INDRIA GANDHI INTERNATIONAL OPEN UNIVERSITY SAINT MARRY
UNIVERSITY SCHOOL OF POST GRADUATE STUDIES
DEPARTMENT OF RURAL DEVELOPMENT

THE IMPACTS OF MICROCREDIT ON RURAL POOR HOUSEHOLD'S POVERTY REDUCTION: THE CASE OF GUMMER WOREDA, GURAGHE ZONE

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A Thesis Report Submitted in Partial Fulfillment of the Requirement for the Degree of Master of Art in Rural Development.

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Declaration

I, the undersigned, declare that the thesis entitled: "THE IMPACTS OF MICROCREDIT ON RURAL POOR HOUSEHOLD'S POVERTY REDUCTION: THE CASE OF GUMMER WOREDA, GURAGHE ZONE" submitted by me for the partial fulfillment of M.A. in Rural Development to Indira Gandhi National Open University, (IGNOU) New Delhi is my original work and has not been submitted earlier either to IGNOU or to any other institution for the fulfillment of the requirement for any course of study. I also declare that no chapter of this manuscript in the whole or part from any earlier works by me or others.

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CERTIFICATE

This is to certify that Mr. METIKU ARGAW GEBRE student of M.A. (RD) from Indri Gandhi National Open University, New Delhi was working under my supervision and guidance for his project work for the course MRDP-001.

His project work entitled "THE IMPACTS OF MICROCREDIT ON RURAL POOR HOUSEHOLD'S POVERTY REDUCTION: THE CASE 2zzxOF GUMMER WOREDA, GURAGHE ZONE**"** which is submitting, is his genuine and original work.

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Acronyms and Abbreviation

AEMFI: Association of Ethiopian Microfinance Institutions

HIV/AIDS: Human Immune Virus / Acquired Immune Deficiency Syndrome

IMF: International Monetary Fund

MDG: Millennium Development Goals

OMFIs: Omo Micro Finance Institutions

MoFED: Ministry of Finance and Economic Development

NGOs: Non-Governmental Organizations

PPP: Purchasing Power Party

SDPRP: Sustainable Development and Poverty Reduction Strategy Program

UNCDF: United Nation Children Development Fund

UNDP: United Nation Development Program

WB: World Bank

Abstract

For the last four decades, the term "microfinance" has become mouth opener in the area of poverty reduction. Poverty is a harsh and undesired phenomenon in mankind. Reducing, if possible eradicating poverty is unquestionable. Thus, microfinance programs have been considered as one of the main instruments in poverty reduction in recent development agenda. It is a means to support the marginalized active poor of the society. Studying the impact of microfinance intervention is important to assess its viability on poverty reduction. The main objective of this study is to assess the impact of microfinance services in poverty reduction among poor households.

Primary data were collected through close-ended structured questionnaire from active clients and incoming clients using random samples. Discussions with key informants and focus groups were administered to capture qualitative information. A total of 100 samples were selected using multistage simple random sampling. Among these samples all were interviewed. Settlement and gender composition were considered in sample selection process. Secondary data were gathered from different published and unpublished relevant materials.

The study mainly applied analytical approaches such as frequencies, averages, and percentages The impact of delivering financial services to poor clients was analyzed based on some socioeconomic and political indicators in different levels. The findings revealed that microcredit provided by Omo Microfinance Institutions has helped the poor in many respects. The clients that are able to access to credit saving and capacity building of schemes of OMFI have shown increase in their household and personal income and assets.

Moreover, it has a positive impact on personal savings and women's empowerment. MFIs have contributed a great share in improving the living standard of the poor and reduce poverty at household level. Therefore, strengthening the development of MFIs in Ethiopia is an appropriate and appreciated policy instrument to realize the objectives of the Poverty Reduction Strategy of Ethiopia and make poverty history.

1. INTRODUCTION

1.1 Background

People with more financial resources than the rest of the population make use of their local knowledge of individuals or money lender. But formal credit is not widely available for people who need to find funds for their economic activities. Millions of people of the world's population do not have access to financial services from formal institutions, either for credit or for savings. The traditional explaining argument is that there is a high rate of default and there is a high cost of screening loan applicants and pursuing delinquent borrowers (Stieglitz, 1990).

In a developed society the use of credit is so common that most of the people not realize how many people do not have access to it. They see credit being advertised not only for business, but also very often for holidays, cars, and so on. Of course one can argue that banks are not ignorant and they will extend credit only when repayment is possible, and when it is secure with the collateral.

The creation of credit markets in poor countries is a crucial factor for their development. If well implemented, people would be able to sell their products, pay a fair interest rate, and use the extra money to improve their quality of life. With the appropriate help they will become educated and that will allow them to expand their business, to think by themselves and to realize that they have rights.

In the last few decades, micro-finance has been championed by many development practitioners as an unusual, hut innovative method to combat poverty'. Proponents argue that micro-credit promises to alleviate poverty by providing financial services (such as credit and savings) previously unavailable to the poor (UNCDF. 1(99). The promise of micro-credit consists of providing financial services to low-income households to almost exclusively finance self-employment activities in the hope that much poverty can be alleviated (Murdoch. 1(99).

Improve over time, some argue that even "established poverty-focused programs like the Grarmeen bank would have trouble making ends meet without ongoing subsidies" (Murdoch, 1999). Although numerous donors, governments and most of the development community are enthusiastic about micro-credit, viewing it as a tool of unprecedented power in alleviating poverty, some argue that it is "being over-advertised, far beyond a level that present evidence will support" (UNCDF-SUM, *2002).*

Muhammad Yunus, founder of the Grameen Bank and the forerunner in the micro-credit business, answers to this type of criticism by pointing out that it all depends on one's definition of economic development. Traditional measurements are not satisfactory or are insufficient in measuring the benefits of micro-credit. For instance, in many third world countries, the overwhelming majority of people make a living through self-employment (Yunus, 1999). Self-employment, or more generally the informal sector is not given a real place in traditional economic framework.

Micro-credit programs, that have a history of fostering the informal sector, will not have their benefits included in measurements that do not take this into account, or systematically underestimates the contributions of the informal sector. Part of the issue is also the fact that these services were previously unavailable to the poor. Micro-credit makes credit services available to marginalized populations.

Ethiopia, a country of more than 94 million is grappling with all sorts of problems that range from lack of food to poor governance. Its people derive their livelihood mainly from traditional, subsistence agriculture and suffer from lack of access to the essentials for human existence. In terms of the recommended calorie intake, which is 1,950 per adult per day, Ethiopia is by far behind many least developed countries.

Considering food baskets and non-food items, an estimate by MoFED (2013) shows that 29.6 % of the population are below the poverty line. The problem is highly pronounced in rural areas more than it does in urban centers with coverage of 34.4 and 25.7 percent of the respective population. As far as Human Development Index is concerned (which is 0.435 as per the report of UNDP 2013), Ethiopia is positioned 81 out of 190 countries in the year 2012/13 (World Bank, 2013).

Even if huge efforts made, the above-mentioned facts and figures indicate that the government's promises were not realized. Even at worse, Ethiopia is still fraught with recurring famines, low literacy, widespread poverty and lack of good governance. The country also remains highly dependent on foreign aid.

The development of microfinance institutions in Ethiopia is a recent phenomenon. The 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 (Wolday, 2000). In particular, the Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance Institutions (MFIs) in both rural and urban areas as it authorized them among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business (Getaneh, 2005).

MFIs operate in a niche market as they address the needs of those clients who are considered 'high-risk' by bigger banks. High-risk groups or individuals are characterized as those with very few assets, requiring very small loans, high degree of close follow-up, business appraisal and evaluation, as well as those engaged in activities whose income is fluctuating such as small-holder farmers or petty traders. Thus, the MFIs cater for a market with an operationally acceptable demand level and where clients can be protected from the unreasonable conditions of the informal money lenders. Such MFIs, however, charge high administrative costs and higher charges for risk coverage, which is in addition to the market interest rates, and taking advantage of the niche market for microloans (Sunita, 2003).

Although the Government of Ethiopia has allowed private ownership of financial institutions, the financial sector is still dominated by large public financial institutions. Microfinance sector is characterized by its rapid growth, an aggressive drive to achieve scale, a broad geographic coverage, a dominance of government backed MFIs, an emphasis on poor households and the promotion of both credit and savings.

The main objective of this study is to examine how micro-credit programs are being practiced on poor households in rural area to effectively help combating poverty by providing small credits.

1.2 Statement of the Problem

More farmers in the rural Ethiopia do have problems in dealing with the rural non-formal money lenders. Some of these problems include preparing viable business proposals and collateral securities that the banks do demand. Meanwhile, majority of the farmers are not well educated in order to plan or write their own business proposals. In addition, it becomes very difficult for the farmers to secure loans because of the collateral securities demanded by the banks. Some of the banks even look at the scale of the farm before granting loans. The most alarming problem that the farmers do face is the high interest rates posed by traditional money lenders.

It is very difficult these days for the farmers to borrow money from the rural banks because of the high interest rates. More of the farmers do even end up by selling their lands or assets in order to pay the loans they have borrowed. Lack of financial resources is one of the major problems facing poor households. Formal financial institutions are inefficient and inaccessible in providing credit facilities to the poor (Assefa et al., 2005). Thus, developing an alternative mechanism for providing financial services to the poor households became critical.

MFIs have not yet undertaken an impact assessment study to understand or evaluate whether or not its interventions leads to change by comparing the conditions with and without the intervention. This particular study attempted to assess the impact of microfinance intervention on poor households' poverty reduction by taking a case study of MFIs. Some indicators of poverty, which will be used to assess impact, will include change in asset ownership, income level and expenditure, housing, education and health condition, and empowerment.

1.3 Objective of the Study

1.3.1 General Objective

The general objective of this study is to assess the impact of microfinance services in poverty reduction among poor households.

1.3.2. Specific Objectives

The study has the following specific objectives.

1. To find out the impact of rural microfinance institutions on poor households.
2. To analyze whether rural microfinance institutions do help all of category poor households in the rural areas.
3. To examine the nature of loan and loan repayment capacity of the rural poor households.
4. To assess the nature and change of income and wealth of the poor households as a result of access to financial services.
5. To compare the living standard and expenditure of the households before and after receiving the loan from microfinance institutions.
6. To investigate if participation in microfinance programs significantly reduces household vulnerability to poverty.

1.4. Hypothesis

This study has the following hypothesis:

1. Microfinance has had a significant positive impact on poor households income
2. Participation in Microfinance programs significantly reduces poor households' vulnerability to poverty.

1.5. Significance of the Study

This case study was attempted to address the impact of micro financing institutions at household level and its role in combating household poverty. Since Institutional Microfinance is lately emerging phenomenon which had not been given due attention in Ethiopia. As a result, very limited studies have been undertaken in this area. The finding of this study would be therefore a useful tool in the hands of the Micro Finance Institutions. Also, it is envisaged that the result of this study would help to create an awareness of the function of the micro credit institutions in the rural areas to the people of Gummer woreda and Guraghe Zone policy makers. This would enable the nation to adopt strategies which will help to achieve objectives of the rural poor households. Finally, the findings of the study would provide data base for further research work.

1.6. Scope and Limitation of the Study

This study was limited to the impact of rural credit on rural poor households. Thus the households who are participating in micro financing program in the district are subjects of the study. It only focuses on one MFI and very limited sample size on selected households. Therefore, it may not have a strong scientific justification and representativeness to generalize about the impact of MFIs on reducing poverty in the entire country.

Also the study had the fallowing limitations:

- Financial constraints- this poses difficulty interviewing so many farmers.
- Data collection, the distribution and collection of questionnaires was time consuming because of the location and dispersed nature of the respondents.

1.7. Organization of the Thesis

This study paper is organized as fallows. Chapter one has dealt with background and justification which comprises introduction, statement of the problem, objectives of the study, hypothesis, significance and limitation of the study. Chapter two is about literature review and relevant empirical case studies on the subject matter. Chapter three described the research methodologies applied in the preparation of this paper. Chapter four focused on results and discussion of the study. Finally, chapter five had contained conclusion and recommendations.

2. LITERATURE REVIEW

2.1. Theoretical review

About 1.3 million people of the world live with less than one dollar a day (World Bank). About half of the world's people (nearly three billion people) live on less than two dollars a day. The total wealth of the world's three richest individuals is greater than the combined gross domestic product of the 48 poorest countries; (about a quarter of the entire world states (Kalus F. and Karin Holm-Muller 2007).

Little wonder that poverty and inequalities have become global concerns. Poverty can be generally defined as the inability to attain a certain predetermined minimum level of consumption at which basic needs of a society or country are assumed to be satisfied. The core concept of this general definition of poverty is the fact that to be poor is defined by access to basic goods and services like food, shelter, healthcare and education. The food concept in this definition goes beyond just food passé but also includes clean water and sanitation services.

Before assessing the impact of any institution on poverty, it is important to understand the concept of poverty and its relative definitions. The world is characterized by the division of 'haves' and 'have not's. The haves lead a luxurious life while the have-nots suffer from lack of decent, healthful and productive life (Abebe Tiruneh 2006). There is no clear consensus among development experts and policy makers on how to define measure and eradicate poverty (Meehan, 1999). Accordingly, there is no a single absolute and standardized definition of poverty rather than defining it in relative terms.

Different people view and define it in different ways. Traditionally poverty was understood primarily as material deprivation, as living with low income and low consumption characterized by poor nutrition and poor living conditions. This is commonly known as income poverty. It is associated with the low health and educational levels that are either the cause or the result of low income said to be human poverty. Many researchers define poverty on the basis of income level instead of using its broader definition, which includes well-being. However, (Abebe Tiruneh 2000) consider the definition as inadequate and incomplete.

A classical definition of poverty sees it as the inability to attain a minimal standard of living measure in terms of basic consumption needs or the income required for satisfying them (Abebe Tiruneh 2006). Poverty is thus characterized by the failure of individuals, households or entire communities to command sufficient resources to satisfy their basic needs.

The inability to attain minimal standards of consumption to meet basic physiological criteria is often termed as absolute poverty or deprivation. It is most directly expressed as not having enough to eat or malnutrition. In absolute sense the poor are materially deprived to the extent that their survival is at stake. In relative terms, they are also deprived in relation to other social groups whose situation is less constraining. (Abebe Tiruneh 2006) defined the concept of poverty as a situation of poor health facilities, low level of education, malnutrition and lack of participation in decision-making process. He elaborated it as follows:

Poverty is a situational syndrome in which the following are combined: under consumption, malnutrition, precarious housing conditions, low educational level, bad sanitary conditions, either unstable participation in the production system or restriction to its more primitive strata, attitudes of discouragement and anomie, little participation in the mechanisms of social integration and possibly adherence to a particular scale of values different to some extent from that held by the rest of the society.

