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ASSESSMENT OF MICROFINANCE INSTITUTION SERVICES IN IMPROVING THE LIVELIHOODS OF BENEFICIARIES: THE CASE OF SPECIALIZED FINANCIAL AND PROMOTIONAL INSTITUTION IN ADDIS ABABA

BY

DAGIM GETACHEW

JUNE ,2020

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ADDIS ABABA

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ID NO: SGS/0040/2010B

**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE
STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE
OF MASTER OF BUSINESS ADMINISTRATION**

JUNE, 2020

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ST. MARY'S UNIVERSITY
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JUNE, 2020
ADDIS ABABA

ACKNOWLEDGEMENT

Above all, I acknowledge & thank my almighty God for giving me energy, courage & adequate patience to complete this very important task. I am so grateful to my advisor Asst. Professor Tiruneh Legesse for his highly valuable advice, comments & instructions throughout this thesis work. Similarly, I would like to express my deepest gratitude to my beloved wife W/ro Rahel G/giorgis & all our kids for their unreserved support, encouragement, patience & for being by my side until completion of my work.

DECLARATION

I declare that this thesis is my original work prepared & presented under the supervision & guidance of my advisor Tiruneh Legesse(Asst. Professor). Every effort has been made to trace & acknowledge the copyright of materials used in this Thesis. The writer apologizes in advance for any unintentional omissions. He would be pleased to insert the appropriate acknowledgements in any future editions.

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ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies, MBA program, for examination with my advice & approval as a University advisor.

Tiruneh Legesse(Asst.Professor)

Signature_____

St. Mary's University, Addis Ababa

JUNE, 2020

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ACRONYMS

ADLI: Agricultural development led Industrialization.

AEMFI: Association of Ethiopian Micro Finance Institution.

BRAC: Bangladesh Rural Advancement Committee.

FGD: Focus Group Discussion.

IMF: International Monetary Fund.

KII : Key Informant Interview.

MDG: Millennium Development Goals

MFI: Micro Finance Institution.

NGO: Non-government organization.

PRSP: Poverty reduction strategy paper.

PASDEP: Plan for Accelerated and Sustainable Development Program.

SFPI: Specialized Financial& Promotional Institute.

SPSS: Statistical package for Social Scientists

SPNN: South people Nations & Nationalities.

UN :United Nations

UNESCO : United Nations Educational Scientific and Cultural Organization.

UNDP: United Nations Development Program.

Abstract

Microfinance programs have been considered as one of the main instruments in livelihoods improvement in recent development agenda. Microfinance comprises the provision of financial services including credit and other facilities like savings, insurance, and transfer services to poor household. In light of this, it was the purpose of this Thesis to assess the role of the Specialized Financial and promotional Institution in improving the livelihoods of its beneficiaries in Addis Ababa & the study was guided by basic research questions & relevant data collections. Descriptive analysis method was employed & data were collected from 150 SFPI clients in Addis Ababa through quantitative(questionnaire)& qualitative(KII&FGD)instruments. The data collected through questionnaire was analyzed using percentiles, frequency distributions, and mean while the qualitative data was analyzed using narrations. Systematic sampling technique was applied to select the sample population. The findings revealed that the Specialized Financial and Promotional Institution in Addis Ababa provides a range of micro financial services to its clients that improved the livelihoods of its beneficiaries through credit facilities, savings mobilization, insurance services, and some training supports. The study concluded that SFPI provide satisfactory services in terms of credit loan, savings & insurance services. It also deliver limited non-financial training supports & the company is perceived by clients as a vital firm since it provides them with the much needed funds that improve their livelihoods. However, the study also concluded that: Inadequate supply of loans, high interest rate, lack of conducive and productive working area were among the major challenges standing on the way to further livelihoods improvement. Consequently, it was recommended: SFPI to continuously upgrade itself to address the needs of the clients so as to harmonize operations for more role by making policies at institution level; to continuously supervise, monitor and follow up the clients adequately to avoid diversion of funds; seek Government intervention for regulatory and capacity enhancement activities and work closely with Research institutions for further research to seek solutions for its service areas that need improvement.

Key words: *Microfinance, poverty, livelihoods, empowerment, micro credit.*

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

First coming to prominence in the 1970s, microfinance was relatively a new term in the field of development (Robinson, 2001). Post 1970s, the importance of microfinance has been greatly underlined for its role in poverty reduction, socio-economic development, livelihood diversification and women empowerment particularly in the developing nations.

As studies conducted by economists like Otero (1999) indicated, the provision of financial services by donors or governments was mainly in the form of subsidized rural credit programs from the 1950s through to the 1970s and these financial services, according to Robinson (2001), often resulted in high loan defaults, high loss and an inability to reach poor households.

Improving the livelihoods of the poor through Microfinance services has been considered one of the most significant innovations in the development field worldwide in the last thirty years (Jha, and Bawa, 2007; Ahlin, and Jiang, 2008). It is the extension of small, collateral-free institutional loans to jointly-liable poor group members for their self-employment and income-generating activities (Chowdhury et al.2005;Ahlin, and Jiang ,2008;United Nations ,2010).

The provision of financial services to microenterprises and low-income households to enhance their livelihoods has received substantial interest from the development community and the general public as a tool that was believed to create jobs and increase incomes in the informal economy, while being profitable to the providers of financial services for the working poor. Unlike many development strategies, microfinance claims to succeed without on-going subsidies. It has come to occupy a central place all over the globe in providing financial resources to the poor. Borrowers of microfinance institutions lack access to credit otherwise, (Grameen Bank, 2008a, 2009: In Aziza,2013). Their borrowing has been an attempt to eradicate their personal poverty (Chowdhury et al., 2005).

Advocates of Microfinance argued that with proper financial services & adequate management, it could play a significant role in development. Studies have shown that microfinance plays three key roles in development (UN, 2010).

It helps very poor households meet basic needs and protects against risks, i.e. access to MF allows poor people to take advantage of economic opportunities by reducing vulnerability & increase earnings & savings. Thus, the financial services allow poor households to make transformation from everyday survival to planning for future.

It is associated with improvements in household economic welfare which means as a result of MF services they obtain the beneficiaries would be able to invest in their children education and further the increased income from the MF services would lead to better nutrition, health care & protected against incidental risks like death, illness, loss of assets, flooding...etc.

It helps also to empower women by supporting women's economic participation and so promotes gender equality. Women workers through-out the world contribute to the economic growth & sustainable livelihoods of their families & communities. MF services provisions such as credit loans, savings & insurance services help to empower women from poor households to make such contributions. So, MF services would lead to women empowerment by positively influencing their decision making power & enhancing their socio-economic status. It also promotes gender equality, sustainable livelihoods & better working conditions for the women.

Otero(1999) illustrated the various ways in which “microfinance”, at its core combats poverty. She stated 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 poor persons, their sense of dignity is strengthened and this can help to empower them to participate in the economy and society (Otero, 1999).

1.2 Statement of the problem

It has been evident that Ethiopia stands out as one of the poorest countries in Sub Saharan Africa which seeks support (in cash and kind) from the developed world. The country has been characterized by large food self-sufficiency gap at national level and food insecurity at household level although more than 80% of the national population depends on agriculture to earn its living (Amdissa, 2006;Ramanaiah,&Gowri, 2011: In Amogne ,2014). Different scholars like(Ashman,2011; Barrett et al.,2009, and Amogne, 2014) have pointed out that the agricultural sector alone should not be relied upon as the core activity for rural and urban households as a means of improving livelihoods of the poor to reduce poverty.

Initially, microfinance started by the NGOs' in the past in Ethiopia with a clearly defined mission of rural poverty reduction. However, the establishment and expansion of law enforced microfinance institutions in the country has become one of the most important development strategies being under operation in all nations and nationalities in Ethiopia today.

Poverty reduction has been a major concern for successive rulers in Ethiopia since the establishment of formal governments in the country as poverty, in particular, famine has been hitting the nation every 5/10 years. Microfinance, in the Ethiopian context therefore has been believed to be the universally accepted way of achieving livelihood improvement and economic growth in the country. Considering the great role that microfinance institutions played in the reduction of poverty, research on it could not be ignored as Ethiopia aspired to become industrialized by the year 2030. Literature on the performance of individual microfinance institutions pertaining to Ethiopian condition appears to be inadequate.

Nevertheless, cognizant of the importance of microfinance as a development strategy, the Ethiopian Government has been taking a series of economic development strategies to get out of the vicious circle of poverty, among which Agricultural Development led Industrialization (ADLI), Food Security Strategy, PRSP and PASDEP strategies were worthy to mention.

The Poverty Reduction Strategy Paper (PRSP) and the most recent Plan for Accelerated and Sustainable Development Program (PASDEP), among other documents, considered microfinance as a good entry point in achieving development objectives as well as in restraining the dangerous trend in poverty and meeting the Millennium Development Goals (MDG), (Gobezie, 2008; In Aziza, 2013). Microfinance intervention has been therefore, said to register substantive results in view of making participatory development activities realizable (Wolday, 2000; In Aziza 2013).

Of the various Microfinance institutions established in Ethiopia so far, the Specialized Financial and promotional institution (SFPI) stood out in terms of longevity (established in 1997), coverage (branches in Oromiya, Amhara, SPNN & the center Addis Ababa), with initial paid up capital of 300,000 birr and which now reached about Br125,000,000 paid-up capital with outstanding loan of over 310 million Birr. As anyone could imagine, such a dramatic and positive shift in the capital of SFPI might have also enhanced its services to its clients in Addis Ababa in parallel.

In view of the preceding discussions, it has become the purpose of this study to assess the role of Specialized Financial and Promotional Institution (SFPI) services in Addis Ababa in improving the

livelihood of the beneficiaries as measured by income, saving, asset accumulation, decision making power and to identify existing limitations/challenges.

1.3 Research questions

The study aimed to answer the following basic questions:

1. To what extent does the specialized financial and promotional institution provide adequate types of services to its clients in Addis Ababa?
2. What additional supports does the specialized Financial and Promotional institution(SFPI) provide to its clients?
3. How do the clients of the SFPI perceive the services accrued to them?
4. What changes have been brought about on the livelihoods of the urban beneficiaries in Addis Ababa as a result of SFPI services?
5. What are the main challenges faced during the implementation& use of SFPI services?

1.4 Objectives of the Study

1.4 .1 General Objective

The general objective of this study was to assess the role of Specialized Financial and Promotional Institution (SFPI) services in improving the livelihood of its beneficiaries(clients) in Addis Ababa.

1.4.2 Specific objectives

The Specific objectives of the study were:

- a. To assess to what extent the SFPI provide adequate types of services to its clients in Addis Ababa.
- b. To assess the additional supports provided by SFPI to its clients.
- c. To assess how do clients of SFPI perceive the services accrued to them.
- d. To assess the changes brought up on the livelihoods of urban beneficiaries in Addis Ababa as a result of SFPI services.
- e. To identify the major challenges faced during the implementation & use of SFPI services.

1.5 Definition of terms

SFPI

SFPI is one of the pioneer Microfinance institutions established in Ethiopia in accordance with proclamation No. 40/1996 to provide micro-financial services to the interested poor, low income households & their micro-enterprises. It is a for-profit legal organization owned by a number of shareholders.

Microfinance

Microfinance is a category of financial services targeting individuals & small businesses who lack access to conventional banking & related services. Its services include credit loans, savings, insurance services...etc.

Micro-credit

It is a component of MF that involves extension of small loans to poor borrowers who lack collateral or regular income.

Poverty

In simple terms, poverty is not having enough material possessions or income to meet person's basic needs such as food, shelter, clothing, safe water, education...etc.

Livelihoods

Livelihood can be defined as activities or set of activities essential to secure the necessities of life.

Empowerment

Empowerment refers to increasing the spiritual, social, political & economic strength of individuals & communities.

1.6 Significance of the study

This study was expected to assess the role of SFPI micro-financial service in improving the livelihood of client households in Addis Ababa. It also aimed to finding out the integration of the micro finance service and initiates other researchers to generate and add information on existing knowledge of micro finance contributions in improving the livelihood of urban households. Further, the findings of the research assumed to provide multipurpose information to different users, including practitioners in microfinance,

donors, policy makers, academicians and the public at large and help to appraise the existing microfinance practices and this justified its practical significance. Eventually, it would be important to the academicians and researchers who could use it as a springboard for other relevant researches/studies. The information would also be used in the information and resource centers of higher institutions of learning like universities that offer microfinance as a course for their students as well as the resource centers in microfinance institutions and their umbrella organizations. It would therefore be an additional reference for the data banks in the microfinance industry.

