AFRICAN DEVELOPMENT BANK

ECONOMIC RESEARCH PAPERS

N° 74

Factors Impeding the Poverty Reduction Capacity of Micro-credit: Some Field Observations from Malawi and Ethiopia

by

Sunita Pitamber
Senior Gender Specialist
Agriculture and Rural Development Department
African Development Bank

The views and interpretations in this paper are those of the author and not necessarily those of the African Development Bank

ECONOMIC RESEARCH PAPERS

N° 74

(January 2003)

Factors Impeding the Poverty Reduction Capacity of Micro-credit: Some Field Observations from Malawi and Ethiopia

by

Sunita Pitamber

Copyright © 2003
The African Development Bank
01 B.P. 1387
Abidjan 01
Côte d'Ivoire

Abstract

In most African countries women tend to account for an average 51% of the population, and make up about 65% of the rural labour force. Thus, many rural based micro-finance programmes have attempted to address the women specific need for micro-credit. This paper analyses the effectiveness of micro-credit as a means to reducing poverty, with particular focus on women, and demonstrates, through the critical analysis of some country-specific examples, that the use and supply of micro-credit does not always lead to a sustainable impact on household or female poverty reduction. Analysis of findings are done based on field data, interviews, and observations from Malawi and Ethiopia.

The paper has concluded that while MFIs aim to reduce poverty and empower women there is usually no clear implementation mechanism to achieve these aims. Some of the conclusions of the paper are: the inadequate and insufficient participation of the female clients themselves in the design of the programmes affects the levels of poverty reduction; the inability of certain commonly used indicators of success/failure of micro-credit in measuring the non-quantifiable impact of the programmes on the clients; there are certain undesired effects of micro-credit delivery, which may hinder the process of poverty reduction; MFIs target women mainly due to the fact that the lending characteristics of the rural micro-credit are best suited to female clients, rather than male clients. Moreover, the empowerment process which is assumed to occur as a result of these loans, is impeded by the micro size of the loan, the small returns from the use of the loan, and the fact that the returns themselves are still not always the major contributor to the family income as compared to the male income. Furthermore, the paper argues that it is a misconception that an MFI always targets the ultimate poorest of the poor, the landless, the assetless, and the destitute, because, as the paper has demonstrated that for an MFI such a client profile will not ensure returns and increase profits, and it is precisely such a beneficiary profile that is unattractive and unlikely to become a potential client. The changing policy environment, thus, puts more pressure and competition for the scarce resources between the poorest of the poor and the “not-so-poor”. This paper has highlighted the fact that since development interventions put greater focus on promotion of, for example, export markets and international trade, and medium scale farmers and entrepreneurs, the actual micro-credit clients are not the typical ‘hand-to-mouth’ poor.

Finally the paper gives broad recommendations for further research and analysis in order to strengthen the capabilities of micro-credit for poverty reduction. Furthermore, the analysis in this paper also provides the way-forward in the design of future micro-credit interventions for poverty reduction as well as gender and empowerment.

Résumé

Dans la plupart des pays africains, les femmes représentent en moyenne 51% de la population, et fournissent environ 65% de la main d'œuvre paysanne. C'est pourquoi les programmes de micro-finance axés sur le monde rural ont pour la plupart porté sur la satisfaction du besoin spécifique de micro-crédit observé chez les femmes. Le présent article se penche sur l'efficacité du micro-crédit en tant que moyen de réduction de la pauvreté, essentiellement chez les femmes et démontre, à partir d'une analyse critique des exemples vécus dans des pays précis, que l'utilisation et l'octroi du micro-crédit n'exerce pas toujours un impact durable sur la réduction de la pauvreté des ménages ou des femmes. Cette analyse se base sur des données, des entretiens et des observations recueillies sur le terrain auprès des populations au Malawi et en Ethiopie.

Le présent article est parvenu à la conclusion suivante : alors que les IMF visent de réduire la pauvreté et de responsabiliser les femmes, elles ne disposent pas la plupart du temps de mécanisme clair pour réaliser ces buts. L'article relève en outre : l'insuffisance qualitative et quantitative de la participation des femmes elles-mêmes à la conception des programmes affecte les niveaux de réduction de la pauvreté ; l'incapacité de certains indicateurs de succès/échec de micro-crédit communément utilisés pour mesurer l'impact de ces programmes sur les clientes ; certains effets indésirables de l'octroi de micro-crédit rural qui peuvent entraver le processus de réduction de la pauvreté ; les IMF ciblent principalement les femmes en raison du fait que les spécificités du micro-crédit sont plus adaptées à la clientèle féminine qu'à la clientèle masculine. De plus, la prise en charge vers laquelle ces prêts sont censés conduire les femmes est entravée par la modicité de ces prêts et des gains qui résultent de leur utilisation, et par le fait que ces gains ne constituent toujours pas l'essentiel du revenu familial contrairement aux revenus des hommes. Par ailleurs cet article affirme que c'est une idée fausse de penser qu'une IMF choisit toujours pour cible les plus pauvres parmi les pauvres, les sans-terre, les démunis, et les indigents, parce que, comme l'a démontré l'article, pour une IMF un tel profil-client ne peut assurer la rentabilité et accroître les bénéfices, et c'est précisément ce profil de bénéficiaire qui présente peu d'intérêt et de chances d'aboutir à une clientèle potentielle. Ainsi face à la modicité des ressources, l'environnement stratégique en perpétuelle mutation renforce la pression et la concurrence entre les plus démunis et «ceux qui le sont moins». Cet article a mis l'accent sur le fait qu'étant donné que les actions en faveur du développement sont davantage orientées vers la promotion des marchés à l'exportation, du commerce international comme des exploitations agricoles et des entreprises de taille moyenne, les vrais clients du micro-crédit ne font pas partie de la catégorie de pauvres qui vivent «au jour le jour».

Enfin, l'article recommande d'aller plus loin dans les recherches et les analyses en vue de renforcer les capacités du micro-crédit à réduire la pauvreté. De plus, l'article dans son analyse encourage à concevoir de nouvelles interventions de micro-crédit pour réduire la pauvreté, et aider les femmes à se développer en se prenant à charge.

Factors Impeding the Poverty Reduction Capacity of Micro-credit: Some Field Observations from Malawi and Ethiopia*

by

Sunita Pitamber

Introduction

Poverty reduction has been identified as the overarching long term goal for most of the development interventions in Africa, and more recently crystallised in the Millennium Development Goals and the New Partnership for Africa's Development (NEPAD). In Africa, more than 40% of its 750 million people live below the internationally recognized poverty line of $1 a day, and the evidence is even more worrying for sub-saharan Africa. The number of poor people has grown relentlessly, causing Africa's share of the world's absolute poor to increase from 25% to 30% in the 1990s (UNDP, 2001 and 2002). However, Africa's development challenges go deeper than low income, falling trade shares, low savings, and slow growth. They also include high inequality, uneven access to resources, social exclusion, and insecurity, especially amongst women. While some African countries are showing promising economic progress and are making notable strides in addressing major development constraints, such as Uganda, the majority of the continent is still under great stress to meet the human survival needs. More specific concern is raised due to rural-urban disparities in income distribution, access to education and health services, and prevalence of ethnic or cross-boundary conflict. In particular, the most outstanding factor is the gender disparity in access to resources, such as land, credit, technology, markets and production information and skills development.

