Role and Challenges of Micro Finance Institutions in Creating Job Opportunity (A Case of Jimma Town Micro Finance Institutions)

A Thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of Requirements for the Award of the Degree of Masters of Public Management (MPM)

By:

MAMO KEBEBE

JIMMA UNIVERSITY

BUSINESS AND ECONOMICS COLLEGE

MPM PROGRAM

JUNE/ 2017

JIMMA, ETHIOPIA

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By:

MAMO KEBEBE

Under the Guidance of

Dr. Rama Krishnan

And

Mr. Megersa Wedajo

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DECLARATION

I hereby declare that this thesis entitled "Role and Challenges of Micro Finance Institutions in Creating Job Opportunity: A Case of Jimma Town Micro Finance Institutions", has been carried out by me under the guidance and supervision of Dr. Rama Krishnan and Mr. Megersa Wedajo.

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

Researcher's Name	**Date**	**Signature**
______________________	________________	_______________

CERTIFICATE

This is to certify that this thesis titled "Role and Challenges of Micro Finance Institutions in Creating Job Opportunity: A Case of Jimma Town Micro Finance Institutions", submitted to Jimma University for the award of the Degree of Master of Public Management (MPM) and is a record of Valuable research work carried out by Mamo Kebebe, 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 or diploma.

Main Advisor's Name **Date** **Signature**

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Co-Advisor's Name **Date** **Signature**

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ABSTRACT

The objective of this study was to investigate the role and challenges of microfinance institutions in creating job opportunity in Jimma town. The descriptive type of study is used to obtain information concerning the role of microfinance institutions in creating job opportunity and to draw conclusions from the facts that are discovered. Both primary and secondary data were employed. Primary data were collected through a questionnaire administered to clients of Jimma town MFIs and face-to-face interviews were conducted with three MFI officials (employees and branch managers). Secondary data were gathered from MFIs' reports. The approach used in this research was a mixed research approach which makes the use of both quantitative and qualitative descriptive methods. Both probability and non-probability sampling techniques are used to collect data at different stages. First purposive sampling was used to select the Jimma town due to the town accessible to the researcher.

The researcher also used probability sampling method which is simple random sampling techniques to obtain fruitful information from clients. A structured questionnaire was prepared for randomly selected of 360 of clients of Jimma town microfinance institution. Data collected from the questionnaire are analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques.

The findings of the study indicated that MFIs play a role in improving the socio-economic condition of the clients since they create employment opportunity that enables them to generate their income which in turn leads to access to socio-economic merits. The study revealed that the respondents, who did not have a job before joining microfinance institutions, currently permanently employed and created the job opportunity for others.

The study concluded that MFIs has a great role in reducing unemployment of the town by providing credit and saving for those who have low-income people and job seekers. The study also identified that the major constraints to use the credit are a high-interest rate of the loan, low amount of loan, group lending, shorter period of repayment and too much paperwork.

Based on the findings, recommendations and suggestions were forwarded. MFIs should revise its policy related to the loan repayment period, its high-interest rate on loan, a small amount of loan, its low-interest rate on saving etc.

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List of Acronyms

ACSI: Amhara Credit and Saving Institution Share Company

ADCSI: Addis Credit and Saving Institution Share Company

AEMFI: Association of Ethiopian Microfinance Institutions

CGAP: Consultative Group to Assist the Poor

CSA: Central Statistics Agency

DECSI: Dedebit Credit and Saving Institution Share Company

EBDSN: Ethiopia Business Development Service Network

EMN: European Microfinance Network

ERC: European Report Commission

FDRE: Federal Democratic Republic of Ethiopia

GOE: Government of Ethiopia

GTP: Growth and Transformation Plan

ILO: International labor organization

MDG: Millennium development goals

MFE: Microfinance exchange

MFIs: Microfinance Institutions

MSEs: Micro and small enterprises

NBE: National Bank of Ethiopia

NEPS: National Employment Policy and Strategy

NGOs: Non-governmental Organizations

OCSSCO: Oromia Credit and Saving Institution Share Company

SPSS: Statistical package for social science

TVET: Technical &vocational education & training

UN: United Nations

CHAPTER ONE

INTRODUCTION

1.1.Background of Study

Microfinance institutions are the main way of life for the majority of developing countries in Asia, Africa, and Latin America. In the case of Africa as it is underdeveloped and highly affected by population growth beyond their economy with population growth not balanced with economic growth. In order to reduce such problem, underdeveloped countries should introduce the expansion of microfinance institution sector in their economy. When microfinance institution sector expands in an economy there is the high opportunity of employment creation. In addition, it is microfinance institution is an institution that provides services for poor and low-income clients. In other words, microfinance institution is the provision of small loans to poor people to help them engage in productive activities or grow the very small business (Yunus, 2004).

According to the International Labor Organization (ILO), financial instruments complement policies that target the labor market. Decent employment and incomes depend critically on accessibility to the financial market like microfinance institutions can have a strong and positive impact on employment. MFI targets people who are often unemployed or excluded from the banking system and who wish to start their own business. MFIs significantly play a role to self-employment and job creation**,** the fiscal cost per job created is usually below that of alternative labor market instruments and jobs created through microcredit positively contribute to entrepreneurs' income and self-esteem. So, microfinance plays an increasingly important role as a strategy in labor market policies (ILO, 2014).

In Ethiopia when seeing the reality like other sub-Saharan African countries the socio-economic situation is characterized by the low growth of income. Some of the problems are social services high population growth, economic inefficiency on high unemployment etc. Microfinance is relatively new industry which arose in the early 1980, after the failure of the government delivery at subsidized credit to poor people micro finance there come in as a beginning of seeking effective market orient solutions to the provisions of sustainable and effective financial resources for poor groups of people who do not have access to financial services from formal government and private institution (Wolday, 2002).

It is generally recognized that MFIs have a vital contribution to the economic development and creation of wider employment opportunity in developing countries with a large number of unemployed people. MFIs serve as a means of bringing economic transition by using the skill and the talent of people without requiring high-level training, much capital, and sophisticated technology. This makes the sector more preferable to business entry, unemployment reduction, income generation, and poverty alleviation (Habtamu, Aregawi, & Nigus, 2013).

In addition, microfinance institutions provide services to those who could not be served by formal banks is found to play a prominent role and also microfinance institutions play a great role in creating job opportunity for unemployed peoples and also an efficient microfinance program could reduce the rate of unemployment. So the study was conducted in Jimma town microfinance institution to examine the role and challenges of microfinance institutions in creating a job opportunity.

1.2.Statements of the Problem

Poor countries, like Ethiopia, are at this time faced with different problems like poverty, unemployment, famine, illiteracy, high population growth rate etc. According to Federal Urban Development Package of Ethiopia 2005, in Ethiopia, the number of people who can work continues to grow more rapidly than the ability of the economy to provide new job opportunities. Unemployment, particularly urban unemployment is one of the critical problems in the country. The rate of urban unemployment in the country was 26.4 percent in medium towns and 40 percent in large urban towns in 2005 (FDRE, 2005).

The problem of unemployment is aggravated in the town because of rapid migration of people from different parts of the region, and high natural growth rate of population, low death rate and limited job opportunity by the private sector and government. Additionally, due to large number of students graduating from universities, colleges and other institutions the unemployment rate is rising (Oromia Regional State Bureau of Trade, Industry and Transport, 2008).

Ethiopia is characterized by high growth in population and almost a subsistence economy. Unbalanced growth between the population and the economy has an effect on employment and growing labor forces that tended to increase unemployment. Because of this high population growth resulted from internal migration, the unemployment problem is becoming more sensitive issues in the country. Self-employment can be also an entrepreneur (Todaro, 2006).

In addition to the reduction of unemployment and income generation microfinance institution also serve as an input towards sustainable industrial growth to create job opportunity and decrease unemployment (Yunus, 1999). The expansion of microfinance institution is unquestionable measure that microfinance institutional are stepping stone for economic growth and development as it provides the provision of loans to small scale business as well as for poor clients to help them engage in productive activities (Batre & Batra, 2004).

Jimma town microfinance institutions are one of a financial institution which provides financial service of loan and saving to poor people both in urban and ruler areas. In addition, the institution is participating in the struggle of unemployment reduction by creating job opportunity in Jimma town assumed to enable the client to develop their saving culture to participate in economic activities and enhance the level of income (www.life in Ethiopia.com/micro finance).