1.7 Limitations of the study

It is evident that any research study may face some limitations from its start until its end. Time constraints on the researcher, financial pressures & time limitations to reach regional branches of SFPI, lack of enough understanding to fill the questionnaires properly by the respondents, unwillingness of some of the respondents to co-operate for the study, scattered distribution of the respondents within the sub-cities & recent mobility restrictions(inconvenience) due to the Corona pandemic were among the significant limitations. Nevertheless, to keep quality of the research data a well experienced guide person was hired at reasonable payment from each sub-city to locate them, co-ordinate& assist the written responses of the respondents and the data collection activity was closely followed & assisted by the researcher based on the questionnaires developed. The KII & FGD were fully conducted by the researcher himself to further enhance the accuracy of the information gathered.

1.8 Scope of the study

Geographically, the research was conducted in Addis Ababa. Thus, since conducting assessment works in those geographically scattered 23 branches of SFPI in four regions was financially expensive and time consuming, those branches in Addis Ababa, found in four sub-cities, were the targets of this study. However, the study was limited to systematically selected household beneficiaries in Addis Ababa who have been clients of the SFPI branches.

The reason for choosing SFPI for this study was that this microfinance has been one of the senior(Established in 1997) and pioneering microfinance institutions in the country with sufficient knowledge and experience reaching vast poor population at peripheral areas where other financial services are not readily available.

Thus, SFPI has been playing a vital role in supporting the poor through availing substantial and sustainable funds as much as possible for relevant and promising projects of the clients. Hence, the overall

activities of SFPI could provide better insights regarding improved livelihoods of the urban poor and could be taken as one of the best practices to learn from. This justified why SFPI was selected as a target institution to be studied.

1.9 Organization of the study

The research report is comprised five major chapters. Chapter one comprises introduction of the study, statement of the problem, basic research questions, objectives of the research, definitions of terms, significance of the study, limitations & scope of the study. Chapter Two (Literature review) includes conceptual issues like what microfinance is, and livelihoods, history of microfinance, microfinance and its role in livelihoods development at length & challenges in MF. Chapter three includes research design and methodology employed to gather the necessary data, population involved as data sources, methods of data collection and the instruments to be employed, methods of data analysis and data clearing procedures. Chapter four comprises summary of results, analysis/discussion of the findings which comprises tabular presentations of data, interpretation of data & figures and descriptions of the situations of SFPI services & the clients. Eventually, chapter five embraces summary of findings, conclusions, challenges of the study and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Microfinance

Today, in many parts of the world, Microfinance has created enormous interest among development practitioners and policy makers. It has got wide support from aid agencies, governments, non-governmental organizations (NGOs), and the public at large. When defined in simple terms, microfinance means providing credit in the form of small loans to poor households to finance small-scale entrepreneurial activities (Abed,2000;Chowdhury et al.,2005; Grameen Bank, 2008a,2009). Microfinance is an economic development approach that involves providing financial services, through institutions, to low-income poor, where the market fails to provide appropriate services (Maanen,2004: in Aziza,2013). The services provided by the Microfinance Institutions (MFIs) include credit, saving and insurance services. Many microfinance institutions also have been providing social intermediation services such as training and education, organizational support, health and skills in line with their development objectives.

The terms ‘micro-credit’ & ‘microfinance’ often used interchangeably to indicate the range of financial services offered specifically to poor, low-income households and micro-enterprises (Barboza, & Trejos, 2009). According to Meagher (2002), Micro-credit is a component of MF & it is the extension of small loans to entrepreneurs who are too poor to qualify for traditional bank loans. Thus, it enables very poor people to be self-employed to generate income & improve livelihoods. The term ‘micro-credit’ was first coined in the 1970s to indicate the provision of loans to the poor to establish income-generating projects, while the term microfinance has been used since the late 1990s to indicate the so-called second revolution in credit theory & policy that are customer-centered rather than product-centered (Elahi, & Rahman, 2006).

Microfinance principally has encompassed micro-credit, micro-savings, and micro-insurance and money transfers for the poor. Microcredit, which is part of microfinance, is the practice of delivering small, collateral-free loans to usually unsalaried borrowers or members of cooperatives who otherwise cannot get access to credit (Hossain, 2002).

Microfinance embraced not only a range of credit products (for business purposes, for consumption smoothing, to fund social obligations, for emergencies, etc.), but also savings, money transfers, and insurance. According to CGAP (2013), microfinance refers to formal financial services that are delivered by providers that are registered with or licensed by a government. It refers to an array of financial

services, including loans, savings & insurance, available to poor entrepreneurs and small business owners who have no collateral & wouldn't otherwise qualify for a standard bank loan(Campaign, 2012). It is an economic development approach that involves providing financial services, through institutions, to low-income clients, where the market fails to provide appropriate services(Maanen,2004: In Aziza,2013). In most of the cases, the services provided by the Microfinance Institutions (MFIs) include credit, saving, insurance services, education, supportive training, health services & other possible organizational supports in line with the development targets of beneficiaries.

2.2 History of Microfinance

The history of microfinance can be traced as far back as the late three centuries when Friedrich W.Raiffeisen established the first cooperative lending bank to support farmers in rural Germany (Samer, &Al-Shami1,2013). However, the modern concept of microfinance was introduced in 1970s when Muhammad Yunus established Grameen bank in Bangladesh.

It appears to be that there has been widespread consensus that the origin of the micro-credit movement is attributed to the work of Muhammad Yunus' Grameen Bank which was founded more than twenty years ago in Bangladesh (Meade, 2001). It is however become an accepted fact today that microfinance/micro-credit and micro enterprise programs can be found throughout South and Southeast Asia, many parts of Africa, Latin America, the United States of America and Western Europe (Meade, *ibid*).

The successful experience of Grameen Bank in combating the poverty and flourishing the economic wellbeing of poor has attracted the attention of many government and non-government organizations to the possibility of replicating this experience. Indeed, a surge growth of microfinance institutions has been noticed in the developing countries especially in Asian countries since the birth of the Grameen Bank in 1975. Microcredit Summit Campaign reports that the number of the poorest clients provided with microcredit has grown from 7.6 million in 1997 to 137.5 million in 2010(Campaign,2012:In Samar, & Al-shamil, 2103). It also found that among those poorest clients more than 113 million were women. This number was collected from 31,652 microfinance institutions around the world.

Since the 1970s microfinance has gained a universal consensus as an effective tool for alleviating poverty and wellbeing improvement (Brannen,2010). It has been seen as an approach to help the local economy and its dynamic growth in development. Microfinance has been believed to lead to the achievement of a wide range of development objectives, including: the fulfillment of self-employment, formation of new firms, income generation and distribution that can lay the ground for equitable and sustainable functioning of the economy. Eventually, Microfinance is a term used to describe financial services for those without

access to traditional formal banking. It has incorporated the provision of loans, often at interest rates of 5%, 10% or more to individuals, groups and small businesses, i.e. micro-credit. More recently it has also been extended to include the provision of micro-savings accounts as well as insurance and money transfer service (Arku, 2009).

2.3 Microfinance in Ethiopia

In its modern approach, Microfinance in Ethiopia appears to have been a recent phenomenon although, in its traditional form, it has been well known to the Ethiopian society. Traditionally, people living in the urban as well as the rural areas have been borrowing money from those who have had it on the basis of trust to pay monthly interest rate on the basis of mutual agreement. People who lend the money on interest basis have been called **ArataAbedari** (money lenders in Amharic) while those who borrowed money on interest basis have been called **ArataTebedari**(money borrowers in Amharic). In its rudimentary form, **Aratabidir** currently exists in different forms but is not legally allowed.

In Ethiopia, Microfinance services began in the 1980's by Non-governmental organizations as one component of poverty reduction. In 1996, the government of Ethiopia issued the MF proclamation (40) which ratified establishment and operation of MFIs in the country with the aim to create financial services to the poor people with no access to financial services as a result of the legal framework created (Endalew, Endrias, and Jemal ,2013). Thus, it has played a vital role in availing micro finance services to firms like small & micro enterprises who have been playing significant role in the whole economy.

Moreover, the main target of governmental and non-governmental Micro Finance services has been to improve the livelihood of the poor (beneficiaries) and thereby ensuring food security all over the country. Bekele, &Dereje(2014) said that, yet recently there are about 31 legal MFIs in Ethiopia.

2.4 Models of microfinance interventions to improve livelihoods

Mayoux(2001), defines a MFI as “an organization that offers financial services to the very poor”. According to the UNDP (2009), there are approximately 10,000 MFIs in the world but they only reach four percent of potential clients, about 30 million people. On the other hand, according to the Microcredit Summit Campaign report(2012) ,the 2,931 microcredit institutions that they have data on, have reported reaching “80,868,343 clients, 54,785,433 of whom were the poorest when they took their first loan”. Even though they refer to microcredit institutions, they explain that they include “programs that provide credit for self-employment and other financial and business services to very poor persons” (Microcredit Summit, *ibid*).

The differences between these sources highlighted a number of points. Firstly, how the two terms, microcredit and microfinance were often confused and used interchangeably, though in the strictest sense microcredit should refer only to the provision of credit to the poor. Secondly, the difference between the statistics shows how difficult it is to get a true picture of how many MFIs are in existence today and how many clients they are reaching. The IMF state that “no systematic and comprehensive data on MFIs is collected and there are no authoritative figures on key characteristics of the microfinance industry, such as the number and size of MFIs, their financial situation, or the population served” (2005).

Despite the lack of enough data on the sector, it was clear that a wide variety of implementation methods were employed by different MFIs. Three of the microfinance models include: Rotating Savings and Credit Association (ROSCA), the Grameen Bank and the Village Banking models.

Rotating Savings and Credit Associations

This model of credit association has been formed when a group of people come together to make regular cyclical contributions to a common fund, which is then given as a lump sum to one member of the group in each cycle (Grameen Bank, 2000a). According to Harper (2002), this model is a very common form of savings and credit. He states that the members of the group are usually neighbors and friends, and the group provides an opportunity for social interaction and is very popular with women. They are also called merry-grounds’ or Self-Help Groups (Fisher, and Sriram,2002). Rotating saving has been similar to the Ethiopian type of traditional savings called **Iqub(Ikub)**. In the present days, Iqub is highly practiced even among government employees, the public at large and the vendors as well.

The most traditional way of lending money has been existed in developing countries & they have a way of calling it but it includes the same idea as a loan. In Ghana and Nigeria for instance, it is called ‘Esusus’, in Sudan it is called Sanduk, in Cameroon, Senegal, Niger and Togo it is called ‘Tontines’ and in Ethiopia called ‘Ekub’ (Gobezie, 2005).

The Grameen Solidarity Group model

This model is based on group peer pressure whereby loans are made to individuals in groups of four to seven (Berenbach, and Guzman,1994). Group members collectively guarantee loan repayment, and access to subsequent loans has been dependent on successful repayment by all group members. Payments are usually made weekly (Ledgerwood, 1999). According to Berenbach, and Guzman (1994), solidarity groups have proved effective in deterring defaults as evidenced by loan repayment rates attained by organizations such as the Grameen Bank, who use this type of microfinance model. They also highlighted

the fact that this model has contributed to broader social benefits because of the mutual trust arrangement at the heart of the group guarantee system. The group itself often becomes the building block to a broader social network (Brenbach, & Guzman, *ibid*).

Village Banking Model

Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services, build community self-help groups, and help members accumulate savings (Holt, 1994). They have been in existence since the mid-1980s. They usually have 25 to 50 members who have been low-income individuals seeking to improve their lives through self-employment activities. These members run the bank, elect their own officers, establish their own by-laws, distribute loans to individuals and collect payments and services (Grameen Bank, 2008a). In this case the loans are backed by moral collateral; the promise that the group stands behind each loan.

The sponsoring MFI would lend loan capital to the village bank, who in turn had to lend to the members. All members would sign a loan agreement with the village bank to offer a collective guarantee. Members are usually requested to save twenty percent of the loan amount per cycle (Ledgerwood,1999). Members' savings have been tied to loan amounts and used to finance new loans or collective income generating activities and so they would stay within the village bank. No interest paid on savings but members receive a share of profits from the village bank's re-lending activities.

Many village banks targeted women predominantly, as according to Holt, "the model anticipates that female participation in village banks will enhance social status and intra-household bargaining power" (1994). Thus, village banks have played an important role in supporting the livelihoods of the poor & especially in enhancing the economic & social activities of women.

2.5 Microfinance and its role on livelihoods improvement

Since its emergence as an alternative development tool, various studies have confirmed the positive role played by microfinance in changing the livelihoods of the poor. According to a study of microfinance in the Asian countries, it was found that the borrowers of microfinance tend to make more money over time through profitable investments that eventually lift them out of poverty (Meade, 2001). This particular study mentions that the members of the Bangladesh Rural Advancement Committee (BRAC) can expect to see their poverty fall by an average of fifteen percent after three years of participation and for Grameen Bank participants, there is a reduction of poverty by five percent after four years of participation (Meade,2001). The study by Meade (*ibid*) also revealed that the micro-credit programs helped borrowers

to insure themselves against crises by building up household assets and such assets could be sold if needed or used as security or proof of credit worthiness when dealing with businessmen or more traditional lending agencies.

