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The Impact of Amhara Credit and Saving Institution on Poverty Reduction in North Showa Zone

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Abstract

The purpose of this study was to assess the impact of MFIs (ACSI) towards reducing poverty in north showa zone, by taking four woreda and 390 samples of loan active client of ACSI. The researcher was used a data collection technique through structured questionnaire to collect the necessary data by first distributing and collecting later and the response rate of the questioners was approximately 80% (313) were properly filled by the respondent and collected. The researcher was analyzed the data obtained through questionnaire by using both descriptive such as graph, mean, standard deviation, tabulation, frequency distribution and chart and inferential statistics using paired sample t test through SPSS software version 20 and econometrics model which was a logit model using STATA software version 13. The study found that limitation on service of ACSI for its clients including higher interest rate on borrowing, low interest on saving deposit, too short loan period, conflict between clients of group loan user, poor habit of saving by the client. The logistic regression model results shows that R2 value of 89% and five variables out of ten variables which are included in the model as explanatory variables were found statistically significant in affecting the poverty status of the clients including change in log income after ACSI at 1% level, household size at 1% level, IMCEDN at 5% level, improvement in loan repayment at 10% and EDB at 1% level of significant. The study recommends that the institution (ACSI) should improve its services delivery mechanisms for its client by reducing of the interest on loan, increasing the loan period and others limitation. The study mainly recommends that all stakeholders in ACSI should focus on how to increase rural household income, which has large effect in affecting the poverty status of rural household. Finally the study recommends ACSI should continuously improve their outreach and accessible for all rural household to enables them improve their living standard and reduce its poverty status.

Key Words: *Poverty, Poverty Reduction, Micro finance, Amhara credit and saving institution*

1. INTRODUCTION

1.1. Background of the Study

Microfinance is the means of providing financial services and products to low income group like savings and credit, money transfers, insurance services, credit and debt cared services and payment services (Otero, 1999). According to (Ledgerwood, 2000) microfinance has served as an economic improvement mechanism projected to help low income women and men. Microfinance institutions provide services other than financial intermediation like formation of a group, development of self-confidence, and they create awareness in the financial literacy and administration capability of its clients (Ledgerwood, 2000).

Amhara Credit and Saving Institution (ACSI) is one of MFIs which operate in Ethiopia, Amhara regional state which targets to fill the gap of commercial bank and other financial institutions in that they don't provide financial services for small-scale borrowers in income generating activities. Its operation is traced back to September 1995 GC? When it was originally initiated by the organization aged in development activity in Amhara region. In 1996 ACSI undertook its route-finder actions, and it was licensed as MFIs in April 1997. ACSI started its operation by first opening six branches, but prior to its operation it took about nine months to do preparatory works such as baseline survey, setting the objectives, strategies, organizational structure of the institution, preparing the necessary recruiting and training staffs. Currently, the institution has 10 main branches, 198 sub-branches and over 2,700 employees (ACSI, 2004).

Poverty has a widest concept that can be excogitated as a set of deficiency and unaffordable of decent human life (Rodich, 2017). The evidence from different sources states and argues that poverty is a multi-dimensional social phenomenon. The concepts of poverty and its root cause differ by gender, age, culture and other social, economic and demographical contexts.

Poverty is generally conceived as situations in which the underprivileged do not have enough food and shelter, lack of access from education and health services, are exposed to violence's and find themselves in a state of joblessness, defenselessness and inability from doing anything (Asmamawu, 2014).

Ethiopia is exposed to the challenge in reducing poverty, since poverty becomes a reason for many problems including low employment rate, diseases like depression, stress and the like; in order to control these and other major problems first we need to have control over poverty (Asmamaw, 2014). Poverty reduction was institutionalized in 1994, with the establishment of the world bank at the birth of Britton woods systems microfinance institution has an impact in contributing significant role to poverty reduction in Bangladesh and other south east Asian countries by creating income earning activity and self-employment opportunities for the poor people by providing micro profit. Micro finance has been claimed to provide a significant role in building block in the process of diminishing poverty since commercial banks do not serve poor people due to high collateral requirement and therefore the poor need an another source of credit services. Agriculture is the back bone of the Ethiopian economy, which contributes about 43% to the GDP and 86% to the country exports (World Bank, 2014). However, this sector practiced in the most part of the country using traditional way and most of the household in this rural area faced with different shortage in necessary input to raising their productivity. Microfinance institutions are the major role players to eradicate poverty by enabling the farmers to use modern inputs and supplying these inputs for their agricultural work.

Therefore, the purpose of this paper was to measure the impact of ACSI in reducing rural poverty through provisions of financial services and finally to reach on conclusion whether the practice has a positive, negative or has no any impact in the client living standards of North Showa zone selected woredas, by focusing on both aspects of client living standards, before and after they got loan access from ACSI. This issue has not been given due consideration by many of the previously conducted researches on the assessment in impact of MFIs on poverty reduction.

1.2. Statement of the Problem

Poverty can be understood by lack of or insufficiency of productive means in order to fulfil basic needs, including adequate nutrition, water, shelter, education, and health facilities (Enquobahrie, 2004). As of 2001, 1.2 billion people or 21% of the world population had an income not as much of than the World Bank standard $1 a day and 2.7 billion people had an income not as much of than $1.25 per a day line of poverty (Addae, 2012). The multidimensional features of poverty in Ethiopia are indicated in many aspects, like distribution of assets and vulnerability of human development. In 2000, Ethiopia was one of the poorest countries in the world, with 56% of the total resident living under the international poverty standard of US $1.25 (World Bank, 2014).

