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THE ROLE OF OMO MICROFINANCE INSTITUTION IN EXPANDING ECONOMIC OPPORTUNITY IN ETHIOPIA:

A CASE OF ALLE DISTRICT OMO MICRO FINANCE SUB BRANCH

BY

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NOVEMBER, 2016

ADDIS ABABA, ETHIOPIA

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APPROVED BY BOARD OF EXAMINERS

As member of the board of examiners of MA thesis open defense Examination, we certify that we have read, evaluated the thesis prepared by Aschenaki Gebreab Alemayehu and examined the candidate, we recommend that thesis be accepted as fulfilling the thesis requirement for degree of master in Accounting and finance.

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This is to certify that the thesis is prepared by Aschenaki Gebreab, entitled: The role of Omo Micro finance institution in Expanding Economic opportunity; A case of Alle omo micro finance Sub branch and submitted to department of Accounting and finance in partial fulfillment of the requirement for the degree of master of science in accounting and finance complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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ENDORSEMENT

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TABLE OF CONTENTS **page**

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LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS

AEMFIs: Association of Ethiopian microfinance institutions

CFI: cooperative financial institution

CGAP: consultants group to assist the poor

CIDA: The Canadian International Development Agency

CSA: Central statistical agency of Ethiopia

MFIs:- Micro Finance Institutions

MSME:- members of small and micro enterprise

NBE: National bank of Ethiopia

NBFI: Non bank financial institution

RUFIP: Rural financial intermediation program

SACCO: Saving and credit cooperatives

SNNPRS:- South Nations Nationalities and peoples State

SSA:- Sub Saharan African countries

UNDP: United nation development program

VSE:- Very small enterprises

WSACCO: Women's saving and credit cooperatives

ABSTRACT

This thesis addresses the Role of Omo Micro finance institution in expanding economic opportunity at SNNPR state with particular reference to Alle district OMFI sub branch. Governments, donors and NGOs have over the years initiated implemented programs aimed at expanding economic opportunity for poor class. Despite these efforts, some knowledge limitations still remain. Microfinance as a tool for poor economic opportunity expanding has become the main subject of many global and regional conferences, seminars and workshops. Ethiopia is not an exception. This study therefore, examined the role of microfinance institution to expanding economic opportunity of lower income class in Ethiopia taking Alle omo microfinance sub branch financial service programme. The outcome of this study would help the government, policy makers and financial intermediaries as well as consumers on the role of microfinance towards economic opportunity expansion of poor in Ethiopia. Beside, the study would be useful to advocates of poor empowerment who can rely on it to make a case for more credit facilities for poors' to improve their businesses and expand economic opportunity. Lastly, it contributes to further studies as a reference material. The empirical analysis of the study was conducted using descriptive statistics. In this time, Quantitative and qualitative research approach and both primary and secondary sources of data were used. Structured Questionnaires and interview were used. The results showed microfinance institution financial services have a great contribution on expanding economic opportunity as measured by increase in household and individual income of clients of the institution as well as through increasing the clients access to basic social needs after getting the services. Besides, the study showed that access to microfinance has improved the status of poors' both at family level and in a society as a whole. The study therefore, recommends that Alle omo microfinance should endeavour to extend more credit facilities to poor clients/society to economically empower them. Finally, Alle omo micro finance sub branch should provide more training programs to its lower income class clients in order to improve their entrepreneurial skills and help reduce the problems which hinder their access to microfinance. .

Key words: Omo microfinance, economic opportunity, income, poor, empowerment, Government, Donors, NGOs,

CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Introduction

Many financial service providers serve small enterprises in developing countries, including commercial banks, cooperatives, MFIs, and others (Jasmine and Meritxell, 2012). Microfinance is one among the service providers that can pay for itself, and must do so if it is to reach very large numbers of poor people. Orrick Herrington and Sutcliffe(2012), Most poor people cannot get good financial services that meet their needs because there are not enough strong institutions that provide such services. Strong institutions need to charge enough to cover their costs. Cost recovery is not an end in itself. Rather, it is the only way to reach scale and impact beyond the limited levels that donors can fund. A financially sustainable institution can continue and expand its services over the long term. Achieving sustainability means lowering transaction costs, offering services that are more useful to the clients, and finding new ways to reach more of the unbanked poor.

According to Asian development bank(2000), Without permanent access to institutional microfinance, most poor households continue to rely on meager self-finance or informal sources of microfinance, which limits their ability to actively participate in and benefit from the development opportunities. Microfinance institutions are organized as nongovernmental organizations or officially, licensed non bank institutions (Heemskerk, 2005). As noted by Heemskerk, they are usually credit focused using strikingly successful new techniques for making and recovering small un-collateralized loans, deposits are often limited to obligatory cash collateral for loans. The noble prize winner Mohammed Yunus of the Grameen bank, noted that, microfinance is not a panacea but it is a main tool that foster development in developing countries. It is known worldwide that the poor cannot borrow from the banks. And banks do not lend them because they do not have what is required to be granted a loan or to be provided with the bank services.

According to the noble prize winner Muhammad Y.(2007) the lack of financial power is a contributing factor to most of societal problems. These problems emanate from poverty and it is known that with poverty one is bound to suffer so many consequences ranging from lack of good health care system, education, nutrition, Micro finance has proved this bank concept to be wrong. Microfinance projects need to be more focused and deliberate in targeting poor households. In this regard, projects need to clearly define the target group; identify the barriers to their program participation; and include interventions and/or mechanisms to remove these barriers(T. Kondo,2007)

Researchers have viewed Micro finance in different dimensions. Micro finance gives people new opportunities by helping them to get and secure finance so as to equalize the chances and make them responsible for their own future. Zeller et al. (2001) estimated the impact of microfinance on household income microfinance by comparing eligible households in the Association for Social Advancement. Several studies noted different causes for poverty in a country. Some argued that the cause of poverty in developing economies like in Ethiopia, among other things is that the poor does not have access to get a credit for the purpose of working capital as well as investment for its small business (Jean, 2006). To this end many developing economies have developed and have been providing credit to the poor through microfinance schemes. The experience of several Asian, African as well as Latin American countries could be a typical example for this (Meyer, 2002).

In Ethiopian context, MFIs are those organizations, which are approved by the Ethiopian Government according to proclamation No. 40/1996, which established the licensing and supervision of microfinance institution as a share companies in accordance with the commercial code of Ethiopia. Accordingly, omo microfinance is one by which poor and individuals with low income levels can get the access of credit and saving in order to be involved in economic opportunity created. Hence, the primary and main objective of omo micro finance is to provide credit and saving services to poor society or community in order to overcome the financial constraints and Expand job and economic opportunity.

Economic opportunity is a part of growing effort with in the business and development communities to make the links between business activity and poverty alleviation(Marc and Ramya, 2007). On the same year Alison Beanland(2007), gave the same meaning to Economic opportunity and explore four key strategies, companies can use to expand economic opportunity. Among these Creating inclusive business models is the one strategy which involving the poor as employees, suppliers, distributors, retailers, customers and source of innovation in financially viable ways. In view of that, Alle district OMF sub branch institution is giving several financial services to different target groups in collaboration with different stake holders in order to make individuals with low income level to be participated in inclusive business models discovered by Ashley (2007).

Based on the above stated objective of OMFI, this study is conducted to assess the role of microfinance institution credit and saving service at SNNPRS particularly, Alle district Omo Microfinance institution sub branch that have been providing credit and saving services to districts' community which result in expanding economic opportunity for its members.

1.2 Statement of the problem

One of the main barriers in financial institutions is informality (Sutton and Jenkins, 2007). According to Sutton and Jenkins (2007), The poor classes often live and work in the informal sector at rural areas, lacking ownership of land, homes, and businesses. Due to that they cannot able to get the access of credit services in order to Create and Expand their financial assets. OMFI have played a great role in creating an economic opportunity in the region as well as in the country by delivering the services that poor classes cannot be able to get at banks and other financial institutions other than MFIs.

Providing small loans through microfinance institutions is taken as a means to efforts in expanding economic opportunity as well as minimizing poverty. Wolday (2003) indicated that microfinance institutions are considered as one of the important tools of reaching the poor who had no or very limited access to credit from the traditional financial sector. To enhance the poors' access to credit in Ethiopia and to promote microfinance institutions growth the government issued proclamation No. 40/1996 the microfinance law. However, despite the encouraging increase in number of microfinance institutions in the country, the rural and urban poors‘ demand for credit remained untouched particularly due to the institutions bureaucratic procedures and methodologies (Kiros, 2012). The Wealth of Nations said, "Money, says the proverb, makes money". When you have got a little, it is often easy to get more. The great difficulty is to get that little (Hulme, 2000).

Further, in Ethiopia even though microfinance programs have been considered increasingly as important safety nets of the poor, knowledge about the achievements of these strategies remains only partial and limited, generally in the case of rural and urban setting. Accordingly, Various studies have been conducted in the area of microfinance in Ethiopia. One of the earlier studies by Wolday(2000) reviews the development of microfinance in Ethiopia, the regulatory frameworks of the industry, the performance of the institution in terms of financial sustainability and outreach. A good number of previous studies of microfinance institutions in Ethiopia focus on performance analysis in terms of financial sustainability and outreach (Befekadu, 2008) rural service delivery issues (Assefa*et al*. 2005), the nexus between commercial and social objectives of the institutions (Getaneh, 2008), reconciliation of financial sustainability with poverty alleviation (Tsgaye, 2005) and access to microfinance in rural Ethiopia (Assefa*et al*. 2005). Most of the aforementioned studies have much of their focuses limited on microfinance institutions role in alleviating poverty rather than on expanding economic opportunity through engaging on different economic activities that will increase and widen the business activities of each individuals who have been served by microfinance. Since expanding economic opportunity is the broaden term than that of eradicating poverty and the another thing is that in the event of addressing program beneficiaries, they are pre-occupied with investigating whether or not the poor are being reached.

Therefore all the above discussed issues about credit service accessibility condition and expanding economic opportunity along with deficiencies in the literature called for undertaking such type of extensive study. With reference to this, the researcher would like to address the role of Omo microfinance institution in expanding economic opportunity in Alle district.

1.3 Basic Research questions

- To what extent do omo microfinance services contribute to expand economic opportunity? (With respect to generation of more household income and working capital)
- What does OMFI services contribute to self employment?
- How much does OMFI service improves the clients' access to basic social services?

- What types of economic activities mostly OMFI sub branch clients are engaged on after getting credit from omo MFI?

1.4 Objectives of the study

1.4.1 General objective

- To assess the role of Omo microfinance institution in expanding economic opportunity in Ethiopia in the case of Alle district Omo MFI Sub branch, Segen zone; SNNPR State.

1.4.2 Specific objective

- To address the contribution of omo microfinance services in improving house hold income and working capital accumulation.
- To assess Omo microfinance institution services input towards basic social services.
- To analyze working capital owned before and after the loan at entrepreneurs/group level.
- To assess the function of OMFI in creating self employment opportunity for the poor.
- To investigate the contribution of omo microfinance on the economic status of the clients in terms of income, saving and asset holdings.
- To identify the role of Omo microfinance institution that enables the clients to be engaged on different economic activities.

1.5 Significance of the study

The outcome of this study would help the government, policy makers and financial intermediaries on the role of microfinance towards economic opportunity expansion of poor in Ethiopia. Beside, the study would be useful to advocates of poor empowerment who can rely on it.

Furthermore, the study may help other stack holders particularly Alle omo microfinance sub branch in reviewing their lending policies towards their clients/poor in order to achieve greater efficiency and after value added financial services. Besides, as stated above no study was conducted in the area either by the institution or by concerned bodies. So, this study will be of benefit to the community at large in fulfilling the Knowledge gap on the roles of the institution. Additionally, the result of the study is hoped to serve as a base for further research that enable the one who want to conduct a further research on the same area and it will improve literature on Role of MFIs on accessing credit and saving services and expanding economic opportunity in rural Ethiopia.

1.6 Scope of the study

The study is delimited to identify role of omo micro finance institution services in expanding an economic opportunity at Alle OMF sub branch at district level. Hence the generalizations of some facts and findings of the study may be limited to the specific institution considered in the undertaking.

A large sample size made up of different micro finance institutions from within a region and outside Alle district might have allowed for better generalization of the findings. Nevertheless, this study can served as a bench mark in the district for making further studies.

1.7 Limitation of the study

The Quality of the output of this study is dependent on the valid responses from the respondents and secondary data sources. Therefore, the respondents are mostly eventful and action-packed and all questions that are likely to be responded may not be accomplished to the appropriate and targeted point. i.e., the shortage of time given for the research and the grounds of the respondents to have being a full of activity that makes them not to have enough time to respond as projected. Therefore, these time shortage problems and financial constraints were the major limitations in this study.

1.8 Organization of the study

This study or thesis involved the common structures of the research mostly used by the researchers. The general content included in Chapter One: Back ground of the Study/introduction ,statement of the problem ,basic research questions, objectives of the study ,scope of the study, Significance of the study, Limitation of the study and organization of the study were included. In Chapter Two: Related review literature: Theoretical definitions and concepts related and Empirical evidences were presented.

Chapter Three: Methodology of the study including its sub activities, like research approach and design, samples taken and sampling techniques are explained briefly besides, research ethical consideration and validity and reliability of the research were addressed. Chapter Four: Data presentation, Analysis and Discussions were discussed clearly and finally Chapter Five: Summary of Findings, Conclusion, Recommendation, the reference, and Annexes were mentioned.

CHAPTER TWO

2 RELATED REVIEW LITERATURE

2.1 Introduction

The main purpose of this literature review is to establish the framework for the study and highlights the apparent strengths and weaknesses of the previous studies, which, in turn, help in clearly identifying the gap in the literature and formulating the research questions in the study.

This chapter presents relevant literature, theories and concepts on basics of microfinance and economic opportunity. First it provides the theoretical framework which consists definition of microfinance, emergence and characteristics, regulatory framework, financial intermediary role of microfinance institutions, and also it discuss about the core concepts and definitions of expanding economic opportunity and current status of economic opportunity in Ethiopia. Next the theoretical link between microfinance and economic opportunity is touched. Then it represents the definitional and conceptual framework adopted in this study and finally, it depicts about empirical evidences on related topics.

2.1.1 Definition of micro finance

In several researches and academic or working papers, many writers provided expressible definitions, history and concepts of Micro finance institutions and its functions in detail. Micro finance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses (Robinson, 1998). Eoin Wrenn (2005) microfinance is "the provision of financial services to low income poor and very poor self-employed people". These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001), define micro finance as "the attempt to improve access to small loans for poor households neglected by banks".

According to Mohammed (2007), Microfinance is a bit of a catch all-term. Very broadly, it refers to the provision of financial products targeted at low-income groups. These financial products include credit, savings and insurance products. The Canadian International Development Agency (CIDA, 2002) defines microfinance as, the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to conventional financial institutions.

It is a form of financial development that has primarily focused on alleviating poverty to expand economic opportunity through providing financial services to the poor (Michael, 2005). Therefore, micro finance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

2.2 Theoretical Evidences

Theoretical idea of microcredit has been derived from economic theory that forms the foundation of the credit business in non communist society (Kerengo, 2014). Adam Smith conceived this theory that self seeking individuals are always eager to employ their labor, capital and skills to their best interests, which eventually add up to the benefit of the entire society due to the work of “invisible hand”. Smith’s idea, latter popularized as the theory of capitalism by Karl Marx, describes the principle of material prosperity of the non-communist society. The psychological component of micro credit theory known as “social consciousness driven capitalism” has been advanced by most enthusiastic promoter of micro finance, Mohammad Yunus (1994).

This theory argues that a species of profit making private venture can be conceived that cares about the welfare of its customers. In other words it is possible to develop capitalist enterprises that maximize private profits subject to welfare considerations of their customers.

2.2.1 Concept of micro finance

As noted by Kerengo (2014), Micro finance is not a new concept it dates back in the 19th century when money lenders are informally performing the role of now formal financial institutions. Over the past two decades, various development approaches have been devised by policy makers, international development agencies, nongovernmental organizations, and others aimed at poverty reduction in developing countries. One of these strategies, which have been increasingly popular since the early 1990s, involves micro finance schemes, which provide financial services in the form of savings and credit opportunity to the working poor. From the year 2000 Micro finance institutions around the world and specially developing countries like Ethiopia, have been growing dramatically in terms of branches, groups, loan disbursement and number of loans, loans collected and saving clients.

Therefore, According to Veronica (2014) Micro finance enables the low income earners and excluded section of people in the society who do not have access to formal banking to build assets, diversity livelihood options and increase income, and reduce the vulnerability to economic stress. In the past, it has been experienced that the provision of financial products and services to poor people by micro finance institutions can cover their full costs through adequate interest spreads and by operating efficiently and effectively. Micro finance is not a magic solution that will people all of its clients out of poverty. But various impact studies have been demonstrated that micro finance is really benefiting the low income earners enterprises (Littlefield and Rosenberg, 2004 cited in Veronica, 2014). In addition to financial intermediation, some micro finance institutions provide social intermediation services such as the formation of the groups, development of self confidence and the training of members in that group in financial literacy and management (Lidgerwood, 1999).

There are different providers of micro finance services and some of them are; Nongovernmental organizations (NGOs), credit unions, government banks, commercial banks or non banking financial institutions. The target groups of Micro finance institutions are self employed low income entrepreneurs who are traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers and artisans' blacksmith (Lidgerwood, 1999).

2.2.2 Micro finance and Micro credit

In the literature, the terms micro finance and micro credit are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha (1998), states "micro credit refers to small loans, whereas micro finance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc)". Therefore, micro credit is a component of micro finance in that it involves providing credit to the poor, but micro finance is also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005).

2.2.3 Microfinance Institutions (MFIs)

A microfinance institution is an organization, engaged in extending micro credit loans and other financial and non- financial services to poor borrowers for income generating and self employment activities. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristics of providing financial services to clients who are poor and more vulnerable than traditional bank clients (CGAP, 2010). MFI is usually not a part of the formal banking industry or government. It is usually referred to as a Non-Government Organization (Mohammed, 2007).