A study made by Muzaale (1994) included a linkage to banking system through depositing loan cheque on their project bank account, expansion of business resulting in a lengthened radius of social and economic interaction, rejuvenation of income generating project which increases social status e.g. being elected to leadership positions in communities, educational experience through training and positive self-image and confidence developed especially after loan repayment.

UNESCO's study revealed that over eight million very poor people especially women were benefiting from different microfinance programs in Asia, (1997). Experiences of these programs, as stressed by UNESCO, showed that provision of micro-credit and savings facilities when efficiently utilized, enables the poor to build strong micro enterprises, increase their incomes and participate in economic growth, (UNESCO, *ibid*). It also contributed greatly to the empowerment of the poor, especially women and helped raise awareness and aspirations for education, health care and other social services. In light of these achievements, microfinance has increasingly been considered as an important tool for livelihood improvements. Thus, microfinance services have been important strategies for development and have been vehicles to improve the livelihoods of the poor (beneficiaries) to help attain the basic needs of survival (food, shelter, clothing, health, education), promote self- confidence & empowerment. Because of these roles of microfinance services globally, governments whether developed or not have recognized the role of microfinance services globally and are working towards its promotion throughout the world.

2.6 Microfinance and its role in development

In its holistic sense, microfinance has had a very important role to play in development. According to UNDP (2009) microfinance plays three key roles in development: 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 further stated 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,*ibid*). The aim of microfinance according to Otero (*ibid*) 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 institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector.

Latifee(2003),and Rutherford(2002) stated 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, a 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, 2006).

Morduch(2003)stated that “microfinance is a critical contextual factor with strong contribution on the achievements of the MDGs(Millennium Development Goals), and it is unique among development interventions in that it can deliver social benefits on an ongoing, permanent basis and on a large scale”. Generally, in referring to various case studies, they showed how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women.

2.7 Challenges of Microfinance

Challenges regarding the role of Micro finance in reducing poverty may be emanated from how to spend the money received from microfinance institutions depending upon the knowledge and skills of the beneficiary or depending on the type of borrowers. On account of this, judging microfinance by whether it has reduced poverty, increased freedom, built industries ‘may not always hold true.

According to Wright(1999), both micro-credit and micro-savings interventions aimed to enable clients to spend their money differently. When given to groups, and to women, there has been hope that these interventions will increase social cohesion and also empower women. But if the money obtained through micro-finance services used only for consumption purposes attempt to lift oneself out of poverty could be fruitless. Therefore, proper spending on anything that pays back would be essential.

There could be two ways in which people spend their money differently. They invest in the future and they also have higher consumptive spending. Their investments can include spending on business or other productive assets such as land, or they can involve investing in education, health, nutrition or housing. Consumptive spending can also include spending on nutrition, housing or other assets. These investments have direct role on clients’ capabilities, their scope to deal with shocks and their ability to earn. Greater business and productive assets, greater training or education, and less risk of adverse events, could all contribute to increased income. Crucially, for micro-credit clients, this increased income has been necessary to repay their original loans, and the often very high interest on those loans. Once those loans

are repaid, micro-credit clients are also able to save more and to spend more and spend differently and gradually lift themselves out of poverty.

There were some writers who were not enthusiastic about the role of microfinance in development by indicating that it was not a silver bullet when it comes to fighting poverty. Hulme, and Mosley (1996), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be”. They stated that microfinance was not a panacea for poverty-alleviation and according to them, in some cases the poorest people have been made worse-off by microfinance.

Similarly, Wrigley (2011) stated that much of the skepticism of MFIs stems from the argument that microfinance projects “fail to reach the poorest, generally have a limited effect on income, drive women into greater dependence on their husbands and fail to provide additional services desperately needed by the poor”. In addition, Wright said that “many development practitioners not only find microfinance inadequate, but that it actually diverts funding from more pressing or important interventions such as health and education (ibid). As argued by Navajas(2000), there is a danger that microfinance may siphon funds from other projects that might help the poor more. They stated that governments and donors should know whether the poor gain more from microfinance; from more health care or food aid for example. Therefore, there would be a need for all involved in microfinance and development interventions to ascertain what exactly has been the role of microfinance in combating poverty.

On the other hand, Chowdhury, and Mosley(2004), argued that it is notoriously difficult to measure the influence of microfinance programs on poverty. This is so they argued, because money is fungible and therefore it is difficult to isolate credit role, but also because of the definition of ‘poverty’, how it is measured and who constitute the ‘poor’ “have been fiercely contested issues”.

It appeared to be that there existed disagreements among economic writers regarding the role of microfinance in reducing poverty to the required level. Most of them argue that there is a misallocation of funds to one sector than to those more productive while others debate that, so far, data on the true role of microfinance is not available nor not quite sure if it is dependable for generating acceptable outcome of microfinance on the livelihoods of the poor.

2.8 Empirical literature review in Microfinance

Lafourcade, et al.(2005), conducted a study entitled overview of the outreach & financial performance of MFIs' in Africa & 163 MFIs' provided information for the study. The study revealed that MFIs' in Sub-Saharan Africa have broad diversity & they provide the much needed financial services to the poor low income clients. The types of lending MFIs' include NGOs', co-operatives, rural small banks & saving associations. In this study saving was regarded as a crucial financial service to improve the livelihoods of clients & it is the main source of funds for lending. Thus, provisions of MF services play a vital role in alleviating poverty & pulling out millions of low income households in Africa. However, the study also indicated some of the challenges faced by African MFIs' such as high operating cost, shortage of funds, limited products range & lower revenues compared to conventional banks (Lafourcade, *ibid*). Hence, in general it could be said that though there are some limitations/challenges African MFIs' are important actors in the financial sector to reach millions of clients who do not have access to the main stream banks to improve their livelihoods.

2.9 Empirical MF role studies in Ethiopia.

MF services provision to the needy poor have been playing significant positive role in Ethiopia. However, the studies conducted in MF area mainly on MF role assessment in Ethiopia are few(Aziza,2013). Most of the studies conducted were focused on MF roles from lenders perspectives & products of MFIs' are not offered based on market assessment & opportunity prospects to meet to meet the needs of the clients while keeping the financial institutions (lenders) profitable(Walday,2002:In Aziza,2013).Accordingly, such ignorance may result in drop outs of clients & outreach reductions.

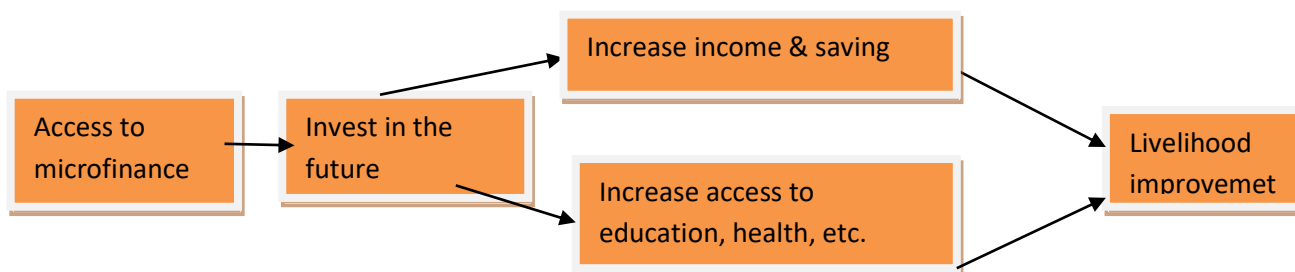
Various researches revealed a positive role played by MF provisions to the poor households. Mengistu, (1998):In Aziza,(2013) found that the increase in the number of MF program beneficiaries was an indicator of assistance of the program to create self-employment thereby improving their livelihoods. Few other studies have looked at gender dimensions of MF roles in Ethiopian context & revealed that MF provisions play a significant role in livelihood improvements of the poor, especially women. Tsehay, & mengistu(2002), found out that MF interventions have brought improvements in economic status & empowerment for poor women borrowers. Accordingly, MF services provisions promoted gender equality & equity significantly & played a huge role in placing women at respected position in the household & the community at large in Ethiopia.

However, though the benefits of MF interventions largely outweigh its risks the MF services are not free from drawbacks/limitations like high interest rates, lack of loanable funds, decreased voluntary savings, limited product range & poor group borrowing dynamics..etc. As a study by Alemayehu (2008), indicated the rise in income as a result of MF interventions was not much significant. Other Empirical studies in Ethiopian context also affirmed that sustainable rise in income was witnessed in urban & sub-urban areas than rural areas. Since better finance will bring in better profit level of wealth(savings) & clients activity differences are very important for the effectiveness of MF programs.

2.10 Conceptual framework

Like anyone else, poor people need an array of financial services to help them deal with a range of short-to long-term consumption needs and the ups and downs of income and expenses, to make use of opportunities, and to cope with vulnerabilities and emergencies. The needs of the poor for financial services have been categorized into three groups, namely life-cycle needs that can be anticipated (like marriage, burial and education), unanticipated emergencies (like sickness, loss of employment, death of a breadwinner, floods), and opportunities (like investing in a new business or buying land (Erulkar et al., 2006).

Figure 1: Access to microfinance and poverty alleviation.



Source: Stewart R. & Colleagues(2010). The impact of MF on the poor.

The spectrum of financial services available to meet these needs include investment (savings), lending (credit services), insurance (risk management) and money transfers. But the poor’s access to formal financial services is limited, and the services available do not acknowledge the diverse requirements of the poor (Mayoux , 2001). Instead poor people tend to juggle for financial relationships with various financial institutions, and with friends and family to have the flexibility and reliability they need (Morduch, 1998). They have been depending on various types of formal and informal community funding, credit unions, moneylenders, co-operatives, self-help groups and associations (like accumulating savings and credit associations, rotating savings and credit associations, burial societies), and financial NGOs. However, with commercial financial institutions considering ways in which to provide financial services to the poor

in a profitable manner, microfinance services have been provided by a whole spectrum of role players. The reality then was a mix of financial services accessed by poor people from a variety of service providers, depending on local knowledge, history, context & need may have greatly contributed to lift the poor out of poverty.

2.11 Overview of Specialized Financial and Promotional Institution in Ethiopia

It is an active member of AEMFI which was formed by shareholders from governmental organizations, nongovernmental organizations and the private sector. Specialized Financial and Promotional Institution (SFPI) has been one of the pioneer micro-financial institutions in Ethiopia established in accordance with proclamation No.40/1996. It was registered as a share company by liability on November 25, 1997. It started operations in the second half of 1998. The seven shareholders in SFPI were commercial Bank of Ethiopia, Dashen Bank, Agri-service Ethiopia, Projyanist Ethiopia, Addis Ababa Women Entrepreneurs Association, and Ethiopian National Association for the Blinds and Ato Hailu Wondafrash(SFPI, 1998). Among these, the largest share has been owned by commercial Bank of Ethiopia. SFPI has been administered by board of directors, which composed of five members elected by the General Assembly. The General Assembly of the shareholders has been the highest governing body of the institution.

The operational department has started by opening two branches in the year 1998 and following this in the year 2004 the number of branches has reached four. Apparently speaking, by the year 2013 the number of branches arrived at eleven branches (namely Shola, Cherkos, Merkato, Akaki, Holeta, Debrezeit, Adulala, Sheno, Woliso, Fiche and Debremarkos) with basic operational units in the structure; such as branch managers, credit officers, accountant, cashier, guards and janitor(SFPI,2012). According to Aziza, four branches were located in urban area(Addis Ababa) and five branches located in rural area(2013). The total number of branches now reached 23 in 2019. However, all branches have rural and urban program outlet. As indicated in the institution's document(2004), the vision of SFPI was to see poor people especially women; to fully access the institutional credit for self-employment, to reduce poverty both in urban and rural Ethiopia, and to promote emergence of self-reliant and business minded generation. The institution's mission was working towards the socio-economic empowerment of the active poor both in urban and rural Ethiopia by assisting them in creating and running viable business through provision of financial and non-financial services (SFPI, 2004).

On the basis of the organization's objectives, SFPI has targeted poor individuals who shall organize themselves into groups of three to five members, who may come up with production oriented and viable project ideas, and cooperatives with legal entity. More attention has been given to the poor female headed

households (SFPI,ibid). The main activities performed by SFPI have been carrying out micro-financing activities both in urban and rural Ethiopia, promoting savings, mobilize resources from various sources, promotional counseling and training services and plough back profits generated from operation (SFPI, ibid). However, though the benefits outweigh the risks many studies revealed that Ethiopian MFIs' have faced numerous problems & challenges such as low outreach, fund shortage, limited product diversification, limited research & innovation in the field to mention some.

