong leadership of Women

Association of Regional State of Tigray with a strong female membership base and a female-centred microcredit project. SCSC is also one of the strong rural cooperatives in Tigray, which follows saving first and then get a loan modality (forced savings). Clients of both SCSC and AMFISC consider their membership (saving or/and credit) is building up the equity of their respective institutions and as a result they expect better support individually and collectively.

Finally, it can be concluded from the above research results that the poor respondents (clients, ex-clients and non-clients) want to save, can save, and do save. The important issue is why there are savings and who is benefiting more from savings. These issues matter and all MCIs should address them seriously and fairly.

Table 5.28: Respondents savings amount (Birr)

Variables		Respondents							
		LMFI	DECSI	AMFISC	ERCS	SCSC	Ex-clients	Non-clients	Total
Bank	Count	4	5	3	5		15	3	35
	Minimum	2,500.00	0.00	100.00	500.00		300.00	7,000.00	100.00
	Maximum	30,000.00	100,000.00	7,000.00	7,000.00		10,000.00	200,000.00	200,000.00
	Mean	8,500.00	21,452.18	3,020.00	2,998.40		3,473.33	72,333.33	14,691.24
	Std. Deviation	9,810.71	29,438.77	2,954.15	2,423.84		2,709.10	110,572.75	32,235.77
	Sum	59,500.00	493,400.00	15,100.00	14,992.00		52,100.00	217,000.00	852,092.00
	% of Total Sum	7.0	57.9	1.8	1.8		6.1	25.5	100.0%
MFI	Count	18	105	32	4	6	17	2	184
	Minimum	70.00	0.00	50.00	600.00	900.00	680.00	200.00	50.00
	Maximum	8,000.00	50,000.00	7,600.00	1,200.00	7,050.00	7,000.00	1,480.00	50,000.00
	Mean	1,418.21	2,879.88	1,626.97	987.50	3,291.67	2,112.31	893.33	2,272.18
	Std. Deviation	1,937.85	7,445.91	1,881.33	283.95	2,434.01	1,822.4	646.63	5,380.10
	Sum	39,710.00	239,030.00	53,690.00	3,950.00	19,750.00	27,460.00	2,680.00	386,270.00
	% of Total Sum	10.3	61.9	13.9	1.0	5.1	7.1	0.7	100.0%
Cooperatives	Count		9	6		44	8	7	69
	Minimum		0.00	600.00		1,630.00	200.00	1,480.00	200.00
	Maximum		15,000.00	7,500.00		22,000.00	6,000.00	2,000.00	22,000.00
	Mean		3,719.17	2,300.00		6,224.67	1,522.00	1,740.00	4,568.98
	Std. Deviation		4,208.79	2,602.31		3,712.2	1,692.32	367.70	3,960.06
	Sum		89,260.00	13,800.00		280,110.00	15,220.00	3,480.00	402,070.00
	% of Total Sum		22.2	3.4		69.7	3.8	0.9	100.0%

Source: Data from fieldwork, 2014

Table 5.28 illustrates that it was not only bank savings that was a significant means of respondents' savings; this was followed by cooperatives and MCIs; non-clients savings was the maximum savings of all the respondents. This indicated that those respondents who saved in banks were relatively better off than the others and some non-client respondents have saved adequately from their own funds. They were also looking at credit with a higher loan interest rate than the savings interest rate they earn from their savings. For instance, one of the non-client respondents who was repatriated from Saudi Arabia was interviewed by the researcher; he has saved more than Birr 200,000 in the bank and yet he applied to borrow Birr 50,000.00 from one of the sampled MCIs. His justification was "I prefer to keep my money untouched and

start a new business from borrowing". This was the wrong perception, saving (selling) huge amounts of money for a 5 per cent saving interest rate plus inflation and yet applying to borrow (buying) a lower amount of money than what he owned with the cost of 9%-18% loan interest rate. This is an erroneous perception shared by almost all respondents; they should be reoriented on the way that 'saving or investing' benefits the poor rather than having a savings institution exploit their level of awareness. Saving is not always appropriate for income generation.

Based on the above amount of savings of the respondents, the researcher suggests that the respondents organize themselves in small local credit and saving cooperatives, **'**community led cooperatives**',** that enable them to both determine the loan modality and satisfy their specific interests, which minimizes the burden on MCIs. This is in line with what David S.G., and Jennifer M.W. (2000:25-36) suggested in this regard in section 2.9.5.

Furthermore, the above survey results it can also indicate that the poor are interested in saving in areas, which are appropriate for the poor. The poor 'save' mostly in credit led, regulated MFIs and mainly to meet their basic needs in times of insecurity while the rich save largely to invest. No matter how much they save, if they continue to save regularly and benefit fairly, their savings portfolio can contribute to the overall improvement in their quality of life and help to scale up their mini businesses. However, the very crucial issue is the amount of benefits the poor gain from the savings. The question of who is benefitting the most from the savings is not yet fairly addressed.

Moreover, the researcher suggests that the importance or purpose of saving should not be only for emergency response and security (from the borrower's perspective) or for capital building and a loan guarantee (from the lender's perspective); rather, it should go beyond the traditional saving benefits, which is effective and efficient and measured by the 'value of money' against the benefit for the poor. Therefore, a saving policy of each microcredit service provider should be revisited against the twin objectives of a **'**fair saving interest rate' and 'saving for change'.

b) Factors affecting respondents' decision for not saving

It can be calculated from Table 5.29 that the major reasons respondents gave for not saving in MCIs and other financial institutions included lack of money to save (81.9%), prefer to invest in IGA (9.3%), low savings interest rate and prefer to save in kind (3.3% each), and prefer to save in Ekub (1.7%). Even though lack of money was one of the main reasons for not saving, it can be observed also that there were respondents who prefer to invest in IGA (start up or/and expansion) rather than the saving activities that should be encouraged in order to improve the prospects of the graduation process of the poor respondents 'from-to'.

During the household interview, the researcher asked about on how the lack of money affected the inability to save. The reply of the respondents was, "we all know the importance of savings and want to save but we don't have extra money for savings, mainly influenced by profit we earn from the IGA loan that could not satisfy repayment, run the mini trade, or cover our household basic consumptions. Our financial problems were aggravated by frequent exposure to shocks/stress (health problem, drought, and cost of living etc.), and market related problems". It can be observed from the respondents' responses that the main reason for not saving was not due to a subjective factor (interest and know-how); rather, it was mainly due to objective factors including a sufficient income benefit from the IGA loans.

The above research results indicate that, for the poor, saving is a function of a sufficient income increase from the IGA loans, which was not satisfied by the sampled MCIs. This is in line with what Hulem D., and Mosley P. (1996:119-221) stated in section 2.9.1. Moreover, it can also be deduced from Table 5.29 that the percentages of respondents who could not save due to lack of money included 30.2% (ERCS), followed by 27.5% (DECSI), 18.1% (ex-clients), and 9.4% (LMFI and non-clients each).

Table 5.29 shows that respondents who were discouraged from savings due to a low saving interest rate included 50% from DECSI followed by 16.7% from LMFI, ERCS, and ex-clients each. In addition, it can also be deduced from Table 5.29 that respondents who prefer to invest in mini-trade were 35.3%, 29.4%, and 11.8% from

DECSI, ERCS, and LMFI, AMFISC, and ex-clients each in that order. These research results indicated that lack of money as a reason for not saving was more frequently reported by client respondents than by ex-clients and non-clients. Therefore, microcredit participation could not necessarily secure a better savings profile than non-microcredit participants.

Table 5.29: Reasons for not saving

		Variable					
MFI		Lack of money	Low saving interest rate	Prefer to save in kind	Prefer to save in Ekub	Prefer to save home	Invest in mini business
LMFI	N	16	16	16	16	16	16
	% of Total N	9.5%	9.7%	9.7%	9.7%	9.7%	9.8%
N=50	Sum	14	1	1	0	0	2
	% of Total Sum	9.4%	16.7%	16.7%	0.0%	0.0%	11.8%
DECSI	N	48	45	45	45	45	45
	% of Total N	28.6%	27.3%	27.3%	27.3%	27.3%	27.4%
N=163	Sum	41	3	0	0	1	6
	% of Total Sum	27.5%	50.0%	0.0%	0.0%	100.0%	35.3%
AMFISC	N	8	8	8	8	8	8
	% of Total N	4.8%	4.8%	4.8%	4.8%	4.8%	4.9%
N=46	Sum	8	0	1	0	0	2
	% of Total Sum	5.4%	0.0%	16.7%	0.0%	0.0%	11.8%
ERCS	N	51	51	51	51	51	51
	% of Total N	30.4%	30.9%	30.9%	30.9%	30.9%	31.1%
N=163	Sum	45	1	2	0	0	5
	% of Total Sum	30.2%	16.7%	33.3%	0.0%	0.0%	29.4%
SCSC	N	0	0	0	0	0	0
	% of Total N	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
N=51	Sum	0	0	0	0	0	0
	% of Total Sum	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Ex-clients	N	31	31	31	31	31	30
	% of Total N	18.5%	18.8%	18.8%	18.8%	18.8%	18.3%
	Sum	27	1	2	3	0	2
N=72	% of Total Sum	18.1%	16.7%	33.3%	100.0%	0.0%	11.8%
Non-client	N	14	14	14	14	14	14
	% of Total N	8.3%	8.5%	8.5%	8.5%	8.5%	8.5%
	Sum	14	0	0	0	0	0
N=28	% of Total Sum	9.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Total	N	168	165	165	165	165	164
	% of Total N	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Sum	149	6	6	3	1	17
N=471	% of Total Sum	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Data from fieldwork, 2014

It can also be observed from the above results that most of the respondents who prefer to invest on IGA than savings were from DECSI and ERCS. During the household interview, the main reason observed was associated with a low saving interest rate that encouraged them to re-invest for better economic benefit than saving. Thus, the respondents are becoming aware of the most cost-effective utilization of their very limited resources.

It can also be shown from Table 5.29 that the respondents from SCSC 'reasons for not saving' were reported nil. As mentioned above, the regulation of SCSC was 'first saving for credit' and "more savings, more credit' which encouraged them to save first in order to get a loan (forced savings) and to save more in order to get more loans (voluntary savings).

The researcher checked that all sampled saving led microcredit institutions were paying a similar saving interest rate for their clients (5% per annum) while charging different and a higher loan interest rate ranging from 9%-18% per annum, which is unfair. The researcher noticed from the household's interview and FDGs that the respondents were complaining on the unfair savings interest rate compared with the loan interest rate charged by savings led MFIs.

Generally, from the above research findings it can be concluded that promoting and encouraging for saving is very crucial for clients, ex-clients, non-clients and saving-led microcredit service. However, who, when, and what benefit of savings should be properly addressed through a 'fair savings' modality. Therefore, redesigning a saving modality is important for the benefit of both regulated and unregulated microcredit service providers to manage for the microcredit objectives they were founded for and that should be guiding their policies.

Furthermore, it can also be concluded from the above findings that clients, ex-clients, and non-client respondents are becoming aware and sensitive not only to the loan interest rate charged but also to the saving interest rate paid. Subsequently, this should be reconciled on the basis of 'fair cost' for both loan interest rates and saving interest rates in a very transparent manner. Hence, both savings and micro loans are a function of buying and selling of funds.

c) Ekub savings

Ekub is one of the forms of traditional self-help groups formed voluntarily in Ethiopia, which include both saving and credit type associations whose members make regular contributions to a revolving loan fund. The formation of "Ekub "is based on classes of people who have identical (similar) earning or income. Unlike saving and

credit cooperatives, it does not bear interest on the money saved (collected) and distributed on a revolving loan modality.

Table 5.30: Households Ekub saving (Birr)

Variables		Respondents							
		LMFI	DECSI	AMFISC	ERCS	SCSC	Ex-clients	Non-clients	Total
Monthly Ekub payment (Birr)	N	24	56	16	3	1	17	8	125
	% of Total N	19.2%	44.8%	12.8%	2.4%	0.8%	13.6%	6.4%	100.0%
	Minimum	20.00	0.00	5.00	20.00	940.00	20.00	10.00	0.00
	Maximum	13,400.00	10,000.00	2,000.00	40.00	940.00	5,200.00	600.00	13,400.00
	Mean	1,171.67	1,231.61	235.94	26.67	940.00	563.94	127.50	899.94
	Sum	28,120.00	68,970.00	3,775.00	80.00	940.00	9,587.00	1,020.00	112,492.00
	% of Total Sum	25.0%	61.3%	3.4%	0.1%	0.8%	8.5%	0.9%	100.0%
Expected Ekub earning (Birr)	N	24	56	16	3	1	17	8	125
	% of Total N	19.2%	44.8%	12.8%	2.4%	0.8%	13.6%	6.4%	100.0%
	Minimum	270.00	0.00	115.00	500.00	20,000.00	190.00	100.00	0.00
	Maximum	450,000.00	400,000.00	20,000.00	1,000.00	20,000.00	12,000.00	4,800.00	450,000.00
	Mean	34,093.33	40,712.50	2,442.81	700.00	20,000.00	3,417.35	1,325.00	25,824.16
	Sum	818,240.00	2,279,900	39,085.00	2,100.00	20,000.00	58,095.00	10,600.00	3,228,020.00
	% of Total Sum	25.3%	70.6%	1.2%	0.1%	0.6%	1.8%	0.3%	100.0%

Source: Data from fieldwork, 2014

It can be calculated from Table 5.30 that, out of the total respondents, 26.5% of them have Ekub; 44.8%, 19.2%, 13.6%, 12.8%, 6.4 %, 2.4%, and 0.8% of the respondents were from DECSI, LMFI, Ex-clients, AMFISC, non-clients, ERCS, and SCSC respectively. This indicated that, regardless of their financial capacity engagement in Ekub, some members from each sampled MCI, ex-clients, and non-clients were involved in Ekub, which is, as noted, another other form of a saving and credit modality.

Furthermore, it can be shown from Table 5.30 that the highest mean of monthly Ekub payment (Birr 1,171.76) expected from Ekub (Birr 34,093.33) was from LMFI respondents followed by DECSI, SCSC, ex-clients, AMFISC, non-clients, and ERCS respondents respectively; this was almost similarly reported on the maximum and minimum monthly of the expected Ekub payment, expected from Ekub. This indicated that there were some respondents of clients and ex-clients with a relatively better financial capacity. The researcher observed that due to the financial capacity of ERCS respondents, they were the least secure in all aspects. From the survey results, it can be witnessed that the participation in Ekub was influenced by the financial capacity of the respondents.

The study observed during the household interviews that the participation of the households in Ekub not only depends on their financial capacity but that also the

purpose of their participation in Ekub was varied; primary considerations were saving for repayment security by the poor households and saving for more investment by the better-off household's. This was a similar trend with what was discussed above in the saving motives of respondents.

Moreover, Table 5.30 shows that the sum amount of funds rotating in all Ekubs was eight times greater than the amount of funds reported on voluntary savings discussed on Table 5.28. This indicated that different respondents were using different modalities of savings, which should be researched to determine the best utilization of all sorts of savings of the respondents which would strengthen the 'community led cooperatives' that could not only satisfy the specific interests of the respondents but also reduce the burden of MCIs on managing microloan businesses.

Finally, the researcher suggested that the importance of analysing all sorts of saving behaviour of the borrowers is not only to secure the financial situation of the lenders but is crucially important for the borrowers as support on how to utilize savings for increased economic benefit; this could enhance their financial graduation process from-to and propose a better way of strengthening "local community led savings and credit schemes'. Hence, managing all sorts of the respondents' savings effectively and efficiently matters.

5.3.4 Reasons to take, dropout, and hide-out of microcredit

This section deals with the respondents' (clients, ex-clients, and non-clients) perceptions on factors that affect the households' decisions to manage the microcredit loan, drop out from microcredit as well as hideaway from microcredit, the pull and push factors of microcredit.

5.3.4.1 Factors affecting household's decisions on demand for credit

As shown in Table 5.31, factors such as better awareness/experiences (38.0%) followed by no alternative (25.8%), collateral (7.9%), credit access (7.8%), better family situation (6.4%), good credit history, repayment of other debt (3.9%), market access (3.6%), less awareness/experiences on its consequences (1.6% each),

forced (1.4%) and better alternative (0.4%) were perceived by the respondents as factors affecting households in their decisions to join and/or demand credit participation.

From the above data it can be witnessed that a household's decision to demand credit could be affected by various subjective and objective factors with regard to the reasons why some households take credit. This is primarily because of the heterogeneous economic situation; perceptions of the respondents, and diverse credit modality of the microcredit providers are among others that affect their decisions.

Table 5.31: Reasons for households to take microcredit

		Variable										
MFI		Better family situation	Better awareness/experiences	Lack awareness of its consequences	Forced	No alternative	Good credit history	Market access	Access to credit	collateral	Better alternative	Repayment of other loan
LMFI	N	50	50	50	50	50	50	50	50	50	50	50
	% of Total N	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
N=50	Sum	1	39	1	0	22	8	1	11	1	1	6
	% of Total Sum	1.8%	11.8%	7.1%	0.0%	9.8%	24.2%	3.2%	16.4%	1.5%	33.3%	42.9%
DECSI	N	163	163	163	163	163	163	163	163	163	163	163
	% of Total N	34.6%	34.6%	34.6%	34.6%	34.6%	34.6%	34.6%	34.6%	34.6%	34.6%	34.6%
N=163	Sum	2	136	2	1	101	5	15	14	6	1	19
	% of Total Sum	3.6%	41.1%	14.3%	8.3%	44.9%	15.2%	48.4%	20.9%	8.8%	33.3%	11.7%
AMFISC	N	46	46	46	46	46	46	46	46	46	46	46
	% of Total N	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%	9.8%
N=46	Sum	0	28	0	0	26	1	0	7	0	1	5
	% of Total Sum	0.0%	8.5%	0.0%	0.0%	11.6%	3.0%	0.0%	10.4%	0.0%	33.3%	35.7%
ERCS	N	61	61	61	61	61	61	61	61	61	61	61
	% of Total N	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%	13.0%
N=163	Sum	0	25	5	10	13	6	5	23	23	0	0
	% of Total Sum	0.0%	7.6%	35.7%	83.3%	5.8%	18.2%	16.1%	34.3%	33.8%	0.0%	0.0%
SCSC	N	51	51	51	51	51	51	51	51	51	51	51
	% of Total N	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%	10.8%
N=51	Sum	2	34	1	1	15	3	3	6	1	0	0
	% of Total Sum	3.6%	10.3%	7.1%	8.3%	6.7%	9.1%	9.7%	9.0%	1.5%	0.0%	0.0%
Ex-clients	N	72	72	72	72	72	72	72	72	72	72	72
	% of Total N	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%	15.3%
N=72	Sum	36	51	2	0	33	10	5	4	34	0	2
	% of Total Sum	64.3%	15.4%	14.3%	0.0%	14.7%	30.3%	16.1%	6.0%	50.0%	0.0%	14.3%
Non-client	N	28	28	28	28	28	28	28	28	28	28	28
	% of Total N	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%
N=28	Sum	15	18	3	0	15	0	2	2	3	0	1
	% of Total Sum	26.8%	5.4%	21.4%	0.0%	6.7%	0.0%	6.5%	3.0%	4.4%	0.0%	7.1%
Total	N	471	471	471	471	471	471	471	471	471	471	471
	% of Total N	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Sum	56	331	14	12	225	33	31	67	68	3	33
N=471	% of Total Sum	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
% of sum from total sum (873)		**6.4%**	**38.0%**	**1.6%**	**1.4%**	**25.8%**	**3.9%**	**3.6%**	**7.8%**	**7.9%**	**0.4%**	**3.9%**

Source: Data from fieldwork, 2014

Furthermore, it can be shown from Table 5.31 that the total respondents who replied 'better awareness/experiences' on microcredit services as a reason for a household's decision to accept microcredit was 20.8%; from ex-clients it was (15.4%) and for non-clients (5.4%). This indicated that both ex-clients and non-clients were also appreciating the importance of appropriate awareness and experience with microcredit services. Therefore, creating proper awareness and sharing experiences of successful microcredit entrepreneurs could contribute as a pull factor to change the perception of ex-clients and non-clients and encourage them to join microcredit services.

Moreover, from Table 5.31 it can be deduced that the total respondents who replied 'no alternative' as a reason for a household's decision to take microcredit was 78.6% from clients followed by ex-clients (14.7%), and non-clients (6.7%). In addition, 62% of DECSI clients replied 'no alternative' as a reason for households' decisions to take microcredit.

What are the factors for a household's decision to take microcredit? This was also discussed during the FGDs and KIIs. All FDGs replied similarly: "We and other poor households don't have our own capital to initiate IGA and manage our lives. We are not eligible for credit in any government and private banks, including the moneylenders. Thus, the only option we have was not only to go for microcredit but also we were forced to go to very limited MCIs". On the other hand, the KIIs replied similarly but differently: "All households take microcredit not only as a better choice but as the best choice that could change their lives". However, the important issues remain. What have MCIs done and what are they doing with the poorest that are intrusted to them?

From the above survey finding it can be concluded that the poorest respondents obviously decided to take microcredit in order to fill the gap of their unmet financial demand, which was a decision made under financial stress or constraints. This could force them to make decisions and prefer the better rather than the worst option: 'no alternative'. Who should determine and qualify the factors that influence the household's decision to take microcredit - 'better alternative' or 'best alternative'? Should the households determine this or should the MCI experts and officials? The

researcher argues that the choice and participation of the poor households in microcredit should really make a difference in the lives of the poor households and the poor households themselves without internal and external pressure should justify this decision.

As shown in Table 5.31, 3.9% of the respondents' perceptions on factors that affect the decision of households to take a loan was 'repayment of another loan' and the majority of them were from DECSI. This research finding is similar with what this study discussed on Table 5.23 and Figure 5.9. Therefore, the researcher suggests that the purpose of a loan, multiple loan engagement, and a decision for a microcredit loan of each household should be managed and monitored professionally. The reason is that the economic situations of the poor households is diversified and vulnerable; it cannot be managed by a 'one type fits fall' microcredit modality.

It can be concluded from the Table 5.31 research results that the pull factors that affect a household's decisions to request credit varied. Therefore, evaluating the factors that affect a household's decision to request credit is very important; this is true not only to know why some households join credit while others not but also to identify what factors affect the decision of each household to request credit. This understanding enables MCIs to handle the selection criteria of clients properly in line with the objectives of the microcredit project.

5.3.4.2 Why do households decide to exit or reject microcredit?

Hulme et al. (1999:38) defined a voluntary exit as an exit that occurs when a client decides to rest, to transfer to another lending institutions or to completely withdraw from the microfinance services; a forced exit takes place when a client is pushed out by the staff of microfinance institution or by fellow group members. The drawback of this approach is that, in practice, it is difficult to specify which exit is the actual one, as voluntary and forced exits often coincide.

