MICROCREDIT AS A DEVELOPMENT TOOL

Case study: Ethiopia

Hewan Girma
Economics 100
Honors thesis
Professor Saff

TABLE OF CONTENTS

I- INTRODUCTION

In the last decade, micro-finance has been championed by many development practioners as an unusual, but innovative method to combat poverty[1]. Micro-credit promises to alleviate poverty by providing financial services (such as credit and savings) previously unavailable to the poor thus "expanding [their] economic opportunities" and at a minimum "decreasing their vulnerability" (UNCDF 1999, p13). Moreover, United Nations Capital Development Fund (UNCDF) argues that the potential of microfinance is not limited to the provision of financial services, as it has also demonstrated its ability to successfully address the issues of "gender equity, more equitable income distribution, and the promotion of participatory approaches that stress individual and collective responsibility" (Ibid). The appeal of micro-credit covers a wide-range of ideological perspectives. Leftist advocates of micro-credit draw attention to "the 'bottom-up' aspects, attention to community, focus on women, and most importantly, the aim to help the underserved," whereas supporters from the right emphasize "the prospect of alleviating poverty while providing incentives to work, the non-governmental leadership, the use of mechanisms disciplined by market forces, and the general suspicion of on-going subsidization" (Morduch 1999, p 1570).

Although the micro-credit industry is still in its infancy in terms of providing institutional models, the enormous potential demand that exists for the services it renders is encouraging (UNCDF 1999). As James Wolfenson, the president of the World Bank, has pointed out "helping 100 million households means that as many as 500-600 million people could benefit" (Morduch 2000, p 1570). The promise of micro-credit consists of providing financial services to low-income households to almost exclusively finance self-employment activities in the hope that much poverty can be alleviated (Morduch 1999). Muhammad Yunus, founder of the Grameen Bank the forerunner in the micro-credit business, argues that although micro-credit is not a miracle cure, it can end poverty for many and reduce its severity for others when "combined with other innovative programs that unleash people's potential, [it can serve as] an essential tool in our search for a poverty-free world" (Yunus 1999, p 171).

Micro-credit's emphasis on self-help and the pursuit of sustainability is viewed by many as one of the vital sources of the success of the program (Langdon and Richardson 2000). Through its 'actor-oriented approach,' micro-credit can take into account the "complexity of social, economic, and political linkages and relationships in enterprise development interventions" (Biggs and Matsaert 2000, p199). By working from the grassroots, and avoiding a top down blue print approach, micro-credit has been able to avoid the many failing that numerous development strategies have encountered over a long period of time[2]. According to Langdon and Richardson, some of the advantages that micro-credit program present include: flexibility, a focus on customers, adoption of a holistic and grounded approach, and as these programs are generally initiated and established in same settings as in which they work, it further facilitates identification and grounding in the community (Langdon and Richardson 2000).

Critics of micro-credit argue that donors and on-lookers have tended to under-estimate the price of sustainability. Development practitioners instituting these programs have defined several levels of sustainability: the first stage, *operational sustainability*, refers to "when a micro-finance institution covers its administrative costs and loan loss expenses from its clients revenue;" the second stage, *financial sustainability*, is realized "when an institution whish is operationally sustainable is able to cover the cost of funds, including inflation" (UNCDF, p14). While financial performances might improve over time, some argue that even "established poverty-focused programs like the Grameen bank would have trouble making ends meet without ongoing subsidies" (Morduch, p 1571).

Although numerous donors, governments and most of the development community are enthusiastic about micro-finance, viewing it as a tool of unprecedented power in alleviating poverty, some argue that it is "being over-advertised, far beyond a level that present evidence will support" (UNCDF, 2002). The available evidence is also regarded with distrust, as it is somewhat ambiguous. They also argue that anecdotal evidence is not sufficient and scientific assessment is very expensive and time-consuming. Critics also often argue that micro-credit programs do not contribute to the economic development of a country, or even if it does, its contribution is insignificant. The United Nations' General Assembly is one of the many to offer criticisms of micro-credit program by contending that:

> *"Many people, especially the poorest of the poor, are usually not in a position to undertake an economic activity, partly because they lack business skills and even the motivation for business. Furthermore, it is not clear if the extent to which micro-credit has spread, or can potentially spread, can make a major dent in global poverty"*

Muhammad Yunus answers this type of criticism by pointing out that it all depends on one's definition of economic development. Traditional measurements (such as GDP per capita) are not satisfactory or are insufficient in measuring the benefits of micro-credit. For instance, it is a fact that "in many Third World countries, the overwhelming majority of people make a living through a self-employment" (Yunus, 2000, p150). Self-employment, or more generally the informal sector is not given a real place in traditional economic framework. Micro-credit programs, that have a history of fostering the informal sector, will not have their benefits included in measurements that do not take this into account, or systematically underestimates the contributions of the informal sector. Part of the issue is also the fact that these services were previously unavailable to the poor. Micro-credit makes credit services available to marginalized populations. This is possible through some of the groundbreaking innovations that micro-credit programs have been able to introduce, perhaps leading to a new banking system.

Building on the above discussion, this paper examines the role that micro-credit programs can play in the development process of a country. This paper seeks to address whether micro-credit can be effectively applied in the country of Ethiopia to combat poverty. Based on several case studies, this paper argues that providing a number of small credits (varying from $10 to $500) to the world's poorest population (defined as earning less than a dollar a day) is a very effective development strategy. This paper will show that the effect significantly increases both the livelihood of individual recipients of the loans as well as the general community in which they reside. Micro-credit will thus be positioned as part of a number of new and innovative methods for enhancing the development process of least developed countries (LDCs)[3]. Development is defined, not purely in terms of economics indicators, but includes social development, as the benefits of micro-credit programs cannot be fully expressed if the expected outcome is defined as narrowly as the sole alleviation of *economic* poverty. The definition of development extends beyond economic development, as there are many forms of poverty, economic poverty being only a single form. People centered development programs, such as micro-credit, by allowing for and facilitating "resourcefulness" increases choice (Kaplan, p 35).

a) Research questions

The specific question this paper seeks to address is the overall effect providing micro-credit to the poorest segments of a developing country's population has on the development of a country. The cumulative evidence and the theoretical standpoint it emanates from will also be examined. In addition, this paper will examine ways in which the model of the Grameen Bank in Bangladesh can be replicated in Sub-Saharan African countries. In order to address this second question, the paper will have recourse to a synthesis of the overall results of various replication attempts in developing countries, mainly carried out by the UNCDF. A summary of Ethiopia's historical, political, and socio-economic indicators will give an understanding of specific considerations that need to be taken into account, if any, in terms of replicating the same program in Ethiopia. Lastly, case studies of micro-credit replication programs in Addis Ababa, Ethiopia, will be used to strengthen the case.

b) Methodology

Hard evidence from impact studies is somewhat lacking, while mainly anecdotal evidence is used to point to the success of micro-credit programs. There have been, in reality, few impact evaluations "with carefully chosen treatment and control groups," and even lesser "solid empirical work on the sensitivity of credit demand to the interest rate, nor on the extent to which subsidized programs generate externalities for non-borrowers" (Morduch, p 1572). Morduch goes as far as arguing that there is little incentive to complete impact studies as "data collection efforts can be costly and distracting, and results threaten to undermine the rhetorical strength of the anecdotal evidence" (Ibid).

