# *The role of micro finance in accessing loan and improving the livelihood of beneficiaries: Case study of OCSSCO Jimma Zone*

*A Thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration (MBA)*


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**COLLEGE OF BUSINESS AND ECONOMICS**

**MBA PROGRAM**

**JUNE, 2017**

**JIMMA, ETHIOPIA**

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# CERTIFICATE

This is to certify that the thesis entities "The role of micro finance in accessing loan and improving the livelihood of rural community: Case study of OCSSCO Jimma Zone" Submitted to Jimma University for the award of the Degree of Master of Business Administration (MBA) and is a record of Valuable research work carried out by Mr. Tamirat Aklilu, under our guidance and supervision.

Therefore we hereby declare that no part of this thesis has been submitted to any other university or institutions for the award of any degree of diploma.

| Main Adviser's Name | Date | signature |
|---|---|---|
| ________________________ | ______________________ | ________ |
| Co-Advisor's Name | Date | Signature |
| ________________________ | ______________________ | ________ |

# DECLARATION

I hereby declare that this thesis entitled "The role of micro finance in accessing loan and improving the livelihood of rural community: Case study of OCSSCO Jimma Zone", has been Carried out by me under the guidance and supervision of Ass.Prof. Emnet Negash and Mr. Megersa Wodajo.

The thesis is original and has not been submitted for the award of degree of diploma any university or instructions.

| Researcher's Name | Date | Signature |
| --- | --- | --- |
| ______________________ | ______________________ | _______ |

## *Abstract*

*The majority of the world's poor live in rural areas. Yet most lack access to the range of financial services they need. Despite numerous government as well as non-governmental efforts to reduce the poverty of rural marginalized people through microfinance over the last decade, poverty remains deeper and yet much remains to be done to improve the quality of life of poor people. Perhaps no other development strategy has attracted so much global attention in the history of poverty focused development than micro-finance. This thesis examines the role of OCSSCO microfinance institution in accessing credit and poverty reduction. The study focuses on assessing the accessibility of credit, credit methodologies and procedures, and contributions towards reducing poverty. The study adopts mixed research approach in order to answer research questions of the study. Primary data were collected through structured questionnaire to clients and staff members, semi-structured interview with the branch manager of the institution in Jimma Zone. Secondary data were gathered from different published and unpublished relevant materials. The findings indicated that the OCSSCO micro finance institution is in fact reaching the excluded poor segments in rural area with financial products. The scheme has improved the clients' income, asset holdings, access to various social services. However, since the institution strictly requires group formation by self selected potential borrowers as a precondition to access loans, the situation excludes the target productive poor from accessing credit. Finally, based on the findings to recommend OCSSCO to enhance accessibility to rural poor communities, to adopt different mechanism to retain existing clients, to determine loan size based on the project and cash flow and increase advisory services.*

*Key Words: Microfinance, Access, Credit, Poverty*

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# Acronyms

**AEMFI:** Association of Ethiopia Microfinance Institution

**CGAP:** Consultants Group to Assist the Poor

**CSA:** Central Statistical Agency of Ethiopia

**EPRDF:** Ethiopian People's Revolutionary Democratic Front

**GDP:** Gross Domestic Product

**MDG:** Millennium Development Goal

**MF:** Microfinance

**MFI:** Microfinance Institution

**NBE:** National Bank of Ethiopia

**NGO:** Non Government Organization

**OSSCO:** Oromia Credit and Saving Share Company

**PPP:** Purchasing Power Parities

**SPSS:** Statistical Package for Social Science

**UN:** United Nation

**UNDP:** United Nation Development Program

**WB**: world Bank

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background of the Study

Poverty as a public policy concern, whether at the global, national or community level, is now widely considered to be a multidimensional problem. Over the last few decades, new perspectives on poverty have challenged the focus on income and consumption as the defining condition of poor people. Studies of the problems of poor people and communities, and of the obstacles and opportunities to improving their situation, have led to an understanding of poverty as a complex set of deprivations (UNDP, 2006).

Poverty is general scarcity or the state of one who lacks a certain amount of material possessions or money. It is a multifaceted concept, which includes social, economic, and political elements. Absolute poverty or destitution refers to the lack of means necessary to meet basic needs such as food, clothing and shelter. Absolute poverty is meant to be about the same independent of location. Relative poverty occurs when people do not enjoy a certain minimum level of living standards as compared to the rest of society and so would vary from country to country, sometimes within the same country. Poverty reduction is a major goal and issue for many international organizations such as the United Nations and the World Bank.

According to the World Bank, between 1990 and 2015, the percentage of the world's population living in extreme poverty fell from 37.1% to 9.6%, falling below 10% for the first time. Nevertheless, given the current economic model, built on gross domestic product (GDP), it would take 100 years to bring the world's poorest up to the previous poverty line of $1.25 a day. Extreme poverty is a global challenge; it is observed in all parts of the world, including developed economies.

In 2000 Ethiopia had one of the highest poverty rates in the world, with 56% of the population living below the international poverty line of US$1.25PPP a day. Ethiopian households experienced a decade of remarkable progress in well-being since then and by the start of this decade less than 30% of the population was counted as poor. Agricultural growth drove reductions in poverty, encouraged by pro-poor spending on basic services and effective rural safety nets. However, although there is some evidence of manufacturing growth starting to reduce poverty in urban centers at the end of the decade, structural change has been remarkably absent from Ethiopia's story of progress. The majority of Ethiopian households are still engaged in agriculture and living in rural areas. Additional drivers of poverty reduction will be needed to end poverty in Ethiopia, particularly those that encourage the structural transformation of Ethiopia's economy (WB, 2015)

Microfinance has proven to be an effective and powerful tool for poverty reduction (Morduch and Haley, 2001).As a result, in recent years, microfinance has been considered as an integral component of poverty reduction strategy by many governments, international organizations and donors. Improved access and efficient provision of savings, credit, and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, gradually build their asset base, develop their micro enterprises, enhance their income earning capacity, and enjoy an improved quality of life. Like many other development tools, however, microfinance has insufficiently penetrated the poorer strata of the society.

The poorest still form the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance. Delivery of microfinance services has also been considered as one of the policy instruments of the government and non-governmental organizations to induce the adoption of new technologies and enable poor households increase their productivity and income, and reduce poverty. The establishment of sustainable and profitable microfinance institutions that reach a large number of poor households who are not served by the conventional banks, such as commercial and development banks, due to their institutional and structural problems, have been a prime component of the new development strategy of Ethiopia i.e. poverty reduction (Wolday, 2000).
According to Daba (2003) from the study, he has come to the conclusions that microfinance intervention leads to change that is different from that would have happened without the intervention. The program increases the probability of improvement in economic status of the clients. The changes more likely occur with program participation than without program participation. The study found that involvement in micro finance program alone can change the

livelihood of beneficiary. However, the study gives no idea on the conditions of these clients' participation and duration with microfinance services.

The purpose of this paper is therefore to assess the role of OSSCO in accessing credit and improving livelihood of rural communities by giving attention to existing loan clients in the case of Jimma Zone.

## 1.2 Statement of the Problem

Poverty is a harsh and undesired phenomenon in mankind. The need for reducing and if possible eradicating it is unquestionable. Based on the evidence on the role of microfinance in socio-economic development and poverty alleviation microfinance programs have increasingly been considered as a component of the main instruments in poverty reduction in recent development agenda (Zeller and Meyer, 2002).

Substantial debate remains in literatures regarding to the impacts of micro finance on poor section of the people. In some of these literatures, microfinance has brought positive impact to the life of clients, boost the ability of poor individuals to improve their conditions and have taken advantage of increased earnings to improve their consumption level, health and build assets (Murdoch and Haley, 2001).

On the other hand, other studies have shown that microfinance is said to play insignificant role towards poverty reduction. According to Chowdhury (2009),show that poor households do not benefit from microfinance; it is only non-poor borrowers (with incomes above poverty lines) who can do well with microfinance and enjoy sizable positive impacts This due to the fact that vast majority of those with starting incomes below the poverty line actually ended up with less incremental income after getting micro-loans.

The credit policy for the poor involves many practical difficulties arising from operation followed by financial institutions and the economic characteristics and financing needs of low-income households (Shastri, 2009).

Microfinance became one of the important tools of reaching the poor who had very limited access to the formal financial sector. The provision of financial services to the poor has increased through microfinance institutions in a short period of time in Ethiopia (Wolday, 2003).

Hence, OCSSCO is one of the largest micro finance institutions in terms of outreach, and number of clients in the region that provides loan for urban and rural to make them the beneficiaries of the services.

OCSSCO has not undertaken an assessment study to understand or evaluate the accessibility of services and whether or not its intervention improves the livelihoods of beneficiaries. However, the role of OCSSCO on improving the livelihood of rural community in the Zone is not assessed sufficiently.

This study attempted to assess the role of OCSSCO in accessing loan and improving the livelihood of rural communities by taking a case study of Jimma Zone. Some variables such as saving, income, expenditure and asset holding are used as indicators to evaluate change on living standards.

## 1.3 Research Questions

This study answered the following research questions:

1. To assess loan delivery criteria set by OCSSCO encourage the poor and low income clients in participation of the program?
2. To examine OCSSCO's loan contribution to improving the livelihood of beneficiaries?

## 1.4. Objectives of the Study

### 1.4.1 General Objective

To assess the role of OCSSCO in providing loan and improving the livelihood of rural beneficiaries, taking case study of OCSSCO Jimma zone.

### 1.4.2 Specific Objective

The specific objectives of the study include:

1. To assess and evaluate the loan accessibility conditions
2. To assess the lending methodologies ,loan size, term of repayments and interest rate can be employed to enable the poor and low income households to gain access to credit
3. To assess advisory services of OCSSCO given to clients
4. To assess the contribution of OCSSCO's loan on the living standards of the clients in terms of saving, income, expenditure and asset holdings.

## 1.5. Significance of the study

The study about the role of microfinance in accessing credit and poverty reduction in rural community, taking OCSSCO Jimma Zone as a case study, will be important to the academicians and researchers who can use it as an input for other researches/studies. It will also be important to aggravate a discussion on whether MFI can reduce poverty in countries such as Ethiopia where poverty is chronic.

Furthermore, the research will be useful to policy makers, donors, program managers, NGOs, who could utilize it to promote policies and bye laws that will enable more people to access microfinance and benefit from it as much as possible.

The result also gives insight into the effectiveness of polices and procedure the institution follows and sees relevant areas of interventions to increase their effectiveness. In addition, the research may serve as a base for further study in the area.

## 1.6. Scope of the Study.

The study will be limited to the study area of Jimma Zone, which is accessible and familiar to the researcher instead of the entire district. The rationale behind this is that conducting a research up on all of the twenty two branches will be time taking and financially constraining. However, because of time, finance constraint and to make the study manageable, the study limits on four branch of OCSSCO Jimma Zone. Therefore, it may not have a scientific justification to assure the reader that the final conclusion coming out of this paper is representative and applicable to all beneficiaries who are participating in microfinance and OCSSCO programs throughout the region.

## 1.7. Structure of the thesis

This study is organized in five chapters. After this introductory chapter, the second chapter reviews relevant theories and prevailing literature regarding role of microfinance in poverty reduction. Third chapter focused on the methodology adopted for the study. This deals the design and method, nature and type of the data, sampling, data collection instrument and a complete data analysis technique. The fourth chapter presented results and discussions which reveals the overall findings of the study.  Finally, the fifth chapter presents conclusion and recommendations based on the research findings.

## 1.8 Operational Definition of Terms Used In the Study

**Borrower**: A loan beneficiaries who willingly enters into an agreement with a lender with the intention of accessing credit or a loan of money

**Group Loan**: Loans given to individuals in a group in which all group members jointly guarantee each other

**Interest rate**: A percentage of a loan amount paid in the form of a fee established in a loan agreement for which the borrower pays during his or her loan period.

**Loan (or credit):** Money that is borrowed and must be paid back with or without interest or fees within the time period and under the terms as agreed upon between borrower and lender.

**Saving:** Amount money that is save in microfinance institution for deferent purposes by clients.

**Loan agreement (credit agreement):** An agreement between a willing lender and a willing borrower under which a lender extends credit or lends money to a borrower under prescribed terms.

