



# Zoom microfinance

## IMPACT STUDIES: THE CASE OF DECSI IN ETHIOPIA

### Overview

History

Tigray

DECSI

Methodology of the study

First Results

Application of the credits

Impact on the families

Impact at the community  
level

Conclusion

## Introduction

Impact studies, like all actions supporting development initiatives that are carried out by microfinance institutions, usually raise a number of questions: questions regarding methods, questions regarding the challenge of isolating the impact of a single factor within the whole set of micro and macro economic factors, and also questions regarding their usefulness.

Zoom microfinance has already tackled this debate in its 8th issue, showing a first specific impact study devoted to the Peruvian institution MIDE.

Returning to this debate, but this time with a study about an African institution, Zoom microfinance presents several initiatives that, in spite of being very different, show some relevant common features.

The following text is a synthesis of an impact study carried out in October 2002 and published in March 2003 by a team composed of Axel Borchgrevink, Jo Helle Valle and Tassew Woldehanna, at the request of Norwegian's People Aid (NPA) and DECSI.

## History

In 1993, REST (Relief Society of Tigray) carried out a socio-economic study about rural poverty in that region. The lack of access to credits appeared as one of the principal obstacles to the rehabilitation and development of Tigray.

The results of this study, together with inspections of other systems of rural credit<sup>(1)</sup>, led REST to create a network of savings and credits called DECSI (Dedebit Credit and Savings Institution). This network has grown at a fast pace. In 2002 it included 96 agencies.

Previous assessments of DECSI (see particularly Zoom Microfinance n° 3) led to generally positive conclusions, but they were relatively detached from the social impact of the programme, i.e., they were detached from their contribution to poverty reduction and development efforts in the areas of study.

In the impact study of 2002, these elements were analysed simultaneously at both the home/family and the community levels. Poverty reduction was examined in terms of generating income, capitalization and vulnerability reduction.

As far as development is concerned, the assessment tackled the programme's contribution to agricultural production and commercialisation, the diversification of income sources and the effects of training in the supported activities.

A team of three members carried out this study: Axel Borchgrevink, Jo Helle-Valle and Tassew Woldehanna. It is the outcome of a joint activity by DECSI and one of its main partners, Norwegian People's Aid. This work was done in October 2002.

## Tigray

Tigray is the most northern area of Ethiopia. It has a surface of little less than 50,000 km<sup>2</sup> and a population of about 3.8 million inhabitants. Tigray fought for more independence during the Mengistu regime (1974-1991) and favoured its overthrow. During this period, the region was subdivided into local councils, the so-called "baitos".

80-90% of the population live from the returns of agriculture as a means of subsistence (teff<sup>(2)</sup>, maize, barley, millet, peas...). Oxen are the main means of traction. The harvesting of the crops is essentially done according to rainfall. In a normal year, a family generally produces food for just 6 months. Therefore the region depends largely on aid. It is also one of the most deprived regions of the planet (overpopulation, drought, political tensions). However, positive tendencies have emerged thanks to the efforts deployed by local authorities and donors: agricultural production increased by 40% between 1993 and 1999, particularly as a result of environmental measures.

## DECSI

DECSI's global objective is to improve the food security of families, offering adequate and efficient financial services to the poor rural and urban populations of Tigray. DECSI particularly tries to favour the increase of agricultural production, the opening of markets, the reduction of the dependence on moneylenders and the creation of jobs in the region.

DECSI's structure is made up of 5 pillars:

- A community approach in the selection of clients,
- Positive discrimination regarding women,

1 Particularly at GRAMEEN BANK in Bangla Desh

2 Local cereal



- Mobilising efforts towards saving,
- The search for the financial sustainability of the institution,
- The integration of the initiative in the whole set of development programmes in the region.

DECSI is a shareholder-based private society. The majority of shares is held by the NGO “REST”. The regional government as well as the youth’s, women’s and farmers’ associations hold the remaining shares. DECSI currently covers 91% of local communities.

