

# Impact of credit as perceived by resource-poor Ethiopian households

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## Abstract

*Severe land degradation, low land productivity, proneness to drought, and consequently chronic food insecurity characterise the wereda of Atsbi-wemberta in Tigray, northern Ethiopia. Possibilities to enhance agricultural activities are limited, therefore the poor have to diversify their range of income-generating activities. Financial capital is one part of a sustainable livelihood, as all activities require basic capital to get started.*

*This paper reports on the results of a survey in 97 households and 5 group discussions, carried out in 2002. Survey results were analysed using SPSS. The impact of formal and informal credit on households' livelihoods as perceived by them were investigated.*

*Generally, the interviewed households perceived having access to credit as positive. Especially valued was the importance of credit for their self-esteem by enabling them to take up some activity and consequently being less dependent on food aid. But several households had examples of DESCI clients, the local micro-finance institution, being worse off than before, lacking the skills to successfully invest the money. Additionally, many clients had used credit for food consumption and experienced problems repaying, having to sell their scarce livestock. Mostly, households agreed that informal credit consisted of too small sums and regarded formal credit to have a greater impact. But, there were also indicators that the formal and informal credit market complement each other, being used for different purposes, and informal credit being less bureaucratic. Informal credit from friends or relatives was widely used, often in times of temporary problems to smooth food consumption or pay for additional expenses, e.g. social events.*

## 1 Introduction

The capacity to diversify incomes is critical for the survival capabilities of the rural poor, because poor households are more vulnerable to seasonal factors and risk than better off households (REARDON 1997; ELLIS 1998; HUSSEIN and NELSON 1998). Financial capital is a necessary precondition for diversifying, and lack of credit is widely acknowledged as a constraint on potential diversification (DIAGNE and ZELLER 2001). Access to credit is of particular importance for women and especially female-headed households (FHH) of the study region, Atsbi-wemberta wereda, Tigray, Ethiopia. Although women in Ethiopia have the same legal status in terms of land right, they face more problems in acquiring credit than men due to a lack of productive assets and cultural barriers (VILEI 2002).

## 2 Materials and methods

This study was investigating if the provision of micro-credit can have a significant impact in improving the situation of poor households, particularly FHH, within the resource-limited study region, Atsbi-wemberta wereda, Tigray, Ethiopia.

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FHH were either self-defined by the households, or no adult male aged 15-60 (inclusive) was a member of the household. The micro-finance scheme in operation in the research area is the Dedebit Savings and Credit Institution (DESCI). It is structured around the formation of small, local credit groups, and uses peer groups as means of collateral. Other credit services in the area are available from the Women's Association of Tigray and World Vision. Since their outreach is very limited and credit can only be taken once, no data about these services is included here. DESCI offers saving accounts additionally to their credit service. Because the impact of this programme was considered as being very small by the respondents, it is not covered in this paper.

Both, a survey and group discussions were employed for data collection and carried out with the help of a translator. The survey covered data about respondents' assets, livelihoods, size and use of credit, as well as the impact of credit and included 65 male headed households (MHH) and 32 FFH. Five group discussions were carried out, each consisting of 6 to 8 women from different backgrounds, from both MHH and FHH. Group discussions were used to acquire more valuable data about respondents' attitudes towards credit and to strengthen findings, which emerged from the survey.

Data collection took 6 weeks and was carried out from February to March 2002. The survey was analysed using SPSS 11.0. Respondents were aged from 18 to 60 years, younger or older respondents mostly have no access to credit and were not included in this study.

### 3 Results

Table 1 shows that for both credit from DESCI and from informal sources MHH were borrowing more money on average than FHH, in the case of DESCI the difference was significant ( $p=.002$ ).

Table 1. Average size of loans of survey participants in Ethiopian Birr for female headed households (FHH) and male headed households (MHH).<sup>3</sup>

source of loan	FHH				MHH				t-test sig.
	n	min	max	mean	n	min	max	mean	
DESCI	15	100	1600	468	32	300	2500	918	.002
informal credit	10	20	260	137	17	54	750	243	.115