**Loan repayment period**: The duration for which a borrower will make payments until his or her loan is paid in full.

**Loan repayment frequency**: The number of payments a borrower will make until his or her loan is paid in full.

**Income:** Additional money generated by clients due to participating in different business activities.

**Expenditure:** Expenses incurred by clients to fulfill their needs.

# CHAPTER TWO

# 2. REVIEW OF RELATED LITERATURE

## 2. 1 Theoretical framework

### 2.1.1. Over View of Micro Finance

In Europe in the 15th century, the Catholic Church founded so called pawn shops in order to keep people from shady loan sharks and money lenders who gave out loans at higher interest rates. These pawn shops later spread throughout the continent (Helms, 2006). According to Seibel (2005) "informal finance and self-help have been at the origin of microfinance in Europe". More formal credit and savings institutions for poor people were already established in Ireland by the Irish Loan fund system as early as 1720, using peer monitoring to enforce the repayment in weekly installments of initially interest free loans from donated resources (Seibel 2003).

According to (Helms 2006) another cornerstone in the history of microfinance was the opening of the Indonesian People's Credit Bank in 1895 that became the largest microfinance system in Indonesia. In Bangladesh Professor Muhammad Yunus , the famous founding father of Grameen Bank, with his own lending policy started its operations in the 1970s and who is currently a synonym for microfinance (Sarah ,2011). Nowadays there is a strong development towards commercialization and transformation of providers of microfinance into formal financial institutions. This stems from the incentive of profitability and sustainability of microfinance institutions. More and more institutions became independent from donor funds and increase their capital from the capital markets while raising their outreach. According to (Sundaresan, 2008) the year 2005 was declared as the "Year of microfinance" and attracted even more private investors to invest their funds into microfinance activities

### 2.1.2 What is Microfinance?

Microfinance is an economic development approach that involves providing financial services through institutions to low-income clients, where the market fails to provide appropriate services. The range of products provided by the microfinance institutions (MFIs) includes credit, savings and insurance services. In many cases, the microfinance institution might provide social intermediation services as well, such as training and education, in line with their development objectives.

The rationale behind the establishment of microfinance schemes is that access to financial services is a key component of empowering the poor. Improved access to and efficient provision of savings, credit and insurance services can enable the poor to smooth their consumption, manage their risks and invest in themselves in order to improve their quality of living. A lack of access to adequate financial services is one contributor to a lack of development opportunities and a cause of hardship for the very poor (Austria, 2003)

According to Otero (1999) is “the provision of financial services to low-income poor and very poor self-employed people”. These financial services according to Ledgerwood (1999) generally include savings and credit but can also include other financial services such as insurance and payment services. Schreiner and Colombet (2001) define microfinance as “the attempt to improve access to small deposits and small loans for poor households neglected by banks.” Therefore, microfinance involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector.

#### 2.1.2.1 Microfinance and Microcredit

In the literature, the terms microcredit and microfinance are often used interchangeably, but it is important to highlight the difference between them because both terms are often confused. Sinha(1998) states “microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs1 supplement the loans with other financial services (savings, insurance, etc)”. Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services (Okiocredit, 2005)

In general, Microfinance is a broader term than microcredit and covers financial services that provide a greater scope of access for the poor. Microfinance also includes imparting entrepreneurial skills and training, along with advice on many matters for a better living such as health, nutrition, educating children and improving living conditions. Tolosa (2011) states that most people think of Microfinance as providing very small loans to entrepreneurs to start small businesses. This is what is known as Microcredit and forms a large part of what is considered

Microfinance but, as mentioned above; Microfinance is the provision of a broad range of financial services to the poor, including credit.

#### 2.1.2.2 Microfinance Institutions (MFIs):

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

### 2.1.3 The History of Microfinance

The challenge of reducing poverty and improving living conditions for the poorest population is a formidable one. The betterment of poor people requires an effort that spans all sectors of the economy and may not be easy to achieve through economic growth alone. Improved access to financial services helps poor people by enabling payment transactions then bring them into the formal sector. Financial services enable poor people to use profitable business opportunities and raise earnings (Kumar, 2005; Wolday, 2003). But financial markets often serve poor people badly. Since poor people often have insufficient traditional forms of collateral to offer, they are often excluded from financial markets. The formal financial institutions were relevant to extend credit facilities to the poor for fear that loans would not be repaid. Poor borrowers faced high transaction costs when they sought loans from formal financial institutions. The costs included time, travel and paperwork involved in obtaining credit.

From the 1950's governments and international aid donors delivered subsidized credit to small farmers in rural areas of many developing countries. It was assumed that poor people found great difficulty in obtaining adequate volumes of credit and were charged high rates of interest by monopolistic moneylenders. Development finance institutions, such as Agricultural Development Banks were responsible for the delivery of cheap credit to poor farmers. These institutions attempted to supervise the uses to which loans were put and repayment schedules were based on the expected income flow from the investment returns, which were often overestimated. As the result, loans were often not repaid. The credibility and viability of these subsided credit schemes were further weakened. Fluctuating whims of governments and donors, together with poor investment decisions and low repayment rates made many of development finance institutions unable to sustain their lending programs (Hailu, 2005).Donors and other resource suppliers criticized the model of subsidized credit. They recommend that the model should shift from government intervention subsidy to market based solutions. Policy makers were reminded that credit should be described as debt and that the over-supply of subsidized credit without realistic assessment of people's ability to repay could result in impoverishment for borrowers.

Appropriate targeting of policies is needed to strengthen financial access for those groups where services are most needed. The new paradigm was introduced as loans are made available in small amounts at market rates, with low level of formality and limited requirements of collateral repayment is undertaken frequently and rates of repayment in many microfinance ventures are cited to be high. Many microfinance ventures also offer deposit-taking services. In this context, microfinance is defined as "the delivery of such services by financial institutions, which are small in size and informal in nature," (Kumar, 2005).Many associate microfinance with the provision of small loans to the poor. Both the products (loans) and the market (the poor) fall within the preview of microfinance but they are more of its origins than its present and future. Today microfinance has grown to cover a broader range of products and services, from credits and savings, to insurance and money transfers. Today many agree in the definition of microfinance as provision of financial services to those excluded from the formal financial system in broader terms (SUM, 2002).

According to Joan Parker (2000), microfinance refers to the delivery of financial services such as credits, savings, insurance and other services to clients who are without access to the services of formal sector, financial institutions on sustainable basis. This is the widely used definition of microfinance.

Microfinance programs which focused on the delivery of financial services to the poor gained a worldwide acceptance and popularity since 1980's.The developments in the 1980's represented as a turning point in the history of microfinance development. According to Robinson (1995), worldwide survey of 206 microfinance institutions that are opened in or before 1992 found that, only 7 percent had been in operation before 1960; and 48 percent had been founded between 1980 and 1989. Microfinance provided large-scale outreach and profitability in 1980's for the first time. In 1990's it began develop as an industry (Robison, 2001). A number of microfinance institutions were created in the 1990's. Some donor agencies have provided strong support for the shift from donor-driven micro-credit programs to self-sufficient microfinance institutions, and have initiated and coordinated the dissemination of best practices in microfinance on regional and global scale (ibid). Recent studies recognize that poor and low-income people slip from one poverty category to another as the opportunities and risks change. These studies helped shed light on the levels of poverty at which more poor people are reached by today's successful microfinance intuitions. It is being considered as a preferred vehicle for extending access to the poorest in many countries (Kumar, 2005). The survey conducted at the end of 2002 by Credit Summit Campaign revealed that more than 67.6 million clients around the globe have been benefited, of which about 41.6 million are the poorest. According to the Micro-credit Summit estimate at the end of 2005, microfinance institutions are reaching to 100 million poorest people in the world. The UN declared 2005 as a year of micro-credit to bring the microfinance into forefront and integrate with the formal financial system.

## 2.1.4 Characteristics of Microfinance

Microfinance gives access to financial and non-financial services to low-income people, who wish to access money for starting or developing an income generation activity. The individual loans and savings of the poor clients are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be „bankable‟, that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs .Microfinance has created financial products and services that together have enabled low-income people to become clients of a banking intermediary. Microfinance services are expected to address the poor because they deal with small loans and savings, short term loans, frequent loans, installments and deposits, simple loan procedures, collateral free loan activities (Yaronet al. 1998).

## 2.1.5 Financial Institution in Ethiopia

A significant portion of Ethiopia's population lives without access to basic, affordable and sustainable financial services. This is largely due to the perception by commercial banks of the unattractive risk-return outlook of serving the low income urban and rural population. This, together with the high demand for bank loans in the mainstream economic sectors of the country, has created a comfort zone for the existing commercial banks, leading Ethiopia to be one of the least banked countries in the world. Data from the National Bank of Ethiopia suggests that the country has a ratio of total population per bank branch of 112 thousand.

As a result of these factors, more than two third of the population of Ethiopia has resorted to traditional, informal and expensive financial services such as money lenders, keeping cash at home, funeral funds etc. Although these mechanisms may prove instrumental to the financial needs of poor families, they come at a cost of high risk of failure, lack of sustainability, legal challenge and the difficulty building long standing trust among stakeholders.

The situation however is changing in terms of creating access to financial services for poor families. Firstly, the recent expansion of the banking sector and significant number of new entrants in the industry has created the motivation amongst the banks to downscale. Secondly, following policy prescriptions by the government of Ethiopia and various NGO initiatives more than a decade ago, microfinance institutions have come into the picture, filling the gap in access to credit. These institutions are also slowly moving towards solving issues of access to sustainable and affordable saving, and access to insurance and remittance services at the bottom end of the market. Importantly, microfinance institutions, with the support of NGOs and other stakeholders, are working at various levels to provide financial education and create financial awareness amongst poor households.

Despite its huge potential, Ethiopia has been slow to incorporate mobile technologies in the provision of financial services. Elsewhere, mobile technology has revolutionized the provision of cheap and affordable financial services. Ethiopia's sparse population distribution, together with rising mobile subscribers and the high growth in the demand for financial services has created the incentive to employ mobile technologies, the adoption of which is likely to significantly increase access to finance in future (MF, 2011).

### 2.1.5 Microfinance Industry of Ethiopia

The Ethiopian microfinance sector is one of the world's fastest growing microfinance sectors. Between 1997 and 2009 the total assets of the microfinance sector showed growth of 30 to 84%. Microfinance was first seen in Ethiopia in the late 1980s, offered by mostly by NGO relief and development programs. The year 1996 saw the formalization of the industry with the government issued "Proclamation for licensing and supervision of microfinance institutions No 40/1996". This Directorate officially bought MFIs under Ethiopia's monetary and financial framework. It enabled all MFIs to accept deposits and stressed the need for sound commercial principles in the sector.

The Ethiopian 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 rural households, the promotion of both credit and savings products, a strong focus on sustainability and by the fact that the sector is Ethiopian owned and driven. The industry has a strong focus on loans to the very poor, as indicated by the relatively small loans when compared to neighboring countries. Sector outreach is impressive and the financial performance of the sector is considered good, although the operational margins and profitability are low. MFIs have also mobilized a significant amount of savings, thereby improving financial as well as operational sustainability. Compared with other African countries the sector is relatively transparent.

The government is heavily involved in the sector, and has prioritized the development of sustainable financial institutions and a nationally owned industry. The industry has strong social aims, and the government has written into statute the requirement for the industry to serve rural subsistence farmers. Most MFIs take this poverty-targeting mandate very seriously (MF, 2011).

#### 2.1.6.1 Microfinance Regulation in Ethiopia

A prudential regulatory framework governing the microfinance sector was introduced by the National Bank of Ethiopia in 1996, and a revised version was released in 2009. This was a single legal framework for regulating and supervision of the sector, known as the Proclamation No 40/1996 for Licensing and Supervision of Microfinance Institutions. The objective of the regulation is to protect small depositors, ensure the integrity and stability of the microfinance sector, and to promote efficient performance of the institutions. This law, enabling the establishment of deposit-taking MFIs, or “share companies” has supported the development of MFIs for over a decade. As well as facilitating growth in the sector, the law prohibits NGOs and any other institution from offering financial services. There are currently 31 registered institutions regulated by NBE, including regional government supported institutions, local NGO affiliated institutions, and privately owned microfinance institutions.

#### 2.1.6.2 Licensing of micro-financing institutions in Ethiopia

The Proclamation No. 626/2009 terms microfinance business as "the provision of financial services like accepting savings, extending credit, drawing and accepting drafts payable, providing money transfer services and others specified in the Article 3(2) of the proclamation" .Notably, this definition does not restrict microfinance to credit services, rather it is the provision of a wide range of financial services, including savings, insurance, transfer facilities etc. As microfinance was defined as a business this new legislation allows banks that are licensed by the NBE to engage in microfinance business without a separate microfinance business license.