2.12 Research gap theoretical aspects

MF services bring many benefits for the poor in developing countries, i.e. it enables them empowered, secured & get vital services like health & education. However, several studies revealed that MF industry is a relatively new phenomenon & is characterized by various research & innovation gaps. A study made by Gosa(2014), on assessment of Dedebit MF activities indicated that women access is still insufficient(limited outreach) & the interest rate is high to conveniently afford & hence the poor appeared to be not given due concern& he also pointed out that the program has not been backed by critical studies to identify problems & limitations of Dedebit MF in alleviating poverty in a better way. Similarly, a study conducted by Hankamo(2018), on the impact of MF services in Hossana concluded that government & other funding institutions should provide support in order to conduct further researches, promote more out-reach openings as well as to improve the magnitude & type of roles played by MFIs' services in combating poverty.

Furthermore, in the Ethiopian context many MFIs' studied even do not have well established automated MIS & they depend significantly on manual operations for their management information systems. Experiences from main banks revealed that automated MIS & ICT would play a great role in follow-ups of non-performing loans, defaults, efficient services, better management & reporting systems. The MF industry is still at its early stage of development in Ethiopia & it has a long way to travel to fully meet the demands of the poor house-holds & their micro enterprises. Therefore, if Ethiopia aspires to become industrialized nation by 2030 & MF considered as important tool to halt poverty, continuous research would not be ignored to upgrade the existing products & to innovate new ones as well as new technologies & systems should be studied & adopted to fill research gaps that might hinder growth, improved livelihoods & efficient decision making process. According to Yunus(2007), the richest 10% owned more than 85% of the world's assets while in contrast the bottom half of the world's population owned barely 1% of the planet's assets. Thus, it is unfair to see a world where a few hundred millions enjoy full access to the planet's resources while billions struggle to survive & continuous research is vital to resolve it.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Design of the Study

The study employed mixed methods research design, that is, it utilized quantitative method using questionnaire and qualitative methods using KIIs(key informants interview) & FGD(focus group discussions)to collect data from different sources. The advantages of this design are that it uses the quantitative and qualitative approaches in combination to provide a better understanding of research problems than either approach alone, Ivankova (2007). Both are valuable to social research theory and practice, and that knowledge can be gained through both the capacity to reason and sensory experiences, Kumar (2014). Moreover, the design is descriptive in nature since this type of research is concerned with specific predictions, narration of facts and characteristics concerning individual, group or situation. Thus, descriptive statistics was employed to explain the findings as necessary.

In this study, improving the livelihoods of the beneficiaries through microfinance provisions was the situation under investigation. Moreover, the design was preferred since it was carefully designed to ensure complete description of the situation, making sure that there is minimum bias in the collection of data and to reduce errors during interpretation. The use of both methods also ensure that the data would effectively be interpreted using tables, numbers, figures as well as the narrative approaches. Eventually, mixed method was expected that it would help to improve the quality & accuracy of the findings of the study

3.2 Study Population

According to Croos (2003), population refers to the set of people or entities to which findings are to be generalized. In assessing the role of the microfinance institution in improving the livelihoods of the urban poor in Addis Ababa, focus was made on urban households' who have access to and were using microfinance services from SFPI.

This population was given priority to secure firsthand information to collect dependable empirical evidence. The total size of the population was 11,734 consisting of both male and female clients who were permanent residents in Addis Ababa during my study.

3.3 Sampling

Sampling method was used to select the respondents from each microfinance branches of SFPI located in four sub cities of Addis Ababa(A/kality, N/lafto, A/ketema&Yeka) as the company has branches & operations only in those sub cities in Addis Ababa. A sample is a smaller sub set of the research/study population and samples that do a good job at conveying accurate information about the whole are referred to as representative samples (Ruane, 2005). Thus, the use of the sample in order to ascertain findings is commonly referred to as sampling(Ruane, *ibid*). Key informant interviews & FGDs' were also conducted in addition to the representative samples in this research to further enhance the results of the findings. To this end, the subjects of this study were the beneficiaries(clients) of SFPI and the leadership/coordinators of the Sub city branches.

3.4 Sampling technique

To select the required sample of beneficiaries (including men and women) from the total population of beneficiaries in Addis Ababa (11,734 beneficiaries) systematic sampling technique was employed to select 150 subjects for the study. Systematic sampling technique was chosen over simple random sampling because it is more reliable for large population as it ensures more even distribution, uniformity & consistency of results. As some studies indicated it is frequently chosen by fellow researchers for its cost efficiency, simplicity & periodic quality. The population was heterogeneous with different age, sex, marital status, education...etc& systematic sampling is allowed for heterogeneous population. Thus, the total samples were taken from total list of beneficiaries of SFPI in ascending order of their names on the list. The 150 samples were assumed to be sufficient to provide dependable results because key informants interview(KIIs)& focus group discussions(FGDs) were conducted at head office & each sub city to substantiate the results of quantitative data with rich information as cost & time constraints limit the researcher to go further. KIIs were conducted with relevant officers or managers of SFPI at head office & branch offices in the four sub cities based on their availability during the study. Focus group discussion was conducted by approaching some 3-4 selected active beneficiaries of SFPI at the four sub cities & the discussion was made in the form of question & reaction manner to save time & enhance quality of the data.

Systematic sampling is a type of probability sampling method in which sample members from a large population are selected according to a random starting point but with subsequent fixed periodic intervals

called sample interval. It is given by formula $K = N/n$, where K is the sample interval, N is the target population & n is the desired sample size.

Thus, representative samples of 150 beneficiaries were selected from a total population (large population) according to a random starting point & with subsequent periodic interval based on the systematic random sampling technique. Accordingly, the sample interval was calculated by taking the total list at SFPI head office & dividing this total population (11,734) by total sample needed (150) to get an interval of 78. The researcher took randomly a starting point of 2 between 1 & 78 by lottery method and the sampling continued by adding the interval obtained (78) as 2, 80, 158... until a total sample of 150 was obtained. The sample size of 150 was assumed adequate to draw enough conclusion since the outcomes of the quantitative data was substantiated/supported by information rich KIIs & FGDs as time & financial constraints hinder the researcher to go further. Then the corresponding samples were allocated to each sub city & divisions of sub city based on their total clients population.

Hence, in this study the required samples were taken from each branch of SFPI located in all the four sub-cities to ensure even distribution & uniformity of the samples. Example: Total number of sample required was 150; Total number of beneficiaries in Yeka 2 were 407; Therefore, the share of Yeka2 would be $407/11734 * 150$ which equals to 5 sample beneficiaries. This is clearly shown in table 1 below for each of the four sub-cities.

Table 1: Sample frame and Sample

Sub City	Beneficiaries	Male	Female	Sample
AkakiKality	4828	2586	2214	62
Yeka 1 (Shola)	1488	516	972	19
Yeka 2	407	101	306	5
Addis Ketema	1753	750	1003	22
Nefas silk 1	122	31	91	2
Nefas silk 2	3164	1129	2035	40
Total	11734	5113	6621	150

Source: Data from SFPI record, 2019

Regarding the SFPI leadership/coordinators for interview, availability sampling was utilized as these data sources could be busy in office commitments and occasional meetings and or workshops and conferences outside of Addis Ababa. Focus group discussion participants were carefully selected in consultation with the coordinators or guides on the basis of gender and mutual consent of the participants in this study.

3.5 Instruments of data collection

Research instruments or measurement scales simply mean devices for measuring the variables of interest (Bowling, 2002). They can be in the form of questionnaires comprising single items (questions), interviews, or scales of items which can be scored. They could also be in the form of observational schedules, structured diaries or log books or standard forms for recording data from records (Bowling ,ibid). The instruments used in this research are discussed below.

3.6 Questionnaires

A written structured questionnaire was used as instrument to obtain quantitative data for the research. It has been observed that, in considering the various research options for systematically gathering information, the questionnaire has earned the right to be a perennial favorite, a frequent choice of researchers because of its versatility, its time and cost efficiency and for its overall ability to get the job done (Ruane,2005).Therefore, the questionnaire was used to obtain the quantitative information from 150 beneficiaries of SFPI services in Addis Ababa. More structured questionnaire was used because it would try to be specific for the respondents to explain the relevant situation without giving significant room for unnecessary and irrelevant information for the study.

3.7 Qualitative instruments

These instruments comprise key informant interviews and focus group discussions. In this research interview was used as the qualitative tool to explore the topic as well as utilize the knowledge and beliefs of the people about the role the microfinance has played in enhancing the livelihoods of SFPI clients in Addis Ababa. Thus, qualitative research would help us to investigate a previously unexplored topic or one which is poorly understood. Qualitative methods help to find out what the issues are and the nature of the subject. In using this research method, the researcher was able to identify the attitude of the beneficiaries on the microfinance institutions& important views of the key informants. This is also supported by Maso(1998), who explained that this method of research contributes to generation and development of themes and according to Davies, it could also enable the investigation of beliefs and attitudes on topics (2000).

The researcher also used this method in order to gain more insight and understanding of the topic under investigation. This is emphasized by Smith (2008), who stated that the main purpose, and therefore, advantage of qualitative research is to provide a richer and deeper understanding of a problem or question being observed. Although subjective, qualitative research methodology provides different ways of looking at the same problem. Without this understanding, researchers can only answer the question of how and not why.

3.8 Procedures of data collection

For this study data was collected through document review, Survey/Questionnaires, Key Informants Interview (KII)& FGD. The details are as follow:-

- i. Document review:** Involves collecting information and data from existing surveys, reports and documents of SFPI as well as any relevant Publications.
- ii. Survey/Questionnaire:** This was used to collect information from SFPI beneficiaries. For this purpose, structured questionnaires were developed and administered to enable obtaining quantitative data on issues regarding the role of the micro-finance services on livelihoods improvement of the clients.
- iii. Key Informant Interview (KIIs):** Key informants were purposively selected from those available because they are knowledgeable about issues related to micro-financing and clients prior economic as well as social conditions. Thus, key informants' interviews were conducted with SFPI officials, MF coordinators and similarly some of the active current beneficiaries of the microfinance services were selected for FGD to gather their views & feelings about SFPI services.
- iv. Reliability:** In order to collect reliable data, the researcher designed relevant key informant interview& FGD guides and questionnaires &this involved some revisions under the guidance of the research supervisor/advisor to enhance data quality. Furthermore, three research assistants/enumerators were hired to administer/provide the questionnaires under close supervision of the researcher and key informants interview& FGD were conducted by the researcher himself.
- v. Validity:** To ensure validity the study applied the triangulation technique by using questionnaire, key informant interviews & FGD and secondary data sources concurrently. In addition, data collection instruments were presented to the advisor and refined to ensure lucidity of contents in context of aim of each question.

3.9 Methods of data analysis

After the information had been gathered, a variety of tools were used to analyze it in order to capture the relevant findings and also present it in a manner that would be understood by fellow researchers and other readers. Hence, the data collected was organized in tables, percentiles, figures, narrations of words, phrases & other relevant mechanisms & analyzed by employing descriptive statistics. It was coded with numbers & made convenient using SPSS Software as a tool. The qualitative findings were interpreted using narrations & phrases.

Editing: Editing was made in order to discard unwanted and irrelevant information, to verify the data and check for consistency.

Coding: This involved grouping answers of a similar nature or with similar meaning into one set of answers and giving them a particular number called a code. This means that for example answers with “yes” in a given questionnaire were coded as number one and answers with “no” were coded as number two for each questionnaire. The coding assists the researcher or statistician to enter the information into computer software called statistical package for social scientists (SPSS).

Reliability of instruments: In order to gather reliable data using the data collection instruments employed, the researcher designed relevant questionnaire and KII & FGD guides & the instruments designed were submitted to research advisor who evaluated & further refined(revised) the instruments to enhance quality of data collected through those instruments. Furthermore, three research assistants /enumerators were hired & oriented to administer the questionnaires under close supervision of the researcher whereas the KIIs & FGDs were conducted by the researcher himself.

Ethical considerations: Before deployment to the field work, recommendation letter was produced by St Mary’s University for submission to SFPI which was positively accepted. Then, the researcher clearly explained that the purpose of the study was for academic reason only & requested the participants in the study on voluntary basis. Thus, no one was involved against his/her will & the researcher assured the confidentiality of the information given & protection from any harm that may arise from the study since the findings from the research would be used for academic purpose only.