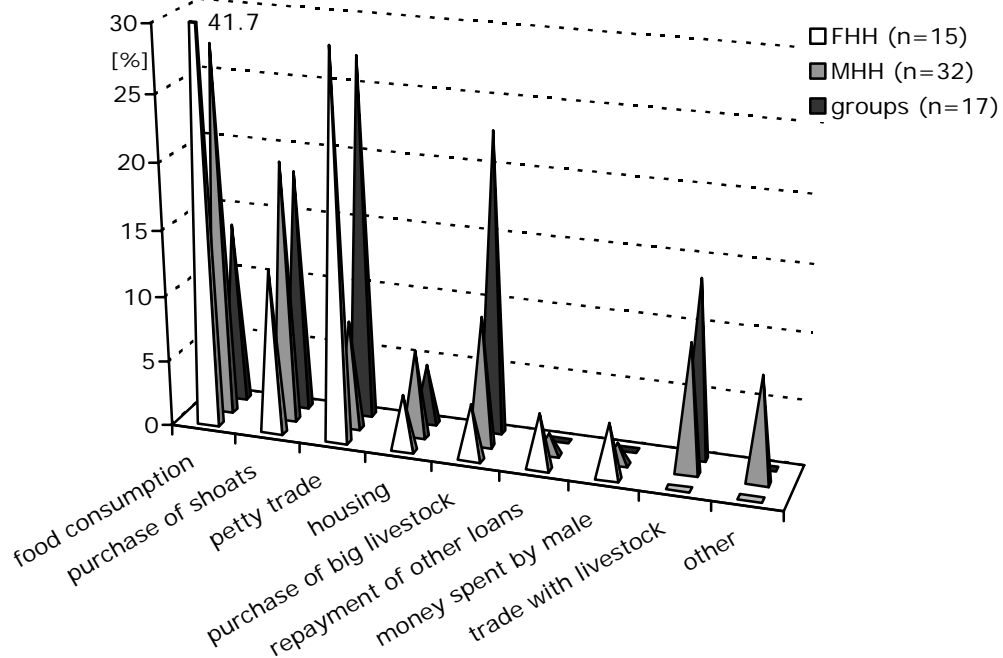
Eleven percent of respondents using informal credit were borrowing from moneylenders at interest rates of up to 60%. Mostly, they were borrowing money from relatives, friends and neighbours without any interest rate and without the need for collateral.

In both the household survey and the group discussions respondents stated different opinions about informal credit and the impact it can or cannot have. Some valued the low risk connected with informal loans from relatives and left the DESCI scheme because of the fear of risk con-

nected with the uptake of credit. Some were active participants in the DESCi loan scheme, but were still borrowing money from relatives or friends when they needed to cover additional expenses, e.g. social events. Many women participating in the group discussions stated that they prefer credit from DESCi because of the much higher sums they can borrow. But because of their discontentment with DESCi regarding several issues, such as inflexible repayment conditions or misuse of staff, they preferred informal credit. And accepted having less profit and sometimes being hindered in pursuing the kind of business they would have liked to, but having to rely on a lower return activity, such as cereal trade, basket making or sale of home-brewed beer.

The use of loans from DESCi and informal sources was not very wide ranging and limited to few activities (see Figure 1 and Figure 2). DESCi was used for a wider range of activities, often requiring more money - purchase of oxen, cows, trade with livestock, etc. - while informal credit was used for fewer activities requiring less input, such as purchase of seeds, purchase of small livestock and social events.

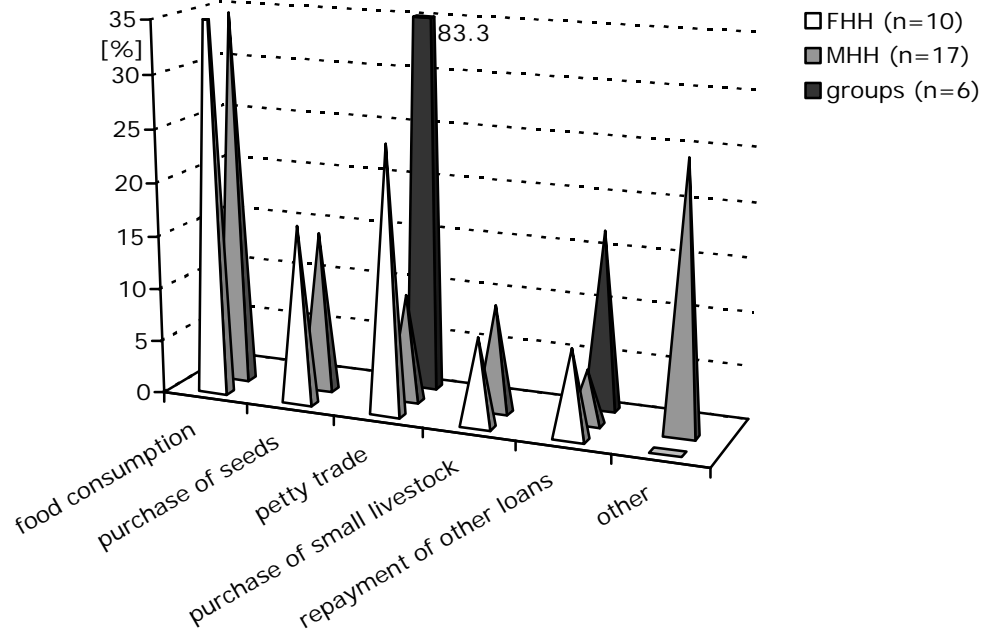
Figure 1. Use of DESCi loans by female headed households (FHH), male headed households (MHH) and group discussion participants.