2.2.4 The Emergence of Micro Finance

Since, traditional financial institutions have failed to reach the poorest of the poor of the population; microfinance emerged as a potential tool to fill the gap between financial institutions and needy people. The origin of micro finance is traced back to the early 1700s when Jonathan Swift, an Irishmen, had the idea to create a banking system that would reach the poor. He created the Irish Loan Fund, which gave small short term loans to the poorest people in Ireland who were not being served by commercial banks, in hopes of creating wealth in the rural areas of Ireland (Jennifer, 2010).

In the 1800s similar banking systems showed up all across Europe targeting the rural and urban poor. Friedrich Raiffeisen of Germany realized that the poor farmers were being taken advantage of by loan sharks. He acknowledged that under the current lending system, the poor would never be able to create wealth; they would be stuck in a cycle of borrowing and repaying without ever making personal economic development. Finally he founded the first rural credit union in 1864 to break this trend. In the 1950‘s donors and government subsidies were used to fund loans primarily for agricultural workers to stimulate economic growth but these efforts were short lived. The loans were not reaching the poorest farmers; they were often ending up in the hands of the farmers who were better off and didn‘t need the loans as critically as others. Funds were being lent out with an interest rate much below the market rate and there were not enough funds to make this viable long term. These loans were rarely being repaid, so the banks‘ capital was depleting quickly and when the subsidized funds ran out, there was no more money to pump into the agricultural economy in the form of micro loans (Jennifer, 2010).

In the 1970s the biggest developments in micro finance occurred. Grameen Bank in Bangladesh started off as an action based research project by a professor who conducted an experiment credit program. This nonprofit program dispersed and recovered thousands of loans in hundreds of villages. The professor tried to extend this idea to other bankers in Bangladesh, but they were afraid that it was too risky as a business and turned down the offer. However, today Grameen Bank is one of the world‘s largest micro finance institutions with over 7.9 million borrowers in 2011(Tolosa, 2011).

2.2.5 Characteristics of microfinance institutions

Microfinance makes easy access to financial and non-financial services to low-income people, who wish to access money for starting or developing an income generation activity. The individual loans and savings of the poor clients are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be _bankable‘, that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as a discipline has created financial products and services that together have enabled low-income people to become clients of a banking intermediary. According to Mohammed (2007) quoting Murray, U. and Boros, R. (2002) stated the characteristics of microfinance products which include but not limited to:

- Small amounts of loans and savings and application procedures are simple. Short- terms loan (usually up to the term of one year).
- Payment schedules attribute frequent installments (or frequent deposits).
- Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients‘ financial and social status.

- Short processing periods (between the completion of the application and the disbursement of the loan).
- The clients who pay on time become eligible for repeat loans with higher amounts.
- The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time.
- No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients' repayment potential by utilizing social information rather than cash flow analyses.

2.2.6 The Overview of Financial System in Ethiopia

Finance refers to the process by which markets deal with cash flows over time. Financial markets make possible for individuals, partnerships, and governments to borrow and lend. Institutions that perform this sort of market function, matching borrowers and lenders or traders are called financial intermediaries. Financial intermediaries include banks, Insurance Companies, and MFIs. Financial sector can play a significant role in improving resource allocation, food security, alleviating poverty and economic growth of a country (Yitay, 2011).

The Ethiopian Financial system, generally speaking falls into two categories. These include: Formal and informal financial system. The formal financial system is a regulated sector, which is well organized and provides financial services mainly to urban areas with the exception of MFIs. This formal financial system in Ethiopia is mainly composed of financial institutions such as banks, insurance companies and microfinance institutions. The informal financial system includes Equb (Rotating Saving and Credit Association), Eddir and others, which are not regulated by NBE (Kassa, 2010). Currently there are 18 private and 3 government-owned banks, 14 private and 1 governments owned insurance companies, and 31 microfinance institutions owned by regional governments, (NGOs), individuals and associations as of May, 2012 (NBE, 2012). According to Yitay (2011) the capacity of the conventional banking sector in Ethiopia has been too weak and bureaucratic to serve the need of the rural community. Access to institutional credit is very limited. The majority of the rural poor get access to financial services through the informal channels. Much of demand for rural finance is met through the informal sector (Yitay, 2011). The inability of traditional banks to address the financial demand of the rural poor is the initiation to design new strategies for delivering financial services to the poor. The microfinance institutions are mainly designed to provide rural banking services and mobilizing small savings**.**

2.2.7 The supply of microfinance services to clients

The approach taken by MFI will depend on the degree to which these MFIs will provide each of these services and whether it follows a "minimalist" approach or "integrated" approach. The minimalist approach offers only financial intermediation but they can sometimes offer partial social intermediation services. This approach is based on the fact that there is a single "missing piece" for the Expanding of Economic opportunity and it is assumed to be the lack of affordable, accessible, short-term credit which the MFIs can offer. The integrated approach takes a more holistic view of the client. This approach creates avenue for a combination or range of financial and social intermediation, enterprise development and social services. MFIs take advantage of its nearness to the clients and based on its objectives, it provides those services that are recognized as most needed or those that have a comparative advantage in providing. The demand and supply of these services will determine the approach that a MFI will choose and also the circumstances in which it is operating (Lidgerwood, 1999).

2.2.8 Overview of Microfinance institutions development in Ethiopia

Microfinance development in Ethiopia is a recent phenomenon in institutionalized form. But it has a long history in different forms. Government efforts of delivering financial services especially credit to accelerate socio-economic development in Ethiopia may date back to the immediate post Italian occupation period with the establishment of the Ministry of Agriculture in 1943 and Agricultural Bank of Ethiopian in 1945.The main objective of the Bank was to assist small land holders whose farms had been devastated during the Italian occupation through loans to purchase agricultural inputs and repaired houses (Abebe 2006 quoting Assefa et al, 2005). During the Derg regime, a large share of credit was given to the state sector and marginalizing the private sector and the poor. Due to this, the private sector including the poor was forced to depend on self-financing and non-institutional credit. During the 1986-90 the share of domestic credit to the private sector and cooperatives averaged 4.7 and 1.1 percent respectively and the rest going to the government and public sector (Wolday, 2001). NGOs have been delivering relief and development services like emergency food, health, education and water in Ethiopia since 1970‘s (Wolday, 2001). Following the failure and unsustainability of financial services by NGOs and governments, proclamation which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services.

2.2.9 The Regulatory Framework for the Microfinance institutions in Ethiopia

The delivery of efficient and effective microfinance services to the poor required conducive macroeconomic policies and the establishment and enforcement of legal and regulatory frameworks of a country. An effective financial system provides the foundation for a successful poverty alleviation program (AEMFI 2000). The microfinance institutions are a part of the formal financial system that are regulated and supervised by national bank of Ethiopia. However, regulations in the microfinance industry do not only mean government regulations; it also involves self-regulations and code of conducts introduced by networks or associations. There are a number of regulations which affect the development of microfinance industry in Ethiopia. The most relevant and recent regulation affecting the industry is Proclamation No. 40/1996 which aims to provide for the licensing and supervision of the business of micro financing clearly indicates the requirements for licensing microfinance institutions by empowering the National Bank of Ethiopia to license and supervise them. The National Bank of Ethiopia has also issued directives, which have been consistent with Proclamation. These included setting a loan ceiling of 5,000 Birr and loan duration of one year. The interest rate has been waived and MFIs are now free to set their own interest rates ceiling (Yitay, 2011).

Further, in an attempt to enhance the development and soundness of the micro-financing business; Micro-Financing Business Proclamation No. 626 /2009 was ratified by the House of People‘s Representative. According to the Proclamation No. 626 /2009, the main purpose of a micro-financing institution shall be to collect deposits and extend credit to rural and urban farmers and people engaged in other similar activities as well as micro and small scale rural and urban entrepreneurs, the maximum amount of which may be determined by the National Bank.

2.2.9.1 Licensing of micro-financing institutions

Micro-Financing Business Proclamation No. 626 /2009 states that it is prohibited to engage in micro-financing business without obtaining a license from the National Bank of Ethiopia; provided however, that banks licensed under the appropriate law may engage in micro-financing business without a separate micro-financing business license.

2.2.10 Structure of ownership of micro-finance institutions in Ethiopia

The ownership structure of Ethiopian Micro-Finance Institutions is the direct effect of regulatory provisions. According to the Proclamation No. 40/1996 of the Business of Micro Financing Institutions, micro-financing institution should be owned fully by Ethiopian nationals and/or organizations wholly owned by Ethiopian Nationals and registered under the laws of, and having its head office in, Ethiopia. This legislation excluded international NGOs and other overseas agencies not to own and run microfinance institutions in Ethiopia. In support of the various regional development plans and to address the social and economic problems of regions, the regional state governments own some shares in Micro finance institutions (Deribie et al., 2013). The current regulatory framework requires microfinance institutions to be formed as share companies owned only by Ethiopian nationals (Kassa 2010).

2.2.11 Saving and Credit Needs in Ethiopia

Need for credit is very high among the poor in Ethiopia. According to Mubarak (2006) quoting Renee Chao et.al (2000) economically active poor people in Ethiopia who can potentially access financial services are about 5.2 million. However, it should be noted that today MFIs meet only less than 20 percent of the demand for financial service of the poor in the country (Ayelech, 2010). In the case of rural area, the poor requires credit basically for four reasons. First, women and small businessmen in rural and urban area need short-term credit for their petty trading or other income generating activities. Secondly, Innovations in farming like improved seed and fertilizers increases the capital requirements of the farmer. Thirdly, most rural households remain at subsistence level and therefore, there is no surplus that can be used for the future and hence they need credit to bridge the gap of food shortage, for consumption smoothing. Lastly, People also need credit to meet their social obligation like weeding, holidays. Similarly the need for saving is high despite the wide spread belief that the poor cannot save. One can observe that a lot of saving is taking place in different forms in rural and urban areas that are prone to risks. People save for various purposes: to manage their daily house hold finance, as insurance for unexpected crisis, to meet social obligations and to accumulate for future needs. People save outside the financial system in many forms, including Jewellery, animal, grain, etc. (Mubarak, 2006). These forms of saving are very risky as they are subjected to pests, disease, theft, drought and loss. As a result, there is good ground to say that people will take the opportunity of saving in financial terms when available in trusted microfinance institutions.

2.2.12 Informal finances in Ethiopia

In Ethiopia, like all other developing countries, informal finance is available from various traditional institutions. The informal sources of credit at present are friends and relatives, rich farmers, traders, Equb, Edir and moneylenders (Mubarak, 2006 quoting Dejene, 2001). The significance of each of these sources varies from area to area. Of these the Equb is used as a Rotating Saving and Credit Association. A study on the establishment of rural credit in Ethiopia estimates that the volume of money revolving within the Equb is in the range of 8-10% of the GDP of the country (Mubarak, 2006). The development of microfinance institutions in part is to recognize and accommodate the shortcomings of the informal financial institutions.

2.2.13 Financial intermediary role of microfinance institutions

Almost all microfinance institutions (MFIs) in the world focus in making credit to rural and urban poor households unemployed, underemployed and small entrepreneurs, The emphasize first, in developing income activities by providing critically needed credit facilities and technical support to the poor and then on saving mobilization. Like their counterparts in other part of the world, the mission of Omo microfinance Institution (OMFI) which is operating in the most southern part of Ethiopia, is accessing credit with the goal of poverty eradication (Narayana, 2005). Accordingly, poverty can be eradicated if and only if economic opportunity is created for the poor society.

Financial development plays a central role in poverty reduction through providing the credit and saving services that results in creating job opportunity and expanding economic opportunity for the low income level class of the society. Microfinance is attractive and has been accepted as an important tool to help poor in improving the livelihoods, reducing vulnerability and fostering social as well as economic empowerment (Lousie, 2002).

As wolday (2003) states the delivery of financial services have been accepted as one of the poverty reduction tools in the development paradigm; because it helps the poor to increase income, improve educational and health status if it is realized appropriately. It is believed that poor households lack access to adequate financial services for efficient risk coping. Without some financial support, these households do not have many prospects for increasing their productivity and living standard in sustainable way. Because traditional financial sector do not have interest in lending to poor households due to lack of viable collateral and high transaction costs (Yitay, 2011)

The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low income households (Chandra, 2010). Lately, microfinance programs received increased attention from the international financial institutions such as World Bank, various bodies of the UN, donor agencies and IMF. IMF focused on encouraging the creation of sound financial systems in developing countries (Abebe, 2006). Microfinance programs aiming at providing financial services to individuals who are excluded from the traditional financial sector have been launched in many developing countries including Ethiopia. Still in Ethiopia, lack of access to finance is one of the fundamental problems impeding production, productivity and income of rural households due to bureaucratic and lengthy procedures, weak client selection criteria, lending method, long distance, the unstable interest rate and the size of loans rural poor households in Ethiopia are out of the reach of the formal financial institutions (Kiros, 2012).

In Ethiopia microfinance institution was introduced and taken as part of the government‘s poverty alleviation strategies aiming at facilitating rural credit access by rural households and playing a greater role in the Millennium Development Goals agenda (Getaneh, 2008; Zaid, 2008). Microfinance today spread all over the country and started to give services like provision of credit for rural and urban households and small businesses, accepting deposits, drafts, and public savings.

These institutions acted as a financial intermediation like formal bank; the difference between formal bank and omo micro finance saving and credit service is that the former focuses on rich clients who have collateral like land, house and so on while the later one emphasize is to the poor community and it plays a great role in creating an economic opportunity for lower income classes. According to Remenyi (2000) cited in Tenishu, 2014) subsidizing credit and subsidizing banking with poor are inimical to " best practice in microfinance". OMF saving and credit service is to fill the gap in the financial service sectors by providing funds to the poor and lower income class and thus alleviating poverty and enhance their business activity that enables to expand economic opportunity.

2.2.14 Approaches of MFIs

There are different approaches to microfinance service provision to the poor. According to Robinson (2001), the most known approaches in microfinance development can be categorized poverty lending vs. financial system approach and business vs. developmental approach.

2.2.14.1 Credit and Saving services Vs Financial System Approach

Both approaches share the goal of making financial services available to poor people throughout the world. However, the credit and saving service approach focuses on expanding economic opportunity through credit and other services provided by institutions that are funded by donor and government subsidies. A primary goal of this approach is to reach the poor especially the poorest of the poor with credit. Saving is a significant part of this services since omo micro finance institutions do not deliver the credit access without saving. i.e., the amount of the credit or loan is depending on the amount of saving size. These credit and saving services have wide outreach to poor borrowers. But the services have required large amount of continuing subsidies and does not meet poor people‘s demand for credit services. Due to these, it has not fulfill the demands. With the failure of credit institutions to address the grassroots (households‘) financial needs, the situation demanded an innovative approach to address the lower segment of the population. The new approach should correct the drawbacks of the old approach (Ayelech, 2011). The financial system approach focuses on commercial financial intermediation among poor borrowers and savers; and also emphasis is given to institutional self-sufficiency. The approach targets lending to the economically active poor people, i.e. people with the ability to use small loans for income activities and the willingness to repay and to voluntary make required savings.

2.2.14.2 Business Vs Development Approach

The first objective of MFIs is the provision of basic financial services to the poor. However, the service provision depends on their approaches. There are two contesting approaches among microfinance supporters: business approach and development approach. According to (Ayelech , 2010; Van Maanen, 2004) stated business approach primarily focused on organizational achievements such as repayment, cost recovery and profitability. Hence, their concern is how to develop the industry‘ rather than how to develop the community.

On the other side, development approach emphasis more on how the client is doing rather than profitability. Supporters of this approach argue that the client should participate in awareness and capacity building programs before taking their loans. Therefore, the development approach gives emphasis not only to building institutions for sustainable provision of services, but also empowering the poor people to get the most out of the services delivered; this study adopts the development approach to assess the functioning of OMFI and to see how the institution incorporate its financial services with other non-financial services in the area.

2.2.14.3 Institutional Design for the Poor

Appropriate institutional design will lead to better achievements in reaching the target poor but may or may not necessarily lead to profitability, efficiency and sustainability because the more the program targets the poorest, the less the cost recovery and profit margin expected (Ayelech, 2010). However operational sustainability basically requires a large base of clients. Recent microfinance interventions have made use of a range of product design features. Although there are different designing features, this research focuses on the following.

2.2.14.4 Micro finance Product Designs

Micro finance institutions have various product designs or methodologies which target specific clients. It uses different modals to provide financial services to the poor. Robert Cull et al, in their global analysis of lending micro banks, found three main categories: Group, Individuals, and Village Banking Models (Cull et al 2007) On the other hand, according to Tolosa (2011) MFIs approaches or modals are: individual lending, German Bank solidarity lending, and village banking models. But, according to Mohamed (2007) majority of the microfinance institutions offers and provides credit on a solidarity-group lending basis without collateral or individually. Some microfinance institutions start with one methodology and later on move or diversify to another methodology so that they do their best to include certain socio-economic categories of clients.

2.2.14.5 Individual Lending

Unlike microfinance institutions, there are very few traditional banks which provide individual loans to low-income people because poorer clients are considered higher risk clients due to their lack of collateral, plus the labor-intensive nature of the credits and hence the lack of profitability of small-credits (Mohamed, 2007).

2.2.14.6 Group Lending Joint liability lending

Group based lending is one of the most novel approaches of lending small amounts of money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between four to eight members. The group self-selects its members before acquiring a loan. Loans are granted to selected member(s) of the group first and then to the rest of the members. Most microfinance institutions require a percentage of the loan that is supposed to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other‘s loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter. The creditworthiness of the borrower is therefore determined by the members rather than by the institution. While many schemes use groups to credit, Kassa, 2010; Hulme and

Mostey (1996) stated that group formation may exclude some poor people, especially when the group is formed based on resource base. However, group formation enables a transfer of default risks from the institution to the borrower, and can reduce the transaction costs of providing a larger number of small loans, but there are social costs related with this process. These social costs can be a negative restraint to group borrowing and joint liability approaches, and include coercive peer pressure, loss of faith and the likelihood that the poorest and most vulnerable will remain further stigmatized.

