E3 Journal of Business Management and Economics Vol. 5(6). pp. 142-151 September, 2014
Available online http://www.e3journals.org
ISSN 2141-7482

Review paper

Microfinance as a pathway out of poverty and viable strategy for livelihood diversification in Ethiopia

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Accepted 17 August, 2014

Lack of capital is among the prominent factors which hinder livelihood diversification mainly in developing countries. Microfinance intervention is taken as a strategy to overcome such constraints and it is seen as one of the most efficient instruments to fight poverty in poorer countries. The objective of this paper is to examine the role of access to microfinance as a pathway out of poverty and livelihood diversification. Empirical evidences and secondary data from different articles, proceedings and research works have been critically examined. Microfinance intervention brings livelihood diversification in urban than rural one. In the rural areas, even though there are some promising contributions like asset building, women empowerment and an increase in income, most of the loan is used for consumption smoothening. Using the loan for non-productive purpose; lack of appropriate skill training and lack of follow up of the clients; lack of flexibility in the repayment period and low saving interest; low amount of loan allowed at a time are some of the commonly mentioned problems. Concerned bodies are expected to take in to consideration of all these issues and comprehensive impact assessment has to be done so as to examine the overall impact of microfinance and to identify prominent problems.

Keywords: Microfinance, livelihood diversification, non/off farm economic activities

INTRODUCTION

With 84 per cent of the population living in the rural areas and depending on agriculture for livelihood, there is no doubt for the economic importance of the agricultural sector for sustainable development and poverty reduction in Ethiopia. The agricultural sector accounts for half of GDP, more than 85% of exports earnings and 80% of total employment (Amdissa, 2006 and Diao, 2010). Despite such socio-economic importance, the performance of the sector is very low due to different factors. As a result, the country is characterized by large food self-sufficiency gap at national level and food insecurity at household level (Amdissa, 2006 and Ramanaiah and Gowri, 2011). Different scholars (Asmha, 2011; Barrett et al., 2009; Ramanaiah and Gowri, 2011) have pointed out that the agricultural sector alone should not be relied upon as the core activity for rural households as a means of improving livelihood and reducing poverty. As a result, promotion and support for nonfarm diversification opportunities are gaining importance in the rural development literature. Nonfarm economic activities include seasonal migration of the farm to engage in wage employment, handicraft production, trading and processing of agricultural produce and provision of agricultural services. Such nonfarm activities offer a way of off-setting the diverse form of risks and uncertainties associated with agriculture and create a way of smoothing income over seasons (Ellis, 1999 and Asmha, 2011). Due to this fact, there is growing interest in the rural non-farm sector in developing countries as a contributor to economic growth, employment generation and livelihood diversification (Gibson and Olivia, 2008). There are different factors which determine and affect the type and development of off and/or non-farm economic activities. Lack of capital is among the prominent factors in developing countries which impede livelihood diversification (Ellis, 1999 and

Gibson and Olivia, 2008). Microfinance intervention is taken as a strategy to overcome such constraints and it is seen as one of the most efficient instrument to promote economic development, livelihood diversification and in fighting poverty in poorer countries (Morduch and Haley, 2002). Based on this ideology, the federal government of Ethiopia formulated a rural development strategy and underlined the role of rural finance for the overall development of the agricultural sector.

Shortage of finance is particularly acute among the millions of farmers. They need to buy improved agricultural inputs and implements to increase their income and break the perpetuity of the poverty cycle they are entangled with. But they cannot do this because they lack finance. The credible solution for this seems to improve vastly farmers' access to rural financial services, notably credit. It is unlikely to achieve sustained agricultural development without sustained use of improved agricultural technologies by small farmers by providing rural financial services (MoFED, 2003:48).

In line with this premise, formal microfinance in Ethiopia has been started in 1994/5 as a potential tool to fill the gap between financial institutions and needy people. In particular, the licensing and supervision of microfinance institution proclamation No. 40/1996 encouraged the spread of microfinance institutions (MFIs) in both rural and urban areas. As a result, there are around 31 active licensed MFIs (as of 2013) who are providing microfinance service for approximately 2.4 million active borrowers which is insignificant proportion compared with the demand.

OBJECTIVE OF THE PAPER

This paper intended to examine the role of access to microfinance (as a crucial factor) for livelihood diversification in Ethiopia and pathway out of poverty. Specifically, it tried to assess:

- The role of microfinance scheme in livelihood diversification
- The contribution of microfinance interventions for asset building and poverty reduction
- The role of microfinance in women empowerment
- The prominent problems facing the microfinance intervention in Ethiopia

METHODS AND MATERIALS

The paper has been done based on desk review relying on secondary data. In doing so, data from different articles, proceedings and research outputs have been critically examined. The contributions of microfinance intervention for livelihood diversification, poverty reduction and women empowerment have been assessed. Finally, the prominent problems faced so far in Ethiopia is identified and possible solutions have been forwarded at the end of the paper.