Ethiopian households experienced a decade of noteworthy improvement in well-being since recent decade then and by the start of these decades only up to 30% of the population were counted as poor. The majority of Ethiopian households (85%) are still engaged in agriculture and living in the rural part of the country. In the previous ten years, Ethiopia experienced better and steady economic improvement that was motivated mainly by increase in service and agriculture sectors. Since 2004 Ethiopia's economy has scored an annual average growth rate of 10.99%, and the country has also recorded yearly per capital growth rate of 8.3% over the most recent decade (World Bank, 2013). Even though the contribution of agriculture to value added (for the overall improvement of the economy) has been high throughout this period, over time the improvement of agriculture has declined (from 52% in the year 2003/4 to 40% in 2013/14) and the improvement of the service sectors has increased from 37.5% to 40% within similar period (World bank, 2014). This was the actual problem because the majority of the household in Ethiopia in general and in North Showa zone of different woredas in particular engaged in agriculture sector and their income is depend on this economic sector, but they have suffered by this average reduction and this increased the severity of the problem (poverty) in the study area, unless they get credit facility from microfinance (ACSI) and make their agriculture modernized by purchasing necessary input and obtained finance for their farming activities to improve their income.

On the other hand there are two controversial researchers' views concerning the impacts of microfinance institutions on reduction of poverty. Some of these researchers argue that MFIs are very important tools in poverty alleviation (reduction) at household level with income after acquired the services of MFIs being found to have significantly increased (Rotich, 2017). The study further found that microfinance institution empowerment enables the poor to cope with poverty and overcome many problems that they faced. A financial service provided by MFIs enables the underprivileged individual and low earning groups to engage in economic activities in addition to previous activities and that makes themselves reliance, enhance their income and support them to build wealth and thereby eradicate poverty (Akindele, 2014). In addition to the above finding, there are also other findings on the area.(Reda, 2016) And (Abebe, 2006) also argue likewise as the above finding; MFI has a positive impact in poverty reduction by providing affordable financial services to the rural population. However, according to Houghton and Crzywinski (2007), cited in (Rodich, 2017) argued that MFIs' contribution to local living and local economy in the communities to reduce poverty was nothing, and some articles' argument also reveal that the poor are being influenced and losing their personality through the operation of MFIs' program and they have not obtained any benefit from the operation of microfinance institution. According to ditcher (2007), as cited in (Rotich, 2017), the average poor client in MFIs is not an entrepreneur; therefore, when they obtain access to credit, it is largely for consumption or cash flow, smoothing rather than business activities to get another source of income, and they bare difficulty in case of loan repayment. Moreover, as the researcher's experience is rooted from the poor house hold, he always listen the controversies' among the parts of the community, especially the farmers, and it is his interest to investigate this debate.

Therefore, this study has an aim to fill this disparity about the controversial issue-the impact of microfinance institution on poverty reduction in case of ACSI in North Showa zone, selected woredas. The research adds an investigation in the analysis parts on the previous researchers' findings about the rural household living standard before they acquired the loan service of ACSI and after they acquired the loan service of the ACSI in the study area in order to see the impact, which the previously conducted researches have not considered yet. In addition to this, the research also sought to fill the gap observed in this area because as far as the researcher's knowledge is concerned, no study has been conducted on the impact of microfinance in this study area by implementing a paired sample t test and logistic regression analysis as a data analysis technique.

1.3. Objective of the Study

1.3.1. General Objective of the Study

The general objective of this study was to assess the impact of Amhara credit and saving institution on poverty reduction in North Showa zone on some selected woredas.

1.3.2. Specific Objectives of the Study

The specific objectives of the study are:

1. To investigate the practice of Amhara Credit and Saving Institution in providing financial service to its clients.

2. To examine the clients' living standard improvement after they got loan from ACSI.

3. To examine the extent of clients' ability to reimburse ACSI loan on due date without difficulty.

4. To investigate the impact of ACSI on household poverty level.

1.4. Research Questions

1. What are the practices of ACSI in providing financial services to the clients?

2. To what extent was the clients' standard of living improved after the loan service by ACSI?

3. To what extent are the clients able to reimburse their loan on time without any difficulty?

4. What is the impact of ACSI on household poverty level?

1.5. Significance of the Study

The results of this research will assist the ACSI policy makers and rural household (for both client of ACSI and non–client of ACSI) in order to understand the existing opportunity for them and to utilize this opportunity. For policy makers, this research will be important in order to undertake proper microfinance policy in the manner of supporting rural development or over all country development by providing comfortable microfinance services for their clients. In addition to the aforementioned groups, this research may also be used as stepping stone for other individuals and organizations who want to conduct further studies concerning this topic.

2. LITERATURE REVIEW

2.1 Theoretical Framework

According to different authors sometimes MFIs don't bring any positive impacts to the client's living standard, because of the loans default, high interest rate, lack of entrepreneurial skill by the client etc. Various Scholars have reported depressing or no impacts of MFIs to their clients. According to (Zeller, 2001) found that there is no statistically significant differences in different economic and social aspects like per capital income, food security and nutrition between members and non-members participated in credit program in Malawi. The study further found that the contribution of rural microfinance institutions of the income of small holders can be limited or outright negative, if the design of the institution and their services does not take in to account the constraints on and demands of their clients. Finally the study noted that there was a negative relationship between borrowing and net crop incomes in Malawi.

