

Evaluating the Effectiveness of Credit Policies in Ethiopia: Implications for Economic Growth

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Abstract

Ethiopia's pursuit of long-term, inclusive economic growth has placed credit policies at the center of its development agenda. These policies are designed to stimulate key sectors such as agriculture, manufacturing, and small and medium enterprises (SMEs), while also promoting financial inclusion and macroeconomic stability. This study critically evaluates the impact and effectiveness of credit policy frameworks implemented in Ethiopia over the past decade. It examines how well these policies have supported economic growth and identifies persistent structural and operational challenges that limit their effectiveness.

The analysis explores the evolution of credit policy in Ethiopia, focusing on its alignment with national growth objectives. The study found that government-led credit initiatives have significantly expanded financial access for SMEs and contributed positively to output growth in major economic sectors, particularly agriculture and manufacturing. Credit disbursement patterns show a notable shift toward broader financial inclusion, with increased participation of women and rural entrepreneurs in the formal credit system. In key sectors, such access to finance has supported productivity gains and fostered enterprise development, thereby strengthening the link between financial services and real sector performance. However, the study also found several constraints that undermine the full potential of credit policies. Among the most pressing issues are high interest rates and rigid collateral requirements, which continue to discourage borrowing, especially among low-income and rural populations. Many prospective borrowers face administrative barriers and long processing times, which reduce the practical accessibility of credit facilities. Regional disparities are also evident, with urban centers enjoying significantly better access to credit than rural areas. This uneven distribution hinders equitable development and limits the nationwide impact of credit programs. Furthermore, inconsistencies in policy enforcement and a lack of institutional coordination were found to contribute to delays and inefficiencies. Financial institutions often implement policies with varying degrees of commitment, leading to fragmented service delivery. While reforms have improved credit flows and widened the financial net, the effectiveness of these measures is constrained by operational gaps and underdeveloped financial infrastructure in less-served regions. Despite these challenges, the study found that Ethiopia's credit policies have played a meaningful role in advancing economic growth and social development. The increase in credit availability for SMEs, along with improved financial inclusion for women and marginalized communities, reflects significant progress toward broader policy goals. However, for these gains to be sustainable and inclusive, further efforts are needed to reduce borrowing costs, simplify lending conditions, and build robust

institutional frameworks. The study concludes by recommending enhanced government support to lower interest rates, reforms in collateral requirements, and the expansion of digital financial services to improve outreach and efficiency. These steps will be crucial for creating a more inclusive credit system that supports balanced growth across regions and sectors. The findings contribute to the ongoing discourse on financial sector reform in emerging economies and underscore the importance of adaptive, inclusive policy frameworks in achieving long-term development objectives.

Keywords: *Credit Policies, Economic Growth, Financial Inclusion, SMEs, Ethiopia*

Introduction

1.1. Introduction

In an economy where over 70% of the population depends on agriculture and micro-entrepreneurship, access to credit is more than a convenience it is a necessity (World Bank, 2023). Credit empowers farmers to buy improved inputs, enables small and medium enterprises (SMEs) to scale operations, and provides a lifeline for vulnerable populations to navigate economic shocks. In Ethiopia, the government has long recognized the potential of credit as a catalyst for growth, particularly in accelerating productivity, reducing poverty, and fostering financial inclusion. Consequently, national development frameworks such as the Growth and Transformation Plans (GTP I and II), the Homegrown Economic Reform Agenda (HERA), and strategic programs under the National Bank of Ethiopia (NBE) have all prioritized credit allocation to key sectors (NBE, 2022).

However, despite these ambitious policy interventions, Ethiopia's financial sector remains structurally shallow, geographically concentrated, and institutionally fragmented. Large sections of the population especially in rural areas remain excluded from formal credit systems, relying instead on informal lenders with unfavorable terms. Against this backdrop, this study critically investigates the design, implementation, and outcomes of credit policies in Ethiopia, with a

specific focus on their effectiveness in driving inclusive, sectoral, and macroeconomic development.

