

1 Comparative Analysis on the Economic Impacts of Client's and 2 Member based Microfinance Institutions in Ethiopia

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6

7 **Abstract**

8 Several evidences in the developing world argued that access to finance can help to
9 substantially reduce poverty. Contrarily, proponents criticized that MC does not reach the
10 poorest of the poor or that the poorest are deliberately excluded from the MC programs.
11 Despite the apparent success and popularity of microfinance, no clear evidence yet exists that
12 microfinance programs have positive impacts on the life of the poor. The main aim of this
13 study is therefore, to assess the relative economic contributions made through the CBMFIs
14 and SACCOs. The study applied DID approaches comprising of the FE and RE models and
15 the t test statistics taken part from analysis of varying crosssectional and panel data collected
16 through Questionnaires and structured interview. To fulfill the stated research objectives, the
17 researcher considered the income levels of individuals, of households and of businesses, as well
18 as savings levels, expenditure, and asset accumulation as outcome indicators. MC services
19 were found to have positive and significant impact on the living standard of the poor and
20 alleviating poverty in their household. Apparently, the SD estimates indicate that both MC
21 modalities have brought substantial impact on the average monthly households income and
22 expenditure, savings and assets level, business profits and working capital. Accordingly, each
23 birr MC grant could generate 92.24 and 54.17 birr extra household assets for the client and
24 member beneficiaries respectively. The log specifications reveal 3.3 and 1.3 percent growth
25 respectively. The household monthly income and expenditure grows on average by 116 and 70
26 birr respectively. The result was slightly lower for the SACCO members. For instance, the
27 average monthly household assets, income and expenditure growth contributed by the CBMFI
28 reveal 40 birr, 120 birr and 48 birr higher than the SACCOs contributions respectively. In
29 general, the DID estimates reveal a general tendency for higher economic contributions ma

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31 **Index terms**— household income, the daily per capital expenditure, microcredit, outreach and savings.

32 **1 Introduction**

33 The level of poverty in Ethiopia is both deep and widespread. According to the HDI report, more than 80 percent
34 of the populations are living below the poverty line i.e. \$1 a day (UNDP 2005), though the \$1 poverty threshold
35 is much larger than the amount of expenditure needed to purchase the absolute minimum basket in Ethiopia.
36 Recent national estimates suggest that about 31million people live below the local poverty line, which is equivalent
37 to US 45 cents or 3 Birr a day per person ??MoFED, 2005). Although the level of poverty is higher in rural parts
38 of the country; it also remains a serious problem in urban areas.

39 Several studies noted different causes for poverty in a country. Some argued that the cause of poverty in
40 developing economies like Ethiopia among other things is that the poor does not have access to credit for the

3 PROBLEM JUSTIFICATION

41 purpose of working capital as well as investment for its small business (Jean-Luc 2006). Since then, the formal
42 establishment of MCIs for poverty reduction has gone more than a decade; yet the provision of informal financial
43 services existed long before. Until recently, the role of MFIs has become widely conclusive not only for the
44 Ethiopia's economy but also for the rest of the developing world. It appears that Microfinance services directly
45 contribute to the betterment of standard of living and poverty alleviation by encouraging people, especially
46 women to develop their own entrepreneurial ability, diversify and increase income sources and become more
47 resilient to external shocks.

48 Bearing the aforementioned critical roles in to consideration, Microfinance sector have been rapidly growing in
49 Ethiopia. In its effort to fight against urban and rural poverty, the government of Ethiopia has well recognized
50 microcredit services as one of the major poverty reduction strategies and set a legal framework for establishment
51 and operation of MCI to provide financial services to micro and small enterprises and poor rural and urban
52 households ??NBE 2005).

53 The interventions through the delivery of Microcredit1 service have been considered as one of the policy
54 instruments by the current government and NGOs to enable poor increase output and productivity, induce
55 technology adoption, improve input supply, increase income, and alleviate poverty. The establishment of
56 sustainable MCIs that reach a large number of poor who are not served by the conventional financial institutions
57 has been the component of the new development strategy of the country. Financial services provided by the
58 government banks and NGOs were not effective enough to bring impact on the life of the poor. The failure of
59 the formal banks to provide banking facilities, on the one hand, and unsustainability of the NGO's credit scheme
60 on the other hand, led the government to issue out a legal framework for the establishment of and operation of
61 MCIs.

62 Though plenty scholars and researchers widely proclaimed that microcredit enhances pro poor growth and
63 poverty reduction. The extent to which microfinance products and services directly impacts the poor (poverty
64 alleviation, women empowerment, and eradication of unemployment) and the means through which this impact
65 occurs have not yet been adequately researched. Jamal, ??2008) reported that several theoretical presumptions
66 and slanted justifications are made without adequate empirical data and precise evidence. Besides, Hermes and
67 Lensilk, ??2007) reported that most studies on the outreach and in-depth of microfinance services suffer from
68 being subjective and case study driven. Hence, this study attempts to throw its own contribution towards filling
69 the fore stated gap through thoughtful and thorough empirically investigation on the comparative economic
70 analysis of the two alternative forms of MFIs.

71 2 II.

72 3 Problem Justification

73 Microfinance2 is the provision of wide ranging financial products and services including loans, deposits, payment
74 services, transfers payment and insurance. They are ultimately meant for extending markets, reducing poverty,
75 empowering the poor and fostering social change ??ADB, 2008). Microfinance institutions are classical
76 instruments to serve the poorest of the poor in the developing countries like Ethiopia. They are considered
77 as the fundamental weapons for poverty reduction and sustainable economic growth (Karlan & Zinman, 2009).
78 Their ultimate goal is to expand the provision of credit to the poor who do not have access to credit and promote
79 the growth of small scale enterprises so as to improve the wellbeing of the poor by empowering to be self-enterprise
80 owner. They provide wider range of financial and non-financial services including savings, borrowings, deposit,
81 and training on how to manage finance, record business transactions and deal with health provision. Now a
82 day the latter services have been widely expanded and become very fundamental component of the microfinance
83 sector.

84 Recently, there are numerous counter arguments and evidences produced on the impact of microfinance
85 institutions. According to the MFI advocates ??Littlefield et al. 2003; Dun ford 2006 and others) the ultimate
86 aim of microfinance institutions is to fight against poverty and ensure long lasting increase in income of the poor
87 by means of getting own income generating activities and business investments.

88 Micro credit enhances livelihoods diversification and accumulation of assets out of the profits earned through
89 small scale investments, which are the fundamental guarantee against the vulnerable conditions of the poor
90 and contribute to a better education, health and housing of the borrower (Hermes & Lensink, 2007). Besides,
91 proponents also argue that microfinance is a tool for empowering women by means of addressing their dual folds
92 social and economic problems. According to ??itt and Hacker (1998), women constitute very crucial role in
93 reducing poverty with in households as they invest substantial part of their income for health and education of
94 their children. In this connection, it is highly stressed that MFIs are key for the development of microenterprise
95 operated by the poor as they allow them to become producer of marketable goods and earn a compensating profit
96 out.