According to (Holm-Müller, 2007) the study was employed by using econometric regression model revealed that households participated in cooperative liability borrowing in Kenya had considerably lower incomes than non-participating households because MFIs clients sold their assets to pull through the defaulted loans. The study found out that about 17%, 60% and 4% of MFIs clients repay their credit through selling of their pre-existing properties, by duress and confiscation of peers' properties respectively. It is obvious that recovering loans through cohesion don't lead to realization of impact on loans by MFIs clients. Similarly, Grades (2007) argued as cited in (Holm-Müller, 2007) that households participating in joint liability borrowing had significantly lower incomes than non-participating households in Kenya. The same results were revealed by (Zeller, 2001) who argue that there was a negative relationship between crop income and borrowing from microfinance in Malawi. (Zinman, 2009) Was applied regression analysis and witnessed the small decline in subjective well-being and a boost in anxiety for micro-credits clients in Manila, Philippines. Likewise, (Nghiem, 2009) this was employed to investigate the impact of MFIs program on income and consumption improvement of household in Bangladesh using primary data on 439 household across 20 village in 4 district and the data was analysed using econometrics model. The result of the study shows that despite of their survival the microfinance members (clients) remain poorer than non-members. The study also noted that even though microfinance promotes the development of the poor women, occasionally increase the workload for women and this may diminish their spare time and time for performing other social tasks. In the same way, (Kratzer, 2013) this study was used both quantitative and qualitative data from three region of Tanzania, and shows that women members of MFIs are more empowered as compared to non-member of MFIs, in addition to this the study found that even though microfinance services are considered as an entry point or a vehicle to wards empowering women, however it is also considered that microfinance institutions are extorting money from poor women through high interest rate on loan, this causing higher social pressure and in some cases lead to domestic violence.

Similarly (Stewart, 2010) the study was employed logit model in order to show how some potential benefit, whilst desirable, are not essential to the cycle of increasing wealth, specifically increasing social cohesion, women empowerment and long term benefit, particularly investment in children. The study found that microcredit customers are made poorer and not better off by microfinance, because sometimes their businesses be unsuccessful to generate enough profit which is required for repaying the loans in Sub Saharan Africa. The result of this study also shows that frailer to increase income, which can be determined by external factors as well as how client spend their money, can lead clients in to further debt, leaving them unable to invest in their savings account and or reliant on further cycles of credit, successful increase in income the successful repayment of loans, and the causal model shows how these are not always achievable. likewise, (Nembo, 2010) argue that the poorest of the poor were not included in designing and implementing their policy by MFIs, because of entry requirements are impossibility for the poor's to convene thus they do not benefit from the services of MFIs in Cameroon. The study also argued that 10% decline of MFIs clients in their household's standard of living in Comoro, since they had been forced to sell personal items to repay the loans. Moreover, loans have fuelled the economic difficulties for MFI clients because they had increased market competition and hence they reduced the profits obtained from their business. This has an inference with fallen impacts for MFIs beneficiaries.

The study undertaken by (Aseyo, 2013) shown that loan reimbursement default was the consequence of non-supervision and insufficient training of borrowers before they received the loan, which led to poor deployment of loans. The study also found that most borrowers did not spend the loan amount on the intended and agreed projects.

According to (Mamum, 2011) the study was conducted using a cross sectional research design with stratified random sampling methods to examine how participation in MFIs programs affect employment rate of poor clients. The study also found that more than 50% of the MFIs clients report that they used credit in non-income generating activities which increases the chance of encountering settlement problem in Malaysia. This situation exacerbated the borrowers' realization of loans impacts.

2.2. Conclusion and knowledge gap

In different time and place a range of case studies demonstrate how microfinance has served a responsibility in reducing poverty, improving education, improving health and empowering women etc. but not all scholars are eager about the role of microfinance in development, and it is significant to realize that microfinance to realize that microfinance is not a silver bullet when it comes to fighting poverty in developing country.

According to the above literature(both theoretical and empirical) different authors conducted a study on the impact of microfinance in reducing household poverty level and argues that microfinance institution has improved living standards, some innovative management and business strategies for their clients, but the impacts of MFIs on poverty reduction is still in doubt.

From the above reviewed literature impacts of microfinance on poverty reduction was studied by different scholars in different country including in Ethiopia, but most of the studies were done in the literature by using a data analysis technique descriptive statistics rather than inferential statistics. In addition, the above literature has not included all important variables which are useful in assessing the impact of microfinance

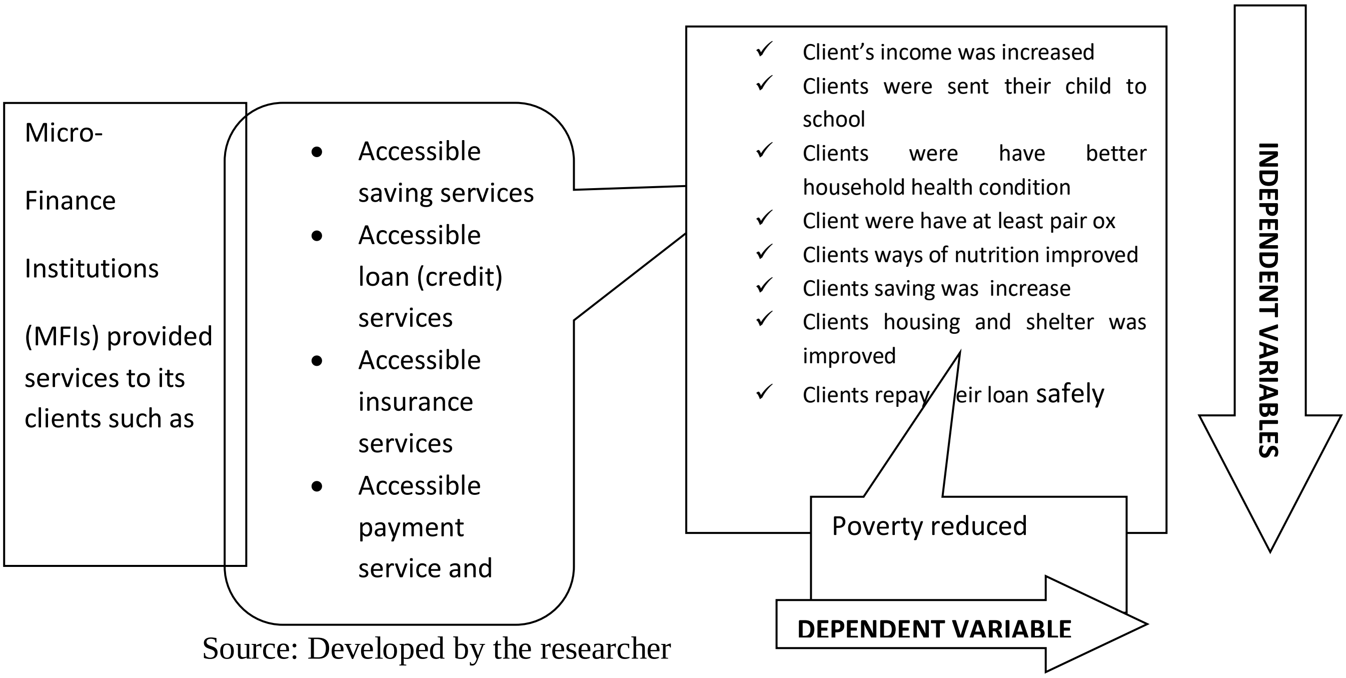
on poverty reduction rural household level and no one of the above researcher was conduct a research in this study area north Showa zone selective woreda. Therefore the purposes of this study was to assess the impacts of MFIs (ACSI) in north Showa zone selective wereda by filling all the above research gap based on the above reviewed literature and by adding some additional variable in the analysis part of the above literature were not included.

