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Can Credit Improve the Livelihoods of Resource-Poor Rural Households in Ethiopia?

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Abstract

The population of the study area, Atsbi wemberta wereda in Tigray, northern Ethiopia, practices mainly subsistence farming and is highly dependent on food aid. The natural resource base is limited and consequently possibilities to enhance traditional agricultural productivity are scarce. To guarantee sustainable livelihoods, the poor have to diversify their range of income-generating activities. As these activities require basic capital to get started, access to credit is crucial as well as the type of credit. This paper reports on the findings of a survey in 97 households and 5 group discussions carried out in 2002. The survey examined the livelihoods of resource-poor households using either formal, informal or no credit, emphasis was laid on the impact of credit on female headed households. Survey results were analysed using SPSS.

Overall, households not using credit were the “wealthiest”, owning more big livestock and being the most food-secure of all interviewed households. The “poorest” group were households using informal credit as their only credit source. These households consisted to a greater part of female headed and younger households and depended on food aid and food for work to secure their households food consumption. Female headed households were more often using credit, be it formal or informal, on a regular basis. But more female headed than male headed households did state fear of risk as the main reason for not up-taking formal credit. Regarding access to credit it seemed that most respondents had no problems acquiring a credit from the local micro-finance institution, DESCI, when needed. But respondents were frequently asking for more flexible repayment schemes, and many former clients had left the scheme being discontent with the peer-grouping system. Another reason for discontentment was the fact, that DESCI does not provide any formal training, e.g. for animal husbandry or other micro-enterprise activities.

In order for credit to be successful in helping the mostly unskilled poor to improve their livelihood, training as well as more flexible repayment schemes seem to be a necessary precondition.

Keywords: Gender, micro-credit, sustainable livelihoods