1.2. Background and Historical Context

The Ethiopian financial system has undergone significant transformation over the past three decades, transitioning from a centralized, state-controlled framework to a more liberalized model with a growing number of commercial banks, microfinance institutions, and cooperative financial entities. Despite this evolution, credit penetration remains among the lowest in sub-Saharan Africa. According to the World Bank (2023), private sector credit in Ethiopia constitutes less than 20% of GDP substantially below the regional average of 30–35%. Most financial institutions are headquartered in Addis Ababa and other urban centers, reinforcing geographical inequity in credit access.

Government efforts to bridge this gap include the expansion of Development Bank of Ethiopia (DBE) financing to strategic sectors such as manufacturing, industrial parks, and export-oriented agribusinesses. The Ethiopian Inclusive Finance Strategy (EIFS), launched in 2020, sought to improve financial literacy and promote alternative lending mechanisms such as agent banking and digital finance (Gebresilassie & Nigussie, 2024). However, the impact of these interventions has been mixed. While some gains have been made in urban outreach and SME lending, persistent structural and operational

challenges continue to limit the transformational potential of credit.

Administrative bottlenecks such as long processing times, complex documentation, and inconsistent enforcement of policy directives undermine borrower confidence and lender efficiency (Abate et al., 2023). Collateral requirements remain prohibitive, often excluding women, youth, and rural households who lack formal land titles or property deeds. Moreover, informal lending continues to thrive, often in the absence of effective regulation or borrower protections. These systemic issues demand rigorous empirical investigation to determine whether Ethiopia's credit policies are truly meeting their developmental objectives.

1.3. Statement of the Research Problem

While credit policies in Ethiopia are designed to be inclusive and growth-oriented, they have not achieved the intended outcomes across all regions or demographic groups. Sectoral imbalances persist: agriculture, despite being the largest employer, receives disproportionately low levels of formal credit compared to manufacturing or trade. SMEs continue to cite access to finance as one of their most significant barriers to growth (Bekele & Woldemariam, 2023). Meanwhile, data from the National Bank of Ethiopia (2022) reveal significant disparities in credit disbursement by gender and geography, with rural women being the most underserved segment.

The root of the problem lies not just in policy design but in implementation. Financial institutions vary widely in how they interpret and execute credit directives, resulting in fragmented service delivery. A lack of institutional coordination, poor data infrastructure, and regulatory ambiguities further complicate the policy landscape. Despite various reform initiatives, little progress has been made in lowering borrowing costs or enhancing collateral alternatives. Without addressing these practical limitations, Ethiopia's credit system may

continue to entrench rather than resolve socio-economic inequalities.

This study therefore addresses a critical policy question: How effective are Ethiopia's current credit policies in achieving their stated development goals, particularly in supporting SMEs, fostering agricultural productivity, and promoting financial inclusion?

1.4. Research Gap

Although various studies have explored microcredit schemes, SME finance, and rural banking in Ethiopia, few have systematically evaluated the effectiveness of credit policies at a national level. Most empirical work is narrowly scoped, focusing on individual financial institutions, specific programs, or localized geographies (Alemu & Taffesse, 2022). Moreover, there is a scarcity of integrative frameworks that examine credit delivery through multiple lenses including inclusivity, efficiency, and institutional governance.

Additionally, few existing studies capture the post-2020 landscape, marked by macroeconomic instability, rising inflation, digital transformation, and financial sector reforms. The COVID-19 pandemic and the government's digital finance push have significantly altered both demand and supply dynamics of credit. This study fills a critical gap by offering an up-to-date, multi-dimensional evaluation of Ethiopia's credit policies from 2011 to 2024.

1.5. Rationale of the Study

Evaluating the effectiveness of credit policies is essential for understanding how financial systems can support sustainable and inclusive development in low-income countries. Ethiopia presents a particularly important case given its rapid development agenda, structural economic reforms, and youthful population. An ineffective credit policy not only wastes public resources but also

undermines private sector development and macroeconomic stability.

This research is timely and policy-relevant. It seeks to provide evidence-based insights that can inform ongoing financial sector reforms under Ethiopia's 10-Year Development Plan and Homegrown Economic Reform Agenda. Furthermore, the study will support international development partners, financial institutions, and civil society actors working to improve credit access and financial inclusion in Ethiopia.

1.6. Research Objectives

General Objective

To critically evaluate the effectiveness of Ethiopia's credit policies in promoting inclusive economic growth and identify institutional, structural, and regional factors that influence their outcomes.