#### 2.1.6.3 Composition of ownership of micro-finance institutions in Ethiopia

Due to the government enforced restrictions on the provision of banking services by foreign nationals, all MFIs in Ethiopia are wholly owned by Ethiopian Nationals or by organizations that are wholly owned and registered in Ethiopia, with a head office in-country. Regulation requires MFIs to incorporate as for-profit share companies, although as most shareholders are either public or civil society institutions, in practice most MFIs are structured as not-for-profit hybrids. When the regulations came into play all existing microfinance providers had to cease activity and apply for a license to operate. The first MFIs to register were part owned by regional governments, for example, Dedebit, Amhara, Oromia Savings and Credit Institutions, with the local governments owning between 25% and 97% of shares. The government and the National Bank of Ethiopia have been gradually improving the regulatory framework over time, issuing a series of amending Directives. Research has shown that the regulations have bought many benefits to the sector, including creating an enabling environment, promoting standardization and encouraging transparency (MF, 2011).

### 2.1.7 MFIs Approaches

There are different approaches to microfinance service provision to the poor. The most known approaches in microfinance development can be categorized poverty lending vs. financial system approach and business vs. developmental approach.

#### 2.1.7.1 Poverty Lending Vs Financial System Approach

According to Robinson (2001), there are two known approaches in microfinance development. These are poverty lending approach and financial system approach. Both approaches share the goal of making financial services available to poor people throughout the world.

The poverty lending approach focuses on reducing poverty through credit and other services provided by institutions that are funded by donors and government subsidies and other concessional funds. A primary goal of this approach is to reach the poor especially the poorest of the poor with credit. Saving is not a significant part of this approach. But mandatory saving is a precondition for receiving the loan. The emphasis is on micro- credit, not microfinance.

The poverty lending approach was first realized in Grameen bank in Bangladesh. It has wide outreach to poor borrowers. But the approach has required large amount of continuing subsidies and does not meet poor people's demand for saving services. Due to these it has not proven a globally affordable model (Robinson, 2001). With the failure of credit institutions to address the grassroots (households') financial needs, the situation demanded an innovative approach to address the lower segment of the population. The new approach should correct the drawbacks of the old approach (Hailu, 2005). This is a financial system approach.

The financial system approach focuses on commercial financial intermediation among poor borrowers and savers; and also emphasis is given to institutional self-sufficiency. The approach targets lending to the economically active poor people, i.e. people with the ability to use small loans and the willingness to repay and to voluntary save mobilization. Bank Rakyat (Indonesian's micro-banking system) and Banco Sol (salvia's banking system) are models of profitable microfinance institutions (Robinson, 2001).

**2.1.7.2 Business versus Development Approach**

The main objective of MFIs is the provision of basic financial services to the poor. There are two contesting approaches among microfinance supporters: business approach and development approach. According to Ayelech (2010) quoting Van Maanen (2004) stated business approach primarily focused on organizational achievements such as repayment, cost recovery and profitability. Hence, their concern is how to develop the industry rather than how to develop the community. On the other side, development approach emphasis more on how the client is doing rather than profitability. Supporters of this approach argue that the client should participate in awareness and capacity building programs before taking their loans. Therefore, the development approach gives emphasis not only to building institutions for sustainable provision of services, but also empowering the poor people to get the most out of the services delivered.

## 2.1.8 Products of Microfinance

MFI is a kind of financial institution, which performs at least some of what other financial institutions are doing. MFIs provide diversified financial product through which they address the needs of their clients. According to CGAP (2002), financial product of MFIs, even though not limited to, can be categorized as:

### 2.1.8.1 Microcredit

It is a small amount of money lend to a client by MFIs. Microcredit can be offered, often without collateral, to an individual or through group lending. The idea that a loan of a modest size (microcredit) can help the poorest to escape their condition is credited to Muhammad Yunus and the experience of the Grameen Bank in which millions of poor have benefited from small loans to support their business (www.mixmarket.org)

### 2.1.8.2 Micro savings

Micro savings are deposit services that allow one to save small amounts of money for future use. These savings allow households to save in order to meet unexpected expenses and plan for future expenses. For MFIs the collection of the saving represents a fundamental instrument in achieving sustainability. Indeed, for the poor and more generally, for financially excluded people, access to deposit service allows them to manage emergencies and to meet expected expense such as education, marriage ceremonies, old age, and death.

### 2.1.8.3 Micro insurance

It is a system by which people, businesses and other organizations make a payment to share risk. Access to insurance enables entrepreneurs to concentrate more on by purchasing developing their businesses while mitigating other risks affecting property, health or the ability to work. (Morduch, 2005)

### 2.1.8.4 Payment services

Beside the other financial products, certain MFIs have begun to offer payment services. These are included in the category of financial service that the poor request in order to have the possibility of transferring money through secure channel. However, due to the complexity of the infrastructures and the facilities that the payment system requires, MFIs that provide such service are not numerous in number.

#### 2.1.8.5 Intermediation

Involves mobilizing and transferring savings from surplus to deficit units and provides safe, liquid, and convenient savings (deposit) facilities and access to credit facilities tailored to the needs of the rural population.

#### 2.1.8.6 Micro leasing:

For entrepreneurs or small businesses who cannot afford to buy at full cost, they can instead lease equipment, agricultural machinery, or vehicles.

### 2.1.9 Credit Approaches or Methodologies

Numerous micro finance methodologies have evolved over the last two to three decades. While these methodologies generally include some specific product design issues, a primarily means of differentiating one methodology from another is in the choice of product and services provided and the manner in which provision is made. Methodology is the set of system and procedures a program develops in order to deliver its services to clients. There are two basic categories of methodologies used to provide financial services in the micro finance industry: Individual lending and peer lending. Peer lending is further subdivide into two sub-categories: solidarity group lending and lending to community based organizations. (OCSSCO, 2003)

#### 2.1.9.1 Individual lending methodology

Under this methodology clients are usually individuals working in the informal sector who need working capital and credit for fixed assets. Loan amounts and terms are determined based on careful analysis of credit officers. Most MFI's require some form of collateral or co-signatories.

Individual lending methodology is usually a highly modified variant of the systems used by commercial banks with some additional techniques drawn from the experience of money-lenders. Loans are guaranteed by pledged loan collateral, such as fixed assets or land of business or household and by co-signers unaffiliated with the lending institutions.

#### 2.1.9.2 Group Lending methodology

The group lending methodologies basic philosophy lies in the fact that the short-comings and weaknesses at the individual level are overcome by the collective responsibility and security afforded by the formation of a group. The collective coming together of individual members is used for a number of purposes: educating and awareness building, collective bargaining power, peer pressure etc

#### 2.1.9.3 Grameen solidarity Group lending

The model was developed by grameen bank of Bangladesh to serve rural, landless women wishing to finance income generation activities. It mostly prevalent in Asia but has been replicated in other continent as well. it used peer group of five unrelated members are self-formed and incorporated into centre of up to eight peer groups. Group members mutually guarantee each other's loans and are held legally responsible.

#### 2.1.9.4 Latin American Solidarity Group Lending

This model makes loan to individual members in groups of four to seven members. Traditional collateral is replaced by cross guaranteeing each other's loan. Clients are usually female market vendors. Group members collectively guarantee loan repayment and access to subsequent loan is dependent on successful repayment by all group members.

#### 2.1.9.5 Village Banking Lending Methodology

Village banks are community managed credit and savings associations established to provide access to financial services in rural areas. The banks have membership and management committee. The money is then lent to bank members. All members sign the loan agreement to collectively guarantee the loan taken.

### 2.1.10 Access to Credit

The ability to access affordable credit is a critical element of private sector led growth, particularly for small businesses that often lack the initial capital needed to grow and expand and also for agricultural households, where expenditures on inputs precede the returns from harvest; it also increases a business or household's ability to bear and cope with risk.

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

According to Wali (2009), in many rural areas of developing countries, lack of access to traditional financial services has be seen as a sever constraint that prevents low income households from improving their incomes and lifting out of poverty .For instance as observed by Mohammad, (2008) over 500 million poor people in developing countries have often cited limited access to credit as the biggest challenge to their economic growth. Hence, access to credit can refer to a condition in which a borrower is able to obtain amount of loan for which he is request.

### 2.1.11 Measurement of Micro-Financial Institutes Performance

The tools to measure the performance of microfinance institutions such as outreach in breadth, financial performance and financial sustainability are found to be effective measurements in order to investigate the structure of institutions and their use for the community (Lafourcade, 2005).

#### 2.1.11.1 Outreach

Efforts to extend microfinance services to the people who are underserved by financial institutions are classified as outreach. It is therefore linked to the mission of MFIs and defines the targets and objectives to be achieved (Nirmar, 2010). Outreach is central in microfinance activities because it defines the visions of microfinance in eradicating poverty. According to Anne-Lucie (2005), Microfinance developed to serve the poor people who are excluded from the financial institutions. The performance of the institutions can be measured in terms of number of clients served. The performance of microfinance institutions in breadth has its own sub measurements in terms of types of the financial service offered, number of branches established, and the amount of loans disbursement to clients, number of female clients, targeted population served and the range of financial and non-financial services. Therefore, this research adopts the approaches of Anne-Lucie to analyze the outreach performance of Specialized Financial Promotion Institutes micro financial provision program.

#### 2.1.11.2 Financial Performance

MFIs earn financial revenue from loans and other financial services in the form of interest fees, penalties, and commissions etc. Financial revenue also includes income from other financial assets, such as investment income. MFI‟s financial activities also generate various expenses, from general operating expenses and the cost of borrowing to provisioning for the potential loss from defaulted loans. Profitable institutions earn a positive net income (operating income exceeds total expenses). To measure the overall financial performance, financial revenue and expense indicators as well as returns can be compared against the institution’s equity and assets (Lafourcadeet al. 2005).Efficient institutions reach large number of poor people with minimum costs of delivering services (Dunford ,2007).

#### 2.1.11.3 Financial Sustainability

The other indicator for the performance of MFI is its financial sustainability. Meyer (2002) noted that the poor needed to have access to financial service on long-term basis rather than just a onetime financial support. Most literature in microfinance industry refers to two levels of financial sustainability: operational self-sufficiency and financial self-sufficiency (Meyer 2002, Ledgerwood 1999). Operational self-sufficiency is generating enough revenue to cover operating expenses, financing costs and loan losses Operational self-sufficiency therefore, indicates whether or not enough revenue has been earned to cover the MFIs operating expenses. Financial self-sufficiency indicates whether or not enough revenue has been generated to cover operating expenses, including financing costs, provision for loan loss, and indirect costs including the adjusted cost of capital (Ledgerwood, 1999). There are some disputes on the link between financial sustainability and outreach to the poor. According to some (Christen et al. 1995; Otero and Rhyne 1994; Meyer 2002), outreach and financial sustainability are complimentary; this is because as the number of clients increases MFIs enjoys economies of scale and hence reduce costs which help them to financially be sustainable. On the other hand, Hulme and Mosely (1996) argued that there is inverse relationship between outreach and financial sustainability.

### 2.1.12 Concepts and Definition of Poverty

Many authors define poverty in different ways by considering different criteria and indicators of poverty. Some researchers have defined the poor as that portion of the population, that is, unable to meet the basic nutritional needs (Ledgerwood, 1999). Others viewed poverty as a function of education and/or health using the measurement of life expectancy, child mortality among others. Level of expenditure and consumption are other criterion's used to identify the poor (Meagher, 2002).

Poverty is generally considered as a situation in which the underprivileged do not have adequate food and shelter, lack access to education and health services, are exposed to violence, and find themselves in a state of unemployment, vulnerability and powerlessness. Poverty is multi-dimensional and has to be looked at through a variety of indicators such as levels of income and consumption, social indicators and indicators of vulnerability to risks and socio-political access and participation. The most common approach to the measurement of poverty is based on incomes or consumption levels. It is widely understood that an individual is considered poor if consumption or income level falls below some minimum level necessary to meet basic needs i.e. poverty line. The nature and level of basic need satisfaction varies along with time and societies and the poverty line to be established should be appropriate to the level of development, societal norms and values (World Bank).

## 2.1.13 Poverty and Microfinance in Africa

### 2.1.13.1 Poverty Situation in Africa

Poverty remains a matter of growing concern in many developing countries of the world. Today, as other continents continue to register sustainable economic growth and development, Africa is not only lagging behind but is trapped in a vicious circle of borrowing and donor dependency syndrome which some critics point out as one of the causes practically sabotaging real development. Africa has perpetually failed to focus its development efforts on the optimum utilization of the immense natural resources that many countries are endowed with to turn it into wealth to propel their economies and people towards a high level of economic and social development and as a consequence eliminate pervasive poverty. Although Africa is not the only poorest continent, it is the only region where poverty is constantly on the increase. As a result millions of people live each day in abject poverty. Children go without food, their bodies stunted by malnutrition which is wide spread. As a result of this condition the lives of the majority of Africans to be deplorable and an insult to their dignity. Therefore, there is need to change these conditions in order to make poverty history in Africa (WB, 2000).