In most African countries women tend to account for an average 51% of the population, and make up about 65% of the rural labour force. In addition, women tend to shoulder the greater burden of child and family welfare, social and community obligations, engaging in more than one economic activity as well as undertaking domestic chores. In connection with the growing emphasis on poverty reduction sustainably, micro-credit has been recognized as the most necessary and 'the missing ingredient' which is most effective in reducing poverty of the poorest of the poor (Otero and Rhyne, 1994; Khandker, 1998). Thus, many rural based micro-finance programmes have attempted to address the women specific need for micro-credit. Female entrepreneurs and micro-credit borrowers tend to face greater constraints than men such as socio-cultural barriers, legal and structural constraints, higher rates of illiteracy, inadequate experience in credit management, and constraints related to collateral, marketing, inputs, production technology, to name just a few.

This paper analyses the effectiveness of micro-credit as a means to reducing poverty, with particular focus on women, and demonstrates, through the critical analysis of some country-specific examples, that the use and supply of micro-credit does not always lead to a sustainable impact on household or female poverty reduction. This will be done through the analysis of the micro credit delivery

*The author would like to express her gratitude to Dr. Mohammed N. Hussain for his valuable comments and observations on this paper. She would also like to thank Dr.
Bakri Abdul Karim for his extensive assistance in providing some of the relevant background literature.

mechanisms and related conditions of the micro-finance institutions (MFIs) projects and programmes.

This paper uses the term micro-credit and micro-finance interchangeably. The methodology used in this paper is field observations, in addition to interviews and discussions with micro-credit delivery officers as well as clients in Ethiopia and Malawi. The field investigations were carried out at different points in time during the period 2001 and 2002.

Poverty Measurements and Relevance of Micro-credit

Some recent studies on poverty have attempted to put forth terms and classifications of the very poor in a way that will allow the reader to imagine the extreme helplessness, and a state of extreme destitute amongst the people under discussion. The poorest of the poor, as they are more commonly referred to, have also sometimes been called the 'hardcore poor' (Hashemi, 1997), the ultra-poor (African Development Bank, 2002) or the 'chronic poor[1]'. While this paper does not aim to re-define who are the poor, it will use the term 'poorest of the poor' to identify the group of people who are economically on the outer edges of survival and managing to continue their existence and live with or below an average $1 per day.

Poverty is commonly defined as 'the inability to attain a minimal standard of living' measured in terms of necessary basic needs and services. Furthermore, the concept of a 'poverty line' has internationally become accepted as an indicator of poverty which measures the monetary amount needed to purchase a basket of estimated minimum calorie intake and the social services needed to live a healthy life, below this estimated line an individual or household is considered poor (African Development Bank, 2002; Lipton, 1997). Poverty is therefore characterized by the inability of individuals and households to acquire sufficient resources to satisfy their basic needs. Furthermore, poverty is not static. Research shows that some people may be suffering from poverty from time to time, while others are permanently poor. Therefore, poverty within the present discussion is identified to indicate when the 'net outcome' of the process of change experienced by an individual or household is socio-economically negative or unchanged, also sometimes referred to as 'vulnerability' status. (UNDP, 2001, Glewwe and Hall 1998; Grooteart and Kanbur 1995).

In view of the recognition that poverty was contextual, that it was not static, and that it was relative, micro-credit was introduced as a mechanism for the poor to pursue poverty reduction activities which were within their means and capacities (von Pischke, 1996). Micro-credit programmes were meant to help the poor generate income and alleviate poverty sustainably (Chao-Beroff, 1999). It became an important development concept since the 1980s, especially after the many publications and reports on the positive experience of the Grameen Bank.

The Grameen Model (Yunus, 1989), which made micro-credit even more popular, specifically for women, and included for the first time a community approach to poverty reduction and challenged serious obstacles to borrowing, such as collateral, male guarantor or co-signer for female clients, and repayment modalities. A further development took place in this model through some experiences in Latin America, such as that of Americans for Community Co-operation in Other Nations (ACCION), which introduced a business approach to micro-credit, through cost-recovery and management as well as individual lending within the group (Berenbach and Guzman, 1999). Therefore, micro-credit evolved further into a development and poverty reduction mechanism

based broadly on the Grameen model and other local experiences. The most commonly found micro-credit delivery channels in the low-income African countries are: profit making micro-finance institutions, credit unions, and village banks (Holt, 1994). However, it is the MFIs that most of the time have a better rural and urban outreach network and more money to inject, due to their access to multiple fund sources. The discussion will attempt to highlight the differential impact on poverty reduction and will give analytical perspective on micro-credit panacea.

Women and Micro-credit

Since the establishment of the Grameen Bank as a micro-credit delivery model, many programmes have rushed to replicate the relative success and in doing so, a lot of attention has been given to female micro-credit borrowers. Women were specifically targeted because they make up the majority of the poorest of the poor in the rural areas and are responsible for the social and economic welfare of the family. During the 1990s micro-credit was seen as successful amongst female clients because of high repayment rates and savings capacities. Furthermore, at the same time many Non-Governmental Organisations (NGOs) and donor's were dictated by gender policies which specifically called for increased micro-credit outreach to women, and these micro-credit programmes did not limit their desired impact to poverty reduction only, but extended it to achieve women's empowerment (Khandker, 1998; Kabeer, 1998).

Generally most micro-credit programmes, and specifically those aimed at women, aim to reduce poverty for women and also empower them by enabling them to have their own income and capital. However, there is very little empirical evidence that micro-credit will directly empower women (Zaman, 1999). Empowerment, as a concept, is highly contextual and changes from one environment to another, whereas micro-credit delivery process is applied in almost the same way in most countries. This paper will attempt to illustrate that poverty reduction and women's empowerment are not the one and the same and that poverty reduction does not automatically lead to women's empowerment. The following paragraphs will elaborate on this process.

In order to achieve women's empowerment, there must be a change in gender relations. Although definitions and understanding of empowerment vary, the broader guiding milestones are generally agreed to be: increased access to and control over resources, and specifically income, greater participation in decision-making in the household and over her body, improved negotiation capacity and greater mobility.

Mayoux (2000) explains that there are three underlying paradigms in the debate on micro-finance and gender and empowerment. The financial self-sustainability paradigm emphasises the need to provide self-sustainable financial services to the rural people, especially micro-entrepreneurs. This is usually seen in the different manifestations of the village bank model and the Rural Organisation of Savings and Credit Associations (ROSCAs). The assumption here is that women's access to these services will lead to economic empowerment thereby automatically enabling her to have decision making powers, increased mobility, etc. because it is assumed that power is derived from income. However, this is understandably a weak link between micro-finance and women's empowerment because other evidence from India and Bangladesh shows that women still tend to give up their credit and any resulting income to the male, either voluntarily or forcibly (see Hunt and Kasyanathan, 2001; Mayoux 1998; Mosley and Hulme, 1998).

The second paradigm explained by Mayoux (2000) is called the poverty alleviation paradigm which is manifested in increasing outreach and access to the poor, providing small loans for consumption and production, savings facilities, group formation and training in some of the related aspects. In this paradigm women are targeted mainly as the poorest of the poor segment of the population and also the one's who are directly responsible for family well-being. The assumption here is that by increasing women's access to credit, and thereby increasing their income, a positive impact on household income will occur. This will further contribute to better family well-being and improved status and position of the female in the home, thus empowering her further to negotiate other forms of change in gender roles and relations.