DECSI’s credit policy is based on collateral security. Although saving is not a prerequisite for getting a credit it is compulsory during the duration of the credit. In principle, credits have a productive aim. Credits normally amount to 500 and 1.000 BIRRS<sup>(3)</sup>.

Interest rates currently vary between 9% and 15% per year on the amount outstanding. This rate is fixed according to the estimated risk of non-reimbursement (linked to the activity or to the existence of a special guarantee fund) and according to the cost of the resources (access to funds without financial cost for the most vulnerable ones).

DECSI also manages a type of credit for inputs to agriculture (seeds, fertilisers) that has been put into practise with the support of the local agricultural administration and the co-operatives. The average amount of credits is lower (100 to 120 BIRRS) and they are linked to the implementation of recommendations by the advisory services. The volume of this type of credit is currently limited to 7% of DECSI’s portfolio.

Saving is another important aspect of DECSI’s programme. The dividend for savings is 3% per year. The amount of

savings is currently slightly higher than the volume of paid out credits. 50% of the savings come from borrower clients, whereas the other half comes from non-clients.

At present, DECSI covers all of its own costs (including the opportunity cost of the capital). The success of DECSI depends on several internal factors: serious leadership with a long-term strategic vision, committed staff, a concern for efficiency and cost reduction. Another factor of success is, without any doubt, the strong relation between DECSI and the other local institutions.

SOS Faim has been associated with the launching of DECSI since 1994. It has supported DECSI through the development of different agencies (credit funds) and through capacity building (staff training).

## Methodology of the study

The study comprises 3 aspects:

- A survey conducted throughout 16 communities representing 8 DECSI agencies in 5 different areas of the region; background information about clients and former clients of DECSI; information about a representative sample of families living in those areas and a questionnaire addressed to 320 selected families.
- A collection of qualitative assessments: case studies (35), discussions with groups of clients.
- The use of available written data.

The study has not dealt with input credits that have different characteristics (obligations imposed by the Department of Agriculture).

However, this work has encountered



<sup>3</sup> One BIRR is about 0.1 €.

difficulties: it has dealt with communities experiencing efforts of development. It is not possible to know, therefore, what the situation would be like without the DECSI programme. Besides, it is impossible to isolate the impact of individual variables (which differ substantially between each other) such as the war, droughts, the presence of social development projects etc.

This is why we assigned so much importance to the joint application of both quantitative and qualitative data during the study.

## First Results

### Target

The DECSI's programme is designed for poor populations who have the possibility to use the credit in a productive way and who are dynamic enough to "get away from their poverty". From the beginning, DECSI has given priority to women, particularly women in charge of their family.

### Coverage

DECSI currently covers 91% of the communities in the region. The mobilised funds allow coping with the current demand for credit. Demand fell after the war with Eritrea in 1998, the 1999-2000 drought and the flux of funds in the region after the peace agreements with Eritrea.

The table below shows the evolution over the 1994-2001 period

Year	Number of loans	Amounts paid out (BIRRS)	Average loans (BIRRS)
1994	8,446	8,942,514	1,059
1995	13,881	11,577,258	834
1996	20,515	20,595,559	1,004
1997	67,057	63,322,385	944
1998	168,976	132,736,057	786
1999	210,572	123,616,880	587
2000	187,470	97,131,377	518
2001	158,883	110,489,541	695

There are internal factors that also explain the reduction of grants, particularly the clients' awareness about the consequences of non-payment, which urged them to be more cautious, or even DECSI'S decision to freeze the credits in the areas where the reimbursement rate fell below 90%.

### Selection of demand

DECSI essentially works on the basis of the demand coming from 5-member groups on average. There are no mechanisms designed for the poorest families. In the past, DECSI applied the rule of not granting a credit to families which had more than a couple of draft oxen. This condition has never been strictly applied and is no longer in force. The DECSI team argues rather that the programme is "self-targeted" in the sense that the amount of the credit and the collateral security do not match the interest of the poorest. The study has confirmed this thesis.