Similar definitions and descriptions have also been providing by many institutions and authors. World Bank in its report (1990) defines poverty as the inability to attain a minimum standard of living. Poverty means a shortage of having enough to eat, a low life expectancy, a high rate of infant mortality, low educational standard, low enrolment and opportunities, poor drinking water, inadequate health care, unfit housing conditions and lack of active participation in a decision making process. Poverty does not only mean lack of material needs but also vulnerability and powerlessness.

Power and participation dimension is argued to be independent with the income level and asset ownership dimension (Abebe Tiruneh 2006). According to the World Bank report (2002), the dimension of poverty is classified as at least in four dimensions. These are: lack of income, low level of achievement in education and health, vulnerability to risks and some sort of insecurity and noiselessness. The broad and widely used definition of poverty is developed by the World Bank, which incorporates the economic, social, political and environmental situations of the people. The broader definition of poverty as the multidimensional phenomena leads to a clearer understanding of its causes and to formulate a more comprehensive policy aimed at poverty reduction.

2.1.1. Concepts and Definition of Poverty

It is not easy to measure poverty like that of its definitions. Thus, measures of poverty are different in different countries. Conventionally, the income or expenditure level that can sustain a minimum standard of living measures it. Poverty can be commonly measured by constructing a line called poverty line. The cross cutting level which is constructed from monetary estimates of minimum needs is said to be poverty line (Getahun, 1999). Poverty line is also defined as a threshold level of per capita income or consumption level below which an individual is labeled to be poor (WB, 1991).

The poverty line represents a minimum level of economic participation in a given society at a given point in time. People below this threshold is said to be poor. Poverty line can be estimated in two different approaches. These approaches are absolute poverty and relative poverty. Absolute poverty refers to a condition in which people barely exist. In such situation, the availability of the next meal will be a matter of life or death. It is a critical condition in which people live on aid, food relief or their own meager returns from squatter farming, prostitution, scavenging on refuse tips and so on (Abebe Tiruneh 2006).

It tends to identify those who are starving without any comparison made with others. To allow for international comparison the world Bank has established an international poverty line of 1US dollar a day per person in 1985 purchasing power parity (PPP) prices which is equivalent to 1.08 dollar a day per person in 1993 PPP prices. According to this measure the portion of extremely poor people in the world's population (people living on less than 1 dollar a day) fell between 1990 and 1999 from 29 percent to 23 percent respectively.

Developing countries have the highest percentages of population living below the poverty line. The highest incidence of poverty is observed in sub-Saharan Africa, with almost half of its population living below the poverty line (1 dollar). The relative poverty implies that one has less than what others have. It tends to identify with comparison made with others. It tends to identify with comparison of the circumstances one group of people or an entire economy with another one. It refers to a relative income differentia of distribution. It may not be a situation of an entanglement in between life and death as of the case in absolute poverty. It exists when the subjects under consideration are "poor" in relation to others (Abebe Tiruneh 2006).

2.1.2 Measures of Poverty

Poor people live without fundamental freedoms of action and choice that the better off take for granted. The poor often lack adequate food, shelter, education, health and deprivations that keep them from leading the kind of life that everyone values. They also face extreme vulnerability to ill health, economic dislocation and natural disasters. Moreover, they are exposed to ill treatment by institutions of the state and society, and powerless to influence key decisions affecting their lives (Abebe Tiruneh 2006).

Poor people everywhere continue to suffer from unacceptably low social conditions and lack of access to services. Economists assume that peoples' willingness to save for future consumption grow with their incomes. In poor countries most incomes are mostly spent to meet current needs rather than transferring to future needs. It tends to lower national saving rates.

In combination with the small size of poor countries' economies, lower saving rates account for a much smaller pool of savings available for desperately needed domestic investment in both physical capital and human capital. For example, Sub-Saharan Africa consistently has the lowest saving rate and the smallest pool of saving. High-income countries' pool of saving was about three times as large as all the savings of developing countries combined (Abebe Tiruneh 2006).

Productivity can be increased through innovation and expansion. Without new investment, productivity cannot be increased and incomes cannot be raised. Thus, income, savings, investment and productivity are the integrated component, which made the vicious circle of poverty or disconnect the vicious circle of poverty. If the components are improved, the circle may be disconnected. Otherwise the vicious circle of poverty continues.

The poor in Ethiopia have low income that leads to low saving and in turn leads to low investment. Without new investment, productivity may not be improved and this will result in low income. Access to institutional credit that contributes to an increase in investment and disconnects the vicious circle of poverty is very limited in Ethiopia. The majority of the poor get access to financial services through the informal channels (wolday, 2003).

2.1.3 The vicious circle of poverty

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2.1.4 Poverty Situation in Ethiopia

Poverty is mostly the manifestation of developing countries like Africa, Asia and Latin America. Ethiopia is among the developing countries in the world facing severe poverty. It ranks 86th out of 194 countries (UNDP, 2013). The World Bank estimated that the per capita income of the country is less than USD 1303. Poverty remains a threat to the political, economic and social stability of the country. The majority of people in Ethiopia are living in rural areas where poverty is more widespread than in urban areas. The country estimated to be 29.6 percent below poverty line. About 30.4 percent of the rural populations are below the nationally defined poverty line, while it is 25.7 percent for urban population. Poverty is also deeper and severer in rural areas than in urban areas (MoFED, 2010/11).

Similarly MoFED (2010/11) estimated the incidence of poverty declined markedly between 2004/05 and 2010/11. The headcount poverty rate fell from 38.7 % in 2004/05 to 29.6 % in 2010/11. This implies that Ethiopia is on the right track to achieving the MDG target of reducing poverty by half. Over the same period, poverty gap is also reduced, but not the severity of poverty.

Extreme poverty manifests itself in terms of various social, cultural and economic indicators, such as backward and dominantly rural population, high illiteracy rates, repressed women, high fertility rates, high dependency ratios, overcrowded housing system, unsafe drinking water, widespread of HIV/AIDS, drought etc. Most of the poor are women, children, the elderly, small scale farmers and unskilled workers. These people lack the financial capacity to meet the minimum standards of living (AEMFI, 2005).

2.1.5 Poverty Reduction Programs

The problem of poverty is more deep-rooted with several interlocked characteristics in developing countries. Poverty alleviation has remained a very complex and critical concern among third world countries for a long time. It has been at the top of the agenda for policy makers and development workers. Thus, a large number of governmental and non-governmental organizations and international funding agencies all over the world have been engaged in attacking poverty using several strategies and instruments (Rao and Bavaiah, 2005).

The approach to reduce poverty has evolved over the past 50 years in response to understanding of the complexity of development. In the 1950's and 1960's, many scholars considered large investments in physical capital and infrastructure as the primary means of development. In the 1970's the shift of emphasis grew that physical capital was not enough for development but also health and education were important not only in their own right but also to promote growth in the incomes of poor people. In 1980's another shift of emphasis was developed on improving economic management and allowing greater role for market forces, promoting labor-intensive growth through economic openness and investment in infrastructure, and providing basic services to poor people in health and education (WB, 2001). In 1990's the paradigm shift moved towards improving governance and institutions to address poverty.

A strategy was designed to attack poverty in three ways. These are promoting opportunity, facilitating empowerment and enhancing security. The overall economic growth and equity are crucial in the effort of reducing poverty. In this situation the role of the state is greater to support the buildup of human, land and infrastructure assets that poor people own or to which they have access. Strengthening the participation of the society, particularly the poor, in political process and in decision making, removing the social and instructional barriers that resulted from distinctions of gender, ethnicity and social status and also establishing sound and responsive institutions are important to bring the overall growth and benefit to the poor. Reducing vulnerability to either natural or man-made hazards enhances the well-being of the people and encourages investment.

This can be done by building the assets of poor people, diversifying household activities and providing a range of insurance mechanisms. The multidimensional nature of poverty leads to greater complexity in poverty reduction. Thus, there is no universal blue print instrument in poverty reduction. Developing countries need to prepare their own policies to reduce poverty on the basis of national priorities and local realties. Their choice may depend on the economic, political, social, structural and cultural context of the countries. But action at national and local levels may not be enough for rapid poverty reduction.

International cooperation is required to ensure gains to poor countries and to poor people within developing world through debt relief, material as well as technical assistance, loan and providing market opportunities. Even if developing countries have coherent and effective homegrown policies in poverty reduction, rich countries and international organizations have an important role in promoting global financial and environmental stability, lowering market barriers to the products and services of poor countries. Simultaneous actions to expand opportunity, empowerment and security can create a new and dynamic change. If the developing world and the international community work together by combining real resources, experience, knowledge and imagination, there will be a rapid progress in poverty reduction in new millennium (WB, 2001). The world development report reviewed seven themes for change, which needs urgent priority for poor people around the world.

Poverty reduction strategies are the outcomes of the insights and lessons drawn from the liberalization drive of structural adjustment programs experienced by the IMF, the world bank and the world community at large during the 1980’s and 1990’s. In this approach, growth has never sufficiently trickled down to reduce poverty reduction. The two institutions reached to an agreement that country owned poverty reduction strategies be the basis for World Bank and IMF concessional lending and guide the use of resources freed by debt relief under the enhanced initiative.

This was the genesis of poverty reduction strategy at the global level (MoFED, 2002). World leaders agreed to a set of time-bound and measurable goals and targets for combating poverty and hunger, disease, illiteracy, environmental degradation and gender inequality. This is called millennium Development Goals (MDG). The Millennium Development Goals endorsed by all members of the United Nations set out eight specific crosscutting and interrelated goals that are essential to reduce poverty. The first seven goals focused on the duties of poor countries to meet the goals.

The eighth goal is aimed at the rich countries and their commitment to respond to developing countries political and economic reforms with increased economic assistance, lowered import barriers and the reduction or elimination of unsustainable debt (UNDP, 2003). The main precondition for achieving the millennium goals is sufficiently fast and equitable economic growth in developing countries to provide the material resources for reducing all kinds of poverty including human poverty.

The governments of developing countries are the most important actors in the development process. No amount of foreign aid can be effective in any country where the government is corrupt or fails to implement good policies. Formulating comprehensive national development priorities and coordinating their achievement is a crucial task that can never be entrusted to the private sector or to any foreign aid providers (WB, 2003).

Ethiopia is one of the developing countries, which is faced with a complex, deep, broad and structural problem of poverty. The proportion of the population below the poverty line is estimated at around 29.6 percent. Thus, poverty reduction has become the central development agenda in Ethiopia like of other developing countries (Assefa, 2004). Several reforms are undertaken in social, political and economic aspects to reduce poverty in the country.

Ethiopia’s development policies, strategies and programs adopted since 1992/93 have been concerned with how to bring sustainable and equitable development and then reduce poverty. With the above objectives, Ethiopia has formulated a Sustainable Development and Poverty Reduction Strategy Program (SDPRP) in 2002. The program produced the basic framework for achieving fast and sustainable development and reduces poverty. The focus is on some selected key social and economic sectors.

The main sectors on which development efforts would concentrate and which are considered as priority areas are agricultural and rural development, infrastructural development (road, water, telecommunication, electric power), and education and health sectors (MOFED, 2002). Women and men have different access to critical economic resources and varying power to make choices that affect their lives. This leads to unequal roles and responsibilities of women and men. The government of Ethiopia has recognized that any development effort ignoring or limiting the participation of women cannot be successful. Thus, the government of Ethiopia committed to reduce poverty in addressing gender dimensions and targeting poor people.

The government of Ethiopia has taken encouraging steps by privatizing the nationalized institutions and facilitating the establishment of new organizations. One of the outcomes is the liberalization of the financial sector and the establishment of legal framework that allows the emergence of microfinance institutions to serve poor households (Tsegaye, 2005).

The government tries to solve the problem of financial access to the poor by promoting the microfinance institutions. The government believes that microfinance institutions are one of the instruments in poverty reduction. The delivery of financial services has been viewed as one of the antipoverty tools of the development programs because of creating employment opportunities by increasing their income and consumption and then reducing poverty. Improving financial access to the poor also facilitates economic growth by easing liquidity constraints in production, by providing capital to start up new production. Therefore, the introduction of microfinance will have a significant effect in reducing poverty at macro and micro levels (Wolday, 2003)

2.2 Empirical Review

Microfinance has become very important in global poverty reduction debates. The popular assumption is that enabling poor households access to credit helps households begin micro entrepreneurship which would enable them improve their incomes and eventually escape poverty.

The debate about microfinance still goes ahead and the United Nations Capital Development Fund (UNCDF) has estimated that the global demand for microfinance ranges from 400 to 500 million of which only around 30 million are reported to have access to sustainable microfinance services in 2002. The number of customers that use microfinance has grown between 25 to 30% annually over the last five years (UNCDF 2007) and the trend is expected to continue.

These statistics revoke mixed feelings among different stake holders. Skeptics are worried that the huge publicity accorded microfinance does not commensurate with empirical findings on the actual role of microfinance and poverty reduction. The fear for the skeptics is that donors and policy makers may withdraw resources from other poverty alleviation policies in favor of microfinance; an action that has been feared to be a possible policy blunder especially if there is no proven history of a strong role of microfinance in poverty alleviation.

In particular it has been argued that the demand for micro credit is supply driven mainly by donors and NGOs and that micro credit is likely to thrive in areas where there are high population growth rates and high levels of poverty. In this light, skeptics argue that "the fact that more and more households are embracing microfinance should not be interpreted to mean that they are improving their welfare; especially given that no study so far has shown any strong and robust impact of microfinance on poverty reduction".

The study that was conducted at Makueni District, Kenya 2003 argued that there is a role for microfinance as a poverty reduction policy tool. More importantly the ability of households to begin informal sole micro entrepreneurships should not be assumed to be adequate for the improvement of household income. There is need to create a policy framework to spur growth in the enterprises as well as the rural economy as a whole through the creation of employment opportunities and an increment in the agricultural output.

In essence this calls for both private (microfinance) and public partnerships to create the environment where such poverty reduction objectives could be realized. Overall there is need to have a sustainable mix of both market and non-market policy interventions for poverty reduction if the impacts due to an intervention policy are to be sustainable. This is so because the structure of markets in which households operate is critical in shaping household response to exogenous policy changes. The existing market structure is also very important in determining the impact of policy interventions on the target output (Kiiru, 2007).

Micro-credit's promise is alleviating poverty through the provision of financial services previously unavailable to the poorest populations. By expanding the economic opportunities and involvement of the poor, micro-credit endeavors to reduce the economic and social vulnerability of its poor beneficiaries. The ex-peeled outcome from these programs is not much different from the general expected benefits of microcredit programs.

Primarily, the poor will be able to participate in the productive activities from which they are often excluded. Their income level will be increased based on the self-employment activities, and the informal sector would as a result be strengthened. The poor will also be more resilient to macro-level structural change that generally takes away social support. These benefits of micro-credit point to micro-credit programs as useful and effective development instruments, and the anecdotal evidence seems to suggest that is the case. However, there needs to be larger scale empirical research on the subject before a definitive verdict can be passed on its effectiveness in combating poverty.