### 2.1.13.2 Microfinance in Africa the Evolution of Microfinance

Microfinance has existed for centuries in Africa. Everyone, no matter how poor, needs and uses financial services all the time. Many people use moneylenders that usually charge high interest rates on loans. There are many global examples of the history of microfinance, ranging from informal, small-scale, rotating savings-and-loans clubs in England, Ireland, and Germany during the eighteenth century to savings and credit cooperatives in Indonesia in the nineteenth century. In Nigeria, microfinance goes back to the fifteenth century and was carried from there to the Caribbean by slaves. The original Yoruba term, susu, for the practice is still in use today. In Africa, mainstreaming, formalization, and recognition of microfinance as part of the formal financial sector began to gain momentum in the late 1990s (UN, 2005).

### 2.1.13.3 The State of Microfinance in Africa

Since early 1990s, African countries have been enjoying positive economic trends, with higher economic growth becoming more widespread and more robust over time, as an increasing number of 30 countries share in the impact of improved macroeconomic management and governance, a more conducive environment for the private sector, more open economies and higher commodity export prices, for sustained periods. Despite the positive momentum in economic performance, the incidence of poverty remains a critical issue in most African countries, and many may fail to meet the Millennium Development Goals towards reducing the incidence of poverty and addressing its consequences by the target date 2015. Furthermore, the slowness of economic prosperity to trickle down and lift the masses in poverty is creating a dangerous inequality divide that could eventually fuel instability and threaten progress on the economic front (UNDP, 2009). Moreover, small enterprises and most of the poor population in African countries have limited access to deposit and credit facilities and other financial services provided by the formal financial institutions. This lack of access to financial services in the formal financial system is quite striking considering that in many African countries the poor represent the largest share of the population and that the informal sector is an important part of the economy. In this context, there is renewed interest in access to financial services for the poor. In this regard, while there may still be some skeptics concerning the ability of microfinance to reduce poverty, there is ample evidence to show that the benefits of microfinance outweigh the costs. Many development experts now agree that microfinance can economically empower individuals and microenterprises and enable them to contribute to and benefit from economic development by helping them to acquire capital to undertake investments, integrate into the economic systems of their countries and increase their incomes; ensure the creation or improvement of human capital through better education, nutrition and health; and, through insurance and pensions, smooth their incomes, protect themselves against economic shocks and better manage their enterprises and financial situations. In addition, microfinance can be combined with other social programs resulting in mutual enhancement of their cost-effectiveness (Anne, 2006).

There is also evidence that microfinance is more sustainable and has greater impact than other poverty reduction interventions such as targeted food interventions (Otero et al.2004). Beyond the economic benefits, microfinance also contributes to the poor’s involvement in economic development by increasing political awareness and social organization, increasing social empowerment and community participation, and reducing gender biases in the empowering of the poor. In sum, then, while microfinance may not be a miracle solution, and no single intervention could be, it can combine very well with other economic and social programs, in a holistic approach, to meet the diverse needs of the poor. Therefore, microfinance merits attention by those concerned with Africa's development and poverty situations.

**2.1.13.4 Poverty in Ethiopia**

Ethiopia is one of the poorest countries in the world with annual per/capital income of $ 170. The United Nations development program's human development report for 2007- 2008 ranked Ethiopia as 169th out of 177 countries on the Human development Index the average life expectancy after birth is 48yers. Infant, mortality and malnutrition rate are among the highest in the world while access to education has increased in recent years, the overall adult literacy rates is low compared to the sub- Saharan African standards roughly 44% of the population lives below marked differences between rural and urban areas. Most rural households live on a daily per capital income of less than$ 0.50

Generally, rural households have less access to most essential assessment; overall progress in reducing poverty since 1992 falls short of what is required of meet MDG by 2015 as result high variability in agricultural GDP and rapid population growth. Most rural households are finding it increasingly difficult to service without resource to seasonal or permanent urban migrations search of wage employment.

**2.1.13.5 Anti- poverty Policies and Strategies in Ethiopia**

The recent definition of poverty by the world bank extended the conceptual dimension beyond the conventionally held idea of permanent income/ consumption of lack of income assets, sense of noiselessness and strategies not only need to create income earning opportunities, but also must empowerment of the poor in the sphere of state social in situations, and security against variety of shockers. Micro finance is believed to be one important entry point to addressing many of them. But services are limited in some urban areas, neglecting the majority of the poor. In Ethiopia, for example, the development bank, the commercial bank of Ethiopians, having their branches in urban and semi urban, provide virtually no access to the rural population, private banks, through growing in number don't engage themselves in this raids. According to an earlier study, in rural Ethiopia as a whole, less than 1% of the population has access to this source consequently, accessing credit for small scale and informal operators continue to pose a major constraint to growth of the sector. The alternative is the “informal” financial sector, mainly the individual money lenders. In this case, borrowers are required to provide guarantors and the interest rate is ext remedy high, varying from 50% to 100% in some instances. And this exploitive interest rate of the informal sector diminishes potential reform to factors of production, and is a constraint to diversity economic activities of the rural sector. The federal government of Ethiopia has taken several economic reform measures to address poverty in its every aspect. Thus, while trying to fulfill the basic needs of the population, it also embarks up on economic reform measures conductive for free market competition and employment creation which includes the promotion of policies that will encourage saving, private investment, increasing income earning opportunities and promotion of small –scale in dustiest in the informal sectors among others. The five-year development program document emphasizes, among others, credit as a means to increase small holder production (EPRDF, 1992E.C). Financial markets are considered by the regional governmental as a good entry point in achieving food security objectives as the will allow rural households in both food secure and in secure area to explore their “ comparative advantage” in the market place and to create (AEMFI, 2000). Thus, in addition to promoting provision of credit through government channels, the program encourages micro finance institution to prone their services of credit provision and saving mobilization. However, even of policies aimed at changing the regulatory environment were expected to pave the way for increased fellows of resources to rural and informal sectors, micro financial services are very in adequate still.

In Ethiopia still the expansion of Financial sectors are limited to urban areas, so the Government and other stockholder should focus on the coverage of rural areas.

## 2.2 Empirical review

Empirical evidences in this section presents those research works that are done on the areas of the current topic to support the execution of the study and to reveal deficiencies in the literature. There are a lot of empirical evidences that confirm the link between access to credit and economic growth of the poor in various countries all over the world indicating that access to credit of poor is indeed a significant and intricate part of the process of economic growth of any economy (Justin, 2012). On the contrary there are also studies that found weak and negative link between providing credit to the poor and reducing their exposure to poverty. Some of the studies include the study by Mosley (2001). In his study on Microfinance and Poverty in Bolivia, Mosley assessed the impact of access to credit on most of the features of microfinance such as supporting income generating activities; empowering the poor; helping the poorest; creating win-win situations; creating enormous demand from society; and low interest rates are just myths that microfinance has created to take advantage of the poor and the economy and stated they become poorer through the additional burden of further debt.

The impact of microfinance on poverty alleviation is a keenly debated issue as we have seen and it is generally accepted that it is not a silver bullet, it has not lived up in general to its expectation (Hulme and Mosley,1996). However, when implemented and managed carefully, and when services are designed to meet the needs of clients, microfinance has had positive impacts, not just on clients, but on their families and on the wider community. There is however a need for greater assessment of these wider impacts if the true value of microfinance to development is to be understood (Zohir and Matin, 2004). One such tool for measuring wider impact is a livelihood security analysis based on a livelihoods framework which analyses how a project impacts on the livelihoods of beneficiaries.

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

Mawa (2008) conducted a research study focusing the issue under discussion and concluded that microfinance is an innovative step towards alleviating poverty. The author mentioned that microfinance facilities provided to the people help them to use and develop their skills and enable them to earn money through micro enterprises. Moreover provision of micro finance helps them to smooth their consumption level and manage unexpected risks. Micro finance helps the poor to built assets, educate their children and have a better quality of life.

Rena, Ravinder and Tesfy, Ghirmai (2006) concluded that micro finance is the founding stone for poverty reduction. Their study showed that there is a fundamental linkage between microfinance and poverty eradication, in that the latter depends on the poor gaining access to, and control over, economically productive resources, which includes financial resources. Previously implemented programs not produced good results due to the non involvement of the peoples for which the programs was designed (the poor). They suggested that the government poverty alleviation program should be restructured if not re- designed and should be centered on the basic needs' approach. Micro finance is the mean for income generation and the way for permanent reduction of poverty through the provision of health services, education, housing, sanitation water supply and adequate nutrition. In many instances, micro enterprises rather than formal employment create an informal economy that comprises as much as 75 per cent of the national economy.

Microfinance is relatively a new phenomenon in the Ethiopian context. However, different studies have been conducted in the area. One of the studies by Wolday, (2003) reviews the development of microfinance in Ethiopia taking all microfinance institutions in Ethiopia and the study analyzes the performance of microfinance institutions in Ethiopia in terms of financial sustainability and outreach. The study found that over a brief period of time, MFIs in Ethiopia have shown remarkable improvement in terms of loan outstanding and savings, the increased clientele served by the MFIs in Ethiopia.

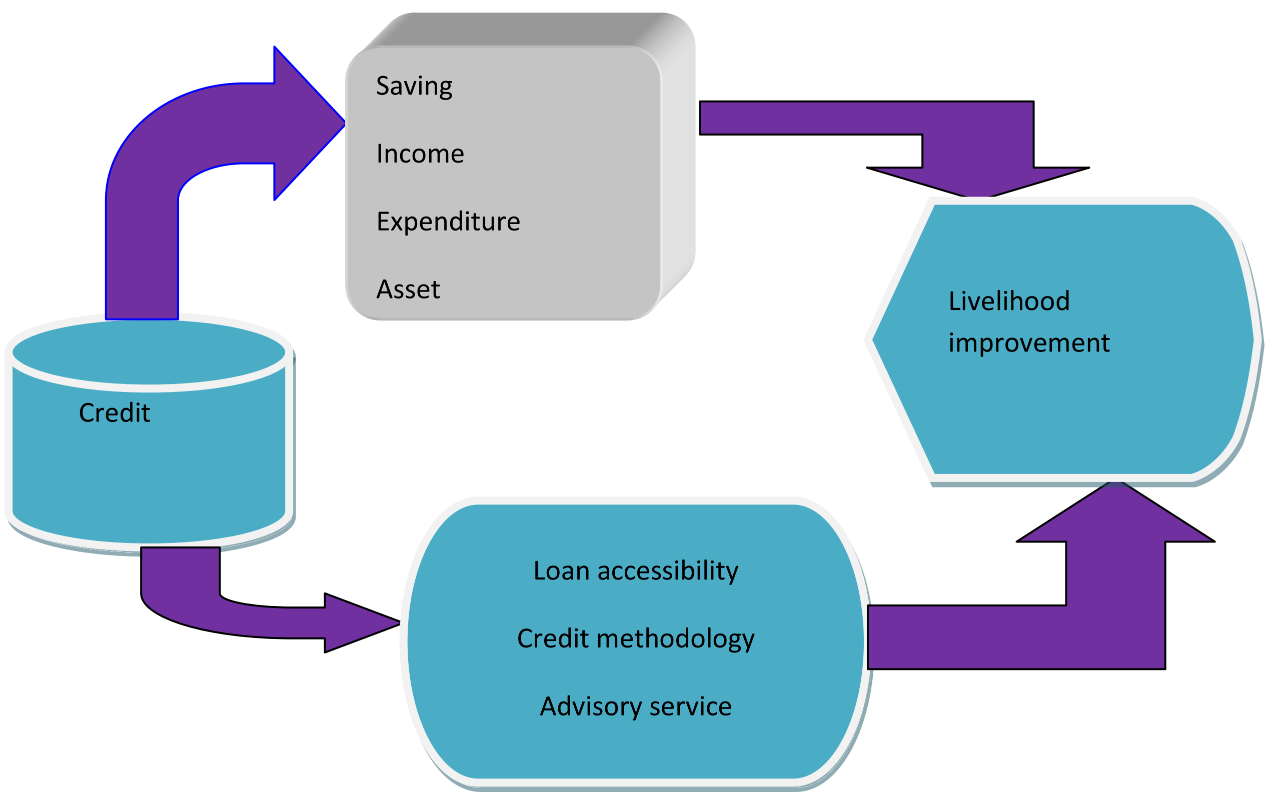
Bisrat ,Issac(2011) conducted a research study focusing the issue under and discussion and conclude that microfinance programs have increased the income of households of the respondent clients i.e. in terms of both nominal and real income. The employment opportunities created following microfinance use of clients is encouraging, though mostly in the form of self-employment and family-employment. Microfinance programs have improved savings of the respondents' households through letting access to saving services and increasing household income out of which they can use to save. After joining microfinance programs, mean monthly expenditure of the respondents has significantly increased in food, clothing, housing furniture, health, education, and service items.