Specific Objectives

1. To assess the impact of credit policy on the performance of key economic sectors, particularly agriculture and SMEs.
2. To evaluate the inclusivity of credit systems in terms of gender, geography, and socio-economic status.
3. To identify institutional and operational constraints affecting the implementation and equity of credit policies.

1.7. Research Questions

4. How have credit policies influenced the growth of agriculture and SMEs in Ethiopia from 2011 to 2024?
5. To what extent are Ethiopia's credit policies inclusive, particularly for women, rural communities, and low-income groups?
6. What institutional challenges constrain the effective implementation of credit frameworks across different regions?

1.8. Contribution and Novelty of the Study

This study contributes to the emerging literature on financial sector policy in Africa by presenting a holistic, evidence-based evaluation of Ethiopia's credit policies over a critical decade. Its novelty lies in five key areas:

1. **Multi-dimensional Evaluation:** The study develops an analytical framework that examines credit policy effectiveness across four dimensions: sectoral impact, inclusivity, institutional coordination, and operational efficiency. This approach provides a more comprehensive picture than studies focused on single variables or sectors.
2. **Nationwide Scope:** Unlike previous research that limits itself to specific regions or institutions, this study adopts a nationwide perspective. It integrates data from public banks, private lenders, cooperatives, and microfinance institutions, offering cross-institutional insights that are crucial for systemic reform.
3. **Recent and Relevant Data:** The research covers the period from 2011 to 2024, including recent shocks and innovations such as digital financial services, inflationary pressures, and post-COVID adjustments. This allows for a timely evaluation of how macroeconomic trends and technology are reshaping the credit landscape (Tadesse & Melese, 2025).
4. **Mixed-Methods Approach:** Combining quantitative panel data analysis with qualitative stakeholder interviews, the study ensures that its findings are both statistically grounded and contextually rich. This methodology allows for triangulation and enhances validity.
5. **Policy-Oriented Outcomes:** The research is explicitly designed to generate actionable policy recommendations. These will address how Ethiopia can reform interest rates,

collateral frameworks, and digital infrastructure to create a more inclusive credit ecosystem.

Literature Review

2.1. Introduction

Credit policies are foundational tools for stimulating economic growth, enhancing productivity, and promoting financial inclusion in both developed and developing countries. In Ethiopia, where the financial sector remains underdeveloped and large parts of the population are excluded from formal credit systems, evaluating the effectiveness of credit policies is particularly important. This literature review presents a critical synthesis of existing research on credit access, financial inclusion, sectoral financing, and institutional challenges in the Ethiopian context. It also identifies significant gaps and proposes directions for further investigation, laying the groundwork for this study's contribution.

2.2. Theoretical Framework: Financial Intermediation and Inclusive Finance

The theory of financial intermediation emphasizes the role of financial institutions in mobilizing savings, allocating resources efficiently, and facilitating economic growth (Levine, 2021). In developing countries, these intermediaries bridge the gap between surplus and deficit economic units, particularly through credit allocation. Ethiopia's credit system has historically been dominated by public-sector-led financial institutions, which often prioritize politically strategic sectors over market-responsive lending.

In recent years, the inclusive finance paradigm has gained traction. This perspective argues that access to financial services—including credit—should be broad-based and equitable, extending to marginalized groups such as women, rural residents, and low-income households (Demirgüç-

Kunt et al., 2022). However, Ethiopia's financial architecture continues to reflect urban concentration, rigid collateral requirements, and operational inefficiencies.

2.3. Credit Access and Macroeconomic Growth

There is widespread empirical agreement that access to credit supports economic growth. Beck and Levine (2022) demonstrated a positive correlation between financial deepening and GDP growth in developing economies. Similarly, the IMF (2023) emphasized that expanding private sector credit is essential for sustaining Ethiopia's long-term macroeconomic reform agenda.

In Ethiopia, however, the financial system remains shallow. Credit to the private sector stands below 20% of GDP, and credit allocation is skewed toward urban-based businesses (World Bank, 2023). Most rural populations still rely on informal lending, which typically offers higher interest rates and fewer protections (Yimer et al., 2021).