It is also unwise to take a micro-level enterprise such as micro-credit schemes and suggest that it would be just as effective if applied across the board on a macro level. The Grameen Bank in Bangladesh is the only program worldwide that comes close to being qualified as a national program. Other programs elsewhere in the world are much localized, and serve only a statistically insignificant number of people. To reiterate what critics have repeatedly pointed out. It is not clear "if the extent to which micro-credit has spread, or can potentially spread, can make a major dent in global poverty" (UNCDF-SUM, 2003).

One concern that would arise when considering the possibility of systematically applying micro-credit programs on a national level is saturation of the market. Micro-credit schemes heavily rely on providing low-cost. It is Labor-intensive products to surrounding communities. The needs or the communities for those particular types of goods are however limited. Therefore in this case, microcredit programs need to undertake more ambitious activities (where it will no longer be micro-credit).

Precisely defining economic development can also be a concern when attempting to quantify or measure the outcome of a development strategy. Depending on how narrow or how inclusively economic development is defined, the effectiveness of micro-credit as an effective development instrument can greatly vary. For Instance, if we broaden our definition of economic development to also consider issues of choice, micro-credit program become essential in providing services previously unavailable to the poor. Micro-credit programs thus become ends in themselves, and are not perceived just as means of development. If on the other hand, economic development is constricted to what can be measured by traditional economic measures (such as GDP per capital), the benefits of micro-credit would almost be non-existent.

Micro-credit programs have a history of correcting for gender equity within households and in the general community. The added Income of the female in the house can be a source of bargaining power. Although micro credit programs do increase the economic power of female members of the society, they generally have the tendency to usher their female beneficiaries into activities traditionally reserved for women. The long-term effect if correcting for gender equity does not include opening up traditionally male productive activities (which are generally capital-intensive, and have a higher yield on the market). As previously mentioned, there is also a mismatch of practices as most of Ethiopia's micro-credit programs are located in urban areas, whereas micro-credit has traditionally been focused in rural and agricultural (subsistence farming) areas. It may thus he difficult to replicate these programs at a rural level in Ethiopia. The question of the sustainability of the programs also arises.

Although numerous programs can achieve operational sustainability, covering their own administrative cost, reaching a level of financial sustainability, including cost of lands. Muhammad Yunus argues that although micro-credit is not a miracle cure, it can end poverty for many and reduce its severity for others when "combined with other innovative programs that unleash people's potential. It can serve as an essential tool in our search for a poverty-free world" (Yunus, 1999). In the case of Ethiopia, the two case studies demonstrate the potential of micro-credit as a development strategy. While the programs need much more detailed evaluation before they can be called successful, they nevertheless point towards a positive intervention in the cycle of poverty. They are making a small but important contribution to alleviate poverty and promoting gender equality in Ethiopia (Girma 2003).

2.3. Microcredit

2.3.1. Concepts and Definition of Microcredit

Micro finance programs began in Bangladesh with the Grameen Bank, and spread to the rest of the world. Currently, the Grameen Bank model replications exist on all five continents. The biggest institutions were implementing micro-credit programs in different continents in UNCDF (United Nations Credit Development Fund). Micro-credit program have gained international attention, and the UN has even organized a yearly Micro finance submit in order to facilitate different organization to share the experience, thus strengthening the empirical as well as theoretical data collection. Each institution discussed in more detail in the following sections.

2.3.2. The Grameen Bank Model

Micro-credit programs were initiated in Bangladesh, by Yunus, a former economics professor who claimed to want to "learn economics from the poor in village next to the university campus" (yunus 2000). The "elegant theories of economics" did not seems to reflect the direct lives of the rural poor in Bangladesh, where by the "problems of life and death were posed in terms of pennies" and not millions of dollars use to theorize in economics (Ibid, p48). The problems of poorest of poor the poor seems to be far less theoretical and economic theory seems to have little to do with their daily struggles.

Mohammed Yunus observed that most of the villagers were unable to obtain credit at reasonable rates that would enable them to better themselves. Therefore, he began to lend the money from his own pockets.

2.3.3. Microcredit Institutions in Ethiopia

For quite a long time, formal financial institutions were not serving a useful purpose for the poor. In developing countries the poorer section of the community did not get access to formal financial sectors. They were simply kept out of the reach of the formal financial institutions for several reasons. First, formal financial sectors require collateral and credit rationing. Second, they prefer for high-income clients and large loans. Third, the processes and procedures of providing loan are bureaucratic and lengthy. Fourth, they are often urban based and give lending to those engaged in trade and industry. Fifth, they usually consider the demand for loan by the poor as unattractive and unprofitable (Bouman, 1984, cited in Padma and Getachew, 2005; Chowdhury (N.D); Ghate, 1992); Khandker, 1998; and Henk M, 1998).

There is no exception in Ethiopia as rightly pointed out in several studies (See Gebeyehu, 2002; Mulat *et al*, 1998 and Wolday, 2000, 2001 and 2002). On the other hand, informal financial sectors were not good either. They usually require high interest rates, which the poor cannot afford to pay. These situations have also found to restrict the access of the poor towards informal financial sectors. Morduch (1998) argued in his study conducted in Bangladesh that since moneylenders operate with little competition, they charge high interest rates.

Generally, according to Hulme (2000), capital markets in developing countries do not work well so much so that they do not favor any development endeavor by the poor. The year 1974 is a landmark in the history of microfinance development. It was by then that Professor Muhammad Yunus, a Bangladeshi economist introduced the idea of providing the poor with small loans. While he was on a field trip to an impoverished village with his students, he met a woman and interviewed her. She was making a living from the sale of stool (prepared from bamboo). From the interview he understood that the woman was making only a penny margin of profit for each stool. Then he reasoned that the woman would raise herself above subsistence level if she were given the loan with a more advantageous rate: then, he did it from his own pocket.

In 1983 he formally established the Grameen Bank (meaning “village bank”). Today, in Bangladesh, Grameen has 1,175 branches, 12,500 staff and 2.4 million borrowers. The geographical coverage is 41, 000 villages, which means more than 60% of the total villages in the country. Thus, the limitations of financial institutions in providing the poor with credit have become the driving forces behind the emergence of MFIs. Nowadays, microfinance institutions are burgeoning to provide the poor with financial as well as technical assistance.

Today replications of the model are proliferating all over the world owing to its importance. While emphasizing the importance of microfinance, Kofi Anan, former Secretary General of the United Nations once said, “Microcredit is a critical anti-poverty tool a wise investment in human capital. When the poorest, especially women, receive credit they become economic actors with power. It is power to improve not only their own lives, but also in a widening circle of impact the lives of their families, their communities and their nations." The accomplishment of MFIs is, therefore, a manifestation of a paradigm shift that defeated the old notion that the poor are not "creditworthy."

The capacity of the poor to borrow and save may not be so obvious, yet one thing that can be least disputed is that their need to borrow and save may be greater than for better off people. This is because their incomes are tight and even volatile. Given the volatility of incomes, it would be very useful to have financial institutions that can help the poor manage their finances in a way that they can save when for example they receive remittances, or have sold some farm product or whenever they receive any extra money.

On the other hand they would also borrow when there has been a shock in the household or just for consumption smoothing. Such a financial institution would be a matter of survival for poor households. Although they seem opposites, saving and borrowing could help the poor cope with the volatility in their incomes and maintain more stable consumption habits (Roodman and Qureshi 2006). This implies that there is already the opportunity to serve the poor with financial services, since in principle they need the service; yet availing these services to the poor has been quite a challenge for formal financial institutions.

Roodman and Qureshi (2006) observe that the genius of microfinance is the ability to find a suite of techniques that solve the complex business problems of building loan volumes, maintaining high repayment, retaining customers and minimizing the scope for fraud while dealing with very poor borrowers. This section concentrates purely on microfinance credit services that purely target the poorest in community through joint liability lending.

Credit is one of the many infrastructural needs of a micro entrepreneur. To respond to a potential demand for a good or service, a rural micro entrepreneur requires one or more of the following: transport, communications, power, irrigation, storage facilities etc. Infrastructural needs may be less important for some non-agricultural rural entrepreneurial activities such as cycle repairing, tailoring, etc.

2.3.4. The Emergence of Microcredit

Since the takeover of the present government in 1991, considerable attempt has been made to liberalize the financial sector. To this effect, Proclamation No. 84/94 was issued, which allows private domestic investors to participate in banking and insurance activities, which were previously monopolized by the government. However, the issuance of this proclamation alone did not totally solve the financial problem of the economically active poor people in rural and urban areas (Seifu, 2002).

Another Proclamation, No. 40/96 was issued to solve the problem of the delivery of financial services to the poor. Following the issuance of this proclamation the microfinance industry of Ethiopia showed a remarkable growth in terms of outreach and sustainability. Furthermore, the National Bank of Ethiopia issued a new directive on May 2002 to improve the regulation limits on loan size (Br. 5000), repayment period (one year), and lending methodology (social collateral).

The government also started micro-enterprise lending program after signing a development credit agreement (that is Market Town Development Project) with International Development Association (IDA) on March 30, 1990) which has been managed by Development Bank of Ethiopia. The objectives of the program were to finance very small businesses and household income generating activities, and to provide at least 50 percent of the loan to women entrepreneurs (implementation completion report, MTDP, 1999, cited in Asmelash, 2003).

Currently, there are 23 microfinance institutions registered and licensed under the National Bank of Ethiopia and reaching 905,000 credit and some saving clients (Getaneh, 2005). The industry is non-competitive and provides uniform credit and saving products to all clients (Wolday, 2002). The development of these MFIs could be viewed from two angles: (i) as potential market growth for financial services and (ii) as a paradigm shift by the government and NGOs from mere relief assistance to mobilizing the community towards sustainable development (Fiona, 1999, cited in Wolday, 2000).

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). 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 (Wolday, 2003).

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).

Lately, microfinance programs received increased attention from the international financial institutions such as World Bank, various bodies of the UN, donor agencies and IMF. IMF focused on encouraging the creation of sound financial systems in developing countries (Gebrehiot, 2005). Microfinance programs aiming at providing financial services to individuals who are excluded from the formal financial sector have been launched in many developing countries.

In Ethiopia, lack of finance is one of the fundamental problems impeding production, productivity and income of rural and urban households. Microfinance development in Ethiopia in institutionalized form is a recent phenomenon. But it has a long history in different forms.

Government efforts of delivering credit to accelerate socio 26 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 (Assefa et al, 2005).

During the Derg regime, a large share of credit was given to the state sector and marginalizing the private sector and the poor. Due to this, the private sector including the poor was forced to depend on self-financing and non-institutional credit. During the 1986-90 the share of domestic credit to the private sector and cooperatives averaged 4.7 and 1.1 percent respectively and the rest going to the government and public sector (WB, 1991).

NGOs have been delivering relief and development services like emergency food, health, education and water in Ethiopia since 1970's. NGOs delivered micro-credit service to the poor as part of their poverty alleviation programs (Wolday, 2001). Assefa et al., (2005) and Wolday (2003) indicated that many NGOs were involved in the provision of microfinance services particularly in rural area.

Moreover, 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).

The donor or NGO driven micro-credit programs were commonly used in many developing countries and are still in practice in some countries. The approach is known as poverty lending approach that is supply-driven rather than demand driven and focused mostly on credit. On the other hand, this approach disregarded the domestic saving mobilization. As the approach changed from subsidized to market based principles, governments and NGOs considered microfinance as the integral part of the financial system and they recognize the importance of both credit and savings services (Ledger wood, 1999).

In 1990, an agreement was signed between the Ethiopian government and International Development Association (IDA) for a Market Towns Development Project with the objective of tackling poverty through employment creation and income enhancement by providing credit

(Meehan, 1999). But the operation was for the first time undertaken after 1994 in regulated form (Tsehay and Mengistu, 2002). Most of the borrowers were women during the time.

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. The study recommended that the government should develop national standards for NGO credit programs. Thus, the government took the initiative to establish the regulatory framework in order to facilitate sound development of the microfinance industry.

Following this, 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). It also provides a power to the National Bank of Ethiopia as the licensing and supervising authority.

The majority of the NGOs in Ethiopia were terminated the delivery of financial services following the issuance of proclamation No. 40/1996 (Wolday, 2003). Recently, microfinance institutions are emerging rapidly in the country based on the new approach and in line with the new microfinance law.

Currently, there are twenty-six microfinance institutions in Ethiopia. Almost all microfinance institutions have a common objective; poverty reduction through provision of credit and saving services using group based lending methodology (Meehan, 1999; Assefa et al., 2005; Tsehay and Mengistu, 2002). Microfinance institutions in Ethiopia are allowed to mobilize saving deposits from their clients and the public. Most MFIs have been trying to reach both in urban and rural areas (Tsehay and Mengistu, 2002.

3. MATERIALS AND METHODS

3.1. Description of the Study Area

3.1.1. Location

Gummer woreda is located at South West of Addis Ababa and South of Welkite Town capital of Guraghe zone, which is 220 and 65 kilometer far away from Addis Ababa City and Welkite Town respectively. It is one of the Woreda, in Guraghe Zone, Southern Nations and Nationalities Peoples Regional State. The woreda is named after one of the sub-groups of the Sebat Bet Guraghe.

Gummer Woreda is bordered on the East by the Silte Zone, on the South Geta Woreda, on the West by Cheha Woreda, and on the North by Ezha Woreda. The woreda is constituted by 19 kebeles, among them 19 are rural and 1is town kebeles. Arekit town is the capital of the woreda. The town obtains its name from the lake Arekit which is in the surrounding.

3.1.2. Population and Farming System

Based on the 2007 Census conducted by the CSA, Gummer woreda has a total population of 80,164, of whom 37,485 are men and 42,679 women; 2,923 or 3.65% of its population are urban dwellers. The majority of the inhabitants were reported as Muslim, with 59.98%, while 29.81% practiced Ethiopian Orthodox Christianity, and 9.27% were Protestant. The remaining 0.94% was others.

The main livelihood of the people is subsistence agriculture almost all agriculture operation is rain fed**.** Livestock rearing and apiculture (bee-keeping) are also common. Other income generating activities include hired labor, mainly in small towns, and neighbor farms, petty trading etc... Women do most of the agricultural activities. Men and young male children are migrate to all over the cities of the nation for search of job and other opportunities. Women, children and old men remained in villages.

Land holding is very small and its fertility is being depleted, owing to the continuous cultivation without fallow this has resulted on lower production and productivity thereby aggravates food insecurity. Government, NGOs and CBS made several efforts to counter food insecurity. So far they have achieved limited success owing to the demands of household food security. Microfinance is experienced in the area since the near past. There is also commercial bank there but does not provide credit service to the rural community because of lack of collateral. Omo microfinance institution could only provide credit services and they mainly relied on joint liability lending.

