



Deutscher Tropentag, October 8-10, 2003, Göttingen

“Technological and Institutional Innovations
for Sustainable Rural Development”

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 clients of the Debit Savings and Credit Institution (DESCI), 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, e.g. to smooth food consumption, or to pay for additional expenses, e.g. social events. The assumption that female headed households are more interested in diversifying their range of income sources and might therefore be more in need of credit, did find supporting evidence in this study. They were more often engaging in new activities with their credit than male headed households. To conclude, having access to credit certainly can improve the livelihoods of some poor households, but has to be part of a wholesome approach.

Keywords: Female headed households, micro-finance, sustainable livelihoods