Conceptual issues

A livelihood strategy can be defined as an activity or a set of activities in which a household engages to make a living which could be in agriculture, non agriculture or cuts across both sectors. In doing so, both economic and other set of factors constitute critical decision parameters that shape activity choices of households (Adi, 2007). For Barrett et al. (2000), the concept of livelihoods relied on the opportunity set afforded an individual or household by their asset endowment and their chosen allocation of those assets across various activities to generate a stream of benefits. Livelihood strategies can be classified broadly on the basis of farm (livestock and crop production), off-farm (wage employment in other farms), and non-farm (nonagricultural income sources such as wage employment, self employment, property income, and remittances) (Ellis, 1999 and Zerihun, 2012). According to Start (2010), livelihood or occupational diversification has two key components which are usually related namely, multiplicity (multiple livelihoods-jobs or incomes requiring several part-time or concurrent activities) and change, transformation or adaptation (usually from an essentially subsistence agricultural sector to non subsistence and non-agricultural sector). Multiplicity can occur through division of household labor or through division of individual members' time.

Smith et al. (2001) and Barrett et al. (2001), considered livelihood diversification as a process of broadening of income sources and livelihood strategies away from purely crop and livestock production towards both farm and non-farm activities. The activities are undertaken to generate additional income using the production of other agricultural and nonagricultural goods and services, the sale of waged labor or self-employment in small enterprises. Due to this, diversification is widely understood as a form of self-insurance in which people exchange some inevitable expected earnings for reduced income variability achieved by selecting a portfolio of assets and activities. The notion of self-insurance, according to Barrett et al. (2001), is an ex ante concept of risk mitigation. (Start (2001) on his part defined livelihood diversification as economic development of non-agricultural activities or a livelihood which has multiple and part-time components. On the other hand, Ellis (1998) defines livelihood diversification as "the process by which people construct a diverse set of activities and social support capabilities in their effort for survival and in order to improve their standards of livings."

The term microfinance, according to, Robinson (2009) refers to the large scale, profitable provision of financial services like small savings and loans, to economically active poor people by sustainable financial institutions.

These services are provided by competing institutions at the local level-near the homes and workplaces of their clients-in both rural and urban areas. Microfinance services may be seen in terms of four main mechanisms (Mayoux, 2001) as loans, savings, insurance and pensions. The underlying assumptions of micro-finance for Mayoux (2001), among others, are: it services as a key role in poverty reduction, increases women's access to microfinance services and enables to develop financially self-sustaining and specialist microfinance institutions (MFIs) which will in the longer term be able to access private sources of capital.

Role of microfinance for poverty reduction and livelihood diversification

Poor people seek livelihoods in the non-farm sector either to complement seasonal agricultural incomes or/and to supplement inadequate (or absent) agricultural incomes as well as to take advantage of opportunities arising in the non-farm sector. Diversification helps to reduce vulnerability by smoothing income and spreading income risk. Household-based activities in the non-farm sector are particularly important for the rural poor, including women. In sub-Saharan Africa, for example, 30-50% of the household's income is derived from non-farm sources (Ellis, 2000). Livelihood diversification is important to the poor and measures which increase poor people's flexibility and mobility can help them to construct more healthy livelihoods. The non-farm sector offers potential to absorb a growing rural labor force, slow rural-urban migration; contribute to national income growth and promote a more equitable distribution of income (Gordon, 2000). A related role of diversification is to cope ex post with shocks to income. When crops fail or livestock die, households must reallocate labor to other pursuits, whether formal employment off-farm (like wage labor), informal employment off-farm (like hunting), or nonagricultural activities on-farm (like weaving, brewing). Another implication of the diversification as risk management rationale is that the need for self-insurance is a function of the availability of substitute social insurance, provided through transfers by the government, by non-profit agencies, by community or family members. In short, diversification helps to reduce livelihood vulnerability so that it is a way rural households insure themselves against the occurrence of shocks (Barrett et al, 2001; Schwarze and Zeller, 2005). A study by Doocy et al. (2004) proved that households with primarily nonagricultural incomes (due to microfinance intervention) had, on average, incomes that are 1.39 times or 39% greater than households with agricultural incomes only.