Table 5.32 shows that the highest percentage factor that affects households' decisions to exit was insecurity/phobia (40.3%) followed by a group problem

(15.8%), high interest rates (15.3%), over enforcement (6.5%), delay of disbursement (5.6%), other reasons (5.3%), don't need loan (4.0%), repayment failure (2.9%), no time for meeting (2.0%), short grace period (1.0%), repayment frequency (0.8%), and forced savings (0.5%).

Why some households drop out and reject microcredit services was also seriously discussed during the FDGs. All FDGs similarly said, "we realized that all poor households are interested to take and continue microcredit. However, a significant number of households were afraid to continue or participate because of the experiences of other households or themselves who failed repayment and lost their property for repayment. Those who dropped out were not all bad borrowers. Some of them failed because of inadequate profit from the loan IGA (market failure, high interest rate etc.). They were forced to exit safely (handling their repayment) and look at other options such as working with what they have, wage employment, urban migration etc. There was no recovery mechanism for those who failed that encouraged them to continue or participate in microcredit services."

This same question was discussed with the KIIs. Most of the KIIs said, "we observed that most of the drop out clients were bad performers in terms of repayment and this was mainly due to mal-management/utilization of the loan money while other good clients were continuing with very good repayment performances". Some of the KIIs considered other objective reasons for some households to drop out. They said, "we realized that some households were forced to drop out due to market failure and other objective personal problems (health problem, family size pressure etc.)."

Furthermore, the researcher observed from the key informant interview discussions that questions on reasons why some clients drop out while others continue was responded to by citing to high repayment rates, generally achieved by microcredit organizations; this was cited as a measure of their success. However, much less attention has been devoted to the fact that microcredit recipients often drop out of the program upon successful repayment (safely exit). Thus, the researcher suggests that key questions be addressed by the MCIs. Why do some clients drop out while others continue? What type of preventive and recovery mechanism should be

designed for credit failures? What type of entry and exit interviews of clients should be in place? These issues should be professionally addressed and managed.

Generally, the researcher also observed from the household interview that the respondents explained 'insecurity/phobia' as a combined result of different but related feelings. These included inadequate profit from the loan (market failure and high interest rates etc.), chronic repayment failure that caused excessive enforcement and loss of property, absence of preventive and recovery mechanisms for potential and actual credit failures. Therefore, it can be concluded that 'insecurity/phobia', the highest push factor that affects households to exit, is related with inadequate profit from loans, mainly caused by a high loan interest rate charged.

Moreover, it can be shown from Table 5.32 that the total respondents (122 sum) who replied 'high loan interest rates' as a reason for a household's decision to drop out and reject microcredit represented 28.7% from DECSI followed by 25.4% from ex-clients, 24.6% from ERCS, 16.4% from LMFI, 5.7% from non-clients, 0.8% from AMFISC, and 0.0% from SCSC. This indicates that the level of sensitivity and experience (direct or indirect) on loan interest rates varied among the sampled respondents (clients, ex-clients and non-clients). The above-mentioned perception of the respondents on 'high loan interest rate' does not necessarily reflect the situation of the MCI they were personally engaged with. All sampled MCIs were charging different loan interest rates and following different monitoring and enforcement mechanisms for repayment failures.

From Table 5.32, it can also be shown that dropout/exit is a common concern of all respondents, which will continue as a result of different factors. Consequently, it is very important to monitor the dropout phenomenon not only to convince the exit clients to re-join and attract the non-clients but more importantly to retain the existing clients and attract others. Thus, all regulated and unregulated microcredit providers should design separate client retention and exit strategy guidelines that fit with their specific institutional objectives and strategies.

Table 5.32: Why do households decide to drop out or reject microcredit?

MFI		Variables											
		Delay of credit payment	Problem with peer groups	No time for meetings	Don't need Credit	High Interest rate	Forced saving	Repayment frequency	Short grace period	Over enforcement	Insecurity/ Phobia	Repayment Failure	Other reasons
LMFI N=50	N	42	42	42	42	42	42	42	42	42	42	42	42
	% of Total N	10.3%	10.3%	10.3%	10.4%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%	10.3%
	Sum	1	8	7	3	20	0	2	0	2	35	3	3
	% of Total Sum	2.2%	6.3%	43.8%	9.4%	16.4%	0.0%	33.3%	0.0%	3.8%	10.9%	13.0%	7.1%
DECSI N=163	N	151	151	151	150	151	151	151	151	151	151	151	151
	% of Total N	37.1%	37.1%	37.1%	37.0%	37.1%	37.1%	37.1%	37.1%	37.1%	37.1%	37.1%	37.1%
	Sum	4	61	0	4	35	0	0	0	13	142	9	4
	% of Total Sum	8.9%	48.4%	0.0%	12.5%	28.7%	0.0%	0.0%	0.0%	25.0%	44.2%	39.1%	9.5%
AMFISC N=46	N	41	41	41	41	41	41	41	41	41	41	41	41
	% of Total N	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%	10.1%
	Sum	4	8	0	7	1	0	0	0	3	35	3	7
	% of Total Sum	8.9%	6.3%	0.0%	21.9%	0.8%	0.0%	0.0%	0.0%	5.8%	10.9%	13.0%	16.7%
ERCS N=61	N	56	56	56	55	56	56	56	56	56	56	56	56
	% of Total N	13.8%	13.8%	13.8%	13.6%	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%	13.8%
	Sum	4	22	9	5	30	4	4	8	7	22	3	0
	% of Total Sum	8.9%	17.5%	56.2%	15.6%	24.6%	100.0%	66.7%	100.0%	13.5%	6.9%	13.0%	0.0%
SCSC N=51	N	29	29	29	29	29	29	29	29	29	29	29	29
	% of Total N	7.1%	7.1%	7.1%	7.2%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%	7.1%
	Sum	0	0	0	2	0	0	0	0	0	28	1	0
	% of Total Sum	0.0%	0.0%	0.0%	6.2%	0.0%	0.0%	0.0%	0.0%	0.0%	8.7%	4.3%	0.0%
Ex-clients N=72	N	65	65	65	65	65	65	65	65	65	65	65	65
	% of Total N	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%	16.0%
	Sum	29	20	0	4	31	0	0	0	20	42	2	18
	% of Total Sum	64.4%	15.9%	0.0%	12.5%	25.4%	0.0%	0.0%	0.0%	38.5%	13.1%	8.7%	42.9%
Non-client N=28	N	23	23	23	23	23	23	23	23	23	23	23	23
	% of Total N	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%	5.7%
	Sum	3	7	0	7	5	0	0	0	7	17	2	10
	% of Total Sum	6.7%	5.6%	0.0%	21.9%	4.1%	0.0%	0.0%	0.0%	13.5%	5.3%	8.7%	23.8%
Total N=471	N	407	407	407	405	407	407	407	407	407	407	407	407
	% of Total N	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	Sum	45	126	16	32	122	4	6	8	52	321	23	42
	% of Total Sum	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
% of sum from total sum (797)		5.6%	15.8%	2.0%	4.0%	15.3%	0.5%	0.8%	1.0%	6.5%	40.3%	2.9%	5.3%

Source: Data from fieldwork, 2014

Finally, the researcher noticed from the above survey results that regardless of the extent and manifestation, client dropout was a problem for all regulated and unregulated MCIs in general and the big MCI (DECSI) in particular. Even though, the number of client dropout from each sample microcredit was not clear and deemed 'confidential', the situation indicated that the problem was not addressed

professionally. The dynamic of the credit market and the need of the households (supply and demand) could influence the mobility of client's from-to. Actually, the interest of this study was not to evaluate the number of client dropouts but mainly to assess the factors the affect it: why and who are deciding to drop out? Addressing this enables MCIs to design preventive and recovery mechanisms that could help both the respondents and sampled MCIs to think and manage client dropout differently.

5.3.4.3 Effects of microcredit on the wellbeing of client households

This section deals with the impact of microcredit on the wellbeing of clients and factors that affect it.

a) Perceptions of client respondents on livelihood before and after loans

Table 5.33 shows that clients perceived that, as a result of getting loans, their livelihood was improved: slightly (76.3%), remarkably (12.7%), don't know (9.4%), and no change (1.6%). In addition, with regard to the type of improvement, Table 5.33 revealed that client respondents perceived improvement as a result of getting a loan as quality of meals (27.7%), household income (25.5%), livestock purchase (14.8%), household assets building (13.6%), job opportunity (10.6%), children's school participation (6.8%), and the household health situation (0.6%).

From the survey results of table 5.33, it can be observed that microcredit improved the client household's livelihood significantly on consumption smoothing, which is a result of income generated by the micro loan activities they were engaged in. Therefore, consumption smoothing was the main impact of microcredit for client households. It appears that they were forced to spend more of the income generated from the microloan activities for consumption than re-investing for their future; this was the result of inadequate profits from the microloan IGA, assumed to cover loan repayment, consumption, and investing on business expansion. This is in line with what Sen A. (1999:47) mentioned in section 2.6-e.

Table 5.33: Perception of client respondents on livelihood before and after loan

Comparison of life before and after loan * Cross tabulation								
Variables			Name of MFI					Total
			LMFI	DECSI	AMFISC	ERCS	SCSC	
Comparison of life before and after loan	Remarkably improved	Count	7	23	9	4	4	47
		% of Total	1.9%	6.2%	2.4%	1.1%	1.1%	12.7%
	Slightly improved	Count	42	126	36	38	41	283
		% of Total	11.3%	34.0%	9.7%	10.2%	11.1%	76.3%
	No change	Count	0	0	1	5	0	6
		% of Total	0.0%	0.0%	0.3%	1.3%	0.0%	1.6%
	I don't know	Count	1	14	0	14	6	35
		% of Total	0.3%	3.8%	0.0%	3.8%	1.6%	9.4%
Total		Count	50	163	46	61	51	371
		% of Total	13.5%	43.9%	12.4%	16.4%	13.7%	100.0%
Type of livelihood Improvement	Quality of meals improved	Count	41	101	23	14	18	197
		% of Total	5.8%	14.2%	3.2%	19.7%	2.5%	27.7%
	House assets improved	Count	14	39	16	22	6	97
		% of Total	2.0%	5.5%	2.3%	3.1%	0.8%	13.6%
	Increased HH income	Count	35	98	28	18	2	181
		% of Total	4.9%	13.8%	3.9%	2.5%	0.3%	25.5%
	Job opportunity improved	Count	14	29	16	11	5	75
		% of Total	2.0%	4.1%	2.3%	1.6%	0.7%	10.6%
	Improved children school participation	Count	6	4	16	10	12	48
		% of Total	0.8%	0.6%	2.3%	1.4%	1.7%	6.8%
	Health situation of HH improved	Count	1	0	3	0	0	4
		% of Total	0.1%	0.0%	0.4%	0.0%	0.0%	0.6%
	Livestock purchased	Count	1	45	5	22	32	105
		% of Total	0.1%	6.3%	0.7%	3.1%	4.5%	14.8%
	New house built	Count	0	1	1	0	0	2
		% of Total	0.0%	0.1%	0.1%	0.0%	0.0%	0.3%
	Land bought for construction	Count	1	0	0	0	0	1
		% of Total	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%
	Other improvements	Count	0	0	1	0	0	1
		% of Total	0.0%	0.0%	0.1%	0.0%	0.0%	0.1%
Total		Count	113	317	109	97	75	711
		% of Total	15.9%	44.6%	15.3%	13.6%	10.5%	100.0%

Source: Data from fieldwork, 2014

During the household interview, the researcher realized that ‘slight improvement’ on ‘quality of meals improvement’ of the client households was comparing current with their previous inferior types of meal consumption, which is mainly quantitative. Furthermore, the researcher observed from the survey results and household interviews that those who replied ‘slightly improved’ were not only from the poor client respondents but also from the relatively ‘better-off’ client respondents as well. This showed that the slight improvement in income reported for the poor respondents may not be in absolute terms; the marginal benefits may be much higher in comparison to their non-poor counterparts. Thus, this should not be considered as the best way of evaluating the income of the poor from the microloan IGA.

The researcher suggests that the economic improvement of the poor from the micro loan IGA should be evaluated based on the concrete benefit or objectives of the loan project to the poor rather than the marginal economic benefit as compared to the 'non-poor' client respondents; the small economic benefit from the micro loan IGA can impact the 'poor' and 'non-poor' clients differently.

Moreover, during the household interview, the researcher tried to clarify why some client respondents replied 'do not know' and 'no change' as the result of getting a loan based on their livelihood. Most of them reflect that they could not differentiate an improvement in their livelihood after their microcredit participation.

The perception of client respondents on their livelihoods with and without microcredit engagement was also discussed during the FGDs. There were different perceptions. Some of the FGDs members said, "Our life might be worse than we are now. Our children might discontinue schooling and join street children. A micro loan was the only option for our lives". Other members of FGDs said, "we might engage ourselves in different IGAs or manage with what we had. But we don't know what would have been be our fate. It might have been better or worse." It can be observed from the FGDs perceptions that some of the borrowers' lives was better now than without microcredit while other respondents' lives cannot be managed without microcredit. Therefore, identification of the dependency rate of borrowers matters to design client's protection that reduce the costs and increase the benefits of the most vulnerable borrowers.

Furthermore, from the above survey results it can be concluded that the quantitative and qualitative impact of microcredit on the livelihood of the respondents varied because of different subjective and objective factors. These factors included poverty level, vulnerability, diversification of income, market situation, access to credit, family size, and cost of loan that include loan interest rate. These variables could potentially affect the impact of microcredit on the livelihood of the poor. Consequently, the researcher suggests that microcredit service providers should focus on specific segments of the community (gender, area, age, capable disability etc.), following appropriate modalities that fit with the specific segment, rather than trying to address all segments of the community insufficiently. This encourages

MCIs to complement each other for the best interest of both borrowers and lenders and could potentially render unfair competition irrelevant.

b) Client's reasons for no improvement and possible solutions

Table 5.34 shows that the major reasons for no improvement in the livelihoods of the households included inflation (31.3%), price of food and non-food items (28.1%), market problems (23.3%), high loan interest rates (18.8%), health problems (6.3%), and large family size (3.1%).

According to the Central Statistics Agency of Ethiopia, the inflation rate in Ethiopia was recorded at 5.9 per cent in November of 2014. The inflation rate measures a broad rise or fall in prices that consumers pay for standard basic goods. As can be shown in Table 5.34, inflation was the major factor that negatively contributed to the client households' livelihoods, which can aggravate other economic areas (interest rates, market problems etc.) and social factors (family size, health problems etc.). Thus, this study observed that the poor borrowers were more vulnerable for inflation than other borrowers; this was true not only in handling their microloan IGA effectively and efficiently but also to satisfy their basic consumption (food, health, nutrition, education etc.).

It can be deduced from Table 5.34 that the client respondent's opinion for the solution of poor improvement of their livelihood was looking for lower loan interest rates (32.5%) followed by 'continuing credit and manage it differently', 'working with what they have' and 'don't know' (22. 5% each), and 'drop out from credit' (0.0%). It can be concluded from these survey results that solution driven is one of the pull factors for microcredit for households.

In addition, Table 5.34 shows that 17.5% of opinions of 'looking for lower interest rate' were from DECSI respondents followed by 7.5% (LMFI and AMFISC each). From this survey results, it can be concluded that none of the client households preferred to exit from microcredit as a solution for their poor livelihoods improvement. This was in line with the survey findings discussed in Table 5.31 'no alternative'.

Table 5.34: Clients reasons for no improvement and possible solutions

Reasons for no improvement and possible solutions * Cross tabulation								
Variables			Name of MCIs					Total
			LMFI	DECSI	AMFISC	ERCS	SCSC	
Major reasons for no improvement	Health problem	Count	0	0	0	2	0	2
		% of Total	0.0%	0.0%	0.0%	6.3%	0.0%	6.3%
	Family size	Count	1	0	0	0	0	1
		% of Total	3.1%	0.0%	0.0%	0.0%	0.0%	3.1%
	Interest rate	Count	0	5	1	0	0	6
		% of Total	0.0%	15.6%	3.1%	0.0%	0.0%	18.8%
	Inflation	Count	1	2	2	2	3	10
		% of Total	3.1%	6.3%	6.3%	6.3%	9.4%	31.3%
	Market problem	Count	0	0	1	3	0	4
		% of Total	0.0%	0.0%	2.9%	8.6%	0.0%	23.3%
	Price of food & Non-food items	Count	2	1	3	2	1	9
		% of Total	6.3%	3.1%	9.4%	6.3%	3.1%	28.1%
Total		Count	4	8	7	9	4	32
		% of Total	12.5%	25.0%	21.9%	28.1%	12.5%	100%
Possible solutions	Drop out from credit	Count	0	0	0	0	0	0
		% of Total	0.0%	0.00%	0.0%	0.0%	0.0%	0.0%
	Continuing credit & manage differently	Count	2	0	1	4	2	9
		% of Total	5.0%	0.0%	2.5%	10.0%	5.0%	22.5%
	looking for less interest rate	Count	3	7	3	0	0	13
		% of Total	7.5%	17.5%	7.5%	0.0%	0.0%	32.5%
	Working with what I have	Count	0	3	1	2	3	9
		% of Total	0.0%	7.5%	2.5%	5.0%	7.5%	22.5%
	I don't know	Count	0	1	2	4	2	9
		% of Total	0.0%	2.5%	5.0%	10.0%	5.0%	22.5%
Total		Count	5	11	7	10	7	40
		% of Total	12.5%	27.5%	17.5%	25.0%	17.5%	100.0%

Source: Data from fieldwork, 2014

It can be shown from Table 5.34 that loan interest rate was the major concern (15.6%) of DECSI respondents. This indicates that loan interest rate charged by DECSI was not affordable by some clients of DECSI.

As it can be observed from the above survey results and analysis that due to the heterogeneous nature of the client households, the effects of microcredit on a client's livelihood varied; the reasons for, and possible solutions, also varied accordingly, which was a function of interrelated variables. The important issue is to appreciate the effect of each variable on another. All variables were highly interrelated each other.

Finally, the above survey results and analysis encouraged the conclusion that it seems to be very difficult to expect the inclusive and sustained satisfaction of poor borrowers on both consumption and investing in sustainable productive businesses

from small loans with higher loan interest rates; this is aggravated by vulnerability related to various economic and social phenomenon. Therefore, in order to address this controversy and adapt to the heterogeneous nature of the poor sector of the community, microcredit services should be revisited in a flexible, innovative, and community led/based modality.

c) Livelihood situation of ex-clients before and after drop out

This subsection deals with the perception of ex-clients (before and after dropping out) and non-clients (no microcredit participation) on respondents' livelihood, comparing this with the perception of client respondents presented in Table 5.33 and Table 5.34.

It can be deduced from Table 5.35 that ex-client and non-client respondents perceived that their livelihood was improved; slightly (20.8% and 50%), no change (44.4% and 33.3%), remarkably (1.4% and 5.6%), slightly worse and much worse (0.0% each) respectively.

In addition, with regard to the type of improvement, Table 5.35 also depicts that ex-client and non-client respondents perceived an improvement on quality of meals (48.0% and 50.0%), household income (40.0% and 39.0%), and household asset and health improved (4.0% and 5.6%) respectively.

From table 5.35 research results, it can be observed that the livelihood improvement of ex-clients and non-clients was mainly around consumption smoothing, similar to the clients' livelihood improvement discussed in Table 5.33. These research results indicate that there was no significant difference in the livelihoods of the majority clients, ex-clients, and non-clients. Thus, the majority of the clients, ex-clients, and non-clients IGA return was mainly for 'hand to mouth' and/or for 'survival' economic efforts that forced them to remain in poverty.

Table 5.35: Livelihood situation of ex-client and non-client respondents

Comparison of ex-clients and non-clients livelihood * Cross tabulation							
Variables							
Respondents		Remarkably improved	Slightly s improved	No change	Slightly Worst	Much more worst	Total
Ex-clients	Count	1	15	24	29	3	72
	% of Total	1.4%	20.8%	33.3%	40.3%	4.2%	100.0%
Non-clients	Count	1	9	8	0	0	18
	% of Total	5.6%	50.0%	44.4%	0.0%	0.0%	100%
Types of livelihood improvement							
Respondents		Quality of meals improved	Increased household Income	Household assets improved	Children school participation	Health situation of HH improved	Total
Ex-clients	Count	12	10	1	1	1	25
	% of Total	48.0%	40.0%	4.0%	4.0%	4.0%	100.0%
Non-clients	Count	9	7	1	0	1	18
	% of Total	50.0%	39.0%	5.6%	0.0%	5.6%	100.0%
Reasons for remarkable and slight improvement							
Respondents		Working with what I have	Support of friends and relatives	Formal employment	Safety net	Labour sale	Total
Ex-clients	Count	13	1	1	3	1	19
	% of Total	68.4%	5.3%	5.3%	15.9%	5.3%	100%
Non-clients	Count	5	0	0	4	2	11
	% of Total	45.4%	0.0%	0.0%	36.4%	18.2%	100%
Reasons for no improvement (No change, slightly worse, and much more worse)							
Respondents		Lack of fair credit access	Family size	Repayment of last loan	Inflation	Market problem	Total
Ex-clients	Count	24	7	6	26	9	72
	% of Total	33.3%	9.7%	8.3%	36.1%	12.5%	100%
Non-clients	Count	6	2	0	7	4	19
	% of Total	31.6%	10.5%	0.0%	36.8%	21.1%	100%
Possible solutions for no improvement (No change, slightly worse, and much more worse)							
Respondents		To join microcredit	To look for lower interest rate MCI	To work with what I have	Family or friend support	Do not know	Total
Ex-clients	Count	26	36	5	4	1	72
	% of Total	36.1%	50.5%	6.9%	5.6%	1.4%	100%
Non-clients	Count	7	9	0	3	0	19
	% of Total	36.8%	47.4%	0.0%	15.8%	0.0%	100%

Source: Data from fieldwork, 2014

Furthermore, Table 5.35 shows that major reasons for remarkable or slight improvement on the livelihoods of the ex-client and non-client respondents included working with what they have (68.4% and 45.4%) followed by safety net (15.9% and 36.4%), and labour sales (5.3% and 18.2%) respectively. These research findings indicate that ex-clients and non-clients have alternatives other than microcredit services to manage their livelihoods.

As can be also observed from Table 5.35, the contribution of the safety net on the livelihoods of the non-client respondents was high; that encouraged them to spend more of their time on this than the clients.

