ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

AN ASSESEMENT OF THE ROLE OF MICRO FINANCE INSTITUTIONS IN URBAN POVERTY ALLEVIATION:

(The Case of Addis Credit and Saving Institution In Akaki Kality Subcity)

BY

FASIKA BETEMARIAM

June, 2017

ADDIS ABABA, ETHIOPIA

AN ASSESEMENT OF THE ROLE OF MICRO FINANCE INSTITUTIONS IN URBAN POVERTY ALLEVIATION:

(The Case of Addis Credit and Saving Institution In Akaki Kality SubCity)

A THESIS SUBMITED TO ST.MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES, IN PARTIAL FULMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTARTION IN ACCOUNTING AND FINANCE

BY

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Chalachew Getahun (PhD). All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning Institution for earning any degree.

______________________________ ______________________________

Name Signature & Date

ENDORSEMENT

This thesis has been submitted to Saint Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Advisor Chalachew Getahun (PhD) _____________________

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ACKNOWLEDGEMENTS

First and foremost, I would like to thanks GOD for his blessings and grace to complete this thesis and my MBA program. Then I would like to express my sincere gratitude and appreciation to my father, mother, brothers and sisters in helping and encouraging me to try to attain better achievement by filling out any requirements from me. Also I would like to sincerely thank my adviser (PhD) Chalachew Getahun, who helped me in all my thesis work by sharing his accumulated experience, his scholarly, excellent and persistent professional guidance and advisory to bring this thesis work to the chapter of the earth. I would like to thank my lecturers who helped me in providing their invaluable comments and suggestions during my work.

Also I would like to thank to all those people who helped me of Addis Credit and Saving Staff and all my coworkers and my friends. The respondents from client of Addis credit and saving in Akaki Kality sub city who have furnished valuable feedback towards completion of this study. Finally, I offer my regards and big thanks to all whose has given direct and indirect support in any respect during the completion of this thesis.

ACRONYMS

ADCSI Addis Credit and Saving Institution

AKSC Akaki Kality Sub City

DECSI Dedebit Credit and Saving Institution

EC Ethiopian Calendar

FICA Foundation for International Community Association

GDI Gender-Related Development Index

HDI Human Development Index

HDR Human Development Report

HPI Human Poverty Index

MDGs Millennium Development Goals

MFIs Microfinance Institution

NBE National Bank Of Ethiopia

NGO Non-Governmental Organization

OFA Opportunity for All

UNDP United Nations Development Program

UN United Nation

WB World Bank

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Abstract

Poverty is a critical problem of all countries in the world regardless of their level of development. The whole purpose of development and Development Studies is to fight against poverty and reducing both urban and rural poverty in the world to the possible minimum level through different interventions. Microfinance considered as one of the major interventions in poverty alleviation all over the world. Therefore, the general objective of this study is assess the role of microfinance Institution in urban poverty alleviation in Addis credit and saving Institution in Akaki Kality sub city judged from the employee and customer point of view. Accordingly, convenience-sampling technique used to selected and distribute questionnaire to 170 customers and interview to five employees of the micro finance in Akaki Kality sub city. The study aimed to assess the level of customer perception towards the role of micro finance Institution in urban poverty alleviation and the data collected are analyzed using descriptive statistics tool such as frequency and percentage as used to present as required. The result revealed that AdCSI scheme has made positive contribution to the clients in relation with observed variables. The contribution of microfinance analyzed based mainly on income, which in turn has effects on nutritional status, education fee, medical facilities, employment generation, and empowerment among others. Besides, significant number of borrowers can afford expenses on education, clothing. They have no income generating mechanism before joining in the Institution among others. Therefore, strengthening the existing operation with other support means of income generating mechanism would be appropriate to address the problem of urban poor. finally, AdCSI should revise its strategy related to the loan repayment period, its high interest rate on loan, small amount of loan, its low interest rate on saving, etc, so as to encourage the poor in both financial and non financial services.

CHAPTER ONE

INTRODUCTION

1.1. Back ground of the study

Microfinance is defined as ‘lending small amounts of money for short periods with frequent repayments (Meagher, 2002). However, this definition equates the concept with micro-credit, which is rather a part of microfinance service. For Van Maanen, microfinance is banking the un-bankables, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral (Maanen, 2004). The second definition is broader and defines microfinance in a comprehensive way. Therefore, we will use this definition throughout this study as a general framework.

Widespread poverty, with all the problems that comes with it, is the greatest challenge of our time. One of the identified constraints facing the poor is lack of access to formal sector funds to enable them to take advantage of economic opportunities to increase their output, thereby move out of poverty (Sumner, 2007). Traditional aid has not helped in solving this problem (Meehan, 1999).Microfinance has been identifying as one of the influential development efforts towards promoting financial sustainability for poor individuals in the society (Lindvert, 2006).

The microfinance revolution has changed attitudes towards helping the poor in many countries and in some has provided substantial flow of finance, often to very low-income groups or households, who would normally be excluded by conventional financial Institution (Kurmanalieva et al, 2003).

Microfinance has proven to be an effective and powerful tool for poverty reduction (Morduch and Haley, 2001).As a result, in recent years, microfinance has been consider as an integral component of poverty reduction strategy by many governments, international organizations and donors. The establishment of sustainable and profitable microfinance Institution that reach a large number of poor households who are not served by the conventional banks, such as commercial and development banks, due to their Institutional and structural problems, have been a prime component of the new development strategy of Ethiopia i.e. poverty reduction (Wolday, 2000).

In a country where almost half of the population barely survives on less than a dollar a day, microfinance offers poor people a unique opportunity to engage in small businesses or improve their livelihood production (Degefe, 2009).With the support of national and international organizations, many Institution across the country extend small loans to poor people in urban areas to help them improve their incomes and overcome poverty. Accordingly, microfinance programs have recently been considered as an important instrument to attain the poverty reduction objectives. Various literatures still focus on the importance of microfinance and Ethiopian government also trying to come up with an effective policy using AdCIS and other microfinance Institution. Their effectiveness is still in doubt. The very objective of this study is to assess the contribution of these microfinance Institution in reduction of poverty in Ethiopia by taking AdCIS in Akaki Kality, Addis Ababa.

1.2. Background of the Organization

Addis credit and saving Institution (AdCSI) is a micro financial Institution which operates within the boundaries of Addis Ababa city administration. It was established and registered at the national bank of Ethiopia on January 2000 according to the bank of (NEB) proclamation No.40/1996. The major services given by AdCSI are; providing credit service to micro and small enterprise potential operators counseling and provision of advice for the targeted group on business and financial affairs, facilitating business development services for clients, affecting payment and collecting revenue for other Institution city Administration through 10 sub cities of Addis Ababa.

Objective, Mission and Vision of the Intuitionist

Vision

To become a sustainable financial Institution, can active contributor towards poverty reduction efforts and would like to see improvement in the life of low-income people.

Mission

To contribute to the eradication of poverty and unemployment prevailing in Addis Ababa and surrounding through providing demand driven financial service is a sustainable way mainly for MSEs with special focus to women

General objective

As to the revised proclamation no.626/2009,AdCSIhas an objective to collect deposits and extend credit to rural and urban farmers , and people engaged in other similar activities as well as micro and small scale rural and urban entrepreneurs, the maximum amount of which may be determined by the national bank.

Specific objectives

- Provision of credit and saving service to as many active poor as possible ;
- Enhance the development of micro and small enterprise ;
- Give propriety to women in the provision of financial service ;
- Enhance the culture of saving by the target group and the public at large ;
- Crate long term self employment in income generating activities
- Assure financial and operational self sufficiency of the Institution

1.3. Statement of the Problem

Microfinance Institution is recognize by the government as one of an effective tool to reduce poverty in Addis Ababa by providing financial services to those who do not have access to the commercial banks and financial Institution by providing the poor with credit and saving facility to start a small business and to create employment opportunities. It is also an instrument for supporting the economy and social conditions of the poor and women by facilitating access of health and education facilities and enhances the living standards of poor.

As result, almost all MFIs including AdCSI are working based on poverty reduction mission in the country and poverty has remained the declared core objective in the governments. It has been give an adequate emphasis to the problems of urban dwellers. Ethiopian government's efforts to improve the living conditions of the rural population have begun to bear fruit however, the incidence and severity of poverty have intensified in the urban areas recently. For instance, Addis Ababa contains about 26 percent of the total urban population of the country. However, it is one of the least developed cities in Africa facing a major challenge of urban poverty and slum proliferation (Haregewoin, 2007).

That means the challenge to survive out of poverty is still there despite the efforts made by the government. Microfinance Institution are functioning all over Addis Ababa to come up with a better achievement. Therefore, this study tries to see the gap between the efforts of the microfinance Institution and the poor situation of the population by picking AdCIS in Akaki Kality Sub city as a standing ground. Moreover, the researcher believes that previously no research has been done in this specific topic in Sub city.

1.4. Research Questions

The researcher is raising the following Research Questions

- To what extent AdCSI schemes help beneficiaries to create employment opportunities, to generate income, to own assets?
- How are MFIs targeting the poor, especially women in their service provision?
- What are the services/products provided and what results have been achieved?
- What are the challenges faced by clients/ borrowers in accessing and utilization of loan?

1.5. Objective of the Study

1.5.1 General Objective of the Study

The main objective of this study is to assess the role of micro finance Institution in urban poverty alleviation, in Addis credit and saving Institution in Akaki Kality sub city.

1.5.2 Specific Objectives

The specific objectives of the study are

- ✓ To assess the role of AdCSI in creating employment opportunities and generating income needs for the poor.
- ✓ To analyze whether microfinance programs have contributed to the empowerment of women.
- ✓ To identify the kinds of services and products provided by the microfinance Institution program to the poor.
- ✓ To identify the implementation challenges in accessing and utilization of loan from Addis Credit and Saving Microfinance Institution in Akaki Kality sub city of Addis Ababa.

1.6. Significance of the Study

The research believes that the finding of the study would give the important information about the role of micro finance in urban poverty alleviation in Akaki Kality sub city and The study may also help AdCSI to evaluate the contribution towards poverty alleviation and revise their pr grams, indicate available alternative in the organization to grow their service ,suggest or propose solution for the identification problem based on the gathering information, contribution of micro finance in the development of micro and SME businesses, savings mobilizing, women empowerment, assets, financial inclusion. Finally, we strongly believed that, the result of this research study will be relevant to policy planners, academicians, NGOs, development practitioners, and the government of Ethiopia as a whole.

1.7. Scope of The Study

This study was restricted to the city of Addis Ababa which has large sub city. In addition to this the researcher only focuses on MIFs of AdCIS in Akaki kalty Subcity. the reason that the study not include the other sub city due to the complexity they have bring to the researcher in reaching and gathering data related to customer. Moreover, the study restricted to only Woreda1, Woreda4, woreda7 and Woreda8. The researcher opts this woreda due to the fact that they have more number of customers compare with the other.

1.8. Limitation Of The Study

There are many MFIs in Addis Ababa City Administration but the scope of this study is limited only on AdCSI and its clients in Akaki Kality Branches particularly in four woredas. Microfinance covers a wide area of issues and encompasses urban poverty in terms of social, economic, political, cultural perspectives. However, the focus area of this paper will be limited to the economic and social perspectives.

1.9. Organization of the Paper

The thesis has five chapters. The first chapter deals with the introduction which includes: background of the study, problem statement, research question and objective, significance of the study, scope and limitation of the paper as well as organization of the study. In the second chapter, reviewing related literature. The third chapter deals with Study Design and Research Methodology. Data presentation and analysis was undertaken in fourth chapter. The five and the last chapter was presented the summery of findings, conclusions and recommendations of the paper.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

This part of the study deals with the theoretical, empirical and conceptual perspectives regarding poverty, microfinance and poverty reduction. The theoretical portion focus on various theories postulated regarding poverty, reasons for poverty and possible solutions. On the other hand, the empirical perspective is concerned with looking at experiences of Africa in general and Ethiopia in particular in terms of using microfinance in the process of reducing poverty levels.

2.1. Poverty

"Don't ask me what poverty is because you have met it outside my house. Look at the house and count the number of holes. Look at my utensils and the clothes that I am wearing. Look at everything and write what you see. What you see is poverty.'' A poor man, Kenya 1997 (World bank, 1998)

What poverty is taken to mean depends on who asks the question, how it is understood, and who responds. From this perspective, UNDP (2006) clustered the meanings in to four. The first is income-poverty or its common proxy (because less unreliable to measure) consumption-poverty. This needs no elaboration. When many, especially economists, use the word poverty, they are referring to these measures. Poverty is what can be and has been measured, and measurement and comparisons provide endless scope for debate.

The second cluster of meanings is material lack or want. Besides income, this includes lack of or little wealth and lack or low quality of other assets such as shelter, clothing, furniture, personal means of transport, radios or television, and so on. This also tends to include no or poor access to services.

A third cluster of meanings derives from Amartya Sen, and is expressed as capability deprivation, referring to what we can or cannot do, can or cannot be. This includes but goes beyond material lack or want to include human capabilities, for example skills and physical abilities, and also self-respect in society. Along with the this category of the fourth cluster takes a yet more broadly multi-dimensional view of deprivation, with material lack or want as only one of several mutually reinforcing dimensions.

In general terms, United Nations (1998) defines poverty as a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and clothe a family, not having a school or clinic to go to; not having the land on which to grow one's food or a job to earn one's living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation.

Additionally, The first of the annual Opportunity for All (OFA) reports in 1999 on tackling poverty and social exclusion defined poverty as follows: Poverty affects different aspects of people's lives, existing when people are denied opportunities to work, to learn, to live healthy and fulfilling lives, and to live out their retirement years in security. Lack of income, access to good quality health, education and housing, and the quality of the local environment all affect people's well-being.

In attempting to summarize the definition of poverty, Englama and Bamidele (1997) asserted that poverty in both relative and absolute terms refers to a circumstance where a person is not able to fend or provide sufficiently for his or her necessities or fundamental human requirements such as clothing and decent accommodation, food, the fulfillment of social and economic responsibilities, non-access to productive employment, lack of skills, resources and confidence; and has restricted admission to economic and social infrastructure. These include access to health, education, potable water, sanitation, and roads. These preclude the person from advancing in welfare which is limited by the scarce availability of economic and social infrastructure. They concluded by terming this situation as being subject to a "lack of capabilities" (Englama and Bamidele, 1997).