## 2.3 Conceptual Framework

Ethiopia is one of the poorest countries in the world. Plans to reduce poverty are central to the government's development agenda, and many policies, goals and objectives are focused on targeting the most disadvantaged households. Microfinance is considered by the government to be one of the important tools in fighting poverty.

The key principle for the existence of microfinance institutions is to provide financial services to the poor people who do not have access to loan services due to lack of physical collateral to be pledged for formal financial institutions. In other words, microfinance institutions can be considered as a means for access to working capital to the poor to enhance their capital accumulation and improvement in their level of consumption. Given this and considering the actual situation of the society, it is crucial to expand these institutions to reach all the banned group of the society. Taking into consideration this, the conceptual framework of this study emphasized the role of microfinance institutions in accessing credit in terms of target group, methodologies, and services/products offered. Having this in mind further the reason behind this framework is to assess the effect of OCSSCO on the living standard of the poor as an intervention at household level. At the household level, effect may be assessed by increase in household income, saving habit, asset accumulation, and expenditure as a result of the intervention.

Figure 1: Conceptual Framework of the research



# CHAPTER THREE

# 3. RESEARCH DESIGN AND METHODOLOGY

The objective of the present chapter is to discuss the implemented research design and methodology which include research method, sample size and sampling method, data collection procedure and analysis of data, physical and socio economic features of the study area.

## 3.1 Research Design

Both qualitative and quantitative research method were used in the study. Qualitative primary data was collected first by organizing focus group discussion each for individuals and groups respectively to help refine questionnaire. For quantitative primary data, closed and opened ended questionnaires were administered to the selected respondents of the survey.

## 3.2 Sampling techniques and population

The study was used a multi stage sampling technique. First, Jimma zone out of twenty Zones in the region is selected purposively due to the fact that its proximity to the researcher, researcher‘s knowledge of the local language. In the zone there are twenty two branches, which OCSSCO Jimma Zone designed in to four clusters for its administrative purpose. These clusters are categorized into west cluster which contains six branches (Gomma, Agaro, Gera, Gumay Setema and sigimo),central cluster which contains six breaches (Jimma,Mana,Bilida,Dedo,Shabe and Seka chokorsa),Limu cluster which contains five branches(Limu kosa,Limu saka,Nono benja,Chora botor and Wayu),and East cluster which contains(Kersa Jimma,Sokoro,Omo Nada, Tiro Afeta and Akko) .In the second stage, out of four clusters, one branch office selected for each of cluster based on the time spent in the program i.e branch of long duration was purposely selected. These are Gomma branch office (From west cluster), Mana Branch office (From Central cluster), Limu kosa branch office (From Limu cluster),and Kersa Jimma branch office(East cluster). In the third stage the selection of sample respondents from the selected branch offices was done in terms of length of program participation.

Finally, a sample of 267 clients, proportional to the number of clients in each branch, was randomly selected from the list of clients who have been participating in the program for a minimum of three and above years that was provided by Gomma, Mana,Limu kosa and Kersa Jimma branch office of OCSSCO.

## 3.3 Sample Size

For various reasons such as time, cost and energy, census for all clients was impossible. Hence, sampling technique was employed to select the sample population. Accordingly, 267 clients from the total of 7332 were selected through simple random sampling procedure. Based on this, the researcher adopted a simple mathematical formula that suggested by Solomon (1996) for determining sample size. n= N Where, N is the total existing clients in OCSSCO Jimma Zone e is the error or confidence level Using the total population of 7332 and error margin of 0.06, the sample size was calculated as follows. Based on this, the researcher adopted a simple mathematical formula that suggested by Solomon (1996) for determining sample size.

$$\mathbf{n = \frac{7332}{1 + 7332\,(.06)2}}$$

**n =267**

Once sample size is determined, the survey beneficiaries are randomly selected from the population of OCSSCO four branch of Jimma Zone.

The following table summarizes the target population in each branch offices and the corresponding sample taken from each branch

Table3.1. Summary of beneficiaries and sample taken from Branch offices

| Branch offices | Total existing clients | Sample |
|---|---|---|
| Gomma | 2046 | 74 |
| Mana | 3378 | 123 |
| Limu kosa | 921 | 34 |
| Kersa Jimma | 987 | 36 |
| Total | 7,332 | 267 |

Source: OCSSCO Jimma Zone annual report (June 30, 2016 G.C)

## 3.4 Source of Data

Both primary and secondary sources of data were used for the study. The sources of primary data are employees and its clients of OCSSCO Jimma Zone. Secondary data was collected from different reports, bulletins, journals and literatures, which are relevant to the theme of the study.

## 3.5 Methods of Data Collection

Several data collection instruments were used during the study. Both primary and secondary data was collected to undertake this research. Primary data was collected through questionnaire and personal interview. Questionnaires that contain both open and closed ended questions were prepared and distributed to employees and to existing clients of OCSSCO. Scheduled interview was prepared and administered to employees of the branch. Primary data were generated from questionnaires. The first type of questionnaires was used to borrowers. The questionnaires had two sections to assess the loan delivery criteria set by OCSSCO encourage the poor and low income clients in participation of the program. These are loan accessibility condition and the lending methodologies, loan size, term of repayments and interest rate. Whereas also two section to assess the degree of OSSCO services contribute to improving the livelihood of rural communities. These are saving, income, expenditure and asset holdings condition and advisory services of OCSSCO given to clients.

The other type of questionnaire was used in interviews with branch staffs. The questionnaires contains discussion question regarding service accessibility, products of OCSSCO and livelihood improvements

Secondary data were obtained from a number of data instruments used by the branches. These instruments included personal saving card, the loan application form, and the loan agreement form. Data collected through survey questionnaire, key informant interview, FGD and observation is systematically presented, analyzed and discussed in line with addressing the specific objectives.

## 3.6 Methods of data analysis

Both qualitative and quantitative techniques were used to analyze the data. Qualitative data that were obtained by observation, focus group discussion, and group interview were organized in the field. Quantitative data was analyzed using the statistical package for social science (SPSS), Version 20 and MS-Excel. Quantitative data were analyzed using descriptive statistics. In addition to this, the data was analyzed through correlation and the significance of the livelihood measurement variables were also tested through paired sample T-test. The analytical tool is also supported using frequency and percentage techniques. The final results of the study are presented using tables, chart and graphs.

**3.7 Reliability of the data**

Reliability analysis helps to test the internal consistency of the measures before launching the questionnaire to the respondents using Cronbach's alpha as it is the most frequently used reliability measure by researchers to test the internal consistency instruments (Mohammad, *n.d*). Reliability test coefficient can hold a value of 0 to 1 and the result of 0.7 and above implies an acceptable level of internal reliability (Shifera, 2011).

Table 3.2.Reliability Statistics

Reliability Statistics

| Cronbach's Alpha | N of Items |
|---|---|
| .904 | 7 |

Source: Survey, 2017

The result in table 3.2 above revealed that, the Cronbach's alpha for the seven variables is 0.904. Therefore, this indicated that the data is reliable and can be used for further analysis.

**3.8 Description of the study area**

**3.8.1 Description of Jimma Zone**

The study was conducted in Oromia Regional State, Jimma Zone, Ethiopia. Jimma is found 355km far away from Addis Ababa and it is located between 70°13' - 80°56' Latitude North and 35°49' - 38°38' Longitude East. The total area of the Zone is 18,696km$^2$. Jimma Zone borders with the Southern Nations Nationalities and peoples Regional State (SNNPRS) in the South and East, Ilu Aba Boora and East Wellega Zones of Oromia Regional State in the West and North respectively. The administrative map noted that Jimma Zone is subdivided in to 20 Districts (woredas) and 513 Kebeles.

According to CSA (2007) national census, the total population of Jimma Zone is 2,486,155. From this 1,250,527 (50.3%) are female and the rest 1,235,628 (49.7%) is male. The population density is 133 persons per square km. The total agricultural household is 405,781 from this

383,367 are female and the rest 22,414 are male. The economically active population is estimated at 52%. More than 85 % of the population is Musilim, 14.2% is Christian religion and the rest 0.8% is other religion followers.

### 3.8.2 Overview of OCSSCO Jimma Zone

OCSSCO Jimma Zone is centered in Jimma town .OCSSCOs Operations restructured at zonal level to oversee all operational activities performed at branch level. The operations comprise of two divisions namely Credit Services and Deposit Mobilization & Branch Operations. The two divisions supervise and evaluate the performances of Branch offices through direct supervision, telephone and periodical reports. On the other hand Zonal offices oversees their respective branch offices and related company operations. The number of branches so far opened in the zone is **22 at 21 woredas (Aanas)**. At branch level, Branch Offices are accountable to manage their operation and other related transactions.

The Operations are envisioned to enable poor and low-income families to reduce poverty by providing them micro financial services to improve their livelihood. They also advocates for growth, innovation, best practices & standardization of operation in the country and strive to ensure sustainability of the company.

In general, Operations endeavors to improve the quality of life of rural and urban dwellers, small business owners, micro and small enterprise operators as well as individual households through the provision of credit and other financial services thereby sustain jobs, decrease unemployment, and reduce poverty.

Now a day OCSSCO Jimma Zone operation increase from time to time as well as to serve more than 29,598 clients, to disburse 168 million and also mobilize 186 million birr of saving from different sources.

Table3.3 Summary of beneficiaries and sample taken from Branch offices

| S/N | Branch | No.of Clients Served | | |
|---|---|---|---|---|
| | | **Male** | **Female** | **Total Clients** |
| 1 | Gommaa | 1948 | 1127 | 3075 |
| 2 | Agaroo | 0 | 0 | 0 |
| 3 | Maana | 2703 | 1537 | 4240 |
| 4 | Qarsaa | 872 | 301 | 1173 |
| 5 | SeqaCokorsaa | 1448 | 386 | 1834 |
| 6 | Dedoo | 708 | 359 | 1067 |
| 7 | Sokoru | 824 | 373 | 1197 |
| 8 | Omo Nada | 9 | 1 | 10 |
| 9 | LimmuKosa | 844 | 532 | 1376 |
| 10 | Geera | 715 | 612 | 1327 |
| 11 | LimmuSaqa | 0 | 0 | 0 |
| 12 | XiroAfataa | 210 | 270 | 480 |
| 13 | Shabe | 2004 | 537 | 2541 |
| 14 | Gumaay | 222 | 232 | 454 |
| 15 | NonoBenja | 2490 | 583 | 3073 |
| 16 | Cora Botor | 1453 | 620 | 2073 |
| 17 | Sigmo | 0 | 0 | 0 |
| 18 | Saxama | 26 | 72 | 98 |
| 19 | Bilida | 840 | 377 | 1217 |
| 20 | Akko | 214 | 112 | 326 |
| 21 | Wayyu | 980 | 337 | 1317 |
| 22 | Jimma Town | 21 | 1179 | 1200 |
| **Total** | | **18,531.00** | **9547.00** | **28,078** |

Source: OCSSCO Jimma Zone annual report (June 30, 2016 G.C)

# CHAPTER FOUR

# DATA ANALYSIS, RESULT AND DISCUSION

## 4.1. Introduction

This Chapter illustrates the response of the sample respondents and analysis on the basis of their responses. The data has been collected from 221 clients of the four branches of OCSSCO Jimma Zone. This means 82.7% of questionnaires are returned from respondents. Descriptive statistics is used to analysis demographic characteristics, loan accessibility, credit methodology, loan size repayment schedule, and advisory service. In addition to this, the data was analyzed through correlation and the significance of the livelihood measurement variables (saving, income, expenditure, and asset) were also tested through paired sample T-test. The analytical tool is also supported using frequency and percentage techniques. The final results of the study are presented using tables, chart and graphs.