97 MFI advocates have proclaimed that microcredit is positively contributing to poverty reduction in Ethiopia.
98 Despite the many positive findings that are reported in some feasibility and impact studies, many studies also
99 reported the impact of MC programs being insignificant. Some even failed to find out the direct link between
100 MC and poverty reduction. They proclaimed that the services are not reaching the core poor3 (Scully, 2004) as
101 they are believed to be too risky , or the poorest are implicitly excluded from microfinance scheme ??Simanowitz,

102 2002), often marginalized by other group members because they are seen as a bad credit risk , the procedures
103 and formalities required to grant the loan, for instance, saving requirement, stimulate exclusion of the core poor
104 ??Mosley, 2001) and hence the core poor value the loans to be too risky (Ciravagna, 2005) and vanish out.

105 According to Munir (2012), one of the main reason is that MFIs charge exorbitant interest rates thereby
106 gain strong momentum to grow quickly and attract large international donors and hence, the loan is granted
107 irrespective of the due socio economic return

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110 **5 C**

111 and costs a lot to the poor. At the outset, several evidences have shown that the extent to which microfinance
112 services reaches the core poor in the two differing modalities substantially vary. However, there is no detailed
113 and systematic study to explore the impact of alternative forms of microfinance services in Ethiopia. Thus, the
114 study intends to achieve the following objectives.

115 **6 a) Objectives i. General Objectives**

116 The overall aim of this study is to thoroughly investigate the economic impacts of the client's and member based
117 microfinance institutions.

118 ii. Specific Objectives Microfinance is a term used to describe financial services for those without access to
119 traditional formal banking services. It incorporates the provision of loans, often at interest rates of 25% or
120 more, to individuals, groups and small businesses -i.e. microcredit. In other words, it is the process of lending
121 small amount of money without collateral to help poor people to become entrepreneurs (Gebrehiwot2001 &
122 Bamlaku 2004). In addition to this, it provides small scale financial services to the rural and urban poor people
123 for selfemployment and small business (Shete 1999). More recently, it has also been extended to include the
124 provision of savings accounts, micro-savings as well as insurance and money transfer services.

125 Microcredit has evolved over the years and does not only provide credit to the poor, but also now spans a
126 myriad of other services including savings, insurance, remittances and non-financial services such as financial
127 literacy training and skills development programs; the now a day's microcredit is referred to as microfinance
128 (Armendáriz and Morduch 2005).

129 **7 b) Approaches to Microcredit Lending**

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

132 **8 c) The Financial System Approach**

133 The financial system approach emphasizes large scale outreach to the borrowers-both borrowers who can repay
134 microloans from household and enterprise income streams, and to savers. It focuses on institutional self-sufficiency
135 and financial sustainability as a pre-condition for greater outreach and implies transition to for-profit mode.
136 Proponents of this school argue that there is no justification for subsidies as future outreach critically hinges
137 upon achieving financial sustainability of the MCIs (Robinson, 2001). Accordingly, the overall goals of MC are
138 to provide sustainable financial services to low income people. But it does not necessarily mean to target the
139 poorest. Furthermore, MC should proliferate in the context of competition because competition will insure high-
140 quality and lowcost services. Thus, for them, the impact evaluation of MCIs should focus on financial indicators
141 and efficiency.

142 They also state that NGOs do not have an important role in MC. This is because NGOs may deliver subsidized
143 credits and may undermine the development of competitive financial system. They emphasize that MC shouldn't
144 be integrated with other development services because specialization is necessary to reach financial sustainability
145 and large scale outreach. In addition, lack of institutional capacity is perceived as a more binding constraint on
146 the outreach of MC than availability of funds.

147 **9 d) The Poverty Lending Approach**

148 Under this approach donor-and governmentfunded credit is provided poor borrowers typically at below market
149 interest rates. The goal is to reach the poor, especially the extremely poor -the poorest of the poor with credit to
150 help overcome poverty and gain empowerment (Ibid). It believes that this commitment will be affected if stress
151 is given to profit motive. The proponents of this approach claim that the goal of MC is improving the livelihoods
152 and empowerment of the poor. Because of this, subsidies for institutional innovation and expansion are justified.
153 For them, assessing the impact of MCIs should be their effect of the livelihoods and income generating activities of
154 the poor. Herein the delivery of MC enables the program to meet the operational costs of the intervention. Client
155 participation tends to take the form of mobilization of client skills and resources to reduce lenders' transaction
156 and information costs (Wood and Sharif 1997). This approach emphasizes, often exclusively, on credit access,

157 which it sees as the 'missing piece' for poverty alleviation. It assumes that credit access can unlock new economic
158 activity and lead to income growth and employment, resulting in empowerment (Wright, 1999).

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

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

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

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

181 The theoretical analysis of the group lending mechanism shows that the access to further loans as well as the
182 access to higher loans, which is made conditional on the repayment of all borrowers in the group, creates an
183 incentive for peer monitoring, peer support, peer pressure, and discourage default among the borrowers .As a
184 result, the probability of moral hazard behavior is sufficiently reduced because a considerable part of the risk
185 is transferred from the lender to the borrowing group. With joint liability, if any borrower fails to repay (or
186 strategic default) his share of the loan, the whole credit group is considered as being in default and all peers lose
187 access to subsequent loans (Critics, 1999). Therefore, the group is motivated either to repay for the delinquent
188 partner, or by exerting social pressure to make him reconsider his repayment decision. As a consequence of these
189 incentives, lenders are able to achieve with high probability of the repayment of the loans.

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

197 IV.

198 10 Data and Methodological Approaches a) Study Design

199 The study was conducted on the basis of qualitative and quantitative data. It involves both exploratory
200 and quantitative research approaches. The exploratory research approach is basically meant to deal with the
201 individual beneficiary cases with varying socio-economic characteristics and circumstantial livelihoods condition.
202 The quantitative research approach, along with the cross-sectional survey design, was sought to be the most
203 useful empirical approaches to generate an in-depth quantitative data which would enable to draw thorough
204 impact analysis. A mix up of both methodological approaches was employed to successfully generate full-fledged
205 evidence sufficient enough to produce more conclusive results. The study was conducted in Sidama Zone, (Dalle
206 (Yirgalem) District and Hawassa town), the technology village areas of Hawassa University. The organizations, in
207 which the study is wholly concerned comprises of the clients and member based microfinance institutions through
208 which their relative economic impacts to its beneficiaries were assessed. Thus, the central unit of analysis for
209 this study encompasses the client beneficiaries and member users of the respective microfinance institutions.