The local selecting committees (composed of representatives of local authorities) appear very unlikely to reject a client. It is more frequent to see that the amounts of the requested credits are in a downward trend. These committees only intervene on the occasion of the first credit, then, the new credits are the only responsibility of the DECSI local agency.

As it happens, the main selection is carried out during the formation of solidarity groups, and the case studies have shown that certain failures -every time better known- could strengthen the tendency not to accept the poorest families in the groups. During the interviews, the need to come to the DECSI agency for all transactions has also been signalled as a negative condition for the poorest.

Organising groups according to "gender" is a positive factor for women to have access to credits.

## Poverty and gender

The elements below could lead to the conclusion that the poorest are excluded from the DECSI. The study does not prove the contrary. The typical profile of DECSI clients is practically identical to the profile of the whole population. Certainly, there is an under-representation of the poorest, but also of the average and rich levels.

	Very poor	Poor	Average	Rich
Total population of TIGRAY	36%	32%	26%	6%
DECSI Clients	32%	41%	23%	4%

DECSI's targeting seems to be satisfactory despite the lack of clearly defined selection criteria and within the globally negative context of a region such as TIGRAY where the implementation of a micro credit programme presents a real challenge. In fact, the product offered by DECSI seems to match the needs of poor families.

In 2001 39% of credits were granted to women, of which the majority were in charge of their family (30%) whereas there is a total of 36% women in charge of their family in TIGRAY. Therefore, there is a slight under-representation (of women) from the statistical point of view. However, if we consider the social and cultural obstacles, we can say that DECSI has reasonably achieved its aim to integrate women into the programme.

The table below shows the economic categories with respect to "gender". It underlines the more extreme poverty of families managed by women.

	Very Poor	Poor	Average	Rich
<b>Tigray</b>				
Males in charge of the family	21 %	35 %	34 %	9 %
Females in charge of the family	63 %	25 %	10 %	1 %
<b>DECSI Clients</b>				
Male clients	22 %	41 %	32 %	5 %
Female clients in charge of a family	62 %	29 %	8 %	1 %
Female clients in general	46 %	41 %	12 %	2 %

## Desertion of the programme

There is an estimated amount of between 100.000 and 150.000 clients that have abandoned DECSI. The study has identified certain elements that can explain this fact. External reasons: recruitment or displacements after the war. Internal reasons: clients who did not pay (excluded), but also those who have been successful and could do without the credit. However, most of clients belong to an intermediate category: they have stepped back because they have become aware of the risk, because of the difficulties using the credit for productive purposes or due to the disintegration of their group.

## Application of the credits

### Amounts and purpose

In 2001, the average credit amount was 631 BIRRS for women and 736 BIRRS for men.

45% of the credits volume was earmarked to agriculture (for 60% of the total). Commerce represents another 45% of the volume (for 31% of the total). 9% was earmarked to craftwork and less than 1% to services. Women are better represented in craftwork.

These figures are not fully reliable since according to the interviews that were conducted, many clients (more than 50%) seem to have used the loan for different purposes to those announced when they were interviewed. Several reasons have been identified: the selection of a credit with better conditions in terms of duration and the calendar of reimbursement (they can get a credit to buy a couple of oxen and refocus it towards commerce); immediate needs of consumption linked to the poverty level that can lead the client to ask a moneylender for a loan in order to reimburse the DECSI; and finally lack of knowledge and discipline.

This problem is very important in the long-term: credits used for the foreseen purposes show in fact the capacity of clients to undertake realistic projects. However, we can ask ourselves whether this fungibility of credits is a real problem. We can suppose that most of the clients have a rational behaviour regarding the changing socio-economic circumstances. This is also the reason why DECSI does not wish to switch to credits in kind.

### Reimbursement Rate

DECSI's reimbursement rate (total of delays on total payments-cumulative) appears to be exceptionally high in its duration from the beginning (with the exception of 1995). However, these figures must be modified by the "criminality" rate, which is defined as the total of delays on the total amount outstanding.