Since the 1980s microfinance has become an important component of development, poverty reduction, agent of livelihood diversification and economic regeneration strategies around the world. It has become a vast global industry involving large numbers of governments, banks, aid agencies, non-governmental organizations (NGOs), cooperatives and consultancy firms and directly employing hundreds of thousands of branch-level staff. As a result, most governments advocate the sector based on the assumption that the poor possess the capacity to implement income-generating economic activities but are limited by lack of access to and inadequate provision of savings, credit and insurance facilities (Hulme, 2009; Morduch and Haley, 2002). Among the economically active poor of the developing world, there is strong demand for small scale commercial financial services – for both credit and savings. Where available, these and other financial services help low income people improve household and enterprise management, increase productivity, smooth income flows and consumption costs, enlarge and diversify their micro business, and increase their incomes. But the demand for commercial micro finance is rarely met by the formal financial sector (Robinson, 2009). Schafer (2001) on this part added that financial institutions that provide commercial microfinance help poor people manage enterprise growth and diversification and raise their household incomes. If commercial microfinance is made locally available, the very poor who become employed will eventually be able to make use of its services. Hulme (2009), Ramanaiah and Gowri (2011) and Kassa (2008) explained the significance of the intervention as microfinance promises both to combat poverty and to develop the institutional capacity of financial systems through finding ways to cost-effectively lend money to poor households. Poor households are typically excluded from the formal banking system for lack of collateral, but the microfinance movement exploits new contractual structures and organizational forms that reduce the riskiness and costs of making small and uncollateralized loans.

In a nut shell, different scholars (like Ellis, 1999; Schafer, 2001; Bamlaku, 2004; Mekonnen, 2008; Hulme, 2009 and Robison, 2009) underlined the significance of access of microfinance to the poor as:

- It enables diversification of inputs, production processes, outputs, and/or assets, thus leading to enterprise growth through risk spreading, reduction of costs, increased productivity and income;
- Enterprise growth through specialization is supported by the provision of capital for the acquisition of inputs, equipment, tools, and other required physical assets;
- Microfinance interventions increase incomes and expand employment opportunities by contributing to the viability, stability and growth of enterprises through increased resource bases and enhanced production processes;

- The viability of enterprises is increased by providing safe and accessible saving facilities in which clients can accumulate start-up capital. This is particularly important for poor people who start enterprises with savings. With credit, new enterprises can be financed within households that dispose of supplementary income sources to cover loan repayment

Production process can be increased due to the possibility of having access to more stable sources of finance through the sustainable provision of loans and/or savings facilities. This, in turn, allows for a steady and more predictable supply of inputs and enhances provident business management strategies;

It enhances social intermediation strategies such as group formation increase knowledge and information about new business opportunities, resources, and markets, and improve management practices;

Additionally, if the programme implements complementary training programmes, the technical and managerial skills acquired may accelerate enterprise growth.

Participation in microfinance programs also enhances women empowerment. In Ghana and Bolivia, there was evidence that access to the financial and education services had positively impacted women's self-confidence and status in the community. Participants rated themselves significantly more confident than did non-participants (Morduch and Haley, 2002). Morduch and Haley (2002) compiled the works of different scholars on the impact of microfinance intervention. In Bangladesh for instance, microfinance participants do better than non-participants in both in per capita income, per capita expenditure, and household net worth; the incidence of poverty among participating households was lower than non-participating households and the provision of micro-credit has been found to strengthen crisis coping mechanisms, diversify income-earning sources, build assets and improve the status of women. Again compared with 18% of non members, 58% of the Grameen borrowers in Bangladesh had crossed over the extreme poverty line. In Indonesia a 12.9% annual average rise in income from borrowers was observed while only 3% rise was reported from non borrowers; in Bangladesh, a 29.3% annual average rise in income was recorded and only 22% for no-borrowers; in Sri-Lanka a 15.6% rise in income from borrowers and 9% for non-borrowers. The impact in the case of India was high- 46% was reported among borrowers with 24% for non-borrowers. In terms of livelihood diversification, a study in Zimbabwe proved that the average number of income sources was 2.5 for clients households compared with 2.1 for non clients and in Uganda it was 3.23 for clients compared with 2.53 for non clients. In Vietnam73% of the non-borrower households faced food shortages of three months or more compared with only 12% of the households that had borrowed money. In Peru only 28% of clients live below the poverty line compared to 41% of non clients; the average income is over 50% higher for clients; and borrower households spend 20% more on education than non-client households.

