



**INDIRA GANDHI NATIONAL OPEN UNIVERSITY (IGNOU)
DEPARTMENT OF RURAL DEVELOPMENT**

**ASSESSING THE ROLE OF MICROFINANCE IN RURAL
LIVELIHOOD ENHANCEMENT AND CHALLENGES IN SABATA-
HAWASS WEREDA, SOUTHWESTERN SHEWA ZONE OF OROMIA
REGION, ETHIOPIA**

By:

Yisehaq Baraki Berhane

***May, 2018
ADDIS ABABA, Ethiopia***

ASSESSING THE ROLE OF MICROFINANCE IN RURAL LIVELIHOOD ENHANCEMENT AND CHALLENGES IN SABATA-HAWASS WEREDA, SOUTHWESTERN SHEWA ZONE OF OROMIA REGION, ETHIOPIA

A THESIS SUBMITTED TO *INDIRA GANDHI NATIONAL OPEN UNIVERSITY (IGNOU)*, DEPARTMENT OF RURAL DEVELOPMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF “MA” IN RURAL DEVELOPMENT

By:

Yisehaq Baraki Berhane

Advisor: Dr.Mulugeta Taye(PhD)

May, 2018
Addis Ababa, Ethiopia

DECLARATION

I hereby declare that the dissertation entitled “ASSESSING THE ROLE OF MICROFINANCE IN RURAL LIVELIHOOD ENHANCEMENT AND CHALLENGES IN SABATA-HAWASS WEREDA, SOUTHWESTERN SHEWA ZONE OF OROMIA REGION, ETHIOPIA” submitted by me for the partial fulfilment of the Masters in **Rural Development** program of the Indira Gandhi National Open University (IGNOU) is my own original work and has not been submitted earlier, either to IGNOU or to any other institution for the fulfilment of the requirement for any other program of study. I also declare that no chapter of this manuscript in whole or in partially is lifted and incorporated in this report from any earlier work done by me or others.

Place: Addis Ababa

Signature: _____

Date: May 2018

Name: Yisehaq Baraki

Enrolment No: ID 1403881

Address: +251 911 16 65 25,

Addis Ababa, Ethiopia

CERTIFICATE

This is to certify that *Mr. Yisehaq Baraki* student of masters in Rural Development from Indira Gandhi National Open University was working under my supervision and guidance for his research work for the course *MRDP001*. His Research Work entitled “*ASSESSING THE ROLE OF MICROFINANCE IN RURAL LIVELIHOOD ENHANCEMENT AND CHALLENGES IN SABATA-HAWASS WEREDA, SOUTHWESTERN SHEWA ZONE OF OROMIA REGION, ETHIOPIA*” which he is submitting, is his genuine and original work.

Place: Addis Ababa

Signature: _____

Date: _____

Name: Mulugeta Taye(PhD)

Address: +251 911345728

Addis Ababa, Ethiopia

ACKNOWLEDGEMENTS

First of all, I am very grateful to God for granting me courage, strength and health to finalize my study.

I would like to express my deep whole-hearted gratitude and indebtedness to my research supervisor, **Dr. Mulugeta Taye**, for his skillful guidance and support throughout the course of this MA thesis. His critical and valuable comments and suggestions are worthy enough to be mentioned here. Without his support and endless understanding, this thesis would not have had its present shape. Thus, he deserves special thanks.

I also extend my deepest thanks to my friend Dr. Birhanu Negeri, lecturers at Kotebe Metropolitan University. His continues useful advices, encouragement and his support in the application of SPSS software have been very useful inputs that have improved the quality of my work.

I would like to express my pleasant thanks to the OCSSC, Sabata branch office staffs members and Woreda as well as KPA administrators for supporting me in data collection process and providing me with all necessary documents and available information.

Great appreciation also goes to sample respondents who spared their precious time to respond willingly to the lengthy questionnaire; without their cooperation, this study could not have been completed.

It is also my pleasure to transfer my gratitude to my lovely Sisters (Eden Baraki & Kidist Baraki) and my mother (Tobiyaw Abebaw) who were with me in moral and material support; and in one way or another who shared my pains in the course of this study. I never forget their contribution.

Finally, I would like to extend my gratitude to all my friends, especially Yesemenfana, Tarekegn and Alamawm who have helped and encouraged me in various circumstances.

Yisehaq Baraki

TABLE OF CONTENTS

DECLARATION.....	i
CERTIFICATE	ii
ACKNOWLEDGEMENTS.....	iii
LIST OF TABLES	vi
LIST OF FIGURES	vii
ACRONYMS	viii
ABSTRACT	ix
1. INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem	4
1.3 Objectives of the Study	5
1.3.1. The General Objective of the Study	5
1.3.2. Specific Objectives of the Study.....	5
1.4. Research Questions	5
1.5. Significance of the Study	6
1.6. Scope of the Paper	6
1.7. Limitation of the Study	6
1.8. Organization of the Thesis	7
2. REVIEW OF RELATED LITERATURE	8
2.1. Definition and Concepts of Microfinance and Microfinance Institutions (MFIs)	8
2.2. The Emergence of Microfinance	10
2.3. Characteristics of Microfinance.....	11
2.4. Overview of Microfinance Institutions in Ethiopia.....	11
2.5. Intermediary Role and Importance of Microfinance Institutions	13
3. RESEARCH METHODOLOGY	16
3.1. Description of the Study Area	16

3.1.1. Topography and Geographical Location	16
3.1.2. Climate.....	16
3.1.3. Demographic Characteristics.....	17
3.1.4. Land Use and Economic Situation of the Study Area	18
3.2. Research Approach.....	18
3.3. Sample Design and Sampling Techniques.....	19
3.4. Sample Size Determination.....	19
3.5. Data Gathering Methods and Tools.....	20
3.6. Methods for Ensuring Validity and Reliability	21
3.7. Data Analysis Techniques.....	22
4. DISCUSSION AND RESULTS	23
4.1. Socio- Demographic Characteristics of the Respondents	23
4.2. Client Respondents’ Current Basic Income Earning Activity/Occupation.....	26
4.3. Clients’ Credit Service Accessibility Condition.....	27
4.4.1. Credit Modalities	27
4.4.2. Client Selection Criteria and Main Challenges to Access Credit Service.....	28
4.4.3. Loan Repayment and Interest Rate Conditions	29
4.5. Loan Purpose and Destination	31
4.6. Beneficiaries’ Current Socio- Economic Condition.....	34
4.6.1. Improvement in Income and Savings Condition	34
4.6.2. Improvements in Lives and Asset Holding Conditions.....	36
4.7. Analysis of Beneficiary’s Perception about Loan Size and Financial Service Delivery	37
4.8. Analysis of the OCSSC Staff members’ View about major challenges and Role of OCSSC.....	38
5. CONCLUSION AND RECOMMENDATIONS.....	40
5.1. Conclusion	40
5.2. Recommendations	43
REFERENCES.....	45
APPENDICES	47

LIST OF TABLES

Table 3.1 Proportionate sample for each group	20
Table 4.1: Distribution of Respondents by Sex	23
Table 4.2: Distribution of Respondent by Age	24
Table 4.3: Distribution of Sample Respondents by Level of Education.....	24
Table 4.4: Distribution of Sample Respondents by Family Size	25
Table 4.5: Distribution of Sample Respondents by Religion	26
Table 4.6: Responses on Credit Modalities	28
Table 4.7: Responses on client selection criteria and <i>main challenges to access credit service</i> ..	29
Table 4.8: Responses on loan repayment and interest rate condition	31
Table 4.9: Sample respondents loan history	32
Table 4.10: Responds View on Reason to take first Loan	33
Table 4.11: Responses on income improvement and savings condition	35
Table 4.12: Responses regarding improvements on lives and asset holdings	36
Table 4.13: Clients perception on OCSSC financial Services and loan size	37
Table 4.14: Staff members' View about major challenges and Role of OCSSC	39

LIST OF FIGURES

Figure 4.1: Distribution of Sample Respondents by Marital Status.....	25
Figure 4.2: Basic Economic Activity/Occupation of Respondents.....	27
Figure 4.3: Distribution of respondents by reason for joining the program.....	32
Figure 4.4: Distribution of respondents by purposes of loan	34

ACRONYMS

ACSI	Amahra Credit and Saving Institution
a.s.l	Above Sea Level
AEMFI	Association of Ethiopian Micro Finance Institutions
CSA	Central Statistical Agency
KPAs	Kebele Peasant Associations
MDGs	Millennium Development Goals
MF	Micro Finance
MFI s	Micro Finance Institutions
NBE	National Bank of Ethiopia
OCSSC	Oromia Credit and Saving Share Company
ORCSDP	Oromia Rural Credit & Saving Scheme Development Program
SPSS	Statistical Package for Social Studies
SAWRADO	Sabata Hawass Woreda Rural and Agricultural Development Office.
TVET	Technical and Vocational Education
UNDP	United Nation Development Program

ABSTRACT

Currently micro-financing is one of the most powerful tools for combating poverty primarily by providing loan to the poor. Including OCSSC today 32 MFIs have been operating in Ethiopia with the ultimate goal of poverty reduction. The general objective of this research, therefore, is to analyse the role of OCSSC microfinance in livelihood improvement, asset building, and smoothing income and consumption levels of users. Moreover, the study also aims at examining factors affecting clients' access to credit and provision.

The study was based on questionnaires which were distributed to sample respondents randomly selected from the two KPAs of Sabata Hawas Woreda; namely Dalaty and Tafki. The study adopts mixed research approach of both quantitative and qualitative in order to answer research questions of the study. In order to achieve the stated objectives both primary and secondary sources of data were used. Primary data collected from borrowers and key informants through close ended questionnaires and interview guide prepared for interviewing 130 sample borrowers, 10 MFI staff members and four key informants from OCSSC at Sabata branch. The Statistical Package for Social Science (SPSS) software, version 20 was applied to simplify the data organization and analysis. The study mainly employed statistical analytical tools such as frequencies, percentages, mean and mode

The findings indicated that the OCSSC micro finance institution has improved the clients' income, asset holdings, access to various social services. However, since the institution strictly requires group formation by self-selected potential borrowers as a precondition to access loans, the situation excludes the target poor from accessing credit. The findings prove that after joining the program the income of the borrowers increased to the extent that it exceeds expenditure and improve their saving; the expenditure of borrowers improved to cover the cost of food, health, education and other expenses. However short repayment period, high interest rate on loan, small amount of loan provided, and low interest rate on saving are proved to be constraints or challenges in accessing and utilizing of loan.

Finally the study recommends 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.