However, as argued above, micro-credit's benefits cannot be expressed with a narrow definition of development but with one that extends beyond economic development, to also include social factors.

The research will consist mainly of examining secondary sources addressing issues related to the Grameen Bank and other similar programs that try to implement a system of extending small loans to the poorest of developing nations in order to enhance the development process. Grameen Bank publications, as well as Muhammad Yunus' autobiography entitled Banker To the Poor will be used as sources of data. The Microcredit Summit publishes arguably the most comprehensive compilation of micro-credit programs in the world. Similarly, the UNCDF (United Nations Credit Development Fund) is a rich source of information as it is one of the largest organizations that institute micro-credit programs throughout the world. Furthermore, other sources (such as *World Development* magazine, and *16 Decisions* film) have also intensively documented the success and failings of the Grameen Bank and other micro-lending schemes. The last source of information will be interviews that I have been able to compile through several visits to replication ventures of micro-lending in Addis Ababa, Ethiopia. The micro-credit programs that I have visited work under the guise of larger NGOs, Mary-Joy Aid through Development and Wesmeco organization[4].

II- MICRO-CREDIT INSTITUTIONS

Micro-credit programs began in Bangladesh with the Grameen Bank, and spread to the rest of the world. Currently, the Grameen bank model replications exist on all five continents. The biggest institutions implementing micro-credit programs in different continents is UNCDF (United Nations Credit Development Fund). Micro-credit programs have gained international attention, and the UN has even organized a yearly Microcredit Summit in order to facilitate different organization to share their experience, thus strengthening the empirical as well as theoretical data collection. Each institution will be discussed in more detail in the following section.

a) The Grameen Bank model

Micro-credit programs were initiated in Bangladesh, by Yunus, a former economics professor who claimed to want to "learn economics from the poor in the village next door to the university campus" (Yunus 2000, 21). The "elegant theories of economics" did not seem to reflect the daily lives of the rural poor in Bangladesh, whereby the "problems of life and death were posed in terms of pennies" and not in the millions of dollars used to theorize in economics (Ibid, p48). The problem of the poorest of the poor seem to be far less theoretical and economic theory seemed to have little to do with their daily struggles. Muhammad Yunus observed that most of the villagers were unable to obtain credit at reasonable rates that would enable them to better themselves. Therefore, he began to lend them money from his own pockets allowing them to buy materials for projects like weaving bamboo stools and making pots. Yunus argues that credit creates economic power, which quickly translates into social power" (Yunus p151). A project that began with such humble beginnings slowly turned into the present day Grameen Bank lending out $2.3 billion in its 21 years history (1982-present). The success stories of the Grameen Bank have made headlines across the globe.

Numerous films have also been made on the subject. The film *16 decisions* for instance presents a very vivid illustration of the life of Third World women, the poverty they face, and micro-credit's innovative way of alleviating poverty to ultimately create a poverty-free society. Selina, the main protagonist depicted in the film, is one of 3.2 million borrowers from the Grameen Bank. Her life can be seen almost as a blueprint of the average borrower from the Grameen Bank. She worked as a live in-maid in someone's home for a number of years before her parents arranged for her marriage, as is the custom in Bangladesh. She was married to a husband and into a family she did not know or approve of. Her employer who had promised to pay the dowry for Selina refused to do so, leaving her parents to come up with the money themselves. Selina's husband, who works as a rickshaw driver, earns less then $1 a day. Their low-income level, combined with their lack of collateral, renders Selina and her husband un-credit worthy by the regular banks. However, Selina was the perfect candidate for a micro-loan from the Grameen Bank

One of the main differences between the Grameen Bank and traditional commercial banks is that commercial banks rely on giving out large amounts of money to few clients, whereas the Grameen bank gives out micro-loans to a large number of people. The Grameen Bank model involves voluntary group formation, where although the loans are made out to individuals, all the members in the group are responsible for the repayment. The groups consist of five borrowers each, with lending first to two, then to the next two, and then to the fifth member of the group. Furthermore, if one member ever defaults, all the members are denied subsequent loans. By doing so, the contract takes advantage of "local information and the 'social assets'" mechanisms that rely on "informal insurance relationships and threats, ranging from social isolation to physical retribution, that facilitate borrowing for households lacking collateral" (Morduch, 2000, p1575). Most of the Grameen Bank loans are generally for one year with interest.

b) UNCDF (United Nation Credit Development Fund)

Micro-finance is a sub-practice of United Nation Development Program's (UNDP) Poverty reduction practice SUM (Special Unit for Micro-finance) created in 1997. Micro-finance operates as a unit of United Nations Capital Development Fund, and works towards "ensuring permanent access to sustainable financial services for a majority of poor and low-income households by supporting the development of self-sustaining micro-finance sectors" (UNCDF, 2002). In order to accomplish this goal, UNCDF supports and works with a variety of institutions, including NGOs, commercial banks, credit unions and special investments funds to expand their operations on a sustainable basis through the provision of technical assistance and micro-capital grants (Ibid). Moreover, the UNCDF's program invests in capacity building endeavors by offering field-based workshops and micro-finance distance learning courses. The UNCDF micro-finance bases also serve as knowledge networking and management centers. UNCDF is trying to pave the way for replication on larger scales as impact at country level has not and cannot be achieved by a small number of projects. The funds for this program comes mainly from voluntary contributions made by member states, and co-financed by local governments, international organizations, and the private sector. The geographical focus of UNCDF program is generally concentrated on Sub-Saharan Africa (including Ethiopia), but also includes Latin American nations.

c) Microcredit Summit

Since 1997, the United Nations organizes a yearly Microcredit Summit in order to accumulate and put together the experiences of various micro-credit institutions all over the world. The Microcredit Summit provides the only comprehensive list of reported micro-credit programs, amounting to 234 institutions serving 35,837,356 poorest families (defined as earning less than a dollar a day, adjusted for purchasing power parity) (Campaign Report, 2003). The following presents a regional breakdown of the programs.