Microfinance institutions provide credit and saving services in town by targeting resource poor people with ultimate objectives of achieving household level food security, increasing income and improving the overall economic and social conditions of household in the region. The poor participate in microfinance programs in the expectation that borrowing increases their income and sustain self-employment. It is also considered as a strategy to increase income, improved saving, improved nutrition, increase access to education, health and improve the living standard of the poor and ultimately, achieve the objective of poverty reduction (Ibid).

Many of the studies conducted in line with MFIs (Abebe 2006; Ahmed 2007; Ashmelash 2003; Bamilaku 2004; Bilisie 2009; Brehanu 1998; Brinesh 2009; Daba 2003; Misganaw 2008; Mulugeta 2006; Tesfaye 2003; and Yohannes 2006) have mainly emphasized assessing the impacts of microfinance programs on poverty reduction. Most of them were mixed as in comparative between rural and urban areas; men and women; clients and non-clients. Others have focused on the performance of the program, sustainability of institutions and its contribution to improving the living standards of the poor. But these studies didn’t look the role and challenges of a microfinance institution in creating a job opportunity. In this study, the researcher has tried to investigate the role and challenges of a microfinance institution in jobs creation.

1.3.Research Questions

This study further investigates the following basic research questions:-

- What are the main services and products provided by Jimma town microfinance institutions in creating job opportunity?
- To what extent do Jimma town microfinance institutions minimize unemployment?
- What are the challenges of a microfinance institution in creating job opportunity?

1.4.Objectives of the study

1.4.1. General Objective

The general objective of the study is to analyze the role and challenges of microfinance institutions in creating job opportunity in Jimma town.

1.4.2. Specific Objectives of the study

The specific objectives arising from the general objective are:-

- To assess the main services and products provided by Jimma town microfinance institutions.
- To investigate to what extent Jimma town microfinance institutions minimize unemployment.
- To analyze the challenges facing the microfinance institution in job creation

1.5.Significance of the study

Our country is one of the fast developing ones with the rapid growth of populations and increase in the rate of unemployment. This study shows the role and challenges of a microfinance institution to reduce unemployment and the problem attendant by creating a job opportunity. This study also has significance to provide relevant information to different stakeholders like policy makers, and local development planners working on the development and creation of enabling an environment for unemployment and low-income people. The result also gives insight into the limitations and challenges of MFIs in their effort to address issues of unemployment and see relevant areas of interventions to increase their effectiveness. Furthermore, the study will provide additional information about microfinance institutions for interested prospect researchers in the sector.

1.6.Scope of the Study

This study is limited only to the assessment and examination of the role and challenges of microfinance institutions in creating job opportunity of selected MFIs operating in Jimma town, mainly Harbu, Eshet and Oromia Credit and Saving Share Company. The study has included clients and employees of MFIs within Jimma town. This study was only focused on active clients of microfinance institutions.

1.7.Limitation of the Study

As with any other survey, this study have limitations. One of the limitations of the impact survey is that the results of the study pertain only to those who have stayed in the microfinance program (active clients) and did not include dropout's clients. The researcher believes that covering dropouts will make sampling too difficult and would be too time-consuming.

1.8.Organization of the Paper

This paper was organized into five chapters. The first chapter deals with different issues like the background of the study, statement of the problem, objective of the study, the research question, scope of the study, the significance of the study, limitation of the study, and organization of the paper itself. Chapter two provides the detailed review of both theoretical, as well as empirical literature relevant to the study, have been sufficiently reviewed. Chapter three was all about the methodology of the research and description of the study area. A thorough discussion of the role and challenges of microfinance institutions in job creation and empirical findings were dealt in the fourth chapter. The last chapter deals conclusions and some recommendations based on the findings of the study.

CHAPTER TWO

2. LITERATURE REVIEW

2.1.Microfinance: Overview

The emergence of the global microfinance institutions has a history of about three decades, yet has gone through stages of historical development. The microfinance industry is said to be in revolution: the service that was initiated in small scale and the small village of South East Asia "Chintanga", Bangladesh. But, nowadays turned to are international agenda and an issue addressing one of the main problems, i.e. poverty in developing countries of the world (Asfaw, 2007).

The term microfinance is the recent origin and commonly used in addressing issues related to poverty alleviation, financial support to micro-entrepreneurs, gender development etc. There is no statutory definition of microfinance. The task force on supportive policy and Regulatory Framework for Microfinance has defined microfinance as "Provision of saving, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards". The term "Micro" literally means "small". But the task force has not defined any amount. However as per Micro Credit Special Cell of the Reserve Bank Of India, the borrowed amounts could be considered as microcredit products and this amount could be gradually increased over a period of time which roughly equals to $500 a standard for South Asia as per international perceptions (Andinet, 2011).

Gonzalez and Rosenberg (2005) often defined "Microfinance" as financial services for poor and low-income clients. In practice, the term is often used more narrowly, referring to services delivered by self-described "microfinance institutions" (MFIs) who usually use techniques developed over the last three decades to make and manage tiny uncollateralized loans. These techniques include group lending and liability, pre-loan savings requirements that test clients' willingness and ability to make regular payments, graduated loan sizes, and most importantly an implicit guarantee of quick access to future loans if present loans are repaid promptly (Gonzalez & Rosenberg, 2005).

According to Robinson (2001), MFIs refers to financial services primarily credit and savings provided that to people who farm or fish or herd; who operate small enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban. The problem is aggravated by the limited influence of the poor people who required microfinance. (Robison, 2001).

They are usually unable to informal and formal markets about their demand for savings services and loans. Accordingly, services are not provided for those who hold the power do not understand the demand; those who understand the demand do not hold the power. There are differences among countries and regions in the availability of microfinance services and in the level of unmet demand for these services. There are also differences in demand among small businesses, microenterprises, farmers, laborers, low-income salaried employees and others. Common to nearly all parts of the developing world is a lack of commercial microfinance institutions a shortcoming that unnecessarily limits the options and lowers the financial security of poor people throughout the world (Ibid).

The microfinance revolution is emerging in many countries around the world. The large-scale, profitable provision of microfinance services small savings and loans to economically active poor people by sustainable financial institutions. These services are provided by institutions at the local level near the homes and the workplaces of the clients in both rural and urban areas. Financial services delivered at the local level refer to those provided to people living in villages and other types of rural settlements and to people living in low-income neighborhoods in semi-urban or urban areas. Large-scale means coverage by multiple institutions of millions of clients for small countries or middle and high-income countries with low demand and outreach to a significant portion of the microfinance market. Probability means covering all costs and risks without subsidy and returning a profit to the institutions. The evolution of the microfinance industry has led to a greater focus on the financial viability of MFIs (MFE, 2005) .

Microfinance services are provided by three types of sources such as formal institutions, such as rural banks and cooperatives, semiformal institutions, such as NGOs and informal sources such as moneylenders and shopkeepers. Microfinance Institution is defined to include microfinance services provided by both formal and semiformal institutions (EBDSN, 2004).

Microfinance is often defined as a financial service for poor and low-income clients altered by different types of service providers and commonly tends to use new methods developed over the last 30 years to deliver very small loans to unsalaried borrowers, taking little or no collateral. This method includes group lending and liability, pre-loan savings requirements, gradually increasing loan size, and an implicit guaranteed ready access to future loans are repaid fully and quickly. More broadly, microfinance institution refers to a movement that predicts the world in which low-income households have a permanent access to arrange of retail providers to finance income-producing activities, build assets, stabilize consumption and protect against risks. These services include credit, saving, insurance, remittance, payments and others (Johnson & Rogaly, 2003).

Microfinance is based on the promise that the poor have a skill which remains unutilized. It creates dependency and takes away the individuals institute to reduce poverty. Creativity in each human being is to reduce the poverty. Micro created belongs to the group of financial service innovation under the term microfinance and the service provided by microfinance is a micro saving, money transfer and micro insurance microcredit is innovation for developing countries. Microcredit is a service for poor people that are unemployed entrepreneur or farmers who are not banking able by helping people with micro credit it give them more available or sustain in an income and often began to build up wealth and reduce poverty (Mohammad, 2007).