Key Words: *Microfinance, Access, Credit, Sabata Hawass Woreda*

1. INTRODUCTION

1.1 Background of the Study

There is recent global agreement that Microfinance institutions (MFIs) are good instruments to fill the gap of conventional banks' limitations in reaching the poor and the vulnerable non-poor with banking services. They are considered as one of the most effective interventions for empowering the poor in their economic and social involvements. That is, through these MFIs, the poor are able to access financial services (Wolday, 2003). The basic idea behind such intervention is that access to micro-finance services such as credit, savings, and micro-insurance to the poor could help them, among others, to expand their businesses that will allow them to pull out of poverty. Wolday (2003) also stated that the provision of financial services is one of the important economic inputs in the effort to reduce poverty and empower economically marginalized segments of the society.

Micro-Finance Institutions (MFIs) can be defined as any activity that includes the provision of financial services such as credit, savings, and insurance to the deprived group of millions of poor people both in rural and urban settings, with aim to help them in developing self-employment opportunities and engaging in various income generating activities who can never meet the tedious conditions and requirements of traditional banks (ADB, 2000a). They are intended to reduce poverty and mitigate risk by letting the low income and poor people have access to credit, savings and insurance.

Formal microfinance in Ethiopia started in 1994/5. In Ethiopia microfinance institutions have emerged as an instrument to expand financial services to poor rural and urban entrepreneurs, as providing access to financial services, principally small loans through microfinance institutions to the poor has been considered as a tool for poverty reduction, and in overall for economic development of the nation (Morduch and Haley, 2002). Principally, easy access to financial services and institutions is a critical element for poor household's economic growth and improvement in their standard of livings. Improvement in living standard of the poor people of the developing countries is achieved by enhancing their income level. This phenomenon reduces poverty and causes to achieve poverty alleviation objective gradually (Tolosa, 2011).

With a view to further stimulate economic activities and provide opportunities for the poor to escape poverty by making available more and appropriate financial services to the majority, the Government has been refining the regulatory framework for microfinance operations. However, there are still problems with regard to their financial and operational performances.

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. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self-employed households is not stable, regardless of its size. They also look for collateral with a clear title - which many low-income households do not have (Chandra, 2010). Such prevailing inconvenience to access financial products coupled with the failure of government sponsored development financial schemes forced the rural poor to be excluded and lead a miserable life of hand-to-mouth tied to vicious cycle of poverty making every effort against poverty hopeless.

Today, the actual numbers of registered MFIs operating in the country as per the National Bank of Ethiopia (NBE, 2014) database as of May, 2014 are 32 in number. These MFIs operates at the different regions of the country and are providing different financial services like loan, savings, and insurance services to rural group based clients and urban small and micro enterprise practitioners. These 32 MFIs are operating through 498 branches and 635 sub-branches in Ethiopia which serving about 2.9 million clients as compare with less than 0.8 million bank clients and 0.3 million insurance clients (NBE, 2014).

The formation of sustainable Microfinance Institutions (MFI) that can reach a large number of poor people who are not served by the commercial banks has been the main tool of poverty alleviation and the recent development strategy of Ethiopia. In Ethiopia, the poverty reduction strategy is becoming the operational framework to translate the global Millennium Development Goals (MDGs) targets in to national action (UNDP, 2005). Microfinance leads to more education, better health, improved diet and nutrition, and greater resilience to disasters for poor families. In addition, it lays a foundation that allows other humanitarian

intervention to be effective while providing the economic engine that allows the transition from dependency to sustainability (Vision Fund Annual Report, 2008). As indicated above MFI play pivotal role to take out the poor out of poverty.

Three Ethiopian MFIs such as Oromia Credit and Saving Share Company (OCSSC), Amhara Credit and Saving Institutions (ACSI), and Deditbit Credit and Saving Institution (DECSI) are on the top 10 list in Africa and the largest MFIs in Ethiopia.

Oromia Credit and Saving Share Company /OCSSCO/ is a share company established compliant with the obligations of the National Bank of Ethiopia. The owners (shareholders) of the Company are the government of Oromia Regional State, and Oromia Regional Development Organizations and Individuals (AEMFI, 2000).

Oromia Credit and Saving Share Company (OCSSCO) is a registered and licensed Microfinance institution operating in Oromia National Regional State. It was initiated on June 1995 as a project under Oromo Self Help Organization (OSHO) with the name of Oromia Rural Credit and Saving Scheme Development Project (ORCSDP) and undertaken its operation under the mandate of the mother organization. OCSSCO was established in 1997 based on the commercial code of Ethiopia and proclamation No. 40/1996 by five shareholders. OCSSCO registered and commenced its formal operational activities with Head Office in Addis Ababa and four branch offices namely Kuyyu, Shashemene, Hetosa and Sinana Dinsho in 1997. Currently the company has 306 branches and 33 sub branches across the region. Sabata Hawass woreda, which is the target area of this research, is one among others where OCSSC is operating.

In this specific study woreda, there is limited research evidence that confirms the role and performance of OCSSC in accessing credit to the poor. Hence, this study mainly focuses on investigating the role of OCSSC in carrying out its real objective of accessing credit to poor. That is, the study seeks to analyse the impact of OCSSC on living standards and income level of the clients. Moreover, the study will also focuses on identifying factors that affecting the growth and operational performance of OCSSC using sample client survey data from Sabata Hawass woreda of Oromia Region.

1.2 Statement of the Problem

Providing loans through microfinance institutions is taken as a means to efforts against 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 poor's access to credit in Ethiopia and to promote microfinance institutions growth the government issued proclamation No. 40/1996 the microfinance law. This assisted in increasing the number of microfinance institutions operating in the country to 32 as of May, 2014 from twenty-six, as of November 2005 (NBE, 2014).

Despite the encouraging increase in number of microfinance institutions in the country, the rural poor demand for credit remained untouched particularly due to the institutions bureaucratic procedures and methodologies (Kassa,Y, 2010). 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 setting.

The prevailing operation of the formal or conventional financial institutions in many low-income countries such as Ethiopia is inefficient in providing sustainable credit facilities to the poor. MFIs in Ethiopia are facing problems of loan loss, limited fund for lending, unprofitable, problems related entrepreneurial quality of the client, staff with limited technical and banking skills, and weak supervision. Therefore, MFIs in Ethiopia lack the above qualities which are crucial for the viability and sustainability and able to be in business on its own and it is doubted that MFIs will continue as viable institution in future following the past condition as means of alleviating poverty, “creating social capital” and financial intermediation (Wolday, 2000).

Despite, the operation of the institution for more than fifteen years in the zone, no study has been conducted with same target as this study pursue. Therefore, by studying the role and performances of OCSSC as well as challenges encountered the region in general and in selected woreda in particular, the study will fill this gap.

1.3 Objectives of the Study

1.3.1. The General Objective of the Study

Including OCSSC today 32 MFIs have been applied in Ethiopia with the ultimate goal of poverty reduction. The general objective of the research, therefore, is to analyse the role of OCSSC microfinance in livelihood improvement, asset building, and smoothing income and consumption levels of users. *i.e.* to find out whether the delivery of microfinance services by OCSSC has made a difference in socio-economic situation of its clients in Sabata Hawass woreda of Oromia Region. Moreover, the study also aims at examining factors affecting clients' access to credit and provision.

1.3.2. Specific Objectives of the Study

Specifically the study is intended to:

1. Assess whether the conditions and procedures set by microfinance institutions favour the poor and low income earner clients in accessing credit;
2. Examine the role of MFI in improving livelihood in terms of income, asset holding and expenditure patterns of clients;
3. Identify the prominent constraints affecting access to credit and microfinance intervention in the study area;
4. Forward some possible solutions and counter measures that will contribute to tackling the challenges for credit access and intervention.

1.4. Research Questions

On the basis of these specific objectives, the study seeks to raise and address the following research questions during the course of the study.

1. Do the conditions and procedures set by MFIs favour the poor and low income earner clients in accessing credit?
2. To what extent do MFIs services contribute to livelihood enhancement with respect to generation of more income, more asset holding and expenditure patterns of clients?
3. What are the prominent constraints or challenges affecting access to credit and microfinance intervention in the study area?
4. What are the possible solutions and measures to be taken as a mechanism for tackling challenges of access to credit and intervention?

1.5. Significance of the Study

This study was undertaken to assess the role of OCSSC in credit provision and enhancing rural livelihood in Sabata Hawass Woreda of South-Western Shewa Zone. This study will contribute in filling the information gap by assessing the socio- economic impact of OCSSC operations in Oromia region at household and enterprise level. In addition to addressing the knowledge gap, the findings of the study may point potential areas that MFIs need to put more efforts when providing their services. It seems difficult to set or design appropriate MFI policy changes without identifying the main challenges to access to credit service and provision. Hence, it will identify the challenges of the OCSSC and suggests potential recommendations to improve the current operational performances of the institutions. That is, policy makers may also benefit in the sense that the findings provide informed suggestions on how institutional policy can be improved and how the community will be able to access and benefit from the services of MFIs.

1.6. Scope of the Paper

Because of time, finance constraint and to make the study manageable, the study has limited only to the three KPAs clients of Sabata Hawass Woreda *who* are participating in the microfinance scheme of OCSSC for at least three years. Hence, it may not have a strong scientific justification and representativeness to generalize about the role of OCSSC in accessing credit and enhancing livelihood as well as all households who are participating in microfinance programs throughout the Oromia region. To manage the research within the given time and limited budget, a total of 140 samples from both clients (130) and staff members (10) were selected using simple random sampling. Microfinance covers a wide area of issues and since there are different factors that affect the situation of the clients, this paper didn't control those factors totally. However, the focal focus of this study is on effect on income, consumption level and asset holding of poor as a result of program intervention as well as factors affecting service delivery.

1.7. Limitation of the Study

Some limitations are expected during the course of this study:

Firstly, due to resource shortage data collection was restricted to only 130 sample clients who are participating in OCSSC microfinance program, Sabata branch. This may fail to represent

the actual scenario of the whole region. Therefore, it may not have a strong scientific justification and representativeness to generalize about the role of MFIs on livelihood enhancement in the whole region/zone.

Secondly, since the study at hand is related to effective utilization of finance, getting genuine data on financial issues was another difficulties.

Thirdly, the majority of the people carrying out the micro and small level business are expected to be illiterates and therefore the questionnaire was a difficult tool to gather data.

1.8. Organization of the Thesis

The thesis is organized in to five chapters. Chapter one incorporates the introduction (preliminary) parts of the study: the back ground of the study, the statement of the problem, objectives, significance, scope and limitation of the study. The second chapter is deals with review of related literature. Chapter three consists of research methodology. The research methodology gives detailed account of description of the study area, research design, types and sources of data, study population, sample design, data collection methods and data analysis techniques. Chapter four presents the analysis and discussion of findings. Finally, chapter five presents general conclusion and recommendations.

2. REVIEW OF RELATED LITERATURE

This section presents relevant literature, theories and concepts on basics of microfinance. It provides the theoretical framework which consists of definition of microfinance and microfinance institutions, emergence and characteristics, as well as the intermediary role of microfinance institutions.