2.4. Sectoral Dimensions of Credit Policy

2.4.1. Agricultural Finance

Agriculture, the backbone of Ethiopia's economy, receives limited formal credit support. According to the Central Statistical Agency (2022), fewer than 15% of smallholder farmers access loans from financial institutions. This is due to a combination of insecure land tenure, seasonal income cycles, and lack of tailored credit products.

Tefera (2022) observed that most agricultural financing schemes rely heavily on donor funding or cooperative-based models, which lack scalability. Although input financing programs have expanded recently, farmers still report difficulties accessing sufficient and timely credit.

2.4.2. SME Financing

SMEs are the engines of job creation and innovation but remain highly credit-constrained in Ethiopia. Bekele and Woldemariam (2023) found

that more than 60% of SMEs surveyed identified access to finance as their greatest barrier to expansion. This is largely due to collateral requirements, lack of financial records, and banks' preference for low-risk clients.

The government's introduction of a collateral registry and credit guarantee schemes has helped ease constraints slightly. However, adoption is slow, and awareness remains low outside major cities (National Bank of Ethiopia, 2022).

2.5. Summary Table of Key Literature

Author (s)	Country/ Context	Focus	Key Findings	Relevance
Beck & Levine (2022)	Global	Finance and economic growth	Financial development positively impacts GDP growth in developing countries.	Provides theoretical basis for evaluating credit policy effectiveness.
Alemu & Taffesse (2022)	Ethiopia	Microcredit and rural welfare	Microcredit has limited reach due to land tenure and collateral issues.	Highlights barriers to rural credit access.
Bekele & Woldemariam (2023)	Ethiopia	SME finance constraints	Collateral, risk aversion, and lack of financial records limit SME lending.	Identifies institutional bottlenecks affecting credit accessibility.
Gebresilassie & Nigussie (2024)	Ethiopia	Gender & rural financial inclusion	Women and rural populations face systemic exclusion from formal credit systems.	Demonstrates need for inclusive credit policy reforms.
Tadesse & Melese (2025)	Ethiopia	Fintech & digital credit access	Digital financial services are underutilized due to infrastructure constraints.	Explores opportunities for expanding financial outreach through technology.
Tefera (2022)	Ethiopia	Agricultural credit access	Co-op based agricultural finance is limited in scale and effectiveness.	Highlights the need for scalable, sector-specific credit strategies.
Yimer et al. (2021)	Ethiopia	Institutional credit delivery	Implementation varies across institutions due to poor coordination.	Points to weaknesses in policy enforcement and institutional capacity.
IMF (2023)	Ethiopia	Financial sector development	Urges for private sector credit expansion as part of structural reform.	Emphasizes macroeconomic rationale for financial deepening.

Financial inclusion is not only a development goal but also a key measure of credit policy success. In Ethiopia, women, youth, and rural communities face systemic barriers in accessing credit. According to the Global Findex Database (2021), only 28% of Ethiopian women have a bank account, and even fewer have received credit.

Gebresilassie and Nigussie (2024) highlighted legal, cultural, and institutional factors contributing to gender disparity. Women often lack land ownership and face bias in loan approval processes. Similarly, rural residents contend with physical inaccessibility to financial institutions and limited financial literacy.

The promise of digital finance as a tool for inclusion has not yet materialized. Despite recent growth in mobile banking platforms, digital usage remains constrained by poor network infrastructure, lack of smartphones, and low digital literacy (Tadesse & Melese, 2025).

2.6. Institutional and Operational Barriers

Institutional weaknesses are a recurring theme in credit delivery studies. Yimer et al. (2021) report that policy fragmentation and overlapping mandates between banks, MFIs, and cooperatives hinder coherent credit delivery. Public financial institutions often operate under different performance metrics compared to private banks, leading to inconsistency in credit allocation and enforcement.

Belete and Mekonnen (2022) note that interest rate regulations discourage risk-taking by financial institutions, thereby constraining credit to high-risk sectors like agriculture and startups. Additionally, weak credit information systems limit accurate risk assessment and pricing.

The IMF (2023) advocates for integrated financial infrastructure including credit registries, collateral registries, and digital identity systems as critical for expanding credit access and improving institutional performance.

2.7. Need for Further Study

Despite a growing body of literature on Ethiopia's financial sector, important gaps remain unaddressed. There is an evident lack of comprehensive, nationwide studies that evaluate the effectiveness of credit policies across multiple sectors and demographics. Most existing studies are limited to localized case studies or single-institution evaluations, failing to capture the systemic factors influencing policy outcomes.