Microfinance is usually understood to involve the provision of financial services to micro-entrepreneurs and small businesses which lack access to banking and related service due to the high transaction costs associated with serving these client categories. The delivery of financial services such clients are relationship-based banking for individual entrepreneurs and small businesses and group-based models where several entrepreneurs come together to apply for loans and other services as a group (Johnson & Rogaly, 2003).

2.2. Microfinance and microcredit

The terms microcredit and microfinance are often used interchangeably and the difference between them are often confused. Sinha (1998) stated that "Microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services like savings, insurance, etc". So, 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 (Sinha, 1998).

Microfinance typically refers to arrange of financial services including credit, savings, insurance, money transfers, and other financial products provided by different service providers targeted at poor and low-income people. Microcredit different from other targeted development ending in addition to the new techniques explained in the micro credits approach has tried to avoid the drawback of an earlier generation of targeted development lending. The approach focuses on fostering batter repayment discipline and changing into rest rates that cover the cost of credit delivery, both of which support the development of sustainable institutions that can continue to expand their services in the future (Batre & Batra, 2004).

2.3.The Development of Microfinance Institutions

The history of informal financial institutions, especially private money lending, can be traced to ancient Egypt and the Middle East. The Old Testament documents restriction on lending for interest among the Jews and describes morality issues related to collateral from the poor, money lending to the poor with or without collateral must have been widely practiced, not only for trade but also for private consumption, since the provisions in these books of laws at the time were attempts to regulate the practice along religious and moral values, rather than to prohibit them (Degefe, 2009)

According to Legderwood (1999), microfinance arose in the 1980s in response to the doubts and research finding of the delivery of subsidized in credit to the poor farmers through government-owned specialized banks. The significant role of microfinance for development efforts around the world, particularly poverty reduction efforts, is undeniable. Where delivered appropriately, microfinance enables clients to protect, diversify, and increase their income, as well as to accumulate assets, reducing their vulnerability to income and consumption shocks. Thus, microfinance is an important component in strategies towards the achievement of the Millennium Development Goal (MDG) of halving absolute poverty by 2015 (Legderwood, 1999).

In the 1970s government agencies were the predominant methods of providing productive credit to those with no previous access to credit facilities people who had been forced to pay usurious interest rates or were subject to rent seeking behavior. Governments and international donors assumed that the poor required cheap credit and saw this as a way of promoting agricultural production by small landholders. In addition to providing subsidized agricultural credit, donors set up credit unions inspired by the Raiffeisen model developed in Germany in 1864. The focus of these cooperative financial institutions was mostly on savings mobilization in rural areas in an attempt to "teach poor farmer how to save" (Simanowitz, 2003).

Creating a financial system capable of lending to micro-enterprises and low-income households is an integral part of the World Bank's strategy for developing the indigenous private sector and alleviating poverty. Micro-enterprises typically foster little productive employment growth, but they do alleviate the severe unemployment that threatens the survival of the poor in Africa. Micro-enterprises often need access to very small loans to survive and grow as demand fluctuates. The performance of international best practice institutions shows that the self-employed repay their loans at high rates and are willing to pay high rates of interest in order to obtain access to financing. The key challenge in micro-enterprise development is to strengthen the capacity of the financial system both informal and formal to lend sustainably to micro-enterprises (Pitamber, 2003).

2.4.Micro Finance Institutions Services

Microfinance Services refer mainly to small loans; savings mobilization and training in microenterprise investment services extended to poor people to enable them to undertake self-employment projects that generate income. 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 (Coetzee, 2003).

Microfinance provides financial and non-financial services by microfinance institutions (MFIs) to low-income groups without tangible collateral but whose activities are linked to income generating venture. The financial services consist of savings, credit, payment facilities, remittances, and insurance. The non-financial services mainly require training in microenterprise investment and business skills. There is also microfinance encompasses micro credit, micro savings, and microinsurance (Legderwood, 1999).

Microfinance is not a new development. It provides collateral-free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent installments. Borrowers were organized into groups and peer pressure among them reduced the risk of default. The basic business skill training should accompany the provision of microloans to improve the capacity of the poor to use funds (Ibid).

2.5.The impact of microfinance on poverty

There is debate about whether impact assessment of microfinance projects is necessary or not. Simanowitz (2003) argued that if the market can provide adequate proxies for impact, showing that clients are happy to pay for a service, assessments are a waste of resources. This is too simplistic a rationale as market proxies mask the range of client responses and benefits to the MFI. Therefore, impact assessment of microfinance interventions is necessary, not just to demonstrate to donors that their interventions are having a positive impact, but to allow for learning within MFIs so that they can improve their services and the impact of their projects (Simanowitz, 2003).

2.6.Role of Microfinance in economic development

As credit plays a vital role in beginning and expanding the business, microfinance has been treated as an important tool for economic development. Microfinance plays a vital role in economic development through the following ways. Job creation a business that starts and operates because of micro finance did can create a job in equal number as those created by multinational corporations. Financial stability one of the greatest role microfinance has played by providing financial stability to people which contributed to a local economics insubstantial extent. Global poverty the supporters of microfinance believe that offering financial stability to poor and low-income financial through small loans may break the poverty cycle for future generation (Wolday, 2002).

In rising economies, particularly in the rural areas different activities that would be classified in the developed world as financial are not monetized; that is money is not used to carry them out. Almost by definition poor people have very little money. But circumstances often arise in their lives in which they need money or the things money can buy. The poor their money hesitate several types of needs life cycle need such as weddings, funerals, childbirth, education, home building widowhood, old age (Ibid).

2.7.Microfinance Institutions in Ethiopia

In Ethiopia, savings and credit programs were operated for a number of years by NGOs; microfinance operation in a regulated form is a relatively new phenomenon. The operation was for the first time undertaken by the market Town Program of the World Bank. This program was implemented jointly with the Development Bank of Ethiopia and the Bureaus of Trade and

Industry in what was then called Market Towns in phase one and then spread to all the major towns of the country (Tsehay & Mengistu, 2002).

Microfinance services were introduced after the failure of the Derg Regime following the policy of economic liberalization. Microfinance is taken as a shift from government and NGOs subsidized credit programs to financial services run by specialized financial institutions and with this shift, some NGOs and government microcredit programs were transformed to microfinance institutions. Microfinance institutions started proliferating following the issuance of Proclamation No 40/1996 which regulated the business of microfinance in the country. The National Bank of Ethiopia, that is the licensing authority, has since been issuing a number of guidelines that underpin the operation of microfinance in the country (Degefe, 2009).

Microfinance institution engaged in the provision of financial intermediation services in every region of the country. The microfinance sector in Ethiopia, as at 2009, recorded 2.3 million borrowers. There are currently 31 MFIs registered with the National Bank of Ethiopia serving clients through 433 branches and 598 sub-branches. Studies estimate that this figure serves between 10-25% of the total microfinance demand in the country. The Ethiopian microfinance market is dominated by a few large players, all of which are closely linked to regional government ownership. The three largest institutions account for 65% of the market share in terms of borrowers, and 74% of the gross loan portfolio. These are Amhara (ACSI) 694,993 active borrower and 1,940, 8274,401 gross loan, Dedebit (DECSI) 396,648 active borrowers and 1,849,942,011 gross loan and Oromia (OCSSCo) 503,000 active borrowers and 1,280,000,000 gross loan; Credit and Savings Institutions. In contrast to many other African countries, MFIs in Ethiopia reach relatively large numbers of clients, with ACSI reaching over 650,000 borrowers. Most institutions have over 20,000 clients (Ebisa, Getachew, & Fikadu, 2013).

Most of the microfinance institutions in the country are relatively young. They seem to replicate each other instead of innovating their own approach. Their financial products are almost the same with the exception of a few microfinance institutions that have recently started adding some new products. The loan sizes of most of the microfinance institutions are too small that some of their clients outgrow it very quickly. Some of the causes for high client drop out in both rural and urban areas seem to be small loan size, lack of product diversification on the part of the MFIs, lack of flexibility in approach among others (Haftu et al, 2009).