2.1. Definition and Concepts of Microfinance and Microfinance Institutions (MFIs)

The term microfinance was first introduced in 1990, with the specific connotation of encompassing micro credit and micro saving as well as other financial services. It comprises small and large, and provides small size financial services to the rural and urban lower segments of the population (Wolday, 2005). Microfinance principally encompasses micro-credit and also involves additional non-microcredit financial services such as micro-savings, micro-insurance, pensions and payment services for the poor (Okurut, F.N et al, 2004). Microcredit, which is part of microfinance, is the practice of delivering small, collateral-free loans to usually poor & unsalaried borrowers or membership of cooperatives who or else cannot get access to credit (www.CGAP.com, 2010).

According to SUM (2002), today microfinance has grown to cover a broader range of services, from credits and savings, to insurance and money transfers. The Canadian International Development Agency (CIDA) 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 institution (CIDA, 2002). Legerwood (1999) defines Microfinance as the provision of financial services particularly credit & saving to poor and low income people. Robinson (2001) stated it as small scale financial services mainly credit and saving provided to people who farm or fish or herd who operate microenterprises where goods are produced, recycled, repaired or sold; who offer services; who work for salary and commission; who earn income from leasing small amount of land, draft animals, vehicles, or machinery tools; and other groups and individuals at the local level of developing countries both rural and urban area.

Tolosa define microfinance based on its main characteristics: Its targeting of the poor, promoting small business, building capacity of the poor, extending small loans without collaterals, combining credit with savings (Tolosa, 2011 quoting Alen, 2006). Generally microfinance helps low income people reduce risk, improve management, raise productivity, obtain higher return on investment, increase their income, and improve the quality of their lives and those of their dependents (Robinson, 2001). Accordingly, microfinance programs have recently been considered as an important instrument to attain the poverty reduction objectives. Wolday (2001) argued that even though microfinance is not a panacea for poverty and development related challenges, it is nonetheless an important tool in the poverty reduction programs.

According to Ukeje (2005), the concept of microfinance is expressed as —small, short and unsecured“. It is the provision of small loans that are repaid within short periods of time, and is essentially used by low income individuals and households who have few assets that can be used as collateral. The idea here is to enable the poor to raise their income levels and improve their standard of living; hence this is based on the belief that the goals of microfinance have been poverty alleviation and accessibility to market.

Microfinance Institutions (MFIs) are 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. An 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). ***Microfinance Institutions (MFIs)*** are organizations which were primarily established with the aim of support finance those small scale microenterprises and local economic activities which were mainly excluded from traditional finance and mainstream banking practice. However, in Sub-Saharan Africa, until now microfinance is not widespread and extremely low income earners, including a lot of the poor, cannot access financial services (CGAP, 2009; Spencer & Wood, 2005) while poverty is formally extensive and sever (World Bank, 2012).

2.2. The Emergence of Microfinance

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).

Microfinance programs which focused on the delivery of financial services to the poor gained a worldwide acceptance and popularity since 1980's. The developments in the 1980's represented as a turning point in the history of microfinance development. As cited by Robinson (2001) worldwide survey of 206 microfinance institutions that are opened in or before 1992 found that, only 7 percent had been in operation before 1960; and 48 percent had been founded between 1980 and 1989.

According to the Micro-credit Summit Campaign estimate at the end of 2005 cited in Wolday (2005) microfinance institutions are reaching to 100 million poorest people in the world. As a result the UN declared 2005 as a year of micro-credit to bring the microfinance into forefront and integrate with the formal financial system.

In general, 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. 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, improve housing condition, empowers the poor, provides confidence and social esteem if it is realized appropriately. It is believed that poor households lack access to adequate financial services for efficient inter-temporal transfers of resources and risk coping. Without some financial support, these households do not have many prospects for increasing their productivity and living standard in sustainable way. Because formal financial sector do not have interest in lending to poor households due to lack of viable collateral and high transaction costs (Assefa et al., 2005).

2.3. Characteristics of Microfinance

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. 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 Mohamed (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 instalments (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.

2.4. Overview of Microfinance Institutions 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).

Ethiopia is one of a country that has been indicating imposing performance in microfinance in Africa. Up to 1996, the offering of microfinance services in Ethiopia has been done mainly by donor financed programs through NGOs and government organizations. This practice has harmed loan collection performance, leading to enormous default and so deteriorated the improvement of self-sustaining microfinance institutions (Wolday, 2003). In addition, Wolday (2003) indicated that financial schemes of NGOs and institutions that do not follow sound, sustainable financial principles and facilitate real economic growth might cause more harm than benefit.

Abebe Tiruneh (2006), Assefa et al., (2005) and Wolday (2003) indicated that many NGOs were involved in the provision of microfinance services particularly in rural area. However, these studies indicated that the credit delivered by NGOs faced many problems because of bad credit culture; which includes charging interest rates that do not reflect true costs, lack of sound lending and collection policies and procedures, credit was delivered without verifying borrower integrity and skill, lending based on NGO staff needs rather than felt needs of borrowers, loan terms were not based on repayment capacity, lack of collection efforts by the staff and providing loan outside the target group (to staff friends, relatives and the like).

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. Therefore, following failures indicated above, the government of Ethiopia launched a Proclamation No. 40/1996 which requires all existing microfinance providers to register as either a microfinance institution, a saving and credit cooperative or an agricultural cooperative before the deadline of April 1999 (Proc. No 40/1996). The Proclamation provides a power to the National Bank of Ethiopia as the licensing and supervising authority. Then, the majority of the NGOs in Ethiopia were terminated the delivery of financial services following the issuance of proclamation No. 40/1996 (Wolday, 2003).

Since then, microfinance institutions are emerging rapidly in the country based on the new approach and in line with the new microfinance law. Nowadays, there are 32 MFIs in the country and serving about 2.9 million clients. MFIs renders a broad range of financial services including lending, savings, money transfer, collecting taxes on behalf of tax authorities, paying pension payments, etc. Almost all microfinance institutions have a common objective; poverty reduction through provision of credit and saving services using group based lending methodology (Assefa et al., 2005).

The performance of microfinance industry in Ethiopia appears impressive measured in terms of their rural presence, outreach of their services and repayment and sustainability. The achievement is not only in supplying financial services for the poor but also in realizing and strengthening lending and payback systems (financial system development that serves the poor) of the country. In spite of the encouraging development, millions of poor in Ethiopia suffer from lack of savings and limit access to working and investment capital to start income generating activities. The potential demand for credit in Ethiopia is high. For instance, at the households' level, 9 million poor households in Ethiopia need credit. This demand remains largely unmet with the existing capacity and structure of financial institutions in Ethiopia (Degefe, 2004).

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 (Tsegaye, 2005).

2.5. Intermediary Role and Importance 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 Oromia microfinance Institution (OMFI) which is operating in the most districts of the region, is accessing credit with the goal of poverty eradication (Narayana, 2005).

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.

Ledgerwood (1999) stated that financial intermediation is the provision of financial products and services such as credits, savings, insurance, pension and payment services by the microfinance institutions to the poor people. Besides this, in practice various microfinance institutions offering social intermediation, enterprise development services and social services. Social intermediation is the process of developing human capital (such as education, health, Skills & empowerment). Enterprise development services are non-financial services that assist micro entrepreneurs such as marketing & technology services, and skill development, business training and operational training. Social services is a nonfinancial services that improving the wellbeing of micro entrepreneurs such as health, nutrition, education, and literacy training for low income people. So, the microfinance approach is not a minimalist approach providing only financial intermediation but an integrated approach providing financial intermediation as well as social, enterprise development, or other services.

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 (Ayelech, 2011). 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.

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). 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 general, within their exertion to succeed what is expected of them from many interested parties, microfinance institutions are demanded to achieve two main performances that are social performance and financial performance. Social performance consists of outreach to the poor and the excluded, modification and creating of new services and products to the target clients, development of clients' social capital and social responsibility of MFIs (Ayelech, 2011).

3. RESEARCH METHODOLOGY

The purpose of this chapter is to provide an overview of the study area, research design and the method that was used to conduct this study. The content addressed includes the research method, research approach, data gathering methods and tools, the sampling method and sample selection technique, and data analysis techniques and tools.

3.1. Description of the Study Area

3.1.1. Topography and Geographical Location

The study was conducted in Sabata Hawass Woreda, which was formerly called Alemgena Woreda. The Woreda is located between 24 and 45 km south west of the capital city, Addis Ababa, in Oromia Region, central Ethiopia. It is situated at latitude 8°55'N 38°37'E and longitude 8.917°N 38.617°E. It has an area of 87,532 hectare.

Sabata Hawass Woreda is found in Oromia National Regional State (ONRS) and is bound by Akaki Woreda in the East, Kerssa and Tole Woredas in the south Welmera Woreda in the North and Ilu and Ejere Woredas in the West. The Woreda has two access roads leading to jima and butajira (SAWRADO, 2001).

The land feature of Sabata Hawass Woreda is characterized by mountains and hills (Wachacha and Hoche Mts) and marshy plains (Furi-Gara-Bello, Gejja Ballachis and Jammo) and surrounded by the Awash water shade in the west (SAWRADO, 2001). The altitudinal range of this area extends from 1800 m a.s.l. to 3385m a.s.l (SAWRADO, 2001).

The soil type of the area is 61% black soil 34% red soil and 5% mixtures of black and red soils. The percentages of the composition of these soil types are different in each selected site of the study area. Many of the study sites are found at the bottom of hilly sides and are more prone to the effect of leaching and soil erosion (SAWRADO, 2006).

3.1.2. Climate

The district divided into two climatic zones locally called Baddaa (temperate) and Badda Daree (sub-tropical). The local elder mentions that the name *Sabata Hawass* is a combination

of two terms *Sabata* and *Hawass*. According to oral tradition the place currently known by Sabata in meaning Oromo language “*belt*” and *Hawass* represent Awash River which is cross the district named by King Jimma Abbaa Jufar.

The Woreda is divided into two agro-ecological zones locally called Baddaa (12%) and Badda daree (88%) which means highland and mid land, respectively (SAWRADO, 2006).

The study area experiences alternating wet and dry seasons. The main rain falls between June and September, locally called “rooba gaanaa” and light rains between January and March locally called “rooba arfassa”. Since there are no recorded temperature data obtained from National Metrological Service (NMS), the comparable area, Alemtena Woreda that is found at 2280 m a.s.l with similar altitude to Sabata Hawass Woreda found at 2245 m a.s.l was used to compute the last 10 years of temperature data from 1995 to 2006. From this data, the annual mean maximum and the minimum temperatures for the years 1995 to 2006 are 25.40C and 13.90C, respectively.

The annual mean maximum and the minimum temperature were recorded in May and July respectively. The total mean annual rainfall from 1995 to 2006 is 1054.7 mm and the highest rainfall recorded was in July.

