Findings occasionally reports on development initiatives not assisted by the World Bank. This article is one such effort. The views expressed here do not necessarily reflect the views of the World Bank Group, the Government of Ethiopia, Redd Barna or Irish Aid.

Ethiopia: Two Microfinance Delivery Programs

Financial Institutions in Ethiopia

Formal financial institutions in Ethiopia have traditionally focused on the accessible urban towns leaving rural areas, where the majority of the population resides, without access to financial services. Recognizing this problem, a number of development agencies such as Redd Barna and World Vision started to provide access to financial services to the poor in rural areas in the 1980s. They undertook income generation programs (IGPs) by forming saving and credit schemes (SCS). Credit to the rural poor was provided in the form of grants, and agricultural inputs. Women were the primary targets of these programs.

Leading Practitioners

This study summarizes the findings of action research conducted on microfinance institutions in Ethiopia, with focus on the performance of Redd Barna and on Irish Aid-supported program. Action research facilitates the exchange of information on innovations and experiences so that other microfinance institutions may learn from each other’s mistakes and replicate best practices. The extended study on which this article is based addresses their mode of operation, organization, legal framework, as well as the financial and non-financial services they offer. The focus is on one urban and two rural and savings and credit schemes.

Redd Barna

Objectives and Evolution

Redd Barna, also known as Save the Children—Norway, is an international NGO, which has been operating in Ethiopia since 1969. Its program areas focus primarily on child welfare and health, education, agriculture, and income generation. The objective of these programs is poverty alleviation. Income generation activities (IGAs) were introduced to Redd Barna Programs in 1988 and are now a component, through Savings and Credit Cooperatives (SACC), in most Redd Barna Ethiopia’s projects.

Structure of the Microfinance Program

In urban areas, associations have been formed, and in rural areas, informal self-help women’s groups were organized to develop the SACCs. In all these associations, saving is an integral and complementary obligation to ensure sustainability and was con-
sidered key to increasing the
commitment of the participating
members during the formation of the
schemes. A group or an associa-
tion willing to form an SACC must
first come up with some minimal
starting capital collected from
members in the form of mem-
bership and registration fees, and
through periodic savings.

Both in the rural and urban pro-
jects, Redd Barna provides these
schemes with some basic starting
capital or a grant in order to
strengthen their loan disburse-
ment capacities and support their
sustainability. Along with the
grants, they are also given techni-
cal support such in areas such as
group formation and management.
Formal training is given in basic ac-
counting skills, savings and credit
procedures and records keeping.

Objectives and Evolution

Irish Aid is the development coop-
eration organization of the Irish
government. It started supporting
community development pro-
grams in Ethiopia in 1994 after the
signing of a technical co-operation
agreement. Currently, it is sup-
porting development programs in
Eastern Tigray—Adigrat, Gurage
and Sidama zones of the Southern
Ethiopia Peoples' Region (SEPR)
and the Jimma Health Institute.
The major areas of intervention
are health, education, agriculture,
infrastructure and capacity and in-
stitutional development. The
agency also provides credit facili-
ties to rural poor women.

Impact

Many respondents to the survey
carried out by the study team were
very positive about the program's
impacts, especially women who
have been able to transform/ex-
 pand their businesses. All those
interviewed and a great number of
the women who deal in petty trade
(selling injera, gesho, tella, onions,
shiro, tomatoes, spices, beans, peas,
butter, etc.) are satisfied
with RB-E’s intervention. Con-
sultations with a number of clients
of the SCS contacted indicate
that the saving and credit
schemes have helped them im-
prove their livelihoods, and has
had a positive impact on the lives
of their children. Their nutritional
status has also improved consid-
erably. Those engaged in selling
injera indicated that they were
both feeding their family and mak-
ing a limited amount of income
from their business.

Structure of the Micro-finance
Program

The SIDAMA Savings and Credit
Scheme started in May 1995. Now,
it operates in eight of the nine
Weredas (districts) in the zone. It
follows the existing government
structure of Kebele (village) and
Wereda, and works closely with
the Bureau of Agriculture (BoA). It tries to emulate, more or less, the Grameen Bank of Bangladesh micro-financing model. The formation of a center is designed in such a way that five women voluntarily form a group and four groups form a center. In mid-1997, there were 3,380 women members in the 169 centers over the eight Weredas. By the end of the year, there 7,500 women members.

**Outreach and Targeting**

The three sites in Sidama zone selected for this study are all rural. The clients of the SACC schemes in all these sites are women. In fact, of the total population of 3.7 million in Sidama, 48% are women. The average number of children per woman in Sidama is very high (about 6.25 children per client). In a society where having a large family is considered a blessing, the economic pressure on the breadwinner to maintain the family is intense. Most of the clients interviewed indicated that they were unable to send their children to school simply because of their inability to pay.

In Sidama, as in Ethiopia generally, women have limited or no access to and control over resources such as farm produce, property, cash, land, cattle or any form of assets. The husband decides on the use of the family resources as he sees fit. Sidama is a polygamous society where the mother is responsible for the food needs and the general welfare of the husband.

**Financial Performance**

The Sidama SACC was established in May 1995. By the end of 1996, it had:

1. **combined individual savings of 138,000 Birr**, (i) and
2. **combined groups savings of 34,500 Birr**, and
3. **combined center savings of 36,000 Birr**. (iii)

This amounts to a total of 208,500 Birr in savings from the 169 centers. Though the amount may not be very significant given the number of beneficiaries, 3,380 in the 169 centers, the centers were sufficiently equipped to handle the loan requirements of their most needy members at any given moment. Among the most admirable performances of this scheme is its repayment rate on the principal—an impressive 97%.

The program has been able to instill a sense of obligation in the participants regarding the need to repay their loans. Borrowers have also been helped to understand the need for saving.

**Impact**

The targeted support provided by Irish Aid has improved the socio-economic status of many vulnerable women facing difficult conditions. It has enabled them to send their children to school and pay for their clothing and stationery. It has also relieved domestic tension resulting from the inability of the husband to pay for household expenses.

According to clients interviewed in the three centers, a major impact of Irish Aid's intervention has been the liberation from money-lenders, who used to be the sole providers of credit. In that situation, poor producers and traders had to agree to 100 percent interest on the principal during the following harvest season, before any credit could be provided.

Like many other societies in Ethiopia, Sidama has never allowed women to engage in trade and the husbands were initially very reluctant to allow the women to do this through their participation in the SACs. According to the women clients, a really significant change that has taken place since the credit and saving scheme was introduced into these communities has been the attitudinal change, as for example, with regard to women participating in trade. In fact, some husbands now keep their wives informed on profitable trading activities.

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