The Nation Bank of Ethiopia directive issued in 2006(MFI/18/2006) allows MFIs to provide larger loans to individuals using appropriate collateral, subject to single borrower limit of 1% of their capital. Some MFIs started extending relatively larger loans for working capital and for investment in cases where government agencies like Micro and Small Enterprise development agency are involved in the recovery of loans through different linkage mechanisms. Relatively bigger amounts of working capital loans are extended to those who have established businesses or can offer collateral in fixed asset form. The potential demand for microcredit in Ethiopia is enormous. Still, there is a very limited supply of financial services to the poor household (Wolday, 2002).

The major sources of loan or financial service in Ethiopia are; formal banks, MFIs, Cooperatives, NGOs which are involved in the delivery of financial services, government projects and programs involved in providing loans, semi-formal finance(Iqub, Iddir, Mahiber) and, informal finance(private money lender, traders supplier credits, friends, and relatives). The conventional banking sector in Ethiopia has been too weak to serve the needs of poor people due to high collateral requirements. The formal bank sector considers the poor as credit risks. Access to institutional credit that contributes to an increase in investment is very limited (Haftu et al, 2009).

The majority of the poor get access to financial services through the informal and semi-formal channels such as private money lenders, Iqub, Iddir, friends, relatives, and traders, among other. The informal lenders such as the money lenders, traders, friends, and relatives enforce loan contracts and their loan recovery rate high and the loan terms are flexible. However, the interest rates are very high. The semi-formal lending institutions such as Iqub and Iddir are the dominant and sustainable traditional institutions which meet the financial and social needs of the poor. Iqub is the dominant form of saving and credit cooperatives in Ethiopia which are popular in both urban and rural areas, Iqub is not a permanent club; it could be continued or dissolved after its members have a turn (Wolday & Gebrehiwot, 2006).

The conventional banking sector in Ethiopia has been too weak to serve the needs of poor people due to limited branch and high collateral requirements. The Formal Bank of Ethiopia does not have the mission of financing the poor in the micro and small Enterprise sector. Thus, MFIs and savings and credit cooperatives should be designed to respond to the failure of the conventional banks to serve the financial needs of small farms and micro and small enterprise operators in urban areas. Delivering financial services to the poor requires financial systems that reach the poor and an innovative targeting methodology and credit delivery mechanisms that help identify and attract only the poor who can initiate and sustain the productive use of loans (Wolday, 2002).

The Microfinance Sector is the cooperative system has remained strong in Ethiopia. During the socialist regime, cooperatives have been used by the Government of Ethiopia (GOE) to channel credits, agricultural inputs etc to the respective target groups. In addition, cooperatives were highly politicized and instrumental for politics. The cooperative system collapsed with the fall of the socialist regime. It revitalizes nowadays due to two new cooperative societies proclamations which have been launched in 1995 and 1997. The first proclamation provides for the establishment of primary and secondary agricultural cooperatives on a voluntary basis and democratic principles whereas the latter proclamation aims to develop and promote savings and credit services for members to participate actively in the free market economy (Al-Bagdadi & Bruntrup, 2002). In the year 2002, there were 7,366 cooperatives of different types in Ethiopia which comprise 3.7 million members involving 18.4 million family members (Wolday, 2002).

The microfinance industry in Ethiopia has shown a remarkable qualitative and quantitative growth since early 1990. Despite these major achievements of Ethiopian MFIs, in sight of the large population size, the outreach of MF in Ethiopia is still relatively limited. This shows that there is significant unmet potential demand for MF services in Ethiopia (Chao-Beroff et al, 2000).

2.8. Job Creation

Job creation is difficult to estimate because it is difficult to measure. The proverbial golden egg of job creation policies is the “net new job” the job that is created without displacing any other economic activity. While it is easy enough to measure whether a new job has been created at the macroeconomic scale by looking at aggregate data from the Bureau of Labor Statistics, it is very difficult to determine if the jobs created didn’t merely displace jobs in other locations or sectors, and if the jobs were created because of a specific policy. Throughout this report, this dilemma emerges frequently; the theoretical mechanism for how a policy creates jobs may be well understood, but data showing that it actually did create net new jobs is undecided at best or, more commonly, simply nonexistent (Cray et al, 2011).

The process by which the number of jobs in an economy increases, Job creation often refers to government policies intended to reduce unemployment. Job creation programs may take a variety of forms. For example, a government may lower taxes and reduce regulation to make hiring less expensive. On the other hand, a government may hire workers itself, e.g., to build a road (Ibid).

2.8.1. The role of the public sector in Job creation

Job creation focus on various policy measures that essentially add up to attempts to tinker with the market in a capitalist system, hoping to unlock resources and open up initiatives for creating employment. The only source of capital reserves great enough to make a significant dent in the unemployment statistics of our country, apart from what is in the hands of the largest capitalist enterprises lies with the state. The crisis of the public sector is well documented, but to argue that privatization and contracting out are measures that will assist in solving this crisis is simply ridiculous. All this will lead to is reduced employment levels, and will thus add to the burden of the government in terms of job creation (Chen, Vanek, & Carr, 2004).

2.8.2. The Role of the Private Sector

Improving employment opportunities for young people requires a broad and concerted effort from all stakeholders. While governments are primarily responsible for creating an enabling environment for youth employment, employers as major providers of jobs, and workers as direct beneficiaries, have an important role in the process. Action by employers and their organizations to support youth employment can take several forms, which varies across countries depending on national circumstances. These include direct action concerning skills development and training, direct actions concerning job creation, and policy making and advocacy (Anderson, 2005).

2.8.3. Social and Economic Benefits of Job Creation

Job creation is the best weapon in the battle against poverty and unemployment is a major cause of poverty. Those who are unemployed are much more likely to be living below the poverty line. Job creation is the best solution for poverty, it supports saving, diminishes debt accumulation, and supports spending (Padraig, 1996).

Job creation improves income distribution and reduces inequality: There is a direct relation between unemployment and inequality. Job creation promises to improve income distribution and reduce inequality. The social benefits of decreased inequality have been well-documented of particular significance are the ways in which inequality makes everyone worse off, including the rich. Increased inequality can threaten democratic institutions and damage social cohesion. Job creation can improve conditions and promote investment in the poorest communities: Job creation can result in improved economic and social conditions in the poorest areas. It is known that low-wage workers tend to live in poorer communities and spend a larger portion of their income locally. Lowering poverty rates will increase the inducement to invest in poor neighborhoods, with a positive impact on economic and social conditions (Ibid).

Job creation can stimulate output, income, consumption and investment: unemployment means lower output, income, consumption and investment. Job creation will increase output and income, which will result in more consumption spending, and ultimately increase the inducement to invest.

Job creation supports public and social goods and services: As already stated, unemployment decreases tax revenues and puts extra demands on government budgets as well as private agencies, resulting in less public and social goods and services. By supporting healthy government budgets, job creation supports public and social goods and services (Padraig, 1996).

2.9.Employment Generation in Ethiopia

According to Ethiopia's National Employment Policy and Strategy (NEPS) (2009), employment generation has two important dimensions - the demand and supply side of job creation. The first dimension (the demand-side of job creation) refers to the ability of the economy to create jobs for various skill categories as per the requirement of the economy. The second dimension (the supply side of job creation) deals with whether or not the skill levels of the available pool of persons match with the type of skill that the economy requires (NEPSE, 2009).

2.9.1. Demand side of job creation

A comprehensive strategy of employment creation seeks to promote job creation in the private sector, in the public sector, and also in terms of promoting self-employment and entrepreneurship in urban and peri-urban areas. Accordingly, the NEPS of Ethiopia identified policy action areas pertaining to the demand side of employment generation as Accelerating private sector development for employment generation; and Ensuring effective and efficient public sector employment (NEPSE, 2009).

2.9.1.1. Employment Generation in the Private Sector

The future of employment expansion in Ethiopia is with the private sector. The public sector can no more be the biggest employer. Thus, enhancing private sector productivity (both formal and informal) and creating mechanisms for strengthening their linkages and complementarities is critical to creating decent and remunerative jobs to reduce poverty. Since the early 1990s, there have been encouraging improvements in a number of policy areas for private sector development in Ethiopia (FDRE, 2004).