Furthermore, there is limited empirical research that incorporates the most recent economic developments, including post-COVID shocks,

digital finance expansion, and inflation-driven policy shifts. These changes have significantly affected both credit demand and supply dynamics and require up-to-date analysis.

Another underexplored area is the practical implementation of policy frameworks. While some policies are well-designed on paper, weak institutional coordination, lack of enforcement, and data limitations undermine their impact. Additionally, little attention has been given to the voices of end-users particularly rural women and youth whose perspectives could inform more effective and inclusive credit systems.

This study responds to these gaps by adopting a mixed-methods approach to evaluate the performance of Ethiopia's credit policies from 2011 to 2024. It combines national-level policy analysis, econometric modeling, and field-based qualitative inquiry to offer a comprehensive and actionable understanding of the credit landscape in Ethiopia.

Methodology

3.1. Introduction

This chapter presents the methodological framework used to assess the effectiveness of credit policies in Ethiopia with respect to economic growth, sectoral performance, and financial inclusion. Given the complexity of the issue and the need for both macroeconomic evaluation and contextual understanding, the research adopts a mixed-methods approach. This integration of quantitative and qualitative strategies allows the study to combine statistical rigor with nuanced stakeholder perspectives, ensuring comprehensive insights. According to Creswell and Plano Clark (2021), mixed-methods research is especially valuable for policy evaluations that intersect with institutional behavior and social structures, making it suitable for this context.

3.2. Research Design

The study employs a convergent parallel mixed-methods research design, wherein both quantitative and qualitative data were collected simultaneously and analyzed independently before being merged. This design enables a balanced evaluation of how credit policy affects different regions, sectors, and populations in Ethiopia. The quantitative dimension focuses on a longitudinal panel analysis using macroeconomic and sectoral data spanning 2011 to 2024. Meanwhile, the qualitative component explores the lived experiences of credit recipients, frontline financial workers, and policy administrators through interviews and focus group discussions. As suggested by Creswell and Creswell (2018), combining these approaches enhances both internal and external validity and facilitates a multi-layered analysis of policy implementation and outcomes.

3.3. Target Population and Sampling Strategy

The study targets two populations: national macroeconomic units for quantitative analysis and individual stakeholders for qualitative inquiry. For the quantitative component, the sample comprises all Ethiopian regions for which reliable data are available on credit disbursement, sectoral GDP contributions, and financial inclusion metrics. Emphasis is placed on agriculture, SMEs, and manufacturing sectors prioritized in national development plans such as the Growth and Transformation Plans and the Homegrown Economic Reform Agenda (National Bank of Ethiopia [NBE], 2022). Purposive sampling is used to focus on these sectors, given their economic significance and policy relevance. In the qualitative part, a stratified purposive sampling method ensures the inclusion of diverse voices across regions, institutions, and demographics. A total of 30 interviews and 4 focus group discussions were conducted with rural and urban credit beneficiaries, bank officials, microfinance institution managers,

and policymakers from the Ministry of Finance and the National Bank of Ethiopia. This strategy enhances the representativeness and contextual validity of the qualitative findings (Marshall & Rossman, 2016).

3.4. Data Sources

The study uses both primary and secondary data. Primary data were collected through structured surveys, semi-structured interviews, and focus group discussions. Surveys were designed to capture patterns in credit access, borrower satisfaction, and financial behavior, particularly among SMEs and rural households. Semi-structured interviews enabled open-ended discussions on institutional practices, implementation gaps, and perceived barriers. Focus group discussions were held in regional towns to understand group dynamics and collective experiences. Secondary data were sourced from official databases and publications. These include annual reports from the National Bank of Ethiopia (2011–2024), financial inclusion surveys from the World Bank (2023), sectoral performance statistics from the Central Statistical Agency (CSA, 2024), and internal performance reports from selected banks and microfinance institutions. This comprehensive data integration facilitates both macro- and micro-level evaluations of credit policy outcomes.