2.2.14.7 Savings Mobilization

The other side of the coin of microfinance service delivery is savings. Savings mobilization has recently been recognized as a major force in microfinance. According to Tolosa (2011) quoting Vogel (1988) in the past, microfinance focused almost exclusively on credit provision; savings were the "forgotten half" of financial intermediation. The importance of savings mobilization has been highlighted in several papers in the context of microfinance as the lack of appropriate institutional savings facilities forces the individuals to rely upon in-kind savings, such as the savings in the form of jeweler, animals or grains. These alternative savings facilities do not guarantee the combination of security of funds, ready access or liquidity, and convenience, which are basic requirements or necessity of a depositor (Mohamed, 2007; Tolosa, 2011).

Micro finance programs can play a significant role for promoting savings among the poor populations, with considerable benefits both for the savers and for the program. Savings mobilization is an interesting issue among the poor for various reasons. Mobilizing savings can facilitate development programs that are working to boost productive income and employment among low-income groups. Finally, the process of saving on a regular basis can be an important experience and can contribute to an improvement in the quality of their lives. It serves to capitalize on the productive activities, which sustain the family and thereby enhancing income of the family.

2.2.14.8 Human Development

According to Harper (2003) Development is deeply related to rising income. However, it is true that other variables have also deep relation with development. Goals of development emphasize on the reduction of poverty rather than raising average incomes. All microfinance program targets one thing in general: human development that is geared towards both the economic and social uplift of the people they cater for. Expanding economic opportunity has taken a new and broader dimension. Now the escalating income and savings, and building the assets are not the only means to expand economic opportunity points to multidimensional concepts that emphasize on reducing unemployment, food shortage and increasing the house hold income etc. It is possible to achieve those development indexes, if disposable income is increased. Without maintaining balance between income and expenditure, it is difficult to create job opportunity and expand economic opportunity.

Microfinance programs target both economic and social poverty. To assess the success of their efforts microfinance institutions need to measure the impact on the borrowers. The primary objective of all MFIs interventions is poverty reduction. Poverty reduction is perceived from the economic point of view. On the other hand, MFIs interventions promote living condition of poor people by offering supportive service. These supportive services like access to health and education services are important indicators of human development. The objective of the program is to create sustainable changes in the lives and livelihood of the poor in particular (Meyer, 2002).

2.2.15 Access to Credit

2.2.16 Concepts and Definitions

This is how and where credit is made available to the poor people or to those who need it. The principal function of credit is to transfer property from those who own it to those who wish to use it, as in the granting of loans by financial institution to individuals who plan to initiate or expand an income activity. The transfer is temporary and is made for a price, known as interest, which varies with the risk involved and with the demand for, and supply of, credit.

According to Sisay (2008), access can be defined as, the right to obtain or make use of or take advantage of something (as services or membership). Further Sisay (2008) quoting Diagne et al. (2000) stated that a household is said to have access to a type of credit if at least one of its members has a trouble-free access for that type of credit.

Similarly, a household is classified as credit constrained for a type of credit if at least one of its members is constrained for that type of credit. In many rural areas of developing countries, lack of access to traditional financial services has be seen as a sever constraint that prevents low income households from improving their incomes and lifting out of poverty (Wali, 2009). For instance as observed by Mohammad, (2008) over 500 million poor people in developing countries have often cited limited access to credit as the biggest challenge to their economic growth. Therefore, access to credit can refer to a situation in which a borrower is able to obtain amount of loan for which he is applying.

2.2.16.1 Concepts and Definitions of Economic opportunity

"The richest 1 percent owned 40 percent of the world's assets, and the richest 10 percent owned 85 percent. By contrast, the bottom half of the world's population owned barely 1 percent of the planet's assets" (Yunus, 2007). Every day people practice different living situations under different circumstances. Some live in comfortable houses with many rooms, they have more than enough to eat, are well clothed and healthy, and have a reasonable degree of financial security. Others that constitute more than three-fourths of the world's population are much less fortune. They have little or no shelter and an inadequate food supply, poor health condition, illiterate, they often unemployed, and their prospects for better life are uncertain for at best (Abebe, 2006 quoting Todaro and Smith, 2004).

Traditionally, Economic opportunity has been conceptualized in terms of income, with the poor defined as those living in a given average and above income level. But economic opportunity has been increasingly recognized as a multidimensional phenomenon that encompasses not simply earning average or better income, but also involving the poor as employees, suppliers, distributors, retailers, customers and source of innovation in financially viable ways as explained by Ashley (2007) in Creating inclusive business models he discovered. The complex and multidimensional nature of economic opportunity makes it a challenge to measure. It depends on what the poor do with this money, oftentimes it is gambled away or spent on alcohol, so focusing solely on increasing incomes is not enough . The focus of Omo microfinance credit and saving service needs to be on helping the poor to sustain a specified level of well-being by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved.

2.2.16.2 Entrepreneurship and Economic Opportunity

The entrepreneurial function implies the discovery, assessment and exploitation of opportunities, in other words, new products, services or production processes; new strategies and organizational forms and new markets for products and inputs that did not previously exist (Shane and Venkataraman, 2000). The entrepreneurial opportunity is an unexpected and as yet unvalued economic opportunity.

Entrepreneurial opportunities exist because different agents have differing ideas on the relative value of resources or when resources are turned from inputs into outputs. The theory of the entrpreneur focuses on the heterogeneity of beliefs about the value of resources (Alvarez and Busenitz, 2001: 756). Entrepreneurship –the entrepreneurial function- can be conceptualized as the discovery of opportunities and the subsequent creation of new economic activity, often via the creation of a new organization (Reynolds, 2005). Due to the fact that there is no market for “opportunities”, the entrepreneur must exploit them, meaning that he or she must develop his or her capabilities to obtain resources, as well as organize and exploit opportunities.

The downside to the market of “ideas” or “opportunities” lies in the difficulty involved in protecting ownership rights of ideas that are not associated with patents or copyrights of the different expectations held by entrepreneurs and investors on the economic value of ideas and business opportunities, and of the entrepreneur’s need to withhold information that may affect the value of the project. Entrepreneurship is often discussed under the title of the entrepreneurial factor, the entrepreneurial function, entrepreneurial initiative, and entrepreneurial behavior and is even referred to as the entrepreneurial “spirit.

The entrepreneurial factor is understood to be a new factor in production that is different to the classic ideas of earth, work and capital, which must be explained via remuneration through income for the entrepreneur along with the shortage of people with entrepreneurial capabilities. Its consideration as an entrepreneurial function refers to the discovery and exploitation of opportunities or to the creation of enterprise. Entrepreneurial behaviour is seen as behaviour that manages to combine innovation, risk-taking and proactiveness (Miller, 1983). In other words, it combines the classic theories of Schumpeter's innovative entrepreneur (1934, 1942), the risk-taking entrepreneur that occupies a position of uncertainty as proposed by Knight (1921), and the entrepreneur with initiative and imagination who creates new opportunities. Reference to entrepreneurial initiative underlines the reasons for correctly anticipating market imperfections or the capacity to innovate in order to create a "new combination".

Entrepreneurial initiative covers the concepts of creation, risk-taking, renewal or innovation inside or outside an existing organization. Lastly, the entrepreneurial spirit emphasizes exploration, search and innovation, as opposed to the exploitation of business opportunities pertaining to managers. When the environment for economic opportunity is suitable, it is possible that to talk about job opportunity or unemployment since it is a great part and indicator of one's country economic growth. Accordingly, it is better to look on Ethiopian unemployment rate based on the CSAE data.

2.2.17 Savings Services' Terms

Saving is not an end in itself. Rather it is a pre-requisite to investing. It is very vital for a SACCO to understand the needs and interests, priorities of existing and potential clients. This serves well in time after knowing the benefits of saving mobilization (Saving and Credit Workshop, Musanze, (2003).This will enable them to give the best services to their clients. This assertion is supported by a number of other researchers like Dr. Alfred (1993) states that Micro finance needs to offer wide range of saving product that are directed to a particular client. This enables customers to have a choice between immediately accessible, liquidity products or semi-liquid accounts or time deposits with higher interest rates.

According to the Grameen Bank model, there is emphasis on savings as a prerequisite to access loans where clients should access the savings at any time. However, these savings always act as security and clients cannot access it at anytime they wish to do so. If the savings requirement is too high then members who cannot meet the stated amounts are automatically pushed out of the credit. Saving and credit cooperative can operate various types of funds/accounts according to the needs of the members.

However, the following are the main funds, which form the core of the savings and credit cooperative shares. To use the services of the cooperative savings and credit society, members must stake in the business by buying shares. On acquiring shares in a cooperative, one automatically enjoys the ownership rights in the organization. These shares form the cushion and become risk capital in case of business failure. Basically these shares are used to acquire fixed assets and acquire shares and financial investments in other organizations. Shares earn dividends at the end of the financial year and they are not withdrawn able but they are transferable.

MFIs and savings banks are often too far away or the time and procedures needed to complete transactions are too erroneous. These organizations also may impose minimum transaction sizes and require depositors, to retain a minimum balance, both of which cannot exclude the poor depositors, nor are they welcome as clients. Ahimbisibwe (2007), on strategies to improve savings culture mentioned that it is necessary to train people on the terms and importance of savings, give prizes to the best savers, make savings compulsory, and save for old age insurance and payment of interest above inflation rate. Wright et al, (1997) also argued that the desire and capability of the poor to save, when met with flexible and responsive saving facilities can result in large-scale savings mobilization. Indeed voluntary, open-access savings schemes can generate more net savings per client per year (and thus greater capital for the institutions) than compulsory locked in savings schemes. And provide a useful and well-used facility for clients while doing so introducing a secure, liquid convenient savings facility that offers a positive rate of return can result in startling increases in client base and capital mobilization for the SACCO.

2.2.17.1 Opening and Running of Savings Accounts

According to Thomas K.Shaw (2007), SACCOs require that members open savings account as a conditions for joining but others do not. The account is maintained by the client for the purpose of accumulating funds over a period of time. Funds deposited in the savings account may be withdrawn only by the account owner or by his formally designated representative. The account may be owned by one or more persons, some accounts require funds to be kept on deposit for a minimum length of time while others permit unlimited access to the funds. Demand savings accounts can be accessed on demand that is to say at any point in time and for any amount up to the required minimum account balance. Demand savings accounts are therefore highly liquid, easy to deposit into and easy to withdraw from.

However they are not especially stable resources for a SACCO's long term investment strategy. These accounts are in form of current savings accounts and ordinary savings accounts. While current savings account pays no interest on savings, has no minimum balance and generally has higher maintenance fees, program. Savings/Deposit services deposits and related services earning competitive rates of interests and minimizing financial risks on such savings. In savings and credit cooperative members are A saving and credit cooperative can operate various types of funds/accounts according to the needs of the members. However, the following are the main funds, which form the core of the savings and credit cooperative shares.

2.2.18 Credit Period

This stipulates the length of time for which credit is extended. This could be say sixty days meaning that all its customers are expected to repay their obligations in 60 days (Kakuru, 2000). It was further stated that a firm's credit period is governed by organization norms depending on the objectives of the firm. It can lengthen the credit period on the other hand the firm may tighten the credit period if customers are defaulting too frequently and debt loss is built up. According to Duval (1996), credit period is the time over which the loan is to be repaid and the frequency of repayments.

The credit period should take into account the purpose of loan, the mix of working capital, fixed assets and infrastructure to be financed and should be based on a calculation of the time needed for those assets to generate the income necessary for loan repayment. However, he noted that MFIs should keep in mind that making short term loans will turn over lending resources more quickly than making long term loans. So it should be considered whether to give a grace period in a loan term or not.

The purpose of a grace period is to allow business enough additional time for the invested proceeds of the loan produce sufficient income to make the loan repayment. Working capital loans rarely have grace period. It is assumed that financing raw materials, other inputs or operating costs immediately begin to generate additionally income for the business so that the business can immediately begin to repay the loan. Most MFIs clients pay back after one or two weeks and they continuously make weekly installments for 4-6 months. This period varies from one institution to another. However, this period is considered too short to use credit and to be able to pay back and as a result working capital continues to be limited since payments are immediate and even at times from other resources other than business itself hence affecting client's performance negatively.

Yunus M (1983) also observed that these weekly repayments are supposed to be borne by the business but one thing in common with many small enterprises is that they make their weekly loan repayments not from income arising from the loan but from the family household income. This is extremely common because of the typical repayment schedules. Rutherford (1999).These schedules normally require investments that generate immediate and rapid rate of return if repayments are made from small enterprise's income.

Thus savings from house hold incomes are usually a primary source of the money used to make loan repayments. Mutesasira (1999) Hence the need to analyze the capital requirements of the business in order to determine the loan amount and repayment period the institution could give to the borrower at any one single time. Wright (2000) said, as the loan grows bigger, it may necessitate the pulling out of the large amount of money from the business in order to make weekly repayments. This reduces on the working capital of the business and the subsequent levels of profitability.

2.2.18.1 Interest rates on credit access

The relationship between income and development is positive. SACCOs help members to develop through charging conducive interest rates that attract borrowers and paying interest rates that ensure that deposits are mobilized. Interest rate on loans is the price of accessing and utilizing credit resources. Interest rate can be looked at from the borrower (member) and the lender (SACCO) point of view. To the borrower, interest rates is the cost of borrowing money expressed as a percentage of the amount borrowed (Martin J.1996). A borrower evaluates all costs including interest rate and expected returns before deciding to take a loan or not. To the lender, (SACCO) interest rate is determined by factoring in costs such as cost of production, inflation rate, operational costs, loss provision and capital growth.

The rate charged should be able to cover costs and make contribution to the SACCO. Currently WSACCO charges interest rates on the following; Quick loan 17%.School fees loan 17%, Housing loan, 17%, Business loan 17% and Agriculture loan 13%.These loans are also 100% insured against death and 100% against total incapacitation, 60% against Absent Without Official Leave and in this case 25% will be recovered from a member's shares and savings while 15% recovered from the guarantors. (www.wazalendo.co.org).It is however assumed that any slight increase in the interest rates will discourage members from borrowing and thus deterring their development plans. International Journal of Community and Cooperative Studies Volo.3, No.2, pp.1-56, June 2015 Published by European Centre for Research Training and Development UK.

The challenges to MFIs as an instrument for expanding economic opportunity relates to the terms of credit to the poor. Okurut, et al (2004). It is also argued that Profitability and sustainability are key indicators of success that is to judge whether the institution will survive or not. From the MFIs institutional side, the sustainability equation relates the revenue side to the expenditure side. The revenue side can improve by either increasing interest rates and commissions or portfolio volume. It is also said to be probable that inefficient MFIs may try to improve their sustainability levels by raising the interest rates and commissions. To Okurut,et al (2004), demand for credit by the poor is interest inelastic, it can be counter argued that high interest rates that are due to inefficiencies are counterproductive and that the interest rates charged by microfinance by then ranged between 2.5% and 4% per month before factoring in the other commissions and fees which vary across MFIs. It was also indicated that it is true under liberalized environment, interest rates cannot be controlled but competition in the microfinance sector can be enhanced if there is perfect information flow about the interest rates charged by different players, a role that government can play without necessary fixing interest rates. Nabulya (2007) also argued that the desire for financial sustainability is at times compromised with high interest rates which are likely to affect the client borrowing due to fear of the large installments repayments that would in long run result into slow growth by MFIs and that the report findings about the MFIs in Nigeria (Bridging the Poverty Gap, 2007) are that the core objective of providing micro credit facilities through MFIs in a cost effective way. Institutions are often advised. Katantazi (2001) observed that microfinance institutions cannot generally charge interest rates equal to those charged by mainstream banks because of the very nature of their customers or clients and their operations.

MFIs justify the high interest rates ,as a way of obtaining long term sustainability given the high costs structure of other firms. Key among factors that explain this is the fact that microfinance beneficiaries are not easily accessible, thereby increasing and imposing huge transport costs on the providers. The interest rate charged by a microfinance institution has a great impact on the performance of loans granted to micro and small enterprises including their repayments.

Method of calculating interest rates on loans In his 2007 book Creating a World without Poverty, Muhammad Yunus (Noble Peace Prize Laureate and founder of Grameen Bank, one of the largest microfinance providers in Bangladesh), proposed a new methodology for the evaluation of microcredit interest rates. The proposed methodology is based on an interest rate premium, defined as the difference between the interest rate charged by the MFI and the cost of funds at the market rate paid by the MFI. Anytime money is borrowed, interest is charged. How interest is computed often is confusing as is the manner in which the interest rate is stated. The Federal Truth in Lending Act of 1968 and International Journal of Community and Cooperative Studies Volo.3, No.2, pp.1-56, June 2015 Published by European Centre for Research Training and Development UK.

Its successor Truth in Lending Simplification and Reform Act of (1980) was enacted in order to assure a meaningful disclosure of credit terms and to protect the consumer against inaccurate and unfair credit billing and credit card practices (Utchman et al 1981). According to Norman L et al, lenders use three major methods to calculate interest charges: The add-on method .Here ,the lender calculates the total interest charge by multiplying the entire loan amount by the contractual interest rate and then multiplying the total interest cost by the period(months, years) covered by the loan. The interest charge is added to the principal to determine the total amount to be repaid. This amount is then divided by the number of repayment periods to determine each payment.

2.2.19 Interest Rates on Savings and Members' Economic Development

Gittel and Vidal (2004) argued that microfinance aims at improving access of the poor to saving services to make them bankable clients and to promote savings mobilization among the poor through self-help groups in order to help them reduce their vulnerability by enhancing their individual and household incomes, improving their standards of living, empowering and improving household health. On contribution to empowerment those self-help groups and other savings based community groups offer to members is the pride of ownership and autonomy. Even though some self help groups are given training and support from Non Governmental Organizations, the majority of even these externally supported groups rely primarily on members.