## 4.2 Descriptive Analysis

### 4.2.1 Demographic Characteristics of respondents

The demographic characteristics of respondents such as age, marital status, family size educational background, religion and occupation will help to determine whether there is a direct relationship with the joining OCSSCO program and benefit from the programs

Table 4.1 Respondents by Sex, Age, Marital Status, Family Size, Education Background, and Religion

| Socio-demographic Characteristics | | Number of Respondents | Percentage (%) |
|---|---|---|---|
| Sex | Male | 139 | 62.9% |
| | Female | 82 | 37.1% |
| Age | 25-35 | 89 | 40.3% |
| | 36-45 | 73 | 33% |
| | 46-55 | 47 | 21.3% |
| | Above 55 | 12 | 5.4% |
| Marital Status | Single | 6 | 2.7% |
| | Married | 210 | 95% |
| | Widowed | 3 | 1.4% |
| | Divorced | 2 | 0.9% |
| Family Size | < 5 | 182 | 82.4% |
| | 5-10 | 34 | 15.4% |
| | >10 | 5 | 2.3% |
| Education Background | Illiterate | 55 | 24.9% |
| | Read and Write | 70 | 31.7% |
| | Primary | 54 | 24.4% |
| | Secondary | 42 | 19% |
| Religion | Orthodox | 48 | 21.7% |
| | Muslim | 161 | 72.9% |
| | Protestant | 12 | 5.4 % |

Source: Survey, 2017

As indicate in the above table, out of total respondents, 139 clients or 62.9% of the respondents are male; whereas 82 clients or 37.1% of the respondents are females. This indicates that most of the clients of the branches are male. This reveals that beneficiaries of female on the program are fewer than 50%, which means attention given to them to have their own income is not considered as a male in the society.

From the survey result show in the above table, out of the total respondents, 89 clients or 40.3% of the respondents age are between 25 to 35yeras, 73 clients or 33% of the respondents age are between 36 to 45years, 47 clients or 21.3% of the respondents clients age are between 46 to 55years, whereas 12 clients or 5.4% of the respondents age are above 55 years .Most of the respondents age are in the rage of 25 to 45years, which contributes to 73.3 % of the respondents out of the total. This shows that more of OCSSCOS clients are at adult stage which has opportunity to change their living standards by utilizing the loan with planed activities. On the other hand youth with the age between 18 to 24 years which are in the productive age are not participating in the program due to lack of special loan package that initiate youth to participate in the program.

Of the sample of total respondent in the above table, 6 clients or 2.7% of the respondents are single,210 clients or 95% of the respondents are married ,3clients or 1.4% of the respondents are widowed, whereas 2 Clients or 0.9% of the respondents are divorced . This reflects that OCSSCO focus on serving married clients to minimize risk related to default loan due to single clients an able to present their husband or wife as additional guarantee. This indicates that absence of alternative loan delivering methodology to serve the individual loan borrowing clients.

Regarding to family size out of total sample respondents, 182clients or 82.4% of the respondents are less than 5 family members, 34 clients or 15.4% of the respondents are in the range of 5 to 10 family members, whereas 5 clients or 2.3% of the respondents are above 10 family members. This data reveals that the number family sizes are inversely proportional to the participation of the program.

From out of the total respondents, 55clients or 24.9% of the respondents are illiterates, 70clients or 31.7% of the respondents are to read and write, 54clients or 24.4% of the respondents are to attend primary schools, whereas 42clients or 19% of the respondents are completed secondary schools. This indicates that most of OCSSCO clients which accounts to 56.6 % are illiterate and read and write .This data shows that a great attention to be given for clients about business management and loan utilization trainings.

Concerning religion of respondents, 161clients or 72.9 % out of the total respondents was Muslim, 48 clients or 21.7 % of the respondents were Orthodox and the remaining 12 or 5.4 % of the respondents were Protestants. In the area were the research carried in almost the majority of OCSSCO beneficiaries are Muslim society.

### 4.2.2 To assess and evaluate the loan accessibility conditions

#### 4.2.2.1 Access for credit

OCSSCO has an objective of poverty alleviation through provision of financial services (i.e. credit, saving, and micro-insurance) and advisory services to the poor. Credit service is important to enhancing target groups income through increasing their generating capacity. Additionally, it has a long term objective of improving and strengthening households' asset base through which sustainable economic development is achieved.

Table 4.2 Respondent Access to credit before Joining the program and source of credits.

| Particulars | Indicator | Number of respondents | Percentage (%) |
|---|---|---|---|
| Do you have any access to credit before joining OCSSCO? | Yes | 70 | 31.7 |
| | No | 151 | 68.3 |
| If yes, what were your sources of credit? | Edir | 7 | 10 |
| | Equib | 11 | 15.7 |
| | Friends and relatives | 3 | 4.3 |
| | Other MFI | 27 | 38.6 |
| | Cooperative association | 22 | 31.4 |

Source: Survey, 2017

From the above table we can shows that, majority of the respondents, 151clients or 68.3% out of the total respondents were not access to credit before joining to OCSSCOs program, while 70clients or 31.7% of the respondents has experience or access to credit with different micro finance and saving and credit association. This result demonstrates that accessibility of financial service to the rural communities is still its own gaps. On the other hand informal financial services like edir , equb and friends and relatives are source of credit for the communities. From the survey result I conclude that OCSSCO has the major source of financial services to the local communities of Jimma zone rather than other MFI and cooperative associations.

According to opinion gathered from four FGD from each branch offices. Before joining OCSSCO loan program, we don't have any alternative or institution that provide loan for the poor in our woredas. OCSSCO has play a great role for us and the community at large by providing financial service for the forgotten poor people and also give chances to improve living condition of us. So, OCSSCO has our guarantee under the God. On the other hand OCCSCO customer service officers reveals that majority of our clients are rural poor people. This shows that OCSSCO has accessible and major source of credit for rural poor communities.

#### 4.2.2.2 Number of loan and amount to borrow as clients

Target populations are existing clients of branch offices which borrowed for three and above years. Indicators are categorized after data collection based on suitability for analysis.

Table 4.3 Respondents by number of loan and cumulative loan taken as clients

| Particular | Indicator | Frequency | Percent |
|---|---|---|---|
| Number of loans you as a client have taken | 3 to 4 | 149 | 67.4 |
| | 5 to 6 | 45 | 20.4 |
| | 7 to 8 | 14 | 6.3 |
| | 9 to 10 | 12 | 5.4 |
| | >10 | 1 | .5 |
| Cumulative value of loans taken | 6500-8000 | 83 | 37.6 |
| | 8001-10500 | 56 | 25.3 |
| | 10501-12500 | 43 | 19.5 |
| | 12501-15000 | 32 | 14.5 |
| | >15000 | 7 | 3.2 |

Source:-Survey, 2017

As per the above tables, 149 clients or 67.4% of the total respondents have taken loan between 3 to 4 years, 45 clients or 20.4 % of respondents have taken loan between 5 to 6 years, 14 clients or 6.3%of respondents have taken loan between 7 to 8 years, 12 clients or 5.4%of respondents have taken loan between 9 to 10 years, whereas 1 client or 0.5 respondent have taken loan for more than 10 years.

Concerning cumulative loan have clients taken, 83 clients or 37.6 % of respondents have taken loan between 6,500 to 8,000 birr, 56 clients or 25.3% of respondents have taken loan between 8,001 to 10,500 birr, 43 clients or 19.5% of respondents have taken loan between 10,501 to 12,500 birr, 32 clients or 14.5% of respondents have taken loan between 12501 to 15,000 birr. The remaining 7 clients or 3.2 % of respondents have taken loan more than 15,000 birr. The above data it reveals that OCSSCO clients retention decrease as term of borrowers increases. Hence, OCSSCO should develop better strategies to hold existing clients.

### 4.2.3To assess the lending methodologies, loan size, term of repayments and interest rate can be employed to enable the poor and low income households to gain access to credit

#### 4.2.3.1 Lending (credit) Approaches or Methodology

Methodology is the set of system and procedures a program develops in order to deliver its services to clients.

Table 4.4 Respondents about lending methods

| Particular | Indicator | Number of respondents | Percentage (%) |
|---|---|---|---|
| How do you borrow? | Group | 221 | 100.0 |
| If you borrow in group, how did your group form itself? | willingness to form group members<br>Neighbors | 58<br>163 | 26.2<br>73.8 |
| Do you like the group lending system of your institution? | Yes<br>no | 44<br>177 | 19.9<br>80.1 |
| If No, what do you dislike? | Group liability | 177 | 80.1 |

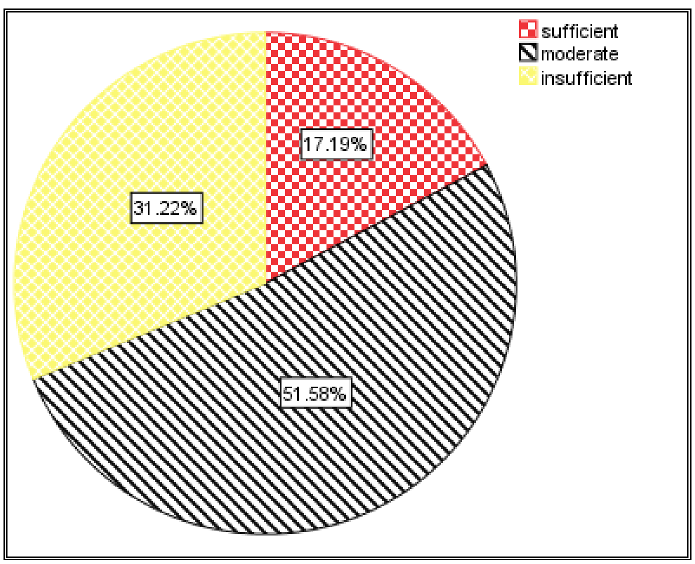
Source: - Survey, 2017

Table 4.4 shows that all clients (100 %) received loans using group-lending methodology. As also see from the above table, 163 clients or 73.8 % of respondents form there group from neighbors, 58 clients or 26.2 % of respondents form there group members willingness based on interest. From the survey result show on the above table , out of total respondents, 177 clients or 80.1% of respondents are un satisfied with group lending system of OCSSCO's ,while 44 clients or 19.9 % of respondents are like peer group lending approach of OCSSCO's. From the above data, it is possible to conclude that OCSSCO's has no alternative credit approach to rural clients. Due to group liability most of productive peoples fear to join OCSSCO's credit program.

#### 4.2.3.2 Loan Size

Loan size is the amount of money clients eligible to take as loan in each loan cycle. OCSSCO's average loan size for the first loan period is 3000 birr. However, this loan size is subject to change every year if a borrower continues as a client with OCSSCO. And the maximum loan for group based client not exceeds 15,000 birr.

Figure 4.1 Respondents about loan size provided by OCSSCO




Source :- Survey,2017

Figure 4.1 results reveal that majority of the respondents, 114 clients or 51.58 % of respondents out of the total have moderate feeling on the loan size provided by OCSSCO. Similarly, 69 clients or 31.22% of respondents has inconvenience on the loan size, while 38 clients or 17.19% of respondents has happy with the loan size provided by OCSSCO. Based on the response from sample respondents, significant numbers of clients not convenient with the loan size provided by OCSSCO's due to market inflation. This indicates that loans size increments based on duration of clients with OCSSCO rather than viability of the business plan.

#### 4.2.3.3 Loan Repayment

Loan terms of OCSSCO are established at different levels for different activities with maximum loan period being one year i.e. loans are extended for a maximum duration of 12 months. Loan terms are related with maturity of enterprises for which loan is used and agricultural loans are given for a period of one production cycle and paid back at once at the end of that production period . The other activity for which micro loan extended is petty trade. This type of trade as the term indicates involves turn over activities. That is buying and selling activities in which benefits or profits can be obtained. As a policy , repayment for petty trade is planned to be in installments but in actual fact it will be advantageous to use pay as you earn(PAYE)method without waiting for past due date.