Determinants of livelihood diversification

Even though reliance on non-farm income diversification is widespread in rural Africa, not all households enjoy equal access to attractive non-farm opportunities. The fact that ex ante endowment of financial capital, skills, education, or market access appear to increase the probability of participation in higher-return nonfarm activities must not be misinterpreted as suggesting that all the wealthy move out of farming. Shifting prices or policies and inter-household variation in the composition of asset endowments generate cross-sectional and inter-temporal variability in the relative returns to farm and non-farm options. The key point is that the wealthy have greater freedom to choose among a wider range of options than do the poor. The poor, meanwhile, have little choice but to diversify out of farming into unskilled off-farm labor, whether in agriculture or not (Barrett et al., 2001). Deliberate ex ante income diversification strategies could be regarded as safety valves. They refer to push factors such as minimization of risks, liquidity constraints, labor, land, high transaction costs, and seasonality. Households try to stabilize their income by diversifying into income sources that are less susceptible to climatic and price variations. In addition, lack of sufficient access to important farm requisites could force households to look for additional or alternative sources of income. Households could also embark on deliberate ex post income diversification strategies which constitute activities that could be strategically allied to or are complementary to their primary source of income. Examples of this include integration of crop and livestock activities. Other examples of deliberate ex post income diversification strategies include realization that they have comparative advantage in non-farm activities as demonstrated by high premiums; location advantage due to their proximity to commercial agriculture and urban areas with the potential to create off-farm and non-farm employment opportunities; and in response to diminishing returns on factors of production (Zerihun, 2012). Farm household diversification into nonfarm activities emerges naturally, according to Barrett (2001), from diminishing or time-varying returns to labor or land, from market failures (e.g., for credit) or frictions (e.g., for mobility or entry into high-return niches), from ex ante risk management, and from ex post coping with adverse shocks. Similarly, a smallholder household endowed with much labor but relatively little land will, in the absence of well-functioning land markets, typically apply some labor to their own farm, and hire some labor out for off-farm wage employment in agriculture.

Ellis (1999, 2000), Barrett et al. (2001) and Asmha (2011) argue that rural livelihood diversification is the norm. Very few people collect all their income from one source, hold all their wealth in the form of any single asset, or use their assets in just one activity. Multiple motives prompt households and individuals to diversify assets, incomes, and activities. The first set of motives comprise what are traditionally termed "push factors": risk reduction, response to diminishing factor returns in any given use, such as family labor supply in the presence of land constraints driven by population pressure and landholdings fragmentation, reaction to crisis or liquidity constraints and high transactions costs that induce households to self-provision in several goods and services. From the push factor perspective, diversification is driven by limited risk-bearing capacity in the presence of incomplete or weak financial systems that create strong incentives to select a portfolio of activities in order to stabilize income flows and consumption, by constraints in labor and land markets, and by climatic uncertainty. The second set of motives comprise pull factors: realization of strategic complementarities between activities, such as crop-livestock integration or milling and hog production, specialization according to comparative advantage accorded by superior technologies, skills or endowments and the like. From the pull factor perspective, local engines of growth such as commercial agriculture or proximity to an urban area create opportunities for income diversification in production- and expenditure-linkage activities. Diversification is not only driven by constraints or the hardhearted struggle for survival of the poor, it can also be determined by incentives. While some diversify because they have little choice, better off households may diversify because they have a lot of choices. Hence diversification could be involuntary or voluntary. Motives for diversification are therefore, different across households with different stock of endowment and access to resources and in practice, difficult to isolate and also, different across communities with different sets of natural endowment such as fertile arable land. These imply that a host of heterogeneous and interacting factors actually contribute in shaping household diversification strategies (Adi, 2007). He further argued that both pull and push factors necessitate diversification. Pull factors are incentives that afford households the choice to participate in multiple income earning activities because they are attracted by some business opportunities such as to take advantage of forward or backward business integration or to invest their savings from some other rewarding activity. Push factors however, are constraints that leave a household no other choice than to diversify in response to desperate circumstances where income from only one or two activities is insufficient to meet daily needs. For many poor rural households, diversification may well be conditioned by push factors. As land becomes scarce and agricultural productivity declines; and as households face fluctuations in their incomes, having more than one source of income becomes the only imperative to survive.

There are numerous push and pull factors which determine rural households' ability to diversify their livelihood strategies away from crop and livestock production into off- and non-farm economic activities.

Assets: the ability to diversify livelihood highly depends on the access to the different types of assets (like for example physical, human, and social capital). It also explains the reason why all households do not have the same opportunities to participate in non-farm activities. There is a strong link between non-farm income share and total household income. Poorer households tend to have less access to nonfarm activities than better-off households (Schwarze and Zeller, 2005). Diversified households differed significantly in terms of variables related to household assets, markets and institutions from less diversified ones. Both household welfare and rural non-farm diversification decisions are mostly driven by endowment of household assets including good health, education, and household age composition. Households who live in communities with access to fertilizers, public transports and local produce markets are more likely to engage in non-farm diversification and enjoy improved welfare (Asmha, 2011). Better-off households do not only own more productive assets, they also have a better access to markets, especially to financial markets. Limited access to credit can either 'push' poor households into wage-labor activities to earn cash or it restricts their ability to invest in non-agricultural activities even more. Poor households are not able to adjust their capital stock to the different needs in activities outside agriculture (Schwarze and Zeller, 2005).