The Ethiopian policy regime since 1992 has been more hospitable to entrepreneurship, including for small and informal businesses. Whereas Derg policies (1992) were “openly aimed at curtailing (if not eliminating) the private sector,” there has been liberalization alongside some proactive measures. There has been an attempt to create a conducive business environment for the private sector. Special incentives schemes (such as subsidized credit services, preferential land lease, lower tax rates, and effective training services); special support for business development services (especially to MFIs and to informal sector operators); and development strategies (such as MFIs Development Strategy) have been introduced and applied in order to render the private sector the engine of economic growth, employment and income generation in the country (Ibid).

As a result, there has been a promising development in private sector investment activities with their associated employment opportunities. MFIs were among the programs the Government of Ethiopia has recognized and paid due to attention to address the challenges of unemployment and expedite economic growth across the country. MFIs in Ethiopia have been making a significant contribution to the overall development and in the efforts geared towards reducing the unemployment rate. The objectives of the strategy are to strengthen MFIs in order to facilitate economic growth and bring about equitable development, create long-term jobs and etc (FDRE, 2004).

Today millions of unemployed youth in various towns and cities of Ethiopia have become beneficiaries of MFI sector. MFIs have been playing a key role in addressing unemployment in urban areas of Ethiopia. As per available statistics from the Federal Micro and Small Enterprises Development Agency, this sector created jobs for 1.15 million people in the year 2011/12 alone. According to the Growth and Transformation Plan (GTP) of the country, there is a plan to create 3.05 million job opportunities in five years 2010/11-2014/15. Jobs have been created in both the private and public sectors. Specifically in jobs have been created in construction, service, trade, manufacturing and urban agriculture sectors (Ibid).

2.9.1.2. Employment Generation in the Public Sector

Employment can be generated and enhanced in the public sector through investments in employment-intensive infrastructure development and through Public Employment Programmes. It is clear that a labor-intensive approach, in a country where there are massive underemployment and unemployment, would create job opportunities for many thousands of people from a given amount of investment without the need to compromise on quality and efficiency. Although there is room for employment creation through the adoption of labor-based approaches in infrastructure, the actual employment gains via such approaches have been limited in Ethiopia. Employment can also be generated in the public sector through Public Employment Programmes which can take the form of public works or employment guarantee schemes, or some other variations engaging public and private partnerships (EBDSN, 2004).

2.9.2. Supply Side of the Labor Market

The supply side of job creation deals with whether or not the skill levels of the available pool of persons match with the type of skill that the economy requires. Basically, it is concerned with improving and raising labor productivity, which can be achieved mainly through education and training. In rural areas, labor productivity is enhanced by agricultural intensification and/or raising labor productivity in off-farm and informal sectors. (FDRE, 2004)

To tackle the challenge of unemployment in Ethiopia, the strategic emphasis was on the growth of labor-intensive sectors, and on facilitating the growth of MFIs. In particular the effort of employment creation through the growth of the MFI sector is seen to require integration of efforts to increase educational attainment, both general education and TVET skills training, with the provision of capital for the unemployed (within a well-functioning financial system), and with specialized programs to promote opportunities for self-employment (Ibid).

2.10. Microfinance and Employment

According to ILO (2014), financial instruments complement policies that target the labor market. Decent employment and incomes depend critically on accessibility to the financial market; for this reason, microfinance can have a strong and positive impact on employment. Microcredit targets people who are often unemployed or otherwise excluded from the traditional banking system and who wish to start their own business. Studies show that microcredit significantly contributes to self-employment and job creation, "the fiscal cost per job created is usually below that of alternative labor market instruments and jobs created through microcredit positively contribute to entrepreneurs' income and self-esteem". Insufficient job creation, labor market weakness and high youth unemployment rates increase the interest for mechanisms that foster self-employment**,** such as microfinance. The role of microfinance was as a tool for economic growth through the creation and support of self-employment and entrepreneurial activities (ILO, 2014)

According to the latest European Commission Report, more than 20,000 entrepreneurs have already benefited from loans and guarantees worth a total of €182 million. The report finds that Microfinance has significantly contributed to job creation by enabling credit for unemployed or inactive people, who often struggle to borrow money from financial institutions. Difficulty in accessing finance still represents one of the main barriers for aspiring entrepreneurs. The report indicates that 60% of final users were unemployed or inactive when they applied (ECR, 2013).

European Commission Report (ECR) survey carried out in 2013 that involved 4,204 beneficiaries of microcredit in France. The results are presented in the study and confirm that the impact of microcredit on employment in France appears to be broadly positive, with nearly 60,000 jobs created or preserved annually. Over the 3-year study, enterprises have recorded, on average, 2, 6 new or preserved jobs. Moreover, the survival rate of the financed enterprises is also high, with the sustainable integration of the beneficiaries in the labor market. The study finds that professional microcredit and support services help both potential and existing entrepreneurs who are unemployed or/and excluded from the traditional banking system (ECR, 2013).

European Microfinance Network (EMN) report show that microcredit significantly contributes to self-employment and job creation. Initiatives at the local level, such as credit unions or credit cooperatives, have made a big impact in their communities. Due to growing demand, services diversification will be a key for the development of microfinance. Furthermore, targeted customer groups will need more tailored services. For example, migrant communities require a specific approach combining financial and non-financial services that increase their opportunities for self-employment and entrepreneurship (often developed out of "necessity" rather than "opportunity"). According to the Survey, in 2013, a minimum of 121,270 micro enterprises and start-ups were supported by the surveyed organizations, resulting in an approximate impact of at least 250,000 jobs throughout Europe (EMN, 2014).

2.11. MFI Creates an Employment Opportunity

The poor need assistance in accessing the resources required to develop their activity. Lack of saving and capital makes it difficult for many poor people who went jobs in the farm and non-farm sector to become self-employed and to undertake productive income generating activities. As world banks study has indicated that the number of poor people in sub-Saharan Africa has increased significantly. The largest segment of this population is unemployed or self-employed. In such situation, credit providers and substantial employment opportunities at all level of skill through the establishment of income generating activate (Khandker, 2003).

As population and economy grow SMEs, provides new job opportunities. They use more unskilled labor force than the large ones. If they dispersed in rural areas, they help to reduce the flow of unemployed people from the rural areas to urban centers. They are the center of initiative and source of innovation to improve the countries productivity. Credit has a great potential to movement of the associated constraints faced by the poor. The majority of the population in this sector needs credit either for starting up a small business or for the expansion of the existing. They must proceed to accumulate before they purchase material inputs for their business. Saving service not only provide valuable finance as assistance to low income clients but also strengthen institutional self-efficiency, membership commitment to the micro financial initiative and build a service discipline, self-esteem and well-being (Gebreeyesus, 2007).

2.12. Challenge of Microfinance Institutions

The challenges of reaching the poorest population with microfinance include physical and economic barriers; self- selection, and self-exclusion as well as sector risks and the deprivation of extreme poverty itself. The main challenge of a microfinance institution in serving the poorest is economic barriers, physical barriers, sector risk, self-selection, self-exclusion, and impact of chronic poverty (Maes, 2012).

Economic barriers: many microfinance programs use group lending methodology clients to attend a weekly or monthly meeting to access credit. The cost of transportation to this meeting, together with the opportunity cost of attendance can present a barrier for the very poor to participate microfinance programs. Alternatively many, individual lending or saving programs require clients to save a certain amount before they can buy the poorest populations.

Sector Risk: very poor people are often dependent on subsistence economies and the unique requirements of financing such activities (payback of the loan, for instance, can only take place after the production period that often lost several months), microfinance institutions usually shy away from lending to this sector.

Self-selection: it is well known that solidarity groups in Grameen-style microfinance programs and village banks reject very poor members because thus risk the credit value of the entire group. Self Exclusion: Even when very poor people are not actively excluded by a community, they often opt out of community-related projects because they are intimidated, believing that the services offered by such project are not suited to their needs (Sriram & Fisher, 2002).

The impact of chronic poverty: living in absolute poverty for a prolonged time strongly affects a person's dignity and hope for the future, as well as his or her ability to take initiative and overcome stigma. Moreover, poor health (especially chronic diseases such as malaria HIV/AIDS) presents a major obstacle for conduction success full micro-enterprise activities (Maes, 2012).

2.13. Review of Empirical Studies

Different studies in different countries have been conducted to examine whether the microfinance can really help poor or not. The studies made on three microfinance institutions in Bangladesh on selected household levels. This study indicated that the most important of the effect of borrowing from a microfinance program is its impact on per capital expenditure. The study also pointed out that the participation in group-based microfinance shows positive and significant impacts for school enrollment, asset holding, consumption, nutritional status and household net worth of borrowers in all three programs.