Year	Delays in payments (BIRRS)	Criminality rate	Reimbursement rate
1994	178,850	3%	98%
1995	1,641,582	17%	92%
1996	1,437,706	n.a.	96.5%
1997	1,637,707	3%	98.4%
1998	3,445,287	3%	98.6%
1999	6,159,192	4.9%	98.3%
2000	7,166,333	6.6%	98.4%
2001	10,773,019	9.6%	98.1%

Although the situation is not yet dramatic, DECSI definitively has to make an effort to put more pressure on reimbursements. According to the collected qualitative data, the category of the poorest seems to be underrepresented among clients who did not pay. The main reasons that have been identified are: an unexpected event (illness, death, drought etc.); the usage of a consumption credit without a strategy of reimbursement by the client; the contagion effect in those areas where there is a high percentage of bad payers.

Social pressure within the group is the most important mechanism of reimbursement. These groups are generally com-

posed of neighbours or friends, and this makes the mechanism even stronger. In many cases, problems are quickly solved.

The table below shows in fact a relative stabilisation of delays of more than a year. The amounts are shown in BIRRS.

Delays	Less than 3 months	Between 3 and 6 months	Between 6 and 12 months	More than 12 months
End of 1999	923,879	1,847,758	1,231,838	2,155,717
End of 2000	2,931,033	1,898,626	66,488	2,270,186
End of 2001	2,866,771	2,982,092	2,651,137	2,273,019

In the cases where the problem persists, we can consider that the group mechanism is no longer efficient and therefore the issue must be tackled from the legal point of view, which is a slow and complex process for DECSI.

### Impact on the families

This point is based on the comparison of answers from clients and non-clients following the evolution of 5 criteria in the last 5 years.

	Clients	Non-clients
Improvement of the family's living standard	59%	33%
Increase of the family's income	57%	35%
Increase of the family's assets	51%	30%
Improvement of the food's quality	54%	38%
Increase of the food's quantity	49%	32%

Judging from these figures, the results seem to be quite relevant from this point of view.

Basing our analysis on social criteria, although percentages are higher, the difference between clients and non-clients is less important.

	Clients	Non-clients
Improvement of the family's health	62%	62%
Improvement of the children's education	76%	72%
No child having quit school in the last 5 years	75%	74%
Improvement of access to safe water	72%	69%
More women participation in social life	60%	63%

From the "gender" point of view, there is an important difference: women say to have improved their living conditions in 69% of the cases whereas for men the percentage is 54%.

The improvement of the living standard is also directly linked to the number of years they have been clients.

## **Impact at the community level**

The following data are empirical elements that have come out during the study.

### **Employment**

It appears that the programme has generated few jobs in the sense that most of the credits are more oriented towards a better use of labour in families.

### **Increase and intensification of production**

The case studies and interviews may suggest that this is a real effect, although the study does not provide statistical evidence on this issue.

### **Diversification of income**

This effect is not very important. Credits are mostly oriented towards the intensification of existing activities than towards their diversification.

### **Access to markets and transport**

Although only 1% of credits are earmarked for the purchase of animals for transport purposes (asses, female hinnies, camels and horses) we can consider that these investments have an impact on the existing transport services at the community level.

### **Trade**

34% of DECI's clients refer to small-scale trade as a source of income. This shows a double interest: the proceedings of this small-scale trade are locally capitalised and the time devoted to travelling to get provisions is reduced. The strengthening of competition at the local level can also have a positive impact on prices.

### **Interest rate offered by moneylenders**

Generally, DECSI seems to make an impact on moneylenders: in certain areas,

monthly rates have gone from 10% to 3-5%. In other areas, they seem to have disappeared or reduced in number. However, moneylenders have also found new niches to accommodate their activities, particularly through refinancing loans granted by DECSI. This can have disastrous consequences for the client.

### **Relations men-women**

Generally, micro finance institutions strengthen women's social position. This is also the case of DECSI regarding women in charge of their family. As for married women, we have observed two different profiles: certain female clients take a credit that allows them to manage their own economic activity, which strengthens their independence. In other cases, the female client can serve as nominee for her husband.