Table 4.5 Respondents Repayment schedule

| Particular | Indicator | Number of respondents | Percentage (%) |
|---|---|---|---|
| In what repayment schedule do you repay? | Annually | 221 | 100.0 |
| Is the loan repayment schedule set by OCSSCO appropriate for you? | Yes<br>No | 156<br>65 | 70.6<br>29.4 |

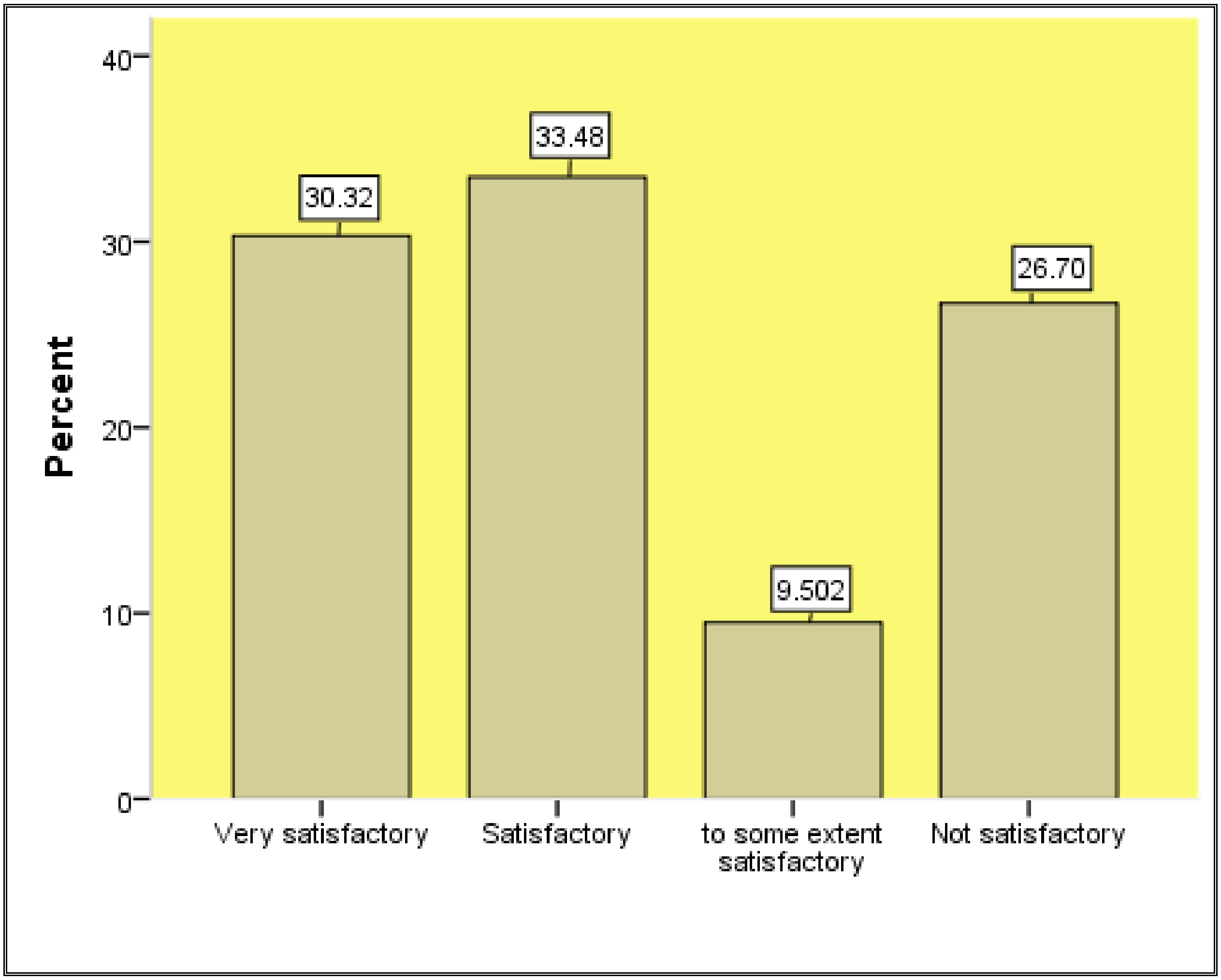
Source: - Survey, 2017

As per the results in table 4.8 all clients (100%) are repay their loan annually .This shows that whatever the business he or she does maximum loan repayment schedule is one year for group based clients. As indicated in the above table out of the total respondents, 156 clients or 70.6 % of respondents are comfortable with loan repayment schedule set by OCSSCO, whereas 65 clients or 29.4 % of respondents are complain on loan repayment schedule. This implies that still clients are raise question on tight repayment schedule of OCSSCO’s. To solve clients complain regarding loan repayments schedule, OCSSCO vows other alternatives of loan repayments based on their activities.

#### 4.2.3.4 Interest Rate

OCSSCO have to ensure the viability and sustainability of its operations. It would be risk if it does not consider the issue of interest rate for its lending activities. Therefore OCSSCO charges 17 % flat per annum for rural group based borrowers.

Figure 4.2 Respondent about interest rate




Source: - Survey, 2017

As it is shown from figure 4.2, out of the total respondents, 67 clients or 30.32% of respondents are very satisfied, 74 clients or 33.48 % of respondents are satisfied and 21clients or 9.5 % are to same extent satisfied on the amount of interest paid on loans .whereas 59 clients or 26.7 % are un satisfied on the interest charge set by OCSSCO. This shows that, the amount of interest rate set by OCSSCO are challenges for money people to join OCSSCO's program.

### 4.2.4 To assess advisory services of OCSSCO given to clients

In addition to financial intermediation, many MFIs provide other social oriented services such as group formation, development of self-confidence and training in financial literacy and management capabilities among group members. Proper client training and training on the process and credit managements both at the initial stages and continually contributes in credit risk reduction.

Table 4.6 Respondents about training condition

| Particular | Indicator | Number of respondents | Percentage (%) |
|---|---|---|---|
| Have you been trained about loan utilization and business aspects? | yes<br>no | 155<br>66 | 70.1<br>29.9 |
| In general, what is your opinion about training provided by the institution? | Excellent<br>Very good<br>Good<br>Un satisfactory | 103<br>57<br>35<br>26 | 46.6<br>25.8<br>15.8<br>11.8 |

Source: -Survey, 2017

Table 4.10 Shows that majority of respondents, 155(70.1 %) of the total respondents was trained on loan utilization and business aspects and police and procedure of the OCSSCO, whereas 66 (29.9 %) of the respondents was not trained. This reflects that a number of OCSSCO clients are taken loan without any training concerning loan utilization and business aspects. This indicates adviser services or social mission given by OCSSCO are neglect activities at branch level.

Concerning the contents of training out of total respondents, 103 clients or 46.6 % of respondents are very satisfied, 57 clients or 25.8 % of respondents are satisfied, whereas 35 clients or 15.8 % of respondents are unsatisfied .This data reveal that significant number(26) of OCSSCO are unsatisfied on the way to deliver training and its contents .

## 4.3 Correlation Analysis

### 4.3.1 To assess the contribution of OCSSCO services on the living standards of the clients in terms of saving, income, expenditure and asset holdings.

Correlation coefficients were used in this study that can provide the degree and direction of relationships between independent variable of saving, expenditure, asset holding and the dependent variable of the income improvement of beneficiaries. In expression of co-variation of two or more dependent variables, the statistical calculation of such correlation was done and the Person Correlation Coefficient (γ) was used for this purpose. The γ provided information on the direction and magnitude of an observed correlation between two variables (X and Y)

According to Berndt (2005), the level of association as measured by Pearson's co-efficient falls between -1.0 and +1.0, which indicates the strength and direction of association between the two variables. The interpretation of the result is as follows; a correlation result between 0 to 1 implies positive relationship, 0 (zero) for no relationship, 1 for perfect positive relationship, -1 for perfect negative relationship and between -1 to 0 indicate the existence of negative relationship

As indicated in table 4.7 below ,all the correlation coefficients are between 0 and 1 and positive relationship between different contribution dimensions of OCSSCOs to clients (saving, expenditure, asset holding, and income) and it is also found to be significant at 95% confidence interval.

Table 4.7 Correlation coefficients of Variables

| | | Saving | Expenditure | Asset | Income |
|---|---|---|---|---|---|
| Saving | Pearson Correlation | 1 | .360** | .011** | .411** |
| | Sig. (2-tailed) | | .000 | .868 | .000 |
| | N | 221 | 221 | 221 | 221 |
| Expenditure | Pearson Correlation | .360** | 1 | .015** | .583** |
| | Sig. (2-tailed) | .000 | | .821 | .000 |
| | N | 221 | 221 | 221 | 221 |
| Asset | Pearson Correlation | .011** | .015** | 1 | .051** |
| | Sig. (2-tailed) | .868 | .821 | | .455 |
| | N | 221 | 221 | 221 | 221 |
| Income | Pearson Correlation | .411** | .583** | .051** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .455 | |
| | N | 221 | 221 | 221 | 221 |

**. Correlation is significant at the 0.01 level (2-tailed).

Source :Survey,2017

### 4.3.2 OCSSCOs contribution variables

A paired t-test is used to compare two population means where you have two samples in which observations in one sample can be paired with observations in the other sample. Before and after observations on the same subjects and a comparison of two different methods of measurement or are applied to the same subjects.

For this study, four variables (saving, income, expenditure, and asset holding) were used to assess OCSSCO services contribution to improving the livelihood of beneficiary's. A paired t-test has been also conducted to confirm the significance of saving, income, expenditure, and asset holding and responsiveness variables for livelihood beneficiaries. To confirm their significance, the above variables were also tested. The paired sample T-test for the selected variables was conducted at 95% confidence interval of the difference and the results for the three variables were found to be significant. The paired T-test, table as well as figure results for saving, income, expenditure and asset are presented here under.

#### 4.3.2.1 Saving Condition

Saving mobilization is a crucial component of micro financing operation. It is among the corner stone's of development programs of the poor that would like to achieve long terms sustainability. Saving is the most important alternative liquidity sources for individuals. However, the attitude among MFIs towards saving mobilization varies .Some of them favor credit led saving mobilization approach while others prefer saving led credit delivery mechanisms. The latter group pays greater attention to the savings component of its operation.

Table 4.8 Paired sample T-Test on saving before and after

Paired Samples Test

| | Paired Differences | | | | | T | Df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| Saving before the loan And Saving after the loan | .167 | 1.536 | .103 | -.036 | .371 | 1.621 | 220 | .107 |

Source: Survey, 2017

From the paired t-test results shown in the above table (table 4.8) comparison of saving amount of clients before and after getting loan at 95% confidence interval. According to the test result, the saving balances before and after the loan has t-test value of 1.621. However, as *P-value* is greater than 0.05 are insignificant.

#### 4.3.2.2 Income

OCSSCO, as an income generating facility dedicated to serving the poor, has rejected the conventional notion of credit worthiness which make commercial banks unsuited for channeling credit and saving services to the poor, who by definition possess sufficient initiative and energy to put together to engaged themselves in activities that could increase their income .OCSSCO conceives poor people as full-fledged ‘credit worthy ‘clients.

Table 4.9 Paired sample T-Test on Income after and before the loan

Paired Samples Test

| | Paired Differences | | | | | T | Df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| Income before the loan And Income after the loan | -1.176 | .832 | .056 | -1.287 | -1.066 | -21.033 | 220 | .000 |

Source: Survey, 2017

From the paired t-test results shown in the above table (table 4.9) comparison of income of clients before and after getting loan at 95% confidence interval. According to the test result the income before and after the loan has t-test value of -21.033. However, as *P-value* is less than 0.05 are significant

#### 4.3.2.3 Expenditure

The act of spending money or time and it is something on which you send money.

Table 4.10 .Paired sample T-Test on expenditure before and after

Paired Samples Test

| | Paired Differences | | | | | t | Df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| Expenditure before the loan ,and Expenditure after the loan | -.919 | 1.137 | .076 | -1.069 | -.768 | -12.007 | 220 | .000 |

Source: Survey, 2017

From the paired t-test results shown in the above table (table 4.10) comparison of expenditure of clients before and after getting loan at 95% confidence interval. According to the test result the expenditure before and after the loan has t-test value of -12.007. However, as *P-value* is less than 0.05 are significant.

**4.3.2.4 Asset**

Access to financial services enables clients to build and change their mix of assets. OCSSCO has a long –term objective of improving and strengthening household asset base through which sustainable economic development is achieved.

Table 4.11 .Paired sample T-Test on asset before and after

Paired Samples Test

| | Paired Differences | | | | | T | df | Sig. (2-tailed) |
|---|---|---|---|---|---|---|---|---|
| | Mean | Std. Deviation | Std. Error Mean | 95% Confidence Interval of the Difference | | | | |
| | | | | Lower | Upper | | | |
| Asset you have before joining OCSSCO And Material benefit you get by joining OCSSCO | .317 | 1.035 | .070 | .179 | .454 | 4.548 | 220 | .000 |

Source: Survey, 2017

From the paired t-test results shown in the above table (table 4.11) comparison of asset of clients before and after getting loan at 95% confidence interval. According to the test result the asset before and after the loan has t-test value of 4.548. However, as *P-value* is less than 0.05 are significant.

# CHAPTER FIVE

# 5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

## 5.1. Summary of Findings

Today, MFIs and governments are increasingly focusing on expanding financial service to the poor found in rural and urban areas .The recent emphasis on the service of microfinance starts from developing favorable financial policy environment and institution-building . These and other affirmative action from both government and donors has significant place in improving the overall effectiveness of microfinance interventions. But numerous challenges remain, especially in rural and agricultural finance and other frontier markets. The research finding of this paper strength the result of research carried on the title of the role of credit and saving Share Company in poverty reduction in rural communities by (Sabit and Mohammed, 2014).Finding reveals that participating in microfinance program improves the level of income, expenditure and assets of members.