There are a number of issues within the women's empowerment framework which affect the assumed outcome under this paradigm. Firstly, the size of the loans does not enable the women to make any long lasting income change for the household, at most the woman's income will complement other sources of income, such as from the children or the husband. In the African context, this analysis sheds new light because in a household where both the male and female are present, and where a negotiation of gender roles is necessary for empowerment, the micro-loan does not result in a high female income, in most cases the husband's income is still the major contributor to household expenses. Secondly, the increased access to credit in the same geographical area could contribute to market saturation of products provided by women. This is mainly because poor women generally tend to operate in the same kinds of businesses, such as food vending, petty trading etc. and also operate from the same local markets. This process reduces the resulting income for each woman and increases competition in an already limited market. Thirdly, some evidence (see Kabeer 1998) suggests that in such circumstances a woman's successful business may have a negative impact on the girl-child who may be required to leave school to help the mother expand the business. Thus, the micro-finance link to gender empowerment under the poverty alleviation paradigm cannot be assumed to occur naturally or automatically.

Mayoux's (2000) third paradigm for the micro-finance and gender debate is called the feminist empowerment paradigm, which underlies many of the gender policies of NGOs and donor agencies. Micro-credit, under this paradigm, is seen as an entry point to negotiation and change in other more broader issues of gender equality and women's rights. This paradigm is geared more towards addressing the social and/ or political empowerment issues because its implications touch more upon the strategic needs of women. To a certain extent they also touch upon the economic-class stratification of women who may benefit under this paradigm and bring about the perceived change in gender relations and women's empowerment.

While it is not possible either to identify or to design a micro-credit programme neatly into any one of the above paradigms, it is worth noting at this time, that most MFIs and other donor-driven micro-credit programmes fall within the first two paradigms mentioned above. Moreover, despite the lack of clear and convincing evidence of micro-credit's ability or inability to sustainably reduce poverty, more and more funds are still being put into similar micro-credit programmes. Despite the popularity of micro credit as a poverty reduction mechanism, there is very little evidence indicating a real positive net effect on poverty reduction (Mosley and Hulme, 1998; Wright and Dondo, 2001). Measurements and indicators of client numbers, repayment rates, increase in total loan amounts and portfolio, and sometimes savings rates are misleading and may not automatically result in increased income for the household or the client.

Institutional and Operational Arrangements of Micro-finance Institutions

A large number of MFIs have set-up networks in many African countries taking advantage of increased pressure on governments to deregulate the economy and the financial sector, encourage competition in all sectors, and create the conducive environment for increased production. Thus, micro-finance delivery has become an attractive business over the last decade in Africa. Some of these MFIs are local based, while others are either regional or even international. Most of the MFIs are specialised in the delivery of small loans to a wide range of clients, and specially the "poorest of the poor". MFIs encompass different kinds of organisations, such as limited companies, para-statals, in addition to those legally registered as MFIs (Magill, 1994). Experience shows that some MFIs may also channel delivery and recovery of funds through other existing banks with whom they may have an operations agreement. Thus such MFIs, may not directly be involved in loan disbursements, repayment collection, or business monitoring, etc.

MFIs operate in a niche market because they address the needs of those clients who are considered 'high-risk' by bigger banks. High-risk groups or individuals are characterised as those with very few assets, requiring very small loans, high degree of close follow-up, business appraisal and evaluation, as well as those engaged in activities whose income is fluctuating such as small-holder farmers or petty traders. Thus, the MFIs cater for a market with an operationally acceptable demand level and where clients can be protected from the unreasonable conditions of the informal money-lenders.

Such MFIs, however, charge high administrative costs and higher charges for risk coverage, which is in addition to the market interest rates, and taking advantage of the niche market for micro loans. Both in Malawi and Ethiopia, field observation suggests that, other than agriculture credit, repayments are required to start immediately, starting the week after the loan has been disbursed, and repayments are in weekly instalments. Lending is done on group basis and also on individual basis. In most cases clients are expected to form their own groups before approaching the MFI for a loan and those who perform well can later be eligible for individual loans. Some MFIs have their own training modules which a potential group or individual client should undergo. The training may be implemented by the MFI credit officers, or the local community development officers for an incentive payment.

Field observations show that most MFIs in Malawi and Ethiopia can be categorised as profit oriented, with a clear business approach, with a good network into the rural areas, and with minimum expenditures on training or group mobilisation allowing for high repayment rates with minimum risk exposure. Discussions with different stakeholders revealed an underlying assumption that simply the existence or operations of an MFI in an area will automatically address poverty. MFIs, on the other hand argue that they are not required to and do not always have the responsibility for justifying whether their activities reduce poverty. Some MFIs have, however, undertaken impact-analysis studies on a need-basis which reveals that income has been increased amongst their clients. Nevertheless, this is very much anecdotal and limited to some cases and cannot be proven or established as long term trend.

Micro-finance Policy and Development Framework

Malawi

In Malawi poverty is more persistent in the rural areas at about 65.3% of the population. The recent poverty profile (National Economic Council, 2000) suggests that these poor are characterised by malnutrition, lack of income earning opportunities, and unfavourable production environment. Female-headed households, which are estimated to be about 35% nationally, are consistently poorer than male-headed households, and are mainly engaged in subsistence farming and petty trading activities.

Available information shows that although there has been an increase in the number of institutions offering micro-credit in Malawi, to date about 29, the main constraint to affordable access is the high interest rates in the country. The second constraint is the high inflation rates which restricts long-term lending. Moreover, the exorbitant interest rates (up to about 60%) and high inflation make it difficult for the rural poor to save after borrowing funds for production. This contributes to weakening the rural poor's purchasing power and thereby intensifying their poverty status. Another constraint to the credit sector is the involvement of the Government in some lending institutions leading to the ineffective targeting of potential beneficiaries. Moreover the entry of new commercial banks is hampered by the small size of the economy in the country. This affects the competitive environment necessary for efficient delivery of credit.

The micro-finance sector in Malawi is not clearly covered by any specific legislation or regulatory policy, and is therefore not supervised like other financial institutions. However, it is within the recent Highly Indebted Poor Countries (HIPC) initiative to develop a Poverty Reduction Strategy paper (PRSP) that the present thrust to develop a relevant policy framework at the country level has arisen. The main objectives of a draft Micro-finance Policy (MFP) is to create an enabling legal and regulatory environment conducive to the development of micro-finance; to improve coordination between implementing institutions, Reserve Bank of Malawi (RBM) and the Government of Malawi (GOM); to promote the best practices among the MFIs, GOM and the donor community. Existing MFIs are registered under different legislation such as a private company, or under the cooperatives act. The RBM which is mandated to supervise all financial institutions, does not have the capacity to supervise or regulate all MFIs directly. Table 1 gives a profile of some of the micro-credit initiatives in Malawi.