Therefore, while much debate remains about the impact of microfinance projects on poverty, The researcher have seen that when MFIs understand the needs of the poor and try to meet these needs, and MFIs projects could have a positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in society.

2.3 **Conceptual Framework of the Study**

The relationship between the dependent and independent variable presented in the through the following conceptual frame work as follows:-

Figure 1.1 Conceptual Frameworks



Source: Developed by the researcher

3. RESEARCH METHODOLOGY

3.1. Research Design

To achieve the aim of the research objective and to obtain a solution for the research question, the study used explanatory type of a research design (an ex-post facto research design) case study, because this type of research design is better in order to find the relationship between the dependent variable (poverty) and independents variables to determine their impacts.

3.2 Target population, sampling design, and sample size

The total population considered under this study was 15,982 total loan active clients of ACSI from four selected woredas in north showa zone including Seladngay, Deneba, Chacha and Keyit branches selected purposively by the researcher. The study used probability sampling design, for selecting specific respondents of loan active clients from each branch, specifically a systematic sampling techniques using list of the clients. Accordingly, the study used in the analysis 390 loan active clients of ACSI as a sample size, which was determined by Yamene (1967) provided sample size determination formula.

3.3 Type and source of data collection

For this research purpose the researcher used only primary data type. Primary data was sourced out from questionnaire (both open-ended and closed-ended questionnaire), which is actual information obtained from respondents, by distributing structured questionnaire to the clients of ACSI for each four branch and collected later.

3.4 Research variable

3.4.1 Dependant Variable

The dependant variable for this study was the level of poverty experienced by the rural households in the study area. Based on this the researcher measured this variable using binary response, which was determined by the level of income earned by each household in the sample. For this purpose the researcher used World Bank minimum standard poverty line $1.25 or 34 Ethiopian birr. Finally the researcher used a code to represent those two binary responses, if household get less than 34 take a value 1 poor and otherwise 0 for non-poor.

3.4.2 Independent Variable

The principal explanatory variable for this study included under this study were the following ten independent variable variables with its measurement as follows:

Table 3.2. Explanatory variables and its measurements

Explanatory Variables	Measurements	Expected sign by the researcher
Household change in annual income (Logincome)	Ratio scale using log of income after loan from ACSI minus income before loan from ACSI	-ve
Change in household saving (LogScs)	Ratio scale using log of household annual saving after ACSI minus annual saving before ACSI	+ve
IOXWN	Improvement in oxen owned which is dummy variable, 1 yes and 0 no	-ve
IMSAH	Improvement in housing and shelter by household which is dummy variable, 1 yes and 0 no	-ve
IMCEDN	Improvement in education for children which is dummy variable, 1 yes and 0 no	-ve
IMMT	Improvement in medical treatment which is dummy variable, 1 yes and 0 no	-ve
IMF	Improvement in diet which is dummy variable, 1 yes and 0 no	-ve
LRPA	Improvement in loan repayment ability which is dummy variable, 1 yes and 0 no	-ve
HZ	Ratio scale which is number of respondents household member	+ve
EDB	Categorical variable which is household head educational back ground, 1 for uneducated , 2 for 1-8 greed , 3 for 9-12 greed and 4 for college and above	-ve

3.5 Model Specification

Model specification means the mathematical demonstration, simplification and arrangement of the relationship between variables, which is dependent variable and independent variables.

LOGIT model

This study used LOGIT model to test the impact of microfinance (ACSI) to reduce the rural household poverty level to achieve its main objective. This model is appropriate when the response variable (dependent variable) follow binomial distribution. It is suited when they explained variable (dependent variable) is dichotomous or dummy variable and the type that has ‘‘YES’’ or ‘‘NO’’ and the like response (Gujirati, 2004). Therefore, the model specification for this study was using logistic model analysis, since the dependent variable (poverty) is binary, dummy or dichotomous variable with (1) for household is poor and with (0) for household non-poor.

The simple logistic model has the form:

Logit(Y) =natural log (odd) =ln ($\frac{p}{1-p}$) = α + βx++ε-----------------------------------equation (1)

Where

β= the regression coefficient,

α=is the Y intercept

ε= error term

p= probability of (Y=outcome of interested outcome)

When this simple logistic model extended to multiple predictors (say x1, x2....) once can construct a complex logistic regression for Y.

Logit(Y) = ln {$\frac{\mathrm{p}}{1-\mathrm{p}}$} = α + $\beta 1x1 + \beta 2x2$+ βixi+ε--------------------------equation (2)

Where, Y= once again probability of the event, which can be expressed and calculated as:-

The list of all variables for logistic model estimation in impact assessment of microfinance on poverty reduction for this research can be written as follows.