210 In choosing the sample unit, a multi stage random sampling technique was applied. Initially, three different
211 geographical locations from each of the study town (Namely Menaharia, Hiske-dar and Addis Ketema sub-
212 cities from Hawassa town and three widen districts Hidda-kalite, Mesincho and Goyida in Dalle woreda) were
213 randomly selected. Over-all, six diverse geographical locations were considered for the study. Secondly, one client
214 and member based MFIs branches were randomly selected in each of the 6 sample study locations, out of which
215 10 client beneficiaries and 10 member users from each of the CBMFIs and SACCOs BRANCHES were randomly
216 selected as a representative sample unit. Therefore, the total sample size is determined to be 120 individuals
217 comprising of 60 member users and 60 clients beneficiaries. On the other hand, stratified random sampling was
218 principally used to generate varying data and contextual observations in between the two alternative units of

219 analysis (member users and client beneficiaries). Notable, the stratification was mainly sought to identify the
220 varying economic impacts achieved through the two financial modalities. All respondents from both strata
221 were chosen using simple random sampling method.

222 **11 c) Data Collection procedures and Instruments**

223 The sources of data used for the purposes of this study were both primary and secondary data. Wellstructured
224 questionnaire surveys, key informant interview and FGD were used as tools for primary data collections. The
225 study was conducted on the basis of wide-ranging surveying techniques along with comprehensive inquiry
226 on the economic status of the beneficiaries and their business outcomes. It was administered from the 120
227 sample beneficiaries comprising of 60 client beneficiaries and 60 member users. The questionnaire survey
228 containing both open and close-ended questions were mainly used to capture information about the socio-economic
229 characteristics of the beneficiaries, financial services availed, economic benefits or gains accrued, business financing
230 and investment gains, profit and earnings, employment, asset accumulation, and income generating activities.

231 The uses of other methods were primarily used to elicit information in qualitative terms about the relevance
232 of MC, its operational inefficiencies, and the problems affecting outreach performances. The key informants were
233 officials and team of experts from the trade and industry office, managers and operation officers of SACCOs and
234 Omo MFIs. Data collected mainly includes information on financing mechanisms and its importance, outreach
235 performance, and micro financing policies, regulations and implementation strategies. Two participatory FGD
236 were held out of the two groups of financial beneficiaries. The discussants were composed of the type of enterprises
237 which was considered as their primary occupation. The FGD is mainly sought to identify and collect distinct
238 information from real life experiences and economic fulfillments of the beneficiaries.

239 Beside the primary source of data, secondary data were also used. The main sources of secondary data were
240 statistical reports, official brochures, manuals and guidelines. Data collected mainly includes information into the
241 overall effectiveness of each financial modality, outreach performance, and the business outcomes achieved etc.
242 Relevant literature from existing empirical studies and reports, district or regional records on microfinance and
243 its economic contributions were also carefully reviewed. Much emphasis was placed on the collection of accurate
244 and reliable data so as to be able to come up with objective evaluations and to make informed conclusions and
245 judgments. The data generated thus sufficiently permitted an in-depth analysis of the immense role of MSE and
246 other related issues.

247 **12 d) Model Specifications and Empirical Strategies**

248 The data generated were analyzed by using both descriptive and inferential statistics. The descriptive approach
249 entails the use of mean and standard deviations. Analysis of the descriptive and t test statistics was conducted
250 to estimate the mean differences between the socio economic and household characteristics of the two groups
251 of beneficiaries and their significance level. The Single Differences and Difference-In-Differences approaches
252 were implemented after realizing that the clients and members of the MFI were homogeneous. The t test
253 statistics verified no systematic difference between the two groups before using the MC services. The SD and
254 DID specifications were separately made for evaluating the actual economic contributions made through each
255 MFIs and business outcomes as follows. As the microfinance beneficiaries (both clients and member users) were
256 randomly selected from the among the recorded lists of beneficiaries by the MFIs, it is highly unlikely that
257 the outcome variables are correlated with the unobservable characteristics in the error term like entrepreneurial
258 ability, managerial talent and motivation, etc. that might in one way or in another affect economic status of
259 the individual beneficiaries and business outcomes. Hence, endogeneity problem seems the bearable factor for
260 estimating the MC effect on the outcome variables.

261 i.