Also, it is clear from Table 5.35 that the major reasons for the 'no livelihood improvement' of ex-client and non-client respondents was inflation (36.1% and 36.8%), lack of fair credit access (33.3% and 31.6%), market problems (12.5% and

21.1%), family size (9.7% and 10.5%), and repayment of last loan (8.3% and 0.0%) respectively. Firstly, It can be observed from these survey results that inflation, market problems, fair credit access (cost of the loan and others), and family size were the factors that commonly affected the livelihood of both clients, ex-clients, and non-clients. Secondly, repayment of the last loan was a post dropout problem of some ex-client respondents that created a chain of problems with micro loans. Thirdly, all mentioned factors that affect livelihoods were highly related with the economic capacity and level of vulnerability of the respondent households; this was similar to the reasons mentioned above by the clients for 'no improvement in their livelihoods'. Therefore, in order to manage MCIs effectively and efficiently, designing a loan modality that fits with the poverty situation of borrowers is crucial, which is one of the main objectives of all pro-poor MCIs.

It can also be shown from Table 5.35 that the major view of ex-client and non-client households for the solutions of their poor livelihood improvement was to look for lower interest rate MCIs (50.5% and 47.4%), to join microcredit (36.1% and 36.8%), and to work with what they have (6.9% and 0.0%) respectively. From the above survey results it can be concluded that both ex-clients (those with direct experience of microcredit) and non-clients (indirect experience of microcredit) were sensitive to the loan interest rate charged; this is similar to the view of client respondents discussed in Table 5.34 above.

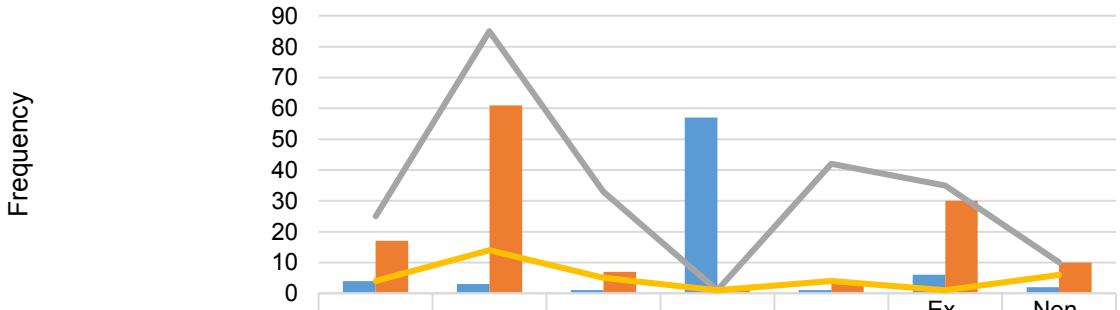
Finally, it can be concluded from the above survey results that it was not only the ex-clients and non-clients that were interested in micro loans; client respondents were not interested in dropping out of the micro loan they had. The microloan was one of the preferred means for the majority of respondents for security of livelihood; due to various reasons, the demand of both clients and non-clients for micro loans was not satisfied by the sampled microcredit providers. Therefore, the microcredit modality in general and the affordability of the loan interest rate in particular, should be re-designed in a way that satisfies the needs of poor borrowers. The above survey findings and conclusion is in line with what Fazle H.A. (2000: 8-13) points out in section 2.9.1.

5.3.4.4 Perception of household on loan interest rates

This section addresses the perceptions of client, ex-client and non-client respondents on loan interest rates charged by the sampled microcredit providers.

a) Evaluation on loan interest rates charged

It can be calculated from Figure 5.10 that 50.1%, 24.5%, 17.8%, and 7.5% of client respondents evaluate the loan interest rates charged as high, reasonable/affordable, low, and 'I don't know' respectively. Similarly, 45.0%, 40.0%, 8.0%, and 7.0% of ex-client and non-client respondents evaluate the loan interest rates charged as high, reasonable/affordable, low, and 'I don't know' respectively. This indicated that a significant number of client and non-client respondents were sensitive to interest rate charged as 'high price sensitivity'. This is in line with what Dehejia R., Montgomery H., and Jonathan M. (2005:5) cited in section 2:10.



	LMFI	DECSI	AMFISC	ERCS	SCSC	Ex-clients	Non-clients
Low rate	4	3	1	57	1	6	2
reasonable/affordable	17	61	7	2	4	30	10
High rate	25	85	33	1	42	35	10
I don't know	4	14	5	1	4	1	6

Figure 5.10: Perception of respondents on loan interest rates charged
Source: Data from fieldwork, 2014

Furthermore, it can also be calculated from Figure 5.10 that 29.9%, 11.3%, 8.9%, 6.7%, and 0.5% of those who said the loan interest rate charged was high were clients from DECSI, SCSC, AMFISC, LMFI, and ERCS respectively. Figure 5.10 also revealed that 35.0% of ex-clients and 10.0% of non-clients evaluate the loan interest rate charged as high. From this survey result, it can be observed that the

majority of DECSI clients were not comfortable with the amount of loan interest rates charged. The researcher suggests that DECSI should work on how to align the loan interest rate with the poor. This in line with what Letanaha E. (2009:11) said about Ethiopian MFIs in section 1.3.

Moreover, it can also be calculated from Figure 5.10 that 16.4% of DECSI's clients were among those who said that the loan interest rate was reasonable/affordable. This indicated that not only the borrowers of different MCIs but also the borrowers of the same MCI were not a homogeneous group; that is why their micro loan needs and support varied. This is in line with what Martin I., and Hulme D. (2002:273-275) stated in section 2.9.6.

The perception and evaluation of respondents on loan interest rate charged was also discussed during the FGDs. Similarly, different opinions were reflected. The majority of the FDG participants said, "even though the amount of the loan interest rate we are charged was good compared with the amount of individual money lenders, it was high and beyond our economic capacity to afford it". A small number of FGD participants said, "the amount of loan interest rate charged was fair; rather, our main problem is market failure and inflation".

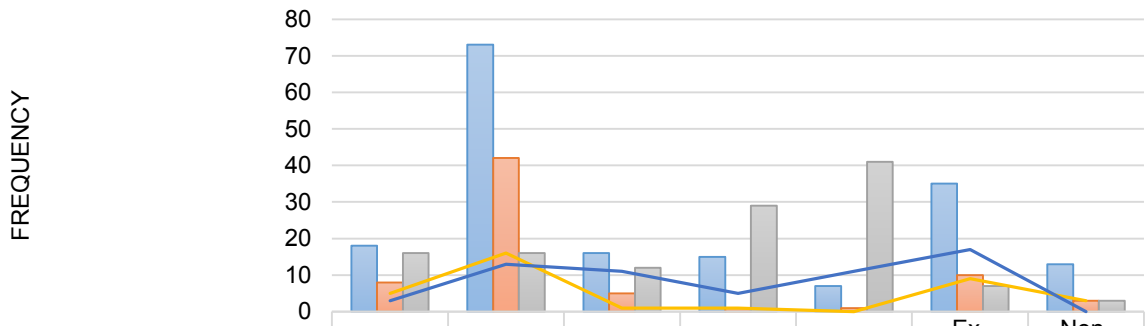
Hence, in order to address the heterogeneous economic situation of the poor borrowers' microcredit modalities in general, and loan interest rate in particular, different levels of support should be designed that include subsidies. This is also in line with what Martin I., and Hulme D. (2002:273-275) said in section 2.9.6.

b) Impact of loan interest rates on households

From Figure 5.11, it can be calculated that client responses on the impact of loan interest rates were as follows: little net profit (34.8%), reduces further demand for credit (30.7%), repayment problems (15.4%), affects wellbeing (11.6%) and increases indebtedness (6.7%). Similarly, the responses of ex-clients on the effects of loan interest rates was as follows: little net profit (48.0%), affects wellbeing (17.0%) repayment problems (13.0%), increases indebtedness (12.0%), reduces further demand for credit (10.0%). From the above results it can be observed that

‘little net profit’ was noted as the highest impact of loan interest rates for both clients and non-clients. Even though all variables of high loan interest rate effects are highly interrelated, it can be concluded that ‘little net profit’ from the loan IGAs was not only the main reason for other effects of high loan interest rates but also the common concern of clients, ex-clients and non-clients.

Furthermore, it can be observed from the above survey results that repayment was the common problem for both clients and non-client respondents, which can discourage the client’s further credit requests, encourage the ex-clients drop out decision, and discourage both ex-clients and non-clients to join microcredit services.



	LMFI	DECSI	AMFISC	SCSC	ERCS	Ex-clients	Non-clients
Little net profit	18	73	16	15	7	35	13
repayment problem	8	42	5	1	1	10	3
Reduce demand	16	16	12	29	41	7	3
Increase indebtedness	5	16	1	1	0	9	3
Affect well-being	3	13	11	5	11	17	0

Figure 5.11: Impact of loan interest rates on households
Source: Data from fieldwork, 2014

Perceptions of the impact of the loan interest rate were also discussed during the FGDs. The opinion of respondents who perceived the loan interest rate as high said, “we were forced to pay our loan not only from our very little net profit but also while our income was at a loss, which affects our future and livelihood as well”. Thus, the effect of the loan interest rate on the poor borrowers was serious; it affected not only the objective of the micro loan IGAs but also the livelihoods of the poor households. Therefore, the loan interest rate should be evaluated and designed from the poor borrowers’ perspectives.

From the above results it can be concluded that interest rates charged erode the amount of profit that the borrowers are expected to gain. Consequences of a low profit from the loan include repayment problems, reduced demand and increased indebtedness, affecting the wellbeing of the borrowers. Thus, the study observed that the effect of high loan interest rates is multi-dimensional. This is in line with what Claire M. (2013:1-3) talks about in section 2.10.2.

From the above findings, it is also possible to conclude that the interest rate is one of the main reasons for the lower profit or income of the poor from the loan project. When clients are unable to increase their income from the loan, they obviously not only default on their loans, falling into a debt trap, thus reducing demand, but also are unable to invest in their savings accounts. It is difficult to isolate 'little net profit' of the borrowers from the micro loan project with other variables. Therefore, the amount of income that the poor borrowers gain from the loan project matters for the success of both borrowers and lenders success. This is in line with what Waterfield (2011, no page number) stated in section 2.8.

'Indebtedness' and 'repayments' are highly related. Hence, repayments do not necessarily treat Indebtedness. The researcher grasped that some borrowers repay one micro loan by taking another micro loan from another microcredit service. Thus, they have multiple loans and the repayment of the previous loan is managed not from the return of the loan but from another loan source; this exacerbates the over-indebtedness of the borrowers. Thus, the researcher suggests that repayment levels should not always be considered as the best indicator for good microcredit performance. The source of repayment and the enforcement mechanisms used should be seriously addressed. It can be concluded that an unhealthy repayment source is equivalent to an unhealthy microcredit performance that negatively affects both the borrowers and the lenders.

Finally, it was revealed through the in-depth discussion with the focal group discussions and the researcher recognized that although the interest on loans is one of the major factors for the financial burden of microcredit users, it was not necessarily the only contributing factor to borrowers being unable to make repayments on time.

c) Perception on amount of saving interest rate paid

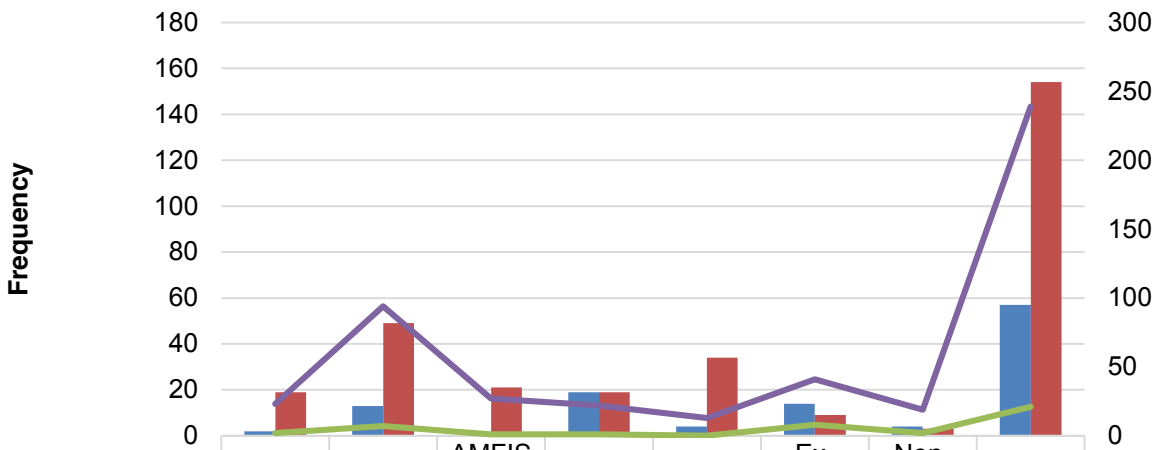
As discussed in Table 5.29, one of the reasons the respondents gave for not being able to save was a low saving interest rate gained compared with the amount of loan interest rate charged. This indicated that some of the respondents were not only aware of the loan interest rates charged, but also aware of the saving interest rate gained. Thus, in order to encourage and mobilize savings, 'fair loan interest rates' enable users to scale up their loan IGAs and receive a fair profit from the loan project, creating more savings for more and continuous investments.

Even though loan interest rates and fair profit from the loan IGA was not the only determinant variable for saving decisions of the poor households, it would be unfair to encourage the poor to save without a fair saving interest rate, which is 'saving for change'.

5.3.4.5 Household income trends of the last year

It can be calculated from Figure 5.12 that 48.2%, 38.3%, 10.5%, and 3% of client households' income trend over the last year was fluctuating, increasing, stable, and decreasing respectively. 60.0%, 18.0%, 12.0%, and 10.0% of the non-client households' income trend of the last year was fluctuating, stable, increasing, and decreasing respectively. It can be observed from the findings of this survey that the main pattern of income trends for both client and non-client households was 'fluctuating', which indicated that not only the business they were engaged in was 'fragile' but also their source of income was unstable and insecure. This demands special attention and professional support.

During the household interviews, the researcher observed that the increasing income pattern of most respondents was not an absolute term; rather it was on relative term. They expressed as 'having something' better than 'nothing'. The researcher also learned that assessing the pattern of the microcredit income of households was important not only to evaluate the income flow but also to assess the vulnerability of means of income of the respondents.



	LMFI	DECSI	AMFISC	ERCS	SCSC	Ex-clients	Non-client	Total
Stable	2	13	1	19	4	14	4	57
Increasing	19	49	21	19	34	9	3	154
Decreasing	2	7	1	1	0	8	2	21
Fluctuating	23	94	27	22	13	41	19	239

Figure: 5.12: Households' income trends of the last year
Source: Data from fieldwork, 2014

In addition, the researcher noticed that the fluctuating nature of income of the household matters; this impact influences the income flow of the households, affects the economic benefit of the borrowers and the possibility to secure a loan repayment without compromising the future of the poor households.

5.3.4.6 Income comparison of clients and ex-clients/non-clients

This section addresses the perception of clients and non-clients on the economic impact of microcredit.'

a) Ex-clients and non-clients' perception on client's income

Figure 5.13 reveals that the perception of non-clients on client's income as a result of their participation in microcredit as 'they don't know' (48%), client's income slightly improved (37%), no difference (8%), client's income highly improved (5%), and client's income highly worsened (2%).

From these survey findings, it can be observed that 48 percept of the non-clients were not in a position to assess the impact of a micro loan on a client's income.

During the HHs interviews, the researcher tried to discuss this issue with some respondents. Their response was that they were not aware of or motivated by the participation of the clients. This could negatively affect the pull factor for joining non-clients to microcredit possibilities; a good perception of non-clients over the benefits of clients from their participation could have a positive impact on their future participation. Therefore, microcredit institutions should be aware of and assess the influence of their clients not only on non-clients but also on clients of other microcredit institutions.

As shown in Figure 5.13 the non-clients' perception on client's income as a result of their microcredit participation was that 'client's income was slightly improved' (37%). As to why client's income was slightly improved, the perception of non-clients was that this was due to a client's self-employment, a positive perception that could enhance the pull factor for attracting non-clients. Therefore, good microcredit performance and benefit from loan IGAs serves not only to retain clients but also to pull others towards microcredit services.

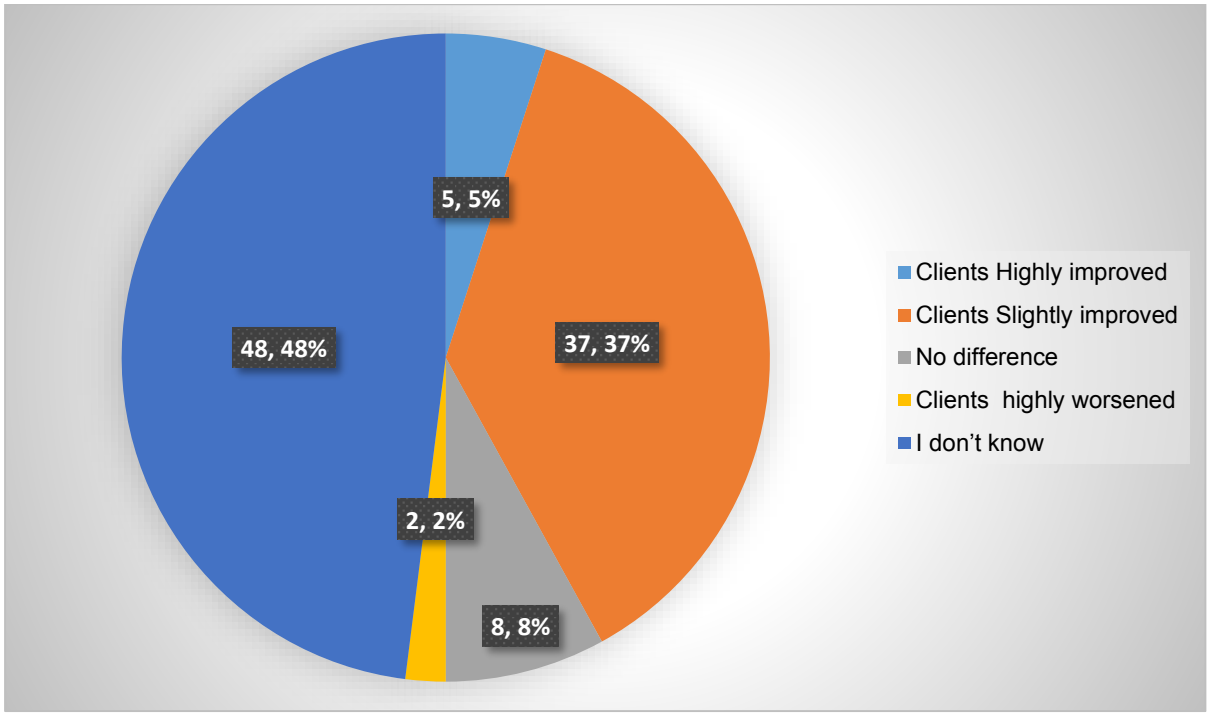


Figure 5.13: Perception of non-clients on client's income
Source: Data from fieldwork, 2014

The researcher observed, both during the household interview and from the research results above, that the opinions of the non-clients on the income of the clients as a result of their participation in microcredit were not, as such, strong. Their comparison was based more on quantitative measures than on qualitative ones. Generally, this indicated that the perceptions of non-client respondents on the client's economic impact of microcredit did not lead to an eager sense of appreciation that might pull them to apply for microcredit themselves. Therefore, the performance of clients can serve as both push and pull factors of microcredit engagement for non-clients.

b) Clients perceptions of ex-clients' and non-clients' income

Figure 5.14 shows that the perception of clients on non-clients' income as a result of not participating in microcredit was 'they don't know' (48.9%), slightly worsened (23.4%), highly worsened (19.9%), no difference (3.2%), slightly improved (3.0%), and highly improved (1.6%).

Therefore, the study observed from the above research results that majority of the client respondents could not assess the economic impact of the non-clients as a result of not participating in microcredit as compared with their own membership. This was not a matter of culture or any social norms or values; rather this may indicate that they could not properly compare the comparative advantages of their own microcredit participation with their peers and visa-versa. Thus, microcredit institutions should be aware of and assess how their clients perceive their participation compared not only with non-clients but also with clients of other microcredit providers through a 'clients' satisfaction monitoring system', which is not yet applied by any sampled MCIs.

Form Figure 5.14, it can also be seen that 23.4 per cent and 19.9 per cent of client respondents perceived that the incomes of non-clients were affected negatively as a result of not participating in microcredit. During the household interview, some of the clients were asked about why non-clients' income was affected negatively; their opinion was mainly associated with a lack of self-employment of the non-clients' households that would enable them to generate more income.

The other important issue discussed with some respondents during the household interview was why some of the non-clients' income was improved without participating in microcredit while other non-clients were affected negatively. Their response was, "those households who improved their income without participating in microcredit were those who have better initial start-up capital, diversified household income sources, living in their own house, and who committed themselves to manage their lives without a micro loan".

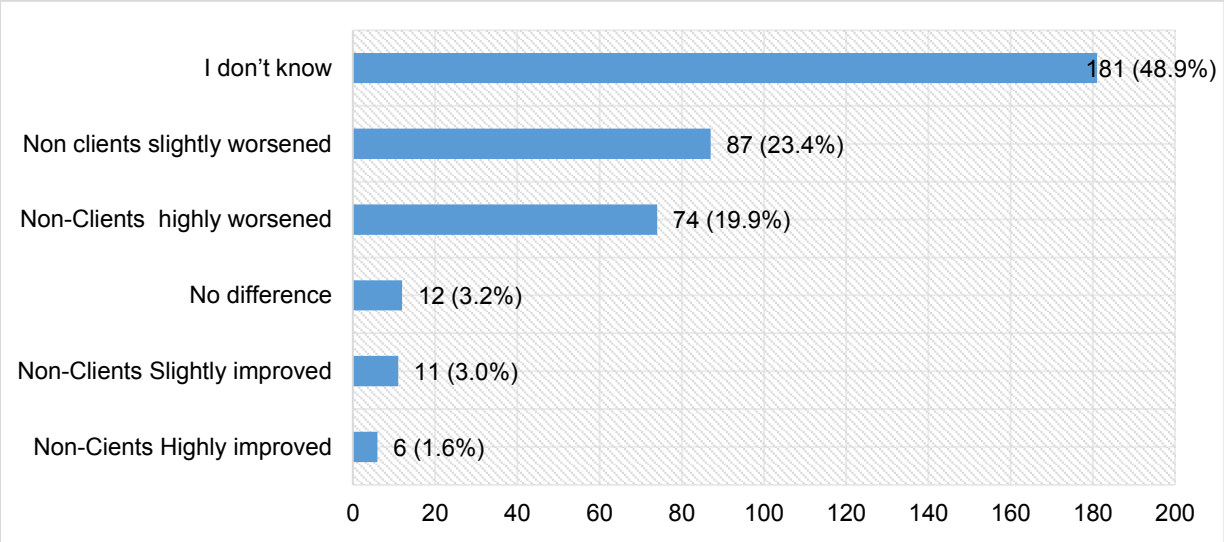


Figure 5.14: Perception of clients on ex-clients' and non-clients' income
Source: Data from fieldwork, 2014

Therefore, it can be concluded from the above research results that even though pro-poor microcredit was very important for the poor, it is difficult to conclude that the livelihoods of the poor entirely depend on microcredit. Due to various reasons, there are some poor households who are managing their livelihood economies without microcredit. Thus, the opportunity cost for the poor of engagement in microcredit should be understood and carefully considered.