Savings for their capital instead of external capital as most village banks or solidarity groups do.
Savings based approaches that rely on minimal external support charge lower interest rates and a large percentage of that interest goes back to the members inform of interest on their savings and community projects. The empowerment benefits derived from independence and autonomy are often partially offset, however, by weaker economic empowerment benefits. By depending on the savings of very poor community members' capital is limited than it would be with external support, which in turn limits the growth potential of members' enterprises and income. Currently, all SACCOs reward poor savers and good severs at the same rate; that is a flat interest rate is paid regardless of average balances and this discourages those that would be willing to save more and for longer periods Thomas K Shaw(2007).

2.2.20 Credit Services Terms and Members' Economic Development

Credit is considered to be an essential input to increase agricultural productivity mainly land and labor. It is believed that credit boosts income levels at the household level and thereby boosts economic development. Credit enables poor people to overcome their liquidity constraints and undertake some investments especially in improved farm technology and in puts thereby leading to increased agricultural production. Huidhues, (2000).Furthermore, credit helps poor people to smooth out their consumption patterns during the lean periods of the year Binswager and Khandker,(1995) and by so doing, credit maintains the productive capacity of the poor households.

According to the Grameen Bank model, there is emphasis on savings as a prerequisite to access loans where clients should access the savings at anytime. However, these savings always act assecurity for loans and clients cannot access it at any time they wish to do so. If the savings requirements are too high then members who cannot meet the stated amounts are automatically pushed out of the credit program me Nabulya (2007). To Obina (2009), the historical objective of microfinance was to raise productivity and boost incomes of the poor communities. During the 1980s micro enterprise credit aimed at providing loans to the poor to invest in tiny businesses enabling them to accumulate assets and raise household incomes and welfare.

Nugroho et al (2009) noted that microfinance aims at meeting the credit needs of those excluded from formal financial services to help them finance their income generating activities, build assets, stabilize consumption and protect them against risks. This explains why these services are not limited to credit though this is arguably the basis of the most common services but also they include savings (deposits) insurance and money transfers.

Generally the basic theory is that microfinance empowers women by putting capital in their hands and allowing them to earn an independent income and contribute financially to their households and communities. This empowerment is expected to generate increased self-esteem, respect and other forms of empowerment for women beneficiaries. Involvement in income generating activities should translate into greater control and empowerment and attainment of a bargaining platform in their communities Cheston and Kuhn, (2002).

Finance does not address all barriers to people's empowerment micro finance programs when properly designed can make an important contribution to economic empowerment. According to Yawe (2002), microfinance has helped to empower women economically. In her study, the most positive indicator included acquisition of assets, increased knowledge, easier life (relief from economic burdens), unity (doing things together, sharing experiences, improved social ties and problem solving) and tapping their leadership potential. Yawe further observed that micro finance helped women to improve on their decision making abilities, ownership and control of assets purchased and use of loan and moneys generated from business, improved health and living standards.

However ,much as some evidence has been presented by different studies to support this view, other scholars have remained critical that this equation may not always hold true and that complacency in these assumptions can lead microfinance institutions to overlook both opportunities to empower women more profoundly and failures in empowerment. It was also argued that the ability of a person to transform his life through access to financial services depends on many factors, some are linked to terms involved in getting a service, individual situation and abilities and others depend upon the environment and status of a person as a group. Cheston and Kuhm (2002) however emphasized that microfinance programs have potential to transform power and empower a person economically.

2.2.21 Amount Borrowed (Size) and Members' Economic Development

Loan size is the amount advanced to the client. It can be small, medium or big. Sewagudde (1999) argues that efficient loan sizes should fit the borrower's capacity and stimulate economic empowerment. Therefore, for a loan to be useful it should be adequate to allow production. Karamaji (2011) says that for a loan to have an effect on empowerment and to be repaid, it should be adequate enough to allow empowerment to take place. The author adds that loans that are too small to produce commitment to their productive use or repayment should be avoided while a loan smaller than the amount required may also encourage clients to divert funds to other purposes.

Chirwa (2000) argues that relatively large loans may tempt poor borrowers to divert a portion of the loan for non business thus reducing business performance; households obtaining smaller loans are likely to default in difficult economic and political situations, than those who obtain bigger loans. Thus it can be argued that loan sizes granted to borrowers should depend on the purpose for which the money is borrowed.

Many critics show that Microfinance does not reach the poorest of the poor (Scully, 2004), or the poor are deliberately excluded from the microfinance programs. Several critics also argue that group loans which are often used by microfinance institutions lead to high transaction costs since most microfinance schemes have regular meetings. These costs probably reduce the positive income generating effect from access to credits substantially. In addition, it has been argued that the size of the needed loans often exceeds the maximum amount that can be borrowed from microfinance institutions. This especially hampers productivity, growth agents who would have invested in successful and growing projects.

2.2.22 Determinants of capital structure by SMES

SMEs have some important aspects that are considered when taking decisions on their financial structures. A firm's history is a more important factor in determining the capital structure than its characteristics. The cost of debt to equity is compared; the increase in risk and the cost of equity as debt increases is also compared before taking the decision. The advantage of debt by SMEs due to tax reduction is also considered. The costs of capital remain unchanged when there is a deduction in taxes and interest charges. This indicates that using cheaper debt will be favourable to the business than using equity capital due to increase risk (Modigliani and Miller, 1958 and 1963). Firms would seek a good portion of their capital structure as debt to a certain level so as to take these tax advantages.

An over reliance on debt as capital by SMEs will have a negative effect in the business activity in that it will increase the probability of the firm to go bankrupt (Myers, 1984). Myers (1977) determines the capital structure of SMEs. The pecking order theory (POT) was used to explain why firms will choose a particular capital structure than the other. The POT stipulates that SMEs average debt ratio will vary from industry to industry because these industries have varied asset risks, asset type and the requirements for external capital (Myers, 1984). Firms in one industry will have certain aspects that are common to most than to firms in a different industry (Harris and Raviv, 1991). The decisions are made taking into consideration information asymmetry, agency theory, and the signaling theory. The signaling theory describes signs and the effectiveness or how a venture will progress in an uncertain environment (Busenitz et al., 2005).

The main idea behind this theory is that there is an information signal that alerts the stakeholders of what is happening in the business (Deeds et al., 1997). The success of a business in the future is determined by the availability of information to the firm. The stakeholders of a business require signals to find the way of the asymmetry of information between what is known and what is unknown (Janney and Folta, 2003). The outsiders get to know about a particular venture based on the signals it sends out. These signals need to be favourable because it is from it that potential investors will be informed and thus show the intention to invest in the venture. The cost of equity will be high when poor signals are noticed by outsiders and this will restrain potential investors (Busenitz et al., 2005). Firms get access to venture capital when they have a good goodwill (Prasad, Bruton and Vozikis, 2000, p168). Good signals to the outsiders of a firm can be described as equal to due diligence with reduced time and input (Harvey and Lusch, 1995). New businesses have problems in getting a favourable position in the market. Their existence is determined by their size and age. If it continues to exist, it means it is capable of maintaining its size or it is expanding. This of course goes with time and when they continue to exist, it means resources are acquired or unlimited (Freeman, 1982).

This process of gaining stability and to survive makes the firm to gain legitimacy and thus can be trusted as a successful business since it emits positive signals (Singh, Tucker and House, 1986). Firms with unlimited resources at the infancy stage are easy to go bankrupt and die in this early stage (Aldrich and Auster, 1986; Carroll and Delacroix, 1982; Freeman, Carroll and Hannan, 1983; Romanelli, 1989; Singh, Tucker and House, 1986; and Stinchcomb, 1965). Firms that are young and small are incapable of getting the available resources for the proper functioning of its business activities and they are always associated with external organizations in a vertical manner for support (Stinchcomb, 1965).

The integration of the young firm with a well established one gains ground for available resources such as funding and legitimacy (Hannan and Freeman, 1984; Singh et al., 1986). Businesses employing this approach to gain legitimacy are at risk since they are not independent. The other activities will have an influence in the outcome of the other. Its competitors along with others get to know the inner dependent firm which the competitor will use it as its strength. They get to know the weaknesses of the opposing firm but at the same time they will enjoy the benefit of transaction cost.

The reduction of costs is due to the fact that they integrate with others to realise their objectives. This is done by gaining the inside of the quality of work, production and ideas within its top level. It is realized that there is no target equity mix and this is due to the fact that they exist two different kinds of equity. The two are at extremes meaning one at the top and the other at the bottom of the pecking order. These differences are caused by the costs of information asymmetry. External sources of funding have more moral hazard problems and consequently the demand for own or internal finances are of paramount to the firm (Myers, 1984). This moral hazard is explained by the fact that SMEs are very close entities; that is owned and or controlled by one person or few people (Watson and Wilson, 2002). POT emphasises; Ang (1991) on the use of owned capital rather than outside capital by SMEs and also explain why SMEs are denied or has a hindering factor in seeking for external sources of finance. World Bank (2000) reiterates the fact that SMEs are more likely to be denied new loans for their businesses than larger firms when in need. They consider SMEs to lack the skills to manage risk and the high transaction costs in lending to them compared to the amount that is borrowed (Hallberg, 1994). SME lack managerial skills, resources and experience to motivate the potential investors to invest on them.

They view them as high risk business concerns and some well to do SMEs may be hindered critical financing (Kanichiro and Lacktorin, 2000). SMEs and providers of debt and equity need to have a cordial relationship to avoid the problem of information asymmetry and conflicts of interests. All SMEs require financing to grow and the source may be internal or external. The external sources constitute loans, equity infusions, subsidies, or government grants. The internal source is income generated from cash flows that are reinvested. Many SMEs are self –financing by friends and family members at the beginning stage of development but when it gets to a later stage in development, external financing become necessary. Banks find it hard to grant loans to SMEs until when they find it have a stable growth.

More so they need to have a track record of their activities, sufficient collateral or adequate guarantees. Businesses that are viable and have good market positions during periods of recession will have difficulties in obtaining bank financing. Credit availability to SMEs depends on the financial structures in place, legal systems, and the information environment. SMEs in countries with more effective legal system have less financing obstacles since the laws protect property rights and their enforcement are implemented to financial transactions (Beck et al., 2005) .

2.2.23 Problems faced by SMEs to acquire capital from formal financial institutions

Formal financial institutions have failed to provide credit to the poor and most of whom are found in developing countries and to be more specific in the rural areas. The reasons given by Von Pischke (1991: 143-168) is that their policies are not meant to favour the poor. The poor are mostly illiterate and banks lack those skills to target these rural customers. In these areas, the population density is very low causing high transaction cost by the financial institutions since they need to move for long distances and also takes time to meet the customers (Devereux et al., 1990:11).

SMEs in developing countries are considered to be too unstable by banks to invest in. Due to this instability, the banks consider SMEs to have high risk and the costs these banks suffer to monitor the activities of the SMEs are high. Hossain (1998), Bhattacharya et al. (2000) and Sia (2003) identify that formal financial institutions (banks) are reluctant to lend to SMEs since investing in SME activities is considered by banks to be very risky. They find it risky in the sense that if invested in, and in an event of unfavourable business conditions, they have low financial power, assets, and easily go bankrupt (Sia, 2003).

The cost of borrowing from banks is very high and this prevents SMEs to borrow from this institution but these costs to borrow are sometimes subsidised by the government (Meagher, 1998). The application process for a loan is long and difficult for SMEs to meet up with the demands (Hossain, 1998). The collateral demanded by banks for a loan is based on fixed assets and which are very high in other to hinder these businesses to acquire loans. They cannot afford these collaterals which include; estates, and other fixed assets valued usually at 200% of the loan (Meagher, 1998). The major setback that prevents SMEs to get funding from external sources is the problem of information asymmetry. That is the magnitude of the deviation of the correct information that is needed by the lending institution (Bakker, Udell, and Klapper, 2004).

Banks use cash flows and profitability to measure or to assess the worthiness of a business. This is a very expensive and, not a good method to measure the credit strength of rural SME. Production and distribution in the rural areas is influenced by social factors that are often neglected by enterprises in developing countries (Otero et al.,1994). Agriculture dominates rural activities in developing countries and is dependent on the weather conditions for its output. An enterprise in this sector is considered risky because its outcome is undetermined.

2.3 Empirical evidence overview on MFI role in the world context

Markowski (2002) states that only 5 % of microfinance institutions worldwide are financially sustainable while the IMF (2005) puts the figure at only 1%, so this is the huge issue for micro finance sector. To achieve financial sustainability according to Havers (1996), MFI must cover the cost of funds, operating costs, loan write-offs and inflation with the income it receives from fees and interest, According to the IMF (2005), the MFIs that have become self sustainable tend to be larger and more efficient.

When we talk about MFIs credit and services we can link it with transactional and deposit services that are indispensible to Small and micro enterprises. When credit access needs are more variables(FRS 2006 as reported in de la Torre 2009). All firms interviewed in their study and used some kind of deposit product, primarily current and saving accounts, and more than 95% used some kind of transactional product (mostly internet banking; payment of taxes, wages, or suppliers, insurance, and other payments and transfers). The study shows different countries credit service usage and shows the results as the use of credit services varied from 35% (Mexico) to 87% (Chile).

A more recent study of emerging markets banks (McKinsey, 2012) illustrates that all MSME clients of surveyed banks have transactional products, while only about a quarter have loans. The studies suggest that demand is not the only constraint to credit access. Supply of products to SMEs likely plays a role as well. For example, a countries with greater flexibility and financial inclusiveness (such as Chile and Peru) shows greater usage by SMEs of loan products than with countries more rigid financial sectors such as Mexico and Venezuela. In recent years many MFIs worldwide and Latin America have started to expand up market to serve VSEs.

According to a recent survey done by CGAP, 49% of LAC MFIs said small enterprises were part of their current business strategy, and an additional 25% of respondents indicated that they were considering expanding in to the small enterprise sector. MFIs cited " business growth" and "growing with their clients" as the main reason for expanding up market(CGAP, 2012). Early on, there may be substantial room for MFI to expand up market with its existing clients, generally by increasing loan sizes to help reduce a client's borrowing from other institutions in order to meet his or her full funding needs.

However, to grow healthy VSE portfolio, Micro finance institutions also need to look externally for new clients, especially as most micro finance institutions in Latin America find that only small percentage of their clients are actually able to grow to become VSE. MFIs may have several additional advantages over banks in serving VSEs. VSEs tend to resemble the micro enterprises that MFIs are familiar with more than they do the large enterprises with which banks are familiar.

MFIs are accustomed to working with small enterprises and ones with limited or poor record keeping. As a result, their policies and procedures tend to be flexible to accommodate this informality. They also tend to be more alert and able to more quickly disperse a loan, which is likely attractive to VSEs. One micro finance in Peru notes that it can obtain approval for a VSE loan 8-12 hours compared to up to a month by banks in the market. In addition, MFIs tend to have closer, more personal relationships with their clients than banks, which can help to mitigate the risks involved with serving VSEs.

In December 2011, CGAP conducted a survey to understand the role of MFIs in serving micro and small businesses. Around 300 MFIs responded to the survey sent to a larger number of institutions (including those in the MIX Market database), mostly from SSA, ECA, and LAC. Some countries predominantly represented in the survey include Azerbaijan, India, the Philippines, and Tajikistan. By institutional type, most participating MFIs were nonbank financial institutions and NGOs/ foundations. Additional information was gathered from ASA Philippines, Women World Banking Colombia, Cooperative Housing Foundation (CHF), Cresol Brazil, Access Tanzania, ACEP Senegal, International Project Consult (IPC), IFC's A2F Risk Management Department, and the Small Business Banking Network (SBBN).

2.3.1 Are Small Enterprises Drivers of Job Creation and Economic Growth in Developing Countries?

The role of small businesses as job generators has been most studied in the United States. At the beginning of the 1980s, the first research revealed that 8 of 10 jobs in the United States had been generated by small firms. This initial work was later criticized for not considering the high failure rates of small business and their net versus gross contribution to job creation, among other pitfalls (Biggs 2002). Recent work in the United States finds that large firms have the largest share of employment (Haltiwanger, Jarmin, and Miranda 2010).

In developing countries, a recent World Bank study (Ayyagari, Demirgüç-Kunt, and Maksimovic 2012) in 104 economies found that firms with 5–19 employees generate the most new jobs. Small firms also have the highest employment growth and sales growth rates, but they account for a relatively small share of total employment (see figures A2-1 and A2-2). However, in relative terms, small firms in developing countries employ more people than those in developed economies. Also, the employment contribution of the combined SME sector (5–99 employees) is more or less comparable to that of large firms. The available research on job creation emphasizes the importance of not only quantity, but quality of jobs as well.

There is a large body of empirical evidence from developed and developing countries showing that large firms offer higher wages than small firms, even when differences in worker education and experience and the nature of the industry are considered (Biggs 2002). The challenge is hence not only to create more jobs, but also to create better quality jobs to promote growth (Ayyagari, Demirgüç-Kunt, and Maksimovic 2012). As regards small businesses' contribution to growth, researchers appear more skeptical of this claim. World Bank research finds a strong association between the small and medium firm sector as a whole16 and gross domestic product/capita growth.

2.3.2 The impact of microfinance on poverty

Poverty is a complex issue and is difficult to define, as there are various dimensions to poverty. For some, such as World Bank, poverty relates to income, and poverty measures are based on the percentage of people living below a fixed amount of money, such as US$1 dollar a day (World Bank, 2003). There is a certain amount of debate about whether impact assessment of microfinance projects is necessary or not according to Simanowitz (2001b). The argument is that if the market can provide adequate proxies10 for impact, showing that clients are happy to pay for a service, assessments are a waste of resources (ibid.). However, this is too simplistic a rationale as market proxies mask the range of client responses and benefits to the MFI.