3.1.3. Demographic Characteristics

Sabata-Hawass Woreda is largely inhabited by the Oromo ethnic group. According to the 2007 population and housing census results, about 132, 294 peoples are living within the District with annual growth rate of 4.4% per annum (CSA, 2007). However, according to Woreda population projection, the total population is estimated to be 167,454 at end of 2016. The study District is comprised of 41 administrative kebeles (5 urban and 36 rural Kebeles Administrations). A total of 27,753 households were counted in this woreda, resulting in an average of 4.36 persons to a household, and 26,918 housing units.

Sabata is the capital town of Sabata Hawass Woreda located in Special Central Zone Surrounding Finfinne of Oromia Regional State. It is situated at 24km west of Addis Ababa along Jimma road.

3.1.4. Land Use and Economic Situation of the Study Area

Agricultural activity is the dominant means of livelihood for the majority of Sabata Hawass Woreda population. People of the study area use and classify land through functional categorization i.e. grazing land, agricultural land, homestead land and forestland. According to the annual report of Sabata Hawass Woreda Rural and Agricultural Development Office (SAWRADO), out of 87,532 hectares of land, 73,838 hectares (84.4%) are used for agriculture to cultivate different crop types for household consumption and for local market, 3,689 hectares (4.2%) for grazing land, (SAWRADO, 2006).

According to the district's agricultural and development offices 87.2% of the land is devoted to agriculture. The majority of Sabata Hawass district residents are settled agriculturalists. Depending on the climatic zones, the inhabitants are engaged in mixed agriculture (farm and maintain animals). For instance, they produce wheat, barley, beans, sorghum and oilseeds.

Moreover, livestock production is one of vital livelihood sources in the study area. The major livestock includes cattle, sheep, goats, donkey, camel and poultry. Hence, they are considered as important assets and used as sources of food, income and draught power.

3.2. Research Approach

To better understand the research problem and to address the research questions or to achieve the desired objectives of the research, a mixed of quantitative and qualitative approaches were employed in this research. The researcher expects that, the combination of qualitative and quantitative techniques can help the researcher to triangulate the relevance and accuracy of the data.

In this study in order to obtain well quantified and complete data about client's socio-economic conditions before and after participation in the micro-finance program, as economic variables like their businesses, registered increment in incomes, improved living conditions, keep their family well-fed and healthy, educate their children and also develop respect at home and in the community, the researcher was used the quantitative research approach. The researcher was also employed qualitative research approach to complement the data obtained through quantitative approach. Qualitative research methods are used

systematically to describe and discover non quantifiable relationships between existing variables (Best and Kahn, 2005). The qualitative research approach is known for its importance in the investigation of respondents' perspective about the issue under consideration.

3.3. Sample Design and Sampling Techniques

A case study design was used in the study. Case study design helps to examine the detail features of the institution. The sample frame of the study is the entire clients of OCSSC found in the list of Sabata Hawass woreda. The study has employed a multistage sampling. First, Sabata Hawass woreda is selected purposively due to the fact that its proximity to the researcher and researcher's knowledge/experience of the area as well as because of the density of the credit clients in the area. In the second stage, out of 36 rural kebeles found in the woreda, 2 kebeles such as *Dalety* and *Tefki* are selected randomly.

In the third stage, a sample of 130 sample clients, proportional to the number of clients in each Kebele were randomly selected from the list of clients that are obtained from Sabata branch who have been participating in the program for a minimum of one year that has been providing by Sabata branch office of OCSSC. In addition to this, 10 staff members of OCSSC who are working at Sabata branch were selected randomly. In general, to manage the research within the given time and limited budget, a total of 140 samples were selected using simple random sampling method. Further, a total of four Key informant interviews were conducted with specific members of the government bodies like experts from Credit and Saving Institutions, Branch manager, Woreda and PA Administrators.

3.4. Sample Size Determination

For this study a simplified formula provided by Yamane (1967) is employed to determine the required sample size, having a confidence level of 95% with sampling error of 5%. Accordingly, the sample size "n" is determined as follows:

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

Where ‘*n*’ is the sample size to be found, ‘*N*’ is the population size, and ‘*e*’ is the level of precision.

$$n = \frac{195}{1+195 (0.05)^2} = 130$$

Thus, out of 195 beneficiary populations 130 sample respondents were selected for the survey purposes. The researcher used proportionate sample allocation method in attempt to make each sampled kebeles identical with proportion of population. Therefore, the proportional sample size from each KPAs is calculated by using the following formula:

$$n_i = N_i * n/N ,$$

Where, *N* =Total population size, *n* = Total sample size,

N_i = population size *ith* Kebele, *n_i* = Sample size of *ith* Kebele

Hence, 130 sample respondents from the two KPAs were contacted randomly for the sake of the necessary information required. In view of that, the table below shows the proportionate sample size for each KPA based on the formula given above.

Table 3.1 Proportionate sample for each group

KPAs	Total Number of Clients	No. of sample size
Dalety	90	60
Tefki	105	70
Total	195	130

Source: Research computation, 2017

Besides, 10 staff members were included to respond the questionnaire. In general, a total of 140 samples were selected using simple random sampling method.

3.5. Data Gathering Methods and Tools

In this study in order to achieve the stated objectives both primary and secondary sources of data were used. The primary data was collected through carefully designed questionnaires to both the Woreda branch staff members and its clients. The closed ended questions were used to collect the respondents’ background information covering clients’ demographic and

economic variables (e.g., age, sex, marital status, family size, educational background, occupation, and assets of the respondents), institutional variables (lending method, interest rate), 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. In addition to this method, semi structured interviews and observation were used in order to gather additional information, for crosschecking the opinions given by the clients. Questionnaires were prepared in English, and then translated into local language for the purpose of clarity and to facilitate the data collecting process. The study was also made use of secondary data and review of various documents, journals, bulletins, proclamations, reports and other sources relevant to the research problem.

3.6. Methods for Ensuring Validity and Reliability

In order to assure the *validity and reliability* of data or research result, different actions has been taken by researchers.

To assure the validity, data was collected by a questionnaire developed carefully and amended based on feedbacks from pilot study.

Therefore, the validity of the instruments were assured with the help of pilot testing by taking 10% (13 participants) of the total size of sample respondents with a believe that it provides relevant inputs in the improvement and revision of the data collection instrument.

Reliability is a necessary precondition of validity. Thus, triangulation of the data that was collected through various tools: - questionnaire, field observation, and interview helps to ensure reliability (to check data accuracy).

Moreover, at the *initial stages of the study*, *triangulation* with existed theories in the literature review was considered for research validation.

Hence, prior to the data collection an extensive literature review was conducted from a global perspective and trimmed down to a local perspective and then down to specific study areas. Based on this generalization can be achieved.

3.7. Data Analysis Techniques

After the collection of data through the questionnaire, interview and field observation, the data was sorted and organized carefully according to their categories in a thematic framework based on the research questions. The method of analysis used in the study was more of descriptive statistics which involves tabulation, frequency distribution, percentage, mean and modal. These were used in the comparison of income, asset ownership, housing condition, nutrition, health, education and business growth of the clients before and after joining the micro credit service Programme and hence it can be seen that, if there is any improvement in their living standard after using micro credit or not. Quantitative data collected through questionnaires was analyzed and interpreted through SPSS (Statistical Package for Social Science), Version 20.

Furthermore, the data that was gathered through open ended questionnaires including interviews and observation, and then analysed qualitatively to draw appropriate finding, conclusion and recommendation.

4. RESULTS AND DISCUSSION

4.1. Socio- Demographic Characteristics of the Respondents

This sub section emphasized the socio-demographic characteristics of the respondents such as sex, age, educational level, family size, marital status and religion of respondents.

The researcher has selected the respondents randomly without any bias towards the gender. As it can be seen from the table 4.1 below: 68.46% of the respondents were female where as 31.54% were male. The highest proportion of the respondents were women that testify to the fact that most of the rural beneficiaries of microfinance are female. Thus, there are good reasons to target women by OCSSC, because gender discrimination is one of the major causes of poverty, slower economic growth and weaker governance.

Table 4.1: Distribution of Respondents by Sex

Respondent's Sex	Frequency	Percent
Male	41	31.54
Female	89	68.46
Total	130	100.0

Source: Own survey data, 2017

The other demographic characteristic considered in this study is age of the respondents. Survey result indicate that the average age of the overall sample MFI clients was found to be 37 years with minimum and maximum age being 21 and 50, respectively. The analysis result in Table 4.2 shows the modal age group was 31 – 40 years with a percentage of about 64.62% of the respondents. About 16.15% were in the age group of 21 to 30 years and the remaining 19.23% were above 40 years.

Table 4.2: Distribution of Respondent by Age

Respondent's Age Category	Frequency	Percent
≤ 20 years	-	-
21 - 30 years	21	16.15
31 - 40 years	84	64.62
41 – 50	25	19.23
>50	-	-
Total	130	100.0

Source: Own survey data, 2017

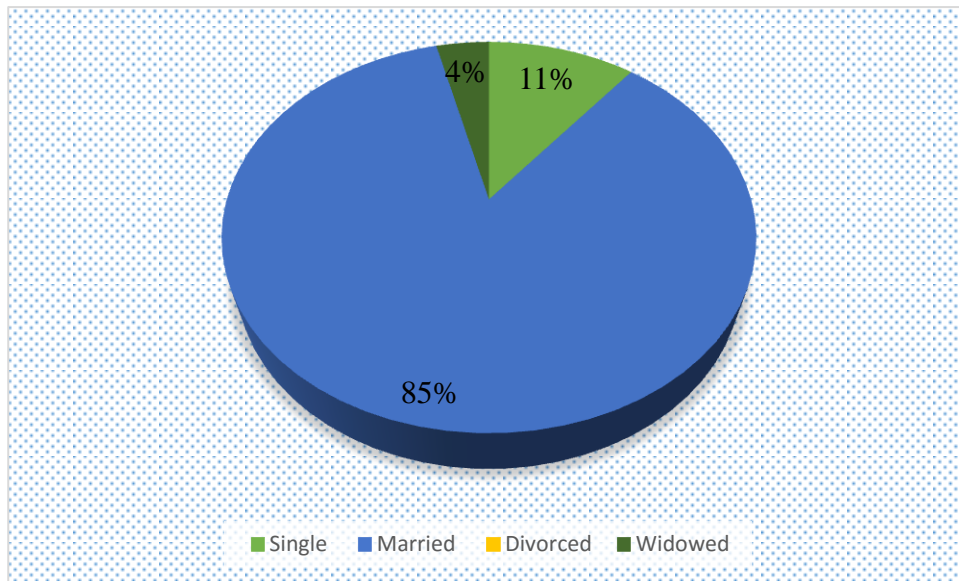
The education level of beneficiaries is assumed to influence the level of awareness and ability to proper and effective utilization of microfinance service. Moreover, it is also believed that the more educated the client, the more likely he/she is to participate in credit services. Therefore, the literacy level of sample respondents was considered in this study since it could affect the way in which they manage and live their daily lives and manage the household and business. Accordingly, Table 4.3 shows that, about 41.54% of the sample households were literate, with at least basic primary education background and above. More than 45% of sample respondents remain illiterate who can never write and read even a single statement. Probably such high proportion of illiterate could have negative effect on microfinance service utilization. It may affect the ability of beneficiaries to analyse costs and benefits of any productive event.