5.3.4.7 Future intention to join a microcredit service (non-clients)

This subsection addresses the perception of ex-clients and non-clients regarding their interest and intention to join microcredit services, and reasons for their decisions.

It can be calculated from Figure 5.15 that 91% of ex-clients and non-clients expressed their intention to join microcredit services. However, the preference of ex-clients was not necessarily to re-join their previous microcredit institutions. The good news was that their discontinuation from microcredit was not final. The researcher confidently concludes that ex-clients and non-clients may join microcredit service provided that their 'interest' is satisfied through alternative preferences of microcredit modalities including a fair loan interest rate.

Moreover, it can also be calculated from Figure 5.15 that the preference of microcredit institutions of ex-clients and non-clients was ERCS (61.5%), any with low loan interest rate (29.7%), SCSC (4.4%), DECSI (3.3%), and AMFISC (1.1%). Additionally, it can also be calculated from Figure 5.15 that the reasons for their preference of the microcredit institution was because of low loan interest rate (43%), close follow-up, fair enforcement (23% each), individual base loan (5.2%), large amount of loan (3.7%), simple procedures (2%), and a grace period (1.5%) respectively.

It can be concluded from the above research results that a low interest rate is one of the major factors that may encourage non-clients to join MCIs. Thus, a low interest rate is a pull factor; a high loan interest rate is a push factor.

a. Ex- clients' and non-clients' intention to join microcredit

It can also be concluded from figure 5.15 survey results that the major factor influencing the preference of ex-clients and non-clients regarding joining microcredit services was the amount of loan interest rate charged. Therefore, the major problem of the poor households is not only access to credit but also the amount of a loan interest rate.

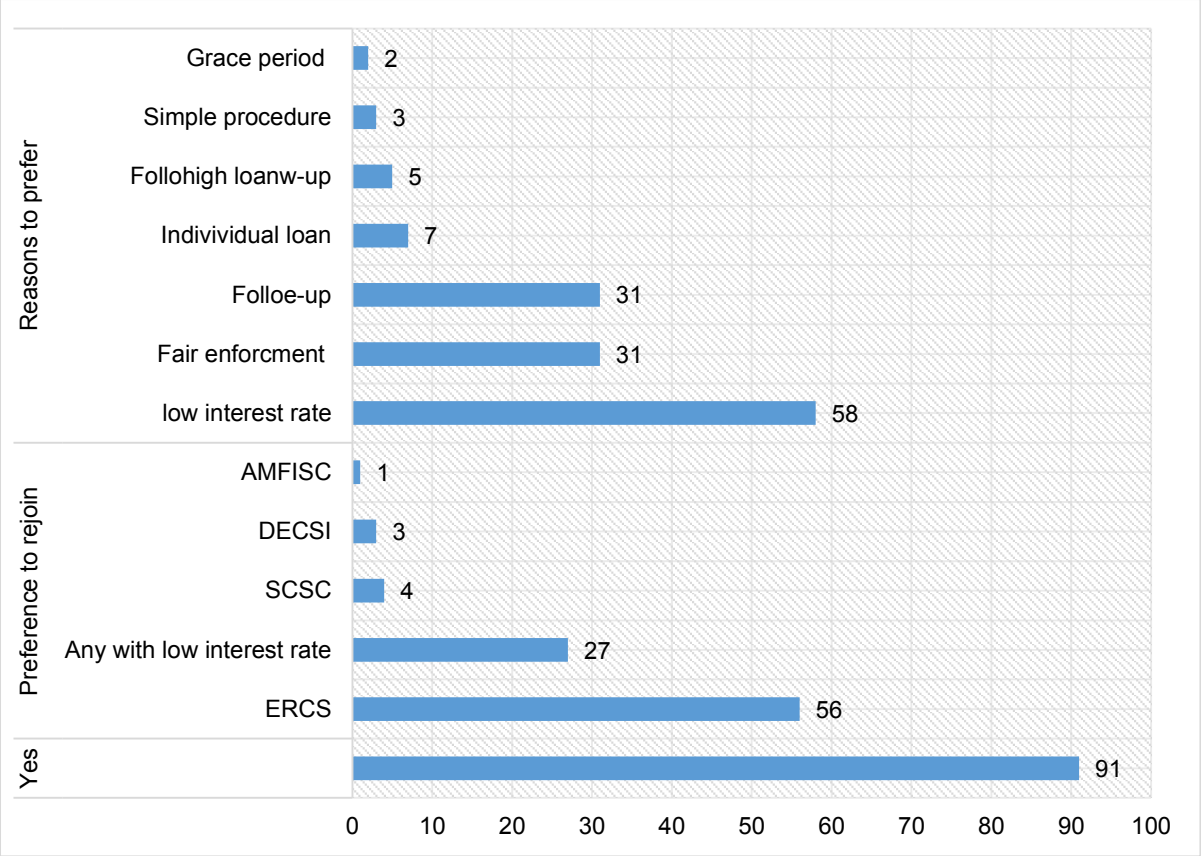


Figure 5.15 Intention to join and preference of microcredit service
Source: Data from fieldwork, 2014

b. Ex-clients' and non-clients' reasons for not joining microcredit

From Figure 5:16 it can be calculated that 9 % of the total ex-client and non-client respondents decided not to join any microcredit services in the near future. Furthermore, It can also be calculated from Figure 5.16 below that the factors that affected their decision for not joining was 'afraid to take a loan' (44.4%), being biased and looking at other sources (22.2% each), and no need (11.1% each).

The highest percentage reason for not joining was 'afraid to take loan'. This was discussed with some respondents and their response was, insecure of its economic benefit and enforcement'. This is in line with the decision of respondents to drop out discussed above. Regardless of the number of respondents, the insecurity/phobia of respondents on some microcredit services should be managed fairly.

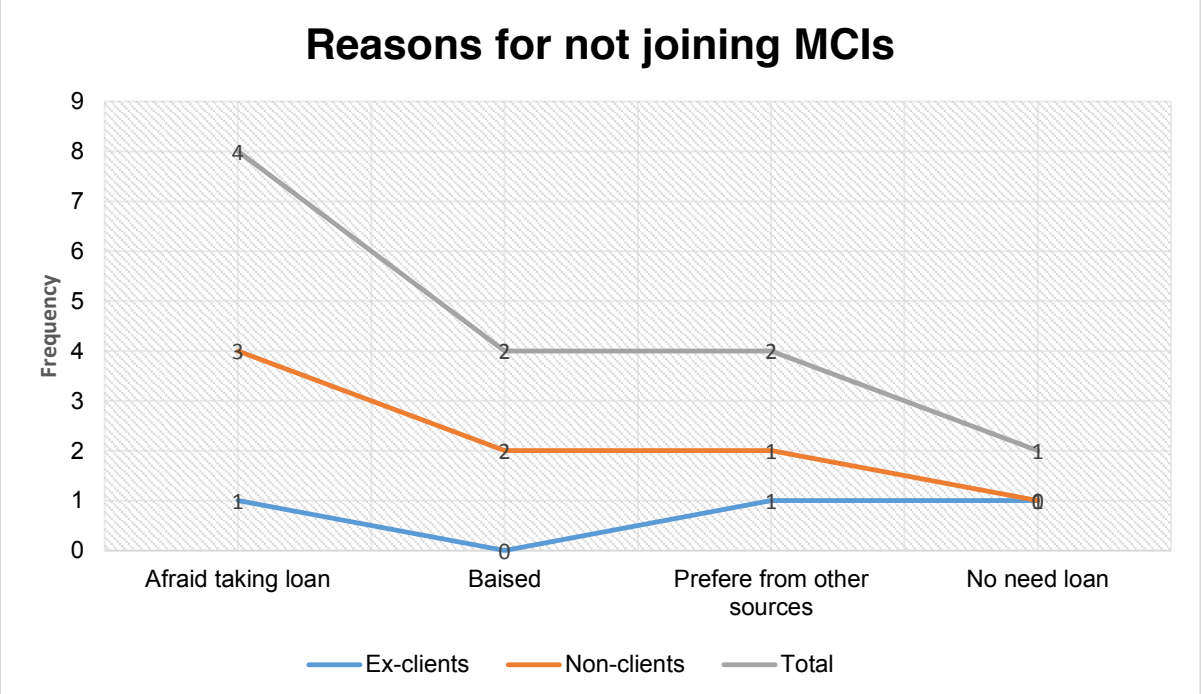


Figure 5.16: Reasons for no intention to join microcredit service
Source: Data from fieldwork, 2014

5.3.4.8 What do households like most about microcredit service?

This subsection addresses the perception of clients and non-clients on what they like most about MCIs.

Table 5.36 shows that the major reasons for a client's positive attitude toward MCIs include 'being better than money lenders' (23.3%), simple procedure (15.9%), low loan interest rates (15.4%), individual based loan (10.8%), loan disbursement (10.7%), support of credit officers (8.3%), accessibility (7.8%) and getting alternative credit services (5.2%).

Moreover, Table 5.36 depicts that 'better than money lenders', group based loan, and field officers support (24.9% each), lower interest rate (11.2%), simple procedures (6.2%), and getting alternative MCIs (4.2%) were the major reasons for non-clients' positive attitudes towards MCIs.

It can be calculated from the data in Table 5.36 that 56.7 per cent of respondents' perceptions of what they like most about microcredit services cited the lower interest

rates charged by LMFI, AMFISC, SCSC, and ERCS; 60.7 per cent of DECSI respondents noted that the loan interest rate charged by DECSI needs improvement.

Furthermore, this issue was also discussed during FGDs of both clients and non-clients and they said, 'MCIs are by far better than individual moneylenders and banks. This is because of the high interest rates of moneylenders and inaccessibility of banks for the poor. Both are serving the better-offs".

From the above survey finding, the researcher grasps that the comparison of moneylenders, banks and MCIs was based on 'better than worst' option that invades the social objective of MCIs. Therefore, the comparison of the respondents was not correct, because these lenders have different objectives and platforms. The researcher suggests that the comparison of MCIs, banks, and moneylenders should be evaluated against their objectives. This is in line with what Meyer R.L (2002:2-5) mentioned in section 2.7.

Table 5.36: What households like most about microcredit service

Most like about microcredit *Cross tabulation															
Variables															
Respondents		High loan amount	Lower interest rate	Simple procedure	Loan disbursement	Group based loan	Individual based loan	Accessibility	Compulsory savings	Voluntary savings	Alternative credit services	Field officers support	Better than money lenders	Others (only option)	Total
Clients															
LMFI N=50	Count	0	12	24	9	0	16	16	0	0	11	9	22	4	123
	% of Total	0.0%	1.5%	3.0%	1.1%	0.0%	2.0%	2.0%	0.0%	0.0%	1.3%	1.1%	2.7%	0.5%	30.6%
DECSI N=163	Count	115	7	34	26	4	22	24	1	0	18	19	139	2	296
	% of Total	0.0%	0.9%	4.2%	3.2%	0.5%	2.7%	3.0%	0.1%	0.0%	2.2%	2.3%	17.1%	0.2%	36.5%
AMFISC N=46	Count	1	20	5	11	3	4	8	0	1	7	5	19	2	86
	% of Total	0.1%	2.5%	0.6%	1.3%	0.4%	0.5%	1.0%	0.0%	0.1%	0.9%	0.6%	2.3%	0.2%	10.6%
ERCS N=61	Count	0	59	32	17	0	28	6	1	1	0	33	0	0	177
	% of Total	0.0%	7.3%	3.9%	2.1%	0.0%	3.4%	0.7%	0.1%	0.1%	0.0%	4.1%	0.0%	0.0%	21.8%
SCSC N=51	Count	0	27	34	24	0	18	9	0	2	6	1	9	0	130
	% of Total	0.0%	3.3%	4.2%	3.0%	0.0%	2.2%	1.1%	0.0%	0.2%	0.7%	0.1%	1.1%	0.0%	16.0%
Total N=371	Count	1	125	129	87	7	88	63	2	4	42	67	189	8	812
	% of Total	0.1%	15.4%	15.9%	10.7%	0.9%	10.8%	7.8%	0.2%	0.5%	5.2%	8.3%	23.3%	1.0%	100.0%
Non-clients															
Ex-clients N=72	Count	0	38	24	0	72	0	3	0	2	12	72	72	1	296
	% of Total	0.0%	9.4%	6.0%	0.0%	17.9%	0.0%	0.7%	0.0%	0.5%	3.0%	17.9%	17.9%	0.2%	73.6%
Non-client N=28	Count	3	7	1	0	28	0	2	0	2	5	28	28	2	106
	% of Total	0.7%	1.7%	0.2%	0.0%	7.0%	0.0%	0.5%	0.0%	0.5%	1.2%	7.0%	7.0%	0.5%	26.4%
Total N=100	Count	3	45	25	0	100	0	5	0	4	17	100	100	3	402
	% of Total	0.7%	11.2%	6.2%	0.0%	24.9%	0.0%	1.2%	0.0%	1.0%	4.2%	24.9%	24.9%	0.7%	100.0%
Client and non-clients															
Total N=471	Count	4	170	154	87	107	88	68	2	8	59	167	289	11	1214
	% of Total	0.3%	14.0%	12.7%	7.2%	8.8%	7.2%	5.6%	0.2%	0.7%	4.9%	13.8%	23.8%	0.9%	100.0%

Source: Data from fieldwork, 2014

As it can be shown in Table 5.36 that 26.6 per cent of the respondents (15.4% clients and 11.2% non-clients) said a lower interest rate was what they most liked about microcredit service and referred to the lower loan interest rate charged by ERCS, LMFI, AMFISC, and SCSC, the appropriate comparison that helped reinforce their comments; further, they insisted that DECSI to revise and improve its microcredit market modality to benefit both DECSI and its borrowers.

The study observed from the above research findings that all poor households seek microcredit services to fill the gap of their resource limitations, resources not available to invest on areas that make a difference in their livelihoods. However, the factors affecting their interest on microcredit noticeably varied. This was mainly because of the heterogeneous nature of the 'poor' households. Thus, understanding what exactly the poor households need matters in managing microcredit for the benefit of the borrowers in general and poor borrowers in particular.

5.3.4.9 What improvements do households need in microcredit services?

This subsection deals with the reflection of client and non-client respondents on what improvement they need in MCIs.

Table 5:37 shows that the perception/suggestion of the client respondents on how they microcredit services to improve and includes the amount of loan (22.6%), loan interest rates (21.1%), loan term loan (15.2%), individual base loan (8.4%), fair saving interest rate, (7.9%), grace period (7.2%), loan procedure (6.1%), field officers' support (3.7%), appropriate enforcement (2.4%), addressing the very poor (0.9%), and compulsory savings (0.4%).

Furthermore, it can be deduced from Table 5.37 that the perception of non-clients on what improvements they would like to see in microcredit services included amount of loan (24.0%), loan interest rates (22.1%), appropriate enforcement (17.0%), addressing the very poor (12.9%), loan term loan (6.4%), field officers support (5.5%), grace period (5.1%), individual base loan (4.1%), loan procedure (2.3%), compulsory savings (0.5%), and fair saving interest rate, (0.0%).

Table 5.37: What kinds of improvements do households need in microcredit service?

Needs improvement * Cross tabulation													
Respondents		Variables											Total
		Loan interest rate	Loan procedure	Amount of loan	Long term loan	Grace period	Field officer support	Compulsory savings	Individual loan	Appropriate enforcement	Fair saving interest rate	Addressing Very poor	
Client													
LMFI N=50	Count	24	6	27	47	6	2	0	5	0	13	0	130
	% of Total	3.6%	0.9%	4.0%	7.0%	0.9%	0.3%	0.0%	0.7%	0.0%	1.9%	0.0%	19.4%
DECSI N=163	Count	99	16	68	15	8	5	1	30	11	40	1	294
	% of Total	14.8%	2.4%	10.2%	2.2%	1.2%	0.7%	0.1%	4.5%	1.6%	6.0%	0.1%	43.9%
AMFISC N=46	Count	11	10	17	6	7	7	0	15	1	0	4	78
	% of Total	1.6%	1.5%	2.5%	0.9%	1.0%	1.0%	0.0%	2.2%	0.1%	0.0%	0.6%	11.7%
ERCS N=61	Count	2	5	33	30	24	3	2	4	3	0	1	107
	% of Total	0.3%	0.7%	4.9%	4.5%	3.6%	0.4%	0.3%	0.6%	0.4%	0.0%	0.1%	16.0%
SCSC N=51	Count	5	4	33	4	3	8	0	2	1	0	0	60
	% of Total	0.8%	0.6%	4.9%	0.6%	0.4%	1.2%	0.0%	0.3%	0.1%	0.0%	0.0%	9.0%
Total N=371	Count	141	41	178	102	48	25	3	56	16	53	6	669
	% of Total	21.1%	6.1%	22.6%	15.2%	7.2%	3.7%	0.4%	8.4%	2.4%	7.9%	0.9%	100.0%
Non-clients													
Ex-clients N=72	Count	31	4	43	8	7	8	0	7	23	0	26	157
	% of Total	14.3%	1.8%	19.8%	3.9%	3.2%	3.9%	0.0%	3.2%	10.6%	0.0%	12.0%	72.3%
Non-client N=28	Count	17	1	9	6	4	4	1	2	14	0	2	60
	% of Total	7.8%	0.5%	4.1%	2.8%	1.8%	1.8%	0.5%	0.9%	6.4%	0.0%	0.9%	27.7%
Total N=100	Count	48	5	52	14	11	12	1	9	37	0	28	217
	% of Total	22.1%	2.3%	24.0%	6.4%	5.1%	%5.5	0.5%	4.1%	17.0%	0.0%	12.9%	100.0%
Client, and non-clients													
Total N=471	Count	189	46	230	116	59	37	4	65	53	53	34	886
	% of Total	21.3%	5.2%	26.0%	13.1%	6.7%	4.2%	0.4%	7.3%	6.0%	6.0%	3.8%	100.0%

Source: Own field data collection and analysis, 2014

From the above data it can be observed that both clients and non-clients need the most improvements on the amount of a loan followed by a change in the loan interest. The reflections of the clients and non-clients were very similar on those issues. The major difference appeared regarding the third major need, which was the loan term for clients; the third major issue for non-clients was the enforcement. This indicated that there were more phobias around MCIs in non-clients than among the clients. This could be a matter of past experiences and perceptions on this regard.

Another interesting point from the above survey findings was the reflection of the clients and non-clients on improvement of 'addressing the very poor'. The researcher tried to discuss this issue with some of the non-clients' respondents. Their response was, 'the very poor sector of the community is still marginalized from microcredit and this was due to a lack of an appropriate credit modality that fits with their socio-economic situation'. This indicates that the respondents were concerned about the

very poor people who were eligible bur not yet addressed by MCIs. This opinion was in line with what Jonathan M., and Haley D. (2002:31) address in section 2.9.1.

Moreover, the opinion of the clients and non-clients on the improvement of addressing the very poor is also in line with one of the serious criticisms on microfinance services mentioned by Jonathan M. (1999:1569-1614) in section 2.11, and with what Latifee H.I. (2009:15-17) mentioned in section 2.12.

This study also observed that the respondents in general, and the poor respondents in particular, were aware and sensitive not only to loan interest rates charged but also to savings interest rates paid, including on forced savings. This aligns with the findings of Table 5.29 as discussed.

Finally, it can be observed from Table 5:37 that the complaint around the amount of loan and loan interest on the one side, and an insistence on addressing the very poor seems contradictory; to accomplish both is very difficult from an MCI. This is in line with what Nazrul I. (2009:15-17) said in section 2.11. These difficulties are a result of the heterogeneous status and diversified needs of the respondents that demand different types of microcredit methodologies.

5.4 Conclusion

The chapter helped to test the main research questions and to verify the empirical impact of microcredit loan interest rates on the access and benefit of the poor clients while executing the social objectives of microcredit providers in Tigray Regional State. The next chapter will summarize the findings, draws conclusions and offer policy recommendations and suggestions for future research.

CHAPTER SIX: SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

6.1 Introduction

The main objective of this study was not only to demonstrate the impact of the loan interest rate on the poor in the case of Tigray, Northern Ethiopia, but also to address and improve the negative effects of loan interest rates in a way that could potentially result in benefits for both borrowers and lenders of regulated and unregulated MCIs.

This research utilized a comprehensive and multi-dimensional approach to examine the impact of loan interest rates. The basis for the important contribution of this study is the enquiry of the impact of loan interest rate with respect to demand for credit, return on loan, loan repayment, savings, indebtedness, multiple loans, the graduation process, and the wellbeing of the poor.

After a careful analysis of data collected, key findings of the specific objectives of the study are chronologically presented. Following this, the study concludes on the major issues of the study and suggests potential recommendations and frameworks that could improve the performance of MCIs in general and the sampled MCIs in particular.

6.2 Key findings of this study

This section deals with major findings of key results (not all data) related to implementation and the impact of loan interest rates.

6.2.1 Targeting of the MCIs

Three of the MCIs (LMFI, AMFISC, and ERCS) were operating in an urban setting; one MCI (SCSC) operated in a rural setting while the other MCI (DECSI) was operating in both urban and rural settings. The dominant urban targeting of the microcredit providers not only limited the credit market access alternative (physical barrier) of the rural households but also affected their bargaining power. The area distribution of the MCIs was mainly due to the immediate objective of the MCIs, influenced by the financial capacity of the MCIs.

Female targeting of the MCIs was significantly varied while AMFISC entirely targeted females. The majority of ex-clients and non-clients were female (prone to dropout); improving their wellbeing was supposed to be one of the main objectives of MCIs.

6.2.2 Poverty status of the households

The majority of households (81%) were at and below the poverty line and the remaining were above the poverty line (19%). Additionally, the majority (60%) of the households have one income earner in their household; 77 per cent of the households' primary income was mainly dependent on mini-business activities, a relatively high risk and vulnerable means of income.