3.1.3 Climate and Agro-ecology

The total area of the woreda is 23,555 square kilometer and person per square kilometer is 245. The highest pick of the woreda is 3,000 meter above sea level and the lowest area is Berch Kebele which is 2,700 meters above sea level. Almost it is dominantly dega agro climatic zone.

Annual rain fall of the woreda maximum is 1,500 millimeter whereas minimum rain fall 1,100. It lies in the moist lands zone and sparse vegetation mainly eucalyptus, with adequate rainfall. Hence the people rely on an inadequate, fragile and uncertain resource base resulting in food insecurity and under nutrition. These characteristics make the district good for any experimental poverty reduction intervention.

3.2. Data Collection, Tools and Procedures

The study used a multi-stage sampling technique that combined purposive (non-probability) and probability (simple random) sampling methods. The defining property of probability sampling according to Singleton and Strands, (2005) is that every possible combination of cases has an equal chance of being included in the sample.

Sample kebeles selected in consultation with Woreda experts based on the criteria urban in which the kebeles represent the Woreda in bio-physical environment, socio-economic characteristics, livelihood activities and resource. Based on this, two kebeles were selected; one urban and two rural kebeles. Households were selected from those kebeles using random sampling technique for structured household survey.

The study used both primary and secondary sources of data. The primary sources of data were obtained from direct observation, structured and unstructured questionnaires, focus group discussions and interviewing the concerned parties such as community, Omo MFI of Gummer woreda management staff and employees.

Observation was made openly at Arekit Omo Micro Finance Branch Office. This would help the researcher to observe the real situation MFI intervention on poor households. Secondary data was obtained from documents, Omo Microfinance Institute reports, journals, proceedings, bulletins, Internet, periodicals, various books and other relevant materials.

Determining the appropriate sample size is important in research. Thus, sample size depends on the total number of population, the level of confidence and the maximum deviation from true population that can be tolerated in the study. Depending on this, there are various sample size estimation methods. Among these the method or model used to determine the desired sample size with the population of above 10,000 and sample size of above 30 is formulated as:

$$n = \frac{z2pq}{d2}$$

Where: n = sample size (when population is greater than 10,000)

z = the standard normal deviation usually set at 1.96

Which corresponds to the 95 percent confidence interval?

P = proportion in the target population estimated to have a Particular characteristics

q = 1-p

d = degree of accuracy usually set at 0.05 or occasionally at 0.01.

The interview was administered on randomly selected Omo MFI client of poor households using structured questionnaire. Sample of respondents were from three kebeles namely Arekit town and two rural kebeles (Esenena Adangezo and Burdena Dember) of Gummer woreda.

There were two sets of respondents; one set will consist of 50 respondents who were microfinance recipients (active clients) an experimental group. The other set was consisting of 50 respondents of who will not microfinance recipients (control group or non-active clients). The idea was to capture household socioeconomic welfare before and after the micro credit loans. Since town kebele, Arekit is a little bit heterogeneous 40 respondents were interviewed, whereas two rural kebeles Esenena Adangezo and Burdena Dember relatively homogeneous and therefore 30 respondents interviewed each respectively.

Formal Structured questionnaires were administered to both participants of microfinance and non-participants. For the microfinance participants, the idea was to capture, group participation, new loans, uses, and loan repayment as well as household incomes. While for non-participants the idea was to keep up with households' socioeconomic activities and understand any welfare changes in the absence of microfinance.

Rapid appraisals in the form of focus group discussions with joint liability borrowing groups and semi structured interviews with key informants were used. The rapid appraisal provided a platform where issues related to microfinance like group lending and group activities were discussed openly and respondents were able to check each other to avoid situations of exaggerations or misreporting. Participant observation was also quite helpful in accessing in-depth detailed information about the operations of solidarity groups.

Participant observation in this sense refers to the informal interaction of the researcher and the local community in the study area by way of temporary stay within the community. This way, it was possible to observe the respondents go about their day today activities without them fearing that they were being studied. This made it possible to learn firsthand the realities of household, community and individual behavior towards microfinance. Most importantly through participant observation it was possible to observe practical issues of how some individual household attributes and Lending Groups influence loan uses, repayment and general household activities that affect household incomes.

Therefore, the questionnaire was translated into Amharic. This enabled the enumerators and respondents to easily understand the questions, express their ideas comfortably and reduce communication barriers. Since most of the community could speak Amharic and the enumerators were from the study area they were also use Guragegna to express the ideas if need arises.

One supervisor or team leader and four enumerators were briefed to collect relevant data from sample poor households. The enumerators were given a one-day briefing, which focused on the objectives of the study on how to approach a respondent, how to record the responses, and on detailed contents of the questionnaire.

A total of two focus group discussions at two villages were conducted. Conducting focus group discussions is important to assess the satisfaction or dissatisfaction of clients in service provision and disclose their problems, comments and provide some recommendations. This also strengthened the reliability of the finding. The focus group discussions were conducted in both town and rural households. A total of two focus group discussions, of which, one in urban and the other one in rural kebele was conducted. Each group discussion had ten to twelve participants having equal number of male and female.

3.3 Data Processing and Analysis

The method of analysis to be used in the study was descriptive statistics. With descriptive statistics researcher can simply describing what is or what the data shows. For instance, inferential statistics try to infer from the sample data what the population might think. Or, inferential statistics use to make judgments of the probability that an observed difference between groups is a dependable one or one that might have happened by chance in the study. Thus, to use inferential statistics to make inferences from observed data to more general conditions; whereas descriptive statistics simply to describe what's going on observed data.

Descriptive Statistics were used to present quantitative descriptions in a manageable form. In a research study there might be lots of measures. Descriptive statistics help us to have large amounts of data in a sensible way. Each descriptive statistic reduces lots of data into a simpler summary. That is why it was used in this assessment.

The analysis had included the comparison of income, asset ownership, housing condition, nutrition, health, education, decision-making (empowerment), business growth and employment opportunities between active clients and incoming clients in both urban and rural kebeles. The analytical approaches such as frequencies, averages, and percentages were also used to analyze the data.

Frequency

In statistics the frequency (or absolute frequency) of an event is the number of times the event occurred in an experiment or study. There are different types of frequency, cumulative frequency refers to the total of the absolute frequencies of all events at or below a certain point in an ordered list of events and the relative frequency (or empirical probability) of an event refers to the absolute frequency normalized by the total number of events are among the many. The following formula was used for calculating frequencies.

$$Fi = ni/N = ni/\sum ini$$

Where fi = frequency

ni = each events

N = total events

∑ini = sum of all events

Average

In colloquial language, an average is the sum of a list of numbers divided by the number of events in the list. In mathematics and statistics, this would be called the arithmetic mean. However, the word average may also refer to the median, mode, or other central or typical value. In statistics, these are all known as measures of central tendency.

The most common type of average is the arithmetic mean. If n numbers are given, each number denoted by a_i, where $i = 1, \ldots, n$, the arithmetic mean is the sum of the a_i's divided by n. The following formula has been used to calculate an average.

$$AM = \frac{1}{n}\sum_{i=1}^{n} a_i = \frac{1}{n}(a_1 + a_2 + \cdots + a_n)$$

Percentage

A percentage is a measure used in statistics indicating the value below which a given percentage of observations in a group of observations fall. For example, the 20th percentage is the value (or score) below which 20 percent of the observations may be found.

The term percentage and the related term percentile rank are often used in the reporting of scores from norm-referenced tests. This formula was used to calculate the percent.

$$P = (n/ N) \times 100$$

Where, n = number of events of interest

N = total number events

P = percent

4. RESULTS AND DISCUSSIONS

In this study, 100 households, who were both active clients and incoming clients of Omo Microfinance Institution, were interviewed from one urban and two rural kebeles of Gummer woreda. Fortunately, selected sample subjects participated in the study and the overall response rate was ninety eight percent.

In order to have basic information about the respondents, two categories of data, socio demographic and economic characteristics were collected. The results of this study were presented and discussed in this chapter. The results were presented in the tables below and descriptions were also there for each table.

4.1. Operational Performance of Omo Microfinance

4.1.1. Establishment of OMFI

OMFI in Gummer woreda was established on 1998 G.C. and began its service in two rural and one urban kebeles. Since two years of its establishment there were only 20 active saving and credit clients. Because of small number of active clients owned by the OMFI at the beginning its service, the regional office decided to quit the overall operations of the firm. But the staff and woreda administration worked on the community at kebele and village level to bring about attitudinal change on saving and credit services and its uses.

Through time the community becomes active clients of the OMFI in the woreda. Then regional OMFI convinced that the continuation of the firm to give credit and saving service to the poor households. Now a day, on 2015 there exists about 6,512 households both saving and credit users in the woreda and the service covers at all urban and rural kebeles the woreda.

4.1.2. Personal resource

Efficient, appropriately trained, and motivated staff is a prerequisite for an efficient operation of an MFI. OMFI is staffed with the required number of personnel. However, this does not mean that it is equipped with qualified manpower. OMFI management complained that, there is a problem of recruiting competent and skilled staff from the labor market because salaries and other benefits are better in banks and insurances who works similar operations within the region.

Therefore, it is reported that there is high turnover of staff due to the above mentioned benefit problems and dissatisfaction.

4.1.3. Financial resource

Finances sources of OMFI include client savings, loan and previously government donation from national bank Ethiopia. But currently financial source is saving and credit. OMFI has not yet reached the demands of the active and incoming clients' because of financial scarcity.

4.1.4. Financial services

OMFI provides financial as well as non-financial services to the poor. The financial services delivered by OMFI are lending and saving services. The target clients eligible for its services are the active poor who are willing to engage in income generating activities of their own in rural and urban areas of the country.

OMFI provides its services using mostly the group-based methodology, currently stats providing individual basis. Loan disbursements are made at cluster or branches level. However, cash collections and savings mobilization activities are carried out at the center levels. The services are provided in four cluster, 18 kebele centers and one main office.

The core unit of OMFI operation is the group. Each group contains three to five members and they elect their own leader. This center has been serving as a core body of clients to make a manageable and direct link with the institution. The center leader is the main contact person to the credit officers. The groups are self-selected. They are expected to know each other, have similar background, enjoy trust and develop confidence. Group members are jointly responsible for the loan. They will take the risk if one of a group member fails to repay the loan. The group lending methodology is basically the Grameen Bank approach with a minor adjustment to fit into the local environment.

In relation to their part of the loans are provided to micro and small enterprise operators. The remaining is given to poor farmers. Loan term and size depend on the purpose of the loan, the capacity of the borrower to pay the loan, and the lending capacity of the institution.

4.1.5 Non-financial services

Besides financial services, OMFI also provides non-financial services to its clients and non-clients. The major non-financial services provided by OMFI are training, advocacy, orientation of new clients, and experience sharing among clients.

Orientation is regularly provided for new clients of OMFI for about one day before they join the program about the service provided, criteria to be a client, methodologies, amount provided, saving, loan taking, and some other relevant information. Business development training about marketing, record keeping, and pricing is delivered for every client on voluntary basis for ten days. Advocacy and training is also delivered to staffs of other organizations. Experience sharing is carried out among clients. Model centers or branches are selected for visit and the program is organized to clients to share their experience among themselves.

This experience sharing service is not limited to clients only. It goes beyond, because staff members also have an opportunity to share other microfinance institutions' experience by attending workshops and visits. Gummer woreda Microenterprise Development Office also provides training to active and non-active incoming clients to strengthen the enterprises.

Gummer Woreda OMFI Loan Dispersemnt and Credit Repayment

As it was shown on Table 4.1 below Loan repayment was good. It was also found that for the last five years the amount of loan dispersed shows almost three fold increment (in 2010 Birr 6,983,000 and in 2014, Birr 18,748,186 was dispersed respectively). Therefore both loan dispersement and repayment status of the firm is really encouraging. The information obtained from Gummer woreda OMFI implied that mobile banking will be started in 2015 in three towns in the woreda to reach customers from where they are and make the institutions modern in this respect.

Table 4. 1 Gummer Woreda OMFI loan dispersement and repayment for the last five years

Ser. No.	Years of services	Loan Dispersed		Loan Repaid		% of repayment
		Birr	C	Birr	C	
1	2010	6,983,000	00	6,383,881	00	91.40
2	2011	6,625,600	00	5,124,022	80	77.40
3	2012	12,892,800	00	11,892,800	00	92.24
4	2013	13,448,000	00	11,464,747	00	83.40
5	2014	18,748,186	00	17,036,079	36	90.87
	Total	**58,697,586**	**00**	**51,901,930**	**16**	**88.42**

Source: Gummer woreda OMFI annual reports (2010-2014)

4.2. Client characteristics, loan and saving history and loan usage

4.2.1. Demographic characteristics of respondents

Table 4.2 have showed that the socio-demographic characteristics of the respondents which include sex, age, educational, marital status, household size and household headship of the respondents in the study area. The distribution of respondents reveals that from the total 98 valid respondents 50% were active clients and 50% were incoming clients. Whereas, 40% of the sample, active clients were urban dwellers and 60% were rural clients. However, 60% and 40% of respondents, incoming clients respectively were urban and rural dwellers.

Table 4. 2 Selected Socio-demographic Characteristics of Respondents

S.n.	Characteristics	Frequency (N=98)	Percentage
1	**Sex**		
	Male	71	72.5
	Female	28	27.5
2	**Age**		
	Less than 20	4	4.2
	21-35	20	20.4
	36-50	60	61.0
	51-64	15	15.4
	Greater than 64	-	
3	**Educational level**		
	Illiterate	30	30.3
	Primary	25	25.2
	Junior Secondary	4	4.1
	Secondary	32	32.3
	College Diploma	9	9.1
	Degree	-	
4	**Marital Status**		
	Married	62	63.3
	Never Married	15	15.3
	Divorced	8	8.2
	Widowed	13	13.2
5	**Household Size**		
	0-3	25	25.5
	4-7	50	51.0
	8-11	15	15.3
	Greater than 11	8	8.2
6	**Headship**		
	Male	63	64.3
	Female	35	35.7

Source: Own Household Survey, 2015

Out of the total 98 respondents 72.5% head households were male and 27.5% heads holds were female. Here, the data clearly indicates the numbers of the female heads of households were low compared to that of male heads of households. With regard to age of respondents about 60% were in between 36 to 50 years of age. On the other hand, respondents under the possible dependent ages were less than 4.2%.

About 30.3 percent of the respondents have never attended school, 25.5 percent attended primary school, 32.3 percent of them completed secondary school and 9.1 percent of the respondents' college diploma and above.

The family size of the respondents has been categorized in four ranges; 0-3, 4-7, 8-11 and greater than 11 household members. 51 percent of the respondents were found to have 4-7 family size, 25.5 percent of the family have 0-3 family size and 15.3 % and 8.2 % of the respondents have family size between 8-11 and greater than 11 families respectively.