Figure 1:

	Number of Programs Reporting	Number of Current Clients Reported	Number of Current Poorest Clients Reported	Number of Current Poorest Women Clients Reported
Ethiopia	7	415,590	382,463	
Africa	811	5,761,763	4,202,280	2,611,650
Developing World Totals	2,457	67,418,963	41,520,545	32,636,347
Industrialized World Totals	115	187,117	74,233	40,733
Global Totals	2,572	67,606,080	41,594,778	32,677,080

Source: Microcredit Summit Campaign Report (2003)

III-UNDERSTANDING MICRO-CREDIT

a) Innovations

Micro-credit lending schemes present a number of note-worthy innovations in the field of banking, which is a direct cause for its much publicized success stories. The innovations of micro-credit revolve mainly around coming up with strong equivalents or substitutions for traditional forms of collateral to guarantee loans. Although in the past, it has been the case that "lending to poor households is doomed to failure: costs are too high, risks are too great, savings propensities are too low, and few households have much to put up as collateral" micro-credit endeavors to change that (Morduch 1999, p1573). The diversity approaches under the common idea of lending to low-income or poor households are: group-lending, peer monitoring, dynamic incentives, regular repayment schedules, non-traditional collateral substitutes, all mechanisms designed to help maintain high repayment rates and thus ensure the financial sustainability of the lending institutions. The following section discuses each innovation separately.

Group-lending has become by far one of the most celebrated aspects of micro-lending. In the Grameen Bank model, the model after which other institutions mold their programs, groups form voluntarily, and while loans are made to individuals, all the members in the group are held responsible for the loan repayment. Group-lending seeks to build around a person's or a household's 'social' assets, even though physical assets are lacking. Primarily, group-lending can mitigate problems of adverse selection by providing incentives for similar types to group together (Morduch 1999). Morduch states that a group-lending contract provides "a way to price discriminate that is impossible with an individual-lending contract" (Ibid). Assuming that investors have perfect information about each other, whereas the credit institution cannot discriminate between 'risky' and 'safe' investors, voluntary association between investors generally group together the 'risky' and 'safe' investors separately, as there is no mutually beneficial way for risky and safe types to group together (Ibid). Hence, group-lending contracts provide a way to charge different effective fees to risky and safe types, consequently allowing for high average repayment rates, and a low interest rate (Ibid).

Group-lending has also the added benefit of peer-monitoring. Moral hazard is a major concern in a similar situation as the one mentioned above: the credit provider has imperfect information about the borrower in regards to the borrower's choice of engaging in a safe or risky activity. Group-lending contracts create mechanisms that give borrowers incentives to choose the safe activity as the borrowers in each group have the ability to enforce contracts between each other, through a process of joint-decision and peer monitoring (Morduch 1999). The effects of peer monitoring are similar to those summarized above.

Most programs also require almost immediate and regular repayment schedules, which strays from traditional loan contracts, where the borrower is expected to take the money, invest it, and then repay in full with interest at the end of the term. Regular repayment schedules help screen out the worst cases by providing early warning signs to the credit-providing institutions as well as the peers. Emerging problems can thus be addressed at the earliest possible time, enabling the credit-providing institutions to be solvent. An additional particularity of immediate repayment schedules is that it requires households to have some sort of a steady, alternative source of income as the repayment process begins before investments (Morduch 1999).

Lending in increasing amounts or 'progressive' lending has the benefit of offering dynamic incentives, which have the effect of offering terms that are substantially better than alternative credit sources as they cut off borrowers that are in default. Dynamic incentives come into play when programs typically begin by lending small amounts and then increasing loan size upon satisfactory repayment. One quite distinctive advantage of progressive lending is the credit-providing institution's ability to test borrowers with small loans at the start, allowing lenders to develop relationships with clients overtime, thus screening out the worst prospects before expanding loan size. Incentives are enhanced further if borrowers can anticipate a stream of increasing larger loans. Morduch argues that "the repeated nature of the interactions—and the credible threat to cut off any future lending when loans are not repaid—can be exploited to overcome information problems and improve efficiency, whether lending is group-based or individual-based" ((Morduch 1999, p1582-83).

Collateral substitution is the last feature of the innovation of micro-credit in the field of banking systems. Although few programs require traditional 'property-based' types of collateral such as land, real estate and the like, micro-credit institutions have found ways to compensate for the lack of collateral. Some programs require their borrowers to maintain a savings account from which they are not allowed to withdraw from at all or in some case, they can withdraw only in dire circumstances and with heavy penalties. The funds in the "forced savings" in effect serve as a form of partial collateral. Others have accepted non-traditional type of collateral such as jewelry, cooking utensils, and other household goods, all forms of property that women are more likely to have access to and control over (UNCDF, 2002).

b) Focus on women

Many of today's microfinance endeavors seeking to meet economic and social development objectives of poverty alleviation are channeled through women. In the field of microfinance today, women are the primary market niches, as they are identified as good credit risks and enthusiastic customers. Numerous advocates argue that experience has shown that increasing women's access to microfinance has "wide-ranging benefits, not only for women's well-being but also for the welfare of the family and the health of the larger economy" (UNCDF-SUM 2002, p1). Identifying women as primary market targets generally comes from one of two mandate. First, the constraints women face in gaining access to financial services renders them 'good credit risks' as they have demonstrated higher repayment rates (i.e. they cannot afford to loose these services). Secondly, a less pragmatic reason, but one that deserves equal merit is one that seeks to promote women's empowerment through the provision of financial and other related services (UNCDF-SUM 2002).

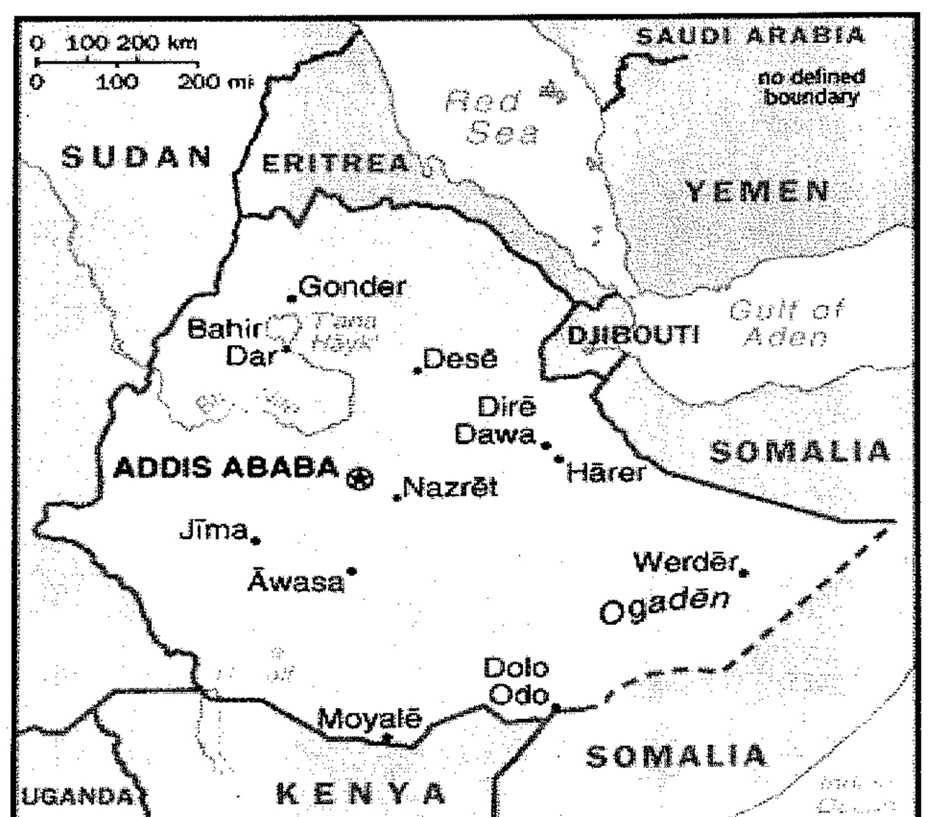
When the Grameen bank started, Muhammad Yunus had many socio-economic reasons to focus the program on women. Yunus argues that "money entering the household through a woman bring more benefits to the family as a whole" (Yunus 2000, p72). Based on experience, Yunus argues that "credit given to a woman brings change faster than when given to a man" as a woman's "dreams of success invariably centers around her children" as a second priority being the household (Yunus 2000, p 72) Yunus states that:

> *"If the goals of economic development include improving the general standard of living, reducing poverty, creating dignified employment opportunities, and reducing inequality, then it's natural to work through women. Not only do women constitute the majority of the poor, the underemployed, and the economically and socially disadvantaged, but they more readily and successfully improve the welfare of both children and men. Studies comparing how male borrowers use their loans versus female borrowers consistently show this to be the case"*
> *(Yunus 2000, p 72)*

The UNCDF reports that out of the 1.3 billion people living in poverty, 70% are women (UNCDF-SUM 2002). Furthermore, in terms of property distribution, women, who make up around 52% of the world's population only own 1% of the world's land (Ibid). Thus women make up a disproportionate percentage of the poor, with the poorest households relying more heavily on the women's income as female entrepreneurs tend to be widows, female heads of households, or even younger women who are sole wage earners for their families (Ibid). An increased income gives women more bargaining power around the household, increasing their self-esteem and self-worth. Moreover, as women's expenditure tends to revolve around the household needs, it can "enhance the human resource base" in terms of access to education and health services thus contributing to more general development goals (Ibid). Women's businesses further strengthen local economies through their involvement in retail trade. The income women derive from their activities often serve as the economic safety nets that government in poor countries cannot provide. Thus by increasing women's incomes, micro finance can alleviate poverty and enhance a society's overall resilience.

<u>IV- REPLICATING THE PROGRAM IN ETHIOPIA</u>

Figure 2: Map of Ethiopia



Ethiopia has a rich and long-standing history that dates back to several centuries BC. Ethiopia has been among the first to use the ox-drawn plough, had a national script, and enjoyed an ancient ideology, all testifying to the long-lived tradition of the country (Kebede, 1999, xxi). Ethiopia's history is somewhat shaped by its geographical makeup: a mountain fortress that makes it impenetrable to invaders had led to isolation and protection, as well as a "fierce spirit of independence" (Kebede, 1999, p5). Ethiopian mentality was further shaped by "the idea of entrustment, of guardianship of the true faith" Orthodox Christianity (Ibid, p57).

The second half of the twentieth century has completely transformed the political and social fabric of Ethiopia. Haile Selassie was crowned emperor in 1930, but was later deposed by the occupying Italian forces in 1936, which lasted 5 years, from 1936-1941. Aided by the British, internal liberation fighters prevailed in 1941, restoring Haile Selassie to his rightful throne. Haile Selassie's regime lasted from 1941 till 1974, when it was overthrown by a socialist coup-d'etat, bringing to power the Derg regime. After 17 years of totalitarian rule by the Derg with Mengistu Haile-Mariam at its head, the EPRDF (Ethiopia's Popular Revolutionary Democratic Front) took over in a civil war in 1991(Zewdie, 1991, p191). Each of these transformations has caused "deep changes whose disruptive effects far outweighed any constructive and stabilizing outcome" (Kebede, 1999, xxii). Kebede argues that it is symptomatic of uprootedness when a country, which had preserved its tradition untouched for centuries, sees in two generations "the establishment of a monarchial autocracy, the overthrow of the imperial system, the institution of socialism, and lastly the imposition of a tangled federal and liberal system" (1999, xxii).

During this period, there have been few opportunities for modernization, as freedoms of the people and sovereignty have been weakened. The destruction of the monarchy, epitomized by the overthrow of Haile Selassie's regime, is perceived by many as the beginning of a long line of strain on the social fabric as it symbolized the destruction of Ethiopian unity (Kebede, 1999, p299). The socialist experience that followed was adopted as the appropriate remedy for the ills of the country after the imperial rule. Nevertheless, the Derg regime only aggravated the inherited problems as it did not provide anything more than a shaky government "weakened by internal contradictions and besieged by a strong leftists opposition as well as by dissident ethnic groups and right-wing forces" (Ibid, p356). Mengistu followed a brutal regime of extermination, which is the only reason for his lasting 17 years. Military defeat, chronic economic crises and world-wide collapse of socialism further contributed to the downfall of the Derg regime and led to the EPRDF coming to power in 1991. The present Ethiopian government created a presidential figure divested of any real power, and ethnic policies intended more to divide than to unite the country. Yet despite these harmful policies, there are some elements that seem promising to the future of the country. These elements include freer economic activity and entrepreneurship by the private sector, free travel of its citizens in and out of the country, openness to foreign investment, and more agreeable terms for land-ownership.

a) Socio-economic indicators

Ethiopia's Human Development Index (HDI) rank is 169 (out of a total of 175), thus placing near the lowest end of the development spectrum[5]. It is also essential to note that for the period 1990-2001, 98.4% of Ethiopia's population lived on less than $2 a day, and

81.9% on less than a $1 a day (UNDP-HDR 2003). These numbers testify to the massive poverty throughout the land. Thus, in order to properly debate the need for micro-credit programs in Ethiopia, it is imperative to understand the present socio-economic situation in the country.

In 2001, Ethiopia's GDP per capita was US $ 95. Although, measuring GDP per capita in constant terms is the general practice, calculating GDP in terms of PPP (Purchasing Power parity) corrects for differences in exchange rates, and prices differences across countries, which allows for comparisons of real outputs and incomes. Ethiopia's GDP per capita measured in PPP was US $ 810 in 2001. GDP/capita does not however take into consideration the distribution of income within the country; therefore, the Gini coefficient, or index, one such measure that takes into account the deviation of incomes from perfect equality, shows an index of 57.2, which places Ethiopia at the high end of the scale[6].

Ethiopia's population is highly concentrated in rural areas: out of a total population of 67.3 million, only 15.9% are urban dwellers. The main source of activity and income in rural Ethiopia is agriculture as manifested by the fact that 88% of all females, and 89% of all males are employed in the agricultural sector. The majority of the poor in Ethiopia are thus the rural poor, mainly subsistence farmers. Over 90% of the value of exports was derived from agricultural commodities, and although there has been a slight decrease, the trend has not changed much ever since. Coffee and coffee products make up more then half of the exported agricultural commodities. Internally, subsistence farming is the norm, and grain constitutes the largest agricultural product, as the staple of Ethiopian cooking requires it. (Zewdie 1991, p191). The concentration of the Ethiopian population and focus on subsistence farming makes the country a perfect candidate for micro-credit programs.