Sixty-seven per cent of the client and non-client households had faced shocks and stresses that were highly related to economic stress. Fresh loans from microcredit (30%) and borrowing from relatives/friends (22%) were the major coping mechanisms applied by the households. In addition, forty-two per cent of the total households' children faced school dropout. The reason for the educational failure was mainly associated with the economic situation of the households.

Income trends over the last year of the majority of clients (48%) and non-clients (60%) showed fluctuation. Thus, not only the business they were engaged in was 'fragile' but also their source of income was unstable and insecure.

6.2.3 Pull and push factors of microcredit

a. Pull factors of microcredit

Lower interest rates were the main pull factors of MCIs (except DECSI), attracting the majority of clients (42%) and non-clients (69%). Thus, a lower lending interest rate was the major pull factor of MCIs; a lower interest rate not only encourages clients to continue their participation; it also motivates non-clients to join microcredit.

On the other hand, high loan amounts were the main pull factor of DECSI for households who were looking for a high loan amount to expand their businesses. When DECSI could not provide them an adequate loan they were forced to get loans from moneylenders, with a higher interest rate. Therefore, not only the pull factor of

MCIs varied but also inaccessibility to a high loan amount by MCIs may serve as a pull factor for moneylenders.

Access to credit was a common pull factor for all MCIs, which enabled both clients and non-clients to engage with new or/and diversified income generating activities, 'promotional loans', to deal with their immediate consumptions and shocks. This is in line with what Weiss and Montgomery (2005:395-396) presented in section 2.9.6 while contradicting the opinion of Hulme D., and Mosley P. (1996:119-221) mentioned in section 2.6.

b. Push factors of microcredit

An inadequate net profit from a loan was the major push factor of MCIs for both clients (34.8%) and non-clients (48%); this forced DECSI's clients to shift from DECSI to other lower lending interest rate MCIs.

Insecurity/phobia (40%) and 'afraid to take loan' (40%) are highly associated feelings influencing ex-client and non-client households not to join microcredit. The other push factors were repayment failure and unfair enforcement.

Diverse households have different reasons not only when they decide to join and stay in microcredit schemes (pull factors) but also when they decide to decline the microcredit services (push factors). That is why factors that affect the households' preference of MCIs (pull factors) and reasons for dropout (push factor) varied. There were mainly associated with the diverse economic situations and different demands of the microcredit modality for households on the one hand and diverse microcredit modalities of the MCIs on the other hand.

6.2.4 Determination of lending interest rates by MCIs

The microcredit modality of DECSI was market based, which implies a higher loan amount with a higher loan interest rate. Other sample microcredit providers were subsidized based and offered a lower loan amount with a lower loan interest rate.

The market based lending interest rate of DECSI was high for the poorest sector of the community; this deters their engagement and return from loan IGAs, which in

turn affects the social objective of DECSI. This is in line with what Sunita P. (2003:9-12) said in section 2.10.1.

Most of the poor household's (42% of clients and 69% of non-clients) prefer smaller loan amounts with a lower interest rate (subsidized microcredit modality) while 80% of DECSI clients who were mostly from non-poor households preferred a higher loan amount with a higher loan interest rate (market based microcredit modality).

Loan interest rates are calculated based on whether a MCI is market or a subsidised microcredit modality. That is why not only the loan amount and loan interest rate of the MCIs varies but it also explains why the households' preference of microcredit providers varies.

6.2.5 Impact of loan interest rates on households

Little net profit from loans was the main negative spill over impact of loan interest rates that affect both client (35%) and non-client (48%) households. Even though all variables on the impact of loan interest rates are highly interrelated, little net profit from loan IGAs was the main cause for other impacts of the loan interest rates. This is because a lower net profit from a loan is an immediate effect of loan interest rate which discourages clients' further demand for credit, demotivates non-clients to join microcredit services, affects genuine repayment performance, increases indebtedness, discourages savings, increases forced multiple loans, aggravates dropout, and affects the well-being of households.

Without increasing the economic benefit from the microcredit loan of borrowers through a fair interest loan and other pro-poor microcredit modalities, it would be very difficult for the poorest households to manage and benefit from microcredit and to lift them up from poverty. Thus, an inadequate net profit from a loan is not only the main negative impact of a loan interest rate but it is also one of the determinant factors of the success of both borrowers and lenders.

Generally, the negative impact of a loan interest rate on poor households is not only in line with what Sen A. (1999:47) mentioned in section 2.6-e; Hulem D. and Mosley P. (1996:119-221) stated in section 2.9.1; and Stewart R, van Rooyen C, Dickson K, Majoro M, and de wet (2010:5) mentioned in section 2.10, but this study also proved

its diversified negative impact on the poorest households, which is the main objective of the study.

6.2.6 Household's lending interest rate sensitivity

The highest number of client (50%) and non-client (45%) households evaluates the loan interest rates charged as high. Thus, both clients and non-clients were sensitive to interest rates charged, 'high price sensitivity'. This is in line with what Dehejia R., Montgomery H., and Jonathan M. (2005:5) cited in section 2:10.

Furthermore, the highest numbers of DECSIs' (30%) clients were among the client households who believed that the loan interest rate charged was high. Thus, some of the DECSI clients were not comfortable with the amount of loan interest rates charged. This in line with what Letanaha E, (2009:11) said about Ethiopian MFIs in section 1.3.

Moreover, sixteen percent of DECSI's clients were among those who believed that the loan interest rate was reasonable/affordable. Therefore, not only the borrowers of different MCIs but also the clients of the same MCI were not a homogeneous group; their microloan needs and support varied. This is in line with what Martin T., and Hulme D. (2002:273-275) stated in section 2.9.6.

It is difficult to separate loan interest rate sensitivity and affordability from the economic status of the borrowers, which is associated with which households can adequately generate an economic return from the loan IGAs. This is in line with what Nimal A. (2006:2-7) mentioned in section 1.3 and also in line with what Martin I. and Hulem D. (2007: 273-275) mentioned in section 2.9.6.

Therefore, the major problem of the majority of clients' and non-clients' poor households was the amount of the loan interest rate charged. This is in line with what Gert M. (2004:17-75) expressed as the danger of MFIs sustainability in section 2.3.4 above but contradictory with what Subrata K.M (2009:87-88) mentioned in favour of a high interest rate in section 2.10. However, this study consistently proved

that the amount of loan charged, especially by DECSI, is neither affordable nor acceptable by the poor households, even by DECSI's clients.

6.2.7 Non-clients' access to informal financial markets

Borrowing from moneylenders was not an option. This was true for both clients and non-clients' poor households not only under a normal situation but also under economic shocks as a coping mechanism. Rather, it was applied by relatively better off households who can afford the extremely high loan interest rate charged by informal financial markets and absorb the consequences.

The informal financial market was restricted for poor households. That is why, microcredit is considered by both poor clients (79%) and non-clients (21%) as the only alternative for them. The crucial issue is what MCIs are doing with the poorest that are entrusted to MCIs.

6.2.8 Complementing mechanisms of MCIs

The main factors that affect households' selection of their MCIs was varied, which demands diverse microcredit modalities to address the diversified needs of households. This was highly associated with the economic situation of the households and different microcredit modalities applied by MCIs. There is no one microcredit modality that fits all.

Poor integration and complementary mechanisms of MCIs aggravate the problem of microcredit services. All MCIs were struggling to address the same sector of the poor community using different microcredit modalities, including the lending interest rate. Thus, credit officers of different MCIs were operating primarily to maintain and increase their client base.

Furthermore, monitoring mechanisms for multiple loans was poor; this was aggravated due to the unfair competition between MCIs rather than an attempt to complement each other. The demand of borrowers and the supply of lenders for multiple loans was a result of socially irresponsible competition among MCIs instead

of socially responsible complementary collaboration between them. This is in line with what Venkata N.A. and Veena Yamini A. (2010:1-2) mentioned.

6.2.9 Inclusive microcredit services of MCIs

The dominant urban settings of most sampled microcredit providers exclude the rural poor households from microcredit services (physical barrier/exclusion). Therefore, the area distribution of the microcredit providers was one of the limitations of inclusive microcredit services of MCIs. Additionally, the sex inclusion in microcredit services varied among MCIs.

Further, the highest number of ex-client and non-client respondents was female. This indicated that not only more female clients were vulnerable to dropout but also that a greater sector of the poor households were excluded from MCIs; this exclusion affects the primary objective of MCIs, that of serving households with low incomes. This is in line with what Fazel H.A. (2000:8-13) and Ameha W. (2010:33-35) stated in sections 2.9.1 and 1.6 respectively.

The high percentage of ex-clients with a short loan duration (64%) and low frequency of loan (91%) witnessed that their stability or duration was short and early. The early exit of clients is one of the ways to exclude the poorest households; this affects the potential inclusivity of microcredit services. This is in line with what Simanowitz A. and Walter A. (2002:40-41) said in section 2.9.3. Moreover, those clients who took repetitive loans, denying space for new entrants, create a monopolization of credit membership. Thus, an elite sector of the community exploits the existing scarce resource of credit programs that exclude the poor households; this also negatively affects the inclusive potential of microcredit service.

Another interesting point that both clients and non-clients strongly reflect is on their need for MCIs to improve on ‘addressing the very poor’. Therefore, the poorest who were eligible were not yet adequately addressed by MCIs; this affects the inclusivity of microcredit services. This opinion was in line with what Jonathan M. and Haley D. (2002:31) discuss in section 2.9.1. Furthermore, the opinion of the clients and non-

clients on exclusion of the poorest households is also in line with one of the serious criticisms on microfinance services mentioned by Jonathan M. (1999:1569-1614) in section 2.11 above, and with what Latifee H.I. (2009:15-17) mentioned in section 2.12.

Additionally, with the exception of DECSI, the sample MCIs predominantly target the poorest, lending a smaller amount with lower interest rate. Targeting the poorest sector of the community is highly dependent on the mission and objectives of the MCIs. This is in line with what Ledgerwood J. (1999:2-34) said in section 2.9.3, which this study also realized.

6.2.10 Ownership structure of MCIs

The ownership structure of DECSI was shared between associations and NGOs (75%), and regional government (25%). The distinct role of associations, NGOs, and regional government on influential pro-poor credit and saving modality is not visible.

AMFISC is owned and managed by the Women's Association of the Regional State of Tigray; a local rural community owns SCSC. Not only the clients of AMFISC and SCSC but also the community at large view their membership (saving or/and credit) as building up the equity of their respective institutions and as a result they expect better support individually and collectively. That is why voluntary savings in AMFISC and SCSC was mainly related with a sense of ownership and a strong institutional affiliation that emanates from the ownership structure and the objectives of the microcredit institutions.

ERCS microcredit service is donor funded and managed by the Ethiopian Red Cross Society, which is viewed by the community as a humanitarian group dedicated to the poor. This is one of the main challenges of donor funded NGOs microloans in general and ERCS in particular. It is one that could be a threat for the microcredit market in general and donor funded microloans in particular unless managed professionally.

The ownership structure of the MCIs is highly related with the funding sources of the MCIs; funding sources are associated with their level of either for-profit or socially

oriented objectives. DECSI's funding source depends predominantly on bank loans and deposits; others depend on donor's funds (ERCS) and deposits of their members and donor's funds (AMFISC, LMFI, and SCSC). This is in line with what Cull et al (2009:190-192) mentioned in section 2.10.4.

6.2.11 Implications of major key findings

The above-mentioned key findings of this study could contribute to improving the MCIs credit modality and serve the best interest of both borrowers and lenders in general and the poorest households in particular. Moreover, the major findings of this study contribute to the knowledge base around microcredit. This refers not only to the importance of complementing approaches between MCIs but also reinforces the fact that this complementarity leads to far more effective and efficient microcredit performances of borrowers and MCIs, making competition between MCIs irrelevant.

Furthermore, the major key findings showed the contribution of donor funded NGOs microloan to reaching the poorest sector of the community. This should encourage NGOs to integrate microloans with humanitarian and development commitments (introducing a new pro-poor field) and minimize the burden of regulated MCIs on reaching the poorest community.

There were conflicting opinions, not only among borrowers and MCI KIIs but also among KIIs of different MCIs, related to the impact of the loan interest rate. There was also some literature that undermines the impact of the loan interest rate. This study demonstrated that the debate on the impact of the loan interest rate continues and needs further study. Further, it underlines the possibility and importance of complementing rather than competing on the part of different microcredit modalities. This approach could benefit all types of microcredit modalities and borrowers.

6.3 Major conclusions

This section deals with summarizing the entire study and draws conclusions on the implementation and major impacts of loan interest rates.

6.3.1 Targeting and poverty status of households

Even though most of the households were poor, due to the dominant urban setting of the MCIs and vulnerability of females to dropping out, the MCIs actually exclude the rural households in general and rural females in particular, which are the poorest sector of the community. This goes directly against one of the main objectives of the MCIs to improve the wellbeing of the poorest households. Therefore, the poorest households need a pro-poor microcredit modality that develops special methodologies for reaching them through poverty-driven microcredit.

6.3.2 Factors that affect households receiving loans

A lower interest rate was the main pull factor of the LMFI, AMFISC, SCSC, and ERCS MCIs that attract most of the poorest clients and ex-clients to use of a microcredit loan. The very reason why the poorest households looked for a smaller loan with lower loan interest rate was that it enables them not only to generate a better economic benefit but also to manage microloan IGAs effectively and efficiently.

A high loan amount was a key pull factor for the DECSI MCI that attracted non-poor households. They can tolerate the higher loan interest rate of DECSI, in order to run and expand their small and medium enterprises. Therefore, factors that affect households' applications for loans varied. These variations are mainly related to the economic situation of the households.

Even though access to credit is a common factor that attracts all households, it meant many different things to those who applied or considered applying for a loan. Additionally, access to credit is a means not an end. The poorest households were not looking for just any microcredit service; they were exclusively looking for those MCIs with lower lending rates. Thus, the poorest households were more attracted to microcredit access plus lower interest rates services.

6.3.3 Factors that affect MCIs when granting loans

The factors that affect MCIs' decisions to grant a loan depend on the objective, mission, and institutional setting of the MCIs. The small MCIs focus on specific areas (rural or urban) and specific sectors of the community (female, youth, etc.). They primarily focus on the poorest households, the poverty driven factor, through small loans for petty-trade. The large MFIs, like DECSI, focus predominantly on the small enterprise owners, the non-poor, through high loan amounts, given primarily to support the economically active sector of the community.

The study identified that the more the MCIs institutional setting grows and develops, the more likely they are to draw away from the poverty driven loan factors and link with the commercially driven loan factors. This definitely affects the lending interest rate as it then mirrors the commercial loan interest rate.

6.3.4 Determination of lending interest rate of MCIs

The calculation of a loan interest rate was varied. It is either similar to the market rate (DECSI) or it is subsidised based (LMFI, AMFISC, SCSC, and ERCS). The market based loan interest rate determination was mainly used for profit and was associated with the capital structure of the MCIs. Thus, it was not pro-poor. The subsidized based rate was geared to social benefits in general, and the poorest in particular. Therefore, it was mainly a cost recovery modality. The determination of the interest rate of MCIs was highly associated with the school of thought (Welfarist or Institutionalist) on which the MCI was built.

Due to the financial structure and market based loan interest rate determination, the lending interest rate by DECSI was considerably higher than not only other MCIs but also those of government and private banks. The lending interest rate of DECSI was affordable for small enterprises owners who found it difficult to access loans from banks; it was not affordable for the poorest households who found it difficult to access loans from both DECSI and banks.

The study concludes that there is a trade-off between serving the poorest households and securing institutional financial sustainability based on the lending interest rate determination of MCIs. This challenges both the social responsibility of MCIs and the interest rate transparency of the MCIs. Furthermore, the study shows that there is a positive relationship between the determination of interest rates and

the social objectives of the MCIs. Socially oriented and responsible MCIs determine interest rates in favour of the poorest households and vice versa.

6.3.5 Impact of loan interest rate on the households

The study attested that the loan interest rate in general, and DECIS's loan interest rate in particular, erode the amount of profit that the borrowers expect to gain. This erosion of profit caused reduced demand, repayment problems, demotivated savings, aggravated dropouts, and increased indebtedness. It also jeopardized the graduation process of the poor and affected the wellbeing of the borrowers. Thus, the effect of loan interest rates was multi-dimensional; they affect the poorest of the poor and implicate the social responsibility of MCIs.

Furthermore, the study understood that the affordability of a lending interest rate should be evaluated based on the specific socio-economic context of households. That is why majority of households complained about the amount of lending interest rate while the minority non-poor households did not.

The lending interest rate sensitivity or response of households varied based on their economic status. However, the level of loan interest rate sensitivity from the poor was high because this affects all aspects of their lives. Loan interest rate sensitivity and other loan modalities are inseparable from the economic status of the borrowers. Therefore, the poorest households' problem is not only access to credit but access to credit with a lower loan interest rate. Access without a lower interest rate for the poorest of the poor is unworthy of the mission and objectives of MCIs.

6.3.6 Non-clients and informal financial services

Both Informal financial services and banks are inaccessible to the poorest non-client households. Microcredit is the only appropriate financial means for those poorest non-client households provided that the microcredit modality is pro-poor.

6.3.7 Complementing mechanisms of MCIs

Like any social school of thought, microcredit has also different schools of thought within it that seem to be opposing each other; however, upon closer examination

these schools of thought possess areas where they can complement each other for the best interest of both schools of thought. Therefore, complementarity of all microcredit providers and modalities is not only possible but necessary.

That said, there is no current effort, guideline or MoU between MCIs that enables them to complement and partner with each other. Addressing this issue is crucial as the disorganized interventions and socially irresponsible competition of MCIs ultimately contributes to the exclusion of the poorest of the poor.

Therefore, in order to address the diversified needs of the poorest households effectively and efficiently with scare resources, MCIs' coordination and complementing of MCIs is crucial; this collaboration makes competition irrelevant and enables MCIs to be more productive and socially responsible.

Thus, MCIs should design different microcredit modalities that can satisfy different sectors of the community and complement one another in common areas of social obligations for more effective and efficient microcredit performance.

6.3.8 Inclusive microcredit services

Area based marginalization of the rural poor, high female dropout, early dropout of clients, 'elite' repetitive loan access, not reaching the poorest households, and unfair competition demonstrates that there is a lack of MCIs' inclusive financial services implementation; additionally, the MCIs have failed to address the strategy that caused the exclusion of the extremely poor households, which forced them to remain under poverty. An inclusive microcredit service is very difficult without genuine socially responsible strategies and frameworks of MCIs.

6.3.9 Ownership structure of MCIs

Those MCIs owned by the community (AMFISC and SCSC) and NGO led (ERCS) build a community sense of ownership while DECSI does not possess this. The ownership structure of MCIs was associated with the capital structure of MCIs; this not only influences the extent of the pro-poor microcredit platform of the MCIs but also the community sense of ownership. Thus, DECSI's microcredit modality caused

by its ownership and capital structure had a relatively lower positive outcome on a pro-poor microcredit modality and a sense of community ownership.

6.4 Major recommendations

This section deals with major recommendations on policy issues, practical issues, and suggestions for further research related to the implementation and impact of loan interest rates.

6.4.1 Policy issues

a. Ownership of microcredit by the 'unbanked' poor

Basically, microcredit should not only lend to the poor but should also be managed by the poor. Thus, the ownership of microcredit matters; managing microcredit, including loan and saving interest rate settings for both the best interest of the poorest and the microcredit service, should be considered as a community and social strategy. Developing community led microcredit strategies matters more than competing for socially responsible microcredit services.

Savings from the poor clients and non-clients was one of the main financial sources of the sampled saving-led microcredit in general and DECSI, in particular. Therefore, the poor households were not only borrowers with a high cost (buying) but also lenders with low cost (selling with a low saving interest rate), which was determined by others.

In order to secure the ownership and management of microcredit by the poor, the regulation of microcredit funding sources should be revised including:

- Very small shareholder price that accommodate the poorest households
- Participation of the poorest as board members at all levels (regional, zonal, district) beyond their shareholding.
- Dividends for the poor shareholders.

- Eventual transformation to community led MCIs.
- Encouragement and support for the establishment of community led MCIs.

b. Revisiting the microcredit modalities

The poor are not homogeneous; their levels of poverty, capacity, and their needs are diverse, a factor that demands a different type of innovative and flexible microcredit interventions and treatments. Existing microcredit modalities could not meet all of the needs of the poorest of the poor. Some fundamental changes in policy, structure, and modalities are required to address approaches that match the diverse and special needs of the poor as they manage their households and loan IGAs.

Each microcredit model's (both regulated and unregulated) accessibility potentially make some difference, at least in the lives of the people they reach. However, microcredit should think differently beyond reaching the people (access to credit) that mat significantly change mainly the lives of the poorest of the people.

Therefore, the following changes are important to consider:

- Developing new service products and flexible loan modalities that meet the initial and shock/stress induced urgent financial needs of the poor clients.
- Creating linkages not only with the government but also with NGO (unregulated credit services) donor funded MCIs for self-revolving credit schemes and and community led microcredit schemes.
- Developing a pro-poor loan loss arrangement and management 'loan loss prevention mechanism' beyond the current MCI guarantee arrangements.

c. Revisiting the MFIs regulation

Revision of regulation is important not only because of the heterogeneous nature of the poor and the loan modality of the existing regulated microcredit services, but also because of the emergence of some NGOs like ERCS working on 'self-revolving credit schemes' that have showed that donor funded credit schemes are benefiting the extreme poor with lower loan cost without distorting the microcredit market.

These contribute not only to filling the gap created by the high loan interest rates of the regulated microcredit services but they also reduce the burden on regulated MCIs.

Thus, the existing MFIs regulation should be revised in a way that accommodates the donor funded credit schemes (unregulated) not only to integrate humanitarian activities with micro loans but also to complement the regulated microcredit market for more effective and efficient microcredit performance.

Furthermore, most of the non-private MCIs, including DECSI, was transformed into MCIs from charity and relief organizations. Currently, the minimum amount of capital required to start a MCI is two million Birr, which most donor funded NGOs can afford. The important issue is how to integrate not only with the humanitarian and development commitments of NGOs but also how to integrate with the regular MCIs in general and community led microloans like cooperatives in particular. This should be discussed and designed with an appropriate modality of NGO donor-funded micro loans, enabling them to utilize the huge donor funds of many NGOs for more sustainable pro-poor activities.