About 63.3 % of the respondents were married, 15.3 % of the respondents were never married, and 8.2 % and 13.2 % respondents were divorced and widowed respectively. With regards to headship of the household, 64.3% of the respondents are male head households, whereas female head households were only 35.7% of the respondents.

4.2.2. Loan and saving history of OMFI clients

As has been seen from the Table 4.3, labor supply, status of household income from last one year, land ownership and respondent's main source income were selected to assess household economic characteristics of the respondents.

The information collected to identify labor supply at household level shows that 30.6% of the respondents have 1-3 adult working members, 34.7% respondents having 4-6 adult members of working personnel and 37.4% respondents have 4-6 similar labor age range.

About 30.6% of the respondents were found to have monthly income less than 500 ETB at household level, and 54.1% of the respondents replied that they earn 501-1000 ETB per month.

The remaining 11% and 4% of the respondents earned 1001-2000 and above 2000 ETB per month respectively.

Attempt was made to identify respondent's household income status during the last one year. According, 15.3% households reported that their income has decreased, whereas 38.8% of the respondent households said the income remained the same, but 45.9% of the respondents replied that their income has increased, which indicates that micro finance service has positive impact on its client at household level.

Table 4. 3 Selected Socio-economic Characteristics of Respondents

S.n.	Characteristics	Frequency (N=98)	Percentage
1	**Labor Supply in the (age 15-64) household**		
	1-3 persons	30	30.6
	4-6 persons	34	34.7
	Greater than 6 Persons	34	34.7
2	**Average Monthly Income ETB**		
	Income less than 500	30	30.6
	501-1000	53	54.1
	1001-2000	11	11.2
	Above 2000	4	4.1
3	**Income Status During the Last One year**		
	Decreased	15	15.3
	Remain the Same	38	38.8
	Increased	45	45.9
4	**Land Ownership**		
	Yes	90	91.7
	No	8	8.3
5	**Main Source of Income**		
	Farming	80	81.4
	Animal husbandry	2	2.0
	Retail trade	8	8.3
	Wood or metal work	8	8.3
	Other business	-	-

Source: Own household survey, 2015

In terms of land ownership, 91.7% 0f the respondents were found to have their own land, whereas 8.3% of the respondents were found land less. This means that majority of household own land.

About source of income, respondents found to engage in various economic activities. However, the majority of the respondents were engaged in agriculture. In the region, agriculture involves a mix of crop production and animal husbandry. Mostly, crop production is dominant whereas animal husbandry is considered only secondary in the study area. Accordingly, with respect to respondents' engagement, the study revealed that 84.1% of the respondents were engaged in farming and 8.3% of the respondents were equally involved in non-farm activities woodwork and metalwork, and retail business too.

Table 4. 4. Loan and Saving History of OMFI Clients

S.n.	Characteristics	Frequency (N=98) 48 Active clients 50 Incoming clients	Percentage
1	**Clients main relation with OMFI**		
	Saver	48	100
	Loan taker	48	100
	Both	48	100
	Not a client	50	100
2	**Duration of membership in OMFI**		
	Less than one year	7	14.6
	1-3 years	25	52.1
	4-7 years	12	25.0
	8-11 years	4	8.3
	Above 11 years		
3	**Amount of first loan**		
	Less than 500	-	-
	501-1000	-	-
	1001-2000	29	60.4
	Above 2000	19	39.6
4	**Frequency of loan taking**		
	Less than three times	10	20.8
	4-7 times	28	58.3
	8-11 times	6	12.5
	More than 11 times	4	8.4
5	**Current saving status**		
	Less than 500	-	-
	501-1000	-	-
	1001-2000	-	-
	Above 2000	48	100
6	**Amount of loan currently taken**		
	Less than 500	-	-
	501-1000	-	-
	1001-2000	-	-
	Above 2000	48	100
7	**Main purpose of taking loan**		
	Expansion existing business	8	16.7
	Starting up new business	12	25.0
	Buying farm animals	14	29.2
	Buying inputs for farms	6	12.5
	Household consumption	8	16.6
	Other reasons		

Source: Own household survey, 2015

The recent shift in development paradigm hinges on the provision of micro credit to the poor to shield them from the adversities of poverty. It was with this context that OMFI has started its services, microcredit provision, training about the use of saving, payment of pension fees, provision of money transfer and, delivery of money for the farmers so that they could be able to buy agricultural inputs, implements and so on. Table 4.4 above indicates the percentage distribution of respondents' loan taking and saving status.

It is indicated that the relation of most of the respondents with OMFI is all savers are loan takers; 100% are both savers and loan takers. It is evident that from the collected data, about 60.4% of the respondents have taken first loan of less than 1,000 ETB, which is very less amount with respect to the current inflation of in the prices of different commodities

One of the important objectives of OMFI is to increase the income of its clients and thus increasing the amount of loan requested by them. The collected data showed that 20.8% of the respondents received loan less than three times and 53.8% have taken loan from OMFI from 4-7 rounds, whereas 12.5% of the respondents have received loan eight times and 8.4% of the respondents taken loan more than eight to eleven times.

It is understood that there was no limitation for OMFI clients of any MFI must not dependent only on microfinance services for long periods of time, that is, through time clients should shift to loan from banks, which deliver higher amount of loan while asking higher collateral. This can be realized if and only if the client's asset or capital has shown reasonable increase.

In this regards, 8.4% of respondents have stayed more than 11years with OMFI which signify that the institution has to think for issues like how clients of OMFI graduate from receiving frequent micro loans and thus enabling them to get loans from commercial banks or any other formal financial institutions.

Concerning about saving, 100% of the respondents have deposited 2000 ETB and above. Questions were also forwarded whether respondents had saving habits and their deposited amount of birr in present. It was found that majority of respondents did not have the habit of depositing money in the bank on cash basis. In fact saving schemes could have different forms. However, client-bank relationship on a formal and regular basis were established when people joined OMFI as a member, because there are compulsory saving that should be made on monthly basis. The assumption was that compulsory saving could help clients to the developed the habits of money depositing for later use. However, this remained still non transformed area of interventions. Though there is an increase in the income of households of OMFI's clients, the amount of saving deposited by clients still very low.

With regard to the respondent's main purpose of taking loans, 16.7% of the respondents have taken loan for expanding the existing business mainly farming. It indicated two essential issues. First, it is highly recommended that the financial institutions to deliver loans for expanding the existing business rather than opening new ones to ensure the loan repayments and growth in the in the income of the loan users due to practical experience in the business. On the other hand, the impact of microfinance service in increasing rural farm enterprising in the study area is still week. Hence, to exploit more from the existing OMFI services, it needs to think more in economic transformation i.e. from rural subsistence farming to flourishing of rural farming enterprise. The other important result of this data is that, OMFI does not give any loan for household consumption, which cannot add any value.

Table 4. 5 Lending methodology and controlling mechanism (N=48)

S.n.	Descriptions	Frequency	Percent
1	**Methodology of receiving loan**		
	In group	40	83.3
	Individually	8	16.7
2	**Member in Group**		
	Less than 3	8	16.7
	3-5	40	40.0
	Greater than 5	-	-
3	**Group member know each other before membership**		
	Yes	46	95.8
	No	2	4.2
4	**Group members monitor each other**		
	Yes	42	87.5
	No	6	12.5
5	**Controlling mechanism within the group in written form by agreement**		
	Yes	48	100
	No	-	-

Source: Own household survey, 2015

As shown on Table 4.5 above 83.3% of the respondents received loans through group lending methodology, whereas 16.7% of the interviewed active clients on OMFI institute receives loan individually. With respect to membership in group 83.3% of the respondents have 3 to 5 members and 16.7% of active client replied they do have 1 to 3 members. The study revealed that most of loans were given on group methodology in OMFI. Almost, 95.8% of the respondents know each other before forming a group whereas very few 4.2% respondents replied that they do not know each other before forming the group.

Group members of which, 87.5% reported that, they monitor the performance of each loan situation and saving of the group during the regular meeting held, but 12.5% of the active clients replied that there is no strong monitoring among the group. However, 100% of the respondents reported that the controlling mechanism with in a group was in the written form but not functional well.

Table 4. 6 Loan repayment and access to loan status (N=48)

Sn.	Description	Response	Percentage
1	**Loan repayment**		
	Early	**7**	14.6
	According to schedule	35	72.9
	Lately	6	12.5
2	**Loan must be paid**		
	Yes	48	100.0
	No	-	
3	**Access for credit rather than OMFI**		
	Yes	45	93.8
	No	3	6.2

Source: Own household survey, 2015

Loan repayment capacity may show the positive or negative impact of the credit. The assumption is that if the client used the loan for productive activities to generate income, they can pay their loan. Otherwise the credit may increase in debts on clients. If this so, the sustainability of the institution is in question.

On the Table 4.6 it was indicated that, about 72.9 % of clients repaid their loan in accordance with in the schedule of the agreement. Few respondents, that account 14.6 % early payer and 12.5% late payers were unable to pay their loan to the schedule. Those respondents, who paid the loan lately, reported that if loan repaid early or on schedule all the money used to work declined and they recommended that it is better to lengthen loan repayment time. Almost all the respondents reported that they could understand that the loan received from the institution must be repaid. This is very encouraging and played a great role in sustainability of OMFI and clients relationship.

Table 4. 7 Clients' opinion about interest rate, term of loan and repayment period

S.n.	Descriptions	Indicators	Frequency (n=48)	Percent
1	**Interest rate on lending**	High	2	4.2
		Moderate	36	75.0
		Low	4	8.3
		Don't know	6	12.5
		No answer	-	-
2	**Interest rate on saving**	Less than market rate	10	20.8
		Greater than market rate	29	60.6
		Have no information	-	-
		Don't know	9	18.6
		No answer	-	-
3	Term of loan	Monthly	-	-
		Every six month	8	16.7
		Every year	37	77.1
		Other	3	6.2
		No answer	-	-
4	Repayment	Short	6	12.5
		Satisfactory	39	81.3
		Long	3	6.2
		No answer	-	-

Source: Own household survey, 2015

Most of the respondents are reported that the interest rate on lending is moderate 75% and 8.3% of clients said low. However, 4.2% respondents replied high whereas 12.5% of the clients do not know exactly how much is interest on lending. So this implies that the institution has to work on awareness creation and provision of information to its clients.

With respect to interest rate on saving, 60.6% of respondents reported that, the interest rate on saving is greater than the market rate, whereas 20.8% of the clients said that the interest rate on saving is less than the market rate. About 18.6% of the respondents do not have knowledge about the interest rate. In spite of the training and orientation given to clients, the sample interviewed clients failed to know the interest rate implies that there is a lot to be done on educating the active and incoming clients.

The collected data revealed that the majority, 77.1% of respondents have paid their loans and received the next cycle of loans every year, whereas about 16.7% of the clients have a term loan for six months. The remaining 6.2% of the respondents have preferred the loan to be paid for about more than a year to use the money for reasonable longer period of time.

Table 4.6 showed that, 81.3 % of the clients have accepted the loan period as satisfactory. On the other hand, about 12.5 % of respondents reported that the loan period is short. The remaining 6.2% of the respondents accepted the loan after longer period of request.

4.3. Impact

It is obvious that, lack of finance is one of the major bottlenecks that constrained the poor from engaging in meaningful and gainful activities. Since poor households do not have an opportunity to obtain loan from formal banks due to collateral issues they exposed to traditional money lenders with high interest rate. In response to this, the recent shift in development paradigm focused on the provision of microfinance services to the poor in order to protect them from adversities of poverty and exploitation.

The expectation is that access to microfinance provides better chance of involving in farm, non-farm and micro and small enterprises activities. As the result of this households could increase and diversify their income, ensure food security and reduce poverty at household level.

At the household level impact may be measured by the net increase in household income, savings, asset accumulation, housing conditions, expenditure, diet, education, health condition and improve decision making capacity (empowerment) of the poor.

4.3.1 Impact at the household level

From the study, it is revealed that, households with higher income levels have more choices, can better meet their basic needs and enjoy broader opportunities. The assumption is that the household is expected to benefit from the loans in terms of improving income and diversify the source of income. As indicated in table 4.5, the large majority of households 75% had moderate source of income before they took the loan, while few households 20.8 % had low income, whereas only 4.2% of the respondents had high source of income.

Collected data of the respondents showed that, most of the households had, on the average, less than Birr 501 per month before taking the loan. However, the majority of households reported that their average monthly income rose to above Birr 650 after they took the loan. Among the interviewed respondents 11.2% of them were replied that their monthly income was above birr 1,250 on average after loan. Only 4.1% of households had above Birr 2,000 on the average per month, before the loan, while 25.5% of the household has above Birr 2,500 on the average per month after taking the loan. Urban households have higher monthly average income than rural households. Moreover, more than 72 % of the households confirmed that there is an increase in the overall household income after they took the loan. On the other hand, 22.1% of the respondents reported no change and 4.9 % decreased in the overall income of the household after taking the loan.

During the review made respondents were asked that why there is change in income, among the households 51 percent of households indicated that their income increased because, most of them 60.6% expanded the existing business, few of them 19.2 % started new business and the remaining 12.1 % a family member obtained hired job. However, insignificant number of the households 7% reported that their income decreased due to poor production, poor sales (market problem), a family lost job, and other reasons.

The positive impact of OMFI is pronounced in both in rural and households of active clients. On the study area almost all active clients (more than 98 %) have saving account in OMFI. Only few 2 % clients have only compulsory saving. Whereas more than 89.30% has both compulsory saving and voluntary saving. About 79.8 % of the respondents reported that their main source of saving is business profit. The large majority of the respondents, 68 % have increased their overall savings and the capacity to save. On the other hand, some of the respondents 13% complained that their overall savings have shown no change and even showed a decreasing trend 12 %. The findings of the survey revealed that households' income has increased and their source of income diversified as well as their savings increased due to the loans provided by OMFI.

Table 4. 8 Change of household income and saving before and after the loan (N=48)

S.n.	Descriptions	Indicators	Frequency (n=48)	Percent
1	**Have you source of income before the loan**	High	2	4.2
		Moderate	36	75.0
		Low	10	20.8
		Don't know	-	-
		No answer	-	-
2	**Reason for increment**	Business expansion	10	20.8
		Start new business	29	60.6
		Got a job	-	-
		Income from other sources	9	18.6
		Other reasons	-	-
		Don't know		
3	**Reason for decrement**	Poor production	-	-
		Poor sales	8	16.7
		Lost job	37	77.1
		Other reason	3	6.2
4	**Average income per Month**	Before loan	6	12.5
		After Loan	39	81.3
5	**Purpose of Saving**	For loan repayment	4	8.3
		For safety of cash	6	12.5
		For consumption	5	10.4
		House improvement	6	12.5
		For emergency issues	24	50.0
		Others	3	6.3
6	**The overall savings trend**	Decreased	5	10.4
		No change	13	27.1
		Increased	26	54.2
		No answer	-	-
		No Known	4	8.3

Source: Own household survey, 2015

4.3.2 House ownership and improvements

Living in satisfactory housing conditions is one of the most important aspects of people's lives. Housing is essential to meet basic needs, such as shelter, but it is not just a question of four walls and a roof. Housing should offer a place to sleep and rest where people feel safe and have privacy and personal space; somewhere they can raise a family. All of these elements help make a house a home. And of course there is the question whether people can afford adequate housing.