First, to obtain the LOGIT model from logistic function, write ‘‘Z’’ as the linear function of Xs (independent variables in the model) along with their parameters as;-

Z= $\alpha + \beta ixi + \varepsilon i$...equation (3)

Then the model can be specified as:

$Z = \alpha + \beta 1x1 + \beta 2x2 + \beta 3x3 + \beta 4x4 + \beta 5x5 + \beta 6x6 + \beta 7x7 + \beta 8x8 + \beta 9x9 + \beta 10x10 + \varepsilon i$ ....equation (4)

Where

Xs = are the determinates of dependent variables

X1= change in logincome

X2=logscs

X3=HZ

X4=ILRA

X5= IMF

X6=IMMT

X7=IMCEDN

X8=IOXWN

X9=IMSAH

X10= EDB

ε= error term

Z= poverty, where α and βX are the parameters to be estimated.

4. DATA ANALYSIS AND INTERPRETATION

4.1. Descriptive statistics

4.1.1. Information about the services of ACSI for its clients

Under this section, the respondents were asked different questions regarding the services of ACSI they received in order to answer the first research question, which is "what are the practices of ACSI in providing financial services?".

Table 4. 1: Analysis of ACSI services

Question	Measuring group	Frequency	Percent	Valid Percent	Cumulative Percent
Do you think you are satisfied with the services of ACSI?	Yes	237	75.7	75.7	75.7
	No	76	24.3	24.3	100.0
	Total	313	100.0	100.0	
Do you think that you will stay in the program?	Measuring group	Frequency	Percent	Valid Percent	Cumulative Percent
	Yes	214	68.4	68.4	68.4
	No	99	31.6	31.6	100.0
	Total	313	100.0	100.0	

Question	Measuring groups	Frequency	Percent	Valid Percent	Cumulative Percent
The reason for not continued in the program	Too short loan length	10	10.1	10.1	10.1
	Too short loan length & in appropriate loan repayment	2	2.02	2.02	12.12
	Too short loan length & unable to repay the loan	2	2.02	2.02	14.14
	In appropriate loan repayment	20	20.2	20.2	34.34
	Conflict with members	31	31.31	31.31	65.65
	Obtaining enough capital	24	24.25	24.25	89.89
	Unable to repay the loan	9	10	10	98.98
	Others factors	1	1	1	100.0
	Total	99	100.0	100.0	
What type of service you have used from ACSI?	Measuring group	Frequency	Percent	Valid Percent	Cumulative Percent
	Loan	11	3.5	3.5	3.5
	Loan, saving and credit &smart card	3	1.0	1.0	4.5
	Loan ,saving and insurance	1	.3	.3	4.8
	Loan, saving and payment services	1	.3	.3	5.1
	Loan and saving	296	94.6	94.6	99.7
	Saving	1	.3	.3	100.0
	Total	313	100.0	100.0	

Source: survey 2010

4.1.2. Information about client's income and assets

Under this section the researcher attempted to assess the impact of ACSI through loan provision on the income and assets improvement in particular living standard improvement and poverty reduction in general.

Table 4.7: Analysis of client's income and assets

	Mean	N	Std. Deviation	Std. Error Mean
Household annual income before ACSI services	39165.75	313	45585.971	2576.671
Household annual income after ACSI services	48322.06	313	47121.518	2663.466

	Measuring group	Frequency	Percent	Valid Percent	Cumulative Percent
Do you have oxen before the loan from ACSI to plough your land?	Yes	188	60.1	60.1	60.1
	No	125	39.9	39.9	100.0
	Total	313	100.0	100.0	
Do you have oxen after the loan from ACSI to plough your land?	Yes	245	78.0	78.0	78.3
	No	68	22	21.7	100.0
	Total	313	100.0	100.0	

Source: survey 2010 E.C

4.1.3. Client saving status

Under this sub section the researcher tried to assess the client saving status in both cases before they got loan from ACSI and after they got loan from ACSI and different circumstance in relation to client saving.

Table 4.9: Analysis of saving by the clients

	Measuring group	Frequency	Percent	Valid Percent	Cumulative Percent
Do you have a personal saving account before the loan from ACSI	Yes	37	11.8	11.8	11.8
	No	276	87.9	87.9	99.7
	Total	313	100.0	100.0	
Do you have a personal saving account after the loan from ACSI	Yes	301	96.2	96.2	96.2
	No	12	3.8	3.8	100.0
	Total	313	100.0	100.0	
What type of saving do you have?	Compulsory	119	39.53	39	40
	Voluntary	108	35.88	36	75
	Both compulsory and voluntary	74		25	
	Total	301	100	100.0	100
For what purpose did you save?	For loan repayment	129	42.85	43	46.1
	To withdraw in case of difficulty	77	25.58	26	72.0
	To earn profit	81	27	27	99.2
	Others	14	4.65	4	100.0
	Total	301	100	100.0	
What is your source of money for saving?	From business profit financed by the loan	251	83.5	83.8	86.0
	From other source of income	26	8	8	94.9
	Borrowed from relatives	12	4	4	99.0
	Borrowed at cost	7	2.4	2.5	99.7
	Other	5	1.7	1.7	100.0
	Total	301	100	100.0	

Source: survey 2010 E.C

4.1.5. Information about Client Children Education

Under this section the researcher summarizes and present number of client who have school aged children and the mean average educational expenditure of the client in both case before and after the loan from ACSI.

Table 4.11: Analysis of client's children education background

Do you have a children and other school aged household members?	Measuring group	Frequency	Percent	Valid Percent	Cumulative Percent
	Yes	241	77.3	77.3	77.0
	No	72	22.7	22.7	100
	Total	313	100		100
	N	Minimum	Maximum	Mean	Std. Deviation
How much your average educational expenditure per year before the loan?	247	300	20,000	2,464.05	2,823.471
Valid N (listwise)	247				
How much your average household expenditure per year after the loan?	248	500	30,000	3,423.17	7,961.136
Valid N (listwise)	248				

Source: survey 2010

4.1.6 Information about household health and medical treatment

In this subsection the researcher made some analysis with regarding to wither there was a household members sick or injured in this year, whether the injured household member has got a medical treatment or not and summarized as follows .