2.2. Impacts Of Poverty

Poverty is the oldest and the most resistant virus that brings about a devastating disease in the third world or developing countries (Tazoacha, 2001). It's rate of killing cannot be compared to any disease from the genesis of mankind. It is worse than malaria and HIV/AIDS which are claimed to be the highest killer diseases (Tazoacha, 2001), and even worse than Ebola.

Despite the renewed commitment over the past 15 years and more to poverty reduction as the core objective of international development discourses and policies, progress to this end remains disappointing (UNDP, 2003). This is particularly evident in the extent to which the world is off track to achieve most of the Millennium Development Goals, globally and in most regions and countries (UNDP, 2003). This inadequate progress raises important questions about the policies and strategies that have been adopted to achieve poverty reduction, as well as about key international issues including aid, debt and trade.

2.3. Causes Of Poverty

Poverty has multiple and complex causes. Sida(2005) views these multi-dimensional causes as stemming from a lack of information, knowledge about market prices for the goods they deal in, issues related to health, availability of public services, and their rights. There is a political minority which lacks the visibility and voice as regards the Institution that shape their lives. Poor people are also said to lack access to relevant skills and knowledge, education and personal development that could improve their livelihoods.

According to Ghana Poverty Reduction Strategy (2004), Poverty may be caused or exacerbated by:

- The lack of capacity of the poor to influence social processes, public policy choices and resource allocations.
- Low capacities through lack of education, vocational skills, entrepreneurial abilities, poor health and poor quality of life.
- The disadvantaged position of women in society.
- Exposure to risks through lack of financial, social or physical security.
- Low levels of consumption through lack of access to capital, social assets, land and market opportunities.

- Exposure to shocks due to limited use of technology to stem effects of drought, floods, army worms, crop pests, crop diseases, and environmental degradation.
- Inadequate environmental protection measures.
- Lack of macro-economic stability that erodes the resources of the poor through inflation and other variables.
- The inability of the national economy to optimize benefits within the global system.
- Habits and conventions based upon superstition and myths giving rise to anti-social behavior.
- Other factors leading to vulnerability and exclusion.

The findings of the study by Obadan (1997) indicated that in Sub-Saharan Africa, the main factors that cause poverty include: inadequate access to employment opportunities; inadequate physical assets such as land, capital and minimal access by the poor to credit even on a small scale; inadequate access to the means of supporting rural development in poor regions; inadequate access to markets where the poor can sell goods and services; low endowment of human capital, destruction of natural resources leading to environmental degradation and reduced productivity; inadequate access to assistance for those living at the margin and those victimized by transitory poverty and lack of participation. That is, failure to draw the poor into the design of development programs.

2.4. Poverty Measurement

The meaning and measurement of poverty has changed from the 1960s, when poverty was economically determined and standards of living were measured as income per capita. Then the capability approach emerged, and later the concept developed into today's view that is a multidimensional view on poverty. Multidimensional poverty refers to the idea that poverty is more than insufficient income or the deprivation of material resources, and also covers the lack of opportunity to access an education, basic healthcare, clean drinking water or to influence political processes and other factors that matter to people (UNDP, 2009).

The most significant criteria for a poverty indicator are that it should be user friendly, cheap and easy to collect and not easily manipulated, be based on universal perception of poverty, and be a simple, direct, measurable and unambiguous proxy. Today's concept of poverty is multi-dimensional, and the key indicators are the Millennium Development Goals (MDGs), which are a part of the Millennium Declaration, developed by the UN in 2000. However, even though the concept of poverty today is multidimensional, monetary measures of poverty still maintain the key position in development indicators and policy (Sumner, 2007). According to Sumner the perception among policy makers is that economic measures of poverty are more objective or exact, and that this is why they still dominate in poverty measures. In an economic approach the poverty line is widely used while in a capabilities approach human development indexes are used to measure poverty, thus both approaches will be reviewed.

2.4.1. Poverty Line

A central indicator in income and consumption measures of poverty is the poverty line, the critical value below which an individual or household is determined to be poor. Poverty measures based on an international poverty line attempt to hold the real value of the poverty line constant across countries, as is done when making comparisons over time. However, countries set their poverty lines at different thresholds, making consistent international comparisons of poverty difficult. In order to compare poverty across countries, a consistent international poverty line must be used to measure poverty. Such a universal line is generally not suitable for the analysis of poverty within a country. For that purpose, a country-specific poverty line needs to be constructed, and the poverty line may need to be adjusted for different locations within a country (UNDP, 2006).

In 1990 the World Bank implemented a standard poverty line to measure extreme poverty in the developing world. In an attempt to define poverty operationally, the measure was set at $1 a day for poor countries, known as the “dollar-a-day” poverty line and this measure is widely used today (World Bank,2006). However, an important notion to take into consideration is that one dollar in 1990 is not one dollar in 2017.

Consequently, the poverty line needs to be used in a precocious manner, and the dollar value applied has to be carefully clarified. Another discussion is about the differentiation of people living under $1 or $2 a day. Evidently this will give different results, and for poor people living on $2 instead of $1 a day can make a huge impact on their lives, thus using a $2 poverty line gives a more imprecise statement of poor people. In practice, like the definition of poverty, the official or common understanding of the poverty line is significantly higher in developed countries than in developing countries. International poverty estimates are available for low and middle-income countries only. Some high-income countries also report poverty indicators, but a dollar-a-day poverty line is not relevant, thus not applicable for high-income countries (UNDP, 2006). Such a poverty line corresponds to the value of the poverty lines used in some of the poorest countries, and is useful for producing global aggregates of poverty since it tests for the ability to purchase a basket of commodities that is roughly similar across the world (Sumner, 2007). Still, the poverty line is based on prices of commodities that are not representative of the consumption baskets of the poor, so they may not fully reflect the comparative cost of goods typically consumed by the very poor. As a result, there is no certainty that an international poverty line measures the same degree of need or deprivation across countries. Altogether, this indicator may have been convenient for practical purpose, but it has not proved to be of continuing value (UNDP, 2006).

2.4.2. The Capabilities Approach

The capabilities approach arose as a result of growing criticism to the monetary approach of the 1980s, and is about much more than the rise or fall of national incomes. The belief is that development is about expanding the choices people have to lead lives that they value, thus it is about much more than economic growth (Sen, 1999). The work of Amartya Sen and others established the foundation for this approach, which can be explained as a way of enlarging people‟s choices and enhancing human capabilities, and poverty is understood as capability deprivation. Nussbaum (2000) frames basic human principles in terms of ten capabilities, which she argues should be supported by all democracies on the route to improve development.

The capabilities approach has inspired the creation of the UNDP Human Development Report (HDR) that has since its launching developed four main human development indices. The three most recognized poverty indices the Human Development Index (HDI), the Gender-related Development Index (GDI) and the Human Poverty Index (HPI), were first published in the first Human Development Report in 1990. The HDI measures the average achievements in a country in three basic dimensions of human development: a long and healthy life, knowledge and a decent standard of living. The GDI is an index that measures human development in the same dimensions as the HDI while adjusting for gender inequality in those basic dimensions. The HPI is divided into the HPI-1 and HPI-2. The HPI-1 measures human deprivation in the same aspects of human development as the HDI for developing and transition countries and the HPI-2 includes, in addition to the three dimensions in HPI-1, social exclusion. The human development indices evolved as alternatives to income as a measure of human well-being, but to measure the capabilities in order to decide whether who's poor or not has proven hard, especially with regard to which capabilities to measure as well as how to make them suitable for aggregation. Consequently economic measures are still widely used, but in relation to the 20 years anniversary for the HDR, the indices are under revision to be consistent with the multidimensional view on poverty (UNDP, 2009).

2.5. Poverty Reduction

Countries that have been most successful in attacking poverty have encouraged a pattern of growth that makes efficient use of labor and have invested in the human capital of the poor. Both elements are essential. The first provides the poor with opportunities to use their most abundant asset—labor. The second improves their immediate well-being and increases their capacity to take advantage of the newly created possibilities. Together, they can improve the lives of most of the world's poor.(World Bank 1990)

Poverty alleviation is one of the primary goals of developing countries and international assistance agencies. The eradication of poverty and the promotion of sustainable development represent two of the most important challenges facing the world in the 21st century. Under sustainable development all human beings will have the opportunity to satisfy their basic needs in an appropriate way, to enjoy equal access to resources, to have a say in the social and economic development process as it affects them, and to participate in political decision making.

2.6. Microfinance

Microfinance, according to Otero (1994) is "the provision of financial services to low-income poor and very poor self-employed people". These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) define microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

2.7 Impact of Microfinance

In the year 2000, the United Nations drew up a list of Millennium Goals2 which aims to spur development and eradicate extreme poverty. In 2002, Murdoch and Haley were authorized to determine the impact that microfinance has on the realization of the seven Millennium Goals. In an extensive work, Murdoch and Harey concluded that 'there is a ample evidence to support the positive impact of microfinance on poverty reduction as it relates to the first six of the seven millennium goals'. The study of shows that clients who participate in microfinance programs have increased household income, better nutrition and health, the opportunity to achieve higher education, a decreasing in vulnerability to economic shock, greater empowerment, and in some cases, the ability of completely life themselves and their families out of poverty (Murdoch and Haley 2002).

Poverty reduction through 'poor' growth has became a central concern to policy makers and a focus of development programming microfinance is considered to be an effective tool for reaching the poor and stimulating the transformation of the vicious circle of poverty into a virtuous cycle of economic advancement. Indeed, public discourse on micro credit has often presented as a panacea for poverty reduction. Much of the legitimacy of the argument that associates micro credit with poverty reduction rests on the perceived success of the Grameen Bank, which comes to serve as a model of the virtuous out come of credit for poor women in Bangladesh (Lont and Hosper, 2004).

Over the last two decades, the micro credit sector has grown fast, as has the enthusiasm and belief of its proponents that lending to the poor will reduce global poverty. The efficiency of microfinance's are rising in respect of its impacts on the poor, and some of the globally Institution are rethinking their practices. They prove small loans to poor families need to have access to public funding during the early years of their operations. The public funding will eventually be phased our as Institution achieve financial sustainability .

Zeller and Meyer (2002) review and synthesis of empirical evidence until the early 1980s only a handful of microfinance intermediaries existed; today the number of microfinance Institution are reaching 7,000 approximately 16 million poor people. The spectacular growth by the microfinance industry has been fuelled not by anonymous market forces, but by deliberate actions of national governments, non governmental organizations and donors who view microfinance as an effective tool for alleviation poverty. This view is based on the assumptions that poor households have worthy activities that could potentially raise their living standards.

Microfinance helps household’s smooth consumption in the face of decline in health of adult family members. Bangladesh is strong and positive and probably is the clearest evidence there is that microfinance is working in the way intended to bring sustained relief from poverty. The programs had a positive effect on household consumption, which was significantly greater for female borrowers (Weiss, 2005).

Other scholars (Wright 2000:31, Simanowitz and Walter 2002, Cherston and kuhn 2002), also argued that microfinance contributes to increased income, consumption smoothing, better health and nutrition, improvement in school attendance and empowerment. All of these benefits are interconnected; the improvement of one will invariably have a positive effect on the others. The combined enhancement in all areas of life brings a marked increase in living conditions for the poor and a new message of hope for the eventual reduction of poverty. However, microfinance has positive economic and social impacts on the poor, others argued that microfinance has negative impacts on the poor clients. There are also in between who supports the positive impact but not necessarily for the poorest, as claimed. Therefore, this research contributes on this debate.David Hulme (2000).

2.8. Importance of Microfinance

Microfinance has a very important role to play in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance plays three key roles in development. It:

- helps very poor households meet basic needs and protects against risks,
- is associated with improvements in household economic welfare,
- helps to empower women by supporting women’s economic participation and so promotes gender equity.

Otero (1999, p.10) illustrates the various ways in which “microfinance, at its core combats poverty”. She states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an Institutional level. It seeks to create Institution that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) state that the poor are generally excluded from the financial services sector of the economy so, MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999).

2.9. Microfinance Approaches

There are different approaches to microfinance service provision to the poor. It can be categorized poverty lending vs. financial system approach, minimalist vs. integrated approach and business vs. developmental approach. Let us discuss as follows.

Poverty Lending Vs Financial System Approach

Government organization and donors agree that MFIs can contribute to poverty reduction. However, there is less consensus about the degree to which, how and when poverty can be reduced through microfinance. According to Robison (2001), it divides that the financial system and the poverty lending approaches. Both approaches share the goals of making financial services available to poor people across the world.

However, the poverty lending approach focuses on poverty reduction through credit and other services provided by Institution that are funded by donor and government subsidies and other concession founds. The priority goals are to reach the poor at lower, especially the poorest of the poor, with credit. Except for mandatory savings to microfinance, many Institution using the poverty lending approach provide micro credit to poor borrowers sustainable, due to their interest rates on loans are very low for full cost recovery. Moreover, they do not meet the demand among the poor for voluntary saving interest (Robinson, 2001).

On the contrary, the financial service approach focuses on commercial financial intermediation among poor borrowers and severs; its emphasis on Institutional self-sufficiency. With world wide unmet demand for micro credit estimated in the hundreds of millions of people and characterized by requests from credit worthy borrowers for continuing access to loans of gradually increasing size, government and donor funds can not possibly finance micro credit on a global scale. Commercial microfinance is not appropriate, however, for extremely poor people who are badly malnourished, ill and without skills employment opportunities. Starving borrowers will use their loans to buy food for themselves or their children. Such people do not need debt rather they need food, shelter, medicines, skill training and employment for which government and donor subsidizer and charitable contributions are appropriate. For these people, microfinance is the next step-after they are able to Work. From the above discussion, poverty lending approach seems to be more appropriate towards the poorest of poor in addressing their problems (Robinson, 2001).

Minimalist Vs Comprehensive Approach

Poverty reduction focused microfinance service providers are divided into two approaches in terms of their view on microfinance products services; minimalist and integrated. According to Sabharwal, minimalist approach emphasizes, often executively on credit access which it sees as the ‘missing piece’ for poverty reduction (Sabharwal, 2000). Advocates of this approach restrict their service only to the provision of credit and saving facilitates making the credit responsible to make the best out of the loan delivered.