Education and Health status: Educational level of the household head has a significant and positive effect on household's non-farm diversification as well as household welfare. The higher the level of education, the greater the probability that households will engage in non-farm work and ultimately have improved welfare. Data from Uganda indicated that individuals who have pursued primary and higher education have a higher likelihood of participating in non-farm activities than those without any education. A study by Doocy et al. (2004) regarding the impact of WISDOM (Sodo and Adama center in Ethiopia) pointed out that, when other variables were held constant, literate respondents had household incomes that were, on average, 1.15 times or 15% greater than that of illiterate respondents. Household income increased 1.03 times or was 3% greater for each additional year of formal education attained by the household head. With regards to the health status variable, the tendency to engage in non-farm work reduces when the burden of disease is high (Asmha, 2011).

Financial Services: Access to formal credit institutions has a significant positive impact on the share of non-agricultural income. Households that received a formal loan can diversify their income more out of the agricultural sector. Credit enables households to change their physical capital stock within a short time to take advantage of income opportunities outside agriculture. The basic constraint in deriving income from non-agricultural sources is the stock in physical capital and the ability to borrow money (Schwarze and Zeller, 2005). For example, missing credit markets can impede diversification into activities or assets characterized by substantial barriers to entry. If non-farm or off-farm options can be accessed easily, but credit markets are thin or missing, non-farm earnings can be a crucial means for overcoming working capital constraints to purchasing necessary variable inputs for farming or to making capital improvements to one's farm. The presence of working capital constraints, off-farm earnings may be essential to maintaining a viable farm that requires purchased inputs or that cannot generate enough cash income to satisfy the household's cash requirements (Barrett et al, 2001). A study in Uganda by Smith et al. (2001) confirmed that lack of access to financial services remains a key problem for livelihood diversification. With credit market imperfections, or the lack of credit acknowledged as a constraint to potential diversification into non-farm economic activities. Formal, specialized microfinance institutions were found to be operating mainly in the central and south-western regions Uganda-areas where livelihood diversification processes are more dynamic.

Infrastructure: Access to infrastructure is identified in some studies as a factor that affects nonfarm rural employment and income. Investments in roads, electricity and telecommunications are taken as interventions that can assist the rural non-farm economy by reducing transactions costs (Gibson and Olivia, 2008). Better roads, for example, lower transactions costs associated with agricultural activities and thereby have the potential to reduce the costs of acquiring inputs, increase output prices, reduce the impact of shocks and permit entry into new, more profitable activities (Dercon et al., 2009). Without the infrastructure and access to markets, according to Morduch and Haley (2002), there is little scope for microenterprise development, and thus poverty alleviation. A study in Indonesia proved that, households are less likely to have a non-farm enterprise and also have a lower income share from non-farm economy (NFE) if they live in a location that is more remote, has lower quality roads, lacks access to electricity, and suffers from frequent electricity blackouts (Morduch and Haley, 2002). Households who live in communities with better access to public transport have a higher probability to engage in non-farm work and also enjoy higher welfare. Access to public transport facilitates movement of persons, farm inputs and outputs in a cost effective way (Asmha, 2011). A study on Central Sulawesi, Indonesia by Schwarze and Zeller (2005) also pointed out that households living far away from a tarmac road tend to have a lower number of income sources and their distribution is more uneven. In remote areas there are no income possibilities outside self-employment within agriculture. He underlined that a better physical access to markets increases non-farm earnings. Productive uses of energy are particularly important to economic growth. Modern fuels and electricity help enhance household income by providing lighting that extends livelihood activities beyond daylight hours. They power machines that save time and increase output and value added. By providing additional opportunities for employment, energy services also enable farmers to diversify their income sources, and thus mitigate the inherent risks associated with agriculture-dependent livelihoods (Modi et al., 2006).

Demographic factors: The likelihood to engage in nonfarm diversification decreases as the head of household grows in age. The age structure of the household which attempts to capture the life-cycle effects was found to be significant correlates of household welfare and livelihood diversification (Asmha, 2011).

Market: Having access to market helps in reducing transaction costs and risks involved in acquiring inputs and profitably selling outputs. Having access to local community markets was found to be positive and significant in promoting welfare of diversified households. Greater distance from market and a paved road increases the share of income drawn from retained farm output and sharply decreases the share of income drawn from skilled, nonfarm labor (Barrett et al., 2000).