Table 4.12: Analysis of household health care condition

Are there any household members sick or injured during the last twelve month?	Measuring group	Frequency	Percent	Valid Percent	Cumulative Percent
	Yes	89	28.4	28.4	28.4
	No	224	71.6	71.6	100.0
	Total	313	100.0	100.0	
Did the lilied or injured household members get medical treatment?	Yes	69	77.53	77.5	77.5
	No	20	22.47	22.5	100.0
	Total	89	100	100.0	

Source: survey 2010 E.C

4.1.7. Information about respondents housing and shelter

Table 4.13 Analysis of clients housing condition

Do you have enough houses for your household members before the loan?	Measuring group	Frequency	Percent	Valid Percent	Cumulative Percent
	Yes	239	76.4	76.6	76.6
	No	74	23.3	23.4	100.0
	Total	313	100.0		
Do you have enough houses for your household members after the loan?	Yes	308	98.4	98.7	98.7
	No	5	1.3	1.3	100.0
	Total	313	100.0		
	Good quality	41	11.5	11.9	13.9
		156	48.2	49.8	63.7

what is the condition of your house before the loan	Medium quality				
	Poor quality	116	35.1	36.3	100.0
	Total	313	100.0		
what is the condition of your house after the loan	Good quality	83	26.2	26.3	26.3
	Medium quality	206	65.8	66.0	92.3
	Poor quality	24	7.7	7.7	100.0
	Total	313	100.0		

Source: survey 2010 E.C

4.1.8. Information about client loan repayment performance

Table 4.14: Analysis of client loan repayment

	Measuring group	Frequency	Percent	Valid Percent	Cumulative Percent
What is the status of your loan repayment	repay according to the schedule	264	84.0	84.0	84.3
	Not repay according to the schedule	49	15.7	15.7	100.0
	Total	313	100.0	100.0	
What is the major reason for you did not pay your credit according to the schedule	The loan activity was not profitable	36	73.5	73.5	73.5
	Profitable but used for expend	4	8.15	8.15	81.65
	Loss of assets	7	14.28	14.28	95.93
	Other	2	4.07	4.07	100
	Total	49	100.0	100.0	
Do you believe the loan have to repaid	Yes	286	91.4	91.4	91.7
	No	27	8.3	8.3	100.0
	Total	313	100.0	100.0	
Do you have access to credit from other source other than ACSI?	Yes	166	53.0	53.0	54.0
	No	147	44.7	44.7	99.4
	Total	313	100.0	100.0	
Why did you borrow from other sources	Need for more amount	39	23.58	23.58	23.58
	Need for more amount, interest rate is low and easier to get	26	15.69	15.69	39.27
	Need for more amount and interest rate is low	23	13.88	13.88	53.15
	In order to repay for ACSI	74	44.62	44.62	97.77
	Other	4	1.42	1.42	100.0
	Total	166	100	100	
Have you faced with any difficulty in case of loan repayment?	Yes	179	56.9	56.9	57.5
	No	134	42.5	42.5	100.0
	Total	313	100.0	100.0	

4.2. Inferential Statistics

4.2.1. Paired sample T-test

4.2.1.1. Impacts of ACSI on household saving improvement

Table 4.15: A. Paired sample statistics table on household saving

Paired variables	Mean	N	Std. Deviation	Std. Error Mean
amount of household saving after the loan from ACSI	2,050.63	301	2,270.459	130.867
amount of household saving before the loan from ACSI	249.17	301	1,039.891	59.938

Source: survey 2010 E.C

Table 4.15: B. Paired sample Test table (paired difference) on household annual saving

Paired variables	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
Amount of household saving after the loan from ACSI Amount of household saving before the loan from ACSI	1,801.458	1,998.40	115.186	1,574.784	2,028.133	15.64	300	.000

Source: survey 2010 E.C

4.2.1.2. Impact of ACSI on household housing and shelter

Table 4.16: A. paired sample statistics table on respondents housing and shelter

Paired variables	Mean	N	Std. Deviation	Std. Error Mean
Market value of respondent house after the loan	37,883.39	313	44,729.815	2,528.279
Market value of respondent house before the loan	26,711.18	313	37,386.291	2,113.198

Source: survey 2010 E.C

Table 4.16: B. Paired Samples Test table on household housing and shelter

Paired variables	Paired Differences					T	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
market value of respondent house after the loan market value of respondent house before the loan	11,172.204	23,093.624	1,305.329	8,603.844	13,740.565	8.559	312	.000

Source: survey 2010 E.C

4.2.1.3. Impacts of ACSI on household annual income

Table 4.17: A. Paired sample statistics table on household income

Paired variables	Mean	N	Std. Deviation	Std. Error Mean
household annual income after ACSI services	48322.06	313	47121.518	2663.466
household annual income before ACSI services	39165.75	313	45585.971	2576.671

Source: survey 2010 E.C

Table 4.17: B. Paired sample test table on household annual income

household annual income after ACSI services household annual income before ACSI services	Paired Differences					t	Df	Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			
	9156.310	20111.826	1136.788	6919.571	11393.049	8.055	312	.000

Source: survey 2010 E.C

4.2.1.4. Impacts of ACSI on Children Educational Improvement

Table 4.18: A paired sample t-test statistic on household annual educational expenditure

Paired variables	Mean	N	Std. Deviation	Std. Error Mean
Annual average household educational expenditure after the loan from ACSI	3,432.17	247	7,976.037	507.503
Annual average household educational expenditure before the loan from ACSI	2,464.05	247	2,823.471	179.653

Source: survey 2010

Table 4.18: B paired sample test table (paired difference) on household annual educational expenditure

Paired variables	Paired Differences					T	Df	Sig. (2-tailed)
Annual average household educational expenditure after the loan from ACSI	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
				Lower	Upper			