In contrast, integrated approach refers to the provision of non financial services such as training in health, literacy, social action and environmental awareness besides financial service (Hickson, 2001). The supporters of this approach acknowledges that credit alone may not be enough to ensure stable employment and productivities for the reason that the causes of poverty at the grass roots level are multidimensional ranging form economic and social problems to lack of marketable skills and resource management know how (Amha, 2003). This research attempted the integrated approach to see how the cases integrate their financial services with other non-financial services in Ethiopia.

Business Vs Development Approach

The first objective of MFIs is the provision of basic financial services to the poor. However, the service provision depends on their approaches. There are two contesting approaches among microfinance supporters: business approach and development approach. According to Van Maanen (2004), business approach primarily focused on organizational achievements such as repayment, cost recovery and profitability. Hence, their concern is 'how to develop the industry' rather than how to develop the community. On the other side, development approach emphasis more on break even, impact on credit and on how the client is doing rather than profitability. Supporters of this approach argue that the clients should participate in awareness and capacity building programs before taking there loans. Looking these different approaches, Van Maanen in his work concluded that: The basis difference seems to be whether the MFI should be seen as a business, be it with a development mission or a developmental body, and be it with a business character. The answer depends on the type of clients the MFI wants to serve; if the MFI aims at clients deep down the poverty pyramid…the approach of the development should prevail. If they look for clients who could eventually "graduate" to the formal sector, the sound business approach is more logical (Maanen, 2004).

Therefore, the development approach gives emphasis not only to building Institution for sustainable provision of services, but also empowering the poor people to get the most out of the services delivered, this research paper adopts the development approach of analyze the functioning of AdCSI, financial products, services and their integration with non-financial services are given an indication as well as poverty lending approach is so much as related with the provision of product or service to the poor.

2.10. Microfinance and poverty

Contrary to a common impression, poor people need and use a variety of financial services, including deposits, loans, and other services. They use financial services for the same reasons as anyone else: to seize business opportunities, improve their homes, deal with other large expenses, and cope with emergencies. For centuries, the poor have used a wide range of providers to meet their financial needs. While most poor people lack access to banks and other formal financial Institution, informal systems like money lenders, savings and credit clubs, and mutual insurance societies are pervasive in nearly every developing country. The poor can also tap into their other assets, such as animals, building materials, and cash under the mattress, when the need arises. Or, for example, a poor farmer may pledge a future season's crops to buy fertilizer on credit from commercial vendors.

In principle, microfinance can relate to the chronic (non-destitute) poor and to the transitory poor in different ways. The condition of poverty has been interpreted conventionally as one of lack of access by poor households to the assets necessary for a higher standard of income or welfare, whether assets are thought of as human (access to education), natural (access to land), physical (access to infrastructure), social (access to networks of obligations) or financial (access to credit) (World Bank 2000). Lack of access to credit is readily understandable in terms of the absence of collateral that the poor can offer conventional financial Institution, in addition to the various complexities and high costs involved in dealing with large numbers of small, often illiterate, borrowers.

The poor have thus to rely on loans from either moneylenders at high interest rates or friends and family, whose supply of funds is limited. MFIs attempt to overcome these barriers through innovative measures such as group lending and regular savings schemes, as well as the establishment of close links between poor clients and staff of the Institution concerned. The range of possible relationships and the mechanisms employed are very wide.

The case for microfinance as a mechanism for poverty reduction is simple. If access to credit can be improved, it is argued, the poor can finance productive activities that will allow income growth, provided there are no other binding constraints. This is a route out of poverty for the non-destitute chronic poor. For the transitory poor, who are vulnerable to fluctuations in income that bring them close to or below the poverty line, microfinance provides the possibility of credit at times of need and in some schemes the opportunity of regular savings by a household itself that can be drawn on. The 6 avoidance of sharp declines in family expenditures by drawing on such credit or savings allows 'consumption smoothing.' In practice this distinction between the needs of the chronic and transitory poor for credit for 'promotional' (that is income creating) and 'protectional' (consumption smoothing) purposes, respectively, is over-simplified since the chronic poor also have short term needs that have to be met, whether they are due to income shortfalls or unexpected expenditures like medical bills or social events like weddings or funerals. One of the most interesting generalizations to emerge from the and poverty literature is that the poorest of the chronic poor (the core poor) borrow essentially for protection purposes given both the low and irregular nature of their income. This group, it is suggested, is too risk averse to borrow for promotional measures (that is for investment in the future) and therefore is only a very limited beneficiary of microfinance schemes (Hulme and Mosley 1996).

2.11. Microfinance In Africa

Since early 1990s, African countries have been enjoying positive economic trends, with higher economic growth becoming more widespread and more robust over time, as an increasing number of countries share in the impact of improved macroeconomic management and governance, a more conducive environment for the private sector, more open economies and higher commodity export prices, for sustained periods.

Despite the positive momentum in economic performance, the incidence of poverty remains a critical issue in most African countries, and many may fail to meet the Millennium Development Goals towards reducing the incidence of poverty and addressing its consequences by the target date 2015. Furthermore, the slowness of economic prosperity to trickle down and lift the masses in poverty is creating a dangerous inequality divide that could eventually fuel instability and threaten progress on the economic front (UNDP, 2009).

Moreover, small enterprises and most of the poor population in African countries have limited access to deposit and credit facilities and other financial services provided by the formal financial Institution. This lack of access to financial services in the formal financial system is quite striking considering that in many African countries the poor represent the largest share of the population and that the informal sector is an important part of the economy.

In this context, there is renewed interest in access to financial services for the poor. In this regard, while there may still be some skeptics concerning the ability of microfinance to reduce poverty, there is ample evidence to show that the benefits of microfinance outweigh the costs. Many development experts now agree that microfinance can economically empower individuals and microenterprises and enable them to contribute to and benefit from economic development by helping them to acquire capital to undertake investments, integrate into the economic systems of their countries and increase their incomes; ensure the creation or improvement of human capital through better education, nutrition and health; and, through insurance and pensions, smooth their incomes, protect themselves against economic shocks and better manage their enterprises and financial situations. In addition, microfinance can be combined with other social programs resulting in mutual enhancement of their cost-effectiveness (Anne, 2006).

There is also evidence that microfinance is more sustainable and has greater impact than other poverty reduction interventions such as targeted food interventions (Otero *et al*.2004). Beyond the economic benefits, microfinance also contributes to the poor's involvement in economic development by increasing political awareness and social organization, increasing social empowerment and community participation, and reducing gender biases in the empowering of the poor. In sum, then, while microfinance may not be a miracle solution, and no single intervention could be, it can combine very well with other economic and social programs, in a holistic approach, to meet the diverse needs of the poor. Therefore, microfinance merits attention by those concerned with Africa's development and poverty situations.

2.12. Micro Finance In Ethiopia

Microfinance was first established in Ethiopia in the late 1980s, with a range of NGO and government micro-credit programmes. However, these were not seen as well-organised or capable of operating on a continuous and sustainable basis (Wolday 2012). Major criticism included the heavily subsidized nature of many NGO programs, with low interest rates for credit, high rates of default, and lack of saving products. In response, the Government introduced legislation regarding the licensing and supervision of banking businesses (*Proclamation No. 84/1994*) which allowed the establishment of private financial Institution, thus breaking the state monopoly in the banking sector (Gobezie 2005). Shortly after, the first microfinance law was passed (*Proclamation No. 40/1996*) with the aim of protecting small depositors, ensuring stability, and promoting the efficient performance of MFIs (Fite 2013). Moreover, it brought all MFIs into the monetary and financial system, enabling deposit taking while placing the National Bank of Ethiopia (NBE) in charge of regulation and supervision.

Microfinance provides a small but significant and expanding role in Ethiopia's developing finance sector. According to the National Bank of Ethiopia (NBE 2015a) the number of banks operating in the country reached 19 in December 2014, of which 16 are privately owned. The banks operated 2,502 branches, equating to a branch/population ratio of 1:35,957. Some 35% of all bank branches are located in Addis Ababa. The total capital in the banking system increased by 21% between 2013 and 2014, reaching Birr 30.2 billion.

There were 32 microfinance Institution (MFIs) operating in the country, all of which are deposit taking. These MFIs mobilized a total saving deposit of around Birr 13.0 billion. The five largest MFIs are regional Institution supported by the government (Amhara, Dedebit, Oromia, Omo and Addis Credit and Savings Institutes) which accounted for 93.6% of the savings and 90% of the credit of the MFI sector.

2.13. Challenge in Serving the Poorest

The challenges of reaching the poorest population with microfinance include physical and economic barriers; self- selection and self-exclusion as well as sector risks and the deprivation of extreme poverty it self. Maes (2006) has put main challenge of microfinance Institution in serving the poorest such as economic barriers, physical barriers, sector risk, self selection, self Exclusion, and Impact of chronic poverty. Economic barriers: many microfinance programs use group lending methodology clients to attend a weekly or monthly meeting to access credit. The cost of transportation to this meeting, together with the opportunity cost of attendance can present a barrier for the very poor to participate microfinance programs. Alternatively many, individual lending or saving programs require clients to save a certain amount before they can by the poorest populations.

Sector Risk: very poor people are often dependant on subsistence economies and the unique requirements of financing such activities (payback of the loan for instance, can only take place after the production period that often lost several months), microfinance Institution usually shy away from lending to this sector.

Self selection: it is well known that solidarity groups in Grameen style microfinance programs and village banks reject very poor members because thus risk the credit value of the entire group. Self Exclusion: Even when very poor people are not actively excluded by a community, they often opt out of community related projects because they are intimidated, believing that the services offered by such project are not suited to their needs. To strengthen this point, Fisher and Sriram (2002) points out that Poor people are excluded not only by better off members, but they also exclude themselves.

Impact of chronic poverty: living in absolute poverty for a prolonged time strongly affects a person's dignity and hope for the future, as well as his or her ability to take initiative and overcome stigma. Moreover, poor health (especially chronic diseases such as malaria HIV/AIDS) presents a major obstacle for conduction success full micro-enterprise activities (Maes, 2006).

2.14. Role of Micro Finance in Poverty Reduction

Poverty has become the primary concern of less developed countries for the last two decades now. Therefore, poverty alleviation has become the most important challenge faced by policy makers and practitioners who have been trying to improve the lives of their poor. Although poverty alleviation has featured as a priority developmental goals of governments of LDCs, the outcome has not largely been as expected. Experience shows that government hand outs and aid to poor communities and households had insignificant or no contribution to poverty reduction of alleviation in the shortest possible time (Zaid Negash, 2002).

A new breakthrough has been recorded when efforts to fight poverty started by enabling people to create their own jobs and generate revenues. Consequently, the provision of finance to the poor was recognized as a means through which poverty and exclusion could be alleviated more effectively. The micro credit campaign has four care themes reaching the poorest, empowers women, building financially self-sufficient institute and ensuring a positive measurable impact in the lives of clients under their families.

According to Zeller and Meyer (2002) many difficulties remain that need to be resolved in view of the ambitious objectives attached to micro finance programs. In relation to the microfinance there are two main issues require clarification. First a large number of poor households still lack access to financial services. Impact studies indicate that the poorest of the poor do not participate in microfinance programs, in part because the necessary environment is not yet in place to support their needs. Second, most of the microfinance Institution have not yet been able to demonstrate their capacity to reach a breakeven point that would allow them to operate without subsidies.

Empirical Microfinance Role Studies in Ethiopian Context Moreover, many of the studies conducted are focused on the impacts from the supply side perspective, i.e. performance from the perspectives of lending Institution. The case study of Dedebit Credit and Saving Institution (DECSI) by Meehan (2002) analyzed the impact of microcredit provision at household level in rural Tigray. The study came up with the finding that credit provisions have had a positive impact on alleviating poverty in the study area. The impact was absorbed at least in the short term by increasing economic activities and income levels of the beneficiaries but diminishes to sustain a long run positive impact. Therefore, positive impact at household level appeared to be highly correlated with the continuous access to credit. Especially she found that though rural clients were recorded as better off than urban clients were initially, they were less likely to maintain it over time than the urban clients. Again, the study identified important factors determining effectiveness of the programs such as differential in the initial income, type of economic activity in which the clients are engaged, sex and dependence on vulnerable agriculture.

In addition, a few other studies looked at the gender dimensions of microfinance impacts in the Ethiopian context. Based on a case study of different MFIs, Tsehay and Mengistu (2002) found out that microfinance interventions have brought improvements in economic status and empowerment of poor women microfinance participants. Similarly Tesfay (2003) found, micro-finance has played an immense role towards better the position of women in improved attitude and respect of their spouses on a case study of Dedebit Credit and Saving Institution.

Generally, most of the studies with the exception of Meehan (2002) and Tsehay and Mengistu (2002) employed similar approaches in investigating the effectiveness of microfinance Institution. That is, they evaluated the impact of MFI"s from the supply side- that high loan recovery rate was considered as a sign of sustainability and indirectly implied welfare improvement. However, some of the above studies show that the voluntary savings did not accordingly; sustainable increase in income was recorded in urban than in rural and that wealth, gender and activity differentials are important for the effectiveness of the programs was (Meehan 2002), and so emphasized in all of the results of impact assessment studies. There for our study is address to identify the implementation challenges in accessing and utilization of loan from Addis Credit and Saving Microfinance Institution in Akaki Kality sub city of Addis Ababa and to draw conclusions about the applicability of microfinance in alleviating the poverty in urban area especially in Akaki Kality sub city.

2.15. Institutional Design for the Poor

Appropriate Institutional design will lead to better achievements in outreach but may or may not necessarily lead to profitability, efficiency and sustainability because the more the program targets the poorest, the less the cost recovery and profit margin expected. Moreover, reasonable achievements of the program will have positive impact on the poor clients and positive impact on the poor will lead to poverty reduction (Johnson and Rogaly, 1997). Recent microfinance interventions have made use of a range of design features (Johnson and Rogaly, 1997). Although there are different designing features, this research focuses on some of them.