Besides housing is among the major infrastructure and an important or basic asset for households that have to be possessed. Ownership of houses and improvements in it increases households' material wealth and living standard of the household. The assumption is that households may have better housing ownership and improve their houses after getting the loan from OMFI. If households have access to capital through loans, they will invest it in income generating activities. It is expected that they will increase their income and have better capacity to improve and build their own houses.

The analysis of collected data in table 4.6 revealed that most of the households 87.5% of the respondents had their own houses before the loan. Whereas few of the respondents 12.5 % become owner of a new house after they took the loan from OMFI. Among the interviewed households 77.1 % live in medium houses, 18.7 % of the respondents live in good house, while only 4.2 % live in poor houses after the loan.

As it is presented in table 4.8, some households 81.3% brought improvements on their houses, which cost more than Birr 100. However significant number of households 8.7% did not bring about any improvements on their houses which cost more than Birr 100. Improvements are mostly made on expansion of houses. But some households 35.5% repaired their houses. Whereas 8.2 % of the respondents said that minor improvements conducted that includes construction of partitions and others. According to the response obtained from households, it is possible to deduce that OMFI has to a limited extent a positive impact on housing improvements of its active clients. Nevertheless, the impact is not significant.

Table 4. 9 House ownership and housing improvements (N=48)

S.n.	Descriptions	Indicators	Frequency	Percent
1	Have your own house	Yes	42	87.5
		No	6	12.5
2	Quality of the house at present	Poor	9	18.7
		Medium	37	77.1
		Good	2	4.2
3	Improvements house more than Birr 100	Yes	39	81.3
		Poor	9	18.7
4	Kind of improvements on houses	Repair	17	35.5
		Expansion	27	56.3
		Sanitation System	-	-
		Other Improvements	4	8.2

Source: Own household survey, 2015

4.3.3 Household asset ownership

Under the survey change in household asset position is one of the impact indicators of microfinance interventions at the household level. Ownership of household assets is also an indicator of improvement in the households' wealth as well as improvements in living stands of the community in general. The assumption is that microfinance services to poor increase household's income and thereby households have developed the capacity to purchase household assets.

On Table 4.9 there have been presented some household assets ownership by comparing before and after microfinance intervention in the study area. The collected data in the table reveals that most household s (on average 91.6%) had modest value household assets such as chair, bed, and radio before taking loans. Some households (on average 31.5 %) had owned some assets such as tape recorder, table, television, shelf (buffet) and sofa before taking loans. Chair and bed are the most commonly used (on average 89.5 %) of household owned these assets followed by radio ownership (96%), while television, sofa, refrigerator, and few households own buffets too.

The results of the survey revealed that, ownership of household assets has increased after respondents joined OMFI and participated on saving and credit services. For instance, Table, Television, Sofa, Buffet, Tape recorder and Refrigerator ownership increased by 60.8 % to 75.2 %, 24.1 % to 29.4, 22 % to 38 %, 25.7 % to 68.6 %, 24.8 % to 35.5 % and 10.4 % to 15.1 % respectively. Thus, OMFI interventions on the study area have a positive impact on increasing household assets ownership.

Table 4. 10 Households' Asset Ownership before and after loan (N=48)

S.N.	Assets	Before loan in Percent	After loan in Percent
1	Chair	91.2	94
2	Table	60.8	75.2
3	Buffet	25.7	68.6
4	Bed	87.7	90
5	Radio	96	96.4
6	Television	24.1	29.4
7	Tape Recorder	24.8	35.5
8	Sofa	22	38
9	Refrigerator	10.4	15.1

Source: Own household survey, 2015

4.3.4 Household expenditure

In our world it is assumed that people with better income opportunity may have a capacity to spend more than people with less income to satisfy their needs. On the other hand, although poor people have a need to expend in order to live a luxurious life, even if they do not have sufficient income to spend. As it revealed on Table 4.10 about 8 % of active clients spent not more than Birr 500 per month before taking loans. Less than 7 % of incoming clients (control group) spent a maximum of Birr 500 per month. After taking the loans from OMFI, the percentage of active clients whose average monthly expenditure was less than Birr 500 and between Birr 501 and Birr 1,000 reduced from 8 % to 1 % and from 46.3 % to 44.5% respectively.

Therefore one can deduce from the result of the analysis that the level of average monthly expenditure of active client's shifts from the relatively lower expenditure category to the next higher expenditure category after taking loans.

In comparison to the control groups more than 44.5 % of active clients had an average monthly expenditure of above Birr 1,000 after taking loans, while only 4.6 % of incoming clients had an average monthly expenditure of above Birr 1,000. The collected data from respondent's shows that it is safe to conclude loans make a difference in increasing household expenditure. About 55.7 percent of active clients and 70.2 % of incoming clients responded that most of the expenditure was generated by the households. However, after taking loans, the contribution of other family members increased in bearing expenditure. This is an implication of provision of credit increases the income generating capacity of the households.

Table 4. 11 Households Expenditure of active clients and incoming client (N=98)

S.N.	Expenditure	Indicators	Active Clients		Incoming clients
			Before loan in %	After loan in %	
1	Average monthly expenditure in Birr	Less than 501	8	1	7
		501 to 1,000	46.3	44.5	78.4
		1001 to 1,500	22.6	30.4	4.6
		1501 to 2,000	12.1	16.1	4
		Greater than 2,000	5	8	-
		No answer	6	-	6
2	Bearer of expenditure	My self	55.7	39.6	70.2
		Me and family members	44.3	40.3	29.8
		Other family members	-	20.1	-
		Relatives	-	-	-
		Others	-	-	-
		No answer	-	-	-

Source: Own household survey, 2015

4.3.5 Household diet

It is clearly obvious that food is one of the basic needs fulfilled to be for life sustenance. The condition of nutrition used in the household is an indicator of the household's well-being as well.

The assumption is that active participants in the OMFI saving credit program will improve the respondents or household diet and are less vulnerable to food shortage and shocks than the non-participants of OMFI services.

The responses of experimental and control groups which collected on the survey about their diet condition are presented in table 4.11. The large majority of respondents both in active clients and control (incoming clients) groups reported that their household had eaten meals at a minimum of three times in a day which accounts 76.4% and 78.2% respectively. But about 23.6 active client respondents and 21.8% of the incoming client's respondents replied that taken meals twice per a day. Few respondents about (10.2%) reported that the frequency of taking meals in a day increased after they took the loan from OMFI. The incidence of food shortage in the last 12 months was negligible which occurred for less than by 2 months.

Among the interviewed active clients 18.2 % reported that there is an improvement in their household diet whereas 81.2 % of the respondents replied that there is no change in their household diet after taking loans. About 65 % of households said that the diet improvement came from the provision of loans by OMFI, while the minority (35 %) responded replied that OMFI saving and credit program did not improve their overall household diet. The general trend in household of surveyed area diet condition is improved after OMFI program. From the results, it is possible to conclude that OMFI program have a positive impact on households' diet condition.

Table 4. 12 Households Expenditure of active clients and incoming client (N=98)

S.N.	Expenditure	Indicators	Active Clients (N=98)		Incoming clients In %
			Before loan in %	After loan in %	
1	Number of meals in a day	Once	-	-	-
		Twice	23.6	13.4	21.8
		Three times	76.4	86.6	78.2
		More than three times	-	-	-
		No answer	-	-	-
2	Food shortage during the last 12 months	Yes	-	-	-
		No	94	94	81
		No answer	6	6	19
3	Over all household diet condition at present	Worsened	-	-	-
		No change	87.9	81.2	-
		Improved	12.1	18.8	-
		No answer	-	-	-
4	Diet improvement due to OMFI program	Yes	-	65	-
		No	-	35	-

Source: Own household survey, 2015

4.3.6 Household access to education.

Educational facility development is one of the priority areas of intervention under the poverty reduction strategy in a society. Education plays an important role in increasing human potential and development at the individual and community level too. The returns from investing in education are on the average lower but the return in income increment is much higher for those with higher levels of education. On the other hand, returns to education rise with the level of education.

It is assumed that microfinance saving and credit services of OMFI may improve the possibility of increasing expenditures on education and increases the opportunity of households' access to education. Table 4.12 showed that both active and incoming clients have almost same school age children. Rural households have higher school age children than urban households in the active clients' category, while the reverse is true in incoming clients. The results of the study revealed that school attendance same before and after, since school is costly and almost subsidized by the government in the study area. School attendance is lower in rural households than in urban households both after and before taking loans.

Similarly, the average annual educational expenditure increased after the clients took the loan because of increase prices of every goods and in the area in particular and in the nation in general. Furthermore, the overall school attendance has not shown any change after taking loans as reported by 85 % of active clients like of 80 % reported by control groups during the last 12 months. No active clients reported as there is an increase in school attendance at present. In study area school attendance not highly dependent on incomes of the family but other factors, like awareness and others, because school fee is not as such high since it is subsidized by the government.

However, about 15 % of active clients have indicated that OMFI program increased their access to education. On the other hand about 85 % of the respondents reported that OMFI program didn't increase access to education. Although some of the respondents indicated a positive change households' educational access.

Table 4. 13 Household educational access

S.N.	Expenditure	Indicators	Active Clients (N=98)		Incoming clients
			Before loan in %	After loan in %	
1	Presence of school age children	Yes	81.1	78.3	80
		No	18.9	21.7	20
2	Number of children attending school	1 to 2	78.8	80	79.4
		3 to 4	21.2	20	20.6
		5 to 8	-	-	-
3	Average educational expenditure per year in Birr	Do not known	-	-	-
		Less than 100	17.1	5	16
		101 to 400	82.9	95	84
		Greater than 400	-	-	-
4	OMFI program increases access to education	Yes	10	15	-
		No	90	85	-
5	Dose school all age children attended school.	Yes	85	85	80
		No	15	15	20

Source: Own household survey, 2015

4.3.7 Household health and access to medical facilities

Poverty and poor health have bi-directional relationship in which poor health leads to poverty and poverty leads to poor health conditions vice versa. Apart from lack of financial resources to pay for health services, food, clean water and good sanitation, the poor also suffer from poor health facilities. The assumption of the study is provision of financial services to the poor may improve access to medical facilities and improve the health conditions of the poor.

To test this hypothesis, households were asked on the status of their health conditions, medical treatments and the overall medical access in the last 12 months. Therefore table 4.13 revealed that about 72.7% and 73.6% of active and incoming clients, respectively, didn't have sickness or injury incidences in their household in the last 12 months.

Sickness or injury incidence was 7.3 % in active clients and incoming clients 26.4 %, according to respondents on difference both types of the clients. The incidence of sickness was slightly higher in rural clients than urban clients. Almost all the respondents (active and incoming clients) had medical treatment too. This implies that they had the capacity to pay medical expenses. All medical expenses were covered from business profits in the case of active clients whereas in control groups, only 55.2 % of expenses were covered from business profits and 44.8 % covers cost of treatment from relatives. Among the respondents bout 70 % of active clients and 65 % of incoming clients reported that there were no changes in their overall access to medical facilities in the last 12 months. The findings of the study revealed that OMFI's intervention didn't improve access to medical treatment and overall health conditions of clients.

Table 4. 14 Health status of households

S.N.	Indicators	Response	Active Clients N=48	Incoming clients N=50
			Percent	Percent
1	Any sickness in the household during the last 12 months	Yes	27.3	26.4
		No	72.7	73.6
2	Did you get medical treatment	Yes	90	91
		No	10	9
3	Source of money for medical expenses	Business profit	100	55.2
		From friends	-	-
		Others	-	44.8
4	Overall medical access	Decreased		
		No change	70	65
		Increased	30	35

Source: Own household survey, 2015

4.3.8. Empowerment of women

Many literatures of microfinance intervention may lead to women empowerment by increasing their income and their control over that household resource that including their own income, enhancing their knowledge and skills in production and trade as well as increasing their participation in household decision making. Therefore, social attitudes and perceptions that may change and women's status in the household and community may be enhanced.

Table 4.14 showed that out of the total respondents the more than fifty percent of women 74.2% took loans after they got in the study area. The collected data and analyzed result showed that about 54.1 percent of respondents reported that, the decision to take the loan is jointly made by the husband and wife. Among the respondents mostly the women made decision-making is about 26.3% of the total interviewed. 19.6 % of the respondents reported that only the wife makes the decision on the loan.

The analyzed result showed that about 52.4% of respondents replied that the decision to use the loan and to use the business profit is jointly made by the husband and wife, while mostly wife makes 30.3% of loan usage and 17.3 % of business profit decision made by only women. No one reported that husband as the only decision maker on the loans in the household both in urban and rural households too.

The result revealed that women have at least equal or more power than their husbands in the decisions making on the loan. Out of the total sample respondents, more than 73.4 % confirmed that the participation in OMFI saving and credit program raised their confidence in decision-making experience. Besides, about 85 % of respondents reported that they have higher level of self-confidence after taking the loan. The findings of the study indicated that OMFI saving credit program enhanced women's participation in decision-making and increases their self-confidence as well.

Table 4. 15 Empowerment of married women in decision making (N=48)

S.N.	Indicators	Response	Active Clients N=48 In Percent
1	Any credit in you take after marriage	Yes	74.2
		No	25.8
		No answer	-
2	Decision maker to the credit	Husband and I	54.1
		Mostly I	26.3
		Only I	19.6
		No answer	-
3	Decision maker on use usage of loans	Husband and I	52.4
		Mostly I	30.3
		Only I	17.3
		No answer	-
4	Do loan experience add confidence in your decision making	Yes	73.4
		No	26.6
5	Your level of self confidence	Highly confident	85
		No confidence	15
		No answer	-

Source: Own household survey, 2015

4.4 Impact at the enterprise level

It is obvious and expected that enterprises can benefit from microfinance saving and credit program by improving access to either working or operational capital, which helps them to expand or improve their business. The expansion of enterprises can increase production, profit and create job opportunities to their households and the community, who are deprived and lack job opportunities then finally ensures food security.

The analyzed showed the impact of OMFI saving and credit program on enterprises using impact indicators such as job opportunity, production process and profit on both before and after taking loans. Those of the respondents 76.3% reported that members of the household ran their enterprises, where as 23.7 % responded that they have co-workers to help them in running the business before the loan. Among these coworkers, about 86.7 % were household members and 13.3 % were hired laborers.