Table 4.3: Distribution of Sample Respondents by Level of Education

Level of Education	Frequency	Percent
Illiterate	59	45.38
Read and write	17	13.08
Elementary & Junior Level	29	22.31
Secondary(9-10)	13	10.00
Preparatory School (11-12)	7	5.38
College Diploma/Certificate	5	3.85
Degree and above	-	-
Total	130	100.0

Source: Own survey data, 2017

As illustrated in Figure 4.1: below, about 85.38% of sample respondents are currently married. Whereas, about 10.77% are single and the remaining 3.85% are widowed.



Source: Own survey data, 2017

Figure 4.1: Distribution of Sample Respondents by Marital Status

In this study the researcher hat attempted to find out how many family members each respondent have. This is because the amount of family size per household could primarily determine the amount of resources needed to support them. The study depicts the average family size of the total sample respondents was estimated to be 6, with 2 and 9 being the minimum and the maximum family sizes, respectively. The modal household size was 4-6 persons with 44.62%. The result in table 4.4 also indicates that 28.46% of the respondents had three and less than three members in their family, and rest of the 26.92% had above 6 members.

Table 4.4: Distribution of Sample Respondents by Family Size

Family Size Category	Frequency	Percent
1 - 3	37	28.46
4 - 6	58	44.62
Above 6	35	26.92
Total	130	100.0

Source: Own survey data, 2017

As far as respondent's religion is concerned, nearly 90% of the sample respondents are Christians as shown in Table 4.5. This is followed by Muslim respondents, accounted for 6.15%. The remaining 4.62% of respondents were belongs to other religion followers.

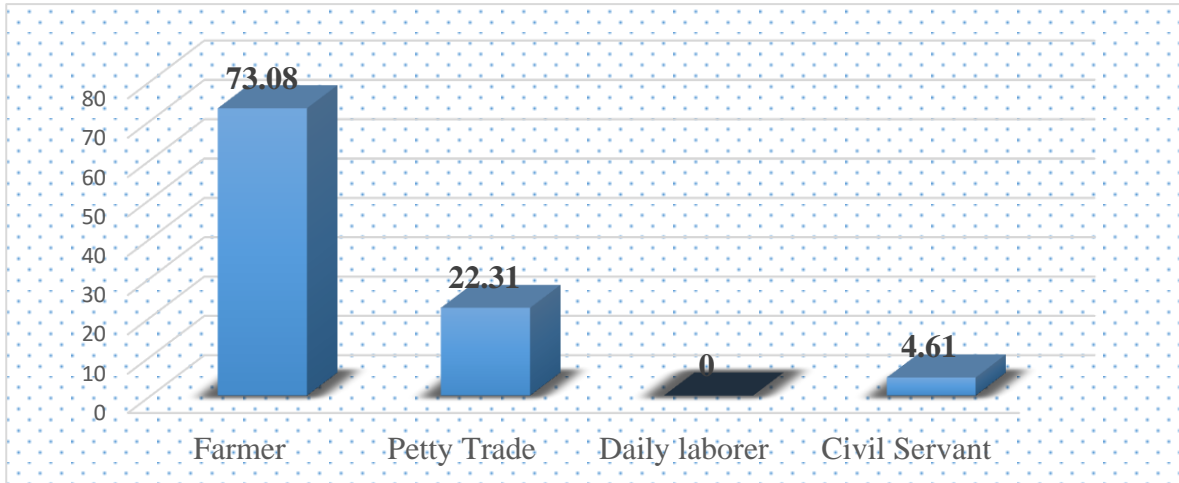
Table 4.5: Distribution of Sample Respondents by Religion

Respondent's Religion	Frequency	Percent
Christian	116	89.23
Muslim	8	6.15
Other	6	4.62
Total	130	100.00

Source: Own survey data, 2017

4.2. Client Respondents' Current Basic Income Earning Activity/Occupation

Under this section the major income earning economic activity of sample respondents in which the respondents are engaged was assessed in this study. Sample respondents in the study area engaged in various income generating activities which can be both farm and non-farm activities in order to meet their family needs. The sampled respondents reported that they had engaged in one or more income generating activities, among livestock production system, crop production, petty trade, and civil servant are important. Figure 4.2: below shows, respondents were found to engage in two main activities, where 73.08% and 22.31% respondents were reported engaged in farming and petty trade (retailing of agricultural products such as cereals, coffee, and livestock), respectively.



Source: Own survey data, 2017

Figure 4.2: Basic Economic Activity/Occupation of Respondents

4.3. Clients' Credit Service Accessibility Condition

4.4.1. Credit Modalities

It is believed that appropriate institution design for the poor will lead to better achievements in reaching the target poor. Micro finance institutions have various methodologies to target specific clients and uses different modals to provide financial services to the poor. Respondents were asked to reply on the lending system or credit modalities that they are using and whom formed their group. Thus, as indicated in the Table 4.6 below all reported that they borrowed in a group. As mentioned in the table, about 67.69% of the sample respondents replied that their group had been formed by Kebele administration. This is followed by previous group, which accounts 23.85% and only 8.46% of respondents reported to be assisted by OCSSC Sabata branch staff to join the group. The majority of respondents (81.54%) were inconvenient with group lending modality.

In general, the role of Kebele Administration in group formation may have negative impact in the beneficiary selection process by considering political position of the poor. Therefore, the role of Kebele Administration in group formation should be reduced to give equal opportunity for all participants without considering their political position.

Table 4.6: Responses on Credit Modalities

Description	Character	Frequency	%
<i>How do you borrow?</i>	In group	130	100.00
	Individually	0	0
	Total	130	100.00
<i>If you borrow in group, who formed your group?</i>	Branch Credit and Saving Institution staff suggested me to join the group	11	8.46
	Kebele Administrative Suggested Group	88	67.69
	Previous group members asked me to join them and I agreed	31	23.85
	Neighbour	0	0
	Total	130	100.00
<i>Do you like the group lending system of your institution?</i>	Yes	24	18.46
	No	106	81.54
	Total	130	100.00

Source: Own survey data, 2017

4.4.2. Client Selection Criteria and Main Challenges to Access Credit Service

The sample respondents were also asked to reply about whether they think that the criteria by which they were being allowed to get access to credit services were suitable. Prospective clients who wish to acquire credit from OCSSC are required to pass and fulfil a set of requirements, which are easy and suitable for about 83.85 percent of respondents whereas, institutional criteria is unsuitable for about 16.15 percent respondents (Table 4.8: below). Even if it is hard to set clear-cut criteria to identify appropriate clients, the institution has established some selection criteria's.

According to survey data from staff members of the institution, all survey respondents agree that potential clients are those economically active poor (i.e. those who can use the loan for aimed productive purposes) but lacking necessary means to involve in any income generating activities. The requirements to access the loan includes: willingness to make prior savings, willingness to form groups, letter of approval from Kebele which shows that they are residents of respective Kebele, being resource poor and productive, age of above 18 years old. Moreover, comments and decisions by the Credit and Saving Committee at Kebele Administration level is one of the major requirements. Getting the approval and signature of

the spouse on the loan agreement form is considered as one of the essential criteria for clients to get the loan from institution.

Table 4.7: Responses on client selection criteria and *main challenges to access credit service*

Description	Character	Frequency	%
<i>Do you think that the criteria by which you are being allowed to get access to credit services are suitable?</i>	Yes	109	83.85
	No	21	16.15
	Total	130	100.00
<i>What are the main challenges to access credit service from the institution?</i>	High Interest for Loans	22	16.92
	Delay in service offering	10	7.69
	Poor criteria for screening	25	19.23
	Low loan size	30	23.08
	Group lending system	43	33.08
	Total	130	100.00

Source: Own survey data, 2017

Sample microfinance clients were also surveyed with the aim to identify the Challenge or constraints faced by borrowers in getting and utilization of the credit from OCSSC. Therefore, study result indicate that group lending system, high interest rate for credit, short credit payment period, and low amount of credit and low interest rate for savings were blaming as major constraints or challenges to access credit from OCSSC at Sabata branch.

As depicted in Table 4.7 above, 33.08%, 23.08%, 16.92%, 7.69% and 19.23%, of the respondents complained group lending system, low amount of credit, high interest rate, delay in service provision and Poor criteria for screening, respectively. This result indicates that majority about 33.08 percent of the sample household respondents reported that group lending system was a major constraint to access credit from OCSSC who required group formation as a precondition to access credit.

4.4.3. Loan Repayment and Interest Rate Conditions

Loan repayment can be taken as borrowers 'personal experiences of fully paying a loan. It may also expose the loans favourable and unfavourable 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 indebtedness and forces the household to be trapped in vicious cycle of indebtedness. 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.

Therefore, evidence from survey data Table 4.8, below notify that about 26.92 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 29.23 percent of responses. In addition to borrowings and sale of part of property, transfer payments from family elsewhere accounts 20.77 percent of responses and proceeds from income generating activity consists 23.08 percent of responses.

The survey result reveal that 70.00% of total respondents appreciate time interval set condition for loan repayment saying suitable time interval (one year) despite its inflexibility.

Table 4.8: Responses on loan repayment and interest rate condition

Description	Character	Frequency	%
<i>How do you repay your loans?</i>	Sale of some property	38	29.23
	Transfer payments from family elsewhere	27	20.77
	Get other debt	35	26.92
	Proceeds from business activity	30	23.08
	Total	130	100.00
<i>Loan repayment time set is suitable?</i>	Yes	91	70.00
	No	39	30.00
	Total	130	100.00
<i>Do you pay interest?</i>	Yes	130	100.00
	No	0	0
	Total	130	100.00
<i>How is interest rate on loan</i>	Unsatisfactory	44	33.85
	Somewhat Satisfactory	26	20.00
	Satisfactory	60	46.15
	Very satisfactory	0	0
	Total	130	100.00

Source: Own survey data, 2017

The sample respondents were also asked to reply on: whether they paid interest for the loan they borrowed, to give their opinion on the interest rate and whether the time provided by OCSSC to the borrowers to repay the loan is sufficient. Table 4.8 above indicates every client (100%) beneficiaries in the sample is paying interest on the amount owed.

Findings reveal that over 66.15% of clients responded are satisfied with rate of interest charged on loans, including 20.00% ‘somewhat satisfactory’ responses. About 33.85% of clients were unsatisfied with rate on loan.