2.15.1 Lending Methodologies

MFIs are using different modals to provide financial services to the poor. Robert Cull et al, in their global analysis of lending micro banks, found three main categories: Group, Individuals, and Village Banking Models (Culletal 2007). On the other hand, according to Ledgerwood (1999), MFIs approaches or modals are: individual lending, German Bank solidarity lending, Latin America solidarity lending, village banking and self-reliant village banks models. According to Johnso and Rolgaly, the rational of group lending is that if a member is having difficulty with repayments, other in the group will put pressure on the member to repay. Moreover, that if this pressure fails and the member defaults on the loan, the whole group will repay the loan on be half of the members' (Johnson and Rogaly, 1997) while many schemes use groups, Hulme and Mostey (1996) concluded that group formation may exclude some poor people, especially when the group is formed based on religion, ethnicity, sex, etc (Vigenina and Kritikos, 2004). As a result clients may prefer other models like individual and village banking.

The solidarity group lending model makes loans to individual members in groups of four to seven. The members cross guarantee each other's loans to replace traditional collateral. Clients are commonly female market vendors who receive very small, short-term working capital loans. Payments are made weekly at the program office. The model also incorporates minimal technical assistance to the borrowers, such as training and organization building. Group members normally receive equal loan amounts, with some flexibility provided for subsequent loans (Ledgorwood, 1999). Saving are usually required but are deducted from the loan amount at the time of disbursement rather than requiring the clients to save prior to receiving a loan. Savings serve primarily as a compensating balance, guaranteeing a portion of the loan amount (Ibid). Individual lending is defined as the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment. If requires frequent and close contract with individual clients to provide credit products tailored to the specific needs of the business. Individual lending is most successful for larger; urban-based, production-oriented businesses and for clients who have some form of collateral or a willing consigner (Ledgerwood, 1999).

Village banking was designed in the early 1980s in Latin America by John Hatch and his associates at the Foundation for International Community Association (FICA) to provide asset building loans to poor women in Bolivia. Membership in village bank usually ranges from 30 to 50 people, most of whom are women. Membership is based on self-selection. The bank is financed by international mobilization of members' founds as well as loans provided by the MFI (Ibid). Village banking 3 group is a support group usually women- who meet weekly or biweekly to provide themselves with business; an incentive to save and a mean's of accumulating savings and a community based system that provides mutual support and encourages personnel empowerment.

2.15.2 Subsidized Credit Vs Market Interest Rates Model

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

On the other hand, market interest rate model refers to the rate that arises from interplay of supply and demand in some defined range of transactions. Market rate is used to refer to the rate at which commercial banks and their conventional customers conduct deposit and loan transactions. Loan interest rates are called 'subsidized' or 'unsubsidized' depending on whether they cover the full cost of providing the loan. Delivering microfinance services at many small, scattered locations is considerably more expansive than providing clients with services for large loans and deposits in centrally located urban banks (Robinon, 2001).

2.15.3 Progressive Lending Vs Frequent Repayment Model

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

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

2.15.4 Consumption Smoothing Vs Productive use Model

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

2.15.5 Products and Services

According to Ledgerwood (1999), providing microfinance services to marginal clients is a complex process that requires many different Kinds of skills and functions. There are four broad categories of products/services that may be provided to microfinance clients: namely (a) financial intermediation or the provision of financial products and services such as savings, credit, insurance, credit cards 1 This definition is for FINCA's website and payment services, (b) social intermediation or the process of building the human and social capital required by sustainable financial intermediation for the poor, (c) enterprise development services, non financial services that assist micro entrepreneurs include business training, marketing and technology services, skills development and sub sector analysis; (d) social services or non-financial services that focus on improving the wellbeing of micro entrepreneurs include health, nutrition, education and literacy training. Social services are likely to require ongoing subsidies, which are often provided by the state or through donors. However, the degree to which MFI provides each of these services depends on whether it takes a minimalist or integrated approach.

2.15.6 Targeting the Poor

According to Ledgerwood, 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 business grown or diversity their activities, to encourage the development of new businesses etc. (Ledgrwood, 1999).

Direct targeting refers to the allocation of a specific amount of found to provide credit to a particular sector of the economy or population. It is founded on the belief that because certain groups (the poor, specific castes) or sectors are unable to access credit (or to access it at affordable prices), credit must be made accessible through a governmental or donor mandate. These allocations of specific amount of funds are to provide poorest of the poor women, the indigenous population or the economically active poor. Direct targeting leads to credit diversion and low repayment. Further more, potential clients who have profitable but un financed or under financed businesses may be excluded because they do not fit the profit. Alternatively, people who do match the qualifications and receive credit may not have entrepreneurial skilled or a profitable venture in need of financing .

Indirect targeting refers that products and services are designed for and aimed at people who are people beyond the formal finance, instead of mandating specific funds to particular groups. MFI that seeks to provide the very poor with credit should design its loan products so that the relatively high interest rates and weekly attendance at group meeting. More affluent clients usually see this as an inconvenience, which makes the credit attractive only to poorer clients.

The primary difference between direct and indirect targeting lies in the means that the MFI uses rather than in the target group. Both direct and indirect targeting may reach the same population groups or economic sectors, but direct targeting imposes eligibility criteria, while indirect targeting deigns appropriate products and services (Ledgerwood, 1999).

Dunford and Denman (2000) argued that the small loan size, high interest rate, short loan duration, the frequent repayments, and dependence on group guarantees and weekly attendance at group meetings are all factors assumed to make the program unattractive to people who have other sources of credit as an indirect method. However, when easier finance options are not available to the not-so-poor, the demand for credit may be so high that even they are willing to tolerate the unattractive features of group-based poverty leading. According to Armendariz and Morduch (2005) the Grameen Bank has bound microfinance to creating opportunities for poor women. The bank lent originally to large numbers of men, in addition to women, keeping both groups and centers segregated by sex, when the focus shifted in the early 1980s, the move was mainly a response to growing repayment problems in male centers, and by the end of that decade well over go percent of clients were women. At the end of 2002, 95 percent of clients were women.

On the other hand, according to ledgerwood (1999), MFIs empower women by increasing their economic position in society. The provision of financial services directly to women aids in this process. Women entrepreneurs have attracted special interest from the Institution because they almost always make up the poorest segments of society and are responsible for child rearing including education, health, and nutrition and they often have fewer economic opportunities than men.

It has been argued that an increase in women's income benefit the household and the community to greater extent than a commensurate increase in men's income. The facts of women in cultural barriers that often restrict them to the home making: it difficult for them to access financial services. Women have more traditional roles in the economy and may be less able to operate a business outside of their homes. Moreover, women often have disproportionably larger household obligations. Commercial banks are unwilling to lend to women or mobilize deposits from them.

Women's access to property is limited and their legal standing can be precarious, women have fewer sources of collateral. They have lower literacy rates, which makes it more difficult for them to deal with financial systems that depend on written contracts. Women have demonstrated higher repayment and savings rates than male clients .

microfinance interventions may lead to empowerment for women by increasing their incomes and their control over that income, enhancing their knowledge and skills in production and trade and increasing their participation in household decision making. As a result social attitudes and perception may change and women's status in the household and community may be enhanced (Johnson and Rogaly, 1997). Moreover advocates argue that microfinance can increase women's bargaining power within the household. Women will become “empowered” and enjoy greater control over household decisions and resources.

2.15.7 Mobilizing of Savings

According to Ledgerwood and White (2006) underlying the performance of successful microfinance intermediaries are some basic tenets including saving mobilization. These principles are especially important for microfinance Institution transforming to regulated financial intermediaries because such Institution tend to have little prior experience with either public savings or financial intermediation.

Developing countries show considerable similarity in the ways poor people save in the informal sector in the reasons, they save and in the way they match the types of savings with the particular purposes for which they save. Evidence shows that a wide range of countries, cultures and economics show that economically active poor saver want for their financial Institution. Low income saver wants security, convenience, liquidation, confidentially, a choice of products, appropriate for their needs, helpful, and friendly service, and potential access to loans. Then the MFI can develop products and services that meet the needs of poor people better than they can do by likely to draw large numbers of saver. Therefore, the research attempts to analysis the saving of money as accumulation of assets. Term deposits are savings accounts that in a specified amount of time. They provide the lowest liquidation and the highest returns. MFI pay the higher rate of return to the saver and the term of deposits range from one-month term to several years; they allow the MFI to fund loans for a period of time just of the deposit time. According to Weiss (2005) most microfinance schemes charge close to market clearing interest rate (although these will often not be enough to ensure full cost recovery given the high cost per lost per loan of small-scale lending).If the core poor cannot afford high interest rates they will either nor take up the service or take it up and get into financial difficulties. Also where group lending is used, the very poor may be excluded by other members of the group, because they are seen as a bad credit risk jeopardizing the position of the group as a whole.

2.16. Operational Lending Models of the institution

Similar to other parts of the world, MFIs in Ethiopia focus mainly on group–based lending and promote compulsory and voluntary savings. They use a solidarity group approach, whereby clients join into groups of 3-7 members and co-guarantee each other's loans. These groups meet on the weekly or monthly bases to make loan repayments and savings deposit. Working through groups is considered as an effective means to expand outreach and reduces the transaction costs forMFIs.

The co-guarantee mechanism within the groups serves as an alternative form of collateral. In addition to group lending methodology, most MFIs use individual lending on the basis of physical or other collateral. Staring in the mid of 1995 E.C change in policies, procedure and methodology of the Institution has started to provide this individual loans. Cooperatives and joint ventures are also entertained on the same line.

Type Of Loan Products

There are seven types of loan products such as micro business loan sometime called general loan, small business loan, micro lease, consumption loan, agricultural loan ,short term loan and housing loan. **MICRO BUSINESS LOAN** product has a nature of installment business that does not require .engaged in mini trade. Example of this loan product user are they work in gullite, micro food processing etc and it is disbursed for this type of loan ranges from 700 birr to 5000 birr. The second type of loan is **SMALL BUSINESS LOAN**, disbursed relatively for well established businesses that means business whose initial capital required more then 5000 birr business established before. This type of product may expect that would crate more job opportunities because of this the city administration give priority and technical and vocational school graduate students who want to enter in to productive ventures and the size of the loan is usually greater than 5000 birr and less than 250,000 birr for each entrepreneur**. MICRO LEASE LOAN** disbursed for the purchase of machines according to the choices of clients. In this type of loan individual ,group and cooperative can use the product and the customer involved in priority business area .in this type of loan willing to pay 10%of the machin in advance has to provide property protection garentee. is rendered most. **HOUSING LOAN PRODUCT** is to enable clients construct a new house or complete a construction in progress. The maximum loan size is 350,000 birr with loan term of 60 months (or 5 years) and repayable monthly. **CONSUMPTION LOAN** this loan will be extended in group collateral. The user of this product is permanent worker of governmental organization. The minimum amount of loan is 700 and the maximum is 10,000.**SHORT TERM LOAN** is a product that use individual engaged in any legal business activity. The minimum and the maximum amount is 50,000-150,000. Depending up of the nature of, the business, the loan products are characterized in to term loan and installment loan. **AGRICULTURAL LOAN** customer engaged in animal husbandry, fattening, farming, horticulture, poultry, bee farming etc.

generally , Loan can be provided for the purpose to start and expand business engaged in weaving and tailoring metal and wood work, food processing and production of construction input, municipal service like solid waste disposal and parking retail trade, urban agriculture, leather products and other income generating activities. The main loaners are Addis Ababa city residents who are 18 years old and above, edirs (legally registered), cooperatives, joint ventures and other business association.

Loan Size, Interest Rate And Service Charge

The feasibility of the project is given the prime importance in the determination of the amount of loan to be given on credit and for controlling purpose and the Institution decide the loan size accordingly. This includes both working capital as well as investment. AdCSI charges 9% of lending interest for installment and micro lease and 9% for term loans per annum on flat rate basis. In addition to this 2% service charge is paid for all micro lease and small loans but not for consumption loan and short term loan . For the housing and consumption loan, the interest rate is 10% per annum on decline rate basis and for short term loan 2%/month.

Its loan size and time of repayment is as shown below:

Loan Size	**Maximum Time Allowed for Repayment**
700-5000	24 months (**Micro** loan)
5000-250,000 birr	36 months (small loan)
700-10000	24months (consumption loan)
700-250,000	18 term loan months (agricultural loan)
- 250,000	36 months (micro leas loan)
50,000-150,000	10 months (short term loan)
700-350,000	60 months (housing loan)

Source profile of Addis credit 2009E.C

Saving is an important component of the program, it serves as a sources of lending capital, provides cash collateral for loans and enable to generate income through interest spread. AdCSI provides **saving service** to both borrowers and non borrowers. There are four types of saving services provided by the Institution. There are mandatory saving (borrowers specific), personal (voluntary) saving (borrower and non borrower clients) , time deposit and condominium prepaid saving. Except for the time deposit, the Institution pays an interest of 4.5% per annum for the amount mobilized through saving. Apart from the saving service AdCSI provides three types of **insurance service** . The first is credit insurance provided to borrowers only or life insurance. To write off the loan in case of a death, the client is required to pay 1% of the outstanding balance for the coming year if any . The second is a business insurances provided to cooperative and joint ventures in case of a complete damage of their business. The insurances premium to be paid is the same as the first types. And the last is property insurance this insurance required from housing loan clients .the insurance service will be applicable in case of damage of the house or death of the loanee ,they are required to pay 2%of their balance of loan for one year. AdCSI changes 9% interest for installment and micro lease and 9% for term loans per annum on flat rate basis. In addition to this 2% service change is paid for all micro and small loans. For the house and consumption loan, the interest rate is 10% per annum on decline rate basis. Therefore, this research is investigate in a certain extent the loan, saving and non financial services. the other service of ADCSI is fund administration it is third party fund administration service , such as, payment of social security fund for retired government employees ,collage etv service charge ,managing GNO and other related service the detail agreement will be made between the Institution and third party .

Selection criteria and requirements

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

Kebelles' is one of the major requirements needed by AdCSI to ensure that the poor (applicants) are residents in Addis Ababa. This requirement creates a space for marginalization of the poor through different malpractices in the process of offering this evidence. For the poor people to get this evidence, it takes a long way for different reasons.