CHAPTER FOUR

FINDINGS AND DISCUSSION OF THE RESEARCH

4.1. Introduction

The study aimed at establishing whether microfinance service has a role to play in bringing positive changes on the livelihoods of the SFPI beneficiaries in Addis Ababa. The study area covered four Sub cities (AkakiKality, Yeka, Addis Ketema, and Nefas Silk) in Addis Ababa.

The literature reviewed showed that microfinance has worldwide support as a strategy to eradicate poverty in the developing countries. It has also evolved from small to big organizations providing the services, and targets men, women& small enterprises.

The respondents were selected using systematic sampling method in order to get direct beneficiaries & the key informants & FGDs' were also obtained from the microfinance institution within a shorter period of time with relatively minimum cost and effort. A total of one hundred and fifty respondents were selected for the quantitative study& all were responded & 100% return rate was observed because the research assistants were instructed to go to the respondents address frequently(where necessary) to get filled the questionnaire as the researcher didn't want to take less than 150 samples for better results. So, the assistants were going to them repeatedly if some of the respondents were not available or convenient on the first day to get it done. Enough number of respondents were identified & approached for the qualitative interviews. The tools used to obtain data from the respondents were the questionnaires, interviews& FGD which yielded the focus for the presentation in this chapter.

Thus, this chapter presented the findings established through the data collected from respondents quantitatively& qualitatively using questionnaires and KI interviews& FGDs' respectively. The respondents were persons who had participated in receiving SFPI services in the area and SFPI key officers& some selected clients for FGD. These provided the findings that presented in this chapter.

4.2 Discussion of quantitative data

Demographic characteristics of the respondents.

It was important to find out from the respondents their gender, marital status, age, education levels, occupation and number of dependents they have. These specific characteristics would affect their participation in the microfinance projects.

4.2.1. Sub city

As indicated in table 2,31%of the respondents were from Akakikality sub city and this appears to be the largest, while 30% were from Nefas silk Lafto sub city-the second largest. Those participants from Yeka sub city were 20% and the remaining 19% participants were from Addis ketema subcity. It seems to be that the rate of participation in the services of SFPI by the urban poor in Addis Ababa increases from the center of the city to the suburban area. This could be because of the fact that the urban poor in Addis Ababa, in most of the cases, live in the suburban areas of the city since living in the center of the metropolitan to support their family is very expensive.

Table 2: Background information of respondents

No			Frequency	Percent
1	Sub city	Addis Ketema	28	19%
		Nefas silk lafto	45	30%
		Akaki	47	31%
		Yeka	30	20%
		Total	150	100%
2	Sex	Male	59	39%
		Female	91	61%
		Total	150	100%
3	Age	<20	3	2%
		21-50	116	77%
		>50	3	2%
		Missing value	28	19%
		Total	150	100%
4	Marital status of respondents	Single	8	5%
		Married	116	78%
		Divorced	21	14%
		Missing value	5	3%
		Total	150	100%
5	Education level	Literate	42	28%
		Certificate	99	66%
		Diploma	7	5%
		Missing	2	1%
		Total	150	100%

Source: Own survey data, 2019.

4.2.2 Gender

The other important independent variable for consideration in the study was the gender of the participants as this is a critical dimension to promote equity of participation in development.

As can be seen from table 2, 39% of the participants were male while 61% of the respondents were female(the largest in number). The women, being the main actors in SFPI services could be as a result of the fact that they are very sympathetic & more responsible to the welfare of their household members. It may also indicate that more females are poor or dependent and seek source of funds than males to support their family. According to Goodland et al., women try as much as possible to get involved in activities that would enable them earn income that could assist them to buy the daily necessities as well as social services & assets such as health, education, housing and land(1999).

4.2.3 Age group of respondents

As shown in table 2, an insignificant percentage of respondents (2%) receive the services of SFPI (< 20 years- those young) while the largest beneficiaries fall in the age range 21-50 years (77%).

The majority of these are in the productive age. Similarly, a few beneficiaries fall in the age range greater than 50 years(2%). The great majority of respondents(77%) were older than 20 years. This could be attributed to the fact that this age group has several responsibilities to undertake especially feeding the family, paying school fees, and covering other living costs. Thus, when the available funds are not enough, they resort to SFPI to fulfill their obligations in the family.

In general, MFIs could also be hesitant to give the youth(<20 years) loans because they are mobile, less responsible & they can move to another location anytime before they complete the repayment. Thus, SFPI concentrates on the mature people who may have land titles, some assets, are permanent residents of the area and/or are well established in the local community. About 19% refers to missing values, because some people may do not want to tell their age & some may not know their exact age.

4.2.4 Marital status of the respondents

The above table shows that the majority of the respondents(78%) were either legally &/or traditionally married. This could be attributed to the fact that since the last 2 decades the spread of HIV has been high in Addis Ababa and people have started to get married at early age to protect themselves from the pandemic. Another reason could be that married people are more responsible to borrow & repay loans than those not married. It is assumed also that married couples are more responsible, stronger & eager for change to support their family.14% of the respondents were divorced while the other 5% were single

clients. Divorce could be enhanced due to economic reasons or sever misunderstandings between couples or families.

4.2.5. Educational level

The respondents exhibited a degree of education attainment that could be attributed to the fact that the study area is a metropolitan city, although the suburban sub city areas not very urban, that hosts national and International Headquarters which have several employment opportunities for the educated community members. The educated persons could also be the key informants who are professionally employed in their businesses or in SFPI. In connection with this, large number of respondents(66%) have certificates(10-12grades), while a considerable number of them were reported to be literates(4-8 grades) who can write and read (28%), but may need assistance to determine their profit or lose margins(to manage their business properly). A few of the respondents (5%) reported that they have diplomas. These categories of respondents were expected to lead their business with knowledge carefully & those with certificates could also lead their business to some good level.

4.2.6 Household relationship

The power relationship that exists in the family determines who decides on how to spend and utilize the money. It is argued that household dynamics and decision making processes generally affect women more than men in their ability to access financial services as there is a common belief that men exert an influence on women and their decisions over the use of money, especially when they are married (ICC, 2014). With regard to this, the results in household relationship are presented in table 3 below.

Table 3: The relationship of respondents in the family(Husband or Wife)

Relationship	Frequency	Percent
Husband	57	38%
Wife	74	49.3%
Missing value	19	12.7%
Total	150	100%

Source: Own Survey data, 2019

It was found that the majority of respondents were wives (49%) while husband respondents were also considerable (38%). Concomitantly, the information obtained from focus group discussion (FGD) revealed that about half of male respondents made decisions by themselves, and a considerable number of FGD participants said they make a joint decision with their spouses on spending the income from the business such as to provide remittance to parents and helping relatives, selling or buying assets etc. From interviews & FGDs' it could be seen that, male spouses are still powerful in controlling assets in Addis

Ababa. These findings implied that microfinance intervention on women’s economic situation has less influence on some household issues since men in Addis Ababa hold greater part of the final say on household resources like land& other major assets while women have less access power to those resources may be due to fear, ignorance or cultural reasons.

4.2.7 Ownership of shelter

Table 4: Housing condition

Ownership	Frequency	Percent
Personally owned	66	44%
Rented	84	56%
Total	150	100%

Source: Own survey data,2019

The information in table 4 indicates that the majority of the respondents live in rented houses (56%) while the remaining 44% live in their personally owned houses. Of these private ownership, 16% are male while 28% are female. In this case females appear to be better-off. On the other hand 23% of male respondents live in rented houses while 33% of the females similarly live in rented houses. This can create difficulty in using the money received through credit services from SFPI for investment in other productive activities than consumptions. Such an stance can force the beneficiaries of SFPI to spend the money borrowed on consumption goods& rentals rather than using the small loans received for self-employment and sustenance.

4.2.8 Linkage with SFPI

One of the reasons for slow expansion of micro finances is often said to be lack of access and sustainability due to poor outreach that emanates from lack of communications (Prathap B N., 2018). In response to the items referring to these, respondents indicated that (table 5 below) they received information about SFPI services through the media (5%), from a friend (41%), from a neighbor (31%), from public gathering 0.006%, and from other channels (23%) – these could be personnel being successful from being a client of SFPI, or people working in other financial institutions. However, it is to be noted that the role of the media was minimum (5%) since poor people in Addis Ababa have no extra time to listen to the media for they juggle to sustain their living all the time and they rather got information from a close friend or neighbors. It also implied that SFPI may not use the public or social media sufficiently for self-promotion.

Table 5: How Linkages with SFPI was created

	Media	A friend	A neighbor	Public	Others	Total
Frequency	8	61	46	1	34	150
Percent	5%	41%	31%	0.006%	23%	100%

Source: Own survey data,2019

4.2.9 Source of income before joining SFPI

Table 6: Source of income before SFPI

	Self employed	Spouse income	Others	Total
Frequency	125	10	15	150
Percent	83%	7%	10%	100%

Source: Own survey data,2019

The majority of respondents have been self-employed (83%) before joining SFPI. When asked to indicate the type of employment they engaged in, respondents listed them that they worked as: daily laborers 26(21%), as a Chef 17(14%), as a shopkeeper 22(18%), as producers of fast foods 7(5%), as coffee makers 12(10%), as chicken farmers 6(5%), cloth sellers 8(6%), bathroom rentals 2(1%), fruit and vegetable traders 20(16%) and worked as garment sellers 5(4%) in small scale . There were some who said that they did not have any job before joining SFPI & lived using spouse income(7%), while some considerable number of respondents(10%) indicated that they lived by using other income sources which could include remittances, help from the family, or income received from odd jobs. As is the case in most of the situations, working as a road vendor is illegal in Addis Ababa and people involving in these type of activities lack legal permanent shops in Addis Ababa and always suffer from chasing from place to place by the “**DenbAskebari**”(community police). It is easy to imagine how difficult it is to move from place to place by carrying sellable materials the whole day.

With regard to the occupations they joined after engaging with SFPI, almost all the respondents confirmed that they up graded & improved their previous jobs in a wider scale than searching for some other new ones. In fact, those without jobs before joining the organization said they started their own business and became self-employed. This could imply that people borrow loans from the MFI to further strengthen & develop their business & to start new enterprise as well to prosper.

4.2.10 Condition of Meals

Table 7: Condition of meals

Options	Decent meal before SFPI		Decent meal after SFPI	
	Frequency	Percent	Frequency	Percent
Yes	82	55%	147	98%
No	68	45%	3	2%
Total	150	100%	150	100%

Source: Own survey data,2019

As can be seen from table 7 above, 55% of the respondents confirmed that they got decent meals every day before joining SFPI, while after joining SFPI 98 % said they could eat decent meal every day, showing an increase by 43%. On the other hand, those who said no to the option regarding getting decent meals every day before Joining SFPI dramatically reduced from 45% to 2%. Thus, this implied that joining SFPI has helped SFPI clients at least to eat three times a day there by improved their livelihoods.

4.2. 11: Lending schemes

Regarding the lending schemes as indicated in table 8 below, the majority of SFPI clients (67%) involved in group lending scheme while a sizable number of them(29%) said they involved in individual lending of SFPI's scheme.

Table 8: Lending schemes

Options	Individual	Group	Credit union	Total
Frequency	44	100	6	150
Percent	29%	67%	4%	100%

Source: Own survey data,2019

Very few indicated they involved in credit unions (4%). Thus, while the majority of respondents involved in group lending the remaining utilized other schemes depending on their interest and capacity; this confirms what Berenbach, and Guzman (1994) said regarding lending schemes. This indicates that vast

majority of the beneficiaries are very poor & do not have significant assets for individual guarantee & have to rely on group responsibility & guarantee to borrow money from SFPI.

4.2.12 Services received from SFPI

Table 9: Services

Services	Yes		No		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Saving	149	99%	1	1%	150	100%
Credit card service	2	1%	148	99%	150	100%
Insurance service	143	95%	7	5%	150	100%
Payment services	1	<1%	149	>99%	150	100%
Loan service	150	100%	–	–	150	100%

Source: Own survey data,2019

The highest percentage of respondents indicated that they get loan credit service(100 %), saving (99%) and insurance (95%) services from SFPI. Credit card (99%) and payment (>99%) service are not provided by SFPI probably due to lack of enough knowledge about these services, budget constraints or due to absence of such technology & operations at SFPI. From the table one could easily conclude that nearly all operations of SFPI are bound to credit loans, savings & insurance services extended to its clients. Thus, other useful services like credit card, money transfer & payment services need to be well established &strengthened in future for better mutual outcomes.

4.2.13 Training services

Microfinance institutions should provide training and technical support to the borrowers to effectively use their loans for income generation. However, SFPI provided limited training to its microcredit borrowers such as on business training 76% (How to run a business more effectively), and how to produce goods for sale (39%). In addition, 93% of the respondents indicated that training on financial management& repayment scheme is provided as well. However, training on marketing skills and technology skills were reported to be not provided to the required level (16% and 3%) respectively(table 9). Advanced technology operations were not well developed & significantly launched, marketing skills &training were not adequately provided the KIIs said, mainly due to lack of enough trained manpower & budget constraints as well. This implies SFPI has a long way to go to increase the benefits of its clients & to be more competent for itself.