4.5. Loan Purpose and Destination

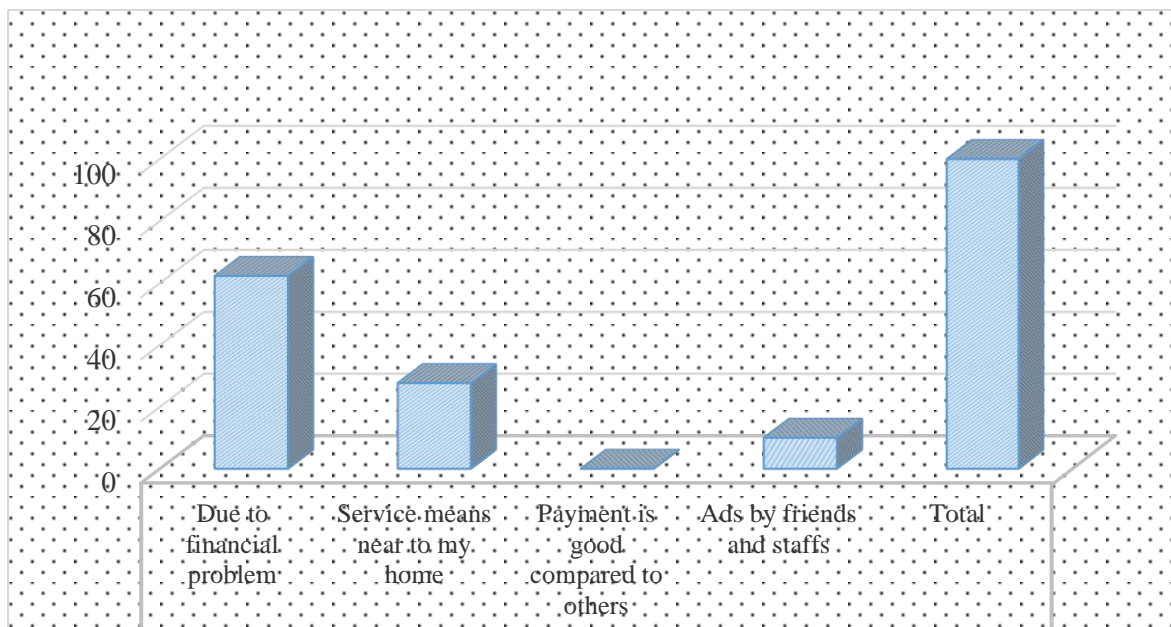
As shown in the Table 4.9 below majority of sample beneficiaries have long experience with institution where more than 85% of respondents joined the credit program before three years and above and almost all sample respondents stayed with the institution for more than 3 years. Implying that the respondent had a better understanding of microfinance operations and effects, and their answers can be relied up on greatly.

Table 4.9: Sample respondents loan history

Description	Time in Year	Frequency	%
How long does it been since you started to receive credit from OCSSC?	< 2Years	4	3.08
	2 - 3Years	9	6.92
	3 – 5 Years	111	85.39
	Above 6 Years	6	4.61
	Total	130	100.00

Source: Own survey data, 2017

Following the analysis of beneficiaries experience with the institution, the researcher wanted to ascertain the purpose or the main reason for joining the program and seeking credit from the institution. As illustrated in Figure 4.3: majority (62.31%) of respondents agree that financial problem was the main reason why most of the beneficiaries joined the program and sought credit from the institution. Service outlet nearness to home also influenced about 27.69% of respondent to apply for credit and information by friends and field staffs further influenced 10% to join the program.



Source: Own survey data, 2017

Figure 4.3: Distribution of respondents by reason for joining the program

Once clients join the credit program principally as stated above due to financial problem, the main question then was the reason why respondents required loan facilities. Thus, sample

clients were asked to express their reasons to take their first loan from the institution and the mainly purpose their first loan used for.

Therefore, in Table 4.10 below it is shown that the majority 84.62% of borrowers' reason to take loan was to open their own new business and to expand already established business. Only 15.38% of the borrowers reported that their reason to take loan was to solve their serious shortage of money.

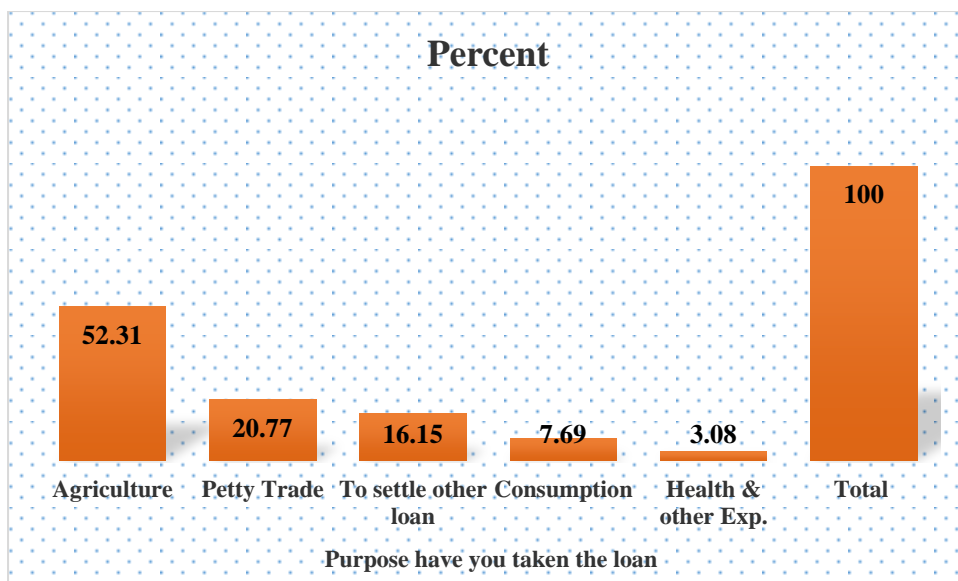
Table 4.10: Responds View on Reason to take first Loan

Description	Reason to Take first Loan	Frequency	%
<i>What is your reason to take a loan?</i>	To open new business	96	73.85
	To expand my business	14	10.77
	To solve the serious problem of my lack of money	20	15.38
	Total	130	100.00

Source: Own survey data, 2017

In general, credits increases the income and improve the living standard of a community, when it is used for income generating activities. These activities enable clients to generate income to support their families and repay their loans. The objective of microfinance loan is to help rural and urban resource poor to engage in income generating activities like in petty trading, agricultural farming.

The survey data (Figure 4.4 below) indicate that large proportion of borrowers about 52.31% took credit for productive purposes of agriculture and agriculture related activities, to buy farm oxen and other domestic animals, and 20.77% clients borrowed for starting petty trade of retailing agricultural products. Similarly, about 10.77% approached the institution for loans to cover family consumption (food and other social facilities fee).



Source: Own survey data, 2017

Figure 4.4: Distribution of respondents by purposes of loan

4.6. Beneficiaries' Current Socio- Economic Condition

As literatures reviewed in this paper reveals 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 enhancing access to various social services like health, education and alleviate poverty.

An increase in income, for instance, can pave the opportunity to open business, access to health services, education, and house ownership. In this regard, OCSSC microfinance contribution in the study area was assessed. Analysis result in the undergoing section clearly shows that there is a clear difference in the clients of the institution after joining the program in relation to savings, housing conditions, and basic social services.

4.6.1. Improvement in Income and Savings Condition

During the course of this study sample respondents were asked to reply on the trend of their income after joining microfinance program. Table 4.11: illustrated that over 85% respondent replied that the trend of their income after joining microfinance program is positive or increment. This is because microfinance services have positive impact on the income of the borrowers due to either borrowed money itself or increase in the income of borrowers caused by investment return of borrowed money. The result in the Table also shows that about

7.69% respondent experiencing dropping income level after loan. The remaining 6.92 percent replied that their income remain the same.

Moreover, as indicated in Table 4.11: below savings of about 54.61% clients shown increment after joining microfinance program. About 35.39% stated their savings level unchanged and about 10% respondents with falling level of savings.

Table 4.11: Responses on income improvement and savings condition

Description	Character	Frequency	%
<i>Income level after joining the credit program</i>	Increased	111	85.38
	Decreased	10	7.69
	Remain the same/No change	9	6.92
	Total	130	100.00
<i>Saving condition after joining the credit program</i>	Increased	71	54.61
	Decreased	13	10.00
	Remains the same	46	35.39
	Total	130	100.00
<i>For what purpose did you save?</i>	Loan Repayment	51	39.23
	Asset Building	19	14.61
	Safety of Cash	13	10.00
	Health, Education & Food Security	12	9.24
	To get another loan	35	26.92
	Total	130	100.00

Source: Own survey data, 2017

In view of the purpose of savings majority 39.23% stated that loan repayment is their main target, and then to get another loan accounts for about 26.92%, followed by asset building and Safety of cash, accounts for 14.61 and 10% respectively. A small proportion about 9.24% make savings for Health, education and food security.

In general, it is believed that developing good attitude toward savings supports the actions relating to the accumulation of money, which in turn helps to build productive assets, thereby reducing poverty of rural households. As it is discussed above, majority of clients save with the aim to secure loan repayment and again to qualify for another loan.

4.6.2.Improvements in Lives and Asset Holding Conditions

The part played by microfinance institutions in reducing poverty and improving lives is best assessed by examining MFI clients’ level of income and asset holdings. As survey data presented in table 4.12: below indicates majority, about 86.92% own farm oxen and dairy cows, because these assets being very important and respected assets in the society of the study area.

Similarly, in order to assess the beneficiaries’ ability to secure their personal and family medical and children education and other social service expense before and after involvement in the OCSSC microfinance credit program, series of questions were asked as indicated in Table 4.13 below. Accordingly, Table 4.12: clearly shows that there is a clear difference in the clients of the institution after joining the program in relation with housing conditions and basic social services. Survey result reveals increased income for almost all client led to improvement in the overall quality of living as indicated by improved access to education, health care, housing, clothing, and nutritional foods.

Table 4.12: Responses regarding improvements on lives and asset holdings

Description	Character	Frequency	%
Improved ability of asset holding(own animals like farm oxen and dairy cow)	Yes	113	86.92
	No	17	13.08
	Total	130	100.00
Housing conditions have improved	Yes	31	23.85
	No	99	76.15
	Total	130	100.00
Ability to afford medical and children education expenses (better after joining the credit program)	Yes	101	77.69
	No	29	22.31
	Total	130	100.00
Ability to buy clothing and varieties of foods (better after joining the credit program)	Yes	130	100
	No	0	0
	Total	130	100.00
In general, have loans improved your lives?	Yes	111	85.38
	No	10	7.69
	Total	121	100.00
Please rank your standard of lives after joining the credit program	High	12	9.23
	Medium	108	83.08
	Low	10	7.69
	Total	130	100.00

Source: Own survey data, 2017

Finally, respondents were asked to judge loans impact on their lives. Table 4.12 above tells 85.38% believe that loans have improved their lives and approaching to 8% reject the positive impact of loans in their lives after joining the program. Further, sample respondents were requested to rank their standard of lives after joining the credit program. Accordingly, 9.23% and 73.85% of respondents were ranked as high and medium, respectively. Only about 7.69% of respondents replied as low.