Ethiopia

Ethiopia is the second most populous nation in sub-Saharan Africa with approximately 63 million people and almost 44% of the population being in the age of 15 years and below. Ethiopia ranks 158 out of 162 countries in the Human Development Index (UNDP, 2001a). Its per capita income of US $ 110 is roughly one quarter the average for Sub-Saharan Africa. Poverty in Ethiopia is more persistent in the rural areas and specially amongst the agriculture households. The average size of poor rural household tends to be larger and approximately 20% of rural households are female headed. Thus, women-headed households are more vulnerable as they traditionally have less access to land and other productive resources. Most rural households depend on agriculture as their primary source of income but lack essential social infrastructure, such as roads, education and primary health care facilities, safe drinking water supplies and fuel. Furthermore, increase in

Table 1: Micro-finance Initiatives in Malawi with a wide rural-poor outreach

Organisation	Loan Portfolio	Repayment Rate	Products and approach
Government Initiatives Economic Activities Programme (EAP) – Ministry of Gender (1993)	Approx. Euro 2.3 million	N/A	EAP delivers donor interventions in training on micro-finance management and entrepreneurship development, training of women and youth in business management and skills development.
Small and Medium Enterprise Trust Fund (SMEF – 1995)	(MKW 100 million). Approx. Euro 1.2 million	43%	Ministry of Commerce and Industry for support of rural and urban poor who do not qualify for small loans with commercial banks and institutions. The Fund was allocated to be administered by the Reserve Bank of Malawi (RBM). The experience was not successful due to: (1) the subsidised interest rate of 15%, (2) interference from politicians and other authority figures as to who should get the loans.
Entrepreneurship Development and Employment Creation Programme (1999) Ministry of Commerce and Industry.	(MKW 3.2 million). Approx. Euro 41,000	60-90%	This initiative is supported by UNDP which has provided funds to several NGOs to on-lend micro-credit, provide training in credit and business management skills as well as technical skills.
Commercial Banks The National Bank of Malawi (NBM) and the Commercial Bank of Malawi (CBM) (1997)	US $ 200,000	85%	The NBM and the CBM operate under a Credit Guarantee Fund sponsored by UNCDF and another by GTZ. The Banks are mainly involved in facilitating the repayment of the loans, actual monitoring and follow-up is out-sourced to NGOs. In case of default, the respective Bank draws from the United Nations Credit Development Fund sponsored guarantee fund 60% of the amount, confiscates the savings (20% of the loan amount) and the respective Bank bears the loss of the rest of the 20% of the default amount.
Micro-finance Institutions (MFIs) The Malawi Rural Finance Co. (MRFC – 1994)	(MKW 263,400,000). Approx. Euro 3.4 million.	87%	The MRFC, registered as a private company, began with an initial fund from the World Bank for agricultural credit and from International Fund for Agriculture Development (IFAD) for non-agricultural credit meant for the poorest of the poor. It has the widest rural outreach of all MFIs in the country in year 2000. Loans are made at commercial interest rates with monthly payments with an average total repayment of between six to eighteen months.

Malawi Union of Savings and Credit Cooperatives (MUSCCO)	(MKW 236 million). Approx. Euro 3 million.	80%	MUSCCO, modelled like a Village Bank, acts as a central finance and management facility to the community based Savings and Credit Cooperatives (SACCOs). A SACCO can be created initially by at least 500 members with a minimum deposit of Euro 3,200 (MKW 250,000) after which makes it a shareholder in MUSCCO. The SACCO system mainly depends on lending from savings at interest rates which cover their operating costs, usually in the range of 51% to 67%.
Small Enterprise Development Fund (SEDOM – 1982)	(MKW 180 million). Approx. Euro 2.3 million.	90%	SEDOM was established as a Trust by the GOM with assistance from EEC in 1982. The aim of SEDOM is to provide financial and technical services to support MSMEs. For group loans 70% are women beneficiaries. Groups make monthly repayments and usually are able to repay the amount in 6 to 12 months. An average loan amount is Euro 65 (MKW 5,000) with commercial interest rates charged.
Foundation for International Community Assistance (FINCA – 1994)	(MKW 90 million). Approx. Euro 1.17 million	98%	FINCA is an international organisation with headquarters in USA and the regional office in Uganda. To date the organisation has 28,000 beneficiaries of which 20,000 are women. FINCA uses the group based lending approach of between 25 to 30 members, & requires weekly repayments at an interest rate of about 72% per annum.
Non-Governmental Organisation Women's World Banking (WWB)	(MKW 26 million). Approx. Euro 337,000	76%	WWB is operational in almost all districts of the country and aims to provide credit, training, and market information to target beneficiaries. To date the organisation has trained about 60,000 women, of which 75% are rural, in business, technical and credit management skills. The organisation uses the group based approach for lending at market interest rates.
National Association of Business Women (NABW – 1990)	(MKW 10 million). Approx. Euro130,000	91%	NABW targets only women through providing credit, business and credit management training, skills development training, and policy advocacy to promote favourable conditions for women's participation and empowerment. To date NABW has trained 13,500 women, out of which 12,000 women have received credit. Interest rate charged is 50% annually flat rate.
Usiwa Watha (OI-UWCT – 2001)	(MKW 24 million). Approx. Euro 311,000	98%	Usiwa Watha is supported by Opportunity International (USA) and targets mainly women and the poorest of the poor. The organisation uses group based lending with an average loan size of MK 9,500 with fortnightly repayments at commercial interest rates. The organisation has to date reached 3,000 people.

PRIDE AFRICA	(MKW 9 Million). Approx. Euro 117,000.	99%	Group lending methodology with shared guarantee and peer pressure. Average loan amounts are Euro 65 to 1,500 at commercial interest rates. The organisation also promotes compulsory savings of 20% of loan amount.
Project Hope	(MKW 1.6 million). Approx. Euro 21,000	97%	The organisation promotes micro-credit linked to health education. It operates on a group lending methodology with household goods as collateral and at least 15% of loan amount as savings. The average loan amount is Euro 13 to 65 (MKW 1,000 to MK 5,000). Repayments are made fortnightly.
World Vision	(MKW 20 million). Approx. Euro 259,000.	93%	The organisation gives individual loans through groups and no collateral is required. Average loan amounts are Euro 40 to 195 (MKW 3,000 to 15,000) per individual. The organisation charges commercial interest rates.

Note: MKW – Malawi Kwacha.
Source: Field data 2001 and 2002

other development challenges such as the HIV/AIDS, persistent malaria in the low lands, and other communicable diseases is expected further to increase poverty levels in Ethiopia.

The origins of MFIs in Ethiopia is largely rooted in their NGO past with a clearly defined mission of rural poverty eradication. A Government decree in 1996 established the licensing and supervision of MFIs as 'share companies' in accordance with the Commercial Code of Ethiopia. With a network of about 500 sub-branches and branches, the MFIs have expanded their outreach to many of the regions where the incidence of poverty is highest. As of January 2001, MFIs in Ethiopia had made loans to and mobilized savings from about 500,000 clients nationally. Some MFIs have also started to offer other services such as managing pension remittances and money transfer services (IFAD, 2001; Negash et. al. 2002). At least 41% of the MFI clients, nationally, are women and in the majority from rural households. However, discussions with some MFIs in Ethiopia revealed that the number of female borrowers was continuously dropping for reasons which are yet unclear. MFIs have sustained high loan repayment rates, which varies from 94-100%. The high repayment rates are mainly due to the kind of loan products offered to women borrowers, which is micro-loans with weekly repayments, and group pressure.