In order to serve the growing Ethiopian population in general and the growing micro loan demands of the 'unbanked' poor in particular, MCIs should examine how to expand their services by accommodating other actors, including NGO donor-funded micro loans. The accommodation of NGO microloans becomes more important when some MFIs are looking to transform into regular banks in an 'upward financial integration'. This may be the best alternative to maintain the primary objective of regular MCIs, as it will be more difficult for the transformed MCIs to serve both the poorest and maintain their regular bank services. Without this, the poorest households will be even more excluded from the regular MCIs.

When banks are looking at expanding their services downward, MCIs should look even more downward toward in-depth financial integration instead of visa versa. This will enable MFIs to serve more 'unbanked', the poorest sector of the community. Otherwise, MFIs will become victims of losing their own objectives.

Therefore, a significant amount of donor funds of NGOs should be integrated with the community led micro loan because donor funded NGOs' microcredit is a basis for community led microcredit. This could minimize the danger of the 'upward financial integration' of MFIs uprooting MFIs from their original pro-poor objective and finally negatively affecting the poorest sector of the community.

d. Aligning 'fair price' with 'fair profit'

The establishment of socially responsible community led microcredit services is crucial for balancing 'fair price' with 'fair profit' in a way that addresses the microcredit special needs of the poorest. During the setting of the loan interest rate (loan cost), not only the profit but also the risk should be fairly distributed between among the lenders and borrowers. Therefore, the 'cost' and 'profit' distribution among the lenders and the 'poor' borrowers should be 'less cost' but 'more profit' for the poorest, which can be covered through economy of scale and a mechanism for subsidy. This is important because while microcredit is not a charity, it is also not a moneymaking scheme to gain a profit from the poorest; rather it is socially oriented strategy.

Aligning a 'fair price' with a 'fair profit' modality is one approach that may help the poorest and could also serve as one of the best alternatives for unfair competition among MCIs.

e. Develop graduation 'from-to' strategy

The importance and good performance of microcredit aims to encourage poor households to graduate positively and build their financial capacity with consistent good repayment performance, expansion of loan IGAs and eventual graduation out of the MCIs and poverty.

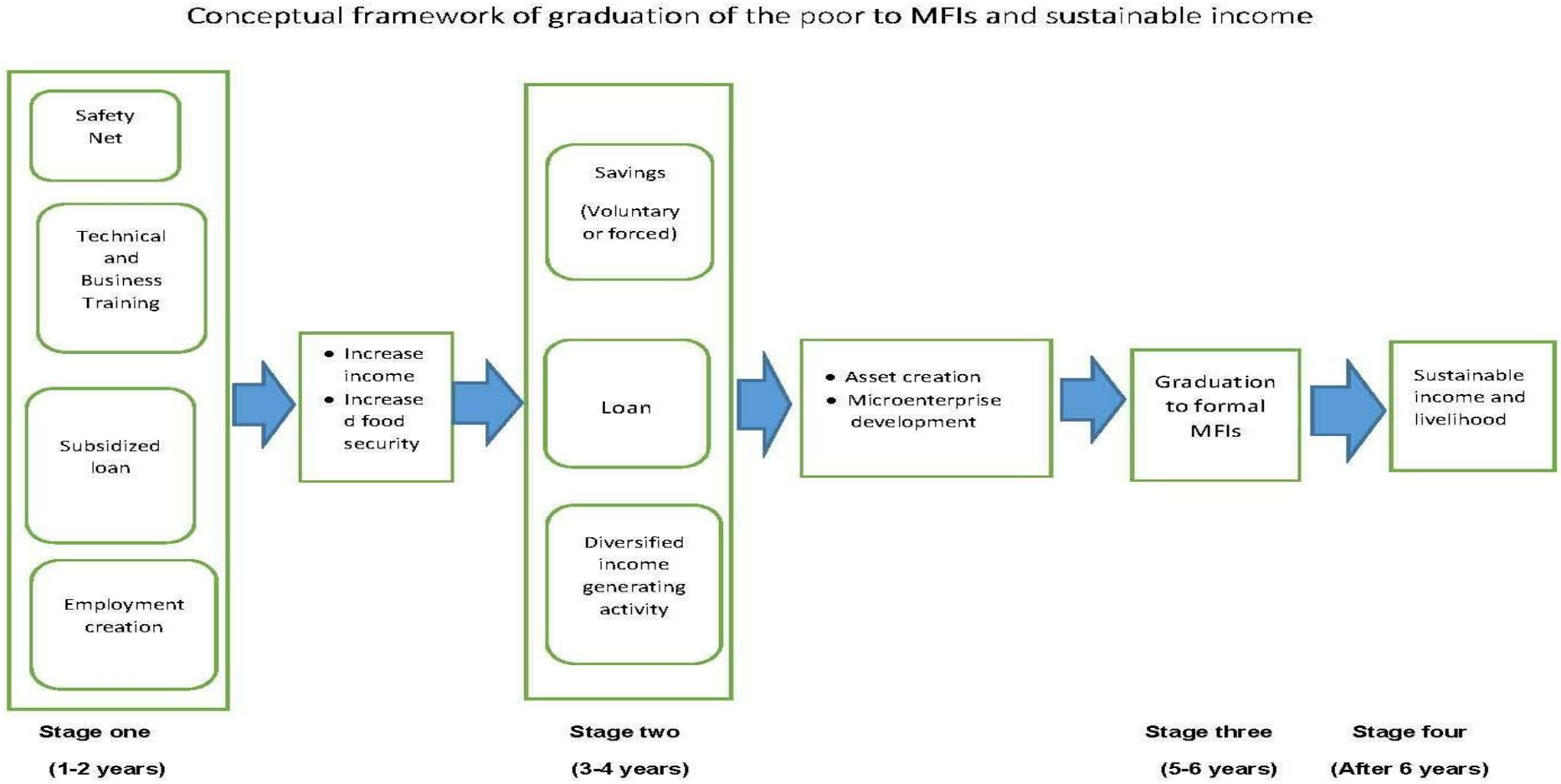
Each regulated and unregulated microcredit provider should have a clear graduation strategy or roadmap that indicates what, how, when, and who fits with the objectives and target groups of the microcredit providers. One graduation strategy could not serve equally not only for all regulated and unregulated microcredit providers but

also for similar MCIs. Thus, each microcredit provider should develop their own graduation strategy that can complement the graduation strategies of other MCIs.

Each microcredit provider should develop flexible and an incentive-based modality that enables successful clients to drop out (graduate from-to) positively within relatively few years. This will discourage the prolonged participation in a microcredit program without it making a significant difference in the lives of the poor. It could also protect the old clients from the development of a 'microcredit dependency syndrome' as well as discourage the elite members of the community from monopolizing microcredit loans.

Conceptual framework of graduation process illustrated in the following Figure 6.1.

Figure 6.1: Conceptual framework of graduation of the poor to MFIs and sustainable income



Source: The Author

f. Design 'Saving for real change'

The poor households are not saving from their extra but from what they have available for their basic needs, often compromising them. Therefore, saving for the poor is part of an investment, expecting a proportional return. In order to benefit the poor, microcredit saving rates should be proportionally fair with the loan interest rates. if not, the poor will suffer as a result of the combined effects of a high loan interest rate (buying) and a low saving rate (selling); this affects the graduation process 'from-to'. Thus, the appropriateness of 'saving' or 'investing' for the poor should be consulted and managed in a transparent and socially responsible way.

6.4.2 Practice issue

a) Adapt pro-poor lending interest rates

Even though an alternative to microcredit services is very limited, the poorest households categorically consider the interest rate charged as an important factor before they apply for any loan. The amount of loan varies among the poor households while the amount of microcredit loan interest rate charged is almost similar. Loan interest rates should be charged according to the amount of loan applied for; small loan amounts should attract a low interest rate and visa versa. This could allow paying the cost and gaining the benefit proportionally of 'pro-poor' loan interest rate settings. What can make this attractive to MCIs is not only the smaller amount of the loan but also the lower loan interest rate for the poorest that enables them to earn a better return and the MCIs to fulfil their social mandate.

The source of profits for savings-led MCIs was from both the loan interest rate (selling with high cost) and savings (buying with less cost) than inflation, loan loss, and operational costs calculated in favour of the MCIs. Therefore, loan interest rates should be calculated based on the best economic return on loans for the poor rather than the savings-led MCIs. This should be

periodically monitored and revised. The poor have only one option, which is a microloan, while MCIs have other sources of profits that can secure their financial sustainability. Thus, the primary economic benefit from microcredit should be for the poor through a lower loan interest rate for the poor.

b) Complementing rather than competing

In a fair free market, not only the unregulated microcredit providers but also the private moneylenders can play a positive role in the credit market for the non-poor sector of the community. This role would enhance the financial accessibility for some non-poor households. However, unregulated microcredit providers, whose main source of income comes from donor's support for those poor who are the potential clients of the regulated microcredit providers, should be considered as complementing the microcredit market with lower interest rates rather than competing with the regulated microcredit market. Thus, there should be a forum where the regulated and unregulated microcredit providers share their experiences on how to manage the microcredit market both individually and collectively.

As the microcredit market is not yet saturated, competition with unregulated and peer MCIs for the same target group is not advisable. Competition among MCIs can become irrelevant and unnecessary if stakeholders work together to identify market niches and innovative microcredit modalities that can complement each other. Exploring the complementarity of all microcredit providers is not only possible but necessary. Therefore, different microcredit modalities of MCIs should be considered as a reason for complementing each other, not competing with one another.

c) Specializing on a specific segment of the community

Only a few microcredit service providers could adequately address the heterogeneous needs of a community. Therefore, each microcredit provider should identify their niche target where they can, satisfy their objectives, and make a difference for their target group by utilizing their expertise and

differentiation. Because the poor have different needs and seek different credit modalities, management skills, and follow-up to satisfy their specific needs, each microcredit provider is encouraged to specialize in a specific microcredit area and specialize on a target group.

Some of the possible specializations could be based on geography (urban and rural), a specific segment of the community (female, youth, disabled, educationally deprived, entrepreneurs, detained, retired, internally displaced, commercial sex workers, HIVAIDS victims, disaster affected, and other), and occupation (self-employed, civil servant and others).

d) Promoting a 'Self-revolving' credit scheme modality

The purpose of the very existence of microcredit services in general and the unregulated microcredit service in particular is to support the poorest, to lift them out of poverty through pro-poor innovative, participatory, and flexible microcredit modalities that include a lower interest rate and encourage the poor to benefit from the loan project, enhancing the graduation of the poor from-to. Thus, a special credit scheme modality that encourages the graduation of the poor needs to be designed.

A 'self-revolving' credit scheme modality was initially designed by the researcher and has been implemented in Adigrate, town in the Eastern Zone of Tigray since 2006. This has been funded by ICRC and implemented by ERCS, scaled up to other regional states of Ethiopia that were funded by other donors. This innovative and flexible microcredit modality proved that donor funded micro loans could support the poorest without distorting the microcredit market; this challenges the myths on unregulated donor-funded micro loan services, empowering the poorest to manage micro loans and enable them to solve their own economic problems.

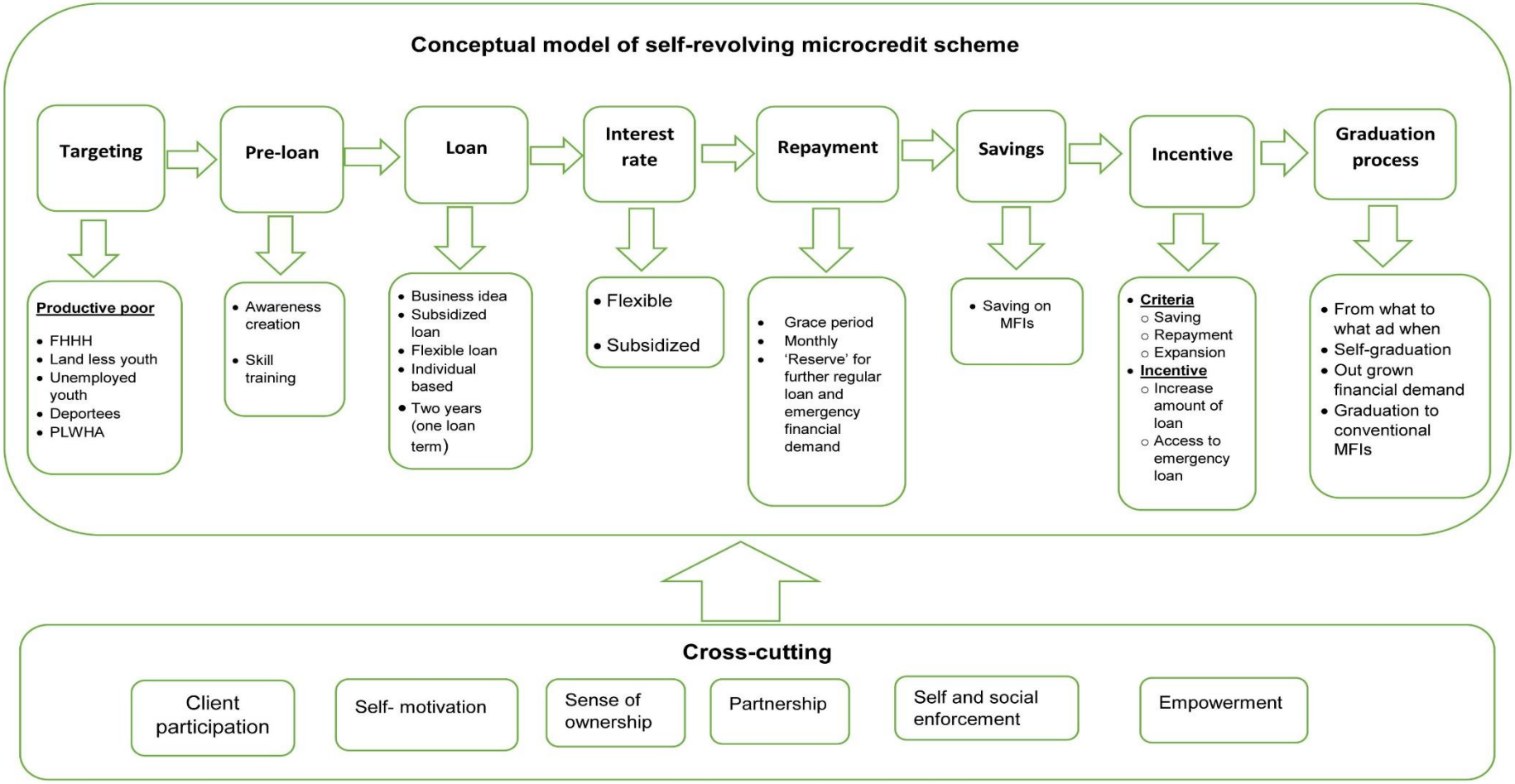
This modality differs from the traditional revolving credit scheme, with the following main innovative and flexible features, which address and empower

the poorest sector of the community and makes a micro loan scheme sustainable and scalable:

- The initial loan is determined by the cost of the type of mini-business proposed by the household and technically supported by experts.
- The household is aware that the loan will revolve within the household till the household graduates or outgrows financial demands within or with other MFIs, which is a basis for lifting out of poverty.
- Monthly repayment is considered as a 'reserve or savings' for the household for a further regular loan or response to an emergency financial demand.
- In case of an urgent financial need related to an immediate profitable activity 'seasonal productive activities', the household can re-borrow from the household's repaid amount of money for 1-3 months with almost zero interest rates. The more they repaid, the more they secure both for their future regular loan and for an urgent financial demand.
- The loan period of one loan term is two years and the amount of loan of each household is revised every two years.
- The amount of loan ranges from Birr 1,500 up to Birr 10,000. The amount of the loan for each borrower increases based on their business progress and inflation.
- Every borrower is expected to graduate or outgrow financial demand (More than Birr 10,000) from MFIs or banks after 5-6 years.
- The loan interest rate setting is flexible and depends on the type of business and the time of the initial return from the loan. The first term (the first two years) is zero interest rates followed by a second (5 % per annum), and third (9% per annum). Prior discussion with all households on the loan interest rate modality is crucial.
- The target population is 'productive poorest of the poor', not necessarily 'economically active poor'; these are mainly female headed households, living with HIV, deportees, and unemployed youth who qualify for engagement with loan IGAs.

- This modality creates a sense of ownership, security, and responsibility that encourages the development of self-governing and self-motivated households of the poorest with no unfair enforcement.
- Eventually, the self-revolving credit scheme modality intends to organize interested households to serve as a basis for a community led microcredit scheme.
- There is close monitoring and support to enable all necessary protective measures.

Figure 6.2: Conceptual model of self-revolving microcredit scheme



Source: The Author

6.5 Suggestions for further research

This study was based mostly on primary data supported by secondary data obtained from different sources (regulated and unregulated) of microcredit respondents (urban and rural). This data enabled the researcher to present conclusive theoretical and empirical propositions, especially on improving the loan interest rate to benefits the sampled microcredit providers, clients, and non-clients for better microcredit scheme management. Additionally, this study has provided groundwork for the following further study.

a. 'Self-revolving credit scheme'

As clearly mentioned above, this modality is new but it currently has documented practices. Success has primarily been checked in only one area; where it has been scaled up, it has not yet been adequately evaluated. It needs further study on its management, implementation, and impact in different socio-economic settings.

b. 'Saving or Investing'

Most of the respondents has concerned around the economic benefit of saving when comparing the amount of the saving rate against the investment 'value of money', 'saving or investing'. Thus, why should one save? Who should save? When are the best times to save? Pros and cons of saving and investing for the poor needs further study.

c. Managing multiple borrowing

Due to various internal and external reasons the same households are taking additional loans from the same or different microcredit providers. Thus, what is wrong with the multiple borrowing for the poor household? How should it be managed? This needs further study

d. Transformation of an MFI into a regular bank

What is the solution for the growing Ethiopian population that demands an expansion of microcredit services for the poor? 'Upward financial integration' or 'downward financial integration' of MFIs? This should be genuinely assessed not only from the perspective of the financial capacity of the MFIs but primarily from the objective of MFIs and the poorest that are entrusted to MCIs. Therefore, the impact of transformation or scaling up of MFIs into regular banks on the poorest needs further study. "Where are the MFIs heading in the future?"

7. Overall conclusion

Even though analysing the effects and impacts of microcredit in general and the loan interest rate in particular is not easy, the research questions and objectives of this study have been adequately addressed and achieved.

The theoretical and the empirical literature related to the impact of loan interest rates on the poor verified that a high interest rate is one of the main factors that erodes the amount of profit the borrowers gain from the loan IGAs. Consequences of a low profit from the loan caused by a higher loan interest rate include repayment problems, reduced demand, increased indebtedness, dropout, jeopardized graduation process from-to, and affect to wellbeing of the borrowers. Thus, the study observed that the effects of high loan interest rates are multi-dimensional. Further, a significant number of poor client and non-client households are more sensitive to the interest rate charged, 'high price sensitivity', than to the access of microcredit.

Moreover, only households who can generate an adequate economic return from loan IGAs can afford the higher loan interest rates. Therefore, the study realized that economic return from IGAs should not only be greater than the loan interest rates but should also adequately satisfy loan repayments, the

basic needs of the households, and enhance the graduation process of the household from-to.

Furthermore, the study recommended very crucial policy and practical issues that could contribute to better performance of both microcredit borrowers and lenders as well as inspire areas for future research. Moreover, based on the major key findings and conclusions, the study recommends other very important issues for further study; these areas will serve to further improve the performance of microcredit in general and loan interest rate implementation in particular.

Finally, the major key findings, conclusions, and recommendations drawn from this study contribute to improving the performance of both borrowers and lenders (regulated and unregulated MCIs). They also contribute to the body of microcredit knowledge. Further, they contribute suggestions for changing and integrating the field of NGOs donor-funded microcredit with micro loans based on proven empirical experience. This encourages seeing other MFIs as complementary rather than seeing them as competitors. Finally, it proposes very crucial future research areas to complement the on-going debates around the implementation and impact of interest rates on the poor.

REFERENCES

Abad, H. (2000): 'Microfinance NGOs in Bangladesh: Growth, impact and challenges,' Paper presented at the Asian Regional Conference, p. 2.

ACSOT (2013): Quarter report

Adams, D., Graham, D. and J.D. Von Pischke (1984): Undermining Rural Development with Cheap Credit, Westview Pres, Boulder, p.75.

Adeno K. (2007): *Outreach and sustainability of the Amhara Credit and saving Institution (ACSI), Ethiopia,* Norwegian University of Life Sciences, p.12.

Adrian G. (2010): Analysing Micro credit Interest Rates, MIX Data Brief No. 4, p.1.

Alan D. (2008): “Private Sector Microfinance”, p.3.

Alison M. (2001): *How Micro-Finance Providers Target the Poor: A Compendium of Strategies*, Coady International Institute, PACT Publications, p.6.

Amha, W. (2006): Improving the economic and Social Effectiveness of the microcredit Program of Ethiopian Red Cross Society (ERCS) in Tigray and other Regions in Ethiopia, Final Report, May 2011, Addis Ababa.

Amha, W. (2007): *Linking Banks and Microfinance Institutions (MFIs) in Ethiopia: Best Practices, challenges and Prospects: Occasional Paper N0.20.* Addis Ababa, p.9-13.

Amha, W. (2010): A Road Map to Build Inclusive Finance in Ethiopia (2011-2015), ECONOMIC FOCUS, Bulletin of the Ethiopian Economics Association (EEA), p.33-35.

Amha, W. (2011): Social performance management, Reporter newspaper, Amharic version, p.10-11.

Amha, W and Anteneh (2011): Ethiopian Microfinance Institutions Performance Analysis Report, Association of Ethiopian Institutions, Bulletin 7, p.16-19.

Amha, W. (2011): Improving the economic and social effectiveness of the microcredit program of Ethiopian Red Cross Society (ERCS) in Tigray and other regions of Ethiopia (Final report), p.18

Anis C. (2009): Microfinance as a Poverty Reduction Tool- A Critical Assessment, DESA Working Paper No.89, p. 1-6.

Armendariz, B. and Jonathan M. (2000): 'Microfinance beyond Group Lending', *Economics of Transition* 8(2), p. 410-412.

Armendariz, B., and Jonathan, M. (2005): The Economics of Microfinance, MIT Press, Cambridge, p.199-245.

AS de, V., Strydom, H., Fouche, CB., and Delport. CSL(2002): Research at Grass Roots; for the social science and human service professions, Second edition, p. 198-209.

Babbie, E. (2001): The practice of social research (9th edition). Belmont, CA: Wadsworth, p.180.

Banerjee, A.V.; Duflo, E. (2003): Mandated Empowerment: Handing Empowerment Policy Back to the Poor? – Annals of the New York Academy of Sciences, Volume 1136, Issue, p. 333-334.