3.5. Data Collection Procedures

Data collection occurred between January and May 2025. Quantitative data were extracted using a standardized coding sheet to ensure consistency. This included variables such as credit volume per sector, GDP contributions, and financial inclusion indicators. For the qualitative component, interviews and focus groups were guided by a semi-structured question matrix and audio-recorded with participant consent. All discussions were transcribed verbatim and translated into English where necessary. Fieldwork was

coordinated with regional finance bureaus and academic institutions to facilitate access to participants and ensure adherence to local protocols. Prior to full deployment, instruments were pilot-tested in the Oromia region to ensure clarity, reliability, and contextual fit. This step enabled the refinement of tools, increasing the validity of the data collection process (Yin, 2018).

3.6. Methods of Data Analysis

Quantitative data were analyzed using panel regression models to assess the relationship between credit disbursement and sectoral output. Independent variables included credit volume by sector, while dependent variables measured sectoral performance such as agricultural output, SME employment, and regional GDP contributions. Control variables included inflation, regional fixed effects, and financial inclusion indices. Diagnostic tests for heteroskedasticity, multicollinearity, and autocorrelation were conducted to validate model assumptions. The statistical analysis was conducted using STATA 17. For qualitative data, a thematic analysis approach was adopted. Transcribed texts were coded using NVivo software, and recurring themes were identified, including access barriers, gender disparities, administrative inefficiencies, and digital finance adoption. Data triangulation was applied to cross-validate findings across data sources and stakeholder groups, strengthening interpretive accuracy (Braun & Clarke, 2022).

3.7. Validity, Reliability, and Methodological Rigor

To ensure the validity of findings, the study employed multiple strategies, including instrument pre-testing, data triangulation, and consistent coding protocols. Quantitative data validity was enhanced by using official and standardized data sources. Qualitative reliability was supported by using identical data collection instruments and trained facilitators for interviews and focus groups.

The research followed guidelines from the World Bank (2022) and ethical standards stipulated by the Ethiopian Social Research Council (ESRC, 2022). These included methodological transparency, respondent confidentiality, and careful documentation of procedures to ensure academic rigor and replicability.

3.8. Ethical Considerations

This study adhered to strict ethical protocols. Approval was obtained from the Ethiopian Social Research Council (Approval Code: ESRC/Ref.112/2024). All participants were informed of the study's aims, the voluntary nature of their participation, and their right to withdraw at any time without penalty. Written informed consent was obtained prior to each interview and focus group discussion. To preserve confidentiality, identifying details were removed from transcripts and anonymized during analysis. Data were securely stored in encrypted digital formats accessible only to the research team. These procedures ensured compliance with ethical standards and protected the rights and welfare of all participants (ESRC, 2022).

3.9. Justification for Methodological Approach

The choice of a mixed-methods approach is justified by the complex and multi-dimensional nature of the research problem. While quantitative data allow for the evaluation of policy impact through statistical modeling, they often lack the nuance needed to understand real-world implementation challenges. Qualitative data bridge this gap by revealing perceptions, institutional behaviors, and community-level experiences. As noted by Creswell and Plano Clark (2021), combining both types of data enhances comprehensiveness and allows researchers to build stronger, more actionable conclusions. This approach is especially relevant in the Ethiopian context, where national credit policies often

diverge in their regional execution and impact, making holistic evaluation necessary.

Results And Discussion

4.1. Results

This section presents the key findings from both the quantitative and qualitative analyses conducted to assess the effectiveness of Ethiopia's credit policies in supporting economic growth, sectoral performance, and financial inclusion. The results are organized into thematic areas and supported by descriptive statistics, tabular data, and summary interpretations.

Quantitative data reveal that credit disbursement has increased steadily across all sectors between 2011 and 2024. However, sectoral disparities persist. The agricultural sector, despite employing more than 65% of the population, consistently received less than 18% of total credit disbursement over the period. In contrast, manufacturing and trade sectors received a combined average of 54% of total annual credit.

Table 4.1. Sectoral Credit Allocation (2011–2024 Average)

Sector	% of Total Credit Disbursed
Agriculture	17.8%
Manufacturing	28.3%
Trade/Services	25.7%
Others (incl. real estate)	28.2%

This trend highlights a structural bias in Ethiopia's credit distribution, favoring urban commercial sectors over rural agricultural investments. The imbalance has implications for inclusive development and food security efforts.