Table 10: Training services

Training services	Yes		No		Total	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Business training	114	76%	36	24%	150	100%
Marketing skills	25	16%	125	84%	150	100%
Technology skills	5	3%	145	97%	150	100%
Production skills	59	39%	91	61%	150	100%
Financial mgt. skills	140	93%	10	7%	150	100%

Source: The Survey data, 2019

It is evident that some other Microfinance institutions are working hard to expand their product portfolios from time to time & are ambitious to grow & skip to the establishment of conventional banking system to serve the mid-level & well established investors in order to draw more profits for the shareholders. Thus, SFPI has to work tirelessly to raise enough capital & to avail adequate skilled personnel to deliver its services more effectively & efficiently for the mutual benefit.

4.2.14 Clients appraisal of services of SFPI

Table 11; Respondents perception of SFPI Services

Statements	Mean	St.deviation
Loan providing procedure is clear & supportive	3.31	.634
The interest rate charged is fair & affordable	3.14	.729
Convenient Loan repayment schedules	3.91	.199
Provision of enough loan to run business	3.40	.623
Training on financial literacy & numeracy is given	3.91	.401
Training to run & manage business	3.45	.710
Provision of encouraging support to run business	3.85	.394
SFPI monitors and supports my business regularly	3.29	.572

(Rating was taken at point 4 scales).

Source: The Survey data, 2019

The results in table 11 above clearly indicated that the services of SFPI were found to be better in that lending procedures were clear (M=3.31), the interest rate was reasonable (M =3.14), sufficient loan was provided to run business (M =3.40), loan repayment schedule was reported to be convenient (M=3.91), provision of training on running business and financial management were good(M=3.45), the encouragement provided was commendable(M=3.85). Moreover, the monitoring support provided by SFPI was said to be ok (M=3.29). In all the cases, respondents positively appraised the services of SFPI (table 11). Thus, it implies that SFPI plays a greater role in meeting the demands of its clients to enhance better livelihood because mean score for overall of the total sample is (3.5) and for respondents significantly greater than the mean scale (2.5). The average standard deviation is 0.533 which is well below 1 indicating the data points tend to be very close to the mean to show more uniformity of results referring to livelihood improvements.

4.2.15: The role of SFPI services on Livelihoods' improvement

Studies indicate that Microfinance has an enormous influence on the lives of the beneficiaries. Otero (1999), stated 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. In connection with this, Table 12 below displays the important role of SFPI services on beneficiaries' livelihood improvements:

Table 12: The role on livelihood improvements

Role of SFPI Services	Mean	St. deviation
My income has increased since I participated in SFPI	3.76	.442
Assets I possessed increased due to participation in SFPI	3.64	.509
My saving increased due to participation in SFPI	3.99	.115
My financial position increased due to joining SFPI	3.66	.475
We eat dissent meal at least 3 times a day	3.95	.303
I send all my school age children to school due to SFPI	3.97	.218
I & my family got access to health services due to SFPI	3.85	.373

Source: The Survey data, 2019 (Rating taken at point 4 scales)

Beneficiaries were asked to rate the influence brought on their lives as a result of the microfinance services of SFPI (table 12).

As can be seen from the data in table 12, the positive changes brought about on the livelihoods of SFPI clients appeared to be enormous. Increased income and asset (M=3.76&3.64 respectively), increased saving and improved financial position (M=3.99 &3.66 respectively), improved eating patterns and capacity to send children to schools (M=3.95 &3.97 respectively), and better access to health services(M=3.85). Thus, these values implied that the standard of living of vast majority of the clients appeared to be improved as a result of the financial services of SFPI as the average standard deviation(0.35) is well below 1.0 & average mean score(3.83) is less than 4 but well above the mean scale of 2.5. So, the data showed the livelihoods of the beneficiaries well improved in most aspects.

4.2.16 Confidence

Microfinance services often help the beneficiary’s belief in one-self and therefore enables to build confidence. The responses obtained from SFPI clients, as shown in table 13 below indicated

Table 13: Empowerments

Empowerment	Mean	St.deviation
Husband and wife equally decide on spending the loan	3.86	.386
Husband and wife equally decide on the use of profits	3.86	.386
I feel capable of handling money & make business decisions	3.97	.162
I am confident enough to go to public places	3.98	.140

Source: The Survey data

that spouses equally decide on spending loan obtained and profit earned (M=3.86) more than ever before, clients confirmed that they had become capable of handling money to make business decisions (M=3.97) and had become confident to go to public places like markets, schools, banks, police stations... etc, and therefore both male & female became empowered(Mean=3.98). Thus, these implied that SFPI services have played a significant role in promoting gender equity, in decision making to use the credit money& in developing self-confidence. The average mean score is 3.92, the standard deviation is 0.269 implying SFPI clients have developed confidence & are well empowered by its services since standard deviation is well below 1 & values closely dispersed around the mean.

4.2.16: Capital & Loan performance of SFPI in the last five years(2015-2019).

An attempt had been made to examine the capital increment of SFPI and its loan performance growth to scrutinize the general picture of credit services that have been provided during the last five years. SFPI is one of the pioneer MF firms in Ethiopia & has been serving the interested public for several years by primarily focusing on loan credit, savings promotion & insurance services though there are some other provisions. As a result, considerable number of clients were benefited from its services and the company's capital & outstanding loan had been progressively increased from time to time. With regard to this, SFPI has undergone a remarkable experience in increasing its capital and outstanding loans shown in figure 2.

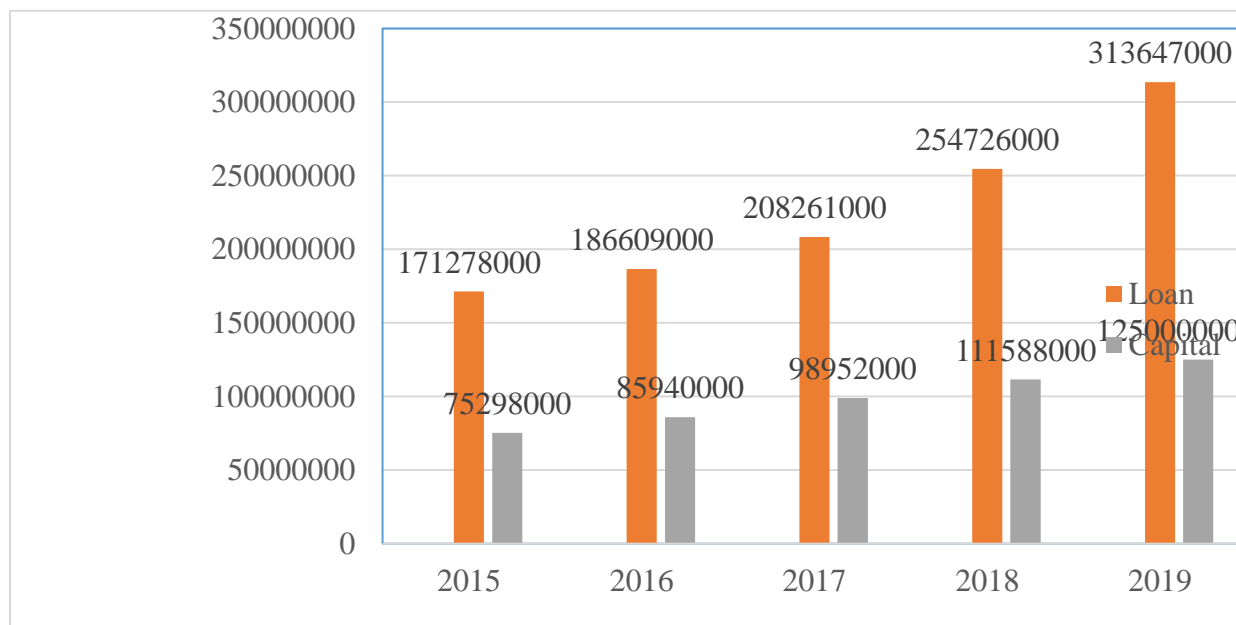


Figure 2: SFPI Capital & outstanding loan.

Source: Data from SFPI record, 2019

The initial paid up capital was 75,298,000 Birr in 2015 and this grew to 125,000,000 Birr in the year (2019), showing more than half growth (around 65%) within 5 consecutive years of operation. The loan disbursement of SFPI continued to grow from birr 171,278,000 in 2015 to 313,647,000 birr in 2019. The rate of growth in loan disbursement had been showing a remarkable stride every year & increased by about 83% within 5 years. Thus, it can be said that outstanding loan showed parallel shift with capital growth during the last five years. Accordingly, it implies that SFPI was enjoying a remarkable growth & development each year by extending more & more credit loans to more customers thereby improving their livelihoods.

4.2.17 Major challenges

In response to the items referring to the major challenges of SFPI, respondents gave the following list of drawbacks:

- ❖ Inadequate supply of loans to further improve their business.
- ❖ Loan threshold does not consider the current economic condition in the country.
- ❖ Lack of enough training on how to effectively use the loan.
- ❖ Lack of proper follow up and supervision from SFPI.
- ❖ Inconvenience of lending in groups as some of the beneficiaries not active and not trustworthy to work with.
- ❖ High interest rates compared to conventional banks.
- ❖ The tight lending criterion had not been improved or changed.
- ❖ Lack of conducive and productive working area.
- ❖ Lack of market linkages.

Eventually, respondents confirmed that combating the above challenges will improve the overall performance of SFPI & its clients further and they urged immediate capitalization focusing on the challenges. Hence, further exciting growth & development can be realized by both SFPI & its customers, if the major challenges mentioned in here are resolved to some expected level & if SFPI products are more expanded & strengthened as well.

4.3 Discussion of Qualitative data

In order to substantiate the results of the quantitative data, qualitative information was secured from key informant interviews and focus group discussants. Following are the findings.

4.3.1 Findings from key informants interview

The key informants were employees(officers) of SFPI operating in the area and had keen attention regarding questions related to their services, access to their loans and whether there had been any influence on the livelihoods of the clients. Their responses were as displayed below.

In response to the question “what services SFPI provides to its clients?” the interviewee generally explained that SFPI, in addition to the credit services, provides box services – deposit of valuable items, cash savings & insurance services. Regarding what they do with the money they received from SFPI, the interviewee explained that the clients engaged in small businesses like bread trading, trading of building materials, producing and selling food and drink items, poultry trade, poultry farm, Clothes, Shoes, Cafeteria and restaurant businesses, and engaged in garment shops as well.

The process of accessing the loans from the SFPI was explained to include the fulfillment of some requirements such as; recommendation letter from the residence area (usually kebele) where the client lives, group registration, group security, individual collateral arrangements, opening an account with the SFPI and beginning to save and or make deposits with the SFPI, loan application, membership fees, where applicable.

Regarding monitoring and support for clients, even though not sufficient due to man power shortages & budget constraints, key informants indicated that they have made periodic checks and visits to work sites of the clients and provided feedbacks by commonly discussing key issues in plenary gatherings. The feedbacks on major part, they said, addressed problems in credit management, capacity gap that call for additional training, and the social interaction and confidence building between those who borrowed in groups (Group lending) & similarly informing the benefits of savings & insurance services were points of focus for discussions. They further emphasized, this had been done particularly on the day all or most clients come to collect the loan or effect their down payments and this particular occasion had been important because all the clients come and gather in one place to share ideas regarding their work and mechanism of solving problems arising in the process of using the credit money & other SFPI products.

With regard to clients’ perceptions of the services of SFPI, the key informants also affirmed that the microfinance had benefited and had positive role on the livelihoods of the clients as they have been customers of SFPI for a long period of time in good terms. This was evidenced, the key informants said, by the fact that they had started and expanded their income generating activities/enterprises and had opened and operated a savings bank account in their own names which they used to deposit and withdraw own funds & able to cover insurance premiums. The efficient clients had also been able to pay school fees for their children as well as acquired household items and properties like land and working machineries, built a better house, paid condon savings, or bought a condon house, bought a car & started producing better products, thereby improved their livelihoods as a whole. Most of the key informants said that vast majority of the clients had been satisfied with SFPI services & even brought other new customers with

them to the organization. However, they explained that some were not free from bad debts may be due to poor commitment, insufficient fund or bad habits. These had been encouraged to work hard effectively to pay their debts back on time. After continuous follow-ups & possible supports those clients who failed to pay their debt back had been taken to court.