MFIs, Loan products and delivery mechanisms. The loan products among MFIs in Ethiopia generally follow the Grameen model with some slight variations. Most of the MFIs have two types of loan products, namely loans for on-farm activities, which are due in four to twelve months, and off-farm investments with more flexible repayments on weekly or monthly basis (IFAD, 2001). On average, 60% of the MFI portfolio represents loans for on-farm investments while income generating activities and petty trading accounted for about 40%. There are two types of savings offered by MFIs, namely compulsory, which acts as collateral and will be withheld by the MFI in case of default, and voluntary savings which the individual can withdraw at any time. Compulsory savings are the most common and the interest rate on savings is about 6% per annum (Dejene, 1999). In comparison to Malawi, the interest rates on loans in Ethiopia can be

said to be at acceptable levels, and this is mainly because of the highly controlled nature of the Ethiopian economy and the inflation rate. Interest rates vary among MFIs ranging from 12.5% to 15% per annum, in addition to a loan application fee of about 2%.

The following table gives a profile of the MFIs in Ethiopia. Although, the performance of the micro finance sector can be considered to be quite impressive, their current outreach is comparatively small compared to the number of poor rural households living below the national poverty line.

Table 2: Outreach of MFIs in Ethiopia, January 2001 (amount in Birr million)

Micro finance Institutions	Number of Active Clients	Proportion of Women Clients (%)	Proportion of Rural Clients (%)
Amhara Credit & Savings Institution S.C	192 571	47	75
Dedebit Credit & Savings Institution S.C	187 550	41	80
Oromia Credit & Savings Institution S.C (OCSI)	37 000	12	99
Omo Micro-finance Institution S.C	39 342	35	95
Specialized Financial & Promotional Institution	3 700	80	1
Gasha Micro-financing S.C	3 217	85	0
Wisdom Micro-financing Institutions	8 535	30	85
Sidama Micro-financing Institution S.C	4 286	60	90
Mekket Micro-finance Institution S.C	2 300	85	100
PEACE Micro-finance Institution S.C	974	62	100
Addis Credit and Savings Institution S.C	7 000	70	0
Eshet Micro-finance Institution S.C	516	54	70
Wasasa Micro-finance Institution S.C	562	31	69
Asser Micro-financing S.C	3 100	-	73
Africa Village Financial Service S.C	450	60	0
Buussa Gonofa Micro-finance S.C	2 758	85	87
Meklit Micro-finance Institution S.C	1 001	73	0
Benishangul Micro-finance Institution S.C	425	60	100
Total	495 287	41	78

Source: IFAD (2001).

Community based organisations and the Informal Financial Sector

In Ethiopia only about 1% of rural households maintain bank accounts. Thus, the informal financial sector is one of the most important sources of rural finance and accounts for about 78% of total agricultural credit (Dejene Aredo, 1993). The major sources of finance in this sector are relatives and friends (66%), and moneylenders (15%). In Ethiopia, there are a number of commonly found community based indigenous savings and credit groups, which are also widely used by women. One of the Community Based Organisations (CBOs), known as *iqqub* is an informal, ad-hoc association organized by members for the purpose of pooling their savings in accordance with rules established by the group. Members agree to deposit monthly or weekly contributions of a fixed sum with an elected treasurer or, where accessible, in a bank. Lots are drawn weekly or monthly by turns and members in need can purchase the winner's lot by paying a premium.

The other common CBO is an *iddir* which is an informal association whereby savings are made primarily for the purpose of covering the cost of funerals or weddings. A *mehaber* is an informal,

religious association that draws its members from the church to raise money for medical and burial expenses. In this sense, moneylenders are well positioned, with terms and conditions that are quick, simple, convenient and flexible, for most accessible source of funds for the rural poor outside of family and friends, albeit at an annual rate of interest as high as 245% or more. Therefore, CBOs play a significant role in savings and beneficiary mobilization, and are considered to be effective ways of targeting clients as some of the CBOs are uniquely controlled and owned by women.

Savings and Credit Cooperatives (SACCOs) are almost entirely urban based with membership largely drawn from salaried employees and generally people who share a common purpose and locality. Currently there are about 670 urban SACCOs with approximately 150,000 members. Reportedly, these SACCOs have consistently performed quite well largely due to their political and financial independence. Most of the SACCO members are men. Members are required to save 3% to 5% of their salaries on a monthly basis. Borrowers are charged 1.5% per month and savers paid the regular bank savings rate, which is currently around 6% per annum. All cooperative societies, including SACCOs, are governed and supervised by the Regional Cooperative Promotion Bureaus.

Tenets of Micro-credit for Poverty Reduction

The following paragraphs will discuss some of the features which have been identified as best practices from lessons learnt in micro-credit programmes over the last two decades. These features have been developed over the years to make micro-credit accessible and manageable for the 'poorest of the poor', specifically women. Furthermore, it is through these features that it is expected that women should be empowered.

Loan amounts and loan management

The poor and the socio-economically vulnerable population are generally risk-averse. They prefer to borrow small amounts of money to meet a specific need, and do not like debt, lest they should lose even the few possessions that they have, in case of non-repayment. Thus, MFIs have a unique characteristic, providing very small loans, that makes them attractive to the poor and the vulnerable groups in Africa. However, in Ethiopia and in Malawi, field observations show that women who borrow these small amounts, do so only to survive a particular time period, usually an agriculture season. Discussions with MFI officers in Ethiopia revealed that women will borrow money and put it into two or three smaller investments which will range from daily to weekly income generation. This practice lasts for about four months which is the total repayment period at the end of which the borrower will return to her mainstream economic activity, in most cases farming and/ or home-based agro-processing.

In Malawi, the female entrepreneurs and petty traders investigated, undertake a similar practice. These women were not directly engaged in agriculture production and thus their loans were meant to be used as a business investment. Again the female clients showed a risk-averse characteristic which influenced the amount they borrowed. A similar pattern was observed in that a small portion of the loan itself was set aside to service the repayments. It was also observed that in some cases the total loan amount would be used to meet an unforeseen crises in the family, thus leaving the borrower and the family poorer and more exposed to external shocks. In order to correct this

situation, discussions with the female clients revealed that they would then turn towards the informal credit channels who would give her more time for repayment but at almost 100% interest rates.

The above example from Malawi highlights another issue which is observed commonly amongst the poorest of the poor borrowers, and that is the issue of fungibility. Fungibility is a greater risk to the borrower than the lender, because most lending institutions are more concerned with the repayment than what the borrower actually did with the credit. Therefore, as a group the poorest of the poor are more prone to make use of available funds where the need is the most, and it was observed that this group is also more likely to be exposed to vulnerability shocks.