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Annual average household educational expenditure before the loan from ACSI	968.117	7,147.546	454.787	72.343	1,863.891	2.129	246	.034

Source: survey 2010 E.C

4.2.2. Regression Analysis

4.2.2.1. Logit model results and discussion

The logit model results obtained using STATA version of 13.00® is given as follows:-

Table 4.23 Maximum likelihood estimates of the logit model: logistic regression

Variables	Logistic regression number of obs = 313 Wald chi2 (12) =37.73 Prob > chi2 = 0.0002 Pseudo R2 = 0.8906					
Variables	Coefficient	Robust std.Err	Z	P> /Z/	Marginal effect	Odd ratios
Log income	-22.3733	5.864407	-3.82***	.000	-.4025468	1.92e-10
Logscs	-.5226698	.4474686	-1.7	.243	.009404	.5929354
HZ	4.862635	1.078717	4.51***	.000	.874898	129.3646
ILRA	3.677696	2.114095	1.75*	.082	.0661701	39.55527
IMF	-1.89063	2.982341	-.63	.526	.0340167	.1509767
IMMT	-0.809442	1.377892	-.60	.551	-.0145637	.4451062
IMCEDN	1.952947	.7659896	2.55**	.011	.0351379	7.049431
IOXWN	-1.0888	.8624365	-1.26	.207	.01959	.3366208
IMSAH	-1.463073	1.050464	-1.39	.164	.026324	.2315236
EDB	9.384736	3.020101	3.11***	.002	.1572806	11905.27
Constant	224.0927	59.31338	3.78	0.000	-	-
Log pseudo likelihood = -18.981153						

Source STATA output from survey data 2010 E.C

*** ⟹Significant at 1% level of significance

** ⟹Significant at 5% level of significance

* ⟹Significant at 10% level of significance

By taking the coefficients obtained from the a above STATA results of logistic regression the full estimated model in equation form can be written in the following form

P (poverty) = Logit(Y) = ln $\{\frac{p}{1-p}\}$ = 224.0927 - 22.3733logincome -.5226698logScs + 4.862635HZ + 3.677699ILRA -1.89063IMF - .8094424IMMT + 1.952947 IMCEDN -1 .0888 IOXWN -1.463073 IMSAH +9.384736EDB

The variable change in log income after ACSI (logincome) has a negative sign as of the researcher expectation and statistically significant at 1% level of significance. The marginal effects of this variable shows that a one birr increase in the household income of rural household leads to chance of decrease in becoming poor by 0.4025468%, and thus as the household get more income their level of poverty reduced by 1.92e-10 times keeping other variables remaining unchanged. This result implies that microfinance institution (ACSI) play a great role in increasing rural household income at first and then reducing their poverty status in the study area. The result is in line with (Gloriee, 2013) who found that the expansion or access to microfinance loan extensively increased income and provide avenues for people to save in Nakuru country Kenya.

The variable Log change in saving (logscs) has negative sign as the researcher expected. However this variable is not statistically significant. This implies as household saving improved the chance of household being poor reduced.

The variable household size (HZ) which is statistically significant at 1% level and has a positive sign as of the researcher expected. The marginal effect for this variable shows that when number of household increased by one individual the chance of being poor increased by 0.874896%, other things being equal. Thus as the clients of ACSI get more household members their poverty level increase by 0.592935 times keeping other variables constant. In other word households who have more household size are 0.592935 times more likely to be poor as compared to non-poor in the study area. This implies that the chance being poor for household having more household size is more likely than household having few household sizes, this finding is in line with (Japheth, 2012) who state that an increase in number of household size will lead to increase the likelihood of the respondent being poor by increasing the dependence rate and finally this will result in rise in the poverty level of the household.

The variable improvement in loan repayment ability (ILRA) which is statistically significant at 10% level with appositive sign which has an opposite to the researcher expectation. The marginal effect for this variable support that a unit rise in loan repayment difficulty by the rural poor household of ACSI clients leads a probability of being poor by 0.0661701% other things being equal. Thus as clients faced a loan repayment difficulty their level of poverty increased by 39.55527 times keeping other variable constant. In other words, rural households of ACSI client who faced a loan repayment problem are 39.55527 times more likely to being poor as compared to the non-poor. This finding was in line with (Holm-Muller, 2007) participants in microfinance institutions in Kenya had considerably lower income than non-participant household because these participants sold their pre-existing productive asset to pull through the defaulted loans in case of loan repayment and this problem become saver when the loan type is a group loan and the loan period is too short.

The variable improvement in food or diet (IMF) has negative sign as the researcher expected. However this variable is not statistically significant. This implies that as the household deit improved in quality and quantity the chance of being poor reduced.

The variable improvement in medical treatment also has negative sign as the researcher expected. However this variable also is not statistically significant. This implies that as the household medical treatment improved the chance of being poor by the household reduced.

The variable improvement in children education (IMCEDN) which is statistically significant at 5% level has a positive sign, which is opposite to the researcher expectation. The marginal effects of this variable suggest that a unit increment in children educational improvement by the rural household of ACSI clients increase the chance of being poor by 0.0340167% other things being equal. Thus, as the households sent their children in to school and increase their educational facilities the household's level of becoming poor increased by 7.04943 times keeping other variables constant. In other word household who have more students in their household members are 7.04943 times poor as compared to non-poor in the study area. This finding is in line with (Ladd, 2012) argue that the promotion of competition maintaining that students from disadvantaged household (poor household) on average perform less well in school than those from more advantaged families (non- poor household) because different initiatives policy in different countries experienced do not address the educational challenges faced by the disadvantaged students and families. To meet a gap between advantaged and disadvantaged students the polices should have the potential to do serious improvement in addressing the educational challenge faced by these children from disadvantaged families and this will require a broader and bolder approach to education policy then to reduce poverty. In addition to this (Murnane, 2007) argue that children living in poverty tend to be concentrated in low performing school staffed by ill-equipped are likely to leave school without the skill needed to earn a decent living in a rapidly growing economy and then may not be enrol in the next higher class or may not competent enough in the market. Finally this will make the problem more savers by increasing the level of poverty by keeping them dependency on their family.