The poor in Addis Ababa live either dependently in some ways or in rented substandard rooms. The Kebele needs the address where the applicant stays in order to give this letter. In this case the owner of the house with whom the applicant lives is required to sign proofing that the person is living with him/her either as a dependent individual or as a renter/paying guest depending on the situation. However, the owners of the house are usually unwilling to sign for the poor living with them not only because they do not want to add external person as a member of the family but also with the intention to conceal that they rent a substandard rooms.

Second, in case when the owner of the house gives his/her confirmation, the procedure in the Kebele it self takes a couple of months to deliver the evidence to the poor while the better off and politically influential people can get the evidence from Kebele within a maximum of one day either using the power of money or political power and informal networks. The issue of obtaining certification letter as a cooperative, and license as a joint venture from the Trade and Industry Bureau of Addis Ababa City Government are also very complicated task which is far beyond the access and capacity of the poor in the context of Ethiopian rigid bureaucratic system.

In a situation where the poor people have no sufficient awareness and exposure about the bureaucratic system and where favouritism and patronage networks work more dominantly, and where the service delivery system works rather inefficiently, it is very unlikely that the poor people can get easy access to obtain the required certification letter and license. Hence, it takes several months, if at all possible, for the poor people to get there. AdCSI also requires the clients to submit business plan/proposal in order to approve the credit for the clients. This is a bit complicated for poor people who are uneducated and mostly lack the required skill to prepare business proposal and obviously such practice discourages the poor from applying for the loan.

Moreover, AdCSI mainly works in line with guaranteeing repayment of the loan and hence gives emphasis to the better off. The Kebele level Service Delivery Posts and community level Credit and Saving Committee tend to ignore/discriminate the poor simply by taking the issue of guaranteeing loan repayment in to account and this practice obviously leads to the perpetuation of marginalization of the poor. Exclusion of the appropriate target groups from accessing MC services may result from a simple failure to identify them but very often it is also the result of deliberate efforts to impede the poor. As largely owned by the Addis Ababa City Government, AdCSI uses the existing bureaucratic structure and works with officials at different hierarchies of the City Government (especially Kebele Administration) for activities like selection of clients. The fact that the comments and decisions of the Credit and Saving Committee of the Kebele Administration is needed as one of the major criteria for selection witnesses that the body of the City Government particularly Kebele Administration has a big say in deciding who should be the recipients of the credit. This creates a kind of plat form for the government to intervene in credit service of the Institution indirectly in order to use it for a political game.

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

2.17. Conceptual Framework

A conceptual model or logically developed, described and elaborated network of association among variable that have been identified through such processes as interviews observations and literature survey upon which an entire research project is based (Sweeney, 1988). Framework can be used like a travel map. In this study a conceptual framework will be designed which derived from customers satisfaction whereas this conceptual framework shows a relationship that existing between variables used in the present study.

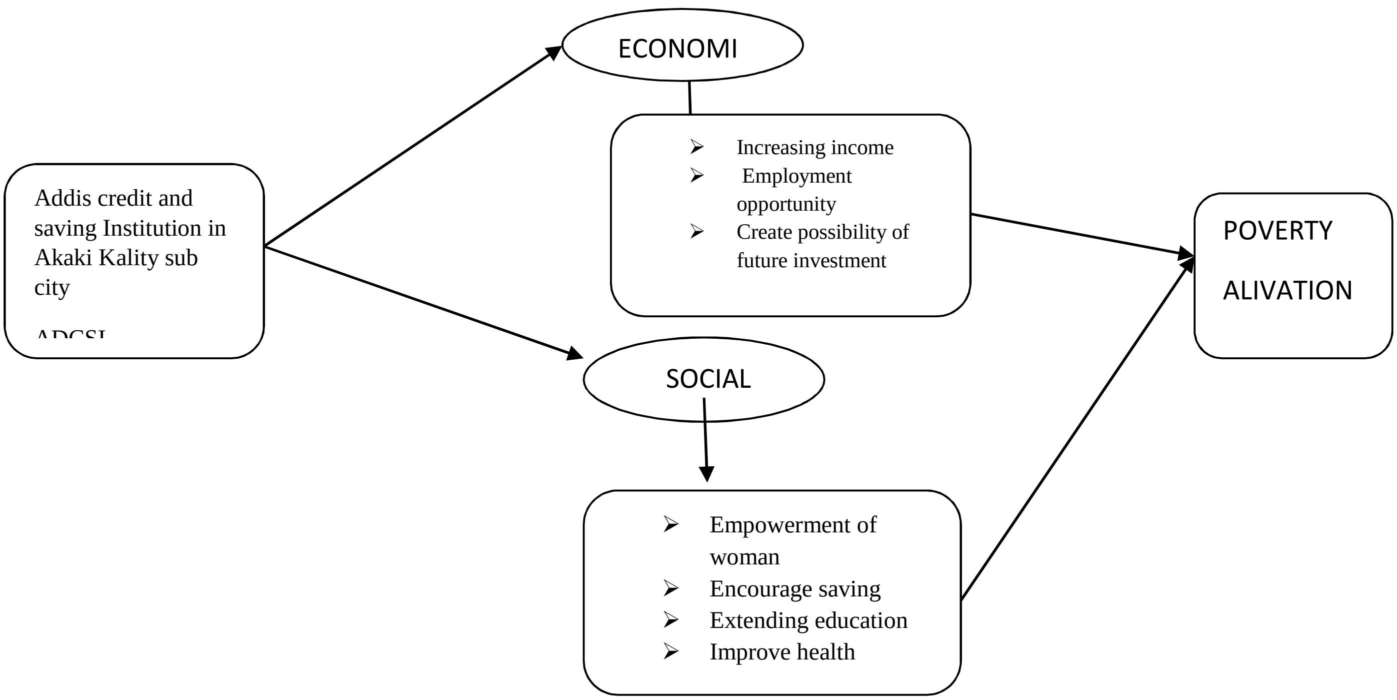


Figure 1 Conceptual framework

Source: Author’s construction

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Research Design

The purpose of this study is to conduct descriptive research in order to gather as much information as possible concerning the role of microfinance Institution in urban poverty alleviation in AkakiKality Sub City of Addis Ababa .

The study used descriptive research design in gathering information, procedure adopted in conducting the research, the techniques uses in analysis as well as presentation of data collected, because it tries to describe and explain the data for the purpose of describing the nature of existing conditions finally to describe facts in the field. To accurately get the information, questionnaires and interviews were employed.

3.2. Target Population

To achieve the research objectives customers of Addis Credit & Saving Institution are the target population of the study, Akaki Kality Subcity customers selected due to the simplicity they have bring to the researcher in reaching and gathering data related to the rest of MFIs customers. Although the study is confined to MFIs Woreda1, Woreda4, Woreda7 & Woreda8 purposively. According to the information obtained from AKSC the four woreda MFIs have selected due to the fact that they have the largest number of customers among all having. Moreover, 170 clients from the total of 5100 customers were selected conveniently.

3.3. Sampling Technique and Sample size determination

The researcher employed a non-probability convenient sampling technique. The study used this technique since its convenient to the researcher to opts the data at the field. In addition the reason that elements may be drawn into the sample simply because they just happen to be situated, spatially or administratively, near to where the researcher is conducting the data collection. Purposively Semi structured interview also conducted for higher Officials of the Institution to gather information needed for the study. The sample size of the study was 170, which is determined by the equation developed by (Yamane, 1967).

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

Where n= number of sample size

N= Total number of study population

e= Level of precision

3.4. Source of data collection

Primary and secondary data was used for the study:

3.4.1. Primary Data

The sources of the primary data for this study were customers of the four wereda of MFIs and the higher Officials of the Institution.

3.4.2. Secondary Data

The sources of Secondary data for this study was obtained from document review, the use of Internet sources, past research papers, journals and textbook. This helped to see what others say about the subject matter, what are their findings and recommendations.

3.5. Method of data Collections

The researcher collected data by using two methods which are questionnaire and interview (Field survey).

3.5.1. Questionnaire

The designed questionnaires were prepared for MFIs customers. Once the questionnaires were designed, it was distributed to respondents on convenience sampling basis. The questionnaire was structured in both open-ended & closed-ended type of questions.

3.5.2. Interview

For the purpose of triangulation, semi structured interview was conducted with higher Officials of the Institution.

3.6. Validity of the instrument

Validity refers to the extent to which an instrument asks the right questions in terms of accuracy. Validation was done so as to ensure if instruments to be used in collecting data enabled to collect the information needed. The validation was done by gathering opinions from my supervisors, from those who directly working in respective departments, who supervises the operations and customers who uses the services. They assessed the relevance of the contents in the questionnaires and gave their opinions and suggestions that were incorporated to improve the validity of the questionnaires.

3.7. Methods of Data Analysis

Data analysis was conducted using qualitative and quantitative approach. Descriptive data analysis is a systematic process involving working with data, organizing and dividing them into small manageable portions. Analysis was done based on the research objectives which are being presented according to the research objectives.

The data was then coded and analyzed with the help of a computer. Analysis of data in this research is done using descriptive statistics.

3.8. Ethical Research

Ethics is one of the major considerations in research. Hence this study was conducted in a good manner while considering personal values. A researcher only deals with the subject matter whereas it observed and keeps all issues outside the study at the field. The responsibility of ensuring that a respondent is respected was the order of the day and thus personal matters were avoided to the great extent. therefore the study has incorporated the following ethical considerations.

- Respondents were clearly communicated about the objective of the study before they were asked to give their answer.
- Respondents were not asked about their name, race and religion etc.
- The questionnaire was distributed after getting the consent of the banks.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. Introduction

This section covers the profile of clients (age, sex, marital status, and occupation), how often clients have taken loan, satisfaction of the clients about loan amount & period, and clients attitude towards loan. It also presents clients awareness about the Institution role on poverty alleviation, life improvement and income change after loan taken. Furthermore, the major problems were raised by clients and managers response on the overall activities of the Institution.

4.2. General Information Of Respondents

The table 1 show that from the total respondents of 170 clients of AdCSI in Akaki Kality sub city 75(44%) of they are males and the remaining 95(56%) are females .From this number of women participants is to some extent higher than number of male participants in this study. Although there is a need to attract more women to participate in the service so that they can take a lone and get involved in income generating activities it helps more to alleviate poverty.

Table 1. Percentage Distributions by Gender Status

Description		**Total**	**Percentage**
Gender	Male	75	44%
	Female	95	56%
Total		**170**	**100%**

Source: Survey data, 2017

Table 2. Percentage Distributions by Age and marital Status

Description		Number of respondents	Percentage of respondents
Age	18-35 Year	75	44%
	36-45 Years	53	31%
	Over 46 Year	42	25%
	Total	**170**	**100%**
Marital status	Single (never married)	76	45%
	Married	89	52%
	Divorced	5	3%
Total		**170**	**100%**

Source: Survey data, 2017

As indicated in Table 2 above out of the total respondents, 75(44%), 53(31%), 42(25%) are in the age group of 18-35, 36-45 and over 46 years respectively. From this, it understood that the majority (44%) of the respondents is categorized under productive age group of (18-45 years) and only 25% of them are above 46 years of age. The reason for majority of borrowers to be in productive age group might be attributed to the fact that people in this age group have been promoted by the current government to create their own income generating micro and small scale businesses so as to reduce poverty and improve their living standards.

The response of sample borrowers on their marital status also shown in Table 2 above. The research reveals that, the majority 89(52%) of respondent are married, 76 (45%) of respondents are unmarried and 5(3%) is divorced. This evidence proves that AdCSI gives loan to more married clients than unmarried and any other marital status group clients. According to the staff of AdCSI in Akaki Kality SC, the reason for participation of more married clients than other marital group clients in the credit program is due to the fact that the need of income and expense by married people is higher than single people and they are more stable and faithful in loan repayment than the single persons who would default and easily run away from the area without paying.

Table 3. Percentage Distributions by Level of Education

Description	**Number of respondents**	**Percentage of respondents**
None/ Illiterate	9	5%
Read and write	14	8%
Primary	17	10%
High School	37	22%
Preparatory	28	16%
Diploma	34	20%
BA Degree And Above	31	19%
Total	**170**	**100%**

Source: Survey data, 2017

As the level of education of respondents illustrated in table 3 above, from the total respondents, over 77% reported that their education level is from secondary school to first degree and above level and only few 5%and 8% of them said that they are illiterates and read and write. This result contradicts with existing views and expectation that the majority of people carrying out micro and small scale business activities and participating in the microfinance programs to be illiterates. The reason for this unexpected good academic status of sample respondents, according to the staff of AdCSI in AKSC, is due to the current government policy which is promoting high school dropouts and fresh graduates from university to be organized and create their own micro and small scale business enterprises, using different financial source, including microfinance, rather than waiting for government employment opportunities. This education level of the respondents has positive implication on the use and management of the loan by the borrowers. The issues of business expansion and diversification of products, asset accumulation and interest calculations can easily be understood and practiced by these educated clients.

Table 4. Percentage Distributions by family size

Description		**Number of respondents**	**Percentage of respondents**
Family size	1-4	95	55%
	5-10	57	34%
	More then 10	18	11%
Total		**170**	**100%**

Source: Survey data, 2017

With respect to family size, 95(55%) of clients respondents have the family size of 1-4, 57(34%) respondents have a family size of 5-10 and 18(11%) respondents have a family size of more than 10. This shows that almost all AdCSI clients do have at least one family member. When there is more demand than the supply for the basic services the household head searches for alternatives to enable him to improve the living standard for the family. This has implication on the use of loan on income generating activities or other purposes.

4.3. Social- Economic Condition Of The Respondent

4.3.1. Micro finance and the income of client

Table5. Respondents According to their Source of Income Before and After Joining of MFI

Description		Number of respondents	Percentage respondents
Did you have any business and income source before joining this credit program?	Yes	123	72%
	No	47	28%
	Total	**170**	**100%**
Did your income increase after joining the loan credit program?	Yes	123	72%
	No	47	28%
	No Answer	0	0%
	Total	**170**	**100%**

Source: Survey data, 2017

As show in the table 5 above, the majority 123(72%) of respondents had business and source of revenue before joining this microfinance program. The remaining 47(28%) of the respondents reported that they had no any business and source of revenue before joining the program. This result proves the idea that micro credit programs are not actually favoring the poorest of poor in their services provision but they are serving more of active and productive poor people who have capability to repay loan with the interest. Therefore, it is very doubtful to conclude at this stage that AdCSI in AKSC is primarily reaching the targeted urban poorest since it needs further research.