Considering purely economic measure such as a country's GDP per capita, and income distribution, are only the beginning steps in identifying a country's relative human/economic development. It is essential to keep in mind that economic development does not necessarily equate with human development. Social development also needs to be considered in order to have a fuller picture of the situation within a given country. Health and education are generally used as the principal indicators of social development. In order to measure health, we can consider the following indicators: life expectancy at birth, infant mortality, under-nourished population, and lastly, access to potable water, or improved water resources.

Ethiopia generally fares badly on most of the above-mentioned indicators. The life expectancy is at the lower end at an average of 45.7 years, whereas, infant mortality is high at 116 per 1000 live births. The under-nourished population, defined by UNDP as people whose food intake is insufficient to meet their minimum energy requirement on a *chronic* basis, is at 44%.

Figure 3:

	Ethiopia	Sub-Saharan Africa	Least Developed countries (LDC)
GDP per capita (constant)	95	475	280
GDP per capita (PPP US $)	810	1831	1274
Gini coefficient (index)	57.2	..	..
life expectancy at birth (yrs)	45.7	46.5	50.4
infant mortality per 1000 live birth	116	107	99
undernourished population (%)	44	33	38
adult literacy (%)	40.3	62.4	53.3

Source: UNDP-HDR, 2003

The population with sustainable access to an improved water source [7] shows a wide difference between rural and urban areas. In rural areas, there was a decrease from 17% in 1990, to 12% in 2000, whereas, in urban areas, there was not much variation as the population with sustainable access to an improved water source went from 80% in 1990 to 81% in 2000. The decrease in rural areas can be due to various factors such as the civil war at the beginning of the decade, an increase in population, or a decline in economic growth.

Figure 4:

Population with sustainable access to an improved water source	Rural		Urban	
	1990	2000	1990	2000
Ethiopia	17%	12%	80%	81%
Sub-Saharan Africa	39%	44%	86%	83%

Source: UNDP-HDR, 2003

The urban population with access to improved sanitation went from 24% in 1990 to 33% in 2000, compared to the region of Sub-Saharan Africa, which was 75% and 74%in those respective periods.

Figure 5:

Urban population with access to improved sanitation	1990	2000
Ethiopia	24%	33%
Sub-Saharan Africa	75%	74%

Source: UNDP-HDR, 2003

Literacy, or in more general terms, education is essential to consider when examining the human development of a country because it is evidence of the present development levels as well as the ingrained potential for further growth and improvement. Ethiopia's adult literacy, defined as the population aged 15 and above who can read and write, is rather low at 40.3%, with a disparity between males and females at 48.1% and 32.4% respectively. The disparity in literacy between men and women is telling of a larger socio-economic problem of gender inequality. It thus becomes pertinent to consider the GDI or Gender Related Index, a composite index capturing a wide array of indicators adjusted to account for inequalities between men and women, especially in regards to a program such as micro-credit which has a history of enhancing gender equality.

It can be easily argued that gender equality is a highly subjective choice that is mostly reflective of one's own culture or worldview, and in some cultures the role of women in society is radically different than what westerners might consider to be the norm. However, this argument is neglecting an essential assumption that the women in those particular societies did not necessarily have the freedom to choose their lifestyles. Impeding on any member of society's freedom to choose their own lifestyle, regardless of gender or race, should be considered to be a violation of their human rights. It is therefore pertinent to consider gender equality when analyzing a country's economic and *human* development. Ethiopia places among the lower end of the GDI at 0.347. Gender inequality can further be examined through the lenses of income earned. The estimated earned income in PPP (US $) for the period of 2001 was $550 for women and $1,071 for men, accordingly women earn half as much as men. Similarly, the disparity between male and female is visible in education where the combined primary, secondary and tertiary gross enrollment ratio was 27% for women, and 41% for men (2000-01). The disproportionate access to education is a cause as well as consequence for the lack of gender equality in Ethiopia.

b) Why advocate micro-credit programs in Ethiopia?

There are numerous reasons to advocate the program of micro-credit in a country such as Ethiopia. Primarily as mentioned in the above paragraphs, most of Ethiopia's population is concentrated in rural areas, and consequently marginalized. Programs such as micro-credit, which works from the grassroots, can reach these populations. The sheer amount of widespread poverty also makes it less likely that the government can reach everybody. In a population where 89% lives on less than a dollar a day, initiatives from non-governmental sources becomes crucial.

Furthermore, top down approaches have historically proven not to be very effective, and even have counter-effective results when it comes to improving the livelihood of the poorest of the poor. For instance, Structural Adjustment Programs (SAP) drafted by and imposed by the IMF and World Bank has resulted in the weakening of the social services fabric for many (Cavanagh, et alia). Through the extra liquidity families will have available to them through programs such as micro-credit's income generating activities, the negative and even detrimental effects of SAP programs can be lessened. At the least, micro-credit programs can provide temporary relief from macro-level structural changes.

Micro-credit's benefits are not limited to providing temporary relief. As stated above, micro-credit program have an advantage in their ability of reaching marginalized population, in which women make up a significant portion. Micro-credit programs have discovered that working through women makes for a better investment in terms of recovering the initial sum, but also on impacting the family as a whole. Women's focus of well-being revolves around herself and her children, thus by providing micro-credit services to women, we can insure a better tomorrow. Moreover, in a society where gender equity is not obvious, the empowerment of women can also significantly impact the society, and as gender equality is part of the definition of social development, the overall development of the nation can be improved.

As we have seen above, Ethiopia's economic activity revolves around subsistence, mainly subsistence farming. Moreover, informal activity makes a relevant portion of the poor's economic activity. Micro-credit has an incentive to enhance this informal activity/sector as it supports activities such as petty trading. By enhancing the informal sector's activities, micro-credit programs are enhancing the livelihood of the poor making a living out of these types of activities. This aspect of micro-credit is highly praised by liberal economists, which seek to reduce the involvement of the government and increase activities in the private sector.

Lastly, as many of the workers in the NGOs micro-credit program pointed out, the poor in those communities are demoralized people tired of hand-outs, which diminishes their self-worth. They praise the micro-credit programs for building up their confidence level as they employ their entrepreneurship abilities to craft a living for themselves and their families. They also foresee a better sustainability in a micro-credit type of program, than just aid or relief programs.

V-CASE STUDIES

To gather information first hand about micro-credit programs in Ethiopia, I visited two programs, which function under the guise and direction of larger NGOs. These NGOs are both based and operate in the capital, Addis Ababa, which may reflect a mismatch of practices as the majority of Ethiopia's population lives in rural areas. It is also hard to estimate the number of micro-credit programs presently in operation in Ethiopia as many operate under the guise of larger NGOs and do not specifically qualify their work as micro-credit, but as components of larger programs. However, several programs from Ethiopia have also participated in the Summit and presented their figures to be verified by the Campaign. The following gives an overview of those figures.