Access to microfinance as a pathway out of poverty and viable strategy of livelihood diversification: Empirical evidence in Ethiopia

Impact assessment in microfinance has received more attention than in any other area of enterprise development because it is now generally accepted that impact assessment is a critical element in further improving micro-finance services and promoting innovation. Existing impact assessments have made an important contribution to understanding some of the complex interactions between microfinance interventions, livelihoods and different dimensions of poverty reduction and empowerment (Mayoux, 2001). Several studies have been conducted to examine whether microfinance can really help the poor. There is no consensus on results and some of them contradict each other. In some cases microfinance is said to have brought positive impacts on the life of the program clients, whereas in some other instances, microfinance is found to play insignificant role towards mitigating the problem of the poor. From this point of view, the subsequent part of this paper tried to look over the contribution of microfinance scheme in Ethiopia mainly in improving food security, in employment creation, in empowering women and protection the environment based on secondary data. Most of the findings are from research works on the impact of different microfinance organizations, particularly Amhara Credit and saving Institution (ACSI) in Amhara regional state, Dedebit Credit and saving Institution (DESCI) in Tigray regional state, Oromia Credit and Savings Share Company (OCSSCO) in Oromia regional state, Omo in SNNPRS and WISDOM Microfinance Institution in Addis Ababa.

A study by Tesfaye (2003) and Hailai (2010), using econometrics models (like the propensity score matching (PSM) model, the treatment-effects model, OLS and a version of the Heckman sample selection model) on the impact of DECSI in Tigray regional state confirmed that impact of microfinance on survey households' poverty indicators is insignificant. Although, it may help households just to survive in times of shocks and vulnerabilities or for consumption smoothening the results confirm that impact of households' participation in microfinance on reducing poverty and accumulating fixed assets is insignificant. Another study particularly in Ganta- Afeshum wereda (Tigray regional state) by Asmelash (2011) pointed out that DECSI's micro financing scheme appears to have a positive impact on the clients overall household income, sources of household income, acquisition of key household assets, housing improvement, access to education, and access to health facilities. However, the survey findings did not strongly evidenced regarding some of the impact variables such as women empowerment (similar with Tesfaye, 2003), food security, and coping with difficulties. The impact of the program is better in the urban program areas than in the rural program areas except for clients' empowerment, which the rural clients have shown better involvement in the household and business decision making activities and participation in any associations or groups in the community. Based on the ANOVA and Chi-square test results, Asmelash concluded that DCESI's micro financing scheme contributed a positive impact on the improvement of the household income of the rural female clients. The result of the study also revealed that the scheme did not enable rural frequent clients to diversify their livelihood but a significant numbers of the frequent urban clients have better secondary income sources than the new urban clients have. DECSI's micro-financing scheme appeared to have a positive impact on the ownership of key household asset of its clients in the urban program area. Another finding of the study was that DECSI's micro financing scheme had a positive impact on the improvement of business and employment opportunity of its clients both in the rural and the urban program areas; had improved the diet condition of its urban clients but no significant change on the rural one; has a positive impact on the empowering of its rural women clients to participate in the decision-making process of household and business activities. Surprisingly its role in empowering for urban women was not significant.

Jemal (2003) also used Wilcoxon Matched Pairs Non-Parametric test to assess the impact of OCSSCO scheme on beneficiaries of Kuyu Wereda based on the situations of borrowers before and after the loan. According to the survey results, 20.7% of the sample borrowers have managed to create additional sources of income (livelihood diversification) after participation in the credit scheme; 93.1% of them reported of having savings after the program, mostly saving below 10 Birr per month (i.e., about 92.1%). Almost all of those who started saving after the loan are saving nothing more than the compulsory group/center savings, which shows that much have to be done in terms of mobilizing more savings. Another study in Dale wereda, Sidama zone by Adane (2010) also came up with similar result. In the study area, microfinance intervention enabled the participants to increase their annual income (for 64% of the clients), increased their saving (88% of the respondents) though there is high compulsory saving rate, improved their food expenditure (88%), yearly harvest increased (69%) due to better application of fertilizer, but no significant change was observed in diversifying the livelihood. Actually the study tried to examine the impact of microfinance on food security using information from the same person before and after the intervention. This approach did not indicate whether the impact is due to the intervention or not-rather propensity score matching (PSM) is better (user/non user) to evaluate such kinds of impacts.