This pattern of loan management and strategic use of the loan is typical of female clients who borrow very small amounts to survive, for example, an agriculture season. Field discussions with some MFIs in Ethiopia shows that at the beginning of every agriculture season, female clients have the same pattern in accessing credit and completing repayment during harvesting. Since the clients are highly risk-averse they will borrow only the amount that will get them through a critical period. They do not save from this amount and they do not generate any increased profits from investments made in their economic activities. Thus within the poverty reduction framework micro-credit delivered in this form and to groups characterised as poorest of the poor, with only small amounts accessible does not directly address the factors that are responsible for their continuous state of poverty. Micro-credit in this sense manages to alleviate the immediate risk of hunger which may result from poverty. Within the women's empowerment framework, the micro-loan amount and the loan management process does not create the platform for any form of negotiation in gender roles and/ or relation change. In order for the empowerment process to occur it would have been necessary for the micro-credit to enable the generation of sustainable income and observable physical change in the household vis-à-vis health, nutrition, etc. Thus, the poverty alleviation-micro-finance and gender process, as explained by Mayoux (2000), did not occur in the cases studied in Malawi or Ethiopia.

Interest rates

During the early phases of the 'micro-credit movement', one of the arguments for establishing special micro-credit delivery institutions aimed at addressing the needs of the poorest of the poor, was the issue of interest rates. It was argued that market interest rates were too high for the rural poor, especially the poor micro-entrepreneurs, female petty traders and vendors, to afford. Thus it was considered one of the issues hindering satisfactory access and increased outreach to the poor clients. These recognitions and the continued interest to fight poverty effectively resulted in applying subsidies, or slightly lower interest rates than those on the market, which would make micro-credit affordable but not entirely free. Since then new evidence shows that subsidised interest rates are actually detrimental to the competitiveness and growth of the poor clients and would make them further dependant on 'free hand-outs'. The resulting outcome from these two consecutive evolutions has been that most MFIs charge market interest rates. In addition, further administrative and risk premiums are also charged which result in MFI loans being more expensive than commercial loans. While some commercial banks charged an interest rate of between 44% to 46% (data collected during May 2001) per annum in Malawi, MFIs were charging as much as 68% to 74% per annum (also data collected during the same period). Nevertheless, the poorest of the poor may not be able to access the commercial loans because of the non-flexible lending criteria

of these big banks. Furthermore, because commercial banks are not prepared logistically to service the needs of the poor clients for very small amounts, MFI operations flourish based on comparatively expensive loans and taking advantage of the incompatibility of the commercial bank services to the needs of the small borrowers. Consequently, micro-credit programmes charging higher total interest rates actually may be contributing to the poverty status of the borrower.

The higher interest rates put an extra burden on the poor clients when repaying. Especially, because the predicament is that while the client's income may fluctuate depending on business, market and other external environment related factors, she has to make the repayment at a fixed time or loose whatever collateral she has put up. Thus, in order to make repayments, the borrower may dig deeper into her savings, profits, or other income sources, such as from the husband or children's work, resulting in increase in poverty at the household level. The issue of the high interest rates reflect the financial self-sustainability paradigm as explained by Mayoux (2000) and reconfirms the increased burden put on women for repayment of loans. Within the empowerment analysis, the high interest rates and resulting high repayment rates puts more stress on the women to conform to existing gender roles and relations because as noted in some cases in Malawi and Ethiopia, in order to meet the weekly repayments the woman had to depend on the husband's income. Furthermore, the high interest rates also had a negative impact on the poverty reduction capacity of the micro-loan since it did not result in sufficient income levels.

Savings mobilisation

One of the more common requirements of most MFIs is to encourage savings amongst the clients so that they develop an attitude of savings first and borrowing on that amount, and also to empower them, in the long term, to be independent of borrowing from external sources. Savings requirement also represent a form of collateral and allow the MFI to recover at least a small part of their outstanding loan in case of default. The issue of forced savings mobilisation and linking it to eligibility to borrow may contribute to increased poverty. Field discussions in Malawi reveal that most of the time the poorest of the poor do not have access to and cannot generate savings. Because a potential client will resort to other means to put up the necessary "savings" in order to qualify for the loan, she may, for example, borrow the money from the husband, making her further disempowered within the gender dimension. She may borrow from an informal moneylender at exorbitant rates to qualify for a comparatively cheaper loan. Therefore, field observations show that forced savings mobilisation, although meant to instigate a culture of saving discipline, does not match the realities of socio-economic situation of the poorest of the poor. This, however, does not deny the fact that voluntary savings, independent of loan eligibility, has become quite acceptable in many communities in Malawi and Ethiopia.

Group Mobilisation

Another issue arising in the discussion of targeting clients is that of group dynamics and mobilisation. One of the other features of micro-credit for the poor is the alternatives developed to collateral, namely group guarantees. Most micro-credit delivery mechanisms, whether community based or business oriented, request clients to form into groups in order to receive a loan. The group is meant to guarantee the individual borrower and to follow-up that the individual makes repayments on time because the group is a stakeholder and would not receive further loans if the individual defaults. In Malawi and Ethiopia, evidence from the field shows that groups form

around people of similar socio-economic and poverty characteristics. Also, in the majority of the cases groups are single sex; mixed groups have to be established by conscious design. Furthermore, because men want and can receive bigger loans based on physical assets or other forms of guarantee, they do not form into groups and usually qualify for individual loans. Group formation and peer pressure mainly serve the interest of the MFI in ensuring repayments and cutting back on their monitoring and follow-up costs.

Discussions with clients of MFIs in Malawi revealed that group lending methodology might not be the most suitable alternative that it is claimed to be. The obstacle reported is that some clients are more active than other group members, making their repayments promptly and at times even before the deadline. The difficulty arises for the active client when she wants a second loan, which she cannot get until the first loan cycle is completed. Therefore, those clients who cannot perform well and cannot meet the repayment deadlines delay the better-off clients from getting further loans. Discussions with the credit groups revealed that the more active clients soon become disillusioned by this process and drop-out of the credit programme altogether.

Targeting women – is this gender consciousness?

One of the important aims of MFIs is to reach women, and allow them access to resources which will empower them. Empowerment, however, is an elusive concept and also relative, which cannot be proven to exist in a standardised monitoring format (Pitamber, 1999). On the other hand it is true that many of the MFIs do reach women, but this is not a direct targeting strategy.

Recent data from discussions and interviews of MFIs in Ethiopia (field discussions July 2002) have revealed that many MFIs have above 50% female clientele. Although at the regional level female outreach is still weak, these figures for MFI performance are impressive. However, further investigation revealed that the high female clientele was not a direct targeting strategy in the interests of gender equity. Discussions revealed that women were simply better clients than men. Credit officers from the interviewed MFIs explained that firstly women did not demand high loan amounts, and therefore this did not pose a great risk for the MFI itself. Secondly, these women borrowers being normally risk averse were always punctual with their repayments. Thirdly, because the women were aware that they will need to borrow in the future from the same source they were very alert of the fact that they should maintain a good record with the MFI. Therefore, for MFIs and other micro-credit delivery mechanisms focusing on women as clients made better business sense and contributed to business profits and sustainability.

As mentioned earlier, MFIs are not necessarily welfare oriented and therefore they will promote those products which fit the needs of their "best customers". Women in this case have proven to be very good customers and therefore those MFIs which have a majority female clientele do so not out of gender sensitive and equity promoting mind-set. From a gender analytical framework, not all the MFIs or their staff are always capable of pursuing gender equity strategies in their operations. Furthermore, the fact that more and more women are being targeted for micro-finance outreach within existing standardised operations procedures and policy, may indicate that poverty amongst women is likely to increase disproportionately, more so because of poverty implication of loan amounts, interest rates, repayments, etc. as mentioned above.