But the fact that almost 40% of credits are earmarked to women in a patriarchal society such as Tigray, must be singled out as a positive factor.

## **Conclusion**

This work highlights the relevance of a savings and credits system such as DECSI in one of the most deprived regions in the planet.

DECSI has a real impact at the level of family clients but also at the macro level. The increase of production, the regulation of the small-scale trade, and the level of interest rate by moneylenders as well as the balance between men-women are examples of this fact.

One of the keys to success is, without any doubt, the good integration of DECSI on its political and economic environment. This allows considering DECSI as one micro finance institution inserted in a strategy of regional development.

### SOS Faim and microfinance

SOS Faim has been working for many years in the field of microfinance and gives its support to the activities of its partners working in this sector in Africa and Latin America.

Among them : Kajo-Jiginew in Mali ; DECSI and SFPI in Ethiopia ; Edpyme Proempresa, Edpymes Confianza, MIDE and Fondesurco in Peru ; Sointral in Chili, FADES in Bolivia and CGMF in Cameroon.

Just like any other development tool, microfinance must be questioned as far as its objectives, modalities and implementation conditions are concerned. It is with this idea in mind that SOS Faim publishes, among others, "Zoom Microfinance". Ten other issues have already examined initiatives taken in Africa and Latin America.

This issues as well as the present one can be downloaded in French, English and Spanish on the website of SOS Faim Belgium : [www.sosfaim.be](http://www.sosfaim.be).

### Other publications by SOS Faim

**Crédit et développement rural en Amérique Latine** (in French and Spanish). FADES-SOS FAIM, éditions Action pour le développement, 1995.

**Pour de nouvelles approches de l'aide au développement. Quels outils financiers pour une coopération équitable ?** SOS FAIM-COTA, actes du colloque, 1994.

Edition spéciale Défis-Sud, **Le financement alternatif**, October 1996.

Edition spéciale Défis-Sud, **La microfinance lutte-t-elle contre la pauvreté ?**, October 2000 - Index available on [www.sosfaim.be/Défis-Sud](http://www.sosfaim.be/Défis-Sud)

**La réglementation de la microfinance en Éthiopie**, Nicole Hogger, communication during the SOS Faim seminar in La Paz, October 2001.

**ONG Financieras : Fondos Financieros Privados: la experiencia boliviana.** Hugo Rivas Guerra, Rafael E. Rojas L. Edición SOS Faim, 2002.

We should also mention here an audiovisual documentary on the experience of Kajo-Jiginew, "The attics of money" by Jean-Michel Rodrigo, Mecanos Production, 2001. Copy available at SOS Faim Belgium by paying dispatching costs.

If you want to contribute to the debate launched by SOS Faim on microfinance, please do not hesitate to send us your comments and questions by mail or e-mail.

**This issue of Zoom Microfinance was prepared by M. Mees, [mmees@sosfaim.be](mailto:mmees@sosfaim.be), manager of the Partners' Support Service, SOS Faim.**

SOS Faim – Action pour le développement  
Rue aux Laines, 4 – B 1000 Bruxelles – Belgium  
Phone : 32-2-511.22.38 – Fax : 32-2-514.47.77  
E-mail : [info@sosfaim.be](mailto:info@sosfaim.be) – Site : [www.sosfaim.be](http://www.sosfaim.be)

SOS Faim – Action pour le développement  
Résidence "Um Deich" bloc C, 9 rue du Canal  
L - 4050 Esch-sur-Alzette – Grand Duchy of Luxembourg  
Phone : 352-49.09.96 – Fax : 352-26.48.09.01  
E-mail : [info@sosfaim.org](mailto:info@sosfaim.org) – Site : [www.sosfaim.org](http://www.sosfaim.org)

"Zoom microfinance" is produced with the support of the Direction Générale de la Coopération Internationale de Belgique and the Ministry for Foreign Affairs of Luxembourg.