In this study attempt was made to assess the role of OCSSCO in accessing loan and improving the livelihood of rural communities in Jimma Zone.

A total of 221 loan beneficiaries were including in this survey. This study was intended to assess the contribution of OCSSCOs loan in improving the living standard of OCSSCO Jimma Zone clients. Data obtained from the respondents through questionnaires, interview, FGD, and key informants. Descriptive statistics and correlation is used to analysis data.

Findings indicated that OCSSCO provide credit and saving product to majority of rural households in the area who are without channel to access credit service previously. Small percentage of beneficiaries have access to credit before joining OCSSCO from different sources like cooperative association , MFI ,edir and extra . Most of OCSSCO clients are short term clients sample of respondents are existing clients which stay with OCSSCO 3years and above. The above data it reveals that most of OCSSCO clients are short term clients, retention of clients decrease as term of borrowers' increases. Hence, OCSSCO should develop better strategies to hold existing clients.

Credit Approaches or Methodology of OCSSCO is based on group lending. All clients are received loans using group-lending methodology. Majority of clients are inconvenience to group lending method due to the risk of group liability .This shows that OCSSCOs has no alternative credit approach to rural group based clients. Based on the response from sample respondents, significant numbers of clients not convenient with the loan size provided by OCSSCO's due to market inflation. This indicates that loans size increments based on duration of clients with OCSSCO rather than viability of the business plan.

Majority of clients are satisfied with the loan repayment schedule, but still some of them rise as a challenge. To solve clients complain regarding loan repayments schedule, OCSSCO vows other alternatives of loan repayments based on their activities. On the other hand the amounts of interest rate set by OCSSCO are challenges for money people to join OCSSCO's program. From the survey result show that a number of OCSSCO clients are taken loans without any training concerning loan utilization and business aspects. This indicates adviser services or social mission given by OCSSCO are neglect activities at branch level.

The correlation analysis result shows that positive relationship between different contribution dimensions of OCSSCOs to clients (saving, expenditure, asset holding, and income). From the paired sample t-test three variables (income, expenditure, and asset) are significant and the remaining one (saving) is insignificant.

## 5.2 Conclusion

For many developing countries the growth of sustainable economic activities in the rural sector is a key priority. The challenge is to develop and implement policies and institutional structures and effective mechanisms to support such growth .In particular, the role of the micro finance sector as a source of financing production and provision of the services is found to be very crucial. The lack of access to both investment financing and short-term working capital is one of the major constraints to economic development.

This study was conducted with the objective of investigating the role of microfinance in accessing loan and improving the livelihood of beneficiaries with a particular reference to OCSSCO Jimma Zone. The analysis employs both quantitative and qualitative methods. Data were generated from survey sample of 221 OCSSCO clients in Jimma Zone. Together with key informant interviews, documentary analysis and direct observation.

Findings of the study suggest that OCSSCO has been playing important role towards provide credit and saving service to majority of rural households in the area who are without channel to access credit service previously. Based on the data presented, this study conclude that the duration of clients staying with OCSSCO increase the numbers of clients decrease and also the amount of loan increase with the number of beneficiaries decrease. This data shows that small numbers of clients have a long-term relationship with OCSSCO and also the amount of loan taken by clients increase based on the duration of clients with OCSSCO.

Data reveals that all clients are received loans using group-lending methodology. Majority of clients are inconvenience to group lending method due to the risk of group liability .This shows that OCSSCOs has no alternative credit approach to rural group based clients. Respondents also revealed that bureaucratic service and loan size are major constraints to access credit service of OCSSCO. Based on the response from sample respondents, significant numbers of clients not convenient with the loan size provided by OCSSCO's due to market inflation. This indicates that loans size increments based on duration of clients with OCSSCO rather than viability of the business plan.

Majority of clients are satisfied with the loan repayment schedule, but still some of them rise as a challenge. To solve clients complain regarding loan repayments schedule, OCSSCO vows other alternatives of loan repayments based on their activities. On the other hand the amounts of interest rate set by OCSSCO are challenges for money people to join OCSSCO's program.

Majority of client response show that intervention of OCSSCO brings change on their income level, household expenditure, saving culture and deposit and addition of extra materials.

## 5.3 Recommendation

Micro finance is the provision of financial services to low-income clients, especially women, to start or improve enterprise .OCSSCO is helping the poor through the provision of credit and saving services for self-employment creation opportunities in the rural and urban areas, which can generate extra income for the households included in the program. Based on findings of this study the following recommendations are forward.

A) OCSSCO has a major source of finance to the poor, special in the rural areas. To insure their sustainability to focus on quality service, diversify product and to retain experienced human power.

B) Client retention contributes to the expansion of operations in several ways. To increase the retention of existing clients OCSSCO should introduce individual lending system for potential and existing clients.

C) The appropriate loan amount is, therefore dependent on the purpose of the loan and the ability of the client to repay the loan.

D) OCSSCO loan terms for rural group based are one year. To increase the utilization of the loan effectively to adopt different loan repayment schedule based on the proposed business plan and the activities of clients.

E) Advisory services, follow-up and supervision are essential tools in the management of micro financing operation. OCSSCO to achieve the stated objectives activity of overseeing client’s development comes from the beginning through continuous follow-ups while supervision must begin right after loan disbursement.

It is recommended that further studies to be conduct in investigating the role MFI in adapt agricultural technologies through the country.

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**Appendix**

# JIMMA UNIVERSITY

# COLLEGE OF BUSINESS AND ECONOMICS

# DEPARTMENT OF MANAGEMENT

## MBA program

**Questionnaire for Client**

**Dear respondent,**

The purpose of this questionnaire is to assess the role of OCSSCO in Accessing credit and poverty reduction, especially in the people of Jimma Zone. All the information you provide is totally sought for academic purposes and shall be kept strictly confidential. Your answers will be combined secretly with all the others we talk with to form a report. Please feel free to share your experiences regarding the part played by microfinance institution. Thank you in advance for your kind cooperation.

### 1. Respondent's Profile

1.1. Name ________________________ Gender: Male _______female _________ Age: ____

1.2. Marital status: Single ☐ Married ☐ Widowed ☐ Divorced/separated ☐

1.3. Family size: less than 5 ☐ 5-10 ☐ above 10 ☐

1.4. Educational background: Illiterate ☐ Read and write ☐ Primary ☐ Secondary ☐ Diploma ☐ Basic education/pre-school ☐ Bachelor Degree ☐ others (specify) _____

1.5. Religion: Orthodox ☐ B. Muslim ☐ C. Protestant ☐ D. Waqefata ☐

1.6. Occupation: Farmer ☐. Petty trade ☐ Daily laborer ☐ student ☐

### 2. Credit (loan) service accessibility condition

2.1. Do you have any access to credit before joining OCSSCO? Yes ☐ No ☐

2.2. If yes, what were your sources of credit?

Edir ☐ Equib ☐ Friends and relatives ☐ Money lenders ☐ Banks ☐

2.3 Number of loans you as a client have taken ____________

2.4 Amount of first loan (Br) _______________

2.5 Amount of current loan (Br)_____________

2.6 Cumulative value of loans taken (Br) ____________

2.7 Why did you borrow?

Easier to get □ PA or friends' pressure □ cheapest □ Due to financial problem □ Seems more friendly□

2.8. For what purpose did you borrow (more than one possible)?

Consumption □ Business activities □ Purchase agricultural inputs □ Health and education expense □ House construction

2.9 What do you think about the amount of loan, provided by the institution?

Sufficient □ moderate □ insufficient □

2.10 How do you borrow? Individually □ In-group □

2.11 If you borrow in group, how did your group form itself?

From the same family □ willingness to form group members' □ Peasant administration suggested group members' □ Loan officer suggested group members' □ Existed group formed for other purpose □ Neighbors □

2.12 Do you like the group lending system of your institution? Yes □ No □

2.13 If No, what do you dislike?

Group formation □ Monthly group meeting □ Group liability □ Role of customer service office □ Absence of strong rule that enforce group members' □

**3. Loan repayment condition**

3.1. From what sources you repaid the loans?

Sales from agricultural products □ sales of permanent assets □

Borrowing from informal money lenders □ D. Income from business activities □

3.2. In what repayment schedule do you repay? Monthly □ Quarterly □

Semi- annually □ Annually □

3.3. What is the status of your last loan repayment? Repaid in advance □ Repayment in time □ defaulter □

3.4. If your response for above question is defaulter, what was the problem for the credit to be in arrears?

Wrongly utilizing of the loan □ failure of business activities □ Due to natural catastrophe □ luck of credit management knowledge □ luck of supervision and follow up of CSO □

3.5. Is the loan repayment schedule set by OCSSCO appropriate for you? Yes □ No□

**4. Interest rate condition**

4.1. Did you pay interest for the loans? Yes □ No□

4.2. How is the interest rate?

Very satisfactory □ Satisfactory □ to some extent satisfactory □ Not satisfactory.□

**5. Training condition**

5.1. Have you been trained on the overall procedure, rules and regulation of the company? Yes □ No □

5.2 Have you been trained about loan utilization and business aspects? Yes □ No□

5.3. In general, what is your opinion about training provided by the institution?

Excellent □ Very good □ Good □ satisfactory □

**6. Information about sources of income**

6.1 What is your average monthly income before loan _______

6.3. After joining the credit program what would happened to your family income?________

7. **Information about source Expenditure of Households**

7.1 What was the average monthly expenditure of your household before the loan? Give estimate in Br _______

7.2 What is the average monthly expenditure of your household after the loan? Give estimate _____________

**8. Saving condition**

8.1 What was saving balance before the loan?___________

8.2 What is your current total amount of saving? Specify amount of saving (in Birr):________

**9. Asset holding condition**

9.1 What type of asset you have movable and fixed property before joining OCSSCO?
Movable □ Fixed □ Movable & fixed □

9.2. What material benefit you get by joining OCSSCO?(you can select more than one )

House Construction □ Purchase additional oxen □ Improved food security □

Improved health & Able to send children to school □

9.4. Have the loans improved your lives? Yes□ No□

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

High □ Medium □ Low □ Don‘t know □

**Thank you!!**

# JIMMA UNIVERSITY

# COLLEGE OF BUSINESS AND ECONOMICS

# DEPARTMENT OF MANAGEMENT

## MBA program

**Key informant interview for OCSSCO officials**

**Branch _________________**

**Position _______________**

Dear Respondent

The purpose of this questionnaire is to assess the role of Microfinance Institutions in accessing credit and poverty reduction, especially in the people of Jimma Zone. All the information you provide is totally sought for academic purposes and Personal response would be kept confidentially and Please feel free to share your experiences. Thank you in advance for your kind cooperation

1. Who are the beneficiaries of OCSSCO services?
2. Do OCSSCO provide training for clients before or after loan provision?
3. How do you treat women and men in the provision of credit?
4. What types of lending system do you follow (meaning, is it group based or individual oriented)?
5. Describe your term of loan and repayment?
6. What was your mechanism used as collateral in loan provision?
7. What are clients‟ opinion about your service provision and the amount of interest rate?
8. What is the main source of income for the institution?
9. How do you suggest the role of the institution in poverty reduction?

# JIMMA UNIVERSITY
# COLLEGE OF BUSINESS AND ECONOMICS
# DEPARTMENT OF MANAGEMENT
## MBA program

**Focus Group Discussion (FGD) Questions**

**Branch_______________**

**Dear Respondent**

The purpose of this questionnaire is to assess the role of Microfinance Institutions in accessing credit and poverty reduction, especially in the people of Jimma Zone. All the information you provide is totally sought for academic purposes and Personal response would be kept confidentially and Please feel free to share your experiences. Thank you in advance for your kind cooperation

**Discussion Points**

1. Do you have credit access before joining OCSSCO?

2. Why you become member of the loan program?

3. What type of training given to you before and after the loan?

5. Do you like the group lending method of OCSSCO?

5. What do you think about the amount of loan, provided by OCSSCO and its terms of repayment?

6. What is your current income level in comparison to before joining OCSSCO? What about your savings?

7. What were the income generating activities you engaged in to make living before the loan program?

8. Is there change in the income and living conditions as a result of OCSSCO intervention?

9. Discuss if you have made an Asset and capital accumulation as a result of OCSSCO intervention?

10. What challenges have you encountered since becoming beneficiary of the program?

11. What are the strengths and weakness of OCSSCO?