MFI structural inconsistencies and mismatch for poverty reduction

Micro-credit for small economic activities, excluding actual agriculture production, can be considered as a 'quick money making business'. In Malawi, for example, field data shows that a majority of the MFIs operating are internationally based. These MFIs may also have operations in other countries in the region using the same methodology and credit delivery mechanisms, with only slight variations to match the country environment. Repayments start immediately and are either made weekly or bi-monthly with a repayment period averaging four to six months. Thus the end objective of each lending operation is mainly the recovery of the capital and interest and to continue lending.

One of the other operations characteristics of MFIs is to provide training to first time clients on business development, loan application requirements and repayment procedures. Again in Malawi, evidence from the field discussions shows that many MFIs prefer to design their own training programmes and manuals. Thus, clients may have been exposed to at least two or three different training programmes over a period of time. This eventually complicates matters further for the borrowers who tend to develop an aversion to dealing with multiple MFIs. Moreover, although the training is deemed important to introduce the discipline necessary, the MFIs do not always have their own officers delivering the training. In Malawi, for example the community development agent (a field staff of the Ministry of Gender, Youth, and Community Services) is recruited on an incentive payment basis to deliver the training to the targeted groups on behalf of the MFI. These CDAs are already over-loaded because most donors make use of them in order to deliver all kinds of services to the community level. Thus a CDA may be delivering two or three different kinds of training, on different issues to different communities, the net time allocated for a particular group may be an hour a week. This eventually makes a particular micro-credit training an extended duration of about ten to twelve weeks. The result of this weakness in training delivery is that most of the time the actual credit disbursement does not match the time of need for the credit.

Both in Malawi and Ethiopia, field evidence suggests that there is a phenomenon of territorial prejudices in MFI operations. In Ethiopia the MFIs are themselves limited to a specific region by government regulation. In the case of Ethiopia, this gives a particular MFI a monopoly advantage in the region and exclusive operations rights. This has a negative impact on operations efficiency, competitiveness, and service quality for the end user clients. Discussions from Malawi revealed that about five to eight years ago, differences in micro-credit delivery strategies resulted in social inequalities and disruption. Some programmes pursued subsidised interest rates with a grace period, while others followed market interest rates and immediate repayments. Thus it affected the social cohesion in the communities because some households benefited from the cheaper loans while others had to pay more expensive charges. Although, coordination in micro-credit delivery has improved since then, field evidence reinforces the argument that MFIs in particular are not in a position to actually reduce poverty, rather they are in the business of providing finance to those who qualify.

Concluding Remarks

One of the most important outcome of the analysis in this paper has been that while most MFI programmes aim to reduce poverty and empower women through their programme, there is usually no clear implementation mechanism to fulfil these aims; they continue to be programmes with the same requirements and characteristics. Furthermore, one of the major constraints in the discussion of gender and micro credit is the inadequate and insufficient participation of the female clients themselves in the design of the programmes. For example it would be better suited to define what empowerment means to a certain group and then design the project to enable women to achieve this empowerment level. Perhaps the second most important constraint is the insufficient empirical evidence from Africa. The micro credit model most commonly replicated and known internationally was to a great extent born in South East Asia and Bangladesh particularly. Thus, much of the research and studies on successes, failures, weaknesses and opportunities of micro credit are measured with this framework and context in mind. This is a mismatch which is most likely to brand the African experience to be "inadequate".

Micro-credit programs have progressively increased over the last decades in Africa. In comparison, there is nearly no convincing and/ or comprehensive evidence to show that poverty has been reduced sustainably amongst a certain group of clients. Indicators such as repayment rates and "demand" for credit do not result in poverty reduction; they simply mean that there is a "need", as always, for more resources. Furthermore, repayments being made simply indicates that the clients are in a position to payback, where and how they get that payback amount is not scrutinised. Despite such evidence, micro-credit delivery programmes are on the rise, more than ever before. In Malawi alone there are more than twenty nine micro-credit delivery programmes, projects and institutions. Donors too are infatuated by micro-credit as the answer to all development problems. However, they view it from a supply side scenario, and very little time is devoted to analyse 'what kind of credit is desired' by the potential clients.

One of the misconceptions amongst practitioners is that an MFI targets the ultimate poorest of the poor, the landless, the assetless, and the destitute. However, the paper has demonstrated that for an MFI such a client profile will not ensure returns and increase profits, and it is precisely such a beneficiary profile that is unattractive and unlikely to become a potential client. The changing policy environment, thus, puts more pressure and competition for the scarce resources between the poorest of the poor and the "not-so-poor". This paper has highlighted the fact that since development interventions put greater focus on, for example, export markets, trade promotion, and medium scale farmers and entrepreneurs, the actual micro-credit clients are not the typical 'hand-to-mouth' poor.

The analysis in the paper has discussed the practices of MFIs as units in the business of delivering finance and making profits or at least recovering investments and other costs. Through the analysis of the different features of micro-credit, the paper has raised some questions and concerns on the absolute validity of micro-credit as a poverty reduction mechanism. The factors analysed revealed that there are certain undesired effects of micro-credit delivery, which may hinder the process of poverty reduction. The paper underscored the concern that in the present system, micro-credit at best may help to reduce the depth of poverty of a client and that too for an unsustainable time period. This paper, thus raises some preliminary analytical issues which should be considered carefully in future micro-credit interventions for poverty reduction. Moreover, the analysis of the

issues also provide an outline of some areas for further investigations and research which can be both policy and action oriented.

Finally, the paper has highlighted the fact that the micro-finance industry and the development agents have become too slow in responding to the changes occurring amongst the poorest of the poor. In this, the paper has shown that most MFI programmes have been replicating the loan delivery mechanisms and strategies without critical evaluation of the needs of the clients.

The paper has also questioned the assumption that MFIs through delivering credit empower women. Evidence from the field has shown that many MFIs in both Ethiopia and Malawi do specifically target women as clients. However, this is mainly due to the fact that the characteristics of these micro, short repayment period loans, are best suited to female clients. But the empowerment process which is assumed to occur as a result of these loans, is impeded by the micro size of the loan, the small returns from the use of the loan, and the fact that the returns themselves are still not always the major contributor to the family income in the case where the husband is also earning an income. However, it was also noted that some indicators of empowerment could be verified in the case where the woman benefited from at least the fifth cycle of the micro-credit. In this case the accumulated benefits of the previous loans and their incomes, as well as the increased experience of the female in managing the loan efficiently contributed to her increased and autonomous decision-making powers in the household and the community affairs.

The paper has also demonstrated that the features that makes micro-credit 'suitable' for the poor are to a large extent themselves responsible for the inability of the female clients to expand their businesses, or graduate to bigger loans, and eventually be socially and economically empowered. These features create the environment which will limit the female borrower to accessing the same kind and amount of loan whenever the need arises. Therefore, the paper has indicated that in order to achieve poverty reduction through the micro-credit, the characteristics of such micro-finance loans need to be reviewed and adjusted to the contextual needs of the poor, since the poor and in particular women are not a homogenous group. Furthermore, the paper has demonstrated that empowerment is not an automatic result of accessing micro-credit. Therefore, an empowerment process will only be initiated through specific and targeted gender and empowerment training both for the MFI staff and for the female borrowers. For example, it was seen that in the cases where such training was provided, in donor designed MFI programmes in Malawi, women's awareness to themselves, to their use of the income, as well as management of community and other out-of-home affairs was much more effective and carried out with greater confidence, than otherwise was verifiable.