Therefore, impact assessment of microfinance interventions is necessary, not just to demonstrate to donors that their interventions are having a positive impact, but to allow for learning within MFIs so that they can improve their services and the impact of their projects (Simanowitz, 2001b, p.11). Poverty is more than just a lack of income. Wright (1999) highlights the shortcomings of focusing solely on increased income as a measure of the impact of microfinance on poverty. He states that there is a significant difference between increasing income and reducing poverty (1999).

He argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty. It depends what the poor do with this money, oftentimes it is gambled away or spent on alcohol (1999), so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to "sustain a specified level of well-being" (Wright, 1999, p.40) by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved. It is commonly asserted that MFIs are not reaching the poorest in society. However, despite some commentators' scepticism of the impact of microfinance on poverty, studies have shown that microfinance has been successful in many situations.

According to Littlefield, Murduch and Hashemi (2003, p.2) "various studies…document increases in income and assets, and decreases in vulnerability of microfinance clients". They refer to projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all show very positive impacts of microfinance in reducing poverty. For instance, a report on a SHARE project in India showed that three-quarters of clients saw “significant improvements in their economic well-being and that half of the clients graduated out of poverty” (2003, p.2). Dichter (1999, p.26) states that microfinance is a tool for poverty reduction and while arguing that the record of MFIs in microfinance is “generally well below expectation” he does concede that some positive impacts do take place. From a study of a number of MFIs he states that findings show that consumption smoothing effects, signs of redistribution of wealth and influence within the household are the most common impact of MFI programmes (ibid.). Hulme and Mosley (1996, p.109) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmes can improve the incomes of the poor and can move them out of poverty.

They state that “there is clear evidence that the impact of a loan on a borrower’s income is related to the level of income” as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the “middle and upper poor” (1996, pp109-112). However, they also show that when MFIs such as the Grameen Bank and BRAC provided credit to very poor households, those households were able to raise their incomes and their assets (1996, p.118). Mayoux (2001, p.52) states that while microfinance has much potential11 the main effects on poverty have been:

Credit making a significant contribution to increasing incomes of the better-off poor, including women, Microfinance services contributing to the smoothing out of peaks and troughs in income and expenditure thereby enabling the poor to cope with unpredictable shocks and emergencies.

Hulme and Mosley (1996) show that when loans are associated with an increase in assets, when borrowers are encouraged to invest in low-risk income generating activities and when the very poor are encouraged to save; the vulnerability of the very poor is reduced and their poverty situation improves. Johnson and Rogaly (1997, p.12) also refer to examples whereby savings and credit schemes were able to meet the needs of the very poor. They state that microfinance specialists are beginning to view improvements in economic security, rather than income promotion, as the first step in poverty reduction (ibid.) as this reduces beneficiaries’ overall vulnerability.

Therefore, while much debate remains about the impact of microfinance projects on poverty, we have seen that when MFIs understand the needs of the poor and try to meet these needs, projects can have a positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in society.

2.3.3 Impacts at a household level

Health and education are two key areas of non-financial impact of microfinance at a household level. Wright (2000, p.31) states that from the little research that has been conducted on the impact of microfinance interventions on health and education, nutritional indicators seem to improve where MFIs have been working. Research on the Grameen Bank shows that members are statistically more likely to use contraceptives than non-members thereby impacting on family size (ibid.). Littlefield, Murduch and Hashemi (2003, p.3) also acknowledge the sparse specific evidence of the impact of microfinance on health but where studies have been conducted they conclude, "households of microfinance clients appear to have better nutrition, health practices and health education than comparable non-client households".

Among the examples they give is of FOCCAS, a Ugandan MFI whose clients were given health care instructions on breastfeeding and family planning. They were seen to have much better health care practices than non-clients, with 95% of clients engaged in improved health and nutrition practices for their children, as opposed to 72% for non-clients (Littlefield, Murduch and Hashemi, 2003).

Robinson (2001) in a study of 16 different MFIs from all over the world shows that having access to microfinance services has led to an enhancement in the quality of life of clients, an increase in their self-confidence, and has helped them to diversify their livelihood security strategies and thereby increase their income. Following a three-year study of 906 clients, ASA17 an MFI working with 60,000 rural women in Tamil Nadu, India, found that their project had many positive impacts on their clients (Noponen, 2005).

The programme was having a "positive impact on livelihoods, social status, treatment in the home and community, living conditions and consumption standards" (2005, p.202). Compared with new members, some of the findings showed that long-term members were more likely to live in tile roofed and concrete houses, to have a higher percentage of their children in school, to have lower incidence of child labour, to be the largest income provider or joint provider in the home, and to make decisions on their own as regards major purchases (Noponen, 2005). Clients also reflected significant increases in ownership of livelihood assets such as livestock, equipment and land (ibid.). Littlefield, Murduch and Hashemi (2003, p.4) state that access to MFIs can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequities.

However, they also state that just because women are clients of MFIs does not mean they will automatically become empowered. Hulme and Mosley (1996, p.128) also make this point when they refer to the “naivety of the belief that every loan made to a woman contributes to the strengthening of the economic and social position of women”. However, with careful planning and design women’s position in the household and community can indeed be improved. According to Littlefield, Murduch and Hashemi (2003), the Women’s Empowerment Program in Nepal found that 68% of its members were making decisions on buying and selling property, sending their daughters to school and planning their family, all decisions that in the past were made by husbands. They refer to studies in Ghana and Bolivia, which indicated that women involved in microfinance projects, had increased self-confidence and had an improved status in community.

2.3.4 Empirical evidences in Africa

The portion of the economy represented by microenterprises has been called the informal sector. This is because of the informality that characterizes these businesses during the process of initial start-up and throughout on-going operations. Time necessary to start an enterprise is limited. Legal restrictions, if in existence, are rarely enforced. There is a chronic lack of standards in goods and services. Few operations, even those related to food preparation, are registered. While local councils may have a registration process, it is usually marred by bureaucracy and bribery.'

Consequently, many entrepreneurs choose not to register. Even if an entrepreneur chooses to register, there is no guarantee that business operations will be free from harassment or even evictions by local government councils (Juma, Torori, and Kirima 1993). This presents an obstacle in encouraging long-term business development. As the name implies, microenterprises have few workers. Most employ less than 10 people. Oneperson microenterprises comprise 58 percent of the Kenyan informal sector. The mean size is 1.8 workers per enterprise. Informal sector businesses with one or two employees comprise 83 percent of Kenyan microenterprises (Daniels, Mead, and Musinga 1995). This often reflects cooperation between nuclear or extended family members in running business operations. Microenterprises require minimal start-up capital.

A study conducted by Juma, Torori, and Kirima (1993) found that 55 percent of the informal sector artisans in Kenya started with less than Ksh5,OOO (US$96). Over 85 percent started with less than Ksh10,000 (US%194). The study conducted by Daniels, Mead and Musinga (1995) yielded similar results, Over 80 percent of the respondents in this later study started with less than Ksh10,000 (USS195). Refer to de Soto (1989) for a description of the difficulties of businesses within the informal sector to register. Microenterprises require few machines to conduct operations.

The labor-intensive nature of these businesses replaces capital-intensive techniques. Over 75 percent of the respondents in a survey conducted by Daniels, Mead, and Musinga (1995) reported using self-fun&, or some form of savings, as the primary source of capital. Family and friends provided the second most important source of funds. Borrowing from other sources, including credit received from formal financial institutions, employers, Financial Self-help Associations and other informal sources, were of minimal importance in providing start-up capital. Studies of small enterprises in other countries provide similar results. In Nigeria, the proportion of start-up capital funded by savings was 96 percent for microenterprises and 52 percent for medium-sized businesses (Ekpenyong and Nyong 1992). Savings provided 97 percent of start-up capital for microenterprises in Sierra Leone (Chuta and Liedholm 1985). While these enterprises require minimal start-up capital, a relatively large amount of capital is required to invest in on-going operations.

For many businesses, the amount of recurrent investment may near the required start-up investment. Labor costs and rent must be paid. Some funds are required as a buffer against declines in profitability (e.g., periods of reduced sales or theft). Additional capital is necessary to facilitate growth. Entrepreneurs may invest in improving the business premise (regardless of whether it is owned or rented). This may help to facilitate greater productivity (e.g., adding better lighting), increased sales (e.g. improving the display of goods), and better security (e.g. adding security bars to windows). A roadside stand with no covering, for example, may evolve to have a roof.

Later, three walls constructed of timber may be added. Eventually, the timber may be replaced by concrete blocks. The ability to finance working capital is vital. Parker and Torres (1994) found that a shortage of working capital was cited as the primary reason for 25 percent of the Kenyan microenterprises that terminated operations. Savings remains the most important source of finance throughout the business cycle. The survey was conducted by Daniels, Mead and Musinga (1995) found that almost 95 percent of the interviewed entrepreneurs used savings as the primary source of working capital.

2.3.5 Empirical Evidence in Ethiopian Context

Despite the growing importance of microfinance provision to the productive poor people, there are only a few studies conducted in the area, particularly on microfinance impact assessment, in Ethiopia. Moreover, many of the studies conducted are focused on the impacts from the supply side perspective, i.e. performance from the perspectives of lending institutions. Wolday (2002) also studied the challenges and prospects of new product development in the microfinance industry in Ethiopia.

His results showed that products of microfinance institutions were not produced based on market assessment to meet the need and preference of the clients while keeping the financial institutions profitable. This has consequently affected dropout rates, outreach, and long-term objectives of the programs. As far as microfinance impacts are concerned, various researchers have been recording some positive results. For instance, Mengstu (1998) conducted a study on credit service administration under the microenterprise project. He noted that the increase in the number of program beneficiaries was an indicator of the assistance of the program to employment creation.

He also indicated the increase in the level of credit ceiling as well as the use of saving accounts as indicators of the growth of microenterprises towards the formal sector. With respect to loan repayment, Mengstu (1998) found out a rate as high as 92%. Also Solomon (1996) conducted a survey on 65 beneficiaries of microenterprise financing scheme of Development Bank of Ethiopia, at Debre-berhan branch. His objective was to evaluate Market Town Development project (MTDP) by focusing on the performance of loan status under group liability and impact on income in general. He found out a loan recovery rate of above 93%, which is remarkably high.

On the other hand his preliminary impact evaluation showed that only 49% of the sample households have experienced an increase in income level whereas the rest experienced no change (32%) and decline (19%) in income as a result of the credit. Similarly, based on a case study of POCSSBO in Addis Ababa, Berhanu (1999) found out that microfinance intervention has a positive effect towards poverty alleviation. He also showed that loan repayment is mainly affected by factors like type of activities, gender differential, wealth differential, availability of other sources of income, beneficiaries‟ attitude towards loan repayment, educational level of the beneficiaries, and size of the loan.

Another case study of Dedebit Credit and Saving Institution (DECSI) by Meehan (2002) analyzed the impact of microcredit provision at household level in rural Tigray. The study came up with the finding that credit provisions have had a positive impact on alleviating poverty in the study area. The impact was absorbed at least in the short term by increasing economic activities and income levels of the beneficiaries but diminishes to sustain a long run positive impact. Therefore, positive impact at household level appeared to be highly correlated with the continuous access to credit. Sectoraly she found that though rural clients were recorded as better off than urban clients initially, they were less likely to maintain it over time than the urban clients.

Again, the study identified important factors determining effectiveness of the programs such as differential in the initial income, type of economic activity in which the clients are engaged, sex and dependence on vulnerable agriculture.

In addition, a few other studies looked at the gender dimensions of microfinance impacts in the Ethiopian context. Based on a case study of different MFIs, Tsehay and Mengistu (2002) found out that microfinance interventions have brought improvements in economic status and empowerment of poor women microfinance participants. Similarly Tesfay (2003) found, micro-finance has played an immense role towards better the position of women in terms improved attitude and respect of their spouses on a case study of Dedebit Credit and Saving institution.

Generally, most of the studies with the exception of Meehan (2002) and Tsehay and Mengistu (2002) employed similar approaches in investigating the effectiveness of microfinance institutions. That is, they evaluated the impact of MFI‟s from the supply side- that high loan recovery rate was considered as a sign of sustainability and indirectly implied welfare improvement. However, some of the above studies show that the rise in income as a result of the microfinance intervention was not significant (Alemayehu, 2008); voluntary savings did not expand accordingly; sustainable increase in income was recorded in urban than in rural and that wealth, gender and activity differentials are important for the effectiveness of the programs was (Meehan 2002), and so emphasized in all of the results of impact assessment studies.

CHAPTER THREE

3 METHODOLOGY OF THE STUDY

3.1 Introduction

This section presents the research methods and instruments that were used in the study. It covers the research design, sample design, data collection sources, methods and instruments, data processing and analysis, formulation of the study, validity and reliability of the study and Ethical consideration.

3.2 Research Design

Both qualitative and Quantitative research methods were used in the study through close ended questionnaires and in-depth interview with descriptions. However the type of the research is both descriptive and explanatory.

The researcher expect that, the mixture of this two approaches is advisable as it gives a more multifaceted picture by drawing on the individual strength and weakness of each methods; as well as enabling discovery and verification; understanding and prediction; validity and reliability within the research design (Tolosa, 2011). Further, the study for achieving its stated objectives designed to follow the nature of both descriptive and explanatory research. For the purpose of this research, it seems that a survey is most appropriate research strategy to achieve the objectives of the study. Survey gather data at particular point in time within the intention of describing the nature of the existing conditions can be compared or determining the relationships that exist between specific events (Abiy et al, 2009). The major benefit of survey studies is that they provide information on large groups of people, with very little effort, and in a cost effective manner (Marczyk, 2005).

3.3 Sources of data

The researcher used to both primary and secondary data sources for the purpose of the study.

3.4 Sample Designs

For this study the targeted population is all clients of Omo Micro finance institutions in the district's community that are provided the credit and saving services. Whereas, in this research paper the researcher used to choose from a large population, the group about which the researcher wish to make the statements so that the selected part represents the total group (Leedy, 1989).

3.4.1 Sampling Method & Sample Selection

The researcher used two types of sampling technique, First a multi stage sampling purposively by select Alle district among other districts' in the region due to the fact that it is proximity to the researcher, researcher's knowledge of the local language. The district has about 17 kebeles' and among these the large number of the clients are found in/ the residence of 10 kebele. The remaining few of them are the residential of 7 kebele. Secondly, to select the sample for the study among the given population, the researcher used a simple random sampling technique to determine a sample of study representing the population found in 17 kebele.

Population: Refers to the set of people or entities to which findings are to be generalized (Crooks, 2003). In analyzing the role of omo microfinance institutions in expanding economic opportunity, focus has been given to households which had access to and are using omo microfinance services. Bsides, the economic activities they engaged on and improvement in economic status. This population is given priority due to the needy of getting empirical evidence. In deed the total size of the population is 15,975 consisting of both male and female clients who are permanent resident in Alle district. 17 kebeles in the district were Gewada kebele, Eyana kebele, kerkerte kebele, Gergema kebele, Guma kebele, Kolango Kebele, Diginti kebele, Tsemaha kebele, Lokte Kebele, Addis-Oltima kebele, Dugulo kebele, Goroze kebele, Dega-Mashile kebele, Delbena-Gama kebele, Bole Kebele, Lalicho kebele and Turuba kebele.

Sampling Frame: the sampling frame consists of the list of households in the study areas which was generated from the selected kebeles (6 kebele out of 17 kebele). Namely, Gewada kebele, Kolango Kebele, Addis-Oltima kebele, Dega-Mashile kebele, Delbena-Gama kebele and Turuba kebele were the sampling frames. The rationale behind this is that every client in each kebele will have equal chance of being nominated for the study which at the same time reduces biases arising out of probability sampling.

Sample Size:. For various reasons such as time, cost and energy, census for all clients was impossible. Hence, sampling technique was employed to select the sample population. Accordingly, 390 clients from the total of 15, 975 were selected through simple random sampling procedure. Based on this, the researcher adopted a simple mathematical formula that suggested by Solomon(1996) for determining sample size.

$$n = \frac{N}{1+N(e)}2$$

Where:

n = sample size

N = population size

e = the level of precision

This formula assumes a degree of variability (i.e. proportion) of 0.5 and a confidence level of 95%. population of Alle OMF sub branch is about 15, 975 as indicated on the second half report of the year 2015 and where a 5% level of precision is required. The sample to be examined by the investigator is 390 sample.

$$\text{n}= \frac{N}{1+N(e)}2$$

$$\text{n} = \frac{15{,}975}{1+15{,}975.(0.05)}2 \quad =390$$

The population considered in this study was the total number of borrowers or loanees whom the institution provides the loan program. The simple random sampling method was used to get the rich evidence. As the information obtained from the sub branch office, it provides credit and saving service program for 15,975 clients as of Dec, 2015 budget year second quarter report of the sub branch. Therefore, from the total number of 15,975 clients, the selected samples for the study was

390 borrowers. According to Cohen et al., (2005), covering the entire population in the study makes the study difficult.

3.5 Data collection tools

In order to analyze the role of Micro finance institution credit and saving services in expanding economic opportunity for poor society at SNNPRG in particular reference to Alle district omo microfinance sub branch. The data was collected from both primary and secondary sources of data sources. The primary data was collected through close ended questionnaires and to some extent in open ended questions to its clients. Questionnaires was prepared in English, and necessarily translated into local language(Allegna) for the purpose of clarity and to facilitate the data collecting process. In addition to this method, semi structured interviews was used in order to gather additional information, for crosschecking the opinions given by the clients. The study was also involved the use of secondary data and review of various documents, brochures, reports and other sources relevant to the research problem, Questionnaires was first administered to few respondents from both the omo MFI and clients as pre-test and appropriate adjustments were made.

The closed ended questions were used to collect the respondents‘ background information covering household demographic and economic variables (e.g., age, sex, educational background, household assets of the respondent), institutional variables and other access related questions like terms of credit, purpose and size of the credit. Besides, a wide variety of variables relating the respondent‘s condition were included.