Moreover, AdCSI clients asked about their income after joining the credit program. Accordingly, 123(72%) of respondents said that their income has been increased after joining the loan program, 47(28%) respondents replied that their income have not increased.

Most of respondents also explained that the reason for the increase in their income is due to strengthening and expanding of their business using loan borrowed from AdCSI. The result is in line with the study framework in that the microfinance increases income and women's empowerment and contributes to the poverty alleviation.

4.3.2 Borrowers Ability to Pay Their Children's School Fee before joining MF Program

the sample respondents were asked to reply on their ability to Pay Their Children's School Fee before joining MF Program and capacity to pay for your children's quality of schooling after joining credit program. Table 6 show the answers of the client

Table 6. Respondent's change in education before and after joining the credit program

Description		Number of respondents	Percentage of respondents
Were you able to pay your children's education fee before involving in AdCSI credit program?	Yes	101	59%
	No	39	23.6%
	No answer	30	17.4%
	Total	**170**	**100%**
Your capacity to pay for your children's quality of schooling after joining credit program?	Increased	86	50%
	Decreased	10	6%
	Remain the same	74	44%
	Total	**100**	**100%**

Source: Survey data, 2017

The above table (table 6) show that 101(59%) of the respondents reported that they are able to pay their children's education fee before involving in AdCSI Program,39(23.6%) of the respondents were not able to pay school fee and 30(17.4%) respondents gave no answer for their children's education fee before involving in AdCSI program. This indicated that a significant number of respondents are able to pay their family education fee. So, it is related to the idea of that the majority borrowers had their own income source before joining in AdCSI and also the attitude of the society about education is good .

However (see Table 6 above), after joining credit program, 22(48.9%) of respondents reported that their financial capacity increased to pay for their children's quality of schooling and only2(4.4%) of the respondents answered that their financial capacity to pay for their children's quality of schooling was decreased. The remaining 21(46.7%) of the respondents were replied that there was no change in their financial capacity to pay for their children's quality of schooling after joining credit program. This implies that the micro finance Institution can support the education standard of the client family so it also encourage the country education standards.

4.3.3.The Impact Of Microfinance On Health Care

Advocates for the integrated approach argue that MFIs need to focus on poverty reduction as their primary goal is to provide services to the poor that integrate training, basic education, and primary health are inter connected, and the impact for each can increase when they are delivered together (Moduch and Haley 2002).

In order to understand the role of ADCSI credit program on health care sample respondents were asked to explain about the difference before and after joining credit program affording to pay the medical expanse whenever they or their family members get sick.

Table 7. Response of respondents on affording health care

Description	Number of respondents	Percentage of respondents
How do you explain the differences (in terms of before and after joining the credit program) in affording to pay the medical expanses whenever you or your family members get sick?		
Better before joining the credit program	56	33.7%
Better after joining the credit program	114	66.3%
Total	170	100%

Source: Survey data, 2017

As is indicated in the above Table 7, the majority of the respondents 114(66.3%) reported that they can afford to pay the medical expenses after joining the credit program whenever their family members fall sick and 56(33.7%) reported that it was better before joining to pay the medical expenses. Although the result from the majority of respondents confirm that they can be able to pay their medical expense, the result is not satisfactory. Hence, AdCSI in Akaki Kality sub city should assist the clients more to pay their medical expenses.

4.3.4. Micro finance and its contribution for client food items and quality of food and ability to buy clothes

Table 8. Response of respondents on the number of food items and quality of food and ability To buy clothes Before and after joining credit programs

Description	Number of respondents	Percentage of respondents
How do you explain your ability to buy clothes for yourself and for your children in general?		
better before joining the credit program	**29**	**17%**
better after joining the credit program	**141**	**83%**
Total	**170**	**100%**
The number of food items and quality of food that you are consuming now has		
• Improved	**89**	**52%**
• Worsened	**25**	**15%**
• No change	**56**	**33%**
Total	**170**	**100%**

Source: Survey data, 2017

As indicated in the table 8 above, the largest proportion 141(83%) of the respondents said that their ability to buy clothes for themselves and their family is better after joining than before joining the credit program and only 29(17%) of the respondents reported that their ability to buy clothes for themselves and their family was better before joining the credit program. The reason for the improvement in ability to buy clothes, was further explained by those respondents whose ability improved to buy clothes as to be the increase in their family income caused by strengthening their income generating activities using borrowed money from MF program. This result implies that AdCSI microcredit program in AKSC plays the role to improve the ability of borrowers to buy clothes for themselves and their family. The result also gives answer to the research question: to what extent AdCSI help beneficiaries to meet their basic needs.

Moreover, sampled borrowers were also asked to single out then umber of food items and quality of food that they are consuming now. Accordingly, 89(52%) of respondents reported that they improved the number of food items and quality of food now than before, 56(33%) of respondents confirmed that the number of food items and quality of food that they are consuming now remained unchanged and 25(15%) respondents reported that the number of food items and quality of food that are consuming now become worsened. These results imply that AdCS credit program improves the capacity of borrowers in affording to pay the number of food items and quality of food consumed by them.

4.4. Information Concerning Asset Of Respondents

Material assets which included physical and financial assets such as land, housing, livestock, saving and jewelry, enable people to withstand shocks and expand their horizon of choices (World Bank,2002). The value of assets of the borrowers is expected to have a positive impact on loan accessing ability of clients and repayment performance since the assets will be collateral and under liability in case of default. The response of sample borrowers on their asset situation before and after being engaged in AdCSI program is exhibited in the table 9 below.

Table9. Respondents According to Their Asset

Description	**Number of respondents**	**Percentage of Respondents**
Did you have fixed property before being engaged in AdCSI?		
Yes	97	56.4%
No	73	43.6%
No answer	0	0%
Total	170	100%
Do you have fixed and movable asset after being engaged in AdCSI program?		
Yes	170	100%
No	0	0%
Total	170	100%
What additional assets do you have after being engaged in AdCSI program?		
Owner of a house	24	14%
Have money to pay the school fees of my children	145	85%
Access of payment for health care for my family	112	66%
Improve my food situation	86	51%
The saving has increased	72	42%

Source: Survey data, 2017

As indicated in table 9 above , 97(56.4%) of the respondents reported that they did not have fixed property before being engaged in AdCSI program and 73(43.6%) respondents replied that they had a fixed property before their involvement in AdCSI credit program. Even though the majority of borrowers had no fixed asset before joining the credit program, a significant number of respondents confirmed that they had fixed assets such as table and chair, sofa, buffi, different kitchen utensils before they engaged in AdCSI credit program.

Moreover, the sampled respondents were asked whether they have fixed and movable asset or not after being engaged in the credit program. All of 170(100%) respondents reported that they have additional fixed and movable asset after being engaged in AdCSI credit program. This implies that the respondents must have saving account in the Institution. About type of additional assets owned by respondents after joining the credit program, 24,145,112.86 and 70 of respondents reported that as they have house, money to pay the school fees for their children, access of payment for health care for their family and improved their food situation respectively. Fixed assets such as: house, as table and chair, sofa, buffi, different kitchen utensils can be used as a collator to access more credit from micro financial Institution while money can be used to pay school fee for children, to access health service and to improve food situation of the family and increase the saving and thereby to improve the living standard of the borrowers.

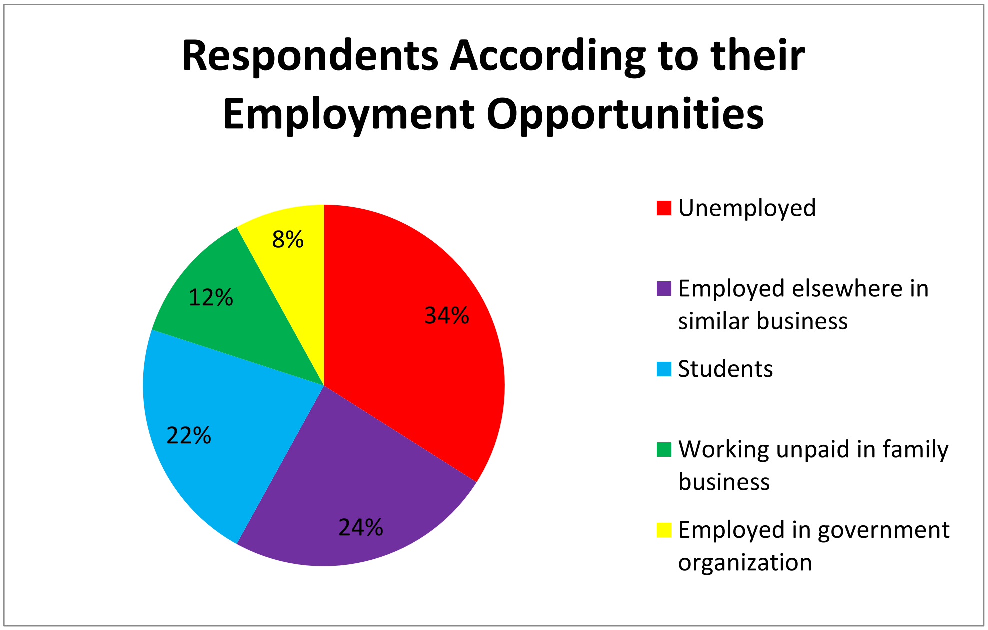
This finding of the research has reaffirmed that AdCSI has impacted the life of the population it is targeted for positively. Many respondents have also witnessed that their state of asset holding and amount of credit they accessed from AdCSI have been improved vividly from time to time. This complies with the speculation of the study framework adopted for this research.

4.5. Information Regarding Employment Opportunity And Empowerment Of Respondents

Unemployed productive age group people are vulnerable for urban poverty. Creation of employment opportunity for urban poverty susceptible people by availing microcredit for startup capital for micro scale projects acceptable by AdCSI is one of the objectives of its microfinance program. The sample borrowers in Akaki Kality Sub City were asked to

respond on their employment opportunity, before they started their current business, to know the extent of self-employment opportunity created by AdCSI microfinance credit program.

Figure 1 : Respondents According to their Employment Opportunities



Source: Survey data, 2017

As indicated in the Figure 1 above , the large proportion 34% of respondents had no salary paid employment before joining AdCSI credit program and 24% of respondents said that they had similar jobs with salary and 22% of them are students ,12%of the respondents said working unpaid in family business and the

Remaining 8%of respondent said employment opportunity in government organizations. This finding asserts that the credit program of AdCSI is contributing to create employment opportunity to the large number of them by availing them microfinance services. If the employment opportunity created by accessing microfinance services from AdCSI is properly managed and being sustainable by borrowers, it will also contribute to the economic and social empowerment of borrowers by improving their income and decision making power through their continued participation in the microfinance program and their involvement in the business market. This finding is in line with the study framework speculated to analyze the research findings. The result is an encouraging to AdCSI to give more emphasis for those borrowers who have no employment opportunity since it is in line with the objectives of the Institution and has positive impact on social and economic empowerment of its clients in particular, and poverty alleviation in general.

Table 10. Respondents Reply about Number of Employees

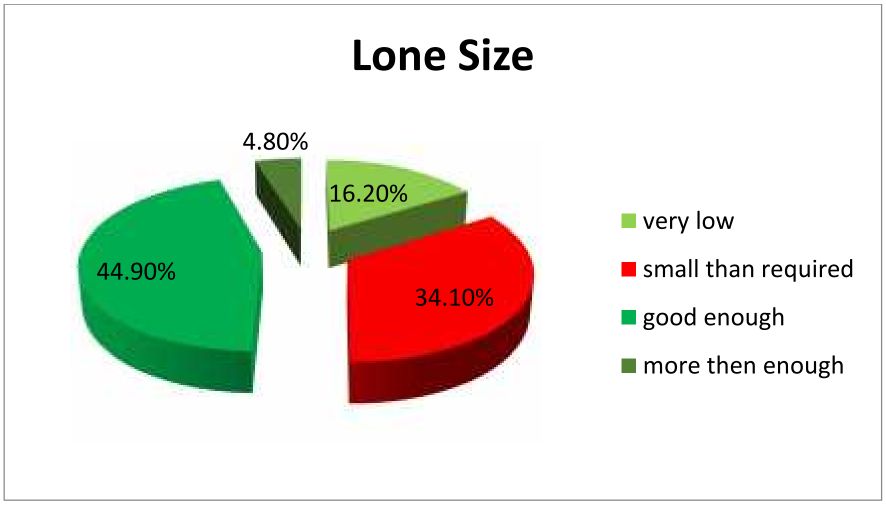
Description	Number of percentage	Percentage of respondents
How many employees (even family members employed) do you have in your business?		
One	52	31%
2-5	79	46%
More then 5	21	12%
None	18	11%
Total	170	100%

Source: Survey data, 2017

According to the above Table 10 out of the total sampled respondents, the number of employees as indicated in table 10. Accordingly, 52(31%) of respondents said that they hired one employee in their business activities started through credit, 18(11%) of respondents reported that they did not hire employees in their business, 79(46%) of them said they had 2 up to 5 employees and 21(12%) respondents reported that they hired employees grater than 5. Thus the role of AdCSI microfinance program to create employment opportunity to others by the borrowers in AKSC is very visible and positive.

4.6. Information Concerning Financial and Non-Financial Services to Respondents

Figure 2. respondents according to lone size



Source: Survey data, 2017

As it is depicted in the Figure 2 above, of the total 170 sample borrowers 76(44.90%) were that amount of credit provided by AdCSI is good enough to their intended activities, 57(34.10%) of borrowers reported that the amount of credit provided to them is below their requested amount , 9(4.8%) of them said that the credit provided by the Institution is above the required amount and few 28(16.20%) of borrowers reported that the amount of credit provided to them is very low compared to their requests Although this result indicated that the amount of credit provided to the majority of borrowers is sufficient to their intended activities it is at the same time not exactly equivalent to most respondent's needs.