262 **13 ESTIMATING THE BUSINESS Outcomes**

263 The SD and DID approaches of the FE and RE models estimating the impact of Micro financing on the
264 beneficiaries business outcomes were estimated based on the following specifications. The model intends to
265 explicitly capture the time invariant and firm fixed effects.
266
$$Y_{it} = \beta_0 + \beta_1 X_{it} + \beta_2 D_{it} + \beta_3 F_{it} + \beta_4 E_{it} + \beta_5 M_{it} + \beta_6 W_{it} + \beta_7 A_{it} + \beta_8 S_{it} + \beta_9 P_{it} + \beta_{10} E_{it} + \beta_{11} F_{it} + \beta_{12} M_{it} + \beta_{13} W_{it} + \beta_{14} A_{it} + \beta_{15} S_{it} + \beta_{16} P_{it} + \beta_{17} E_{it} + \beta_{18} F_{it} + \beta_{19} M_{it} + \beta_{20} W_{it} + \beta_{21} A_{it} + \beta_{22} S_{it} + \beta_{23} P_{it} + \beta_{24} E_{it} + \beta_{25} F_{it} + \beta_{26} M_{it} + \beta_{27} W_{it} + \beta_{28} A_{it} + \beta_{29} S_{it} + \beta_{30} P_{it} + \beta_{31} E_{it} + \beta_{32} F_{it} + \beta_{33} M_{it} + \beta_{34} W_{it} + \beta_{35} A_{it} + \beta_{36} S_{it} + \beta_{37} P_{it} + \beta_{38} E_{it} + \beta_{39} F_{it} + \beta_{40} M_{it} + \beta_{41} W_{it} + \beta_{42} A_{it} + \beta_{43} S_{it} + \beta_{44} P_{it} + \beta_{45} E_{it} + \beta_{46} F_{it} + \beta_{47} M_{it} + \beta_{48} W_{it} + \beta_{49} A_{it} + \beta_{50} S_{it} + 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\beta_{481} M_{it} + \beta_{482} W_{it} + \beta_{483} A_{it} + \beta_{484} S_{it} + \beta_{485} P_{it} + \beta_{486} E_{it} + \beta_{487} F_{it} + \beta_{488} M_{it} + \beta_{489} W_{it} + \beta_{490} A_{it} + \beta_{491} S_{it} + \beta_{492} P_{it} + \beta_{493} E_{it} + \beta_{494} F_{it} + \beta_{495} M_{it} + \beta_{496} W_{it} + \beta_{497} A_{it} + \beta_{498} S_{it} + \beta_{499} P_{it} + \beta_{500} E_{it} + \beta_{501} F_{it} + \beta_{502} M_{it} + \beta_{503} W_{it} + \beta_{504} A_{it} + \beta_{505} S_{it} + \beta_{506} P_{it} + \beta_{507} E_{it} + \beta_{508} F_{it} + \beta_{509} M_{it} + \beta_{510} W_{it} + \beta_{511} A_{it} + \beta_{512} S_{it} + \beta_{513} P_{it} + \beta_{514} E_{it} + \beta_{515} F_{it} + \beta_{516} M_{it} + \beta_{517} W_{it} + \beta_{518} A_{it} + \beta_{519} S_{it} + \beta_{520} P_{it} + \beta_{521} E_{it} + \beta_{522} F_{it} + \beta_{523} M_{it} + \beta_{524} W_{it} + \beta_{525} A_{it} + \beta_{526} S_{it} + \beta_{527} P_{it} + \beta_{528} E_{it} + \beta_{529} F_{it} + \beta_{530} M_{it} + \beta_{531} W_{it} + \beta_{532} A_{it} + \beta_{533} S_{it} + \beta_{534} P_{it} + \beta_{535} E_{it} + \beta_{536} F_{it} + \beta_{537} M_{it} + \beta_{538} W_{it} + \beta_{539} A_{it} + \beta_{540} S_{it} + \beta_{541} P_{it} + \beta_{542} E_{it} + \beta_{543} F_{it} + \beta_{544} M_{it} + \beta_{545} W_{it} + \beta_{546} A_{it} + \beta_{547} S_{it} + \beta_{548} P_{it} + \beta_{549} E_{it} + \beta_{550} F_{it} + \beta_{551} M_{it} + \beta_{552} W_{it} + \beta_{553} A_{it} + \beta_{554} S_{it} + \beta_{555} P_{it} + \beta_{556} E_{it} + \beta_{557} F_{it} + \beta_{558} M_{it} + \beta_{559} W_{it} + \beta_{560} A_{it} + \beta_{561} S_{it} + \beta_{562} P_{it} + \beta_{563} E_{it} + \beta_{564} F_{it} + \beta_{565} M_{it} + \beta_{566} W_{it} + \beta_{567} A_{it} + \beta_{568} S_{it} + \beta_{569} P_{it} + \beta_{570} E_{it} + \beta_{571} F_{it} + \beta_{572} M_{it} + \beta_{573} W_{it} + \beta_{574} A_{it} + \beta_{575} S_{it} + \beta_{576} P_{it} + \beta_{577} E_{it} + \beta_{578} F_{it} + \beta_{579} M_{it} + \beta_{580} W_{it} + \beta_{581} A_{it} + \beta_{582} S_{it} + \beta_{583} P_{it} + \beta_{584} E_{it} + \beta_{585} F_{it} + \beta_{586} M_{it} + \beta_{587} W_{it} + \beta_{588} A_{it} + \beta_{589} S_{it} + \beta_{590} P_{it} + \beta_{591} E_{it} + \beta_{592} F_{it} + \beta_{593} M_{it} + \beta_{594} W_{it} + \beta_{595} A_{it} + \beta_{596} S_{it} + \beta_{597} P_{it} + \beta_{598} E_{it} + \beta_{599} F_{it} + \beta_{600} M_{it} + \beta_{601} W_{it} + \beta_{602} A_{it} + \beta_{603} S_{it} + \beta_{604} P_{it} + \beta_{605} E_{it} + \beta_{606} F_{it} + \beta_{607} M_{it} + \beta_{608} W_{it} + \beta_{609} A_{it} + \beta_{610} S_{it} + \beta_{611} P_{it} + \beta_{612} E_{it} + \beta_{613} F_{it} + \beta_{614} M_{it} + \beta_{615} W_{it} + \beta_{616} A_{it} + \beta_{617} S_{it} + \beta_{618} P_{it} + \beta_{619} E_{it} + \beta_{620} F_{it} + \beta_{621} M_{it} + \beta_{622} W_{it} + \beta_{623} A_{it} + \beta_{624} S_{it} + \beta_{625} P_{it} + \beta_{626} E_{it} + \beta_{627} F_{it} + \beta_{628} M_{it} + \beta_{629} W_{it} + \beta_{630} A_{it} + \beta_{631} S_{it} + \beta_{632} P_{it} + \beta_{633} E_{it} + \beta_{634} F_{it} + \beta_{635} M_{it} + \beta_{636} W_{it} + \beta_{637} A_{it} + \beta_{638} S_{it} + \beta_{639} P_{it} + \beta_{640} E_{it} + \beta_{641} F_{it} + \beta_{642} M_{it} + \beta_{643} W_{it} + \beta_{644} A_{it} + \beta_{645} S_{it} + \beta_{646} P_{it} + \beta_{647} E_{it} + \beta_{648} F_{it} + \beta_{649} M_{it} + \beta_{650} W_{it} + \beta_{651} A_{it} + \beta_{652} S_{it} + \beta_{653} P_{it} + \beta_{654} E_{it} + \beta_{655} F_{it} + \beta_{656} M_{it} + \beta_{657} W_{it} + \beta_{658} A_{it} + \beta_{659} S_{it} + \beta_{660} P_{it} + \beta_{661} E_{it} + \beta_{662} F_{it} + \beta_{663} M_{it} + \beta_{664} W_{it} + \beta_{665} A_{it} + \beta_{666} S_{it} + \beta_{667} P_{it} + \beta_{668} E_{it} + \beta_{669} F_{it} + \beta_{670} M_{it} + \beta_{671} W_{it} + \beta_{672} A_{it} + \beta_{673} S_{it} + \beta_{674} P_{it} + \beta_{675} E_{it} + \beta_{676} F_{it} + \beta_{677} M_{it} + \beta_{678} W_{it} + \beta_{679} A_{it} + \beta_{680} S_{it} + \beta_{681} P_{it} + \beta_{682} E_{it} + \beta_{683} F_{it} + \beta_{684} M_{it} + \beta_{685} W_{it} + \beta_{686} A_{it} + \beta_{687} S_{it} + \beta_{688} P_{it} + \beta_{689} E_{it} + \beta_{690} F_{it} + \beta_{691} M_{it} + \beta_{692} W_{it} + \beta_{693} A_{it} + \beta_{694} S_{it} + \beta_{695} P_{it} + \beta_{696} E_{it} + \beta_{697} F_{it} + \beta_{698} M_{it} + \beta_{699} W_{it} + \beta_{700} A_{it} + \beta_{701} S_{it} + \beta_{702} P_{it} + \beta_{703} E_{it} + \beta_{704} F_{it} + \beta_{705} M_{it} + \beta_{706} W_{it} + \beta_{707} A_{it} + \beta_{708} S_{it} + \beta_{709} P_{it} + \beta_{710} E_{it} + \beta_{711} F_{it} + \beta_{712} M_{it} + \beta_{713} W_{it} + \beta_{714} A_{it} + \beta_{715} S_{it} + \beta_{716} P_{it} + \beta_{717} E_{it} + \beta_{718} F_{it} + \beta_{719} M_{it} + \beta_{720} W_{it} + \beta_{721} A_{it} + \beta_{722} S_{it} + \beta_{723} P_{it} + \beta_{724} E_{it} + \beta_{725} F_{it} + \beta_{726} M_{it} + \beta_{727} W_{it} + \beta_{728} A_{it} + \beta_{729} S_{it} + \beta_{730} P_{it} + \beta_{731} E_{it} + \beta_{732} F_{it} + \beta_{733} M_{it} + \beta_{734} W_{it} + \beta_{735} A_{it} + \beta_{736} S_{it} + \beta_{737} P_{it} + \beta_{738} E_{it} + \beta_{739} F_{it} + \beta_{740} M_{it} + \beta_{741} W_{it} + \beta_{742} A_{it} + \beta_{743} S_{it} + \beta_{744} P_{it} + \beta_{745} E_{it} + \beta_{746} F_{it} + \beta_{747} M_{it} + \beta_{748} W_{it} + \beta_{749} A_{it} + \beta_{750} S_{it} + \beta_{751} P_{it} + \beta_{752} E_{it} + \beta_{753} F_{it} + \beta_{754} M_{it} + \beta_{755} W_{it} + \beta_{756} A_{it} + \beta_{757} S_{it} + \beta_{758} P_{it} + \beta_{759} E_{it} + \beta_{760} F_{it} + \beta_{761} M_{it} + \beta_{762} W_{it} + \beta_{763} A_{it} + \beta_{764} S_{it} + \beta_{765} P_{it} + \beta_{766} E_{it} + \beta_{767} F_{it} + \beta_{768} M_{it} + \beta_{769} W_{it} + \beta_{770} A_{it} + \beta_{771} S_{it} + \beta_{772} P_{it} + \beta_{773} E_{it} + \beta_{774} F_{it} + \beta_{775} M_{it} + \beta_{776} W_{it} + \beta_{777} A_{it} + \beta_{778} S_{it} + \beta_{779} P_{it} + \beta_{780} E_{it} + \beta_{781} F_{it} + \beta_{782} M_{it} + \beta_{783} W_{it} + \beta_{784} A_{it} + \beta_{785} S_{it} + \beta_{786} P_{it} + \beta_{787} E_{it} + \beta_{788} F_{it} + \beta_{789} M_{it} + \beta_{790} W_{it} + \beta_{791} A_{it} + \beta_{792} S_{it} + \beta_{793} P_{it} + \beta_{794} E_{it} + \beta_{795} F_{it} + \beta_{796} M_{it} + \beta_{797} W_{it} + \beta_{798} A_{it} + \beta_{799} S_{it} + \beta_{800} P_{it} + \beta_{801} E_{it} + \beta_{802} F_{it} + \beta_{803} M_{it} + \beta_{804} W_{it} + \beta_{805} A_{it} + \beta_{806} S_{it} + \beta_{807} P_{it} + \beta_{808} E_{it} + \beta_{809} F_{it} + \beta_{810} M_{it} + \beta_{811} W_{it} + \beta_{812} A_{it} + \beta_{813} S_{it} + \beta_{814} P_{it} + \beta_{815} E_{it} + \beta_{816} F_{it} + \beta_{817} M_{it} + \beta_{818} W_{it} + \beta_{819} A_{it} + \beta_{820} S_{it} + \beta_{821} P_{it} + \beta_{822} E_{it} + \beta_{823} F_{it} + \beta_{824} M_{it} + \beta_{825} W_{it} + \beta_{826} A_{it} + \beta_{827} S_{it} + \beta_{828} P_{it} + \beta_{829} E_{it} + \beta_{830}$$