However, after the loans from OMFI, about 66.5 % of the respondents confirmed that they hired additional workers in their enterprises other than their family members to run the business in a good manner. Moreover, about 66.5 % of the respondents indicated that their enterprises increased job opportunities for the community as well.

On the table 4.15 it is clearly indicated that about 94.4 % almost large majority of the households improved their enterprise capacity after taking loans from OMFI. Similarly 87.1 % and 87.8 % of respondents confirmed that their enterprises' production and profit have increased after they borrowed money from OMFI respectively. In conclusion, the sample survey results reveal that OMFI saving and credit program has a significant positive impact at enterprise level by improving business, employing more people, increasing production and increasing net profit of the enterprise.

Table 4. 16 . Impact on enterprises (N=48)

S.N.	Indicators	Response	Percent
1	Any co-workers in your business to help you before loan	Yes	23.4
		No	76.6
2	Relation of co-workers	Family members	86.7
		Hired laborers	13.3
		Others	-
3	Hired additional laborer after the loan	Yes	66.5
		No	33.5
4	Your business increase job opportunity after loan	Yes	66.5
		No	33.5
5	Business improvement after the loan	Yes	94.4
		No	5.6
6	Your business production after the loan	No change	12.9
		Increased	87.1
7	Your business profit after the loan	Decreased	-
		No change	2.2
		Increased	87.8

Source: Own household survey, 2015

4.5 Non- financial services

4.5.1 Training

Among non-financial services which need to be provided by OMFI is capacity building or training that is so important service. Table 4.16 below revealed that trainings were provided to the active clients of OMFI. About 90.1 % of clients received training, while about 9.9 % didn't obtain training at all.

The trainings which were given to active clients were focused on loan utilization, marketing, and savings. Most of the clients about 35 % received training on loan utilization. About 30 % of the respondents were provided with training on marketing whereas 20.4% also trained on saving. The remaining 14.6% of the respondents have given general training on financial management and administration.

Most of the respondents, 70% of clients were trained for about only once. The remaining 20% and 10% of the respondents were provided training for about three and two times respectively. However, during the focus group discussions, most of the participants reported that the training delivered by OMFI is not satisfactory and focused mostly to the active clients and incoming clients not given due attention.

Table 4. 17 Clients training (N=48)

S.N.	Activities	Indicators	Percent
1	Training taken	Yes	90.1
		No	9.9
		No answer	-
2	Type of training taken	About loan utilization	35
		About marketing	30
		About saving	20.4
		General training	14.6
		No answer	-
3	Number of trainings taken	One	70
		Twice	10
		Three times	20
		More than 3 times	-
		No answer	-

Source: Own household survey, 2015

4.5.2 Monitoring and supervision

Any business that needs to be successful, monitoring and supervision is an important element. Since in improves the performance of microfinance institutions and to assess the demand and success of clients. Regular monitoring and supervision of loan utilization is expected to help in reducing diversion of loans towards unintended activities. Sample clients are asked whether monitoring and supervision is useful, regular and satisfactory in the study area.

As it is presented in table 4.17 about 98% of the respondents reported that OMSI staffs conducted supervision to active clients to assess the use of loans, whether they used their loan to the intended purpose or not and ensure repayment of loans in effected in accordance with the schedule agreed up on. The remaining few respondents, only 2%, said that no supervision was made by OMFI staffs.

About 15 % of the active clients have been supervised more than three times in one loan cycle. Moreover, about 25% of the respondents were supervised equally two and three times respectively by OMFI staffs. The remained 35 % of the active clients supervised once in one loan cycle.

Most of the respondents, about 79.8 % accept the supervision of OMFI as satisfactory. Furthermore, participants of the focus group discussions were satisfied with supervision where they received advices to help them to achieve better success and encouraged them to repay the loan on time. In one group discussion, participants reported that the supervision helped them in various respects. However, they suggest that more improvement is needed in monitoring and supervision, which will encourage clients to increase their performance and reduce defaults in utilization of the fund.

Table 4. 18 . Supervision of clients (N=48)

S.N.	Activities	Indicators	Percent
1	Any supervision on loan and repayment	Yes	92
		No	8
		No answer	-
2	Quality of supervision	Satisfactory	89.4
		Not satisfactory	10.6
		No answer	-
3	Number of supervision per one loan cycle	None	-
		Once	35
		Twice	25
		Three times	25
		More than 3 times	15
		Conditionally	-
		No answer	

Source: Own household survey, 2015

4.6. Clients perception

4.6.1. Incoming Clients

Based on the developed questionnaire perception of incoming clients (50 households as a control groups) was gathered on OMFI saving and credit program. On the interview the respondents have reflected different reasons for not joining OMFI saving and credit program. According to the results of the study has shown on table 4.18 below, there exist a number of reasons for not joining OMFI and most of the respondents do not have clear information about. This implies that OMFI needs to promote its awareness creation activities.

The other reason reported by more than half of the respondents, about 55% reveals that they do not want to form group for loan taking and also developed fear of group responsibility as it was reported by 90% of the respondents, besides 61 percent of respondents dislikes group meeting. Furthermore, more than 55 % of the participants replied that do not have an opportunities to access loan from OMFI and the difficulties in forming a group. From the total respondents (incoming clients), 75 % confirmed that they are willing to take the credit if OMFI provide them individually.

From the interviewed result it can conclude that group-lending methodology may discourage clients and potential clients to join the OMFI saving and credit program. Lending interest rate is not a major constraint to join the program for the poor. Only 12 % of the respondents reported high interest rate as the reason for not joining the program.

The collected data analysis showed that about 75 % of respondents reported that they are willing to take loans from OMFI; they could not get the loan for different reasons as they replied. Besides, bout 55.2 % of respondents replied that they are currently ready to join the OMFI saving and credit program. In the study area most of the respondents are so eager to engage in income generating activities if respondents obtained reasonable loan on individual basis or group if they are intimate friends.

Table 4. 19 . Reasons for not a member of OMFI responses from incoming clients (N=50)

S.N.	Indicators	Quantity	Yes	No	No answer
1	No need of credit	%	27.4	65.5	7.1
2	Unable to form a group	%	55	45	-
3	Fear of group responsibility	%	90	10	-
4	Dislike group meeting	%	61	35.5	4.5
5	The loan is too small to meet credit needs	%	37.2	62.8	-
6	Lack of entrepreneurship	%	20.5	79.5	-
7	Lack of opportunity to get the credit	%	55	36	9
8	Disagreement among families	%	28.7	71.3	
9	Due to high interest rate	%	12	88	-
10	Willingness to take the credit if provide individually	%	75	20	5
11	Readiness to be a client of OMFI	%	55.2	44.8	-

Source: Own household survey, 2015

4.6.2 Active clients

Table 4.19 below showed that whether active clients were satisfied with financial services provide by OMFI in the study area. Among the interviewed respondents above 83.3 % of clients reported that they received enough amount of loan to meet their demand, according to as per their request even though they do not have obtained enough amounts for the purpose.

About 30.1 % of active clients received the loan as soon as they apply for it, whereas 69.9 % the interviewed clients replied as they got the loan lately of their application. Most of the clients, 78.2 % received training and orientation before they received the loan. However, 48.6% of clients complained about the amount of loan provided by OMFI i.e. it was not enough to fulfill their purpose. This is also reflected on the focus group discussion that was held in the study area.

In general, most of the clients are satisfied with financial service delivered by OMFI. The study also indicated that two third of the sample clients are satisfied with the loan amount. However, 48.6 % of the clients complained about the amount of loan provided by four OMFI.

Table 4. 20 Clients satisfaction in OMFI's service (N=48)

S.N.	Description	Response	Percent
1	Got the amount of money requested	Yes	83.3
		No	16.7
2	Got enough amount of the purpose	Yes	51.4
		No	48.6
3	Got in times as soon as required	Yes	30.1
		No	69.9
4	Training taken before receiving the loan	Yes	78.2
		No	21.8

Source: Own household survey, 2015

4.6.3 Likes, Dislikes and Suggestions of Interviewed & Focus Group Discussion

Few open-ended questions were prepared to gather the opinion of active clients of OMFI. Furthermore, focus group discussions were also conducted to study the perception of clients on the service delivery of OMFI. About 48 respondents provided their opinion in the interview and 30 focus group participants in three groups also provided their opinion on service delivery. Table 4.20 indicated that the summary of responses of both interviewees and focus group discussions that was conducted in the study area.

From the discussion and interview it is understood that the service delivery of OMFI is appreciated among active clients. Among the participants in the interview 66 % and focus group discussions, 60 % of the respondents stated that, their living standard have improved as a result of OMFI saving and credit program. About 60 % of interviewees and 45 % of focus group participants appreciate the savings and credit service provided by OMFI which promoted the saving habits of the active clients.

Among the respondents 91 % of interviewed clients and 85 % of focus group participants liked the services of OMFI staff's handling and providing useful advices. The respondent and OMFI staffs developed friendly relationship among them that smoothen the saving and credit services in the study area. The clients also appreciated the lending interest rate, training and advices, good working condition, lending without personal guarantee, reduced the exploitation of money lenders, paying reasonable interest on deposit, and adequate monitoring and supervision of OMFI.

Furthermore, both the interviewed and the focus group discussion clients identified what they didn’t like some operations which are conducted by OMFI. From the total 48 interviewed clients 80 % and from 30 focus group participants 81 % expressed that they do not like group collateral. Similarly 51 % and 54 % of interviewee and focus group participants respectively reported that they dislike the shortness of loan period.

Moreover, some clients reported that the loan size is low to meet their needs and to fulfill the intended business purposes. High lending interest rate is another dissatisfaction reported by 28 %

of interviewees and 38 % of participants of the group discussion. Clients disliked the long time in disbursing loans, group and center savings, inflexibility in withdrawing savings i.e. they cannot withdraw money whenever they want and savings were not regularly recorded on time in the savers passbook.

Table 4. 21 Frequency and percentage distribution of likes dislikes and suggestions of Interviewed active clients and focus group participants

S.N.	Description	Interview in %	Focus Group Discussion (%)
1	Likes:		
	Improved living standard	76	60
	Fair on lending interest rate	58	47
	Staff members good approach	91	85
	Training and advice	85	81
	Promote saving habit	60	45
	Create good working condition	23	49
	Lending without Collateral	-	-
	Good interest on deposit	45	37
	Good supervision	45	82
	Saved us from money lenders exploitation	60	65
2	Dislikes		
	Group and center saving	56	60
	Group collateral	81	80
	Short repayment period	51	54
	Low amount of loan	75	45
	High interest rate	28	38
	Loan is not disturbed	17	28
	Cannot disturbed on time	12	82
	Cannot withdraw saving immediately	23	26
3	Suggestions:		
	Reduce on-lending interest rate	10	21
	Permit individual loan	87	90
	Increase amount of loan	59	64
	Make the repayment period longer	55	61

Source: Own household survey, 2015

The survey result revealed that clients have also made some recommendations to improve OMFI saving and credit services. Among the suggestions forwarded by clients includes increasing the loan period and the loan repayment period should be flexible in accordance with the working condition of the clients. The other improvement proposed by large majority of focus group discussion participants, about 87 % and interviewed 90 % participants were the need of promoting individual lending methodology.

Finally, the clients recommended that OMFI should increase the size of loan delivered to clients to use the fund to the intended purpose and improve the incomes of the clients. Because, from their experience clients understood the loans of OMFI make a difference in their lives.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Poverty has remained to be a daunting challenge to the developing countries. It is a problem for all the countries irrespective of their level of development and can be observed in many forms. It has both income and non-income dimensions. It may be lack of income or resources, lack of coping capacity, lack of basic human capabilities, a lack of institutional defense or in extreme cases a lack of all these. In wider sense, it may be a combination of economic, social and political deprivations.

To address these problems, context specific strategies were implemented by developing countries. Recently, micro credit and micro saving have been given due weight as one of the best means to fight against poverty. Micro credit schemes provided the poor with small loans, saving opportunities, opportunity for enhanced self-employment, develop income generating schemes and expand income that would help them to alleviate poverty and improve their living conditions.

The government of Ethiopia, as many developing countries believes that microfinance institutions are one of the instruments in poverty reduction. It is expected that microfinance services create employment opportunities, increasing income, enhancing empowerment and in aggregate improve the livelihood of the poor who resides in rural areas.

Accordingly, Proclamation No. 40/1996 was established in 1996 to promote microfinance development in Ethiopia. Following this, many (thirty) microfinance institutions have been emerging in remarkable manner in Ethiopia. Among these six of them which are located and operating in Southern Nations Nationalities and Peoples Regional State (SNNPR).

The main objective of all MFIs in Ethiopia is to provide financial as well as non-finical services to the active poor people. Emphasis has been laid on the need that poor people have for a wide range of financial services. So it is important to understand the rationale of microfinance development features on the targeted groups (poor). On the other hand, assessing the impact of microfinance intervention is essential to explore the ways in which financial services are able to support livelihoods and promote them for savings accumulation for future use.

This has made an attempt to assess the role of micro credit in poverty reduction programs in SNNPR by taking the case of Omo Microfinance institution (OMFI). It also came up some important findings that have policy implication.

An encouraging result has been observed in this study. Omo microfinance Institution services have brought some positive impacts on improving income, asset building and the wealth status of its clients. Majority of its customers perceived their livelihood status is in continues progress due to an improvement on their income and household assets.

Although further and deep studies needed to be conducted in this area, important outcomes in terms of economic and livelihood improvements were observed because of the microfinance intervention. Helping poor households in maintaining or increasing income flows, providing them with an opportunity to acquire saving habits and through their group formation clients were able to exercise participation in their local development process. Large number of clients reported the presence of positive change in their wealth status, which in turn, has increased the borrower's satisfaction in their life and thereby develop sense of self-reliance due to OMFI services. The number of active clients, loan customer's disbursement, and average loan size of OMFI has increased in a remarkable way from year 1999 to 2015 and has an impressive loan repayment.

Microfinance provision enables the clients to generate income that could be spent on improved facilities and improve the living condition of households. The average monthly expenditure of active clients shifted from the lower category to the next higher category after joining OMFI program. However, OMFI's intervention did not show a positive impact on improving access to education and medical facilities. Most of respondents indicated that their overall saving has been increased and developed their saving habit. Furthermore, OMFI program enhances empowerment of women. Most respondents expressed that they have equal power in households' decision making. Decisions on the loan, loan usage and business profit is taken jointly by the wife and the husband.

Finally, microfinance is not a miracle solution. It is for everyone is not solely responsible for poverty reduction. It must be with integrated with other social programs like public works, adult literacy programs, health development programs, community development programs that are flexible to meet the diverse needs of destitute families. Microfinance loans and credit needs to be reviewed and adjusted for the poor, since the poor are not a homogenous group.