3.5.1 In-depth interview

An in-depth interview is a qualitative research technique that allows for a person to person discussion. Such discussion provides the opportunity to have a deeper understanding of one’s beliefs, feelings, and behaviors on important issues. Since the interviews are usually unstructured, they allow for inducing the interviewee to talk intensely about the topic at hand.

Accordingly, in-depth interview was be used in addition to questionnaire in order to obtain more information from the respondents. This method was believed to provide more accurate information as the respondents appear to be more open to discuss issues during a one to one interview.

The questions were raised during the interview dealt with the clients, personal background and issues such as economic contribution and socio cultural empowerment. The interview was held by the respondents that were proposed by the staff of the institution different kebeles' of the district.

The researcher selected Fourteen potential informants from Alle district OMF sub branch office clients and staffs. The researcher explained the objective of the research work to respondents prior to the interview. Schedule was used in data collection where it was not be possible to meet all the respondents at once.

3.6 Data analysis techniques

To meet the terms with the objective, the paper primarily focused on cross sectional data, which is collected though structured questionnaire and interview. Thus, the data was collected through the source that is analyzed using descriptive statistics, to simplify the data analysis, after the collection of both primary and secondary data information on the institution and clients, tabulation of qualitative data was performed. Results are reported in both tables and a written form. Frequency and percentage were also reported. Some Quantitative data was analyzed using percentage, MS-Excel by drawing tables and figures or charts depending on the responses from the sampled respondents through questionnaire.

3.7 Validity and reliability

According to Shadish, Cook and Campbell(2002), the term validity refers to the approximate truth of an inference. When we say something is valid, we make a judgment about the extent to which relevant evidence supports that inference as being true or correct. To ensure the validity and reliability of the study, the researcher collected data from respondents via questionnaire and interview to clients, and secondary sources from the sub branch or the institution's reports, brochures and documents.

These data from varied sources helped to strengthen the validity of this study. Further getting comments and judgment from advisor and collogues is another important way for looking for validity.

The reliability criterion evaluates how careful a study has been conducted regarding the selection of data and choices made of which methods to use when measuring the data. A high level of reliability is achieved when repeatedly measurements of the same data, using the same methods to measure, gives the same or almost the same results. A high reliability indicate that the choices and selections made are appropriate for the study in terms of fulfilling the purpose of the study (Jacobsen, 2007) Reliability appears to be the extent to which an experiment, test, or any measuring procedure yields the same result on repeated trials.

3.8 Ethical consideration

To guarantee the safety and well being of the study for individuals. The researcher got the letter of cooperation from post graduate school of saint Mary University to Alle OMF sub branch to permit the researcher to carry out his study at Alle district omo microfinance sub branch. And the Alle district OMF sub branch permits the researcher to carry out the study through getting the access of information till the study end. The researcher looks for the permission of the managers and ensured that the information researcher had got treated with confidentiality.

CHAPTER FOUR

4 DATA PRESENTATION, ANALYSIS AND DISCUSSION

This chapter presents data presentation, analysis and discussion part of the study. The chapter analyzes the role of microfinance institution in Expanding economic opportunity for poor class. Furthermore, the contribution of the institution in terms of improving income of the poor, job and economic opportunity created for the clients. Data was gathered through questionnaire from the clients and microfinance institution‘s staffs at sub branch, semi structured interview with the manager of sub branch, records of the institution concerning its operation and additional responses from experiences of clients on researcher‘s field notes were mainly used for the analysis. Presentation of data is made in table and graph form along with percentage in a descriptive way by using simple static tools. First it presents respondents general profile, next contribution of OMF sub branch financial services to poor were discussed and finally it assessed the sample beneficiaries‘ socio-economic condition.

4.1 Data Presentation and Analysis

Since, this study is focused on the role of microfinance institutions in Expanding economic opportunity SNNPR State, Alle district Omo micro finance sub branch, There are set of questionnaires and interviews for the members who own small businesses. The questionnaires that went out to the clients of the sub branch was made up of 23 questions of which a total of 23 questionnaires was distributed in Alle district 390 members of Omo micro finance sub branch who have been delivered credit and saving services of which the total members asked and about 383 answered the questionnaires appropriately. The other set that was design for other members for the interview purpose 14 were selected from the leaders of the business association and 5 interview questions were distributed to 7 associations or cooperatives working in different financing areas and in each association 2 respondents were taken for interview. i.e., in mill, mines production association and cooperatives. So in general, the study had a total of 28 questions for both interview and questionnaires.

4.1.1 Data presentation of members

The total response rate was 98.2 %. Questionnaire were distributed for a total of 390 members and out of total members 383 answered appropriately. In rural respondents from the total of 255 members of OMF sub branch, 251 were participated in questionnaire (162 male and 89 female respondents were involved), where the remaining 4 male didn't respond questionnaire. From the total 135 members of OMF sub branch who used to live in Urban area of the district 132 were answered the questionnaire appropriately(78 males and 54 females) and the remaining 2 female and 1 male didn't responded the questionnaire appropriately. And about 14 respondents are interviewed and they answered totally as they are expected.

4.1.2 Descriptive statistics

As reported earlier in chapter three omo micro finance institution at SNNPR State is Extending loans for about 910,634 loanees in general for both rural and urban areas of the region where as this study focus area is to Alle district Omo micro finance sub branch which is one of the district in the region with which OMFI credit and saving services is being delivering since 2010/11. And, this sub branch delivers a credit and saving services for about 15,975 borrowers. From this 390 borrowers was selected randomly for the study.

The main services provided to clients at OMF sub branch are credit and savings. The loan services provided by the institution are agricultural and micro and small business loan product geared to its diverse client. a micro business loan further constitutes petty trade, handcraft and services. The institution pursues group lending for both agricultural and micro business loans and individual lending, the clients are required to organize themselves in groups of five to seven persons and a federation of seven to ten groups. The federation makes a center holding 35-70 members. After the formation of these groups and center, the clients are trained and then process of loan disbursement follows. Here the loan is given not to the group but to guaranteed individuals within the group.

4.1.3 General Profile of Respondents

Data for the analysis in this study were collected from 390 clients‘ of Omo microfinance institution in Alle district and in total a response rate of 98.4 percent was achieved as indicated above.

4.1.3.1 General Profile of Respondent Beneficiaries

The general attributes of respondents refer to the basic biological, sociological and cultural references of the target beneficiaries. These attributes either directly or indirectly affect the way they see and use the loan or other financial and nonfinancial services, the delivery of these services and the determination of program objectives and desired outcomes. The study scrutinized with some attributes: gender, age group , level of education, residence area of respondents.

Table 4.1: Respondents by area of residence

Indicator	Frequency(F)	Percentage(P)
Rural	251	65.5
Urban	132	34.5
Total	383	100

Source: -primary data; F= Frequency, P=Percentage

From the total number of borrowers in the sample 65.5 percent(251) beneficiaries are from the rural and 34.5 percent(132) are from the urban areas of the district town.

This study also showed evidence to show that a target borrower‘s number of family members is as one factor in income sharing at house hold level as indicated the profile family numbers on table 4.2; as the data taken through interview shown on table 4.11, the working capital before and after joining the institution in different sampled associations at household level and whole family members.

Figure 4.1: Respondents by Area of residence and Gender

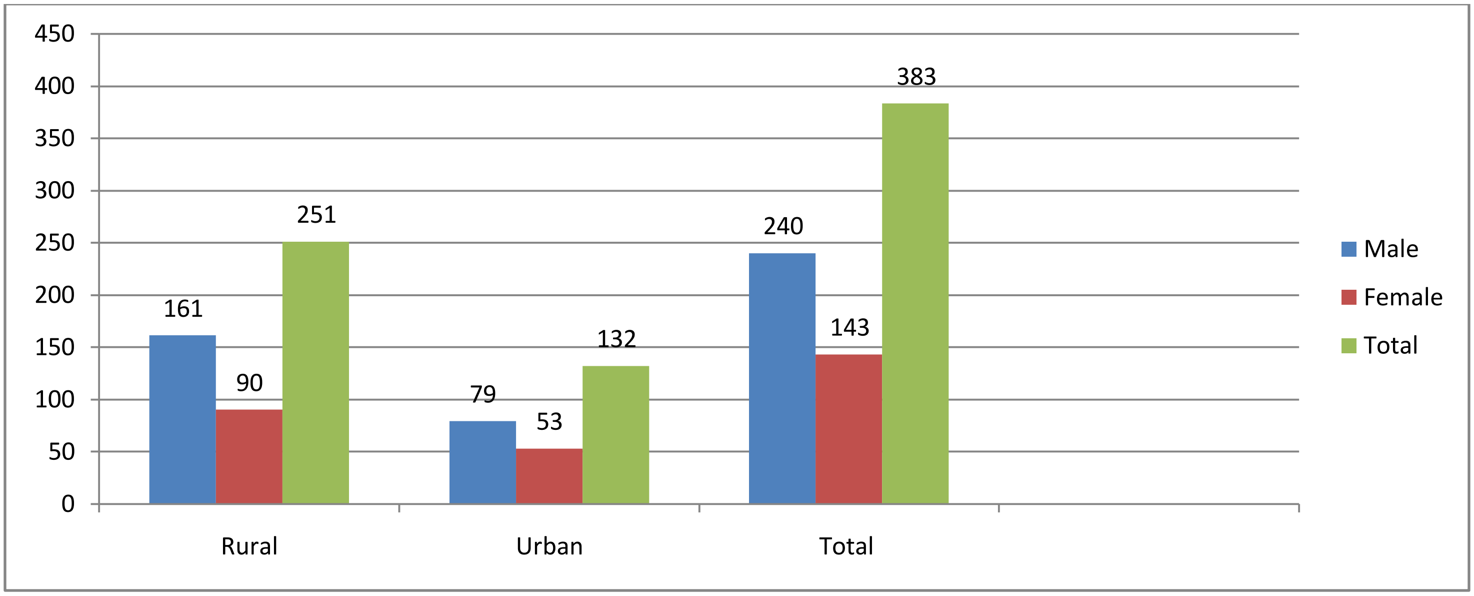


Table 4.2: Distribution of respondents by age, family size and level of education

Particular	Indicator	Frequency	Percentage
Age	18-29 years	178	46.5
	30-45 years	153	39.9
	>46 years	52	13.6
	Total	383	100
Family size	1-4	169	44.1
	5-10	192	50.1
	11 and above	22	5.8
	Total	383	100
Level of education	Illiterate	123	32.1
	Primary(1-8)	182	47.5
	Secondary(9-10)	78	20.4
	Grade 11-12	0	0
	other	0	0
	Total	383	100

Source: Primary data

This Table 4.2: shows that the respondents raw data as 46.5 percent(178) respondents are youth and 39.9 percent (153) are who aged in between 30-45 years and the remaining 13.6 percent or 52 peoples are from the age of above 46. These all things tells us the most coverage of the clients in omo microfinance in the district is mainly focused on the youth and productive group who are expected of to be creative and innovative, active economically but now challenged with the lack of finance, who can be changed after Accessing the financial support. As a result, These number of respondents shown above are the beneficiary in the services given by the Omo micro finance sub branch and they have got a job and economic opportunity at the district now a time.

Since one of the common objectives of microfinance is to provide increased access to financial services to unemployed youth, both physically and mentally active in order to create job and economic opportunity. That means Respondents aged between 18 to 29 years old are the dominant group in the sample. The second largest group is between the ages of 30 and 45 years old and the third group age having smallest frequency above 46 followed.

Concerning to the education level, about 68 percent of the respondents were concerning to Grde1-10 and have been a member of OMF sub branch on its services benefited them to get job opportunity and to begin and expand their businesses that results in increase of house hold income. As it is indicated above , above average of the sample households were grade 10 and below, but despite the claim to have attended grades 1 to 8 (primary level), about less than 32 percent of sample respondents remain illiterate who can never write and read even a single statement; whereas the remaining percent of the sample households can read and write.

Probably those literate households have more exposure to the external environment and information which helps them easily associate to credit sources. Even if the average number of illiterate household respondent is less than 32 percent it has negative effect on microfinance service utilization.

4.1.3.2 Description of the respondents' economic activity

Table 4.3: Description of the Economic activity of the respondents

Variables	Measuring group	Frequency	Percentage
Petty trade	Rural	88	35
	Urban	84	63.6

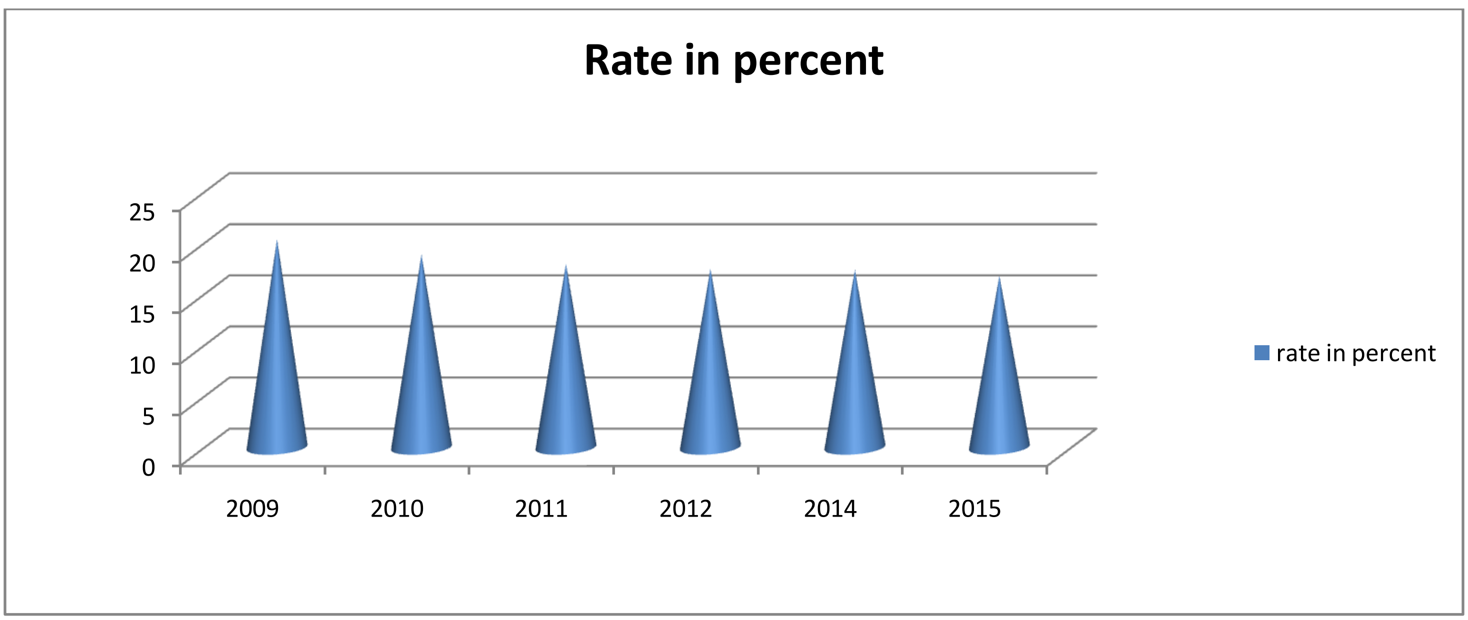
Continued…			
Agriculture	Rural	163	64.9
	Urban	36	27.3
Other	Rural	0	0
	Urban	12	9.1

Source primary source

As shown clearly: In respect to trading 88 are from rural and 84 are from urban totally 44.9 percent of members are engaged in petty trade. With respect to Agriculture 163 are from rural and 36 are from urban and 52 percent of members are engaged in agricultural area/products. And the remaining 9.1 percent are in other economic activities.

4.1.4 Unemployment rate in Ethiopian

Figure 4.2: Description of un employment rate in Ethiopia



Source: From internet CSA data, as of July, 2015

Unemployment rate in Ethiopia decreased to 16.8 percent in 2015 from 17.40 percent in 2014. Unemployment rate in Ethiopia averaged 19.88 percent from 1999 until 2015 reaching an all time high of 26. Percent in 1999 and a record low of 16.80 percent in 2015. Unemployment rate in Ethiopia is reported by the central statistical agency of Ethiopia(CSAE).

In Ethiopia un employment rate measures the number of peoples actively looking for a job as a percentage of labor force . this page provides Ethiopian unemployment rate for about seven years from 2009 to 2015.

Like the above diagram shown indicates the job opportunity rate in a country level, Researcher attempted to analyze the employment opportunity and increase in economic opportunity of poor society at the district from his conducted data. And, it is possible to show in this chapter, the contribution of OMF financial services in self employment as shown on(fig 4.3).

4.2 Analysis and Discussions

In this part of the paper, each of the specific objectives of the study is compared with theory. A conclusion will then be drawn whether there are any discrepancies or the Findings are in line with theory and then try to find out why these inconsistency and suggest possible solutions. The main focuses of the investigation were:

i. To investigate the nature of services and to assess how OMF sub branch tries to help its members in increasing their house hold income and expanding economic opportunity in businesses.

ii. To discuss some related terms of OMF financial service practices that may have an effect on the contribution of the institution in expanding economic opportunity.

4.2.1 Types of services given by OMFI

Table 4.4: The nature of services given, the chance to be a member and the services contribution in expanding economic opportunity.