Regional analysis shows a heavy concentration of credit in urban centers, especially Addis Ababa, which received approximately 39% of total credit issued nationally during the 2020–2024 period. Oromia and Amhara followed with 17% and 15%, respectively, while low-income regions such as Benishangul-Gumuz and Afar received less than 2% each. This unequal distribution reflects infrastructural, institutional, and demographic differences, underscoring the need for regional financial inclusion policies.

Survey data from 400 SME operators and 300 smallholder farmers show that credit access had a significant impact on output and productivity when accessible. SMEs reported average revenue increases of 27% within two years of receiving credit, while farmers using seasonal input loans reported 19% yield improvements.

However, 41% of respondents cited difficulties with interest rates, and 37% reported delays in loan processing. In focus group discussions, female entrepreneurs consistently emphasized collateral requirements and gender bias as major constraints to accessing credit.

Summary of Key Findings

- Credit policies have expanded in volume but remain skewed toward urban and commercial sectors.
- Regional and gender-based inequalities persist in credit access.
- Credit, when accessed, positively influences productivity and growth, especially in SMEs and agriculture.
- Institutional inefficiencies and regulatory inconsistencies continue to undermine equitable access.

These findings imply that while Ethiopia's credit policies are partially effective, they are insufficiently inclusive. Limitations include incomplete credit records in remote regions, self-

reporting bias in surveys, and exclusion of informal credit channels in the analysis.

Discussion

The results of this study reinforce the original hypothesis that Ethiopia's credit policies, while ambitious in design, suffer from implementation gaps that undermine their transformative potential. The originality of this work lies in its integrated, nationwide analysis that bridges macroeconomic data with micro-level experiences, allowing for a holistic evaluation of policy impact.

The underrepresentation of agriculture in credit flows is particularly concerning given its economic and social importance. This misalignment between credit allocation and sectoral needs suggests a failure in policy targeting. Similarly, regional disparities in credit access reflect infrastructural and institutional constraints, which prevent equitable financial development across Ethiopia.

Qualitative findings confirm these patterns, revealing a credit culture that favors low-risk, collateral-heavy lending practices, often inaccessible to rural or marginalized borrowers. These insights suggest that credit policies are still shaped by conventional banking logics, despite national objectives to promote inclusive finance.

The findings are consistent with prior studies such as Bekele and Woldemariam (2023), who identified credit constraints as a major barrier for Ethiopian SMEs. They also align with Gebresilassie and Nigussie (2024), who reported persistent gender gaps in financial inclusion. However, this study goes further by quantifying credit disparities and linking them directly to sectoral performance metrics.

Moreover, the integration of stakeholder narratives adds qualitative depth to existing quantitative findings, thereby enriching the literature with real-world insights on borrower experiences and institutional bottlenecks.

This study is not without limitations. Some financial institutions were unwilling to share full datasets, limiting the scope of quantitative analysis. Additionally, the survey relied on participant recall, which may introduce bias. The exclusion of informal credit mechanisms may also limit the generalizability of findings, particularly in rural contexts where informal lending is prevalent.

Future studies should explore the role of fintech and digital credit scoring in mitigating access barriers, especially in rural regions. Longitudinal impact evaluations at the household level could provide deeper insights into credit's effects on income mobility and social development. Furthermore, there is a need for policy implementation studies that assess how institutional culture, frontline capacity, and regulatory design affect credit delivery outcomes.

Conclusion

This study set out to evaluate the effectiveness of Ethiopia's credit policies in promoting inclusive economic growth, with a specific focus on their sectoral reach, regional distribution, and social equity outcomes. It responded to the persistent gap in the literature regarding the comprehensive, multi-dimensional assessment of credit frameworks in a low-income, agrarian-based economy such as Ethiopia's. The research was anchored in the premise that while access to credit is central to economic empowerment, the institutional and operational realities often hinder its equitable distribution and intended impact.

Through a mixed-methods approach combining longitudinal panel data with stakeholder interviews and focus group discussions, the study found that Ethiopia's credit policy frameworks have achieved partial success. Credit volumes have expanded, and targeted initiatives have reached some SMEs and agricultural actors, resulting in measurable productivity and revenue gains. However, the

results also exposed significant disparities in both access and outcomes. Agricultural sectors despite their employment dominance remain underfinanced, while urban-based trade and real estate sectors attract a disproportionate share of credit. Likewise, regional disparities persist, with Addis Ababa and a few urban centers receiving the majority of credit disbursements. Marginalized groups, particularly women and rural youth, continue to face high barriers due to collateral demands, limited financial literacy, and gender-biased institutional practices.