The findings of this paper have certain implications for the design of future micro-credit interventions for poverty reduction as well as gender and empowerment. Firstly, proposed micro-credit interventions should undertake a thorough investigation and invite the complete participation of the targeted communities and in particular record the voice of the women. Most rural communities in Africa do practice some type of micro-credit lending and repayment, whether it is an informal rotating savings group, or with the informal money lender, or any other form unique to a specific context. Therefore, new and more formal micro-credit interventions will be able to learn a lot and as well improve efficiency in targeting the clients, initiating an empowerment process, and as well as reducing poverty by understanding and including local knowledge and best

practices. Furthermore, more emphasis should be put on identifying the poor and their life characteristics in order that the programme meets their specific needs. Secondly, each new intervention should develop and include a set of monitoring indicators on the performance of the micro-credit programme vis-à-vis poverty reduction and gender and empowerment process; these indicators should be identified by the target clients and communities. Furthermore, the intervention should include a mechanism which will allow changes and modifications to be made in the programme when the implementation does not meet targeted and planned indicators. Thirdly, gender roles and empowerment sensitisation training should be a standard compulsory activity in all micro-credit delivery programmes. Last but not least, micro-credit programmes, because of their potential for wide rural outreach, should be used as a platform to address major development challenges which may have a negative impact on the performance and progress of the micro-credit loans by clients. These challenges are mainly, raising awareness and mitigating the spread and impact of HIV/ AIDS in a targeted community, and designing a programme activity on providing functional literacy and alphabetisation.

Recommendations for future research

In light of the conclusions drawn above, there is a need for further policy and action oriented research and in-depth investigation. First and foremost, there is a need for extensive empirical evidence to verify and ascertain the capabilities of micro-credit in reducing the depth and scope of poverty. Specific attention, investigation and analysis needs to be given to the characteristics of micro-credit delivery mechanisms and strategies that are in existing practice. In this, there is a need to investigate and identify innovative approaches to micro-credit delivery that will reduce poverty sustainably. In addition, there is a need to analyse the features and characteristics of micro-credit within a gender and empowerment framework, and to question the extent to which access to credit and income generated thereof gives women in rural Africa the power and confidence to negotiate gender sensitive division of labour, roles, authority and decision-making autonomy.

Furthermore, based on the observation that profit oriented MFIs have a better outreach in the rural areas, there is a need to further investigate and integrate poverty reduction mechanisms and strategies within existing MFI structures. In this regard, further investigation can be carried out to establish viability of means and ways to place greater demonstrated accountability for social and economic poverty reduction on the MFI together with the government.

On a more macro level there is a need to analyse the poverty reduction and economic growth trade-off when targeting the ‘not-so-poor’ versus targeting the ‘poorest of the poor’ within the micro-credit industry and framework. In this, specific attention can be given to the debate on providing relief and/ or grants to achieve meaningful poverty reduction.

Last but not least, there is a need to identify possibilities of merging the positive aspects of commercial banking, such as the comparatively lower interest rates, with the advantages offered by the MFI, such as satisfying the needs of the micro-borrower, whereby allowing borrower to have maximum benefit in the process of poverty reduction. Therefore, empirical evidence and case studies analysis should be carried out to understand clearly the differences and similarities of these two forms of institutions and where they can come together for effective poverty reduction and empowerment of the poor.

Note and References

1. Chronic Poverty Research Centre – University of Manchester.

African Development Bank (2002) African Development Report: Rural Development for Poverty Reduction in Africa. Abidjan, Côte d'Ivoire.

Berenbach, Shari and Diego Guzmàn (1999) The Solidarity Group Experience Worldwide. Monograph Series No. 7, ACCION International, Washington D.C, U.S.A.

Chao-Beroff, Renee (1999) The Constraints And Challenges Associated With Developing Sustainable Micro-finance Systems In Disadvantaged Rural Areas In Africa. UNCDF/ SUM Thematic Paper.

Dejene Aredo (1993) *The informal and semi-formal sectors in Ethiopia – a study of iqqubs, iddirs, and savings and credit cooperatives.* University of Addis Ababa, Ethiopia.

Dejene Aredo (1999) *Rural Finance in a Transition Economy: The Ethiopian Case.* In: Meheret Ayenew and Berihun Alemayehu (eds.) The role of professional management in transition to good governance and market oriented economy in Ethiopia. Addis Ababa.

Glewwe P.; Hall G. (1998) Are some groups more vulnerable to macroeconomic shocks than others? Hypothesis tests based on panel data from Peru. Journal of Development Economics, June 1998, vol. 56, no. 1, pp. 181-206(26).

Hashemi S (1997) *'Those Left Behind: A Note On Targeting The Hardcore Poor'* in Wood G and I Sharif (eds.) 'Who Needs Credit: Poverty and Finance in Bangladesh', Zed Books; London, U.K..

Holt, Sharon L. (1994) The Village bank Methodology: Performance and Prospects. In: M. Otero and E. Rhyne (eds.), The New World of Micro-enterprise Finance: Building Healthy Financial Institutions for the Poor. Intermediate Technology Publications, London, U.K.

IFAD (2001) Revisiting the Regulatory and Supervision Framework of the Micro-finance Industry in Ethiopia.

Khandker (1998) *'Fighting Poverty with Micro credit'* Oxford University Press, U.K.

Magill, John, H. (1994) Credit Unions: A Formal Sector Alternative for Financing Micro-enterprise Development. In: M. Otero and E. Rhyne (eds.), The New World of Micro-enterprise Finance: Building Healthy Financial Institutions for the Poor. Intermediate Technology Publications, London, U.K.

Mayoux, L. (2000) *Micro-finance and the Empowerment of Women: A review of Key Issues.* The Social Finance Unit, ILO, Geneva.

Mosley, Paul and David Hulme. (1998) Micro-enterprise finance: is there a conflict between growth and poverty alleviation?' World Development Vol. 26/5

National Economic Council (2000) Poverty Profile of Malawi. Lilongwe, Malawi.

Negash, Z., S. L. Narayan, W. Amha, A. Abegaz, A. Girmay (eds.) (2002) Micro finance: Theory, Policy and Experience. Faculty of Business and Economics, Mekelle University, Ethiopia.

Otero, M. and Rhyne, E. (1994) The New World of Micro-enterprise Finance: Building Healthy Financial Institutions for the Poor. Intermediate Technology Publications, London, U.K.

Pitamber, Sunita (1999) Women in the Informal Sector in Khartoum: Between Poverty, Entrepreneurship and Empowerment. Lit Publishers, Hamburg, Germany.

UNDP (2001) Choices for the Poor: Lessons from national poverty strategies. New York, U.S.A.

UNDP (2001a) Human Development Report – 2001. New York, USA.

von Pischke, J. D. (1996) Finance at the Frontier: Debt Capacity and the Role of Credit in the Private Economy. EDI Development Studies, The World Bank, Washington D.C., U.S.A.

Zaman, Hassan. (1999) Assessing the Impact of Micro-credit on Poverty and Vulnerability in Bangladesh. Working Paper No.: 2145. World Bank, Washington D.C. USA