Bezabih E. (2012): Cooperatives in Ethiopia, p.3

Bless T., and Higson-Smith, C. (2000): Fundamentals of social research methods, Cape Town, Juta, p.93.

Brau, J. and Woller, G.M. (2004): Microfinance: A Comprehensive Review of the Existing Literature, *Journal of Entrepreneurial Finance and Business Ventures* **9**, p.3-5.

Brigg, M. (2001): Empowering NGOs: The Microcredit Movement through Foucault's Notion of Dispositive. - Alternatives: Global, Local, Political, Volume 26, Issue 3, p. 233-234.

Cathermin, T. (2000): Overview of qualitative research, p. 35-36.

Central Statistics Agency (CSA) (2007): Ethiopian Mini demographic and Health Survey, p. 15.

Central Statistics Agency (CSA) (2014): Ethiopian Mini demographic and Health Survey, p. 14-25.

CGAP (2006): Access for All: Building inclusive Financial System, p.1.

CGAP and MIX, (2008): African Microfinance Analysis and Benchmarking Report, p.3-9.

CGAP and MIX (2010): Mix Microfinance World: Sub-Saharan Africa Microfinance Analysis and Benchmarking Report, p.2-18.

Chitra K. and Sangeetha S. (2013): Drift in Global Microfinance Industry-an Empirical study, P.40-48.

Chris Okoye, S. (2008): "Challenges of Microfinance supply and Administration," Policy challenges for microfinance design and practice in Nigeria: African Institute for Applied Economics (AIAE), p.9.

Christen R.P., Elisabeth R., Robert C., Vogel, and Cressida M. (1995): Maximizing the Outreach of Microenterprise Finance: An Analysis of Successful Microfinance Programs, USAID, Program Assessment Report, No. 10. Washington, DC: USAID, p.24.

Christen R., Lyman T., and Rosenberg R. (2003): **Microfinance Consensus Guidelines,** GUIDING PRINCIPLES ON REGULATION AND SUPERVISION OF MICROFINANCE, by CGAP/The World Bank Group, p.1-14.

Claessens, S. (2006): Access to Financial Services: A Review of the Issues and Public Policy Objectives. – World Bank Research Observer, Volume 21, Issue 2, p. 209.

Claire B., Craig Higson S, and Ashraf K., (2008): Fundamentals of Social Research Methods; An African Perspective, Fourth edition, p.43-143.

Claire M. (2013): Impact of microcredit interest rates on the poor; Helpdesk Research Report, p.1-3.

Conning, J. (1999): Outreach, Sustainability and leverage in monitored and peer monitored lending. Journal of Development Economics Vol. 60, P. 55-57.

Cull, R., Demirguc-Kunt A., and Jonathan M. (2008): Microfinance meets the Market, Policy Research Paper 4630.World Bank. Washington, D.C., p.184 186.

Cull, R., Demirguc-Kunt A., and Jonathan M. (2009): *'Microfinance Meets the Market'*. In Journal of Economic Perspective, volume 23, number 1, p. 190-192.

Dambisa M. (2009): Dead Aid; why aid is not working and how there is another way for Africa, P.129-130.

David L. Wright and Dewan A.H. Alamgir (2004): MICROCREDIT INTEREST RATES IN BANGLADESH 'Capping v Competition', p.3-5.

David S. G., and Jennifer W.M. (2000): The microcredit summit's challenge: Working towards institutional financial self-sufficiency while maintaining a commitment to serving the poorest families, p.25-36.

Degefe (2009): MFI regulation in Ethiopia, p.11

Dehejia, R., Montgomery, H., and Morduch, J. (2005): Do Interest Rates Matter? Credit Demand in the Dhaka Slums. *http://www.earth.colombia.edu/cgsd/documents/morduch.pdf, P.5.*

Dejene, A. (1999): The Village Economy and Indigenous Financial Institutions, p.6.

Dichter, T. (1999): Case Studies in Microfinance: NGOs in Microfinance: Past, Present, and Future - An Essay, The World Bank's Sustainable Banking with the Poor project, http://wbln0018.worldbank.org/html/FinancialSectorWeb.nsf/(attachmentweb_)/NGOs_Tom_Final/$FILE/NGOs_Tom_Final.pdf, p.2-3.

Edwin A., Acquan K., and Asmah E. (2003): The Impact of Interest Rates on Demand for Credit and Loan repayment by the poor and SMEs in Ghana, IFLIP Research Paper, p. 10-17.

ETC of ANC (2005): Microfinance for poverty alleviation, towards a pro-poor financial sector, p.6-10.

Ethiopian Federal Cooperatives Agency, (2012): Annual report

EUROPEAN COMMISSION, (2008): Guidelines for EC Support to Microfinance, P.3-4.

Fazle, H.A (2000): Microfinance NGOs in Bangladesh Growth, impact and challenges, p. 8-13.

Fisher, T., and Siram, M.S. (2002): *Beyond micro-credit; putting development back into micro-finance, p. 20*. Oxford: Oxfam Publishing.

Gary W., and Mark S. (2002): POVERTY LENDING, FINANCIAL SELF-SUFFICIENCY, AND THE SIX ASPECTS OF OUTREACH, p.13-22.

Gemechu H. (2010): Performance analysis of Licensed and unlicensed Micro Credit Services on reaching the urban Poor: a case study of Adigrate Town, Tigray, Ethiopia, published master's thesis p.74-75.

Gert, M. (2004): MICROCREDIT, SOUND BUSINESS OR DEVELOPMEWNT INSTRUMENT, P.17-75.

Hasan M. and Iglebaek M. (2004): Microfinance with un-reached People in the Rural Area: Experience and Learning, microfinance for the extreme poor, working paper, Dhanka, p.3-7.

Hoff, K., and Stiglitz E.J. (1990): “Introduction: Imperfect Information and Rural Credit Markets – Puzzles and Policy Perspectives”, the World Bank Economic Review, Vol. 4, No. 1, p. 235.

Homer, S. and R. Sylla (2005): *History of Interest Rates*, 4th Edition, John Wiley & Sons, p.9.

Hoque, M. Z (2004): “Stagnated Growth of Microenterprises and Flawed Role of Credit NGOs: Evidence from Bangladesh.” *Humanomics* 20, p.33.

Hudan, M. (2006): Fair interest rates when lending to the poor: Are fair prices derived from basic principles of justice? Working Paper, WP-CEB 06/15, Solvay Business School p.3-34.

Hulem, D. & Mosley, P. (1996): Finance against Poverty, Volume 1, Routledge, London, p.119-221.

Hulme, D. (2003): Chronic Poverty and Development Policy: An Introduction. *World Development,* 31(3), p.399.

IFAD (2001) Revisiting the Regulatory and Supervision Framework of the Micro-finance Industry in Ethiopia, p.19.

Ilan K. (2006): Using Secondary data for evaluating community programs – opportunities and challenges, International Conference Holiday Inn Esplanade, Darwin, Australia, Final Papers, p.1.

Jalan, J. & Ravallion, M. (2000): Is transient poverty different? Evidence for rural China, *Journal of Development Studies*, 36(6), p.82.

Jansson, T. (2001): *Microfinance: From Village to Wall Street*, Inter-American Development Bank (Best Practice Series), Washington DC, US; P.1.

Johnson, S. and Rogaly, B. (1997): *Microfinance and Poverty Reduction*. Oxford: Oxfam Publishing, p. 118.

Jonathan M. (1999): The Microfinance Promise, Journal of the Economic Journal Literature, Vol.37, No, 4 (December), p. 1569-1614.

Jonathan M. (2000): The Microfinance Schism, *World Development,* 28 (4), p. 617.

Jonathan M., and Haley D. (2002): *Analysis of the Effects of Microfinance on Poverty Reduction,* working paper No. 1014, p.31.

Joseph E.S. (1990): Peer Monitoring and Credit Markets', *World Bank Economic Review* 4(3), p. 351-352.

Julien K. (2009): A Look at the Interest rates in Microfinance, p.3.

Julie V.D. (2007): Reaching the Poor and Vulnerable: Targeting Strategies for Social Funds and other Community-Driven Programs, Social protection, The World bank, P.9.

Karnani, A. (2008): Romanticising the Poor Harms the Poor. - Journal of International Development, J. Int. Dev., p.77-78.

Khandker, R. (2005): Microfinance and Poverty: Evidence Using Panel Data from Bangladesh, The world Bank Economic Review, Vol.19, Issue 2, p.266.

Kothari, C.R. (2004): Research Methodology, Methods and Techniques, Second Revised Edition, p. 1-95.

Kritikos, A.S. (1999): 'Micro-credits with incentive guided solidarity action', *Kredit and Kapital* 32, p.393–394.

Kumar R. (2005): Research Methodology-A Step-by-Step Guide for Beginners, (2nd.ed), Singapore, Pearson Education, p.57-58.

Latifee, H.I. 2006. The Future of Microfinance: Visioning the Who, What, When, Where, Why, and How of Microfinance Expansion Over the Next 10 Years. Microcredit Summit Campaign Commissioned Papers. Washington, DC: Microcredit Summit Campaign, p.11.

Ledgerwood, J. (1999): Microfinance Handbook: An Institutional and Financial Perspective, The World Bank Sustainable Banking with the Poor Project, Washington, DC, p.2-34.

Letenah, E. (2009): Performance Analysis of a sample Microfinance Institutions of Ethiopia. Unpublished PhD thesis, University Business School, Panjap University, Chandigarh, p.11.

Lucarelli, B. (2005): Microcredit: a cautionary tale. - Journal of contemporary Asia, Volume 35, Issue 1, p78.

Luckshmi S., Brain S., and Kate G. (2012): A Double Bottom Line Business Case for serving very Poor Household. Grameen Foundation, p. 6.

MallicK, R. (2000): Implementing and evaluating microcredit in Bangladesh, Development in Practice 12, p.153-154.

Masese, P. B. (2011). *Factors affecting Credit Allocation in Financial Institutions in Kenya,* Eldoret: Moi University, p.5.

Martin B., Kevine D., and Desmond P. (2006): Research in Practice, Applied methods for the social sciences, Second edition, p. 21-462.

Martin I., Hulme D., and Rutherford S. (2002): “Finance for the poor: from micro credit to micr4ofinance services.” *Journal of international development* 14: p. 273-276.

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), p.993.

McMillan C., and Hanley M. (2003): GRAMEEN BANK, STANFORD, and GRADUTE BUSINESS OF SCHOOL, P.2.

Mead, C.D and Liedholm, C. (1998): The Dynamics of micro and small enterprises in developing countries, World Development, 26 (1), P.61

Meyer, R. L. (2002): "Track Record of Financial Institutions in Assisting the Poor in Asia" ADB *Institute Research Pape*r, No 49, p.2-5.

Micro Rate (2009): State of Microfinance investment, the 2009 Microfinance Investment Vehicles (MIV) survey, p.1-3.

Ministry of Finance and Economic Development (MoFED) (2008/2009): Ethiopian’s progress towards eradicating Poverty, p. 73-74.

Ministry of Finance and Economic Development (MoFED) (2012): Growth and Transformation Plan ((2010/2011-2014/15) annual Progress Report for F.Y. 2010/2011.

Mitchell, M., and Jolley, J. (2001): Research design explained, London, Harcourt College Publishers, p.496.

Mohammad, A.K, Suman, D., and Mohammad, S.I (2012): The Role of Micro credit and Micro Finance Institutions (MFIs) - Extent and Intensity of poverty, poverty alleviation and Outreach, International Affairs and Global Strategy, Vol 4, p.33.

Morgan, D.L. (1997): Focus group as a qualitative research, 2nd edition. Thousand Oaks:Sage, p.6.

National Bank of Ethiopia (NBE) 1999: Annual report of the year 1998, P.14.

National Bank of Ethiopia (NBE) 2011: Annual report of the year 2010, P.69.

Navajas S., Schreiner M., Meyer R.L., Gonzalez C., and Rodriguez J. (2000): "Micro credit and the Poorest of the Poor: Theory and Evidence from Bolivia", *World Development*, Vol. 28, No. 2, p, 333-346.

Nazrul I. (2009): Can Microfinance Reduce Economic Insecurity and poverty? How Much and How? Economic Social Affairs, DESA Working paper No.82, p.15-17.

Negash, Z. (2008): *Microfinance Loan Delivery, Utilization and Impact: with specific reference to Tigray, Northern Ethiopia*. P.12.

Neuman W.L. (2004): BASICS OF SOCIAL RESEARCH QUALITATIVE AND QUANTITATVE APPROACHS, Second Edition, p 11-300.

Nii K., Sowa C., and Accra D. (2002: Financial Sector Reform Policies and Poverty Reduction, P. 8.

Nimal A. (2006): Understanding and dealing with High Interest rates on Micro credit, East Asia Development, p.2-7.

Nissanke M. (2002): “Donors’ Support for Microcredit as Social Enterprise: A Critical Reappraisal”. Discussion Paper No. 2002/127, United Nations University: WIDER, p.5.

Norhazian Nawia (2010): *Determinants of Repayment Performances in Micro credit program: A review of literature. International* Journal of Business and Social Science, Vol. 1 No. 2, P. 153.

Olowe F.T., Moradeyo O.A, and Babalola O.A (2013): Emptical study of the impact of Microfinance Bank on small and midium growth in Nigeria, (International Journal of Acdamic Research in Economics and management Sciences)

Othman A. and Hon Z. (2016): Impact of Interest Rate on Loan Repayment of MFIs in Tanzania, International Journal of Business and Economics Research.

Par *Verónica, G.A(1999):* Is Micro-Finance reaching the Poor? An Overview of Poverty Targeting Methods, p.4.

Pfister M. W., Gesesse D., Amha W., Mommartz R., Duflos W., Steel E. (2008): Access to finance in Ethiopia: Sector Assessment study volume 2, GTZ, p1.

Porteous D., Collins F., and Abrams D.(2010): Policy Farming Note 4: Interest Rate Policy, p.2.

Robinson, M. (2001): *The Microfinance Revolution: Sustainable Finance for the Poor*, World Bank, Washington DC, US; p.29-71.

Rosenberg, G., and Sushma N. (2009): Are Micro credit Interest Rates Excessive? Brief, CGAP, p.3-5.

Rubin, A., and Babbie, E. (2001): *Research Methodology for Social Work*, Belmohf, California, Wadsworth, p.399.

Sanjeev K. (2011): Management Development Programme on Microfinance, Indian Institute of Management, Lucknow, Reading Material, p, 20-21.

Sarantakos, S. (2000): *Social Research.* China: Macmillan Publishers, 3nd edition, p.156.

Schreiner, M. (2001): *'Aspects of Outreach: A Framework for the Discussion of the Social Benefits of Microfinance'*. In Journal of International Development, P.1-10. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.60.7165&rep=rep1&type=pdf.

Scott M. Smith and Gerald S. Albaum (2010): An Introduction to Marketing Research, p.37-39.

Sebstad G., and Cohen T. (2000): Does access to microfinance help poor households build savings? Part I, p.19-21.

Seibel, H. D. (2005): Does History Matter? The Old and the New World of Microfinance in Europe and Asia, Paper presented at "From Moneylenders to Microfinance", Asia Research Institute, National University of Singapore, p.2-3.

Selinger, E. (2008): Does Microcredit "Empower"? Reflections on the Grameen Bank Debate. – Human studies, Volume 31, Issue 1, p. 5.

Sen, A. (1999): DEVELOPMENT AS FREEDOM, p. 47

SIDA (2004): is microfinance a good poverty reduction? P.1-3

Simanowitz, A. & Walter, A. (2002): "Ensuring impact: Reaching the poorest while building financial self-sufficient institutions, and showing improvements in the lives of the poorest women and their families" in *Pathways out of poverty : innovations in microfinance for the poorest families*, ed. S. Daley-Harris, 1st edn, Kumarian Press, Bloomfield, Conn., p. 40-41.

Snow, D R.; Buss, T. F. (2001): Development and the Role of Microcredit. - Policy Studies Journal, Volume 29, Issue 2, p. 296.

Sriram,M., and Upadhyaula, R.S. (2002): The transformation of microfinance in India: Experiences, options and future, working paper series of Indian Institute of management (IIMA), p.1.

Stewart, R., van Rooyen C., Dickson K., Majoro M., and de Wet (2010): What is the impact of microfinance on the poor? A systematic review of evidence from sub-Saharan Africa, London: EPPI-Centre, Social Science research Unit, University of London, P.5/ http://www.dfid.gov.uk/R4D/Outputs/SystematicReview/microfinance FOR+WEB%5B1%5D.pdf

Stirling S. (2004): Promoting cooperatives, a guide to ILO recommendation 193, p.20-25.

Subrata K.M. (2009): Exploitative Microfinance Interest Rates, Asian social science, Vol, 5, No.5, p. 87-88.

Sunita P. (2003): Factors Impeding the Poverty Reduction Capacity of Micro-credit: Some Field Observations from Malawi and Ethiopia,

ECONOMIC RESEARCH PAPERS, No, 74, The African Development Bank, p. 9-21.

Taiwo J.N (2012): The impact of microfinance on welfare and poverty alleviation in Southern Nigeria, (PhD Thesis)

Tijissen R. (2007): Africa's contribution to the worldwide research literature: New analytical perspectives, trends, and performance indicators. Scientometrics, 71(2), P. 309

United Nations (2006): Building Inclusive Financial Sectors for Development, p.1.

UN-HABITAT (2011): Microfinance, Poverty Reduction and Millennium Development Goals, United Nations Human Settlements Programme, p.47.

U.S. Department of State, (2009): The Russia Microfinance Project, Document No. 55, p.8-9.

Vandenberg, P. (2006): *Poverty reduction through small enterprises,* Geneva: International Labour Office.p. 14.

Veerakumaran G. (2007): Ethiopian Cooperative Movement-An Explorative Study, p. 5.

Venkata, N A and Veena Yamini, A. (2010): Why Do Microfinance Clients Take Multiple Loans? *Micro save* India Focus Note 33: P.1-2.

Von Pischke, J.D. (1983): The Pitfalls of Specialized Farm Credit Institutions in Low- Income Countries in Von Pischke, J.D, Adams, D. and G. Donald (Eds), Rural Financial Markets in Developing Countries, World Bank Group, Washington D.C. P. 176.

WaterfiedI (2011): IS TRANSPARENCY ENOUGH? WHAT IS FAIR AND ETHICAL WHEN IT COMES TO PRICES IN MICROFINANCE?

Weber, H. (2004): "The 'New Economy' and Social Risk: Banking on the Poor?" *Review of International Political Economy* 11 (May), P. 367.

World Bank (2008): The *World Development Report 2007/2008,.p.54.*

Wood, G. D., and Sharif, I. A. (1997): Who needs credit? Poverty and finance in Bangladesh, Zed Books Ltd, London, p.7.

Wodworth, W., and Woller, G. (2001): Micro credit as a Grass-Roots Policy for International Development. *Policy Studies Journal*, No. 29, p.267-268.

Woller, G., Dunford, C. and Woodworth, W., (1999): Where to microfinance, international Journal of Economic Development, Vol. 1, No. 1, p. 29-31.

Woller, G., and Woodworth, W. (2001): Microcredit as a Grass-Roots Policy for International Development. - Policy Studies Journal, Volume 29, No. 2, p. 8-270.

Woller, G., & Parsons, R. (2002): Assessing the community economic impact of microfinance institutions. Journal of Development Entrepreneurship, 7(2), p.133-136.

Wright, G.A.N. (1999): 'Examining the Impact of Microfinance Services – Increasing Income or Reducing Poverty', *Small Enterprise Development* 10 (1), p. 41.

Wright, G. (2000): *Microfinance Systems: Designing Quality Financial Services for the Poor.* New York, Zed Books, p.43.

Yunus, M., (1999): Banker to the poor: Micro-lending and the Battle Against World Poverty, Public Affairs, Peruses Books Group, USA, p.298.

Yunus, M. (2006): "Is Grameen Bank Different From Conventional Banks?" URL: p.1-4. http://www.grameen-info.org/bank/GBdifferent.htm

Yunus, M. (2007): *Creating a World without Poverty*, Public Affairs, New York, p.69-96.

Yunus M., and Adrian G., (2010): Analysing Microcredit Interest Rates, **MIX** Data Brief No. 4, p.1.

Zohir, Sajjad (2004): "Wider Impacts of Microfinance Institutions: Issues and Concepts." *Journal of International Development* 16(3), p.318.

Zoom microfinance (2003): Interest rates in the field of microfinance: a technical o political choice? No.9, p.1-7.

Zoom microfinance (2004): Microfinance and extreme poverty, No. 13, p.1.

Annex: 1

Questionnaire code: _____

Introduction

Greet the household first and then introduce yourself as follows:

My name is _____ and I am trained enumerator to collect data. The overall objective of this research survey is to develop an understanding of the effects of loan interest rate of different microcredit providers in your area, to create proper perceptions, to develop appropriate products equivalent with the fell needs of the poor people. The interview will take about one hour. All the information I obtain will remain strictly confidential. Only the summary of the discussion will be included in the final report, but none of your individual comments will be identified with your name. During this time, I would like to speak with the household head or any other adult representing the household. May I start now?