The variable improvement in oxen owned (IOXWN) has negative sign as the researcher expected. However this variable is not statistically significant. This implies that as the household number of oxen owned improved the chance of being poor by the household reduced.

The variable educational back ground of the household head (EDB) which is statistically significant at 1% level has a positive sign. The marginal effect of this variable shows that a one class enrolment in education by head of rural household increase the chance of being poor by 0.1572806% other things being equal. Thus as household head are more educated the level of poverty increased by 11905.27 times keeping other variables constant. In other word in individual who are more educated (college and above) are 11905.27 times more likely to increase their poverty as compared to non-poor. This finding is in line with (Carm, 2003) education is not a significant means to reduce poverty levels of the rural poor household, this is somewhat surprising but as previous studies have shown on this issue argued that education may have a significant contribution to reduce poverty in urban household because in urban there are more job opportunities which can people with a good educational qualification employed and move out of poverty. This mean educated people in rural household were poorer than uneducated rural household and educated urban household. In addition to this approach in different literature that support education argues that education may have a significant role to reduce poverty specifically via higher educational qualification may be applicable in formal job market or in self -employment and income generating activities (Carm, 2003).

5. CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

This thesis assesses the impact of microfinance institution (ACSI) on poverty reduction in North Showa zone and shows that microfinance institution (ACSI) has a potential positive impact in reducing the poverty level of rural poor household by providing loan access.

Moreover, the study concluded that ACSI provides financial services in the study area largely for females, uneducated rural household, for clients their age group lays under the productive age group and for household who have at least more than two member of household and one dependent household member.

The study also concluded that as there was some limitation of ACSI in service provision for its clients including higher interest rate on borrowing, inadequate awareness creation of the services of the institution other than the loan and saving service, too low monetary on clients loan utilization by the staff, unbalance or inconsistent training and consultancy service for the clients (for limited clients only), inconsistent and too short loan period for most of the clients ranging from 6 month to 3 years and this was out of the major causes for clients dissatisfaction with ACSI services. The study further concluded that access to microfinance institution (ACSI) loan significantly increases amount of household annual saving, household annual income, market value of household house and annual household educational expenditure. Therefore, ACSI plays an effective contribution to reduce poverty in North Showa zone by improving the above elements. Finally, the research concluded that as there was a problem in case of loan repayments by the poor clients and they are obliged to sell their fixed assets and borrowed from other local money lenders at a higher interest rate, this is another limitation of the institution since this may result in increasing the poverty status of the poor to became more poor as they lost their valuable fixed asset to repay the loan.

The study used ten explanatory variables to determine the impact of ACSI on poverty reduction of rural household poverty status. These variables were explored in the model using a binary logistic regression model, and five of these explanatory variables (log income after ACSI loan, household size of the respondent, improvement in children education, improvement in loan repayment and educational background of household head) were found to be statistically significant variables in determining poverty reduction of rural ACSI loan beneficiaries in North Showa zone. As the marginal effects of these variables shows, as the household annual income increased, the clients becoming non poor increase, or the higher the change in log income after the loan, the more they have to be non-poor by rural households. The more the clients have household size, the more they become poor; clients who faced loan repayment problem were more probable to be poor than non-poor. Clients who have more students in their families have the better chance to be the poor, and clients whose household head are more educated have the better chance to be the poor. Moreover, ACSI negatively affects the poverty status of the rural household in North Showa zone through improvement in food, improvement in medical treatment, improvement in oxen owned by the household and improvement in shelter and housing condition of the household.

5.2 recommendation

Based on the result obtained and the conclusions made in this study the following recommendations were forwarded by the researcher.

ASCI should continuously improve its outreach and its accessibility for rural household to enable them be users of financial service and improve their overall living standards since it has a significant role to reduce the poverty status of the rural household.

The institution (ACSI) should intensify its monitoring and supervision about the beneficiaries’ credit facilities and their usage whether they spent the loan for the intended purpose or not. It is also expected to adjust the interest rate on borrowing downward and to keep in an acceptable rate to enable the rural household repay the principal plus interest on due date.

ACSI should work more on awareness creations about the need for saving; especially voluntary saving in order to develop saving habit of the society at first and it is the base for its existence. ACSI should organize different regular training and consultancy services for all its clients equally, it should accept and give due attention for comments from its clients by which they are dissatisfied and has to take remedial measures as much as possible. ACSI should increase the grace period of loan repayment period and reduce the frequency of loan repayment by the clients so as to enable them build adequate capacity to sustain them accommodate repayment.

Both the institution (ACSI) and clients should work to improve rural household income from clients main activate and from any other source of income, which is the main solution to reduce poverty in the study area and which has a significant negative relationship with rural household poverty level.

ACSI should have to investigate the socio- economic characteristics which significantly affect the loan repayment performance of clients before allowing them to form a group and providing a group loan in order to reduce incidence of loan default and conflict between members, since it has a positive effect on rural household poverty level.

Rural household in north Showa should undertake an appropriate measure to family planning program through different mechanisms like supplying adequate contraceptive facility; this also need to be implemented in order reduce the high cost incurred by the household for children educational fees and other related cost and finally to eradicate poverty, because which are positively and significantly affect the rural household poverty status.

The government needs to take actions to improve the education quality of rural household children and increase their chance of eradicating poverty by creating job opportunity. The government should also have to support the rural household head, who are more educated to improve their income at first and to contribute for their country development via their skill in addition to farming activities.

Finally, the rural household who are not clients of ACSI and who have a need of credit facility and other financial services should be aware of the fact that ACSI improves the living standard of the poor rural household. Hence, government and other stakeholders should promote the services of ACSI in rural areas.

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