276 **15 VI.**277 **16 Descriptive and t-test Statistics**

278 This section provides results of the descriptive and t-test statistical analysis of the household's socioeconomic
279 characteristics and associated outcomes on the dependent variables. The t-test statistics tells us years, 21 years
280 and 5 individuals respectively for the clients. The respective evidence for SACCO members reveals 6.7 years
281 of education, 20.7 years of age and 5 individuals. However, the mean differences for these indicators are not
282 statistically significant. The average monthly household income and consumption expenditures incurred by the
283 clients reveal 891 and 938 birr respectively. On average, SACCO members earn 844 birr monthly income and
284 incur about 886.9 birr consumption expenditures. The average daily per capita expenditures (DCPE) incurred
285 reveal 6.4 (clients) and 6.1 (members) birr. However, both results are not statistically significant.

286 The average total household savings and assets on hand for the client beneficiaries reveal 1,046 birr and 8,223
287 birr respectively. While SACCO members could get hold of 1,000 and 7,894 birr total savings and assets on hand
288 respectively. Both indicators reveal larger deviations from the mean. The average quarterly credit requirements
289 indicate 5,018 and 4,980 birr for the clients and members respectively.

290 The result of the t-test confirmed that the mean differences for all the characteristics of the beneficiaries are
291 not statistically significant meaning that we fail to reject the null hypothesis stating that both groups have equal
292 mean in each variables of interest. This shows us that the two groups of beneficiaries were almost identical
293 interims of the aforementioned household characteristics before becoming beneficiaries in their respective MFIs.

294 **17 36**295 **18 Global Journal of Management and Business Research**

296 Volume XV Issue VII Version I Year () C about the significance level of the mean variances across each variables
297 of interest between the two groups of beneficiaries.

298 According to the results of the descriptive statistics reported in table 1, the average years of education, age of
299 beneficiaries and family size reveals 7

300 **19 a) Economic Contributions of the Microfinance Institutions**

301 This section presents the result of both the single and double difference estimates. The single difference (SD)
302 estimates both in level and log specifications are reported in columns 3 to 6. It is meant to catch up the economic
303 impacts of each MFI at present time. While, the result of the double difference estimates are reported in column
304 1 and 2. It helps to measure the differential economic contributions made through the MFIs, which revealed
305 positive and statistically significant across all the variables of interest. According to the results of the DID
306 estimates, CBMFI could realize extra economic gains for its beneficiaries across all the variables of interest. The
307 coefficient estimates for these variables are highly significant. The Single Difference estimates in level specification
308 reveal that each birr additional credit grant generates 92.24 and 54.17 birr extra household assets for the client
309 beneficiaries and member users respectively. The log specifications reveal 3.3 and 1.3 percent growth respectively.
310 Both results are statistically significant at 5 percent level of significance.

311 As far as the monthly households' income and expenditures are concerned, each birr additional MC grant by
312 the CBMFI enables the client's household to maximize their monthly income and expenditure by 116

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316 and 70 birr respectively. The result is slightly lower for the SACCO members, which are 84 and 58 birr on average
317 respectively. Both results are also statistically significant at 5 percent level of significance.