Particular	indicator	Frequency	Percentage
What type of Financial Services have been mainly delivering by OMFI around your area?	Credit and Saving Services	367	95.8
	Pension fund administration	0	0
	other	16	4.2
	Total	383	100
How much was the opportunities(chance to get the services) that have been given by OMF sub branch ?	high	349	91.1
	low	23	6
	flexible	11	2.9
	Total	383	100
In what type of lending have you evolved in the services providing by OMFI?	Group lending	383	100
	Individual lending	0	0
	Total	383	100
If question number three is Yes , how much does it contribute to in Expanding and Creating Economic opportunity?	High	356	93
	moderate	27	7
	Low	0	0
	Total	383	100

Source: Primary source

As shown in table 4.4, 95.8 percent of the respondents responded the services given by OMF sub branch is credit and saving Access and 4.2 percent of the respondents responded that as there are also other services that have been given by OMF institution. 91.1 percent respondents indicated the opportunity to get the credit access is high; 6 percent of them responded as it is low and about 2.9 percent respondents complain that as it is flexible time to time. And out of the sampled respondents 100 percent are involved in group lending and no one have been involved in individual lending. Finally, 93 percent of the study samples responded that the role or contribution of OMF sub branch is high especially to them, low income level classes and the remaining 7 percent of the respondents have shown as moderate, which means it is satisfactory in changing economic status of the poor.

4.2.2 The contribution of OMFI in expanding economic opportunity

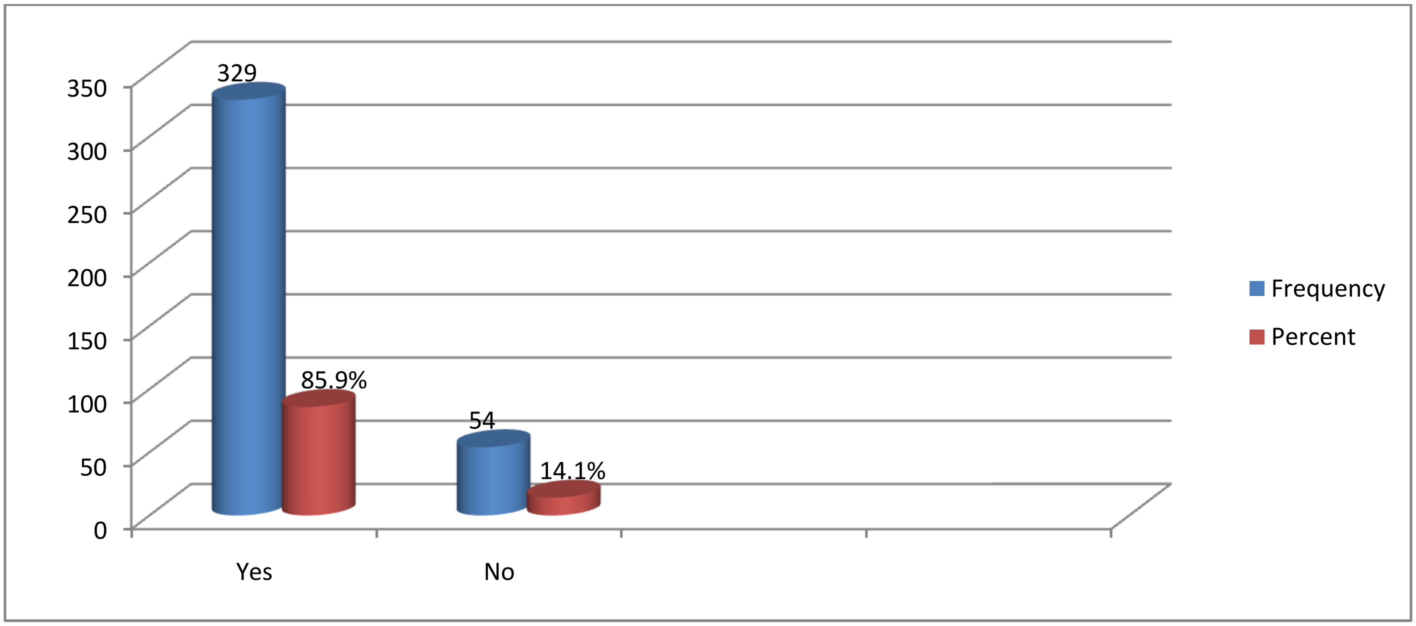
The objective of the study was to investigate the investigation of microfinance, particularly omo micro finance in creating self employment among OMF sub branch clients. To this connection, the study targeted MFI and their past and present clients of the saving and credit services that has enabled the researcher to have a compiled relevant and reliable information. The gathering of the data utilized as an input to build up the research was exploited to have been administered with questionnaires and the findings were consolidated as follows.

4.2.2.1 Self employment

The respondents were also asked to rank how they feel about the contribution of micro financing in creating self employment to them; hence 85.9 percent of the sample population was able to employee them fully after taking loans from microfinance sub branch and going through continues training.
14.1 percent of the sample population was able to partially employee themselves through the business due to inadequate working capital, others were working somewhere else and others relied on their spouse for additional incomes.

Matovu(2006) in his study of micro finance and poverty alleviation in uganda conducted that the generation of income is another ingredient and the majority of women interviewed responded positively that they had registered 77 percent increment in incomes while 11 percent noted a decrease, 7 percent remained the same and the 5 percent never answered to this question or gave another answer. Similarly in this study, the direct effect of Alle OMFI sub branch is creating employment opportunity hence income(fig 4.3).

Figure 4.3: The contribution of micro financing in creating self employment



Source: primary source

4.2.2.2 Business improvement and diversification

From the table 4.5 below it can be seen that 83.3 percent of the beneficiary of the scheme has revealed that their business have improved through microfinance loans and there has been considerable diversification in their business as well(table 4.3). Moreover, according to the respondents most of them stopped buying on credit. 13.8 percent of respondents are not certain because they had other sources of capital in addition to microfinance to boost their business while 2.9 percent of the respondents said no; they have not felt improvement or diversification on their business. However, to those who used part of their loans for their personal and family clothing, they believed that they realized a positive impact especially on their social status and living standard. This reveals that majority of clients who accessed microfinance for business felt expansion and improvement in it.

Table 4.5: Description of the status of clients current business activity

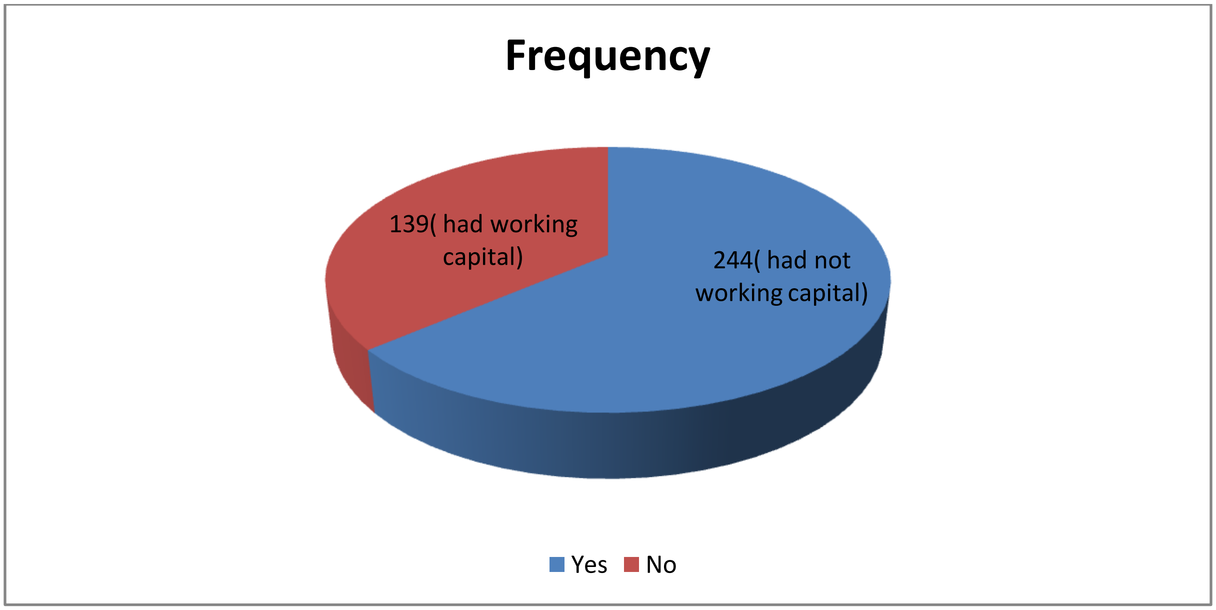
Particulars	Indicator	Frequency	Percentage
How was your business activity going on/run?	Improved	319	83.3
	Not certain	53	13.8
	No	11	2.9
	Total	383	100

Source: Primary source

4.2.2.2.1 Working capital prior to Micro finance loan

The research examined if respondents had other source of start-up capital for their business before they obtained microfinance loans.

Figure 4.4: Description of respondents working capital before loan



Source: Primary source

According to the respondents on the chart above, 64 percent of the clients who started business did not have working capital before the loan, while 36 percent of them had working capital of around ETB2001-4000. The response from respondents indicated that micro finance loan was their main sources of the initial capital as 64 percent of clients have no working capital from any other sources. And thus exclusively depended on the micro finance loans to launch the business ventures.

4.2.2.2.2 Loan taken by the respondents

As shown below on table 4.6, 45.2 percent of respondents started their business with start-up capital ranges ETB2001-4000, 19.3 percent of respondents started their business with start-up capital below ETB1000, 23.2 percent of respondents started their business with start-up capital ranges ETB1001-2000, and 12.3 percent of the respondents started their business with start-up working capital above ETB 4000. Moreover, 91.9 percent of the clients had taken the training with related to their business.

According to the clients respond this training helps them much on their carrier. The rest 8.1 percent of clients didn't take the training with their own personal reason. It is possible to see on the table below:

Table 4.6: Description of the Start-up capital of the clients' business

Particulars	Indicator	Frequency	Percentage
Start-up capital	Below 1000	74	19.3
	1001-2000	89	23.2
	2001-4000	173	45.2
	Above 4000	47	12.3
	Total	383	100
Clients' training	Trained	352	91.9
	Not training	31	8.1
	Total	383	100

Source: Primary source

4.2.3 Socio economic conditions of Beneficiaries'

As literatures reviewed in this paper reveals different studies in different countries indicate participation in microfinance program results in improvement in beneficiaries' income, which in turn can have effect on paving ways to involve in economic activities, thereby creating employment opportunities and enhancing access to various social services like health, education.

4.2.3.1 Improvements in lives and asset holding conditions

Living without sustainable and affordable life / the lack of house hold income is multidimensional phenomenon as detailed in this study and it can portray itself in various forms , above all deteriorated living conditions and less asset holdings by households is one common. Hence, the part played by microfinance institutions in expanding economic opportunity and improving lives is best assessed by examining households' level of income and asset holdings (Tolosa, 2011). With the most important goal of microfinance being reducing poverty, through financial services, changes in income levels added with Increase in households' asset holding capacity often used as an indicator of the effect of microfinance intervention. Since increase in income alone does not mean economic opportunity is created, as it depends on for what the income is used for.

Table 4.7: Shows improvements in lives and asset holding conditions

Responses on Improvements on lives and asset holdings Participants	Indicator	Frequency	percent
Do you have animals like farm oxen and dairy cow?	YES	236	61.3
	No	147	38.7
If yes, did you own these animals before you get the loan service?	Yes	182	47.5
	No	201	52.5
What other materials have you benefited after joining the program?	House building	104	27.2
	Improved food security	112	29.2
	Improved access to health and education	142	37
	Other	25	6.6
Have OMF services improved your lives?	Yes	291	76
	No	92	24
Please rank your current standard lives relative to before joining loan?	High	234	61
	Medium	103	26.9
	low	46	12.1

Source: - Primary Data

As the study data presented in table 4.7: above indicates majority about 61.3 percent own farm oxen and dairy cows, because these assets being very important and respected assets in the society. Out of those who reported having possessions of these assets, about 47.5 percent possess these assets before a loan also. Regarding securing other essential benefits from involvement in credit program, 29.2 percent improved food security, 27.2 percent constructed and repaired house, and 37 percent improved access to basic social services like health and education. After this all respondents were asked to judge loans impact on their lives, Table 4.7 above tells 76 percent of respondents believe that loans have improved their lives and approaching to half percent about 24 percent of respondents reject the favorable impact of loans in their lives. Further for the request to rank their standard of lives in contrast to before and after loan, 26.9 percent ranked medium, about 12.1 percent ranked low and A huge portion about 61 percent ranked high.

Despite its fragmented effects on improving rural households lives given 12.1 percent votes low on positive impact of microfinance interventions and 24 percent responded as they didn't improved their lives, but it is difficult to say accessing credit in rural area did not have any positive impact on physical assets accumulations, production and then improving lives because poor households and as a results more or less achieved food security (29.2%), and constructed and repaired houses (27.2%), improved accessing basic social services like health and education (37%). Further majority 76 % believe loans have improved their lives.

4.2.3.2 Access to basic social services

Table 4.8: Shows to assess the beneficiaries' ability to settle their life

Response on clients' access to basic social services before and after loan Particulars	Indicator	Frequency	percentage
Were you able to pay you and you families medical and education fee before loan?	Yes	47	18.3
	No	209	81.7
	Total	256	100
If yes, how ? do you explain the difference.	Better after the program	233	91
	Better before the program	0	0
	Remains the same	23	9
	Total	256	100

Source primary source

The table above shows to assess the beneficiaries‘ ability to settle their personal and family medical and education expense before and after involvement in the Omo microfinance credit program, questions indicated in the table above were asked.

Accordingly 18.3 percent beneficiaries disclosed their ability to handle such matters even before loan, 81.7 percent beneficiaries lack ability to bear such costs themselves before the program. Moreover the situation of able beneficiaries‘ position after loan was examined and about 91 percent indicated the situation is better after joining the program, with 9 percent responding the situation remains same.

Table 4.9**:** Innovations respondents/ clients of OMF sub branch had reached on

What innovations are you doing?

What innovations are you doing?	**Frequency**	**Percent**
Initiate daily savings, provide express credit	9	64.3
Educating members on the products and services offered	3	21.4
Computerization and educate staff	2	14.3
Total	14	100

Source: primary source

4.2.3.3 Income and Expenditure of the clients

Table 4.10: Description of respondents monthly income and expenditure.

Average monthly income	Below 1000	24	6.3
	1001-2000	49	12.8
	2001-4000	272	71
	Above 4001	38	9.9
	Total	383	100

Continued…			
Average monthly expenditure	Below 1000 1001-2000 2001-4000 Above 4001 Total	109 73 184 17 383	28.6 19 48 4.4 100
Did you have any source of income before loan program?	Yes No total	139 244 383	36 64 100

Source primary source

On the table above borrowers were asked to tell their average monthly income and expenditure. Accordingly about 71 percent respondents replied their average monthly income is between ETB2001 & 4000, and 12.8 percent make between ETB1001 & 2000 and about 9.9 percent replied their monthly income ranged above ETB4000, 6.3 percent respondents replied their average monthly income is below ETB1000 ; on the other hand about 48 percent and 28.6 percent said their average monthly expenditure ranges between ETB2001 & 4000 and below ETB 1000 respectively. This tells us the existence of favorable difference between majority of respondents‘ incomes and expenses. However, it is very difficult to conclude that the income is solely gained from the loan advantage and hence to further examine the issue, clients were asked a series of questions to verify if they have any source of income before a loan and if yes what would happened to their income after loan increased, decreased, or remains same.

More or less, the international poverty threshold is decided at USD1.00 per capita per day (UNDP, 2008). For a household composed of five members, this means that the household head will have to generate USD5.00 per day to support the entire household. Converting this to birr at approximately ETB 21 per USD1.00, this means that a family of five must have an average daily income of at least ETB 105.00 or ETB3150 monthly (unadjusted for PPP). The household is considered as living under poverty if income falls below the poverty threshold. This study, however, does not show ample evidence to prove that a target borrower's number of family members is the reason to be in poverty trap. However, this has implication on the use of loan on income generating activities or other purposes.

4.2.3.4 working capital owned before and after the loan at association/group level

Table 4.11: Description of group/ associations' asset at the beginning of the loan and current status

No		Beginning		Current status		The number of beneficiaries'	
		year	Capital size In ETB	year	Capital size In ETB	HH	WFM
1	Mill association 1	2012/13	20,000	2015/16	850,000	20	95
2	Mill association 2	2012/13	15,000	2015/16	780,000	20	42
3	Mill association 3	2012/13	5,000	2015/16	600,000	15	72
4	Mine producer association 1	2011/12	3,600	2015/16	900,000	18	102
5	Mine producer association 2	2011/12	5,000	2015/16	785,000	15	69
6	Co operatives 1	2011/12	40,000	2015/16	1,292,000	25	187
7	Co operatives 2	2011/12	60,000	2015/16	1,400,000	20	108

Source: primary source through interviewing the leaders of the association HH: at household level; WFM: Whole family members.

As table 4.11 above indicates it tries to show the role and contribution of Omo micro finance sub branch in expanding Economic opportunity in increasing the house hold income through accessing the poor to get credit and saving service opportunity. Accordingly, it is likely to show the table briefly, that means the members are organized in a group of 5 and above and starting to save at OMF sub branch in order to get a credit access. As indicated in the table the members who got an economic and job opportunity are 133 in house hold level in different business areas in order to change their living condition to be in a better life. These indicates the only members taken from sample of respondents from sample which can benefits 675 peoples.

This study also shows ample evidence to prove that a target borrower's number of family members is as one factor that might influence house hold income which add a great value on general economic activity of peoples and makes poor clients to break the poverty bench mark through increasing their income. When we look at the above table 4.11, it is possible to take mine producer association number 1, has a working capital of ETB900,000 and 18 house hold with 102 family members; when the working capital is divided to total family members results ETB8823.5 for each members while cooperative number one having a capital of ETB1,292,000 and 25 household with 136 family members have shown a result of ETB6909.09 for each.

Based on this, it is clear that the finding indicates in any economic activity even to expand house hold income or in working capital or in any financing activity number of family members have an influence on expanding economic opportunity since the economic growth could be shown by per capita income. Forethisreason, the economic status of each individuals can be decreased as increased members of family number. And, during the interview time the researcher asked the interviewees to respond the view of the respondents husband to wife or wife to husband in terms of contribution in household income and others. Accordingly, the respondents viewed that as there is a great contribution after joining of MFI sub branch not only increase in cash but also in improving access to basic social needs. Besides, they used to Equb as a source of credit or income source and replied as it is disadvantageous than OMF services.