Table 11. Respondents Reply about Number of Loan Used

Description	Number of percentage	Percentage of respondents
Number of Loan Used		
One	41	24%
Two	87	51%
Three	32	19%
More than three	10	6%
No answer	0	0%
Total	170	100%

Source: Survey data, 2017

Above table shows that 24% respondents have used one loan, 51% respondents have used two loans, 19% respondents have used three loans and 6% respondents have used more than three loan. It is seen that most of the respondents have used two loans which has given the positive impact on them that their income level has been increased gradually.

Table 12. Responds of the Borrowers on their Reason to Take Loan and the Utilization of the Loan

Description	Number of respondents	Percent of respondents
What is your reason to take a loan?		
To open new business	82	48.24%
To expand my business	51	30%
To change my income generating business	22	12.94%
To solve the serious problem of my lack of money	15	8.82%
What was your first loan mainly used for?		
To start new micro business	112	65.88%
To start garment business	32	18.82%
For construction of house	10	5.88%
To buy Workshop tools	15	7.65%
Missing	3	1.77%

Source: Survey data, 2017

In table 12 above it is shown that the majority133 (78.24%) of borrowers' reason to take loan was to open their own new business and to expand already established business. 22(12.94%) of the borrowers reported that their reason to take loan was to solve their serious shortage of money and few 15(8.82%) of them said that their reason to borrow was to change their income generating business. Regarding the use of their first loan, the majority 144(84.70%) of borrowers replied that they used their first loan to start new micro business and garment business and 10(5.88%) of the borrowers said that they used their first borrowed money for construction of house. Few 15(7.65%) of the borrowers reported that they used their first borrowed money to buy workshop tools and 3(1.77%) borrowers missing to give response for this question. This researcher disclosed that although most of the respondents had used their first loan to start new business, as they intended to do before borrowing money, few of them had used borrowed money for unintended activities.

Therefore, the monitoring and supervision of activities by AdCSI should be strengthened to support the use of money by borrowers for activities planned before borrowing.

Table 13. Respondents According to Their Lending System Used and Defaulter's Penalty Paid

Description	Number of respondents	Percentage of respondents
Are you borrowed by		
Individual	**67**	**39.41%**
Group	**103**	**60.59%**
Total	**170**	**100%**
If you borrowed by a group have you ever paid Defaulter's penalty?		
Yes	**68**	**66.02%**
No	**35**	**33.98%**
No answer	**0**	**0%**
Total	**103**	**100**

Source: Survey data, 2017

As indicated in the above table, 60.59% of the respondents reported that they borrowed in a group and the remaining 39.41% of them said that they borrowed individually. 66.02% of the total respondents reported that they borrowed by a group and had experience of paying defaulter's penalty whereas 33.98% of the total respondents said that they borrowed by a group and have never paid defaulter's penalty .

This finding reveals that the group borrowing which does not require individual collateral for borrowers, is more applicable than individual borrowing and the large proportion of the group borrowers had experience of paying defaulter's penalty in Akaki Kality sub-city of Addis Ababa.

The sample respondents were also asked to reply on as to whom formed their group and whether they think that the criteria by which they were being allowed to get access to credit services were suitable. The table 14 below is showing the reply of sample respondents on as to whom formed their group and their opinion on the suitability of the criteria by which they were being allowed to get access to credit services.

Table 14. Respondents According to their Group Established by and Opinion on the Suitability of Credit Criteria

Description	Number of respondents	Percentage of respondents
Who formed your group?		
Kebele administration	**68**	**66.02%**
Directly, I asked other group members to join me, and they agreed	**18**	**17.48%**
Previous group members asked me to join them and I agreed	**13**	**12.62%**
Addis Credit and Saving Institution staff helped me to join the group	**04**	**3.88%**
Do you think that the criteria by which you are being allowed to get access to credit services are suitable?		
Yes	**121**	**71.8%**
No	**43**	**25.29%**
No answer	**6**	**3.53%**
Total	**170**	**100%**

Source: Survey data, 2017

As mentioned in the table 14 above, 68(66.02%) of the sample respondents replied that their group had been formed by Kebele administration and the majority of respondents agreed with the suitability of criteria by which they were being allowed to get access to the credit. Only one respondent reported to be assisted by Addis Credit and Saving Institution staff to join the group.

This research, therefore, identified that the Kebele administration have significant role in microcredit group formation and the majority of the sample respondents are comfortable with the criteria by which they were allowed to get access to credit services. However, the role of Kebele Administration in group formation may have negative impact in the beneficiary selection process by considering political position of the poor. Therefore, the role of Kebele Administration In group formation should be reduced to give equal opportunity for all participants without considering their political position.

Table 15. Respondents According to Their Interest Payment, Interest Rate and Time Given to Repay Credit.

Description	Number of respondents	Percentage of respondents
Did you pay interest for the loan?		
Yes	**170**	**100%**
No	**0**	**0%**
Total	**170**	**100%**
What is your opinion about the interest rate?		
High	**92**	**54.12%**
Low	**8**	**4.70%**
Reasonable	**70**	**41.18%**
Total	**170**	**100%**
Does Addis Credit and Saving Institution give enough time to repay the loan?		
Yes	**101**	**59.41%**
No	**69**	**40.59%**
Total	**100**	**100%**

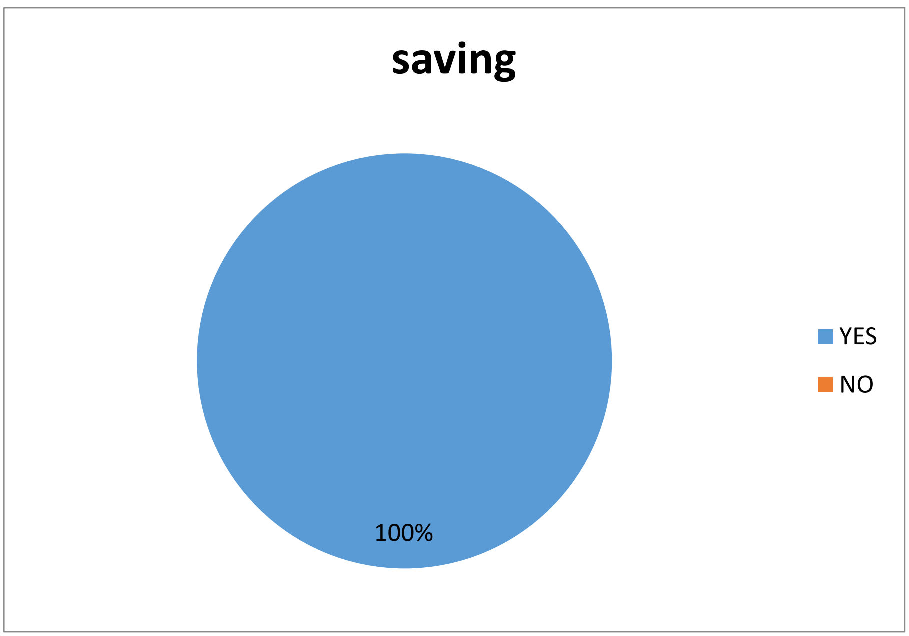
Source: Survey data, 2017

As indicated in table 15 above, (100%) of respondents reported that they were paying interest for the loan and 54.12% of the respondents reported that the interest rate for AdCSI credit is high and 59.41% of respondents are comfortable with time provided to the borrowers to pay credit . Although the majority of the borrowers reported to pay interest for loan are not comfortable so the Institution give emphasis towards rationalizing interest rate to attract the urban poor .The results may help the Institution to review the complaint areas and to strengthen more its strong and accepted sides by its borrowers.

4.7. Saving Mobilization

Most MFIs focus on disbursing loans. Their savings services are designed as a means of collateralizing loans and providing cost capital, they are not designed to meet the poor need for saving mechanisms (Dicher and Haper, 2007 1-2). AdCSI provides voluntary and compulsory savings that is the former saving is made by clients and non clients while the latter saving is done by clients only who are required to save until the loan repayment is successful completed and the amount of interest rate for saving is 4.5% per annum (AdCSI;2009; 6). From the perspective of saving AdCSI borrowers answered the question that mention in the next figure below about the saving.

Figure 3. respondents according to saving



Source: Survey data, 2017

Out of total respondents 170(100%) said that they have saving accounts and the rest, no respondents reported that they do not have saving accounts. This implies the saving account in the Institution is must opened by the client .it have positive and negative side the positive side is the client develop their saving habit and also the saving amount is help them when they want money and the negative one is that the Institution coercion the borrower if they are not open saving account they are not give lone to borrower .

Hence AdCSI should revise the saving system to meet the demand of the poor specially to increase the number of voluntary saving and the borrowers should learn about the benefit of saving that can be the part of assets. The reasons were that to save in MFI due to high inflation, low purchasing power of money in the market and less amount of profit occurs the saving money may support them .

Table 16. The Reply of Respondents on Follow up and Main Challenges to Use the Credit

Description	Number of respondents	Percentage of respondents
What is your opinion about follow up provided by the office?		
Low	92	54.12%
Good	69	40.59%
Very good	9	5.29%
Total	170	100%
Did you get any formal training that helped you to undertake the kind of business you are involved in?		
Yes	55	32.35%
No	98	57.65%
No Answer	17	1%
Total	100	100%

Source: Survey data, 2017

As is indicated in Table 16, out of the total respondents 92 reported that the supervision by AdCSI was low, 69 good and 9 very good. This implies that the Institutional supervision and follow up of their borrowers seems to be want more work because this non-financial service to be provided repeatedly to update and refresh the client . Moreover, borrowers were asked whether they have got formal training or not. As a result, majority of respondents, 98 reported that they did not get any formal training that help to undertake the kind of business and 55 respondents said that they have got formal training the remaining 17 has no answer . This implies that the majority borrowers of AdSCI did not get a very important input to coping up the situation to be effective and escape from poverty. Hence, AdCSI should give due attention not only for financial services but also for non financial services through training and education of the clients.

Table 17. Respondents According to their Constraints /Challenges

Description	Number of respondents	Percentage of respondents
State what you dislike in AdCSI services?		
Group lending	67	22.33%
Amount of loan smaller than requested	57	19%
Delay in service delivery	52	17.33%
High interest rate	75	25%
Short repayment period	49	16.34%
What is the main constraints after getting loan?		
High interest rate for loan	68	40%
Shorter repayment period	43	25.29%
Low interest rate for saving	32	18.83%
Low amount of loan	27	15.88%

Source: Survey data, 2017

As can be shown in Table 17, 67(22.33%) respondents reported that they do not like group lending system, 57(19%) of respondents said that they dislike the amount of loan due to the amount of credit smaller than requested, 52(17.33%) of respondents reported that they dislike delay of in service delivery, 75(25%) of borrowers said that they dislike high interest rate and 49(16.34%) of respondents reported that they dislike short repayment period of time.

Beside to this, borrowers were asked the constraints when they use the credit, based on this as indicated in the above table, 68(40%) of respondents reported that the main constraints to use their credit is shorter repayment period, 27(15.88%) of respondents reported the main constraint is high interest rate of loan, 32(18.83%) of respondents said that they face the challenges of low amount of credit for required and 43(25.29%) respondents reported that the constraint to use the loan is low interest rate for saving. Thus, high interest rate for loan (1), low amount of loan (2), low interest rate for saving (3), and shorter repayment period (4) can be ranked one to four respectively. Hence AdCSI should give attention to solve the above constraints as per the responses.

This result indicates that although high interest rate for loan was disliked more by the majority of the respondents, all services provided by the Institution are commented to be improved further. Thus , the Institution may use these result to review the satisfaction level of clients on each services and revise its program.

4.8. Mechanisms Addressing The Poor

Addis Credit and Saving Institution target the low income segment of urban community, productive poor, with special emphasis on women. The term "productive poor" refers to those among the poor who have some form of employment as well as the capacity to repay back the loans and who face non-severe food deficits and not destitute (Robinson, 2001). Experience shows that unless there is a targeting tool, either the poorest will be miss or they will tend to exclude themselves from the program. Hence, MFIs that design programs related to the needs of the poor are likely to retain them as clients. The urban loan program is launch mainly to address the problem of the urban poor through providing certain credit access in order to enabling them to involving in different socio-economic activity. To be clear microfinance program gives emphasis more on low level of income group by targeting the urban poor to improve the living standard of the poor.

Moreover, majority of interviewed AdCSI officials explained that the mechanism used for addressing the poor in addition to group lending is an individual lending, which permit the poor to get loan with collateral basis, and the collaterals include house, vehicles, machineries, regular job salary for government and non-government employees etc. Thus, strict collateral requirements are difficult for the urban poor in order to full fill the requirements. Certainly, such types of practice lead to screening out the poor, as they do not have capacity to meet the collaterals requirements and to get loan from AdCSI. From the view point of selection requirements of the targeted poor, the needed requirement to access the credit service includes, letter of approval from the kebele which shows that they are the residents of Addis Ababa, certification letter for co-operatives and CBOs from different civil organization, the evidence that confirms that the activities would be implemented in Addis Ababa city etc. In addition to this, screening committee in the Kebele level put their comments and decisions concerning applicants.

4.9. Microfinance Products And Services

An inventory of products and services provided by AdCSI was done during this study and the analysis of which answers to my third research question which was to examine the nature of products and services provided by the microfinance. The degree of which MFIs provide service depends on whether it takes a minimalist or integrated approach. Advocates for the integrated approach argue that MFIs need to focus on poverty reduction as their primary goal is to provide services to the poor that integrate training, basic education, and primary health are inter connected, and the impact for each can increase when they are delivered together (Moduch and Haley 2002). The argument for the minimalist approach is that it is necessary to achieve financial sustainability first (through financial services mainly credit and savings) and then, when sufficient profit has been accumulated the MFIs can look in to the possibility of providing training and educational services. First let us examine the financial service.

4.10. Loan/Credit Service

The service provided by AdCSI included loan, saving, consultancy and managing third party money. There are (a) micro-business which has a nature of installment repayment and disbursed for high turn over activities; (b) a small business loan (c) micro lease loan in which clients choose the machines (d) housing loan product which aims to enable clients to construct a new house (e) consumer loan (f) short term loan targets very urgent financial problem (AdCSI: 2009).

Moreover, concerning the amount of loan size given by AdCSI, the directive of National Bank of Ethiopia that limits the minimum loan amount to one borrower has given 5000 Birr for the reason of targeting the poor and diversity of loan.