Arega (2007) assess the financial and operating performance and challenges of MFIs in Addis Ababa. It had the objective of assessing and evaluating the core operations, evaluation 30 of the communities" opinion towards the services of the institutions, challenges of the institutions and the like and to achieve his objective the researcher use exploratory as well as descriptive research methodology. From the eleven MFIs at that time found in Addis Ababa three of them were selected with purposive sampling method. Accordingly, a total number of 36 officials and a total number of 300 respondents (clients) /100 from each/ have been selected with the accessibility technique from the active and inactive clients of the MFIs under consideration. The result of this study showed the financial and operations reports were prepared in line with the accepted accounting standards; Females participation in the services is average especially in the rural areas the participation of women is low compared to urban areas; the small loan size and short repayment period of the MFIs along with the high-interest charge discourage clients, as a result of this, there is high client drop out and low client retention rates; client savings showed continuous increment over the studied period. The result also showed almost all of the MFIs in the sample achieved far below their plan in connection with collecting the disbursed loans in sufficient amounts and on time from the clients; growth indicators like growth in the portfolio, growth in borrowers, showed an increasing pattern.

Alemayehu (2008) also examine the performance of MFIs in Ethiopia by taking six institutions. The study focused on the analysis of profitability and sustainability, asset and liability management, and efficiency and productivity of MFIs in Ethiopian using a descriptive analysis of data collected from audited annual reports of 6 microfinance 31 institutions covering a period of five years (2002-2006). The result of the study showed that most of the MFIs were doing well in terms of Operational self-sufficiency and financial self-sufficiency through both operational and financial self-sufficiency declined with the size of the institutions. They also have a low-cost capital which is below the commercial bank lending rate, but the debt to equity ratio was high in most of the cases. With respect efficiency, large MFIs had a better operational efficiency than their small counterparts as measured by the ratio of operating expense to gross loan portfolio and cost of serving a single client. Yet, small ones were good in outreach measured by average loan size. In general, Alemayehu concluded that the sustainability of large and medium MFIs in Ethiopia was encouraging, but the case in small MFIs demands consideration for the fact their good outreach measures are not accompanied with good sustainability indicators.

Letenah (2009) on his study of performance analysis of sample MFIs of Ethiopia evaluated both outreach and sustainability and explored the relationship between them. The study was conducted on 16 MFIs whose reports were available on Mix Market data. The result of this study indicated that performance of MFIs in terms of depth of outreach for the fact they couldn't reach the poorest of the poor, but they are good at measures of the breadth of outreach. Their cost management, efficiency, and productivity enabled them to charge a lower price. The finding on Letenah also confirmed Alemayehu (2008) in that the performance of MIFs institutions related with size where the higher the size the better the sustainability.

The study by Yonas, (2012) and Melkamu, (2012) tried to see the determinants of performance by using a proxy of financial and operational sustainability of Ethiopian MFIs. They focused only on internal factors and have not considered external factors like macroeconomic and industry and also they have not addressed specifically the idea of the financial performance of MFIs. In addition, Sima(2013) studied determinants of profitability of Ethiopian Microfinance by using Microfinance specific and macroeconomic factors from Secondary data. Therefore the above studies use limited variables which focus on MFI-specific and macroeconomic factors only and not say anything about industry specific determinants in their study.

Asmelash (2003); Brinesh (2009); and Meehan (1999) studied the impact of DESCI in Tigray regional state. The study results show that there are changes in the household income levels, decreasing of poverty levels; the building of key assets; improved child education, increased access to health facilities and nutritional intake; and improved risk management capacity on clients than the non-clients in the studied areas. Daba (2003) and Yohannes (2006) investigated on the impact microfinance on poverty reduction of OCSSCO in Oromia regional state. The study results reveal that there are improvements in the economic status of the clients than the non-participants and improved the living standards of the participants" households in the study areas. Wolday (2003) concluded based on the study results that the microfinance industry in Ethiopia showed remarkable growth in terms of outreach. Wolday states that the "MFIs have been successful in addressing the financial needs of the rural poor". Good repayment rates, mobilization of a significant amount of saving from the poor, and promotion of food security among the poor were reported by the study.

Abebe (2006) studied the impact of microfinance on poverty reduction in Ethiopia, with the case study of three SFPI. The results reveal that the SFPI programs have made positive impacts on the household income, asset ownership, housing conditions, expenditure, and diet conditions of the participants. Abebe concluded that the impacts are more pronounced in rural households than urban households. Ahmed (2007) evaluated the role of micro credit in poverty alleviation focusing on ACSI in Farta Woreda in Southern Gonder. His study results show that ACSI microcredit program has impacted positively on the clients by creating employment opportunities for the poor and by increasing capacities for those who have no working capital and raised the household income both for men and women borrowers.

As reviewed in some case studies on the impact of microfinance interventions, MFIs have a positive impact on the livelihood of the marginalized poor. But the depth of impact is different in different countries and different MFIs because of several factors. Some of the factors can be the size of the financial service provided, institutional performance, information availability, accessibility, infrastructure availability, awareness of the clients, approach or methodology, environment and others.

Until recently, the dominant approach has been based on the view that poor people lack the financial capital that will enable them to invest and engage in productive activity, in particular making use of their labor. In general, this view identifies capital constraints to growth as a key cause of slow development. In reality, the literature on MFIs in Ethiopia is scanty and most of the available studies were not conducted specifically in line with finance related services of MFIs to the employment generation. However, this study tried to assess the role and challenges of microfinance service by targeting and deeply investigating those operators who use the microfinance services of Jimma Town.

2.14. Conclusion and Knowledge Gap

The literature reviewed shows that the debate on microfinance is conclusive on the role of microfinance in poverty reduction as the study portray. It should be noted that the varying conclusions in the text may be accounted for by differences in the methodology used to measure the impact, among other biases. Several studies argued on the positive impact of microfinance in improving the living standard of the poor and thereby reducing poverty. They used loan repayment performance as a determinant factor for improvement in living standards of the poor.

Tsehay and Mengistu (2002) on the impact of microfinance among poor women in Ethiopia argued that the microfinance interventions have brought positive Impacts in the improvement of economic status and empowerment of microfinance programs beneficiaries. In addition to the above-mentioned argument, Camilla (1997), in her study of microfinance for women's indicated that poor women do not want to take the risk. This is why they concentrate on low-income business based on their traditional skills and experiences which contradict the objectives of empowerment of microfinance institutions. According to her, since they engaged in the same activities such as in food processing and retailing they provide the same products and services and competing with each other for limited markets. According to Johnson and Rogaly (1997), microfinance helps to improve social relations. Microfinance programs are powerful means of developing the self-confidence of the poor by providing a demonstration of trust in their clients. It helps to identify the problem of powerlessness (which may result from economic inequalities) within the households and in the community at large. The self-confidence of the poor is developed through the time with the improvement of their economic activities. In sum, studies of overseas on the impact of the MFIs in improving the living standard of the poor are not exhaustive. This study tried to fill this gap by focusing only on the role and challenges of microfinance in creating job opportunity.

Therefore, in order to increase the capacity of the microfinance institutions and thereby their contribution to employments creation these real and other related challenges or constraints should be solved or at least minimized.

2.15. Conceptual Framework

In order to understand the role of microfinance institutions in the job creation, a conceptual framework has been developed. This has been developed based on an initial literature review undertaken on the impact of microfinance. Microfinance institutions provide services like loan, saving, training/counseling/orientation and, monitoring and supervision to poor people in order to create a job for themselves and others. Clients joining the MFIs were to generate income, to be self-employed and create job opportunity for others as well and to operate and expand the existing business which was run by the family and other partners. Mostly those who gave reasons as to get a job must be those unemployed and students prior to joining the MFIs.

Since business growth is influenced by credit and saving factors, the business owner needs to understand what influences businesses to grow and create a job to others. MFIs face a wide range of constraints and they are often unable to address the problems they faced on their own. Clients of MFIs encountered in accessing credit facilities from the institution. Its collateral security requirement is the major bottleneck for the enterprises. Other challenges were fixed short term credit and short payback period and minimal frequency. The conceptual factors include the financial service and non-financial facilities that are a job opportunity. The relationship is shown in below diagram.