Finally when they are requested to answer about the limitations and advantages of OMF services particularly, Alle district, they answered that the advantages of the institution services in general improved the household income increase, access to basic social needs and family welfare as well as it has a great effect on societal life as a whole where as its limitations are there is a lack of awareness's on activities have been delivering by Alle district sub branch that might affect its contribution towards the poor. Besides, the saving culture of the clients are low, economic activities of the clients they engaged on, was not as such good financing alternatives compared to the interest rate and due to that sometimes the repayment problems are encountered even the institutional activities are also being affected.

4.2.4 Related activities

4.2.4.1 Loan repayment

Loan repayment can be taken as borrowers‘ personal experiences of fully paying a loan. It may also expose the loans favorable and unfavorable effect on beneficiaries and the utilization of loans on income generating activities. The belief is that if the household used the loan for income generating purposes, it is generally easy to repay loan and interest amount. Otherwise loan add indebtness and forces the household to be trapped in vicious cycle of indebtness.

In theory for microfinance institution, timely loan repayment may be taken as best institutional performance, but in reality from where households repay their loan is significant. Evidences from survey data Table 4.12, below notify that about 25.3 percent beneficiaries secure cash for repayment from friends and relatives and usually filling the balance or total amount with the sale of some part of property which alone accounts for about 29.5 percent of responses.

In addition to borrowings and sale of part of property, transfer payments from family elsewhere accounts 20.4 percent of responses and proceeds from income generating activity consists 24.8 percent of responses. In such a way majority of clients have paid their loans in schedule (69 percent) and received the next cycle of loans every year. Consider what would happen if loans are stopped for one round. The other category of about 31 percent, paying in arrears stated that loss of asset acquired by credit, consumption of part of loan grant, and unprofitability of economic activity pursued respectively are the main problems for the loan repayment to be in arrears. Regardless of the difficulty that they are facing in time of loan repayment 80 percent of total respondents appreciate time interval set condition for loan repayment saying suitable time interval (one year) despite its inflexibility.

4.2.4.2 Interest rate

The cost of money is represented by the interest rate charged on the amount of debt owed. Every client (100 percent, table 4.12 below) in the sample knows he/she is paying interest on the amount owed, calling it as ‘Ghohgo’ to mean growth in the local language. Findings reveal that over 80 percent of clients responded are satisfied with rate of interest charged on loans, including 24.8 percent somewhat satisfactory‘ responses. Small portion about 19 percent unsatisfied with rate.

Table 12: Responses on loan repayment and interest rate conditions

Particulars	Indicator	Frequency	Percentage
How do you repay your loans?	Sales of some property	113	29.5
	Transfer payments from family elsewhere	78	20.4
	Get other debt	97	25.3
	Proceeds from business activity	95	24.8
What is the status of your last loan?	Repayment in schedule	264	68.9
	Repayment in arrears	119	31.1
	Total	383	100
If repayment is in arrears what was the problem?	Credit based activity was un profitable	28	23.5
	Used some part of credit for household use	42	35.3
	Loss of assets acquired by the credit	49	41.2
	Total	119	100
Loan repayment time set is suitable?	Yes	308	80.4
	No	75	19.6
	Total	383	100
Do you pay interest?	Yes	383	100
	No	0	0
	Total	383	100
How is interest rate on loan?	Not satisfactory	72	18.8
	Somewhat satisfactory	95	24.8
	Satisfactory	216	56.4
	Very satisfactory	0	0
	Total	383	100

Source: Primary Source

4.2.4.3 Credit and Repayment Performance of the institution

Table 4.13: Credit and repayment plan and achievement of Alle Omo microfinance institution sub branch

No	Types of services	Rural		Urban		Total Loan service	
		Plan	Achievement	Plan	Achievement	plan	Achievement
1	Credit	2,400,000	1,115,000	1,234,000	785,000	3,634,000	1,900,000
2	Repayment	2,150,000	1,050,000	1,127,000	550,000	3,277,000	1,600,000

Source: secondary source

This table 4.13 indicates that both credit and repayment achievements were down warding the activities delivering to expand the economic opportunity. Since the performance of credit and repayment were both low in a percent which is 52.3 percent and 48.8 percent respectively. And this affects the credit services to the poor class that would affect the role of OMF sub branch in expanding economic opportunity. Therefore, these low achievements and performances are the challenges have been encountering during the functional operations of the district's sub branch.

Based on the results shown, when the researcher looked at Alle omo MF sub branch Annual plan, achievement and performance report from the perspective of the study objectives, the researcher tried to assess and identified the problems based on the data shown clearly in table 4.4, 4.6, and table 4.14 at analysis section of the study. Accordingly, in table 4.6 it is possible to get the saving culture of the clients surrounding the sub branch and their compulsory saving, voluntary saving is 42.2 percent and 29 percent respectively. Therefore, this indicates that the saving culture around that area is very low. In table 4.13, it tells that the repayment plan of the institution according to the loan provided is ETB 3,277,000 where as the achievement is ETB 1,600,000 which is only 48.8 percent which affects the operational activities of the sub branch. This means that, this performance positively affects the amount of loans the clients have to get for the next periods. Consequently, the credit or the loan amount delivered is down turned to 52.3 percent (ETB 1,900,000) only out of its plan ETB 3,634,000. Therefore, this results in minimizes the benefits of clients/Loanee's since they couldn't got the expected amount of loanee to their business plan.

4.2.4.4 Lack of Awareness on the services

Table 4.14: The lack of clients awareness influence on saving and credit services

particulars	Indicator	Frequency	Percentage
Do you think the lack of awareness on the services may influence the services?	Yes No Total	383 0 383	100 0 100
How much have you aware about the duties on the service providing by OMFI Averagely?	>85percent above 50 percent Not at all Total	329 54 0 383	85.9 4.1 0 100

Source: Primary source

As shown above on table 4.14, totally the number of respondents indicated their believes on the idea, lack of clients awareness influence on the services given. i.e. OMF sub branch services can be affected by the lack of awareness. Out of the total respondents, 85.9 percent of the sample responded as they have an awareness on the services delivered by the sub branch averagely about 85 percent and above. 4.1 percent of them also replied that as they are aware about 50 percent and above averagely and none of the respondent didn't responded as there is no awareness on the services, this means all the respondents have an awareness on the services given by OMF sub branch.

Based on that, the researcher concluded, the lack of awareness of loanees on credit and saving services affects the economic opportunity and growth since haven't knowing the knowledge about the loans crediting and its interest rates and repayment after the some terms makes the clients not to manage and control over the business in a well way. He/she might miss the directional objective of loanee or may be missing in financing alternatives without plan as the researcher got an idea from respondents besides his conclusion.

Therefore these all made ups in render familiarity and causes to be unable to repay the loans have taken from the institution while this makes the institution not to be well operating in its financial activities through its regular schedules.

4.2.4.5 Saving and its Performance

Table 4.15: The type of saving, its plan and achievement indicator of sub branch

No	Types of saving	Rural		Urban		Total saving		
		Plan	Achievement	Plan	Achievement	plan	achievement	Performance(%)
1	Compulsory saving	1,200,000	542,000	638,000	270,000	1,838,000	812,000	44.2
2	Voluntary saving	900,000	231,000	346,000	132,000	1,246,000	363,000	29.1
3	Total saving	2,100,000	773,000	984,000	402,000	3,084,000	1,175,000	38.1

Source : secondary source

The above table indicates that the saving services that have been delivering to the clients of Alle omo microfinance sub branch. From the table it is possible to understand that as there is alternatives or opportunities of saving in both compulsory(deposited or collected from the loan) and voluntary saving. Getting these type of alternatives enables to get an access of credit that could result in expanding economic opportunity. Contrary, the performance of both savings can be explained as a challenges for the services given that is expected to be in expanding economic opportunity since if there is no saving, no loan couldn't be allowed.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

This chapter presents the findings and discussions made on previous chapter. The purpose of this chapter is to summarize major findings and to recommend based on the findings

5.1. SUMMARY OF FINDINGS

This study examined the role of Omo microfinance institution in expanding economic opportunity in Alle district. The study basically relied on the use of primary data collected in the month of july, 2016 from randomly selected clients of the institution. In addition to secondary data and semi structured interviews were used to collect data for analysis. General profile of the respondents' show that majority are males, young and productive age group. Further greater part is capable of writing at least his/her names instead of using thumbprints in the papers. On average each family has six and above members and majority engaged in farming, followed by petty trade.

Findings indicated that the institution accessed credit and saving financial services to both district's rural and urban households in the area who are without channel to access credit service previously and grouped under the lower income level class. Sample beneficiaries have three and above years experience in the institution as a customer, each joining the program with different reasons and purposes, the major reason and purpose being financial problem and agriculture related activities. Credit method the institution applies to provide its credit product is fully by group guarantee and group liability in the study area, a method large mass of clients consider inconvenient. Prospective clients who wish to acquire credit from the institution are required to pass and fulfill a set of requirements, which are easy and suitable for majority of respondents.

Evidences from the data of the study area notify that beneficiaries secure cash for repayment from various sources friends and relatives, sale of part of property, transfer payment from families elsewhere being the major ones. Trainings on loan utilization unsatisfied a large portion of beneficiaries' but appreciating follow ups especially at final weeks of loan repayment. Respondents witnessed some changes in their income level and experienced favorable effect of loan in their income. Similarly, the beneficiaries' ability to settle their personal and family medical and education expense and accessibility to these services have improved after loan. Generally, when we talk about the role of OMF, findings showed that it contributed for self employment, business improvements. Accordingly, it has seen that about 85.9 percent of the sampled population was able to employee them fully after taking loans from microfinance sub branch and going through continues training and majority percent of sampled respondents were responded that as their businesses were improved. The study results also showed that MFI benefited the clients in improving their lives and asset holding conditions as well as accessed to basic social services that can result in expanding economic opportunity. Besides, concerning the beginning and current working capital(the working capital before and after loan) owned by the clients' in interval of two and three years was a great change as shown on the table 4.11. and finally according to the findings some related financial activities like loan repayment, saving culture and interest rate were presented that can affect the financial services, expected in expanding economic opportunity.

5.2. CONCLUSION

Lack of credit access are the major obstacle faced by poor people around the world who want to improve their livelihood. Without capital, people cannot invest in productive activities, fuel existing dealings, and/or smooth consumption when needed, thus significantly limiting their chances of escaping poverty and expanding economic opportunity. In order to investigate the issue, this study examined evidences related to the role of OMFI in expanding economic opportunity in Alle district through both primary and secondary data. Based on the data presented, this study concludes that the institution is in fact reaching the excluded poor segments even in rural areas with financial products.

However, since the institution strictly requires group formation by self selected potential borrowers as a precondition to access loans, the situation excludes the target productive poor from accessing credit. Data reveals that a large proportion of sample active clients are those who have their own reportable sources of income before loan, again almost all never experienced failure in loan repayment. Therefore based on data from the study area group lending methodology seems tend to help the safe borrowers, self selected to gain access to loans. Poor households lacking any observable valuable asset were remaining disadvantaged. Institutional conditions and procedures like to be a member of

OMF sub branch, loan repayment time interval, and interest rate applied currently are suitable for majority of sample beneficiaries‘. Expect the group lending methodology the institution applying, for which a large mass exiting the institution.

As a whole because of microfinance program intervention majority experienced improvement in their income and ability to bear personal and family medical and other expenses. Similarly, despite its fragment effects on improving lives of beneficiaries,‘ majority absorbed improvement in their lives, money saved, and asset hold as a result of microfinance program intervention.

5.3. RECOMMENDATIONS

A micro finance facility no doubt is a good innovation for the low income earners of our society, as it enhances the productive capacity of the poor to participate in income generating activities. However, for enhanced accessibility of credit and expanding economic opportunity, the following should be considered.

- A large proportion of active clients of the institution are men currently, despite encouraging increase in number of women clients, there is still a need to design appropriate institutional techniques for equal participation of men and women in MFIs credit and saving programs beyond cultural limitations in order to empower women's.
- Repayment and Credit service performance are the major indicators of the constraints or challenges faced in the institution.
- The improved life of clients shown in the table 4-11 is the major opportunity for the services.
- Now it is the right time for the institution to examine its direction of delivering its clients with necessary trainings on general financial literacy and business skills beyond trainings on loan terms and conditions. Maintaining current level of follow ups conducted at final weeks of loan repayment and upgrading this culture to the level of strictly following loan destinations and clients‘ source of cash for loan repayment in order to break very bad and maturing culture of borrowing and paying. Saving culture should have to be improved through communicating the clients of the institution.
- Despite the institutional commitment to reach the target disadvantaged poor for the purpose of expanding their economic opportunity in rural areas some conditions like fixed and limited

loan size and higher compensating balance, and especially lending methodology limited the scope of addressing poor demand for credit. As a result, it is necessary to design appropriate institutional conditions and procedures; probably flexible loan size based on scope of intended activity, reasonably lower compensating balance, and wise institutional intervention during group formation process.

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ST. MARY UNIVERSITY

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

2016

Annex I: Questionnaire

Descriptive study

This questionnaire is designed to collect an information about SNNPRG OMFI, in particular to Alle district/ woreda Omo micro finance institution sub branch by which enables to understand the role of OMFI Credit and Saving services that helps in creating and Expanding Economic opportunity.

I thank you for the time you take in filling this questionnaire.

Part I: Personal Details

1. Sex; Male ☐ Female ☐

2.Age; 18-29 ☐ 30-45 ☐ > 45 ☐

3. No. of Family members; ☐ 1-4 ☐ -10 ☐ and above

4. Monthly income; below ETB1000 ☐ ETB1001-2000 ☐ ETB2001-4000 ☐ above ETB4000 ☐

5.Time of access; < 1 Year ☐ 1-2 year ☐ 2-3 year ☐ bove 3 year ☐

6. Education status; Illiterate ☐ primary(1-8) ☐ secondary(9-10) ☐ Grade 11-12 ☐ Other ☐

Part II: Questions related to the service

Mark " " at the point that best reflects your feeling or observation for close ended questions and try to express your opinion clearly to open ended questions.

General overview questions

1. What type of Financial Services have been mainly delivering by OMFI around your area?

Credit and Saving Services ☐ pension fund administration ☐ other ☐

2. How much was the opportunities(chance to be involved) in the services that have been given by OMF sub branch ?

high ☐ low ☐ flexible ☐

3. Have you evolved in the services providing by OMFI?

Yes ☐ No ☐

4. If question number three is Yes , how much does it contribute to in Expanding and Creating Economic opportunity?

High ☐ moderate ☐ low ☐

5 How much have you aware about the duties on the service providing by OMFI Averagely?

>85percent ☐ above 50 percent ☐ Not at all ☐

6. Do you think the problem of awareness may influence the services?

Yes ☐ No ☐

7 How much can OMF sub branch services contribute in Expanding economic opportunity?

highly ☐ moderately ☐ low ☐ Not at all ☐

Asset holding condition

8. Do you have farm oxen and dairy cow?

A. Yes □ B. No□

9 If yes, did you have these animals in the past?

A. Yes□ B. No□

10 What material benefit you get by joining OMFI?(you can select more than one)

A. House Construction. B. Purchase additional oxen. C. Improved food security D. Improved health & Able to send children to school

11 Have the loans improved your lives?

A. Yes□ B.No□

12 Generally, how would you rank your standard of living in contrast to before program?

A. High. B. Medium. D. Low. E. Don't know.

Socio-Economic condition of the respondent

13 Your average monthly income in birr

A. Below 1000 B. 1001-2000 C. 2001-4000 D. 4000 &above

14 Your average monthly expenditure in birr

A. Below 1000 B. 1001-2000 C. 2001-4000 D. 4000 &

15 Did you have your own income source before joining this credit program ? A. Yes □ B. No □

16 If yes, after joining the loan/credit program what would happened to your personal/ family income: Income has

A. Increased □ B. Decreased □ C. Remains the same □

17 Were you able to pay you and your family medical and education fee before involvement in Omo microfinance institutions credit Program?

A. Yes □ B. No □

18 If yes, how do you explain the differences (in terms of before and after joining the credit/loan program) in affording to pay?

A. Better before joining the credit program □ B. Better after joining the credit program □ C. Remains the same □

19 What looks like the services given by OMFI according to the handling of customers? High ☐ Moderate ☐ Low ☐

20 How do you rate the efficiency of OMFI Credit and Saving Service?

Excellent ☐ Average ☐

Above average ☐ Below Average ☐

21 What challenges have you encountered while you have been delivering the services? -------------
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22 Do you think that, have improved your living condition after joining the services at OMF sub branch?

☐ Yes ☐ No

23 Please state your comments or additional points, if you have.--
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Thank you for your participation!!!

St. Mary University
School of Master of Business Administration
Department of Accounting and Finance
Interview question

Dear Respondent

The purpose of this questionnaire is to assess the role of Microfinance Institutions in expanding economic opportunity for lower income level class, especially in the people of Alle district. All the information you provide is totally sought for academic purposes and Personal response of interviewees would be kept confidentially and there would not be any link between status on the program and responses. Therefore, you are kindly requested to give accurate information as much as possible.

Thank you.

1. Before you joined the MFI, where did you use to borrow money from? If you had a source of credit, please explain any problems you experienced with the former source of credit-----------
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2. In your view what are the advantages and limitations of the MF? Delivery by the Alle MFI sub branch?---
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3. How do you utilize the loan secured from the MFI? How do you compare the income and saving levels before and after joining the MFI?---
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4. Do you make Contributions to the household from the loans secured from MFI? If yes, how does your wife/husband view your contribution to the family?--------------------------------------
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5. How do you compare your cash income and working capital and expenditure before and after you joined the institution?---
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