Figure 6:

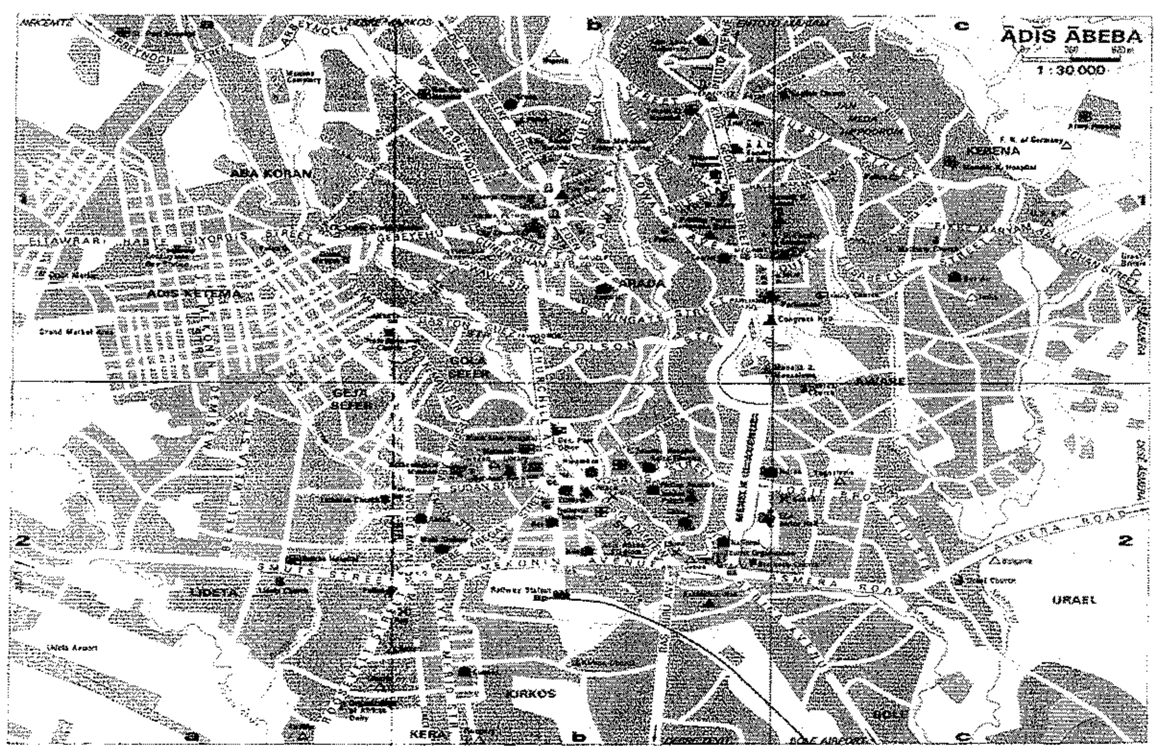
	Poorest clients as of 31 Dec. 2002	Total Active Clients as of 31 Dec. 2002	% of Poorest Clients that are Women
Amhara Credit and Savings Institution	255000	255000	38
Dedebit Credit and Saving Share Company	208890	208890	35
Omo Microfinance S.C.	65448	65448	35
Oromia Credit and Savings Loan	59324	88486	40
Addis Credit and Saving Institution	10680	12565	72
WISDOM Micro Financing Institution	10524	10508	29
Gasha Micro-Financing S.C. (Pro Pride)	2097	4193	75

Source: Microcredit Summit Campaign Report (2003)

These numbers given at the Summit are not to be taken at face value, as most of these micro-credit institutions deviate from traditional micro-credit wisdom. The types of collateral they require, their lack of emphasis on women borrowers, and so forth puts them somewhat at odds with traditional micro-credit practices. Nevertheless, they do serve as good points of comparison. The micro-credit programs working under the guise of larger NGOs more closely resemble traditional micro-credit practices.

A key component when discussing NGOs in Ethiopia is the role and activities of the CRDA organization. CRDA (Christina Relief and Development Association) is an umbrella organization encompassing over 230 NGOs. An executive member of CRDA organization provided me with a list of their member NGOs, from which I selected a few with which to visit and work. My research focuses on two NGOs which included micro-credit program in their overall development projects. These are Wesmeco (Welfare for Street Mother and Children Organization) founded by Ato Eshetu, and Mary-Joy Aid through Development, founded by Sister Zebider. I met with representatives of each NGO, primarily the founders, and the staff, and numerous beneficiaries. My contact with the donors of both NGO has been very limited, as I only had the chance to meet potential donors' representatives who came to inspect the work being done before singing off on aid funds.

Figure 7: Map of Addis Ababa



a) Mary Joy Aid Through Development (MJ-ATD)

Mary Joy is a self-proclaimed "non-religious and non-political humanitarian organization" established in 1994 by Sister Zebider Zewdie (MJ 2001). It is located in the western part of the city of Addis Ababa, in a locale known as Asco kefle ketema. The organization started out with the aim of "providing basic health care services to the most disadvantaged groups in the community with primary emphasis to mothers and children" (MJ 2001). After two years (1992-94) of operating the health-oriented program, Sister Zebider realized that "the problem of children and mothers go beyond health and are intrinsically related to poverty" and thus in 1994, the Integrated Urban Community Based Development Programme through participatory approach was born (Pers. Comm. 2003). It comprised of three main components, which are: health and environmental sanitation; education and social promotion, and micro-credit schemes in target area. The components of the development program highlight broader issue undertaken by the NGO to "reduce the socio-economic vulnerability of children, mothers, families and communities within its area of operation through the application of an Integrated Development Approach based on genuine community participation" (MJ 2001). They work in ten counties where they have environmental sanitation projects, orphan support, home-based care and counseling, health care and free clinic.

The main idea behind Mary-Joy's (MJ) micro-credit program is to empower the people, and transform the prevailing mindset of always relying on grants and aid in general. MJ believes that people in developing countries, and especially poor Ethiopians, are used to the idea of receiving "free money" which does not encourage industry, and keeps the country and its people enslaved to aid. Thus, MJ wanted to teach their beneficiaries to be self-sufficient and not rely on the handouts of others. The micro-credit program was born.

Credit was accorded mainly to women to start an income generating activity such as petty trading. The loans the women received vary from b100 to b4000, which is the equivalent of $11 to $465[8]. The loans have to be repaid in general in 1-6 years, depending on the size of the loan. The borrowers undergo a very intensive follow-up by their peers, such as supervision, home-to-home visits, and the like. The women are also required to have a savings account, which the organization helps set up. Each women needs to save a minimum of b5 to b10 per month (depending on the size of her loan), which begins immediately after receiving the loan. The number of loans disbursed at the time of my research was 388 loans to 388 different women. The total savings of the women up to date amounts to b34,000 or $3,953, a considerable sum under the circumstances.