Diagram: Conceptual Framework

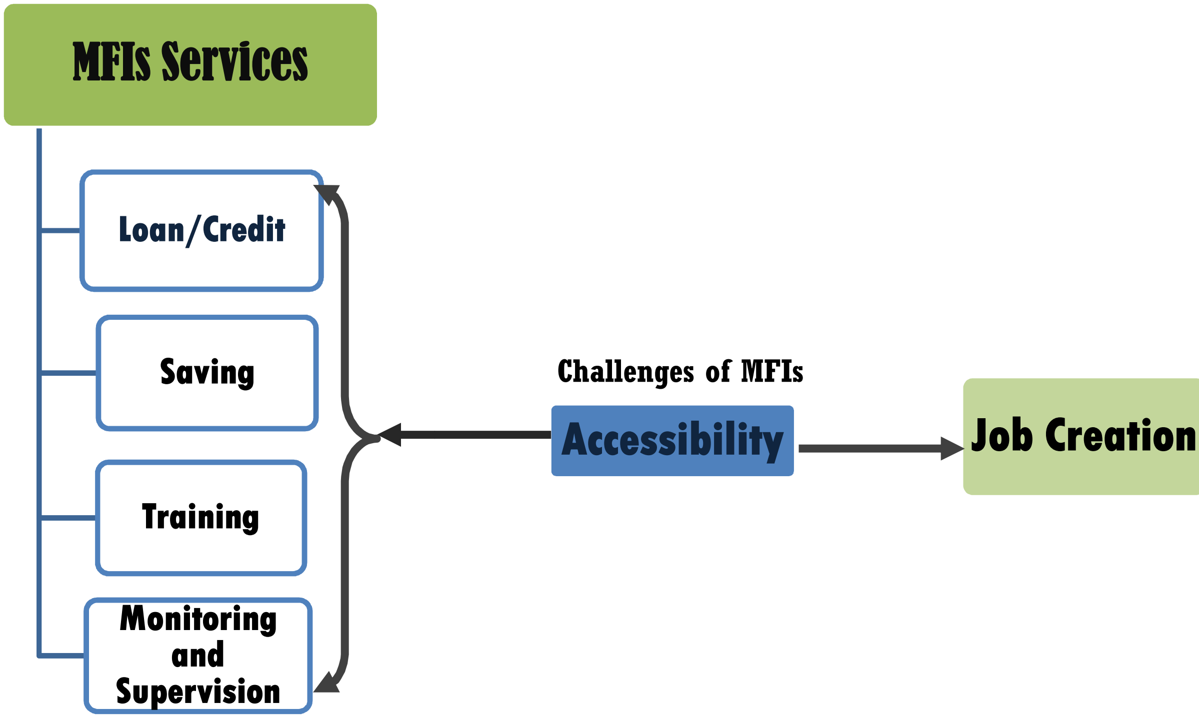

Figure: Conceptual framework

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

The purpose of this section is to provide an overview of the research methods, data types and source, study area, population, sampling frame and sample size, the data collection techniques and data analysis process employed in meeting the objectives of the research.

3.1.Study Area

Jimma is the largest city in southwestern Ethiopia. Located in the Jimma Zone of the Oromia Region, this town has a latitude and longitude of7°40'N 36°50'E / 7.667°N 36.833°E / 7.667; 36.833.It was the capital of Kaffa Province until the province was dissolved. Based on figures from the Central Statistical Agency in 2005, this town has an estimated total population of 159,009 of whom 80,897 were males and 78,112 were females. Herbert S. Lewis states that in the early 1960s it was "the greatest market in all of southern Ethiopia.

The particular study area is Jimma town, which is one of the districts in the zone, which is situated at a distance of about 346 K.M. away from Addis Ababa to the southwest. Besides, there are four government-owned higher institutions such as Jimma University, College of Teacher Education, Technical and Vocational Training College, one Specialized Hospital, and other private institutions.

For the implementation of good governance and to deliver service for the community the municipality divides the town into seventeen Kebeles under seven clusters. As the report from Micro and small scale enterprise agency of the town shows unemployed youths in the town cooperate under different socio-economic activities. The activities under which they organized are agriculture (2,547), industry (2,307), and service (3,669), construction (2127) and on other petty trade (4,322) in general 2,417 co-operative enterprises having 47.3 million capitals were organized. In this regard, youth population is more beneficial.

Currently, three microfinance institutions are operating in Jimma town. Harbu Microfinance Share Company was established in November 2005, while Eshet Microfinance Share Company and Oromia Credit and Saving Share Company (OCSSCo) were established in 2006. These institutions have the major objective of poverty alleviation through the provision of productive credit to the poor.

3.2.Research Design

The descriptive type of study is used to obtain information concerning the role of microfinance institutions in creating job opportunity and to draw conclusions from the facts that are discovered. It was conducted for the purpose of identifying the role of a microfinance institution in reduces unemployment in the study area. The outcome is a detailed picture of the subject because this type of research uses to identify and obtain current information on the particular area.

The approach used in this research was a mixed research approach which makes the use of both quantitative and qualitative descriptive methods. When used along with quantitative methods, qualitative research can help to interpret and better understand the complex reality of a given situation and the implications of quantitative data. Due to these facts, therefore, a mixed approach of research methods was employed in this study.

3.3.Source and Type of Data

In order to have complete information about the study, the researcher was used both primary and secondary sources of data. Primary data was collected through questionnaires and interview from employees and clients (customers) of the selected microfinance institution. Secondary sources were published and unpublished materials of organization and various sources, research, international journal and articles which provide the researcher full information.

3.4.Target Population

The study population was composed of microfinance clients and employees in the three microfinance institutions operating in the town. The three microfinance institutions in Jimma town are Harbu Microfinance Share Company, Eshet Microfinance Share Company, and Oromia Credit and Saving Share Company. Harbu Microfinance Share Company has 1412 clients. Eshet Microfinance Share Company has 1128 clients. Oromia Credit and Saving Share Company have 1031 clients.

3.5.Sample Size and Sampling Techniques

A sampling frame was prepared to combine the lists of the clients in the three microfinance institutions having a total population size of 3,571 clients. The total population of this study was 3571 of which the sample size was calculated using the formula recommended by Yemane (1973) as cited by (Israel 2003) at 95% confidence level and degree of variability of= 0.5 and with the level of precision of= 5% (Yemane, 1973) is Where, n = is sample size

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

N =is total population

e^2 = is probability of an error

Thus, the sample size for this study can be determined as follows:

$$n = \frac{N}{1+N(e)^2} = n = \frac{3571}{1+3571(0.05)^2} = 359.7 \approx 360 \text{ clients}$$

With N = 3571, e = 5%, thus the sample size is 360

From the three microfinance institutions, an equal number of customers are taken randomly. The corresponding number of respondents from the three microfinance institutions was obtained based on the principle of probability proportional to size as it is indicated in the table below.

Table 3:1 Sampling Techniques of the Respondents

Institutions	No of clients	Sample taken
Harbu	1412	142
Eshet	1128	114
Oromia Credit and Saving	1031	104
Total	**3571**	**360**

Both probability and non-probability sampling techniques are used to collect data at different stages. First purposive sampling was used to select the Jimma town due to the town accessible to the researcher. The researcher also used probability sampling method which is simple random sampling techniques (Lottery method) to obtain fruitful information from clients. A structured questionnaire was prepared for randomly selected of 360 of clients of Jimma town microfinance institution.

Finally, the participants of Key informant interviews were purposively selected. The selection criterion includes knowledge of microfinance issues and beneficiaries economic, social situations prior to MFIs services, or are currently using MFIs services. Key informants interviews were conducted with three MFIs managers and employees.

3.6.Methods of data collection

The data collection instrument that the researcher used for primary data is documentation, questionnaires, and interview.

Documentation is method of data collection is based on observations or informal conservations. They are usually incomplete and biased, but in certain cases, they are very useful. The documentary analysis reveals many facts and relevant information that may not be obtained through other methods. Documentation involves collecting information and data from existing surveys, reports and documents of Micro Finance institutions and any relevant Publications.