On the other hand, the respondents established that SFPI should try to increase the money given to the clients so as to allow them expand and diversify their investment opportunities, reduce the interest rates to some reasonable level so that almost all the profits realized do not go towards paying the interest & other overhead costs, and also it is better to increase the grace period for re-payment to allow the growth of the enterprises and also for the growth of SFPI itself.

There was also a suggestion that SFPI should continuously sensitize its clients on loan utilization and repayment activities and had to discuss with its clients before it confiscate their property. This was because, the clients said, if given more flexible terms they would be able to pay back the loan. It was suggested that the government should be involved in the provision of regulations that govern the microfinance programs, the interest rate and safe guard the property of the clients, and facilitate access to loan from other banks, provide legislative support in all government structure, provide conducive working area for clients and office place for SFPI for better outcomes. Regarding the interest rate levied, many clients complained that it was high, but the key informants affirmed that if the interest rate reduced significantly from what it is now, the company couldn't be able to borrow from banks & cover its other expenses and thus, will be forced to close. So, they mentioned, there was a need on the part of the government to develop balancing regulations that govern both SFPI(MFIs') and the banks as a whole.

The key informants also revealed that difficulty in fulfilling repayment schedules include diversion of funds to attend to other problems, small amounts of money yet paid with interest, small /low profits, short repayment period, shortage of dispersible fund and too many deductions which were cited as the major challenges of the services of SFPI. Thus, this implied that the findings from KIIs' substantiate the results of the quantitative study since the information gathered from the respondents revealed that the services of SFPI significantly support the poor in improving their livelihood in many aspects. It should be noted that though there are some challenges & drawbacks in using the services of SFPI, the benefits out way the risk & people tend to work with the company.

4.3.2 Findings from focus group discussion

The first discussion point raised for the FGD participants was whether there were other microfinance institutions (MFIs) operating in their area. In response to this statement, participants indicated that MFIs like Vision, Addis loan and saving service, Agar, Nisir and Fund MFIs provide services in their area. The services of these MFIs, as they explained, was similar with that of SFPI because they also provide credit loan to the poor, insurance and saving services, and capacity building programs to their clients. Things they do with the loan they borrowed from SFPI were similar to those of the key informant interviewee responses in that they used it for small local businesses like selling bread, building materials, Food and Drink materials, Clothes and Shoes... etc.

Describing the extent to which loan they received from SFPI improved their livelihood, they affirmed that they better fed themselves, got better health service, they raised their children in a better way, were able to send their children to schools & many were able to acquire house &/or house hold properties. Similarly, the services of SFPI contributed to their economic& social status in community and enabled them to be widely accepted and respected in their areas, they said, thanks to the SFPI for its services to them for many years. Moreover, the services received from SFPI empowered them irrespective of sex, because, as they said, if anyone has income he/she feels comfortable and gains confidence. This is especially important for women who have been suffering from traditional sex stereotypes of operation and segregation.

Explaining the challenges that existed, FGD participants revealed that the loan couldn't be available on time and not to the required amount, high interest rates, and lack of self-discipline in group lending because here all team members are not equally devoted to work and feel responsible and they called for special attention on group loan. It is to be noted that although, group outreach can be a successful mechanism for microfinance institutions to expand their outreach with limited increases in costs, the inherent group dynamism could create nepotism& this could result in failure. The FGD participants suggested that it is advisable to provide adequate credit services, reasonably lower interest rates, and provide a business oriented training to create awareness on their business, and strengthen monitoring and supervision to take remedial actions on the basis of the feedback obtained. The results obtained from FGD support those obtained from sample population & key informants & the outcome indicates that the services of SFPI are highly beneficial to the clients in improving their social & economic welfare & in improving their livelihood as a whole. However, from the study it was evident that the existing challenges need to be addressed for future dependable mutual benefits.

4.4 Over all discussion

In this part of the study, a discussion of the results shown in chapter four above was made. The study on assessment of Microfinance Institutions services in improving the livelihoods of beneficiaries: the case of Specialized Financial Promotional Institution(SFPI) was looked at five MFI's issues and these were extent of services provided, additional supports given, livelihoods improvement, clients' attitudes towards SFPI services & the challenges/limitations prevail. According to the findings, the study confirmed that respondents were in accord with the persistence of the issues raised in this chapter.

4.4.1 Extent of services provided

From the results in this chapter, it is clear that majority of clients preferred the services of SFPI to a greater extent & the existing services provided were recognized as satisfactory by the clients though there are some limitations (table 9). The highest percentage received loan services (100%), saving services (99%), and Insurance services (95%).The amount of money borrowed dramatically increased from 2015 to 2019 (figure 2). They confirmed that they began eating at least three times a day, and were able to send their children to school without any hesitation. The existing evidence suggests that well managed MFI services have a positive impact on the participants with respect to material wellbeing, reduction in seasonal vulnerability, and a better ability to deal with crises (Mustafa et al.,1996). It is argued that microcredit programs help reduce the vulnerability of the poor by assisting them to build assets, and by providing emergency assistance during incidental or natural disasters. At the same time, it is recognized that the impact of credit programs on poverty and economic vulnerability could be enhanced by linking credit schemes with other financial interventions such as savings and insurance policies, education, and food relief (Zaman,1999).Microcredit is playing a significant role in socio-economic development, especially poverty reduction, by improving households' economic status, increasing living standards, empowering women, creating self-employment, and ensuring better education and healthcare (Hashemi et al.,1996). Even at the household level MF services help women to develop small scale enterprises within their manageable vicinity to improve their livelihoods. Thus, the finding established in the field conforms to the above objective of the research.

4.4.2 Additional supports extended to the clients.

The findings in this research established that in addition to the credit services, SFPI trains its clients on important topics related to their activities like: financial management skills, production skills, marketing skills and technology skills (table 10). Although efforts are necessary in times to come for more sound developments & improvements in the areas of marketing and technology training, the overall efforts made

appear to be commendable. In this regard, Aziza (2013), explained that clients especially those engaged in group lending undergo training for about a month for entrepreneurial skills, book keeping, accounting, loan deposits, savings and administration. The training, as underlined by Aziza (2013), helps the clients to appreciate what is expected of them with their loans like optimum exploitation of loan use, savings, deposits and loan repayment. Further, Wrenn,(2007)stresses that training helps the Microfinance beneficiaries to manage their businesses better and that they feel more confident as a result of the training. These evidences suggest that microfinance trainings can add to the development of human capital by serving as a tool for small and medium-sized enterprises (SME) development and poverty alleviation instrument and foster economic growth.

4.4.3 Livelihoods Improvement of the clients

This study revealed that as a result of joining SFPI, clients' access to resources, food, income and basic services have increased. Clients saving and assets have improved, they were enabled to at least eat dissent meal every day, had access to school and health services and their financial & social position has improved. This is consistent with the arguments of Bekele, and Dereje, (2014): Microfinance improves the livelihoods of the poor households by giving people salaried jobs and other opportunities to earn income; providing loans, saving and other financial services, providing training in jobs and business skills, developing institution alliance and network to advance economic interest, and promoting policy and social changes that improve the farming/household livelihood Projects. They further state that the provision of microfinance can give poor people “the means to protect their livelihoods against shocks as well as to build up and diversify their livelihood activities”.

4.4.4 Clients attitude towards SFPI services

The findings from this study showed that the positive changes brought about in the life of SFPI clients indicated the appreciation of its clients (table12 & table 13). The information secured through KII and FGD were also found consistent with this argument. Microfinance is an economic development approach that involves providing financial services, through institutions, to low-income clients where the market fails to provide appropriate services (Maanen,2004: In Aziza,2013). Thus, the study revealed that clients of SFPI have become empowered in that they decide on spending the loan equally, on how to use the profits, have become capable of handling and using the money they get and confidentially go to public places and participate in community activities, though there are some drawbacks in the services. As they started saving their income they are protected from future unforeseen shocks and risks. The fact that they were able to send their children to school with the money they get by investing the loan on sellable commodities they said, are convincing grounds to work with SFPI and improve their business further.

Experiences of MF programs, as stressed by UNESCO, showed that provision of micro-credit and savings facilities when efficiently utilized, enables the poor to build strong micro enterprises, increase their incomes and participate in economic growth, (UNESCO,1997).

Although the study places emphasis on different aspects of the services, most of them revealed positive outcomes from participation in MFI programs & the benefits outweigh significantly the risks & clients tend to work with SFPI to access the much need money & related services to improve their livelihoods.

4.4.5 Challenges of SFPI Services

The research established that SFPI clients face several challenges such as: high interest rates, small amounts of money given, short grace period, diversion of funds, difficulties in fulfilling the repayment schedule, small profits on the investment, too many deductions made and actual money requested was not given, short repayment period, few choices and alternatives of accessing the loan facilities and the rigid nature of loan criteria. These challenges were similar with what Carlton,(2001) outlined as: limited outreach, needs of different client groups including savings services, payment systems, emergency loans, housing loan products, investment loans, and lack of confidence among members in group lending. Similarly, Wrigley (2011) stated that much of the skepticism of MFIs stems from the argument that microfinance projects “fail to reach the poorest, generally have a limited effect on income, drive women into greater dependence on their husbands and fail to provide additional services desperately needed by the poor”. Hulme, and Mosley (1996), while acknowledging the role microfinance could play in reducing poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be”. They stated that microfinance was not a panacea for poverty-alleviation and according to them, in some cases the poorest people have been made worse-off by microfinance if not well supported and managed effectively & efficiently.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary

The study aimed at establishing the role played by SFPI in the livelihood improvement of the clients in Addis Ababa. The literature on microfinance and how it operates in improving the livelihoods of the clients was reviewed. There were one hundred and fifty respondents that were used in the study and the qualitative and quantitative instruments of research were employed to collect relevant data on the topic & descriptive analysis method applied to arrive at the results of the study. The study area was Addis Ababa and the respondents comprised both men and women participating in the SFPI activities, the loan officers and/or the management of SFPI branches and focus group discussants. The study revealed that the livelihood of SFPI clients has been improved significantly by using the existing products of SFPI though there are some challenges & drawbacks that need to be resolved as much as possible for better future outcomes. This chapter shall address specific conclusions and possible implications as drawn from the research findings.

5.2. Conclusions

These conclusions have been drawn from the research findings as guided by the research objectives and questions. The main objective of the research was to assess the role of SFPI services in improving the livelihoods of its beneficiaries in Addis Ababa. This was arrived at by reaching SFPI branches, assessing how the clients have benefited from them, identifying some challenges faced by the clients as they access and utilize the microfinance services and how these challenges could be overcome. These conclusions also include recommendations that may be adopted by the relevant authorities in the future.

The extent of Services

To understand the extent of SFPI services in improving the livelihoods of its beneficiaries it was important to ask a question “To what extent does the specialized financial and promotional institution provide adequate types of services to its clients in Addis Ababa?” The research identified that SFPI provide services such as; credit facilities, savings mobilization and insurance services for its clients. It also trains its clients about its products (Financial intermediation, Social intermediation and enterprise development). SFPI provides services either to a group, individual woman or man who expresses interest in the services and complies with the requirements. So, to this end it strives to provide enough services to its customers in Addis to improve their livelihoods though there are some limitations.

Additional supports

The second basic question asked to guide the assessment of SFPI services was “What additional services does the Specialized Financial and promotional institution provide to its clients?” The findings revealed that, other than credit provisions, saving& insurance services, there had been some relevant training supports provided to SFPI clients. This was evidenced by the responses given in table 10(business training, some technology skills, production skills, and financial management skills) and the responses obtained through key informant interviews as well as FGD discussions revealed that supervisory and monitoring activities that had been conducted enhanced & improved performance of clients on the basis of feedback generated from time to time though more inputs & efforts are necessary in times to come for more sound developments & improvements.

Livelihoods Improvement

With regard to this, a question was asked that reads as “What changes have been brought about on the livelihoods of the urban beneficiaries in Addis Ababa as a result of SFPI services? The findings revealed that there had been an improvement of the economic status of SFPI beneficiaries as a result of joining and enjoying SFPI credit& other services. This was evidenced by the fact that the clients had been able to earn more and increase their incomes, establish income generating activities, mobilize savings, open personal bank accounts, pay the school fees for their children, acquire land, house, purchase household properties, e.g. furniture, utensils, beds and beddings, clothing and food, and afforded to pay and get improved health services than ever before (table 12 and responses from KII and FGD).Thus, in conclusion these were major evidences for livelihoods improvement of the beneficiaries though there were mentioned challenges to be addressed for more development.

Clients attitude towards SFPI

To assess the attitude of beneficiaries towards SFPI services, the basic question “How do the clients of the Specialized Financial and promotional institution perceive the services accrued to them?” was asked. The findings revealed that SFPI beneficiaries had been encouraged & have positive attitude towards SFPI services (though there are some challenges & limitations) as evidenced by the facts displayed in table 12,13, KII and FGD outputs. Therefore, a vast majority of the clients have positive image for SFPI & its services.