Extensive studies have been conducted on the role of ACSI by Bamlaku the case of Enmay wereda of East Gojjam (2004), Getaneh (2007), a comparative study of ACSI and wisdom by Kassa (2008) and Mekonnen (2008); and the summary of the findings are presented as follows. Amhara Credit and Saving Institution (ACSI) is one of the largest micro finance institutions operating in Ethiopia providing micro-finance market to the low income population of Ethiopia, particularly of the Amhara region. It has started its operations in 1995 and has become a licensed MFI in April 1997 having an aim of improving the economic situation of low income, productive poor people of the region primarily through increased access to lending and saving services. Its lending activities have witnessed positive socio-economic impact upon its clients through helping the poor increase their income; asset possession and their empowerment status (Mekonnen, 2008). Results from the client empowerment qualitative tool show that clients had increased self esteem since joining the program, with 54 of 60 reporting increased self esteem and 60 of 60 reported feeling better about themselves and their achievements. About 71% of mature male and 66% of mature female clients had gained self confidence due to the successful repayment of a loan. These women have not only decided to improve their lives by engaging in income generation activities but have also decided to invest in the future by making sure their children are educated and employable. The client empowerment interview also found that clients gained confidence in deciding to purchase assets (like clothes, jewelry) without feeling the need to seek permission. They participated in decisions about children's' education and marriage, house and household assets. it also enables the clients to cultivate own land which was not practiced due to lack of inputs and resources (Mekonnen, 2008).

The survey result of Bamlaku on the other hand indicated that most clients used their loans strictly in productive activities except that they smooth their income during bad times. The primary loan activity in the rural program area was agriculture, where the majority of the respondents have identified themselves as farmers. In the urban areas loans were used mainly for commercial activities, which included petty trade, retail business, local food and drink processing, and handicraft and services businesses. That means urban beneficiaries diversify their livelihood than rural ones. The result is consistent with the findings of Asmelash (Ganta-Afeshum wereda of east Tigray zone). Another study regarding the role of ACSI in Amhara national regional state on poverty reduction by Ramanaiah and Gowri (2011) revealed that microfinance scheme enabled 66% of the borrowers to be food secured 44% not to dispose-off assets and get acceptance in their community and 39% enabled to send their children to school. Overall, 89.9% reported that participation in the program has changed their life positively. In the same study, 20% reported that they exhibited no change in their life-style, while the remaining 3.3% actually experienced worst life style as a result of the credit (due to failure in business, and therefore increased debt burden, having to sell some assets to settle debt)

The finding by Kassa (a comparative study on the role of ACSI and WISDOM) revealed different result mainly on livelihood diversification; that means WISDOM micro finance institution in Addis Ababa achieved positive impact on diversification of income (mainly through self employment), nutritional status and wellbeing of female clients and their families. This may be due the skill training given before they commenced any business. Similar result was obtained by Doocy et al (2004) on two centers of WISDOM (Sodo and Adama) that extended participation in the WISDOM lending program results in diversification of livelihood and contributed a 23% of additional source of household income. That means participation in the WISDOM microfinance program gave people the funds to expand existing businesses or start other microenterprises, resulting in the diversification of income sources and the spread of the risk of financial over an increased number of microenterprises. Those female clients (in kassa's study) were significantly less likely to be food aid recipients suggesting that WISDOM is successful in reducing malnutrition and food insecurity problems of its clients. But the outcome for ACSI was not as expected. The result of the Chi-Square analysis of Bamlaku's study also supported the argument that micro-financing scheme has a positive impact on improving the income level of beneficiaries. Kassa also concluded, based on the study that women were totally dependent on their husbands before ACSI but some women are responsible for their activities and have access and control of their resources after joining ACSI. Some women clients reported self esteem since joining the program and their interaction in group meetings helped them make good business decisions. This result coincides with the findings of Mekonnen (2008) on ACSI.

Problems identified in Ethiopian context

Why most MFIs in Ethiopia did not attain the intended objective of microfinance in poverty reduction, employment opportunity, women empowerment and others? Research works identified different factors for this question. According to Robinson (2009), food deficit borrowers without opportunities to use credit or to market their output may have no choice but to eat their loans. This can, in turn, lead to humiliation and the diminishing of an already low level of self confidence. Lenders to the extremely poor also face difficulty because low repayment rates caused by borrowers who cannot repay prevent the development of sustainable financial institutions. This problem is also cited as a critical problem in Ethiopia (Tesfaye, 2003; Asmelash, 2011; Bamlaku, 2004; Hailai, 2011 and Kassa, 2008). For example, Tesfaye (2003) underlined that a significant number of clients consumed the loan they have taken or spent it in non-productive activities. 64.7% of the rural clients and 11.7% of the urban clients used the loan for non-productive purposes. It seems that there is a significant difference in the actual use of the loan between the rural and urban respondents. Still the role of the microfinance service is partially smoothing consumption, even without investing it. One positive thing in Adane's (2010) study was almost 91% of the clients had used the loan for the intended purpose.