These findings have important implications for development finance in Ethiopia. First, they suggest that the existing financial architecture does not fully align with the country's inclusive growth ambitions. Second, they reveal that policy success depends not only on credit supply but also on the structural, regulatory, and cultural environment that governs credit distribution. As such, improvements in policy design must be matched by reforms in institutional behavior, digital infrastructure, and regulatory enforcement.

The benefits of the study's analysis are twofold. At a theoretical level, it contributes to the literature on financial intermediation and inclusive finance in developing economies by offering a detailed, data-driven analysis of credit policy performance. At a practical level, it identifies leverage points for reform ranging from improved credit targeting to institutional training that could enhance the effectiveness and equity of Ethiopia's credit ecosystem.

However, the study is subject to certain limitations. Data availability in remote and conflict-affected regions was limited, restricting the completeness of the regional analysis. Also, the reliance on self-reported outcomes in survey and interview responses may introduce recall bias. Additionally, the exclusion of informal lending mechanisms while intentional for scope control leaves out a

significant part of Ethiopia's financial reality, especially in rural areas. These limitations suggest the need for ongoing and broader research, especially in the context of rapidly evolving digital finance models.

Based on the empirical evidence and qualitative insights generated in this study, several strategic and actionable recommendations are proposed to enhance the design, implementation, and impact of credit policies in Ethiopia.

1. Improve Sectoral Targeting and Resource Allocation

Credit allocation must reflect the structural needs of the economy. A higher proportion of credit should be directed toward agriculture and rural-based SMEs. This could be achieved through dedicated credit lines managed by development banks or through subsidized interest schemes for high-priority sectors. Such adjustments would directly support national food security, rural employment, and inclusive growth goals.

2. Address Regional Disparities through Decentralized Credit Delivery

Financial institutions should expand their branch networks and mobile banking platforms into underbanked regions, such as Afar and Benishangul-Gumuz. Regulatory authorities could incentivize such outreach through tax credits or capital support for institutions opening branches in underserved areas. Moreover, regionally tailored credit products designed with local economic conditions in mind would improve uptake and effectiveness.

3. Reform Collateral Requirements and Introduce Alternative Credit Scoring

Traditional collateral-based lending excludes vast numbers of low-income individuals, particularly women and youth. Policymakers should promote the use of movable collateral systems and adopt digital credit scoring models based on transaction

history, mobile payments, and group lending behavior. These innovations have proven effective in similar contexts across sub-Saharan Africa.

4. Strengthen Institutional Coordination and Policy Implementation Capacity

The lack of uniformity in policy enforcement across financial institutions undermines policy coherence. A national credit coordination council—comprising NBE, Ministry of Finance, commercial banks, and MFIs—should be established to harmonize directives and monitor implementation. Furthermore, frontline staff in rural branches should receive targeted training in gender-sensitive lending practices and inclusive finance principles.

5. Leverage Digital Finance for Inclusion and Efficiency

Mobile banking and digital lending platforms offer transformative potential for expanding credit access. The government and private sector should invest in expanding digital infrastructure, especially in rural areas. Financial literacy campaigns should accompany this expansion to ensure meaningful usage of digital financial services. Integration of mobile money systems with national ID and credit registries can also improve risk profiling and reduce transaction costs.

6. Promote Data Transparency and Monitoring Systems

Reliable and disaggregated data on credit disbursement, repayment, and borrower profiles are essential for monitoring policy effectiveness. The NBE should mandate periodic reporting by financial institutions, with breakdowns by sector, gender, and region. These datasets should be made available for academic and policy research to facilitate real-time evaluation and adaptive management of credit programs.

In conclusion, Ethiopia's credit policy environment is at a critical juncture. While gains have been

made, sustained and inclusive growth requires targeted reforms that address both supply- and demand-side constraints. The recommendations offered in this study are intended to guide stakeholders—government, financial institutions, and development partners—toward building a more responsive, equitable, and growth-oriented credit system.

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