4.7. Analysis of Beneficiary’s Perception about Loan Size and Financial Service Delivery

Loan size is a desired amount of loan granted by the financial institution to the individual borrowers. The size of loan has an immense influence on choosing the type of economic activity to engage in. Hence, questions were asked to capture the perception of clients with the aim to identify whether they are satisfied with financial services of OCSSC or not, along with the amount provided.

Accordingly, as indicated in Table 4.13: about 59.23% of the clients reported are satisfied that they received enough amount of loan to meet their demand according to their request. However, 40.77% of the clients complained about the amount of loan provided by OCSSC that means the loan were not adequate to fulfil their purpose. About 68.46% of clients received the loan as soon as they apply for it. In general, most of the clients are satisfied with financial service delivery of OCSSC.

Table 4.13: Clients perception on OCSSC financial Services and loan size

Description	Character	Frequency	%
<i>Received adequate amount of money requested</i>	Yes	77	59.23
	No	53	40.77
	Total	130	100.00
<i>Received the loan in time as soon as requested</i>	Yes	89	68.46
	No	41	31.54
	Total	130	100.00

Source: Own survey data, 2017

4.8. Analysis of the OCSSC Staff members' View about major challenges and Role of OCSSC

Interview questions were prepared to Sabata Hawass Credit and saving institution branch employees and manage to gather information about the role of MFI in livelihood enhancement as well as to obtain information about major constraints or challenges that hinder the program.

The OCSSC staff members at Sabata branch were asked to list criteria (s) their institution use to select the potential clients. Thus, all 10 selected sample respondents stated the criteria (s) their institution strictly use as:

- Willingness to form credit group and joint-liability
- Readiness to put 10 % prior saving requirement
- Being above age of 18
- Support letter from Kebele administrative that prove being resource poor and active

Moreover, during the course of this study the staff members of the OCSSC institution at Sabata branch were surveyed with the aim to identify major challenges that affect the institution to deliver quality microfinance service as well as to improve the performance their institution. Thus, sample staff members were asked to list and rank the constraining factors. As shown in Table 4.14 the major challenges complained by respondents, in order were: Shortage of experienced human resources, collecting the repayment from clients, Absence of legal title of assets in rural areas, Religion issue and less saving habits of the community.

Table 4.14: Staff members' View about major challenges and Role of OCSSC

Description	Character	Frequency	%
What do you think is/are challenges to your institution?	Less saving habits	1	10
	Absence of legal title of assets in rural areas	3	30
	Shortage of experienced human resources	5	50
	Religion issue	2	20
	Collecting the repayment from clients	4	40
Have you proved that loans provided by OCSSC has improved lives of beneficiary?	Yes	10	100
	No	-	
	I'm Not Sure	-	
	Total	10	100.00

Source: Own survey data, 2017

Religious factor was important factor affecting the operation of MFIs. According to the branch manager and Woreda admin office, Muslim religion followers are mostly limit themselves to participate in credit service in the study area which may have its own impact on the performance of the MFI. This because of the fact that the Muslim religion prohibits the interest earned from the money they deposited in the MFIs. The result obtained from the survey confirms almost similar result that in this study nearly 90% of the sample clients were Christians and Muslim clients were only 6.15%.

In the same manner, the staff members were asked about socio-economic improvement of the beneficiary made by loan service after joining the credit programme. Increasing income through participation in microfinance programs inevitably will lead to better nutrition and health for individuals. Evidences from branch manager and sampled employees in Table 4.13 show that the majority of OCSSC clients in Sabata Hawass Woreda are able to pay their medical expenses and they improved the quality of food consumed by them and they were in a good income position to buy clothes for themselves and their families and most of the clients were able to afford fees for quality education for their children.

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

The study was conducted in Sabata Hawass Woreda of south-western Shewa Zone, Oromia Regional state. Recently microfinance has been given due weight as one of the strategy to enhance livelihood and hence reduce poverty. Thus, this study was designed to examine the role of microfinance intervention in livelihood improvement and the circumstances under which microfinance can help the poor out of their poverty situation in Oromia region by taking OCSSC financial institution as a case.

The study has attempted to investigate main research questions raised such as: *Do the conditions and procedures set by MFIs favor the poor and low income earner clients in accessing credit? To what extent do MFIs services contribute to livelihood enhancement with respect to more asset holding and expenditure patterns of clients? To what extent do MFIs services contribute to generation of more income? Finally, what are the prominent constraints or challenges affecting access to credit and microfinance intervention in the study area?*

Data from 130 clients and 10 OCSSC staff members at Sabata branch were used for the analysis. Descriptive analytical tools were used to analyze the data.

Therefore, based on findings result related to each research questions the study forward conclusions in the undergoing section.

Based on survey result, this study concludes that the institution is in fact reaching the excluded poor segments in rural area 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.

From the study, it was also observed that expect the group lending methodology applied by the institution, the institutional conditions and procedures like client selection criteria, loan repayment time interval, and interest rate applied currently are more or less suitable for majority of sample beneficiaries’.

The study proved that the company set better interest rate relative to other financial institutions like conventional banks to potential savers to mobilize more saving as a means to improve its portfolio quality.

Furthermore, according to the research findings, it is apparent that the majority of the clients had registered increased incomes. It is these incomes that can help them to solve some livelihood related problems as they can save and has the capacity to send their children to school and to pay for their health which is critical for their continued well-being and as a consequence break the poverty trap.

In general, because of microfinance program intervention majority of surveyed respondents were experienced improvement in their income and ability to bear personal and family medical, consumption and saving. 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. In terms of extents of benefits gained by the borrowers; the income of the borrowers increased to the extent that it exceeds expenditure and their saving improved. In the same manner the expenditure of beneficiaries improved to cover the cost of consumption, food, health, education and other expenses.

In general from the above survey result one can conclude that, after joining the credit program, the income has increased for almost all of clients and that led to improvement in the overall quality of living as indicated by improved access to education, health care, housing, clothing, and nutritional foods. Survey result evidence in the analysis shows that 85.38% of the respondents indicated that their income has increased. Consequently, the majority of the respondents reported that their overall quality of life is improved. This clearly shows that the institution is successful in improving the living condition of the poor people and plays a great role in order to attain the millennium development goals in relation with poverty eradication.

The study was also attempted to address the question: *What are the prominent constraints or challenges affecting access to credit and microfinance intervention in the study area?*

In order to address this question sample microfinance clients were surveyed with the aim to identify the Challenge or constraints faced by borrowers in getting and utilization of the credit from OCSSC. Therefore, with great variation in their severity: group lending system,

low amount of credit, high interest rate, delay in service provision and poor criteria for screening were identified by clients as major constraints or challenges to access credit from OCSSC at Sabata branch.

In the selection and group formation process the poorest and the inactive population groups were excluded.

The researcher conclude that the amount of loan is low compared to their request for start-up capital or to expend and strengthen their existing micro and small scale business. Loan size is the main financial attribute that gives more value to microfinance clients to make borrowing decision. However, for a considerable number of borrows OCSSC's loan size is small to finance their business. No revision was made to adjust it to changing market price since company's establishment.

The findings reveal that the process of application for loans starts with small amount and after repayment the client can apply for next higher amount. This process was observed to be a limiting factor for those customers who needed a large amount right from the beginning. This is true because it takes an unnecessarily long time for those seeking a large loan to obtain enough funds to meet their needs. In addition to the time taken to receive large loans, the clients also raised concerns about the time frame from the receipt of the loan to the time of starting repayment, which is just one month after the disbursement of funds in most cases.

During the course of this study the staff members of the OCSSC financial institution at Sabata branch were surveyed with the aim to identify major challenges that affect the institution to deliver quality microfinance service as well as to improve the performance of their institution. Accordingly, research finding proved that shortage of experienced human resources, collecting the repayment from clients, absence of legal title of assets in rural areas, religion barrier and less saving habits of the community were among major constraints identified by staff members of the company.

To sum up, MFIs operation in Oromia region has brought about positive changes in the standard of living of people who access their services. Although some of the clients have not benefited, most OCSSC clients have benefited positively. In other words, even though follow

up and assistance is the strong side of OCSSC micro credit program but still there are complaints on it by clients.

5.2. Recommendations

No doubt that a microfinance facility is a recent and good strategy 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 improving livelihood of poor as well as in order to improve operations of MFIs the following recommendations put forward should be considered.

- ✚ OCSSCO should continuously revise its loan size with changing market price so as to finance its urban and rural clients business. Since, both under and over finance lead to clients default.

- ✚ Alternative methodology other than group solidarity loan for loan disbursement must be designed for rural and urban clients at individual level.

- ✚ The institution should consider the possibility of increasing the grace period and reducing the frequency of repayment so as to provide for clients with long term loans turn to businesses.

- ✚ The institutions should plan and 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. Stop loans for loan. Therefore, they should organize regular business training for their clients and qualified training institutions should conduct this.

- ✚ Despite the institutional commitment to reach the target disadvantaged poor 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's 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.

- ✚ New saving financial product must be designed to exploit the majority of Muslim market by considering their need of non-interest bearing saving account. Islamic banking model may serve as a starting point to design this service.
- ✚ Furthermore, the importance of having human resource development strategy and putting in place an efficient legal system to enforce contracts has to be given special emphasis.