318 The average daily per capital expenditure (DPCE) and the monthly household savings rate reveal 6.2 birr and
319 10.5 percent for the client beneficiaries, which is statistically significant even at 1 percent level of significance.
320 While, SACCO members had the DPCE and monthly savings rate of 3.4 birr and 10 percent respectively. The
321 log specifications in these economic indicators reveal 3.3 and 0.12 percent for client beneficiaries and 2.5 and
322 0.25 percent for the member users respectively. All the results are statistically significant at 5 percent level of
323 significance.

324 The DID coefficient estimates across all the variables of interest are positive and statistically significant. Hence,
325 it is possible to infer that client based MFI could realize better economic contributions than the member based
326 SACCOs. For instance, the average monthly household assets, income and expenditure growth contributed by
327 the CBMFI reveal 40 birr, 120 birr and 48 birr higher than the SACCOs respectively. The log specifications
328 reveal 2.7%, 2.6% and 1.5% growth respectively. The clients DPCE and monthly savings rate in excess of the
329 member users reveal 1.1 and 15 percent on average. Hence, CBMFIs had exceeding economic contributions in all
330 the variables of interest. Even if, the extent of economic contributions varies, there is strong evidence suggesting
331 that both MFIs are the engines for pro-poor growth and economic empowments of the poor.

332 **22 b) Microfinance Benefits for Business Outcomes**

333 According to the SD estimates in level specifications, each birr MC grant provided by the CBMFIs could generate 9
334 birr monthly ROI, 101 business profits and 230.5 birr working capital on average, which are statistically significant
335 even at 1percent significance level. The log specifications reveal 3.3 %, 2.5 % and 4 % growth in the ROI, Business
336 profits and working capital respectively. The member users would be able to realize 2.3 percent, 1.6 percent and
337 3.5 percent growth in their monthly ROI, business profits and working capital respectively.

338 According to the DID approach, the coefficient estimates associated with the monthly ROI (6 birr), business
339 profits (120 birr) and working capital (148 birr) reveal the additional economic impact realized by the CBMFIs.
340 In other words, 1 birr additional MC enables the client beneficiaries to earn, an additional 6 birr return, 120
341 birr monthly profit and 148 birr working capital on average. Similarly, the impact coefficient associated with the
342 same variable in the log specification verified 2.7%, 2.6% and 10% growth in the monthly ROI, profit and the
343 working capital respectively. Both estimates in level and logs specification are highly statistically significant. In
344 general, the positive signs on the DID estimates, indicates a general tendency for better economic impact achieved
345 through the CBMFIs. The estimates provide satisfactory evidence to assert that CBMFIs had been performing
346 better and were able to realize far-reaching benefits for its business clients. Access to finance contributes to a
347 long-lasting increase in the beneficiaries 'income by means of a rise in investments in income generating activities
348 and to a possible diversification of sources of income.

349 It also contributes to an accumulation of assets and smoothing out consumption and reduces the household
350 vulnerability and also contribute to better education, health and housing (see also ??orduch, & Hashemi, 2003).
351 Hence, the study found that MFIs are the suitable economic instruments for empowering the poor by means of
352 providing economic opportunities and facilities and improves their living standards sustainably.

353 **23 c) Outreach Efficiency and Financial Sustainability**

354 As shown in the table 4, the average number of active client beneficiaries and member users for the whole duration
355 of the study reveal 382 and 215 respectively. As compared to the CBMFIs, active member users were lower and
356 had shown significant deviations from the mean. The average loan size and duration of loan success reveals 3,123
357 birr and 37 days on average in the CBMFIs. However, SACCOs registered lower average loan size and relatively
358 longer loan period, i.e. 2,150 birr and 45.7 days respectively. The quarterly lending and annual default rate reveal
359 27.5% and 5.7% respectively for the CBMFIs. The SACCOs registered relatively lower lending rate (12.6 %) and
360 default rate (2.3%) on average. According to the representative sample MFIs, the main causes of the default rate
361 were improper client scrutiny, ineffective repayment enforcement mechanism, absence of effective group pressure
362 or collateral, negligence of clients, crop failure in rural areas, sickness of the borrower or family member, death and
363 bankruptcy etc. In this case, the higher default rate might endanger the financial sustainability of the CBMFI.
364 However, the sector had shown far-reaching progress over time interims of realizing better outreach efficiency
365 despite the lower financial performances. This implies that the CBMFI The strong government commitment and
366 support by the NGO have ensured sustainability of the sector by virtue of constantly financing the program.

367 Non-performing loan (NPLs) to loan outstanding ratio can also be an alternative indicator for measuring
368 an outreach efficiency and financial sustainability of a MFIs. Using this indicator the study found out that
369 MFI financial sustainability is in a comfort zone with average NPLs ratio of 0.55 percent on average. The
370 rate is very low for SACCOs, 0.36 percent on average. This shows us that SACCOs are better interims of
371 assessing credit constantly growing to the level best they demand, most agreed that their standard of living was
372 improving over time. Accordingly, MC loans are providing a fundamental basis for planning and expanding their
373 business activities. Apparently, the members 'users reported that lack of adequate credit facility was the most
374 constraining factors against exceeding their business outcomes. Most declared that they were demanding extra
375 credit for expanding their businesses and to purchase productive assets like livestock, sewing machine, welding
376 tools, rubber sharpening, deep freezers and beauty salon equipment etc. Only few of them reported to have
377 used part of their loans for consumption and to defray debts. This result seems to support the argument that
378 MC loans could be growth enhancing particularly where the loans are expended on productive means as against
379 consumption goods.

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381 Volume XV Issue VII Version I Year 2015 () C risk and maintaining members' responsibility to repay their loan.

382 During the FGD with clients beneficiaries and member users, even if the MC Service was not Existing evidence
383 also indicate that microfinance services, such as savings, insurance, money transfers, entrepreneurial training and
384 so on, which are more attractive to the client beneficiaries or member users, are yet to be provided. Bureaucratic
385 regulations and the non-systematic and irregular supervision was deemed to inhibit the operation of the market
386 but in the case of rural microfinance provision a reasonable amount of regulation and supervision is discovered
387 to be necessary, particularly to protect the mostly illiterate rural poor, from usury interest rates.

388 **25 d) Key structural, Governance and Institutional Issues**

389 One of the main reasons for the beneficiary's widen discontent on the microfinance services was the meager
390 financial products and weaker financial market penetration. In this respect, MC loan and savings are the two

391 most prevailing financial products and services provided by the MFIs. Plethora evidences affirmed that Micro
392 financing has not yet performing well and expanding its service to the level best the market is virtually demanding
393 in the region. For instance, the sector has not yet been offering money transfer, remittances, insurance and other
394 non-financial and or social services. Hence, the sector has not yet gone far beyond offering MC services to the poor.
395 On the other hand, the SACCOs have been highly constrained by persistent financial deficiency and shortage of
396 working capital due to lacking adequate support from the government and other development organizations. As
397 the sector is believed to be independently grown and administered regardless of government interference, evidence
398 has shown that the sector couldn't stand by itself and unable to show up radical economic contributions as was
399 in the case of the CBMFIs.