(a) Other contains purchase of seed, social events, purchase of bees;  
 (b) Multiple-response analysis was used, percentage represents percentage of respondents.

<sup>3</sup> At the time of the study (2002), 8 Ethiopian Birr equalled 1 Euro, or 1 US Dollar, approximately.

Figure 2. Use of loans from informal sources by female headed households (FHH), male headed households (MHH) and group discussion participants.



(a) Other contains health, housing, clothes and social events;  
 (b) Multiple-response analysis was used, percentage represents percentage of respondents.

The idea of micro-credit schemes is to invest money in order to generate more income in return. This seems difficult when the money is spent on food and was noted as a problem by respondents from both the survey and group discussions. Having spent their money on food, many had to sell their livestock in order to meet their repayment obligations, examples of both positive and negative experiences with DESCi are listed in Box 1.

Box 1. Statements from group discussion participants about negative and positive impact of DESCi loan.

Divorcee, 3 children: "I took a loan from DESCi in 2000 and 2001, first 200 Birr, then 400 Birr. Informally I was given an orientation that I should do trading, but I do not know how to do business. So I spent it all on food and had then problems repaying in time. I do not want another loan, because now I am worse off than before and had to sell some livestock to repay."

Married woman, mid 30's, 6 children: "I took already three times a loan from DESCi, between 1000 and 2000 Birr. The first loan was used for house construction and trade with cereals. Next year I used it again for cereal trade and used the profit to secure the households food consumption. The third one will again be used for cereal trade. Through credit the household is food secure, I can send my children to school, buy clothes for us and have a nice house."

To investigate further if clients were using credit for income-generating activities, they were asked if credit was used for starting new activities. Nearly half of all FHH (48%) were using credit to start a new activity while only 39.1% of MHH were doing the same. Activities differed depending on gender of the household head: FHH were mostly trading cereals, where low returns

can be expected, while MHH were mostly trading or rearing big livestock, such as cattle, where higher returns can be expected (Table 2).

Table 2. New activity of female headed households (FHH), male headed households (MHH) and group discussion participants started with credit in percent.

	FHH (n=12)	MHH (n=18)	groups (n=20)
petty trade	25.0	33.3	40.0
trade with cereals	50.0	5.6	25.0
trade with livestock	-	33.3	25.0
small livestock rearing	8.3	16.7	10.0
cattle rearing	-	11.1	-
brewing beer	16.7	-	-

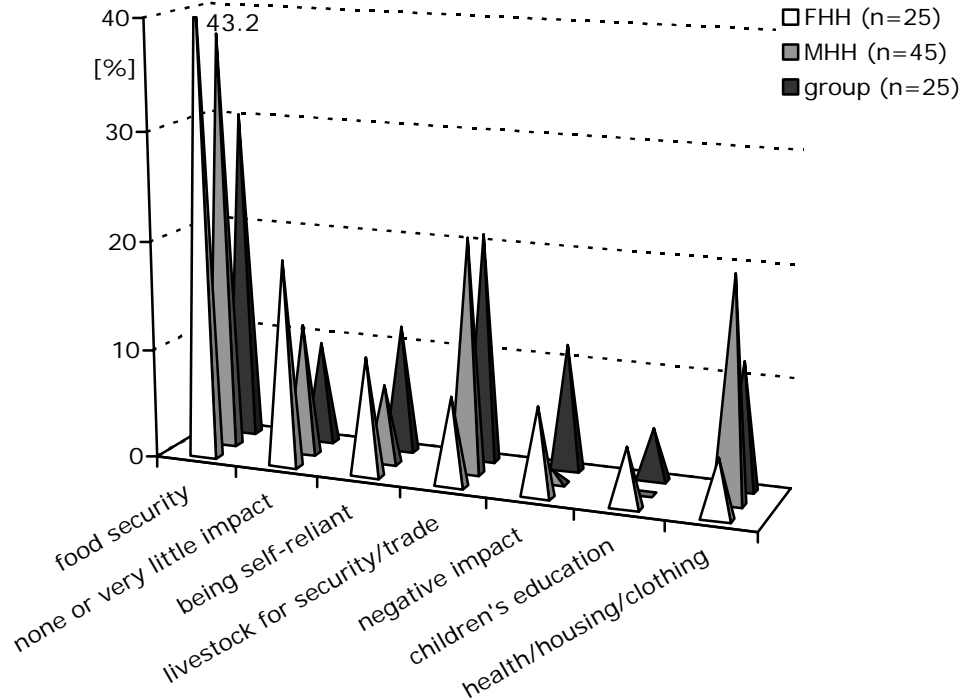
Unfortunately, many households (46.6%) were not successful with their new activity. Although FHH were mostly investing in low-profit activities, they were slightly more successful than MHH: 58.3% were still engaged in their new activity compared to male respondents (50.0%). Table 3 lists the reasons for stopping new activity started with credit.