4.11. Interest Rate and Service Charge

Microfinance Institution charge a higher interest compared to the formal financial banks. It charged 9% interest for instalment and micro lease and for term loans per annum in flat rate basis. For housing and consumption loan, the interest rate is 10% per annum on decline rate basis. In addition to the interest rate, 2% service charge is paid for all micro and small loans (AdCSI, 2009EC)

4.12. Targeting the Poor

Microfinance Institution in Ethiopia targeted in principle the low income segment of the community. The urban credit program by Addis Credit and Saving Institution is mainly launched to address the problem of the urban poor through providing certain credit access in order to enabling them involve in different socio-economic activities to improve their living standards. To examine the impact of MF services of AdCSI on urban poverty alleviation, relevant information on economic condition of sample respondents were collected through interview questions. The increase or decrease in the level of income may have an implication on the life standard of the individuals. Increasing income, for instance, may create the opportunity to open business, create employment opportunity, access to health service, education, a means to fulfill basic needs and own assets.

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

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

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

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

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

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

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1. Summary of findings

This study had the objective to assess the role of microfinance Institution on poverty alleviation and women's empowerment, focusing on a case study on ADCSI'sAkakiKality sub city branch. It attempted to find out the role of microfinance services provided by AdCSI on its beneficiaries. The primary and secondary data collected, presented, analysed and discussed based on the research questions and study frame work designed to analyse collected data. The findings show a sensible insight on the role of microfinance practice in urban poverty alleviation. The findings of the study, in relation to the key research questions, are summarized as follow.

The finding on the socio-demographic characteristics of respondents shows that except Avery slight difference both sexes were equally benefited from the program. The result of study on the age category of respondents confirmed that ninety three percent of sample borrowers are in the productive age group and high majority of them performed from secondary school to first degree, academically. The majority of respondents is also married and has family members.

Increasing or decreasing in the level of income may have an implication on the living standard of individuals. Even though, the large proportion of clients had income source and their own business before joining the credit program, almost all of the AdCSI clients showed significant improvement in generating income and owning assets after joining the program. However , it is very doubtful to conclude this increment is only resulted from participation in the microcredit program. This needs further study.

AdCSI provides financial services mainly with group and to a certain extent for individual borrowers. But, the individuals lending require strong collateral. This might discourage the poorest who have no collateral to borrow from AdCSI credit program. Increasing income through participation in microfinance programs inevitably will lead to better nutrition and health for individuals. Evidences in this study show that the majority of AdCSI clients in AkakiKality sub city are able to pay their medical expenses and they improved the quality of food consumed by them and they were in income position to buy clothes for themselves and their families. However, most of the clients were not able to afford fees for quality education for their children.

It has been noted that in many countries of the world, microfinance programs provide access to small amount of start up capital for entrepreneurial projects which will then presumably help individuals to create employment opportunity. Similarly, AdCSI clients created job opportunity for themselves, their family and others.

Microfinance involves in providing credit and saving facilities to the poor, thereby improves the living standard of the borrowers and reduces poverty. Group targeting and client selection mechanisms should gear towards addressing the poor. However, the information gathered from respondents in AkakiKalitysub city shows that the poor tend to be ignored during group formation by offering different criteria.

Financial and non-financial services are primarily expected to be effective in poverty alleviation. However, investigation in this study shows that there is lack of the provision of non-financial service such as training on business planning and education to develop the awareness of borrowers towards the use of their loans in their small scale and micro business.

Microfinance services are intended to reduce poverty through enabling the urban poor to be active participants in income generating activities. However, the borrowers in Akaki Kality sub city mentioned some of challenges and constraints they faced in service provision and the utilization of credit. Like short repayment period, high interest rate on loan, small amount of loan provided, low interest rate on saving, and group lending system were explained as challenging areas in service provision and credit utilization process .

In order to reduce poverty, women who suffer the most must be empowered because poverty alleviation strategies that focus on empowering women not only improves the lives of women but also positively affects the entire family and community. Even though, AdCSI gives priority in principle to women clients on the provision of financial services as indicated in its organizational objectives, in practice the Institution is providing this service for both male and female using the same selection and borrowing criteria in the sub-city.

5.2. Conclusion

Finally, this study it is possible to conclude that AdCSI AkakiKality sub city indeed Supports the poor in changing their life particularly in generating their own income, education, health and nutrition, housing, etc. However, the result is not satisfactory. AdCSIdidn't mainly focus on the productive poor section. AdCSI utilized different lending models but those lending models didn't consider the interest of the poor clients.

Financial services are not integrated with non financial services so as to assist the poor how to use the loan effectively for income generation. In addition to this, there were different constraints and problems reported from the clients of AdCSI related to financial services like short repayment period, high interest rate on loan, small amount of loan provided, and low interest rate on saving. In order to solve these problems, the following recommendations are suggested.

5.3. Recommendations

Poverty has remained to be a frightening challenge to developing countries and it can be observed in many forms. It has both income and non income dimensions. It might be reflected in lack of income, lack of coping capacity, lack of basic human capabilities and the like. This study has analysed the microfinance contribution for poverty reduction in Akaki Kality sub city and confirmed that microfinance is indeed a sound strategy for poverty reduction. However, the results may vary based on the practical involvement of micro financial Institution. Based on the experience of AdCSI and the summary of findings stated above, the following recommendations are put forward.

The study shows that AdCSI has positive impact on its clients specifically improvement of income, education, health and nutrition, housing, and empowerment of the poor. However, significant number of borrowers couldn't improve their life situation in AkakiKality sub city. Therefore, AdCSI should give attention to the poorest through the provision of financial service in the right way and there is a need to support clients in non financial services like skill based training. Moreover, borrowers should be guided to invest their loan for the intended purposes and productive income generating activities.

Although AdCSI targets the productive poor groups especially women in principle, they didn't support the poor particularly women to get benefit like men due to low participation in income generating business activities. Therefore, AdCSI needs to focus on its objectives and targeting strategies so as to contribute for poverty reduction.

The analysis shows that AdCSI practiced both group and individual lending models in AkakiKality sub city. However, the group lending model constrained by different requirements from the Kebele administration as well as the process of group formation. Moreover, the individual lending model is also constrained by its collateral requirements. Therefore both models excluded the poorest from financial services in one way or another. Hence, AdCSI need aware of this exclusion and implement flexible lending approach in order to satisfy the needs of the poorest and contribute to poverty reduction.

Although AdCSI clients create job for themselves, the majority of them did not create job opportunity for others. Therefore, there is a need to assist AdCSI clients in Akaki Kakity Sub City to utilize their loan for income as well as employment generation activities through different support services like business development services, market oriented production and skill development training.

AdCSI have to support borrowers to save voluntarily and own assets. For this of course AdCSI need adopt flexible approach in saving rate that attracts both clients and non clients to save.

women borrowers are required to obtain more advantages from the financial services of AdCSI like that of men clients. All stakeholders have to involve in enhancing the women participation in both financial and non financial services .Loan disbursement for women should be increased in order to improve the living standard of the poor women. Therefore, AdSCI needs to revise its service provision strategy to give benefit women clients.

Finally, Literature shows that microfinance provides financial and non financial services to enhance the income and to improve the living standard of the poor. However, AdCSI focuses only on financial service provision especially credits and savings. Hence, either it needs to have skill training and awareness creation programs for its clients or it needs to establish network with other stakeholders who can give training and education for its clients. AdCSI should revise its strategy related to the loan repayment period, its high interest rate on loan, small amount of loan, its low interest rate on saving, etc, so as to encourage the poor in both financial and non financial services.

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APPENDIX 1

ST.MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

Department of MBA in Accounting & Finance

Questionnaire to Be Filled Up By Clients of Addis Credit and Saving Institution

Dear Respondents,

This questionnaire is prepared by me, a student of St.Mary's University Masters Program in Accounting & Finance. Its objective is to assess "The Role of Microfinance Institution in Urban Poverty Alleviation". The information you provide is totally sought for academic purposes and shall be kept strictly confidential. Please feel free to share your experiences regarding the microfinance Institution services. Thank you in advance for your kind cooperation.

Your Fasika Betemariam

Remember: Put x mark on the box answer you choose.

1.General Information

1.1. Gender : ☐ Male ☐ Female

1.2. Age Breakup : ☐18-35 Year ☐36-45 Years ☐Over 46 Year

1.3. Marital Status: ☐ Single (never married)

☐ married

☐ Divorced

1.4. Education :☐ None/ Illiterate ☐Read and write ☐Primary

☐High School ☐ Preparatory

☐Diploma ☐ BA Degree And Above

1.5. Family Size: ☐1-4 ☐-10 ☐More Than 10

2. Social- Economic Condition of the Respondent

2.1. Did you have any business and your own income source before joining this credit program?

☐ Yes ☐ No

2.2 Income Change After Taking The Loan

☐ Yes ☐ No ☐ No answer

If yes, explain ____

2.3. Were you able to pay your children's education fee before involvement in Addis Credit and Saving Institution Program?

☐ Yes ☐ No ☐ No Answer

2.4. Your capacity for paying for your children's better quality of schooling after joining the program

☐ Increased ☐ Decreased ☐ Remains the same

2.5. How do you explain the differences pay the medical expenses whenever you or your family members get sick before and after the loan ?

☐ Better before joining the credit program ☐ Better after joining the credit program

Explain why___________________________

2.6. How do you explain your ability to buy clothing for yourself and for your children in general?

☐ Better before joining the credit program ☐ Better after joining the credit program

Explain why____________________________

2.7. The number of food items and quality of food that you are consuming now has

☐ Improved ☐ Worsened ☐ Remained the same

3. Information Concerning Asset of Respondents

3.1. Did you have fixed property before being engaged in Addis Credit and Saving Institution?

☐ Yes ☐ No ☐ No Answer

If "Yes" state the asset-----------------------------------

3.2. Do you have fixed and movable asset after being engaged in Addis Credit and Saving Institution program?

☐ Yes ☐ No

3.3. What assets do you have after being engaged in Addis Credit and Saving Institution Program? (You can tick more than one answer)

☐ Owner of a house ☐ Have money to pay the school fees of my children

☐ Access of payment for health care for my family ☐ Improve my food situation

☐ The saving has increased

If any other, specify ________________________________

4. Information Regarding Employment Opportunity and Empowerment of Respondents

4.1. What were you doing before you started the business?

☐ Unemployed ☐ Employed elsewhere in similar business

☐ A student ☐ working unpaid in family business

☐ Employed in government organization

If any other, specify ----------------------------------

4.2. How many employees (even family members employed) do you have in your business?

☐One ☐2-5 ☐More than 5 ☐None

5. Information Concerning Financial and Non-Financial Services to Respondents

5.1. What do you feel about the amount of loan size given by Addis Credit and Saving Institution relative to your business?

☐ Very low ☐ small than required

☐ Good enough ☐ more than enough

5.2. No. of Loan Used

☐ One ☐ Three

☐ Two ☐ More Than Three

☐ No Response

5.3. What is your reason to take a loan?

☐ To open new business ☐ To expand my business

☐ To change over another business ☐ To solve the serious problem of my lack of money

If any other, specify-------------------

5.4. What was your first loan mainly used for?

☐ To start new micro business ☐ For construction of house

☐ To start garment business ☐ To buy Workshop tools

☐ Missing

Specify if any other --------------------

5.5. Are you borrow by

☐ Individuals ☐Group

5.6. Who do form your group?

☐ Kebele administration

☐ Directly, I asked other group members to join me, and they agreed

☐ Previous group members asked me to join them and I agreed

☐ Addis Credit and Saving Institution staff helped me to join the group

If any other, specify -------------------------

5.7. If you borrowed by a group, have you ever paid defaulter's penalty to the group?

☐ Yes ☐No ☐ No Answer

5.8. Do you think that the criteria by which you are being allowed to get access to credit services are suitable?

☐ Yes ☐No ☐No Answer

5.9. Did you pay interest for the loan?

☐ Yes ☐ No

5.10. What is your opinion about the interest rate?

☐ High ☐Low ☐ Proportional

5.11. Does Addis Credit and Saving Institution give enough time to repay the loan?

☐ Yes ☐No

If "No", specify the reason -------------------

5.12. State what you dislike in Addis Credit and Saving Institution service (You can tick more than one answer)

☐ Group lending ☐ Amount of loan smaller than requested

☐ Delay (bureaucracy) in service delivery ☐ High interest rate

☐ Short repayment period

If any other, specify--------------------

5.13. Do you have a saving account ?

☐ Yes ☐ No

5.14. What is your opinion about follow up provided by the office?

☐ Low ☐ Good ☐ Very good

5.15. Did you get any formal training that helped you to undertake the kind of business you are involved in?

☐ Yes ☐ No ☐ No Answer

5.17. What are the main constraints/ challenges to use the credit?

☐ High interest rate for loan ☐ Shorter repayment period

☐ Low interest rate for saving ☐ Low amount of loan

If other, specify ---------------------------------

6. Please make some suggestions --------------------

Thank you very much for your cooperation

APPENDIX 2

Interview Questions to Akaki Kality Sub City Addis Credit and Saving Institution Branch and Sub Branches Mangers

Dear respondents,

The question is prepared by the student of St.Mary's university master program in accounting and finance . These interview questions to Akaki Kality sub city Addis Credit and Saving Institution branch and sub branches manages to gather information about ''The Role of Microfinance Institution in Urban Poverty Alleviation''. Specially, they are designed to investigate how microfinance Institution targeting the poor, to what extent improve the living standard of the beneficiaries and to identify the types of service provided by the Institution. In addition to these, it helps to obtain information of the major constraint or challenges that hinder the program.

1. What type of services /products do you provide for Addis credit and saving Institution clients?

2. Tool for targeting

- Explain the mechanism used for addressing the poor?
- How do you treat women and men in the provision of service of credit?
- types of lending system do you follow?

3. Would you suggest that your observation on the improvement of Addis credit and saving Institution clients living situation?

4. What is you suggestion concerning:

- Repayment period
- Saving situation
- The amount of loan that gave for the Institution of clients
- Interest rate compared with other financial Institution

5. What was the main problems and constraints face during the provision of credit and saving services?

6. If you have any additional suggestion which don't address in the above, you can explain it.

Thank you very much for your cooperation