ENHANCING LIVELIHOODS THROUGH FORMAL AND INFORMAL FINANCIAL INSTITUTIONS:
EVIDENCE FROM KOLA TEMBIEN, TIGRAY, ETHIOPIA

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ABSTRACT
Sustainable Livelihoods requires an access to and a strong interaction between formal and informal financial institutions. In addressing this, the paper set out with a primary objective of assessing the potential effect of the access to and the interaction between formal and informal financial institutions on the livelihoods of the poor. It was sought to ascertain the major factors that affect households’ access to formal and informal financial services. Using the three stages least squares (3SLS) model the researcher come up with the following core findings. First, it is revealed that household heads’ access to services of the formal financial institutions is highly dependent on the collateral they have and their physical proximity to the institutions, suggesting that they will have better livelihoods status if they have enough collateral and live nearby the financial institutions. Second, the services provided by the formal financial institutions plays a catalytic role in stimulating the poor households’ financial need for extra fund from the informal ones. Finally, it is apparent from the results of the study that access to services of the formal and informal financial institutions significantly contributes to the improvement of the livelihoods of the poor households.

KEYWORDS: Formal, Informal, Financial institutions, livelihoods.

References


**Notes:**

*Woredas* refers to a third-level government administrative divisions of Ethiopia and are administered by a local government. Woredas are composed of a number of small districts known as *Tabias*. Tabias are the smallest unit of local government in Ethiopia.