400 Despite the fact that SACCOs would benefit fairly mutualistic and participatory financial system to the
401 poor, its services had not yet been adequately expanded; and of course internally restrained and missing well
402 integrated and collaborating financial service development programs. In this respect, the sector is in need
403 of pioneering attention and transformative institutional support by the government and other multilateral
404 development programs working to empower the poor.

405 Unlike the SACCOs, the client based MFI had been performing other alternative financial and poverty
406 alleviation programs like water pump development, HUB project, Rural Entrepreneurship, Fertilizer support,
407 Glimmer, Women and children and Rural Financial Fund. Most importantly, the sector is constantly financed by
408 the government and international development organizations like the Rural Financial Intermediation Programme
409 (RUFIP). Therefore, as compared to the SACCOs, CBMFIs had been performing well and realizing far reaching
410 economic contributions in the life of the poor. Their networks of services had been widely growing by virtue of
411 highly integrated multilateral

412 **26 VII. Concluding and Policy Remarks**

413 Throughout the developing world, there is a desperate quest for a way out of the financial predicament confronting
414 the rural poor. In most countries of the developing regions, especially SSA countries, the rural population forms
415 the larger proportion and poverty is prevalent among them. Despite the predominant claims on the critical
416 role of microfinance service towards impacting poverty reduction and sustainable pro-poor growth, quite a lot of
417 evidences also argue contrarily. Evidences have shown that the extent to which microfinance services reaches the
418 core poor in a range of modalities substantially vary. In this regards, there is no detailed and systematic study
419 to explore the impact of alternative forms of MC services in Ethiopia. Hence, this study intends to throw away
420 its own contribution to fill the aforesaid gaps.

421 The study employed descriptive and Hausman test statistics to evaluate the mean difference between the
422 economic status of clients and member beneficiaries. Aptly, the SD and DID approaches were employed to
423 evaluate the differential economic effects of each financial modality. In order to realize efficient and sound
424 outcomes of the DID approach, FE and RE models were separately estimated and found no significant difference
425 between them. The model 40

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427 Volume XV Issue VII Version I Year () C development programs involving many local and international
428 stakeholders. Therefore, the sector remains to be the superior socio-economic means to empower the poor
429 and ensuring exceeding business outcomes for its beneficiaries. estimates were made on the basis of both level
430 and log specifications. The study found no evidence to reject the null hypothesis stating no systematic difference
431 between the socio-economic characteristics of the client beneficiaries or member users before the MC Service.
432 The f-statistics indicates insignificant result on the mean differences across all the beneficiaries' characteristics.
433 Hence, we firmly concluded that the two groups were almost identical before becoming client beneficiaries or
434 member users in their respective MFIs.

435 The SD estimates reveal that 1 birr additional MC grant generates 92.24 and 54.17 birr extra household assets
436 on average for the client beneficiaries and member users respectively. The log specifications reveal 3.3 and 1.3
437 percent growth rate respectively. Both results are statistically significant at 5 percent level of significance. As
438 far as the average monthly households income and expenditures are concerned, each birr MC enables the client's
439 household to maximize their monthly income and expenditure by 116 and 70 birr respectively. The results are
440 slightly lower for the SACCO members, which are on average 84 and 58 birr respectively.

441 As far as the business outcomes are concerned, each birr additional MC grant could generate 9 birr monthly
442 ROI, 101 business profits and 230.5 birr working capital for the client's business. The log specifications reveal
443 3.3 %, 2.5 % and 4 % growth in ROI, Business profits and working capital respectively. The member users were
444 able to realize 2.3 percent, 1.6 percent and 3.5 percent growth in their monthly ROI, business profits and working
445 capital respectively.

446 The DID estimates reveal positive for the CBMFIs and statistically significant across all the variables of
447 interest. It appears that the client based MFI could realize better economic contributions than the member
448 based SACCOs. Apparently, the average monthly household assets, income and expenditure growth contributed
449 by virtue of 1 birr extra credit grant for the clients reveal 40 birr, 120 birr and 48 birr higher than the SACCOs
450 contributions respectively. The log specifications reveal 2.7%, 2.6% and 1.5% growth respectively. The clients

451 DPCE and monthly savings rate in excess of the member users reveal 1.1 and 15 percent. Even if the extent of
452 economic contributions varies between the two alternative financial modalities, there is strong evidence suggesting
453 that both MCIs are the economic engines for pro-poor growth and economic empowerments of the poor. The
454 estimates provide satisfactory evidence to assert that CBMFI had been performing far better and were able to
455 realize far-reaching economic benefits for its clients.

456 On the other hand, the coefficient estimates associated with the monthly ROI, business profits and working
457 capital recorded by the CBMFI reveal 6 birr, 120 birr and 148 birr respectively. In other words, 1 birr extra MC
458 enables business clients to earn, an additional 6 birr government and international development organizations like
459 RUFIP program. Their networks of services had been widely growing by virtue of highly integrated multilateral
460 development programs involving many local and international stakeholders. Hence, the sector had been flourishing
461 superior socio-economic conditions to empower the poor clients and ensuring exceeding business outcomes for its
462 client beneficiaries.

463 MC loan and savings are the two most prevailing financial products and services provided by the MFIs. Existing
464 evidence indicate that microfinance services, such as insurance, money transfers, remittances, entrepreneurial
465 training and so on, which are more attractive to the client beneficiaries or member users, are yet to be provided.
466 Bureaucratic regulations and the non-systematic and irregular supervision is deemed to inhibit the operation of
467 the market but in the case of rural microfinance provision a reasonable amount of regulation and supervision is
468 discovered to be necessary, particularly to protect the mostly illiterate rural poor, from usury interest rates.

469 The average number of active client beneficiaries and member users reveal 382 and 215 respectively. As
470 compared to the CBMFIs, active member users were lower and had shown significant deviations from the mean.
471 The average loan size and duration of loan success in the CBMFIs reveals 3,123 birr and 37 days respectively.
472 However, SACCOs registered lower average loan size (2,150 birr) and relatively longer loan period (45.7 days). The
473 quarterly lending and annual default rate amounts 27.5 % and 5.7% respectively for the CBMFIs. The SACCOs
474 registered relatively lower (12.6%) lending rate and default rate (2.3%) on average. This shows us that SACCOs
475 need to expand its service and outreach capability. The CBMFI had shown far-reaching progress interims of better
476 outreach efficiency despite the lower financial performances. Most importantly, the government commitment and
477 NGO support by virtue of constantly financing the program have been flourishing better financial sustainability
478 and sectoral growth.