Challenges of SFPI services

To identify the major setbacks in the process of discharging & utilizing SFPI services the guiding question “What are the main challenges faced during the implementation of specialized financial and promotional institution services?” was asked. The research established that SFPI clients face several challenges such as high interest rates, small amounts of money given, short grace period, diversion of funds, difficulties in fulfilling the repayment schedule, small profits on the investment, too many deductions made and actual money requested was not given, short repayment period, few choices and alternatives of accessing the loan facilities and the rigid nature of loan criteria. The main setbacks witnessed on the side of the organization are shortage of loanable funds, bank interest, absence of enough trained personnel & limited products. However, the conclusive assessment on SFPI services role in improving the livelihoods of the beneficiaries established that despite the inherent challenges and misgivings of some individuals, it is regarded as a very crucial, practical and strategic intervention in providing the much needed funds for the poor who may not have access to the mainstream financial services.

To combat the challenges, the research further established that SFPI should try as much as possible to mobilize more funds & increase the money given to the clients so as to enable them to expand and diversify their investment opportunities, diversify its products for more activities, reduce the interest rates to some reasonable level so that all the profits realized do not go towards paying back the loan and also increase the grace period to allow the growth of the enterprise and assist the mobilization of money for repayment. It also seems important that the government needs to increase its involvement in the provision of more supportive regulations to govern the microfinance programs, the interest rate and safe guard the property of the clients during failures to re-pay back the loans. SFPI also needs to increase the number of its trained staffs to adequately support its clients.

Eventually, the study concluded that there is a big role played by SFPI in the livelihoods improvement of its beneficiaries within the vicinity of its working areas. This was because the access and utilization of SFPI credit & other services by clients had been giving them the opportunity to get access to capital to start small enterprises, expand the existing enterprises and as a result increase their incomes. This increased income in turn had led the clients to contribute financially to the household upkeep and needed purchases, mobilize savings, buy insurance policy and socially getting the confidence to participate in community meetings and decision making at required levels. The access to and utilization of the microfinance facilities has had a share of challenges for the beneficiaries but the benefits greatly outweigh them for the study to conclude that SFPI services have had invaluable role and benefits for its clients in Addis Ababa.

5.3 Recommendations

In light of the above conclusive statements regarding the role of SFPI services on the livelihood improvement of the beneficiaries in Addis Ababa, the following recommendations had been made.

1. SFPI has been in existence in the area for over twenty years and people have benefited from its services, therefore, it is important to address the needs of the clients so as to harmonize operations for more beneficial outcomes by making more customer oriented policies at institution level as much as possible to enable the provision of better services to its clientele in Addis Ababa.
2. It is important that the SFPI clients be trained thoroughly before undertaking credit facilities for an enterprise, should use the money for intended purposes only and avoid money misuse and diversion of funds. The clients are also urged to study the operation of the SFPI before accessing its services and also support each other with skills, supervision and monitoring especially when they borrow as a group. The clients are further encouraged to explore more investment opportunities instead of only one business area, have started enterprise before borrowing the money and not to use credit loans to start investments but rather to expand or diversify investments. Some sort of incentives & encouragement schemes are also necessary for outstanding customers for more enhanced performances & motivation of others as well.
3. Further requests are made to SFPI to continuously supervise, monitor and follow up its clients adequately and closely to avoid diversion of funds, to network and collaborate with other MFIs in the area, to improve on customers' care and not to rely on groups & collaterals only but also consider individuals on merit basis as well. SFPI should also collaborate with and facilitate the local government technical and extension workers to monitor and supervise its clients in the areas where they operate. This was because the government workers are skilled and always in the field to promote government development programs in the community.
4. Government intervention is essential for regulatory and capacity enhancement activities at macro-level. It is therefore recommended that the government should get involved in determining the interest rate, centralize the interest rates such that the rate is uniform for the MFIs including SFPI and also adequately monitor the services of the MFIs. Community(customers) sensitization & training guidelines are also necessary to safeguard the properties of defaulters against confiscation by SFPI as much as possible.

5. The global economy requires not development ideas only but also evidence based actions. In this case, there is a need for SFPI to create linkages with Research institutions for further research to get solutions for its service areas that need improvement. Thus, if such endeavors existed, they urgently need to be changed to programs for intervention.

6. The study was primarily focused on opinions & attitudes of clients of SFPI & selected management members/officers of the company at head office & branches in Addis Ababa with the objective of assessing the role of SFPI services in improving the livelihoods of beneficiaries. But further studies that incorporate branches operating in urban & rural areas, clients from different economic levels & making deeper investigation would lead to better insight rather than the generalized outcome. Hence, other researchers are encouraged to perform further research in this area & other MFIs' activity areas for better knowledge & progress.

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APPENDICES

APPENDIX-A: QUESTIONNAIRE FOR BENEFICIARIES OF SFPI.

SAINT MARY'S UNIVERSITY

SGS, ADDIS ABABA

Dear respondent,

The purpose of this study is to generate information necessary for the planning of appropriate interventions and its outputs will be used to fill the knowledge gap. Subsequently, it will aspire to inform decision makers, planners, researchers and practitioners about the role of microfinance intervention on increasing the welfare of the individual, household as well as the community. This questionnaire, therefore, intended to assess the role of Specialized Financial & Promotional Institution (SFPI) microfinance services in improving the livelihoods of its clients. Consequently, the information you provide is used only for academic purposes and shall be kept strictly confidential. Therefore, you are kindly requested to give accurate information.

Thank You in advance for your kind cooperation

Part one: Background information: - Write the required information on the space provided, or put a mark (X) as required.

1. Sub city _____

2. Name of the CBO: _____

3. Sex: Male _____ Female _____

4. Marital status; Married ___ Divorced ___ Widowed ___ Unmarried ___

5. Age: _____

6. Educational qualification _____

7. Total family members Age class: Male <10 _____ 11-20 _____ 21-30 _____

31-40 _____ 41-50 _____ 51-60 _____ >60

8. Female <10 _____ 11-20 _____ 21-30 _____ 31-40 _____ 41-50 _____ 51-60 _____ >60

9. Relationship with the household head: _____

10. Housing condition: Ones own _____ ; Rented _____

11. Occupation: Before joining SFPI _____ After joining SFPI _____

Part Two: The beginning of business linkages (Circle the letter of your choice).

12. How did you come to create linkages with SFPI?

- a. Through the media,
- b. From a friend,
- c. from a neighbor,
- d. from public gatherings.
- e. Other.....

13. What was your source of income before you joined SFPI?

- c. Self employed;
- d. Spouse income;
- c. Children's income;
- d. Support from relatives and friends.

14. If your response to question 15 is "a" describe the type of employment: _____

15. In your opinion, were you and your family able to eat three dissent meals every day before joining SFPI? a. Yes _____ b. No _____

16. If your answer to item 17 is "No" You and your family had been eating:

- e. Once a day;
- f. Twice a day;
- c. Sometimes a or b;
- d. No meal every day at all.

17. After joining SFPI, were you and your family able to eat three dissent meals every day?

- g. Yes _____
- b. No _____

18. In which of the lending schemes do you engage as a borrower?

- h. Individual lending; b, Group lending; c. Credit union, d. If others write down _____

19. What do you think about the interest rate of SFPI paid on saving? a. Less than the market rate, b. Greater than the market rate, c. Have no information about the interest rate, d. Similar to most market rate.

20. What kind of services have you been getting form SFPI?

Table 1: SFPI Services

Type of services	Yes	No
Credit services		
Saving		
Credit card service		
Insurance service		
Payment services		
Business training services		
Marketing skills training		
Technology services		
Skills development		

21. What other services do you receive from SFPI? _____

22. List down the kind of business you have been engaged in with the loan received from SFPI: _____

23. In the next table rate the level of your agreement or disagreement to the statements listed regarding quality of SFPI services by putting “X” mark in the box corresponding to your response.

Note: 4=strongly agree, 3=Agree, 2=Disagree 1= strongly disagree

Table 2: Quality of SFPI services

Statements	4	3	2	1
Loan lending procedure is clear& supportive				
The interest rate charged is fair & affordable				
Loan repayment schedules have been convenient				
The loan provided is sufficient enough to run my business				
Timely training of financial literacy & numeracy is given				
There has been appropriate training to run & manage business				
The level of support received encourages to run business				
SFPI monitors and supports my business regularly				

23. Rate the following statements as they relate to your livelihoods improvement as per the scale provided below.

Note: 4=stronglyagree, 3=Agree, 2=Disagree 1= stronglydisagree.

Table 3. Livelihood improvement

Condition of livelihoods since joining SFPI services	4	3	2	1
My income has increased since I participated in SFPI				
Assets I possessed increased due to participation in SFPI				
My saving increased due to participation in SFPI				
My financial position increased due to joining SFPI				
We eat dissent meal at least 3 times a day				
I send all my school age children to school due to SFPI				
General life standard of my family improved due to SFPI				
I & my family got access to health services due to SFPI				

24. Rate the following in terms of the confidence you developed as a result of participating and enjoying the SFPI credit services.

Empowerment	4	3	2	1
Husband and wife equally decide on spending the loan				
Husband and wife equally decide on the use of profits				
I feel capable of handling money & make business decisions				
I am confident enough to go to public places like markets, schools, banks, kebeles, women's association, Police, court, etc.				
I feel more confident after participating in SFPI program				

25. What are the major challenges observed in the services of SFPI?

26. List the things you feel that SFPI should improve to make the credit service program more effective and efficient:

a. _____

b. _____

c. _____

THANK YOU SO MUCH FOR TAKING TIME TO FILL OUT THESE ITEMS

APPENDIX-B: KEY INFORMANTS INTERVIEW.

Interview guide for SFPI services in improving the livelihoods of clients in Addis Ababa.

Dear Interviewee,

I am honored to be with you today to conduct an interview on the basic activities & benefits of SFPI services in improving the livelihoods of the beneficiaries in Addis Ababa. You are selected to be interviewed since it is believed that you know more about the SFPI program. The information you provide will be kept confidential and will be used only for academic purposes. Please, feel free to provide the necessary information.

Thank you in advance for your kind cooperation

General questions

1. Organization-----
2. Position occupied-----
3. Years of experience in the institution-----

Basic questions

1. Could you please explain about SFPI:
 - a. Duration of establishment _____
 - b. Man power: initially _____ and at present _____
 - c. initial paid up capital _____
 - d. Current capital, _____ and
 - e. The services it provides? _____
2. How many clients did it have initially? _____ Now? _____
3. Do you know what they do with the money you provide them on credit basis? Please explain.
4. How do you monitor and evaluate the work of the clients?
5. Do you provide feedback and support? How?
6. How do you promote social interaction among them?
7. How many of the clients are saving money? Is it voluntary or forced?
8. Have you ever encountered bad debts? If yes, how could you managed to overcome it?
9. In your opinion, are the clients satisfied with what you offer them? How can this be justified?
10. Do you think that your credit service has improved the lives of clients? How?
11. What should the government improve to support your services?
12. Do you think the interest rate on the loan given is affordable & convenient to the clients?

APPENDIX-C: FOCUS GROUP DISCUSSION

Focus group discussion items guide for SFPI services in improving the livelihoods of clients in Addis Ababa.

Dear respondents,

This discussion and/or interview is intended just to assess the benefits & drawbacks of SFPI services in improving the livelihood of its beneficiaries in Addis Ababa. The discussion is only meant for academic purposes & any of your responses shall be kept confidential. Therefore, please feel free & your kind co-operation is highly appreciated.

Respondent's background: Age: ____ Sex ____ Marital Status _____ Education Level _____ Current Occupation _____ Number of Dependents _____

1. Could you please tell me more about the MFIs in this community? Names – What they do? Who benefits from their services? Nature of their services/Process of access etc. How they benefit?
2. How do you compare them with SFPI?
3. Year when you began involvement in SFPI program?
4. What have you done with the money you borrowed from SFPI?
5. What other services have you received from SFPI?
6. Did the services received from SFPI improve your life? HOW?
7. What challenges do you face in accessing microfinance services from SFPI?
8. What challenges do you face in utilizing the funds from SFPI?
9. How can the challenges mentioned be overcome?
10. In your opinion how have the services of SFPI contributed to your social status in your community?
11. In your opinion how has the services of SFPI contributed to your economic status in your community?
12. How would the microfinance benefit you more?
13. What is the attitude of the community (male and female) towards SFPI and its services?
14. Do you think SFPI has empowered both men & women in your community? Please explain.
15. What other recommendations or suggestions do you have for SFPI services?

THANK YOU ALL