Zone:_____ Wereda:_____ Tabia:_____ Kushet:_____
Starting time_____ Ending time_____

PART I: MICROCREDIT HOUSEHOLD RESPONDENTS

Section 1: Identification

NB: All type of household respondents (Clients, Ex-clients, and Non-clients)

Questions and filters		Possible answers/coding categories		Skip to/ remarks
Q100	Respondent's category	Client	1	
		Ex-client	2	
		Non-client	3	

Section 2: Demographic features of respondents

NB: All type of household respondents (Clients, Ex-clients, and Non-clients)

Questions and filters		Possible answers/coding categories		Skip to/ remarks
Q101	Full name of the respondent?			
Q102	What is the type of the household?	Male-headed	1	
		Female Headed	2	
		Single	3	
Q103	Sex of the respondent?	Male	1	
		Female	2	
Q104	Respondent's age?	Age in complete year	_	
		I don't know	77	
		No response	88	
Q105	What is your marital status?	Single	1	
		Married	2	
		Polygamous	3	
		Divorced/separated	4	
		Widow	5	
		No response	88	
Q106	Respondent's relationship to head of the household?	Spouse	1	
		Son/Daughter	2	
		Grand child	3	
		Brother/Sister	4	
		Parents	5	
		Other relatives	6	
Q107	Have you ever been to formal school?	Yes	1	
		No	0	Skip to Q 109
Q108	What is the highest-grade level you have completed?	Write the grade level	_	
		Read and write: yes	1	
		Read and write: No	0	
		No response	88	

Q109	What is your religion?	Islam	1	
		Orthodox	2	
		Protestant	3	
		Others_____	4	
		No response	88	
Q110	Respondent's area status	Urban	1	
		Rural	2	
Q111	What is the size of your household, including yourself, by sex? **Write in number.**	Male	_	
		Female	_	
		Total	_	
Q112	What is age of your family members? **Write in number.**	Up to 5 years	_	
		6-15 years	_	
		16-30 years	_	
		31-65 years	_	
		Above 65 years	_	
Q113	What is the educational level of your family members? (Formal and informal education) **Write in number**	Kindergarten	_	
		First cycle (1-4 grade)	_	
		Second cycle (5-8 grade)	_	
		High Scholl (9-12 grade)	_	
		Diploma	_	
		First degree	_	
		Above first degree	_	
		Read and write only	_	
		Illiterate	_	
Q114	Is there any member of your family who discontinue schooling?	Yes	1	
		No	0	Skip to Q117
		I don't know	77	
Q115	Number of your family who discontinue schooling?	Male	_	
		Female	_	
Q116	What are the reasons for discontinuing (drop-out) schooling of your family member?	Financial problem	1	
		Health problem	2	
		Family problem	3	
		Personal problem	4	
		Academic failure	5	
		Marriage	6	
		Financial problem	7	
		Looking for job	8	
		Other specify_____	9	
		I don't know	77	
Q117	What is the technical/vocational training/skill of the respondent and its family members? **Write in number**	Mini-trade/street trade (Gullet)	_	
		Embroidery	_	
		Metal /wood work	_	
		Electrician	_	
		Tailor	_	
		Driver	_	
		Cobbler	_	
		Hair dressing/barber	_	
		Hand crafts	_	

		Urban farming	_	
		Rural farming	_	
		Others specify_____	_	
		No response	88	
Q118	Number of Earners of household members (Including the respondent and excluding unpaid family workers) **Write in number**	Male		
		Female		

Section 3: Income of household respondents

3.1 Household respondent's income (earner-1)

NB: for clients, Ex-clients, and Non-clients

	Questions and filters	Possible answers/ coding categories			Ship to/ remark
		Frequency		Income (Birr)	
Q119	What is your income from your primary occupation (earner-1)? **Write in Birr (local currency)**	Daily	1		
		Monthly	2		
		Annually	3		
		Occasionally	4		
Q120	What is your income from your secondary occupation (earner-1)? **Write in Birr (local currency)**	Daily	1		
		Monthly	2		
		Annually	3		
		Occasionally	4		

3.2 Income of other earners of the respondent's family from primary and secondary occupation

NB: for clients, Ex-clients, and Non-clients

	Questions and filters	Possible answers/ coding categories			Age	Sex	Ship to/ remark
		Frequency		Income (Birr)			
Q121	What is the income from earner - 2 of your household? **Write in Birr (local currency)**	Daily	1				
		Monthly	2				
		Annually	3				
		Occasionally	4				

Q122	What is the income from earner - 3 of your household? **Write in Birr (local currency)**	Daily	1				
		Monthly	2				
		Annually	3				
		Occasionally	4				
Q123	What is the income from earner - 4 of your household? **Write in Birr (local currency)**	Daily	1				
		Monthly	2				
		Annually	3				
		Occasionally	4				

3.3 Other household regular monthly incomes

NB: for clients, Ex-clients, and Non-clients

	Questions and filters	**Possible answers/ coding categories** **Birr (local currency)**	**Ship to/ remark**
Q124	Pension		
Q125	Domestic remittance		
Q126	Foreign remittance		
Q127	Rent		

Section 4: Expenditure of household respondents

Major consumption/expenditure of the household (Consumption of the last month only)

NB: for clients, Ex-clients, and Non-clients

	Questions and filters	**Possible answers/ coding categories** **Birr (local currency)**	**Ship to/ remark**
Q128	Food related expenditures		
Q129	Firewood and fuel expense		
Q130	Educational expenses		
Q131	House rent (residential use)		
Q132	House rent (Business use)		
Q133	Social occasions		
Q134	Medical expenses		
Q135	Others		

Section 5: Coping with shock and stress

NB: for clients, Ex-clients, and Non-clients

	Questions and filters	Possible answers/ coding categories		Ship to/ remark
Q 136	Did your family face any shocks and stresses during last year?	Yes	1	
		No	0	Skip to 139
Q137	Which of these shocks and stresses your family faced during the last years? **Multiple answers possible**	Acute increment of price of food items	1	
		House hold business failure	2	
		Loss of income from wages	3	
		Theft	4	
		Illness or (accidents of the HH members)	5	
		Death of the head of the household	6	
		Death of bread winner of the household	7	
		Marriage break-up	8	
		Other, specify----------	9	
Q138	During these shocks and stresses, what were your coping mechanisms? **Multiple answers possible**	Withdraw from savings	1	
		Labor wage	2	
		Distress sells: household utensils	3	
		Distress sells: house furniture	4	
		Distress sells: houses or part of houses	5	
		Distress sells: part of land	6	
		Distress sell: jewelry	7	
		Reduce numbers of meals	8	
		Sent children out to beg	9	
		Sent children out to work	10	
		Sell fire wood and charcoal	11	
		Looking for food aid	12	
		Borrow from relatives/friends	13	
		Borrow from microcredit	14	
		Borrow from money lenders	15	
		Other, specify----------	16	
Q139	In case of urgent financial needs/ financial emergency,	Sale of asset /livestock's	1	
		Borrow from relative /friends	2	
		Borrow from other Micro-credit providers	3	

	what steps you will now look for or adopt? **[Multiple Answers Possible]**	Borrow from Money lender	4	
		Pull out children from school	5	
		Reduce consumption expenditure	6	
		Extra working hours	7	
		Looking for extra new job	8	
		Withdraw from savings	9	
		Others specify_____	10	
		I don't know	11	

Section six: Saving behaviour

6.3 Voluntary saving

NB: For Clients, Ex-clients, and Non-clients

	Questions and filters	Possible answers/ coding categories			Ship to/ Remark
Q 140	Did you have voluntary saving?		Yes	1	
			No	0	Skip to Q142
			No response	88	Skip to Q143
Q141	If your answer for Q140 is "Yes", where, when did you start to save, and the current amount. **(Multiple answer possible)**	Where	Bank	1	
			Formal MFI	2	
			Cooperative	3	
		When	One year	1	
			Two years	2	
			Three years	3	
			More than four years	4	
		Current amount (Birr)	1000-2000	1	
			2001-3000	2	
			3001-4000	3	
			4001-5000	4	
			More than 5001	5	
Q142	If you have no voluntary savings, what is/are the reason/s? **(Multiple answer possible)**	Unable to save		1	
		Too low saving interest rate		2	
		Prefer to save in kind		3	
		Prefer to save in Equip		4	
		Prefer to save in home		5	
		Prefer to invest on mini business		6	
		I don't know		7	
		Others specify _____		8	

Q143	Are you (any member of your family) currently a member of Ekub?	Yes	1	
		No	0	Skip to Q146
Q144	If your answer for Q143 is yes, how much do you contribute monthly? Write in Birr	Less than 50	1	
		51-100	2	
		101-200	3	
		201-400	4	
		401-600	5	
		601-1000	6	
		1001-2000	7	
		More than 2001	8	
Q145	If your answer for Q143 is yes, what is the expected earnings from your contribution to Ekub? Write in Birr	Less than 1000	1	
		1000-2000	2	
		2001-3000	3	
		3001-4000	4	
		4001-5000	5	
		More than 5001	6	

6.4 Forced saving

NB: For client household respondents only

Q146	Did you have forced saving?		Yes	1	
			No	0	Skip to Q148
Q147	If your answer for Q146 is "Yes", where, when did you start to save, and what is the current amount?	Where	Formal MFI	1	
			Cooperative	2	
		When	One year	1	
			Two years	2	
			More than three years	3	
		Amount	1000-1500	1	
			1501-2000	2	
			More than 2001	3	

Section seven: Loan history

NB: for clients, Ex-clients, and Non-clients

	Questions and filters	Possible answers/coding categories					
		Loan from	Yes -1 No- 0	For how many years	How many times? Frequency of loan	Minimum and maximum amount of loan (Birr)	
						Min	Max
Q148	From which institutions have you get loan, duration, and frequency. **Multiple responses possible**	Bank					
		DECSI					
		SCSC					
		ERCS					
		ECSDC					
		AMFI					
		Money lenders					
		Other specify__					

		Purpose of loan	Code	Ship to/ remark
Q149	What was the purpose of your loan? **Multiple responses possible**	Petty trading	1	
		Embroidery/handcrafts	2	
		Metal work	3	
		Wood work	4	
		Hairdressing/Barber	5	
		House construction	6	
		House maintenance	7	
		Livestock purchase	8	
		Bicycle rent	9	
		Cart service (Gari)	10	
		Repayment of debt	11	
		Death/illness of household member	12	
		Others specify_____	13	
Q150	Why do you prefer to get loan from microcredit sources you mention on Q148? **Multiple responses possible**	Free interest rate	1	
		Lower interest rate than others	2	
		Simple procedures and application	3	
		Convenience of loan disbursement	4	
		Group support and help	5	
		Individual credit modality/system	6	
		Compulsory saving	7	
		Voluntary savings	8	
		Adequate amount of loan	9	
		Adequate grace time	10	
		Long repayment time	11	

		Others specify	12	
Q151	How was your repayment behavior?	Always on time	1	
		Mostly on time	2	
		Some time on time	3	
		Always not on time	4	
Q152	If your repayment was always on time, What were the repayment sources?	From loan related activity	1	
		From own income (other than loan related)	2	
		From friends/ relatives	3	
		Loan from money lenders	4	
		Loan from other microcredit institution	5	
		Sales of pre-loan assets/animals	6	
		Sales of assets purchased by the loan	7	
		Other specify_____	8	
Q 153	If your repayment was not on time, What was the reason/s?	Poor/inadequate income	1	
		Family conflict	2	
		Payment of other loan	3	
		Theft/robbery	4	
		High household consumption	5	
		Death/Illness of household member	6	
		Other specify_____	7	
Q154	Is there any loan, which you did not pay at all?	Yes	1	
		No	0	Skip to Q156
Q155	If yes for Q154 how loan was repaid eventually? **(Multiple answer possible)**	Loan from other microcredit institution	1	
		Loan from relatives/friends	2	
		From own income	3	
		Loan from money lenders	4	
		Sales of pre-loan assets/animals	5	
		Sales of assets purchased by the loan	6	
		Others specify_____	7	
Q156	Did you give any credit to someone but not yet collected?	Yes	1	
		No	0	Skip to Q158
Q157	If your answer for Q156 is yes, how much was the amount of Birr you lend?	Less than 50	1	
		51-100	2	
		101-200	3	
		201-400	4	
		401-600	5	
		601-1000	6	
		1001-2000	7	
		More than 2001	8	

Section 8 : PERCEPTIONS

8.1 Perception on microcredit service provision (accessibility and availability)

NB: for all clients, ex-clients, and non-client respondents

	Questions and filters	Possible answers/coding categories	Code	Ship to/ remark
Q158	Why some households join microcredit services? **[Multiple Answers Possible]**	Better family situation	1	
		Better awareness and experiences	2	
		Lack of awareness of its consequences	3	
		Forced credit	4	
		No other option	5	
		No repayment failure (Good credit story)	6	
		Better market access	7	
		Better access to credit services	8	
		Better social or material collateral	9	
		Others specify _____	10	
		I don't know	11	
Q159	Why some household's dropout or did not join the microcredit services? **[Multiple Answers Possible]**	Delay of credit disperse	1	
		Had problems with other group members	2	
		No time for frequent meetings	3	
		Do not need credit or service anymore	4	
		High interest rate	5	
		Forced savings	6	
		Repayment frequency	7	
		Absence or short of grace period	8	
		Over enforcement	9	
		Insecurity/phobia	10	
		Repayment failure	11	
		Others specify _____	12	
		I don't know	13	

8.2 Perception on impact of microcredit service

8.2.1 For client respondents only				
	Questions and filters	**Possible answers/coding categories**		**Ship to/ remark**
Q160	How do you compare your overall quality of life before and after getting the loan?	Remarkably improved	1	
		Slightly improved	2	
		Same (no Change)	3	
		Slightly worst	4	
		Much more worst	5	
		I don't know	6	
Q161	If your answer for Q160 is "remarkably/slightly improved", what are the actual improvements in your livelihoods? **[Multiple Answers Possible]**	Quantity of meals increased by	1	
		House hold assets improved	2	
		Income of the household increased	3	
		Creates job opportunity	4	
		Children school participation secured	5	
		Health situation of the household improved	6	
		Livestock purchased	7	
		Build a new house on own land	8	
		Bought land for new house construction	9	
		Moved relative to own rented house	10	
		Others specify_____	11	
Q162	If your answer for Q160 is "no change" or "slightly/much more badly" what are the reasons? **[Multiple Answers Possible]**	Health problem	1	
		Unaffordable family size	2	
		Unaffordable interest rate	3	
		Inflation	4	
		Market related problem	5	
		High price of food and non-food items	6	
		Others-specify	7	
		I don't know	8	
Q163	If your answer for Q160 is "no change"/ "slightly/much more badly" what type of possible solutions are you looking? **[Multiple Answers Possible]**	Dropout from credit	1	
		Continuing credit and manage differently	2	
		Looking for less interest rate loan	3	
		Working with what I have (exclude loan)	4	
		I don't know	5	
		Others specify ___	6	

8.2.2 For Ex-client/non-client respondents only				
	Questions and filters	**Possible answers/coding categories**		**Ship to/remark**
Q164	How do you compare your overall livelihoods before and after your microcredit credit services drop out or not getting microcredit loan at all?	Remarkably improved	1	
		Slightly improved	2	
		Same (no Change)	3	
		Slightly worst	4	
		Much more worst	5	
		I don't know	6	
Q165	If your answer for Q164 is remarkably improved, slightly improved or no change. What could be the reason? **[Multiple Answers Possible**	Working with what I have	1	
		Friends/relatives support/loan	2	
		Engaging on formal employment	3	
		Safety net	4	
		Cash for work	5	
		Sales of labour	6	
		Others specify	7	
		I don't know	8	
Q166	If your answer for Q164 is "no change"/ "slightly", What could be the reason? **[Multiple Answers Possible]**	Health problem	1	
		Unaffordable family size	2	
		Repayment of the last loan	3	
		Inflation	4	
		Market related problem (sales, profit, etc.)	5	
		High price of food and non-food items	6	
		Lack of credit access	7	
		Others-specify	8	
		I don't know	9	
Q167	If your answer for Q164 is "no change"/ "slightly" much more badly" what type of possible solutions are you looking? **[Multiple Answers Possible]**	To join microcredit loan	1	
		Looking for less interest rate loan	2	
		Working with what I have (exclude loan)	3	
		Looking family/relative support	4	
		I don't know	5	
		Others specify	6	

8.3 Perception on trends of household income

NB: for Clients, Ex-client/non-client respondents

	Questions and filters	Possible answers/coding categories		Ship to/remark
Q168	How was your family monthly income of the last one year?	Improved by 200%	1	
		Improved by 100%	2	
		Improved by 50%	3	
		Improved by 25%	4	
		Improved by 10%	5	
		Improved by 5%	6	
		No change	7	
		Deceased by 200%	8	
		Deceased by 100%	9	
		Deceased by 50%	10	
		Deceased by 25%	11	
		Deceased by 10%	12	
		Deceased by 5%	13	
		I don't know	14	
Q169	What is the trend of your monthly income of the last one year?	STable	1	
		Increasing	2	
		Deceasing	3	
		Fluctuating	4	
		I don't know	5	

8.4 Perception on comparisons of microcredit service of client versus ex-clients/non-clients

8.4.1 Only for ex-clients /non-client household respondents				
	Questions and filters	**Possible answers/coding categories**	**Ship to/ remark**	
Q170	How do you compare your household livelihood/income with other household who are getting credit?	Great differences	1	
		Slight differences	2	
		No differences	3	
		I don't know	4	
8.4.1 Only for client household respondents				
Q171	How do you compare your household livelihood/income with other household who are not getting microcredit credit?	Great differences	1	
		Slight differences	2	
		No differences	3	
		I don't know	4	

8.5 Perceptions on microcredit loan interest rate

NB: for Clients, Ex-client/non-client respondents

	Questions and filters	Possible answers/coding categories	Ship to/ remark	
Q172	How do you evaluate the amount of microcredit loan interest rate charged?	Low rate	1	
		Reasonable/affordable	2	
		Unreasonable/unaffordable	3	
		I don't know	4	

9: Future intention to join microcredit services

NB: for Ex-client/non-client household respondents

	Questions and filters	Possible answers/coding categories		Ship to/ Remark
Q173	Do you have an intention to join take microloan?	Yes	1	
		No	0	Ship to 176
Q174	If your answer for Q173 is yes, Which microcredit do you prefer?	DECSI (MFI)	1	
		SCSC (cooperatives)	2	
		ERCS (NGO)	3	
		ECSDC (NGO)	4	
		Other specify_____	5	
Q175	Why do you prefer to join the microcredit institution you mention?	Lower interest rate	1	
		Simple procedures and application	2	
		Large amount of loan	3	
		Longer loan term	4	
		Larger grace period	5	
		More visit and personal attention of field officer	6	
		Withdrawal of compulsory saving	7	
		Individual based loan system	8	
		Appropriate enforcement	9	
		Others specify _____	10	
Q176	If your answer for Q173 is No, What is the reason/s? **[Multiple Answers Possible]**	I hate and afraid taking loan (frustrated)	1	
		Bad information from clients (biased)	2	
		I do not need loan (I have enough of my own)	3	
		I prefer taking from other sources	4	
		Others, (specify)_____	5	

Section 9 : Comments and recommendations

NB: for clients, Ex-clients/ Non-clients

Q177	Name three things that you like most about micro-credit services? **[Multiple Answers Possible, the top three only]**	Free interest rate	1
		Lower interest rate than others	2
		Simple procedures and application	3
		Convenience of loan disbursement	4
		Group based loan	5
		Individual credit modality	6
		Accessibility	7
		Compulsory saving	8
		Voluntary savings	9
		Creating credit alternative	10
		Personal attention (support) of field officer	11
		Bette than money lenders	12
		Others specify _____	13
Q178	Name three things that you would like to be improved on micro-credit services? **[Multiple Answers Possible, the top three only]**	Lower interest rate	1
		Simple procedures and application	2
		Large amount of loan	3
		Longer loan term	4
		Larger grace period	5
		More visit and personal attention of field officer	6
		Withdrawal of compulsory saving	7
		Individual based loan system	8
		Appropriate enforcement	9
		Addressing very poor	10
		Others specify _____	11

Thank you for your time and valuable information

Enumerator's Observations / Remarks

1. _____
2. _____

Name of Enumerator _____Signature ____ Date of Interview _____

Name and Signature of Supervisor _____

PART II: Key informants check list

Warming up questions

Organization……Position……
Education……Years of experience in the organization……

Section one- Outreach performance

- Total numbers of clients_____ (end of 2013)
- Gender distribution of clients – male_____ Female_____
- Is the number of clients increasing or decreasing? Comparing the last 3-5 years.
  Increasing_____
  Deceasing_____
- Why increasing or decreasing (Give three major reasons)
  _____
  _____
- Does your microcredit service **reach** the poor? If yes, how do you justify it?
  _____
  _____
- Who is considered as a "poor"? (from your organization's context)
  _____
  _____
- How do you identify the poor people from the community?
  _____
  _____
- Number of dropouts in the last three years. Years
  2010_____2011_____2012_____
- Who are the most who left (dropout) the membership?
  _____
  _____
- Reasons for drop out
  _____
  _____
- Number of graduates in the last three years. Years
  2010_____2011____2012___
- Who are the most who graduate from your microcredit services?
  _____
  _____
- Reasons for graduation?
  _____
  _____
- To which microcredit or financial services they graduate?
  - Other microcredit service provider…….
  - Other microfinance service provider……
  - Bank……..
  - I don't know…….

- Is there any dropout or graduation monitoring system in your institution? Yes…No…
- If yes, how?

  _____

  _____
- If no, why

  _____

  _____

Section two- Perception of clients on the service provision

- How do you evaluate the satisfaction of the clients?

  _____

  _____
- How do you evaluate the perception of the clients on the following issues: Using 1 (poor), 2 (average), 3 (good), and 4 (excellent)

Area	Rating	Comment
Interest rate		
Amount of loan		
Economic Improvement		

- What are the most common complaints of the clients

  _____

  _____

Section three – Loan interest rate

- What is the amount of loan interest rate your microcredit institution charge?

  _____

  _____
- How do you compare the interest rate with other microcredit providers?

  _____

  _____
- What is your impression on interest rate clients pay on loan?(affordability)

_____

_____
- Is there any complaint on the amount of loan interest rate? Yes…No…
- If yes, which of the clients are the most complainers of the amount of interest rate on loan?

_____

_____
- If no, why?

  _____

  _____

- What is the interest rate paid for deposit/saving in your organization? If there is deposit/saving services. If no, skip.

_____

_____

- What is your opinion on the interest rate paid for deposit/saving?

_____

_____

- What is the opinion of your clients on the interest rate they earn from deposit/saving?

_____

_____

- Is there any compliant on the interest rate paid for deposit/saving? Yes… No….
- If yes, what are the complaints?

  _____

  _____

- If no why?

  _____

  _____

- Which clients are the most complainers of the amount of interest rate for their deposit/saving?

_____

_____

Section four – opinion on unregulated microcredit (NGO's and government)

- How do you evaluate the role and procedures of unlicensed micro-credit services?

Strength/ Positive:

1. _____
2. _____

Weakness/ Negative:

1. _____
2. _____

- How do you evaluate the relationship and integration of operating licensed and un-licensed micro-credit providers?

  _____

  _____

Section five – Recommendation

- What do you recommend for more effective and efficient microcredit service provision in our region?
  1. _____
  2. _____
- **Can you provide us additional material?**
  - Annual report
  - Research document
  - Evaluation report
  - ETC

Thank you for your time and valuable information

PART III: Focus group discussion checklist

1. What forced you to take a loan?
2. What was the initial purpose and practical uses of the loan you take?
3. How was your repayment performance?
4. When you were taking the loan did you like the interest rate charged?
5. What Interest rates do you think will be fair to clients?
6. Do people take loans from others in this place?
7. Why do people take loans from others other than the micro credit institution?
8. What are the advantages and disadvantages of taking a loan from a micro credit institution?
9. How can micro credit institutions improve their services to people?
10. Have people who have taken loans improved in their livelihoods compared to those who did not take any loans? Why