REFERENCES

- Abebe Tiruneh (2006): Impact of microfinance on poverty reduction in Ethiopia, MA thesis Addis Ababa University, Addis Ababa
- ADB (2000a) Finance for the Poor: Microfinance Development Strategy. Manila: Asian Development Bank
- AEMFI (2000), Review of Microfinance Industry in Ethiopia: Regulatory Framework and Performance Occasional Paper No. 24
- Assefa A., Gebrehiwot A. and Mulat D. (2005) Rural Finance in Ethiopia: Assessment of the Financial Products of Microfinance Institutions. AEMFI, Occasional paper No.12: Addis Ababa, Ethiopia.
- Ayelech Eshete (2010), An assessment of the role of microfinance institutions in urban poverty alleviation: MA thesis Addis Ababa University Addis Ababa, Ethiopia
- Central Statistical Agency (CSA) (2007). Statistical Abstract of Ethiopia. Addis Ababa, Ethiopia. Issue No enterprises: an effective weapon for poverty alleviation." included in Birritu No. 95, quarterly bulletin of National Bank of Ethiopia , Nov.2005-Jun. 2006. Ethiopia; Occasional Paper No. 14, Addis Ababa, Ethiopia. pp.42-47
- CGAP, W. (2010). The Challenge for Microfinance. <http://www.cgap.org/>. March, 2014.
- Chandra (2010), role of microfinance institutions in rural development: International Journal of Information Technology and Knowledge Management, Volume 2.
- CIDA and Microfinance (2002): A Poverty Reduction Approach, Policy Branch.
- Degefe M. (2004) Trends in Financial Development of Nine Microfinance Institutions from 1999 to 2002. The Paper Presented in the Second International Workshop of RLDS, Addis Ababa University: Addis Ababa, Ethiopia.
- Jennifer Lindsay, (2010) microfinance: developing paths to self sufficiency An Evaluation on the Effectiveness of Micro Finance Institutions
- Kassa, Y (2010), Regulation & Supervision of Microfinance Business in Ethiopia: Achievements, Challenges & Prospects Presented at International Conference on Microfinance Regulation, March, 2010
- Ledgerwood, J. (1999), Sustainable Banking with the Poor Microfinance Handbook: An Institutional and Financial Perspective, the World Bank, Washington, DC.
- Louise C. (2002) Macro-economic and Sectoral Approaches: A Source Book for Poverty Reduction Strategies, Vol.2: The World Bank, Washington D.C.
- Morduch and Barbara Haley (2002): Analysis of the Effects of Microfinance on Poverty Reduction; NYU Wagner Working Paper No. 1014.
- Narayana S.L. (2005) Financial Systems Approach and Institutionalization of Micro-savings: Trends, Experience and Policy Perspectives in Gebrehiwot A. (ed), AEMFI: Addis Ababa.
- Okurut, F.N; Banga, M., and Mukungu, A. (2004). Microfinance and Poverty Reduction in Uganda: Achievement and Challenges (Research series No. 41). Kampala: Economic Policy Research Centre (EPRC).

- Robinson, M. (2001). *The Microfinance Revolution: Sustainable Finance for the Poor*: Washington, D.C. World Bank.
- SAWRADO (2001). Sabata Hawass Woreda Rural and Agricultural Development Office. Annual Report.
- SAWRADO (2001). Sabata Hawass Woreda Rural and Agricultural Development Office. Annual Report
- SUM (2002) *Microfinance Distance Learning Course*: United Nations, United States of America.
- Tolosa Negesse (2011) *The role of microfinance institutions on poverty reduction and improving living standards*, M.sc thesis ,Addis Ababa University, Addis Ababa
- Tsegaye A. (2005) *Ethiopian Microfinance Institution's Performance Analysis Report*. Bulletin 1, AEMFI: Addis Ababa, Ethiopia.
- Tsehay T. and Mengistu B. (2002) *The Impact of Microfinance Services Among Poor Women in Ethiopia*. Association of Ethiopian Microfinance Institution Occasional Paper No.6: Addis Ababa, Ethiopia.
- Ukeje U (2005). *Poverty Reduction through Micro financing: The case of Uganda*. Bullion; a Publication of the CBN, Vol.30
- Wolday A. (2000) *Networking Microfinance Activities in Ethiopia: Challenges and Prospects*. AEMFI Proceeding of the Conference on Microfinance Development in Ethiopia
- _____ (2001) *Experience Sharing Visit of Ethiopian Microfinance Practitioners to Bangladesh*. Occasional Paper No.3, AEMFI: Addis Ababa.
- _____ (2003) *Microfinance in Ethiopia: Performance Challenges and Role in Poverty Reduction*. Association of Microfinance Institutions. Occasional paper No. 7, AEMFI: Addis Ababa, Ethiopia.
- _____ (2005) *Prudential Regulation of the Microfinance Industry: Lessons from Ethiopia*. Occasional No. 15, AEMFI: Addis Ababa, Ethiopia.
- World Bank(2012),Ethiopiaprofile:<http://www.worldbank.org/en/country/ethiopia/overview>, retrieved may, 2014
- Yamane (1967) cited in Birhanu. (2015). *Livelihood Diversification and Its Determinants among Pastoral and Agropastoral Communities of Bale Zone, Ethiopia*

APPENDICES

INDIRA GANDHI NATIONAL OPEN UNIVERSITY (IGNOU) DEPARTMENT OF RURAL DEVELOPMENT

Questionnaire for Client

Dear respondent, this questionnaire is prepared by me, a student of Rural Development, Indira *Gandhi National Open* University Masters Program in Rural Development. I am currently conducting a research work titled: **“ASSESSING THE ROLE OF MICROFINANCE IN RURAL LIVELIHOOD ENHANCEMENT AND CHALLENGES IN SEBETA-HAWAS WEREDA, SOUTHWESTERN SHEWA ZONE OF OROMIA REGION, ETHIOPIA”**. The purpose of this questionnaire is to assess the role of Microfinance Institutions in Accessing credit and poverty reduction and the results will be used to inform policy makers and development planners in the country with practical facts about the part played by Microfinance Institutions in accessing credit and poverty reduction, especially in the people of Sabata Awas Woreda. All the information you provide is totally sought for academic purposes and shall be kept strictly confidential. Your answers will be combined anonymously with all the others we talk with to form a report. Please feel free to share your experiences regarding the part played by microfinance institution. Thank you in advance for your kind cooperation.

YISHAQ BARAKI

Please put ‘v’ mark on the box answer you choose.

1. Respondent’s Profile

1.1. Gender: Male Female

1.2. Marital status: Married Widowed Divorced/separated Single

1.3. Age Category: ≤ 20 21 -30 31-40 41 - 50 over 50

1.4. Family size: 1 – 3 4 - 6 above 6

1.5. Level of education: Illiterate Read& Write only Elementary & Junior Level Secondary Preparatory School College Diploma/Certificate Degree and above

1.6. Religion: Christianity Muslim Other

1.7. Occupation: Farmer Petty trade Daily laborer civil servant

2. How long does it been since you started to receive credit from OCSSC?

Less than 2 Years 2 – 3 Years 3 – 5 Years above 6 Years

3. What was your reason for joining the program for Credit?
- A. Due to financial problem
 - B. Service means near to my home
 - C. Payment is good compared to others
 - D. Ads by friends and staffs
4. What is your reason to take a loan?
- A. To open new business
 - B. To expand my business
 - C. To change over another business
 - D. To solve the serious problem of my lack of money
5. For what purpose did you borrow (more than one possible)?
- A. Agricultural production
 - B. Petty trade
 - C. To settle other loan
 - D. Consumption
 - E. Health, education and other expense
6. How do you borrow? A. Individually B. In Group
7. If you borrow in group, who formed your group?
- A. Branch Credit and Saving Institution staff suggested me to join the group
 - B. Kebele Administrative Suggested Group
 - C. Previous group members asked me to join them and I agreed
 - D. Neighbour
8. Do you like the group lending system of your institution? A. Yes B. No
9. Do you think that the criteria by which you are being allowed to get access to credit services are suitable? A. Yes B. No
10. What are the main challenges to access credit service from the institution?
- A. High Interest for Loans
 - B. Delay in service offering
 - C. Poor criteria for screening
 - D. Low loan size
 - E. Group lending system
11. How do you repay your loans?
- A. Sale of some property
 - B. Transfer payments from family elsewhere
 - C. Get other debt
 - D. Proceeds from business activity

12. Do you think that Loan repayment time set is suitable? A. Yes B. No
13. In what time interval do you repay?
A. Weekly B. Monthly C. Semi- annually D. Yearly
14. Did you pay interest for the loans? A. Yes B. No
15. How is interest rate on loan?
A. Unsatisfactory
B. Somewhat Satisfactory
C. Satisfactory
D. Very satisfactory
16. How do you express your level of Income after joining the credit program?
A. Increased
B. Decreased
C. Remain the same/No change
17. Saving condition after joining the credit program
A. Increased
B. Decreased
C. Remains the same
18. Did you Received adequate amount of money requested A. Yes B. No
19. Did you Received the loan in time as soon as requested A. Yes B. No
20. Improved ability of asset holding (own animals like farm oxen and dairy cow): Yes
No
21. Housing conditions have improved A. Yes B. No
22. Ability to afford medical and children education expenses (better after joining the credit program) A. Yes B. No
23. Ability to buy clothing and varieties of foods (better after joining the credit program)
A. Yes B. No
24. In general, have loans improved your lives? A. Yes B. No
25. Please rank your standard of lives after joining the credit program
A. High B. Medium C. Low

End of questionnaire - Thank you for your time!

INDIRA GANDHI NATIONAL OPEN UNIVERSITY (IGNOU) DEPARTMENT OF RURAL DEVELOPMENT

Questionnaire to the staff of the institution (OCSSC)

Branch name of the institution: **Sabata Branch**

Position of the Respondent _____

Dear respondent, this questionnaire is prepared by me, a student of Rural Development, Indira *Gandhi National Open* University Masters Program in Rural Development. I am currently conducting a research work titled: **“ASSESSING THE ROLE OF MICROFINANCE IN RURAL LIVELIHOOD ENHANCEMENT AND CHALLENGES IN SEBETA-HAWAS WEREDA, SOUTHWESTERN SHEWA ZONE OF OROMIA REGION, ETHIOPIA”**. The purpose of this questionnaire is to assess the role of Microfinance Institutions in Accessing credit and poverty reduction and the results will be used to inform policy makers and development planners in the country with practical facts about the part played by Microfinance Institutions in accessing credit and poverty reduction, especially in the people of Sabata Awas Woreda. All the information you provide is totally sought for academic purposes and shall be kept strictly confidential. Your answers will be combined anonymously with all the others we talk with to form a report. Please feel free to share your experiences regarding the part played by microfinance institution. Thank you in advance for your kind cooperation.

YISHAQ BARAKI

1. Criteria (s) your institution use to select the potential clients (please tick the criteria (√))

- A. Willingness to form credit group and joint-liability
- B. Readiness to put 10 % prior saving requirement
- C. Willingness to save, then after each month
- D. Support letter from Kebele
- E. Being above age of 18
- F. Being resource poor and active
- G. Other _____

2. What do you think are the major achievements of your institution?

- A. Serves large number of the poor
- B. Provides high quality financial services
- C. Low costs
- D. Other _____

3. Which of the followings do you think is/are challenges to your institution?

- A. Less saving habits
- B. Absence of legal title of assets in rural areas
- C. Shortage of experienced human resources
- D. Religion issue
- E. Collecting the repayment from clients
- F. Other -----

4. Have you proved that loans provided by OCSSC has improved lives of beneficiary?

- A. Yes
- B. No
- C. I'm Not Sure

End of questionnaire - Thank you for your time!

LIST OF INTERVIEW QUESTIONS

1. Assessed size of potential borrowers, if any _____
2. Active borrowers by the end of 2009E.C. _____
3. Minimum Loan size (In birr) _____ Maximum Loan size _____
4. What is the current lending methodology of your intuition?
5. What method do you use to determine the MFI's impact on the client and /or community?
6. What do you think is/are challenges to your institution?