5.2 Recommendations

On the study, OMFI has a positive impact on poverty reduction. However, the following recommendations are forwarded for further development of OMFI.

- There is few number of women clients' participation in OMFI shows inconsistency with its objectives. It needs a critical assessment to find out the reasons and take corrective measures.

- The amount of loan to be provided by OFI is so small, and it is recommended by most of the active clients and it needs to be adjusted. The investigation indicates that there exists dropout because problems and dissatisfaction of OMFI service. Therefore, OMFI should investigate the main dissatisfactions that lead to withdrawal of clients from saving and credit program and take corrective measures accordingly.

- According to the survey, most of clients respond that they not provided with training on financial management and administration, skill development in saving credit and loan repayment and others. Therefore those above mentioned training should be given to those active clients.

- Information is a critical factor for any sound decision making process. Incoming clients, especially rural communities, stated that one of the common reasons for not joining OMFI program was lack of information about OMFI. Thus, establishing advocacy and advertising mechanism helps the institution to expand its outreach and give an opportunity for possible potential beneficiaries both in rural and urban areas.

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Questionnaires

PART I

General Information about Respondent

Region: _________________

Zone: __________________

Woreda: ________________

Kebele: _________________

Specified Place of survey: _________________________

Name of Respondent: ___________________

Respondents Signature: ________

Head of the Household: Male O Female O

Interviewer's Visit: Completed O

Respondent not Available O

Partially Completed O

Refused O

Others Specify __________________

Questionnaire Identification Number: _________

Interviewer's Name ____________________ Date __________ Signature _________

Supervisor Name__________________ Date of Check __________ Signature _________

PART II

Basic Information about Respondents

1. What is Sex of the respondent?

   O Male O Female

2. What is the Relationship to the head of the household?

   O Head O Wife, husband or partner O Son or daughter

   O Son in law or daughter in law O Grandchild O Parent in law

   O Brother or Sister O Adopted or Foster or Step child

   O Other Relative O Not Related O Does not Known

3. How old are you?

   O Years______ O Does not known O No response

4. Have you ever attend formal schooling?

   O Yes O No

5. What is the highest grade you had completed?

   O Primary (1-4) O Secondary (5-8) O High School (9-12)

   O Technical/Vocational Certificate

   O University/Collage Diploma O University/Collage Degree

6. What is your marital status?

   O Married O Single O Divorced O Widowed

7. Have you ever got a child?

   O Yes O No

8. How many living children do you have?

   O Number of children____ O Dos not know O No response

9. What is your religion?

   O Orthodox christen O Catholic O Protestant

   O Muslim O Traditional O Others \specify ____________

10. What is your Ethnicity?

    O Oromo O Amhara O Tigre

    O Somali O Gurage O Other Specify________________

11. Can you tell me your household size before the loan?

O Number of Household Male _____ Female ____ Total_____

O Does not know O No response

12. Can you tell me your household size after the loan?

O Number of Household Male _____ Female _______ Total _________

O Does not know O No response

13. Can you tell me number of dependants before the loan? (below 18 and above 65 of age)

O Number of Household Male _____ Female _______ Total________

O Does not know O No response

14. Can you tell me number of dependants after the loan? (below 18 and above 65 of age)

O Number of Household Male _____ Female _______ Total_______

O Does not know O No response

15. Are you a participant of micro credit program?

O Yes O No

16. When did you join the micro credit program?

O Years _______

O Does not know O No response

17. For how long period of time did you participate in micro credit program?

O Years _______

O Does not know O No response

18. For how many times did you receive the loan from MFI?

O Number of rounds _______

O Does not know O No response

19. How much was your first loan?

O Amount in Birr _______

O Does not know O No response

20. How much is your current loan?

O Amount in Birr _______

O Does not know O No response

21. How much was your cumulated loan since first time onwards?

O Amount in Birr _______

O Does not know   O No response

22. Did you participate in saving program of MFI?

    O Yes   O No

23. How much was your current saving amount?

    O Amount in Birr ________

    O Does not know   O No response

24. How much was your compulsory saving in each time?

    O Amount in Birr ________

    O Does not know   O No response

25. How much was your voluntary saving in each time?

    O Amount in Birr ________

    O Does not know   O No response

26. Are you employed?

    O Yes   O No

27. What is your occupation?

    O Professional technician   O Administrator, Manager   O Sale worker   O Farmer

    O Craftsmen, Laborer   O Military   O Others specify ____________________

PART III

Loan / Credit Use Information

1. When did you get the last Loan?

   O 1 year ago O 5 years ago O 5 years ago

   O 10 year ago O Other specify________________

2. How did you get the loan?

   O Trough group O Individually O Other specify________________

3. If you take with group how many members are there in the group?

   Male _______ Female_______ Total ________

4. Do you all know each other before forming the group?

   O Yes O No

5. Do you monitor your group members for the intended purpose, utilization of the loan?

   O Yes O No

6. Does the group have internal controlling mechanism or by-laws for regulation purpose?

   O Yes O No

7. Did you get the amount you requested?

   O Yes O No

8. If the answer is no specify the reason

   ____

   ____

9. Did you get training before you get the loan about credit repayment and utilization?

   O Yes O No

10. Was the amount of the loan size satisfactory for the intended purpose?

    O Yes O No

11. Was the loan issued timely?

    O Yes O No

12. Did you invest the last loans you took from MFIs in an income generation activities?

    O Yes O No

13. What was the activity you are engaged after taking the loan?

    O Manufacturing (food processing, textile production, Craft, Leatherwork...)

O Service (hair dressing, restaurant, food stalls, cleaning service, local drinks...)

O Agriculture (food production, animal rising...)

O Others \specify ____

14. Do you use any portion of your last loan for intended purpose?

O Yes O No

15. For what purpose did you use?

O Buy food for households O By clothes for the house hold

O Give money or loan others O Keep the money on hand for emergency

O Others \specify ____

16. What the status of your loan repayment?

O Fully repaid O Repayment according to schedule

O Not repaid according to schedule O Does not know

O No response

17. What was the amount you repaid?

O Fully repaid in birr ______ O Repayment according to schedule in birr _______

O Not repaid according to schedule in birr _____ O Does not know

O No response

18. If did not pay according to schedule, what is the major reasons?

O The loan activity was not profitable O Profitable but used for other expenditure

O Profitable but the outputs are sold in credit O Loss of assets

O Others \specify ____

19. Do you believe the loan should be repaid?

O Yes O No

20. Do you have access to credit from other sources other than MFIs?

O Yes O No

21. If yes, from where?

O Banks O Relatives O Friends O Individual money lenders

O Iddir O Others \specify ____________________________________

22. If yes why you borrow from other sources?

O Need of more amounts O Interest rate is low

O Easier to get O Others \specify ________________________________

23. To what purpose did you need the loan?

O For business activity O For food consumption O For clothing

O To buy fixed assets O For medical services

O Others \specify ___________________________________

24. What do think about the lending interest rate of the MFIs?

O High O Moderate O Low O Does not know O No response

25. What your team of receiving loan?

O Weekly O Monthly O Quarterly O Every month

O Every year O Others \specify ___________________________________

26. What do you think about the repayment period of the loan?

O Short O Satisfactory O Long

PART IV

Source of Income and Level of Income of the Household

1. Did you have a source of income for your household before the loan?

   O Yes   O No

2. If yes, Specify the average monthly income in birr ___________________
3. What is your average monthly income after you have taken the loan?

   Specify in birr ________________

4. During the last twelve month has your over all income

   O Decreased greatly   O Decreased   O Stayed the same

   O Increased   O Increased greatly

5. If deceased what is the main reason?

   O One of the family members has been sick   O Poor sales

   O Production was poor   O Lost job   O Others Specify ____________________

6. If increased what is the main reason?

   O Expanded existing enterprise   O Undertake new enterprise   O Sold in new markets

   O Got a job   O Income from other sources   O Others specify _____________

7. Is there anyone who is engaged in income generating activity from member of your household?

   O Yes   O No

8. If yes how many of them are engaged?

   Specify the number __________________________

9. In what kinds of activity are they engaged?

   O Trade   O Service   O Handicraft   O Wage employee

   O Permanent employee   O Agriculture   O Others specify _____________

10. During the last twelve month, did you make any of the following changes to your enterprise activities after taking the loan?

    a. Expanded size of enterprise O Yes   O No
    b. Added new enterprise O Yes   O No
    c. Hired more workers O Yes   O No

d. Improved quality of products O Yes O No
e. Reduced costs by buying inputs in greater volume O Yes O No
f. Reduced costs with cheaper source of credit O Yes O No
g. Sold in new market O Yes O No

PART V

Household Asset and Wealth Condition

1. Did you have a house before you join the credit program?
   O Yes O No
2. If no, did you have a house after join the program?
   O Yes O No
3. If you have a house what the condition of the house?
   O Poor quality O Medium quality O Good quality
4. If you have a house is its market value before the loan?
   Specify in birr _____________
5. During the program period, is there any improvements or additions made to your home that costs more than birr 100?
   O Yes O No
6. If yes, which one have you done? (You can choose more than one answer)
   O House repair (roof, floor, and wall) O House expansion
   O Improved water or sanitation system
   O Lighting/Electricity O Others Specify_________________________
7. Do you have the following asset? (Indicate by (x) mark

Sn.	**Asset Type**	**Acquired**	
		Before loan	**After loan**
a	Chair		
b	Table		
c	Refrigerator		
d	Shelf		
e	Bed		

f	Sofa		
g	Radio		
h	Tape player		
i	TV		
j	Others Specify		

PART VI

Living Standard and Expenditure of Household

1. What was the average monthly expenditure of your household before the loan?
   O Below birr 500 O Between birr 501-1000 O Between birr 1001-1500
   O Between birr 1501-2000 O Above birr 2000
2. Who was the bearer (source) of expenditure in your house hold before the loan?
   O Yourself (head of the house) O Other family member
   O You and other family member O Others Specify___________________
3. How times does your family eat meals in a day?
   O Once O Twice O Three times O More than three times
4. What was the average monthly expenditure of your family after the loan?
   O Below birr 500 O Between birr 501-1000 O Between birr 1001-1500
   O Between birr 1501-2000 O Above birr 2000
5. Who is the bearer (source) of expenditure in your household after the loan?
   O Yourself (head of the household) O Other family member
   O You and other family members O Relatives
   O Others specify_________________________
6. What is your household diet condition looks like?
   O Worsened O Stay the same O Improved
7. How many times your households eat meals in the day after the loan?
   O Once O Twice O Three times O Above three time

8. If improved, do you think that the nutritional status of your family improved because of the loan you received?

   O Yes O No

9. During the last twelve months was there ever a time when was necessary for your household to eat because of either lack of food or lack of money to buy food?

   O Yes O No

10. If yes, how long did this period last?

    In months______________________________

11. How the household solve the problem?(Shortage)

    O Borrow from friends O Borrowed money or food at cost

    O Sold personal property O By migrating to seek employment O Others Specify____

PART VII

Accesses to Educational Facilities

1. Do you have children and other school aged household members?

   O Yes O No

2. If yes, how many of the have attend to school?

   Number before the __________ Number After the loan_____________

3. What is the average educational expenditure per year?

   O Before the loan Birr_______ O After the loan______________

   O Dos not known O No response

4. Did the member of your household member attending school?

   O Decreased O Stay the same O Increased

5. If increased, what is the main reason?

   O New school building in the area

   O Income improvements in the house hold

   O Increase the awareness of the household towards education

   O Others specify________________________

6. If decreased, what is the main reason?

   O Lack of income for school tuition O Lack of access to school in the area

   O High price of educational facilities O Needed for help for the household

   O Others specify__________

7. Do you think that you and your family access to educational facilities have improved following the loan?

   O Yes O No

PART XIII

Medical facilities and Health conditions of the household

1. Is there any household member sick or injured during the last twelve months?

   O Yes O No

2. If yes, did they get medical treatment?

   O Yes O No

3. If yes, where you get the money you paid for medical treatment?

   O From my business profit O From my voluntary saving

   O Borrowed from relatives O Borrowed from friends

   O Borrowed from other sources at cost O Others please specify ___________

4. If they didn't get medical treatment, what is the main reason?

   O Lack of medical facilities O High price medical facilities

   O Low level of income (lack of money) O Distance of the health institution

   O Others please specify ___________

5. In general, do you think your access to medical facilities?

   O Deceased O Stayed the same O Increased

6. If increased what is the main reason?

   O Assess of credit from SFPI O Borrowed other sources other than SFPI

   O Better Local treatment O Sold household assets

   O Others please specify ___________

PART IX

Employment and Production

1. What was the major type of activity you engaged before the loan?

   O Local drink preparation O Wood works O Metal works O Food preparation

   O Animal husbandry O Retail trade O Waving O Bakery

   O Hotel / restaurant O Shoe repair/ shine O Barber

   O Others Specify ____________________
2. Is there any worker who helps you before the loan?

   O Yes O No
3. If yes, who are they?

   O Family members O Hired labor O Aprehentship O Others specify______________
4. Do you think your business activities improved after the loan?

   O Yes O No
5. Do you think your business activity increases job opportunities?

   O Yes O No
6. Did you use hired labor in your business activity?

   O Yes O No
7. If yes, how many?

   Male_______________ Female _____________
8. Did you think the business after loan?

   O Decreased O Stayed the same O Increased

PART X

Saving Information

1. Do you have saving at MFIs?

   O Yes O No

2. If yes, what type of saving?

   O Compulsory O Voluntary

   O Both compulsory and voluntary O Others specify____________

3. If yes, specify the average monthly saving amount in birr?

   O Compulsory__________

   O Voluntary___________

4. What is current total of saving?

   Specify birr ____________

5. What is your source of money for saving?

   O From business profit financed by the loan O From other sources of income

   O Borrowed from relatives O Borrowed at cost

   O Income from employment O Others specify____________

6. Having you faced any difficulties for compulsory saving?

   O Yes O No

7. If yes, how do you manage the difficulties?

   O Sold household assets O Borrowed from relatives O Borrowed from friends

   O Borrowed at cost O I did not paid O Others specify____________

8. Do you like compulsory saving?

   O Yes O No

9. During the last twelve month have you savings

   O Deceased O Stayed the same O Increased

10. For what purpose do you save?

    O For loan repayment O For safety O For consumption

    O To earn interest O Bought household assets O Made improvement to the house

    O To withdraw during emergency O Have not used saving O Others specify_________

11. What are the alternative features of MFIs saving facilities?

O The increased rate is good O Offers a safe way of holding saving

O Continued deposit and withdrawal O Withdrawal since it is near by

O Others specify___________

12. What do think about the interest rate of MFIs paid on saving?

O Less than the market rate O Greater than the market rate

O Have no information about the interest rate O Does not O No response