Table 3. Reasons why female headed households (FHH), male headed households (MHH) and group discussion participants stopped activity started with credit in percent.

	FHH (n=5)	MHH (n=10)	groups (n=13)
no success	60.0	70.0	30.8
no time	20.0	20.0	7.7
pregnancy	20.0	-	30.8
age	-	10.0	7.7
have no access to credit any longer	-	-	15.4
bad health	-	-	7.7

Respondents were asked in an open-ended question what kind of impact credit had on their lives. Both FHH and MHH considered the food security of the household the most important factor which credit can have an impact on, although FHH still put more emphasis on the importance of food security (Figure 3). FHH generally tended to judge the impact of credit more negatively than their male counterparts, with 27% of FHH stating that credit had had no impact on their lives or had even worsened their situation compared to 13.2% of MHH. Two spouses complained that their husbands had spent the money for themselves and not for the benefit of the households. As a consequence the households had to sell some of their livestock to meet their repayment obligations. Other gender specific differences were observed: impact on children's education was only reported by FHH; housing, impact as risk-coping strategy and on health was only reported by MHH. Answers from the women participating in group discussions were different in some points from those given by FHH during survey interviews. They mentioned health, housing and risk-coping, and put less emphasis on the impact of credit on food security.

Figure 3. Areas credit had an impact on as perceived by female headed households (FHH), male headed households (MHH) and group discussion participants.



Multiple-response frequency was used for analysis, percentage represents percentage of respondents.

The impact of credit was discussed in more depth during the group sessions. When asked for impact of credit, all participants automatically thought about formal credit. Informal loans were not immediately considered being credit, as the use of informal sources in times of need is widely used, but often not to a very extended amount. Generally they perceived the possibility of having access to credit when needed as positive. Not only did the women see it as a possibility to acquire the necessary means for some business activities, they also appreciated the impact of credit in times of food shortage, releasing the pressure on the household. Many women mentioned the feeling of self-esteem that comes with an independent credit organisation, where they no longer have to rely on relatives or money lenders and beg them for money. All women though had reports of negative experiences, either their own or acquaintances, where households were indebted by credit.

To further investigate the impact of credit, respondents were asked to rank the importance of formal and informal credit for the following items: food security, education of children, health, building up livestock, agricultural input, micro-enterprise, other. The one item credit was most important for received 5 points, the following one point less, the fifth one received 1 point. Results for MHH and FHH are presented in Table 4 and Table 5. Regarding formal credit the three most important factors were food security, health and education of children. The main difference

was that only FHH mentioned clothing and only MHH housing. In relation to informal credit both groups perceived again food security and health as being most important. One difference was that FHH valued the importance of informal credit for the education of their children and for their micro-enterprise activities much more, while MHH valued the importance for agricultural input and the building up of livestock more.

Table 4. Importance of formal credit (ranking from 5=most important to 1=least important) as perceived by female headed households (FHH) and male headed households (MHH).



FHH (n=18)			MHH (n=37)	
food security	1.17	<b>more important</b>  <b>less important</b>	education of children	1.73
Health	1.00		food security	1.57
education of children	0.72		health	1.46
agricultural input	0.50		building up livestock	1.38
clothing	0.44		agricultural input	1.03
micro-enterprise	0.33		housing	0.19
building up livestock	0.28		micro-enterprise	0.11

Table 5. Importance of informal credit (ranking from 5=most important to 1=least important) as perceived by female headed households (FHH) and male headed households (MHH).

FHH (n=11)			MHH (n=16)	
education of children	0.82	<b>more important</b>  <b>less important</b>	food security	0.88
food security	0.73		agricultural input	0.38
health	0.55		health	0.37
micro-enterprise	0.27		building up livestock	0.13
			education of children	0.06
			micro-enterprise	0.06
			housing	0.06

## 4 Discussion

Certainly the best starting position for all households is not to need any credit and be able to cover temporary problems from ones own resources; but this is not always possible. This is where formal credit can have an impact, as the informal credit, which can be acquired from others who are nearly as poor as oneself, is not sufficient for some bigger investments, such as an oxen or livestock trade. However, there is also risk connected with credit if the scheme is not tailored towards the needs of the clients (MAYOUX 1999; MONTGOMERY 1996). Given that FFH are more dependent on off-farm activities than agricultural production, strategies to increase women's scale of economic activity as well as diversification of income would seem to be called for (WHITHEHEAD and KABEER 2001).

## 5 Conclusion

Training for poor people who have few skills seems a likely precondition for successfully lending out money. A different model of lending to the poorest may be required, focused on the provi-

sion of saving facilities, simple insurance facilities (e.g. against drought) and small consumption loans with flexible repayment periods.

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