Lack of appropriate skill training and lack of follow up of the clients by the MFIs are other critical problems identified as a cause for the failure of microfinance interventions. With the exception of WISDOM (Kassa, 2008), most MFIs did not get involved in indicating the viable way of using the loan. Instead, borrowers were absolutely free to invest the loan in any activity they thought was important and manageable under their capacity (Asmelash, 2011; Bamlaku, 2004; Adane, 2010; Hailai, 2011). This might lead loan users to be engaged in risky businesses. For Asmelash (2011) and Bamlaku (2004) group lending modality also results in repayment problems as well as conflicts and distrust among group members. Besides, this system has resulted financial problem for the users, since they are not allowed to get the next loan unless the whole group members have settled their obligation or some of the group members have paid the amount defaulted by other group members. Hailai (2011) said that living standard of some clients is going from bad to worse owing to the loan due to group lending system. In his study area for instance, some clients were in jailed and some others snatched their land up to three years when clients default (due to circumstances beyond their control/drought and deaths of live stocks) and that is common in other areas as well. Morduch and Haley (2002) asserted that participation in credit schemes can lead to indebtedness that is unmanageable, simply because there are no sufficiently profitable income-earning activities in which to invest and results higher social pressure to ensure loan repayment.

Lack of flexibility in the repayment period and low saving interest rate were mentioned as the main problems. The study by Adane (2010) and Asmelash (2011) suggested the extension of the repayment time mainly during poor agricultural production period until the next harvest season. Besides, most of the clients are not willing to save in the institution because the interest rate on saving is very small (3%) as compared to the lending interest rate (18%). Since savings play a crucial role in protecting against the seasonality of cash-flows and fulfilling an insurance function, there is a high demand of saving among the poorest. In addition, building up deposits reinforces financial discipline for customers and can eventually yield collateral and serve as a source of funding for MFIs (Morduch and Haley, 2002). Bamlaku (2004) also share the same problem regarding rating of loan repayment period, most people in his study unanimously agreed that the time was too short to be able to produce more and pay the money back. Most people, especially in the rural areas, are engaged in agricultural activities where they bought either ox or goat using the loan. He argued that the borrowers are expected to pay the loan within eleven months that seems not plausible. Ramanaiah and Gowri (2011) also urged that the poor require a loan that is flexible enough in terms of repayment period and repayment frequency. The amount of loan allowed to take at a time was also cited as a problem. Low amount of loan allowed at a time limited the capacity of clients from engaging in activities that required high start-ups. As a result, they were simply confined to activities that requested them little effort and provided them with quick turn over that would enable them pay their debt timely (Bamlaku, 2004; Samuel, 2006 and Muleta, 2008).

CONCLUDING REMARKS AND RECOMMENDATIONS

The assumption of microfinance intervention, the provision of financial services especially loan, is to enhance the welfare and economic situation of its clients by making adequate finance available to help them engage in profitable activities. On the other hand, if the loan is used for non-productive activities, such as consumption and purchase of non-productive assets, the whole exercise will be fruitless. Even though, it is very difficult to come with comprehensive conclusion and plausible recommendation, due to time gap (since some of the papers were done 10 years back) and absence of information on impact assessment at country level, the following points can be taken as concluding remarks for this paper.

In most research works, microfinance intervention has a positive contribution mainly for livelihood diversification of urban beneficiaries. This might be due to better access to markets and information as well as better educational status of the clients. As a result, markets integration and infrastructural development in the rural areas might enable rural beneficiaries to engage on different non-farm economic activities.

Microfinance intervention in Ethiopia has become a crucial entry point for the effort to curve the abject poverty prevailing in the country. But provision of micro-finance alone may not be appropriate remedy to combat poverty. Series of activities, such as training, advise and follow up (before, during and after) loans as well as integrating micro finance with other business development services have to be given so as to achieve the intended objective of microfinance. Entrepreneurial skills and ability are necessary to run a successful microenterprise (Morduch and Haley, 2002).

Diverse and flexible financial services can provide positive incentives to attract the poorest and reduce the likelihood of their exclusion. The provision of a wide range of financial services will fulfill the needs of clients, improve outreach depth, and enhance the access to sources of funding (Hulme, 2009). As a result the concerned bodies have to look over the repayment period, lending modalities as well as the saving interest rate in order to make it attractive to the needy people (the poor). In addition to this, an extensive impact assessment work should be done so as to evaluate the overall impact of microfinance intervention and in order to critically point out prominent problems of the sector.

The role of microfinance on natural resource management is not examined in any of the research works. Since natural resource management is among the crucial issues in Ethiopia, extensive study has to be conducted to evaluate the contribution of microfinance on natural resource management arena. The assumption here is that, due to microfinance intervention, there is a shift of economic activity from agricultural to non-agricultural even in the rural areas. If that is so, the pressure exerted on natural resources mainly of forests due to agricultural activity can be minimized. In addition to this, it is possible to integrate natural resource management with the livelihood of the rural people (basically eco-friendly activities like apiculture, agro forestry, ecotourism) using microfinance.

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