The program further encompasses: training on basic business skills (marketing, cost assessment, sales, and so forth); business plan preparation and post loan strategies; work-place visits; possibilities and advice on petty trading activities; experience sharing (the women get together regularly). Mary-Joy admitted that it is hard to assess the overall impact of the program in purely quantitative terms; however, the women have been able to make a number of small improvements to their daily lives that may seem petty or insignificant to a person from the western world, but are significant amelioration of their lives. The benefits of the economic empowerment of the woman follow some of the general patterns of micro-credit programs, but some are specific to Mary-Joy's program. Primarily, the women are able to feed themselves and their children, which is viewed by most as the biggest blessing, as meeting basic needs is hard. This has the added benefit of preventing homelessness of mother and children, which is in effect preventing mother and children from ending up as beggars on the streets. Furthermore, the women are able to improve on their homes by purchasing household items such as furniture, kitchen utensils, and the like. Similarly, the borrowers are able to get access to potable water, and electricity, sanitary latrines in their homes, as well as building extra rooms for rents, further generating income.

In general, the women are able to hold the family together, as the women are mostly divorced or widowed, but even those that are married, the husband is incapable of providing for the entire family. Through the micro-credit program, the social cohesion of keeping the family together is maintained. One of the biggest accomplishments, praised by the beneficiaries of the program is its confidence building aspect, as the women realize that they are not powerless as poor women because they are able to work and earn an income. In terms of gender relations, most of the beneficiaries are divorced or widowed, but all want to be married, not for the added income, but more for social reasonsas marriage is a socially desirable institution. The men were not portrayed as being intimidated by the economic responsibility of the women. In fact, the program includes two male borrowers.

So far, not a single person failed to pay back their loan in the program's four years history. MJ credits this success to two major reasons. First, intensive background checks are preformed on anyone entering the program, and secondly, the women understand that if one person fails, the group members are responsible to pay back the debt, therefore all take ownership and cooperate at the highest levels (social cohesion). The program also needs to be self-supportive as it is no longer dependent on outside support. Therefore, the women understand that savings and making a profit are necessary if they are to have a continued and sustainable access to these financial services.

b) Wesmeco (Welfare for Street Mothers and Children organization)

Wesmeco is an NGO located in Arada Kefle Ketema, in the central part of the city of Addis Ababa . The organization refers to itself as an "indigenous, non-governmental, non-profit, humanitarian aid organization" (Wesmeco 1999). It was founded in 1997 by a group of "dedicated people" from diverse social, economic and religious backgrounds, with the objective of "alleviating the socio-economic problems of street mother, elderly women, and street children in Ethiopia, in collaboration with different governmental offices, the community, beneficiaries and other international and national non-governmental organizations" (Wesmeco 1999).

Wesmeco employs around 38-40 employees, full-time and part-time, at any given moment. The NGO has so far been able to carry out 28 projects in its 6-year history, varying from very ambitious ones to pilot projects. The focus areas of Wesmeco include four main headings, which are as follows: Health (HIV/AIDS and reproductive health); Social infrastructure development (mainly water supply and sanitation); education (formal and non-formal); and skill training. The focus areas are derived from the organization's self-imposed vision of a prosperous country without homelessness and where there is food security and the health status of the community and the lives of women and children are greatly improved. Out of these goals and focus areas arise

projects such as women's empowerment. In their women's empowerment projects, Wesmeco works to eliminate harmful traditional practices, and provides health education on childbirth, unwanted pregnancies, and training for traditional pregnancy attendants. Furthermore, Wesmeco encourages the formation of income generating activities through programs like micro-finance.

Wesmeco's program is very similar to that of Mary-Joy, but on a much smaller scale. The founder of the NGO had heard about financing income-generating activities for their beneficiaries through a system of micro-credit, and thus wanted to try out the idea. It started out as a pilot project to test the proposed hypothesis and promise of micro-credit. The micro-credit program is situated under a more general goal of women's empowerment, through involvement in the economic, social and political realms of life.

Wesmeco starts by opening savings account for all it beneficiaries, and train them in regards to savings, income-generating activities such as petty trading, crafts, and introduce them to the system of micro-credit. Wesmeco also researches the type of activities that will bear the most amount of revenue, and thus enable the ladies to become self-sufficient. Although this list is available to the borrowers, they are in no way obligated to choose one of the proposed activities, as they can do their own market research and present a proposal. The market research does not include anything more sophisticated than going around the neighborhood in which these women live and ask what is lacking in terms of services or locally produced goods. This method is based on the belief that the community is its own best judge of its needs and wants. It also further engages the community and ties their well being together with the women beneficiaries of Wesmeco's micro-credit program. The general community also serves as an unofficial monitoring system for the organization.

The particularity of Wesmeco's program is that it starts out by granting sums to the beneficiaries that they are not expected to pay back to begin the income-generating activity. The grants vary from US dollars $58 to $116, depending on the type of activity the women chose to engage in. After the initial sum disbursed to them, the women have available a steady stream of credit which they use to build up their enterprises. The loans vary from US dollars $22 to $581 maturing at varying rates depending on the size.

Wesmeco doesn't necessarily require group formation, but highly encourages it. Monitoring is done through the involvement of the community, as well, as other borrowers, whether they form a group or not. The benefits the borrowers report are very similar in nature to that of Mary-Joy's borrowers: the women are able to meet their basic needs as they can feed themselves and their children; they are able to improve on their homes by purchasing household items such as furniture, kitchen utensils, and the like; they are able to get access to potable water, and electricity, sanitary latrines; their confidence level is gained or regained, as the case may be, and so forth.

So far, everyone has been able to pay back their loans; however, it is important to keep in mind that Wesmeco's program is still in its infancy, and deviates somewhat from traditional micro-credit wisdom by disbursing a large sum at the beginning of the program, which the beneficiaries are not expected to pay back. This allows for extra liquidity to first set up the enterprise, but also to have a sort of cushion if business is not lucrative. At the time of my visit in July 2003, the total number of beneficiaries of Wesmeco's micro-credit program was 26 women.

CONCLUSIONS

Micro-credit's promise was alleviating poverty through the provision of financial services previously unavailable to the poorest populations. By expanding the economic opportunities and involvement of the poor, micro-credit endeavors to reduce the economic and social vulnerability of its poor beneficiaries. The expected outcome from these programs is not much different from the general expected benefits of micro-credit programs. Primarily, the poor will be able to participate in the productive activities from which they are often excluded. Their income level will be increased based on the self-employment activities they engage in. The informal sector would consequently be strengthened. The poor will also be more resilient to macro-level structural change that generally takes away social support. These benefits of micro-credit (as listed above) point to micro-credit programs as useful and effective development instruments, and the anecdotal evidence seems to suggest that that is the case. However, there needs to be larger scale empirical research on the subject before a definitive verdict can be passed on its effectiveness in combating poverty.