479 Plethora evidences affirmed that Micro financing has not yet expanding its service to the level best the market
480 is virtually demanding. Despite the fact that SACCOs would benefit fairly mutualistic and

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482 Volume XV Issue VII Version I Year 2015 () C return, 120 birr additional monthly business profit and 148
483 birr working capital on average. Similarly, the impact coefficient associated with the same variables in the log
484 specification verified that 2.7%, 2.6% and 10% growth respectively.

485 In general, the positive signs on the DID estimates, indicates a general tendency for exceeding economic gain
486 and business outcomes for realized for the clients. One of the key factors is that it had been performing several
487 alternatives financial and poverty alleviation programs constantly supported by the participatory financial system
488 to the poor, its services had been mainly embarrassed through meager funding and weak institutional support
489 from the government and other alternative development organizations; notably the sector did not entertain well
490 integrated financial service development programs. In this respect, the sector necessitates pioneering attention
491 and transformative institutional support by the government and other multilateral development programs working
492 to empower the poor.

493 Even if, the MC Service was not constantly growing to the level best the market demands, evidence has shown
494 that the standard of living of the MC beneficiaries were improving over time. Hence, the study proved that
495 micro financing would remain to be the engines of growth and poverty reduction in Ethiopia. It is found to be
496 a veritable development tool for the betterment of economic life of the poor. It contributes to a long-lasting
497 increase in income by means of a rise in investments in income generating activities accumulation of assets and to
498 a possible diversification of sources of income. Most importantly, in order to further excel up the sustainable sector
499 growth and an immense contribution of the sector towards poverty alleviation, the government and other
500 development actors should excel to hand over their financial support and regularly follow up the performance of
501 the sector.



34

Figure 1: 34 Global



35

Figure 2: 35 Global

1

Ho: Both groups have equal Mean	Clients (CBMFI)	Mean	SD	Members (SACCOs)	Mean	SD	t-test	P-value
Education	7.044643	3.854735	6.721739	4.266346			0.820	
Age of the beneficiary	21.30804	6.11365	20.6870	7.32992			0.307	
DPCE	6.445283	2.502508	6.07640	6.88825			0.813	
Family Size	5.53125	1.9243	5.7130	2.08033			0.740	
Household savings	1,046.23	804.45	999.67	741.34			0.274	
Monthly income	891.12	760.01	844.43	630.50			0.202	
Assets on hand	8,223.5	5,874.07	7,894.3	3,607.23			0.120	
Monthly Consumption	938.17	687.638	886.91	455.69			0.314	
Credit requirement	5,018.21	831.75	4,980.43	694.64			0.064	

Source: Model Output

NB:

Figure 3: Table 1 :

2

	Double Difference		Single Difference		SACCOs	
	(one tail t-test @t=2005)	CBMFI	CBMFI	Logs (4)	Levels (5)	Logs (6)
	Levels (1)	Logs (2)	Levels (3)	Logs (4)	Levels (5)	Logs (6)
Household	40.10** (24.03)	0.0273** (0.0148)	92.24** (38.58)	0.033** (0.049)	54.17** (37.68)	0.0128** (0.0468)
Assets						
Household	120.0*** (101.56)	0.0258*** (0.0171)	116.20** (97.07)	0.0254** (0.0137)	84.04** (48.026)	0.0037** (0.0119)
Income						
Household	48*** (40.05)	0.0146** (0.0158)	70.21** (76.01)	0.0412** (0.0651)	57.52** (16.93)	0.0220** (0.0625)
Expenditure						
Household	.03601** (0.1645)	0.1487** (0.0171)	0.105** (0.02317)	0.0012** (0.00017)	0.1041*** (0.0026)	0.0025** (0.0119)
Savings rate						
DPCE	4.10*** (1.0045)	0.0113** (0.0148)	6.20*** (2.0058)	0.0330** (0.0049)	3.430*** (1.0038)	0.0248** (0.00468)

Source: Model Outcomes

NB: Significance level (** p<0.01, ** p<0.05, * p<0.1). Values in parentheses are the robust standard errors.

Figure 4: Table 2 :

3

	Double Difference (DID) (one tail t-test @t=2005)	Single Difference (SD) 5	CBMFI	SACCOs		
	Levels (1)	Logs (2)	Levels (3)	Logs (4)	Levels (5)	Logs (6)
ROI	6.103** (4.30)	0.0273** (0.0148)	9.15** (2.58)	0.0330** (0.00499)	5.20** (3.68)	0.0228** (0.0468)
Monthly Profits	120.06*** (78.52)	0.0258*** (0.0171)	101.27*** (89.7)	0.0254*** (0.0137)	93.01*** (68.26)	0.0155*** (0.0119)
Working Capital						

Figure 5: Table 3 :

4

	NO PARTICULARS	CBMFI	SACCOs		
		Mean	SD	Mean	SD
1	Active Beneficiaries	382	159.17	215	168.06
3	Average Loan Size	3,123	1670.3	2,150	1982.52
4	Quarterly Lending Rate	27.48	11.251	12.64	6.034
5	Duration of Loan Success	37.107	16.51	45.67	15.24
6	NPL: OSL	0.55	0.027	0.36	0.035
7	Estimated Market Share	33.12	17.23	19.21	14.67
8	Average Annual Default Rate	5.66	1.94	2.32	1.432

Source: Author's own computation

Figure 6: Table 4 :

5

	Governance				Organizational Network		
Institutions	Network	Basis	Structure		Ownership	Services	Financing
SACCOs	Partially integrated	Equal voting	Participatory, collaborative		Mutualist	Internalized	Partly independent
CBMFI	Integrated	Shares	Apex hierarchical	unit	Corporate	Externalized	Multilateral

Source: Author's own presentation

Figure 7: Table 5 :

¹There are several definitions of microfinance. The one adopted for the purpose of this study is the CGAP definition gives as follows: 'Microfinance is the supply of loans, savings, and other basic financial services to the poor, those who do not have access in to the formal banking service.

²According to Hermes & Lensink, (2007), the core poor refer to 'the poorest of the poor'. According to the contemporary economic thought, it might also refer as 'pro poor'.

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⁶DPCE is the daily per capita expenditure. This is generated by calculating all estimated expenditures of the beneficiaries over the year and divided by 365 and household size.

⁷The Hausman test statistics result reveals that Prob>chi2 is higher than 0.7 for all the estimates (which is higher than the 5% SL). Thus, we fail to reject the null hypothesis stating that there is no systematic difference between the FE and RE model estimates. Under this condition, the RE model is worthy enough to get efficient and consistent estimates. Thus, the SD and DID estimates are outputs of the RE model.

504 NB: Significance level (** p<0.01, ** p<0.05, * p<0.1). Values in parenthesis are robust standard errors. The
505 Variable ROI was measured by dividing total monthly profits over the total investment. The Average monthly
506 Profits earned was measured on the basis of revenue minus expense approach. The variable working Capital does
507 not include the value of fixed assets such as land and buildings.

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