It is also unwise to take a micro-level enterprise such as micro-credit schemes and suggest that it would be just as effective if applied across the board on a macro level. The Grameen Bank in Bangladesh is the only program worldwide that comes close to being qualified as a national program. Other programs elsewhere in the world are very localized, and serve only a statistically insignificant number of people. To reiterate what critics have repeatedly pointed out, it is not clear "if the extent to which micro-credit has spread, or can potentially spread, can make a major dent in global poverty" (UNCDF-SUM, 2003). One concern that would arise when considering the possibility of systematically applying micro-credit programs on a national level is saturation of the market. Micro-credit schemes heavily rely on providing low-cost, labor-intensive products to surrounding communities. The needs of the communities for those particular types of goods are however limited. Therefore in this case, micro-credit programs need to undertake more ambitious activities (where it will no longer be *micro*-credit).

Precisely defining economic development can also be a concern when attempting to quantify or measure the outcome of a development strategy. Depending on how narrow or how inclusively economic development is defined, the effectiveness of micro-credit as an effective development instrument can greatly vary. For instance, if we broaden our definition of economic development to also consider issues of choice, micro-credit program become essential in providing services previously unavailable to the poor. Micro-credit programs thus become ends in themselves, and are not perceived just as means of development. If on the other hand, economic development is constricted to what can be measured by traditional economic measures (such as GDP per capita), the benefits of micro-credit would almost be non-existent.

Micro-credit programs have a history of correcting for gender equity within households and in the general community. The added income of the female in the house can be a source of bargaining power, and a source of autonomy. Although micro-credit programs do increase the economic power of female members of the society, they generally have the tendency to usher their female beneficiaries into activities traditionally reserved for women. The long-term effect would thus be minimal, if correcting for gender equity does not include opening up traditionally male productive activities (which are generally capital-intensive, and have a higher yield on the market).

In the case of Ethiopia, the two case studies demonstrate the potential of micro-credit as a development strategy. While the programs need much more detailed evaluation before they can be called successful, they nevertheless point towards a positive intervention in the cycle of poverty. They are making a small but important contribution to alleviate poverty and promoting gender equality in Ethiopia. As previously mentioned, there is also a mismatch of practices as most of Ethiopia's micro-credit programs are located in urban areas, whereas micro-credit has traditionally been focused in rural and agricultural (subsistence farming) areas. It may thus be difficult to replicate these programs at a rural level in Ethiopia. A question of the sustainability of the programs also arises. Although numerous programs can achieve operational sustainability, covering their own administrative cost, reaching a level of financial sustainability, including cost of funds, is rare.

To sum up, Muhammad Yunus argues that although micro-credit is not a miracle cure, it can end poverty for many and reduce its severity for others when "combined with other innovative programs that unleash people's potential, [it can serve as] an essential tool in our search for a poverty-free world" (Yunus 1999, p 171).

End Notes

1- Numerous advocates have championed micro-credit as a good development tool. For more information, refer to Biggs, Stephen and Matsaert, Frank R., Calavan, Kay, HI Latifee and Muhammad Yunus, Rosalia Rodriguez-Garcia, , Karen Langdon, and Pat Richardson.
2- Top-down approaches over the past years have been unsuccessful. The most widely debated program being IMF' and World Bank's SAP (Structural Adjustment programs) The problems encountered by these programs stems mainly from a lack of understanding of the local situation, which grassroots apporoach programs, such as micro-finance, can correct.
3- LDCs (Least Devloped Countries) include 49 countries or areas which fare the lowest on the international stratification used by the United Nations
4- My research was conducted in June and July 2003.
5- HDI is a composite index measuring average achievement in basic dimensions of human development; GDI is also a composite index measuring average achievement in the basic dimensions captured in the human development index adjusted to account for inequalities between men and women.

6- A value of 0 represents perfect equality, whereas a value of 100 represents perfect inequality; Namibia has the highest Gini coefficient at 70.7, followed by Sierra Leone at 62.9

7- Sustainable access to an improved water resource refers to the percentage of the population which has access to Improved water resources which include piped water, a public tap, and more traditional sources such as a protected well, or a protected spring or rainwater. The emphasis of this measure is access to drinkable and protected water source, which is necessary to ensure the health of the population.

8- Exchange rates set at $1 =b8.6 in June and July 2003

Bibliography

Biggs, Stephen and Matsaert, frank R. 2000. "An actor oriented approach to micro and small enterprise development: a Namibian case study." Roles and Relevance: Development NGOs and the Challenge of Change. Lewis, David and Wallace, Tina, editors. Kumarian press.

Calavan, Kay, HI Latifee and Muhammad Yunus, 1989, The Grameen Bank Project, in Mann, Charles K, Merilee S Grindle and Parker Shipton, eds, 1989, Seeking Solutions: Framework and Cases for Small Enterprise Development Programs, Kumarian Press, W Hartford, CT., p. 239-71

Cavanagh, John, Mander, Jerry, at al. 2002. Alternatives to Economic Globalization. Berrett-Koehler Publishers, Inc.

Fry, Maxwell J. 1988. Money, Interest, And Banking in Economic Development. The Johns Hopkins University Press. (Section 3: Microeconomic and Institutional Aspects of Financial Development, and section 4: Monetary and Financial Policies in Economic Development)

Daley-Harris, Sam. The State of the Microcredit Summit Campaign Report 20003. Microcredit Summit Campaign. 20003.

Johnson, Susan, Doyle, Karen, Hasan, M. Emrul, Jimenez, Eduardo, and Kidder, Thalia G. 2000. "Stormy Weather: Microfinance, Shocks, and the Prospects for Sustainability." Roles and Relevance: Development NGOs and the Challenge of Change. Lewis, David and Wallace, Tina, editors. Kumarian press.

Kaplan, Allan. 2000. "Understanding Development as a Living Process." Roles and Relevance: Development NGOs and the Challenge of Change. Lewis, David and Wallace, Tina, editors. Kumarian press.

Kebede, Messay. 1999. Survival and Modernization Ethiopia's Enigmatic Present: A Philosophical discourse. Red Sea press Inc.

Langdon, Karen and Richardson, Pat. 2000. Microenterprise and Microfinance: The New Kids on the Block" Roles and Relevance: Development NGOs and the Challenge of Change. Lewis, David and Wallace, Tina, editors. Kumarian press.

Mary-Joy Adi through Development. 2001. untitled.

Morduch, Jonathan. 1999. "The Microfinance Promise." Journal of Economic Literature. Vol. XXXVII, Pp 1569-1614, December 1999.

Rodriguez-Garcia, Rosalia. Microenterprise development for better health outcomes / edited by Rosalia Rodriguez-Garcia, James Macinko, and William F. Waters. 2001.

UNCDF-SUM. 2002. Supporting Women's Livelihoods. Microfinance that works for the majority.

UNDP, 1999. UNCDF working Paper on Microfinance "Building on lessons learned."

UNDP-HDR. 2003. Human Development Report. Oxford University Press.

Wesmeco. 1999. untitled.

Wesmeco. 2003. Organizational Profile from 1997 to 2003.

Yunus, Muhammad. 1999. Banker to The Poor. Public Affairs Publishing.

Zewdie, Bahru. 1991. A History of Modern Ethiopia. Addis Ababa University Press.