Questionnaires were designed and used by the researcher to obtain survey data that allow an understanding of the contribution of microfinance institutions in creating a job opportunity. Most questions in the questionnaire were closed-ended questions and contain different parts like demographic characteristics of the respondents, the role of MFIs in job creation and challenges facing during operate their business. However, opportunities were given to the respondents to say more through open-ended questions. The questions that were used in the questionnaire are multiple-choice questions and five-point Likert scale type questions. Initially, the questionnaires prepared in English but it was translated into Amharic, the local language to make the questions simple, clear, and understandable to respondents.

The questionnaires have been pretested and modified before the execution of the survey. The questionnaires have been pretested and modified before the execution of the survey. During a pilot test of the questionnaires, 30 clients randomly selected from three MFIs. This has helped the researcher to see whether there were any difficulties in relation to the questionnaire and to modify based on the feedback of the pre-test or to check the reliability and validity of the data that the researcher collected. Survey questionnaire has been revised and adopted from various related studies like Andualem, 2013; Bereket, 2010; Mokennen, 2013; etc. In the administration of questionnaire three enumerators were recruited and trained on data collection and on the contents of the questionnaire provided. The enumerators administered the questionnaire with the supervision of the researcher.

Key informants were used to gathering information from Jimma town MFIs branch manager and employees. They are purposively selected because they are expected to be well knowledgeable about the issues related to the MFI activities. Overall, three MFIs key informant interviews were conducted in the sampled areas. For this purpose, interview guides help to elicit a response on various aspects related to the role of microfinance in creating a job opportunity. The open-ended discussion was undertaken to gather the required information from the informants. Checklists were developed and used to guide the interview.

3.7.Reliability and Validity

The researcher was tried to maintain the reliability and validity of the research by using different data gathering tools. And also tried to avoid the error that likely happens due to a shortage of instrument or inability of the instrument to measure what is intended to measure and crosses validate the response of the questionnaire with the document analyzed. Then, the improved language clarity of the questionnaire was used through refining the instruments and avoiding the personal bias of the researcher. The measurement of the reliability of the instrument was tested by using Cronbach alpha test which results in 0.72 which is fairly reliable. Cohen et al (2007) suggest that an alpha value greater than 0.67 is reliable. A performance of reliability test was used to check the consistency and accuracy of the measurement scales. By doing so, the researcher has maintained the reliability and validity of the research.

Checking the validity and reliability of data collecting instruments before providing to the actual study subject is the core to assure the quality of the data (Ayalew, 1991). To ensure the validity of instruments, the instruments was developed and a pilot study was carried out on three MFIs with a sample of 30 clients to pre-test the instrument. The pre-test provides an advance opportunity for the investigator to check the questionnaires and to minimize errors due to improper design elements, such as a question, wording or sequence (Mullins, 1999).

After the dispatched questionnaires' were returned, necessary modification on items and complete removal and replacement of unclear questions were done. The literature review variables used in the study are taken from a review of related literature so that questionnaires for the study are adopted from previous studies made in different areas. Checking validity has also enabled the researcher to determine what types of tests to use.

3.8.Data Analysis and Presentation

Data collected from the questionnaire are analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as frequency, total score, and simple percentage. Qualitative as well as quantitative methods were used in the analysis of the primary data collected. The quantitative data were analyzed using Statistical Package for Social Science (SPSS) version 20. This involved the data processing which includes editing, coding and classifying the collected data. The processed data was analyzed by the descriptive method of data analysis mainly through tables and percentages because of appropriate and sound interpretation of facts are made which paved the way for drawing conclusions.

3.9.Ethical Considerations

The research is conducted by taking basic ethical considerations into account. Among many considerations, respect for audiences and the use of nondiscriminatory language on gathering data, treatment of participants (maximizing good outcomes and minimizing risk), respect for participants(protecting autonomy and ensuring to become well-informed, voluntary participation) and justice (a fair distribution of risk and benefits) were maintained throughout the research process starting from its onset. Reporting data honestly, without changing or altering the findings to satisfy certain predictions or interest groups was also a major issue of concern dealt in the research. Throughout the data collection and analysis procedures, confidentially of respondents will be maintained to safeguard their rights.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

4.1. Introduction

In this chapter, presentation of the analysis and discussions made to address the research objectives and then make reasonable recommendations using the collected data. This chapter deals with four sections. The first section contains a summarized description of the personal characteristics of the respondents and the second section contains a contribution of microfinance institutions to respondents. The third section describes the role of MFIs in creating job opportunity and finally, the challenge faces the MFIs.

The data were collected from the active clients of microfinance institutions in the town. The researcher himself administered the questionnaires to the respondents in three different Microfinance institutions in Jimma. The questionnaires were fully filled and complete. Prior to data entry, a series of questions were checked for errors. In particular, attention was given to ensuring the completeness of each questionnaire and whether all the questions were answered as per the instruction. Attention was also given to identifying miss recorded items and responses for the open-ended and multiple answer questions. Data from questionnaires that passed through such checking were entered, using software package of SPSS version 20. The entries were checked by comparing with the original questionnaire. Data cleaning was involved printing and reviewing a series of tables.

4.2. Demographic Characteristics of Respondents

The characteristics of the respondents such as sex, age, marital status and educational background were analyzed and discussed below.

4.2.1. Sex Composition of the Respondents

Since sex is one of the characteristics, respondents were asked about their sex. The following table shows the sex structure of the respondents.

Table 4:1 Sex Composition of the Respondents

Sex	Frequency	Percent
Male	134	37.2
Female	226	62.8
Total	**360**	**100.0**

Source*: Own Field Survey, 2017*

As revealed in Table 4.1, of the total sample clients of MFIs in Jimma town, 226(62.8%) of the respondents are females and 134(37.2%) of them are males. This shows that MFIs gave weight to women borrowers as compared to men clients and the participation of women in MFIs financial services is relatively better. Though the MFIs financial service provision is the relatively better participation of women, there is a need to encourage addressing more women in the service so that they can take a loan and get involved in income generating activities.

4.2.2. Age Composition of the Respondents

With regard to the age composition of the respondents, majority respondents are found in the working age group. Table 4.2 below shows the age structure of the respondents.

Table 4:2 Age Compositions of the Respondents

Age range	Frequency	Percent
Less than 18 Years	-	-
18-29 years	140	38.9
30-39 years	146	40.6
40-49 years	63	17.5
Above 50 years	11	3.1
Total	**360**	**100.0**

Source*: Own Field Survey, 2017*

As shown in Table 2, majority, 146(40.6%) of the respondents are found in the age group of 30-39 years. Others, 140 (38.9%), 63(17.5%) and 11(3.1%) of the respondents are found in the age group of 18-29 years, 40-49 years and above 50 years respectively. Hence, it can be concluded from Table 4.2 that the majority of MFIs clients are in the productive age that they can work to change their life and they can use the loan in different profits generating activities. This further implies that the existence of such economically active age groups is very important to enhance economic development in the study area.

4.2.3. Educational background of the respondents

Table 4:3 Sample Respondents by Level of Education

Level of education	**Frequency**	**Percent**
Illiterate	14	3.9
Grade 1-8	77	21.4
Grade 9-12	106	29.4
TVET	73	20.3
Diploma	59	16.4
Degree	31	8.6
Above Degree	-	-
Total	**360**	**100.0**

Source*: Own Field Survey, 2017*

As indicated in Table 4.3, from the total respondents, 106(29.4%) of respondents are high schools (grade 9-12) and 77(21.4%) respondents are primary schools (grade 1-8) level of education. 73(20.3) of respondents are TVET (from level 1-4), 59(16.4%) respondents have Diploma, 31(8.6%) respondents have First Degree and 14(3.9%) respondents are illiterate. This shows that the majority of clients have high schools (grade 9-12) and primary schools (grade 1-8) level of education. Only 3.9 % of the respondents are illiterate and the rest are literate.

Most employment opportunities in the governmental and nongovernmental offices require higher educational status and set this criterion on their vacancies as one of the most important requirements. In general, these are also groups of the populations who are unemployed in governmental and nongovernmental offices those who have more than a diploma and the literate ones are beneficiaries from MFIs. This may be due to the fact that those who have educational level of diploma or above may not be interested to participate in such activities, rather, to search for another job on their professions in governmental and nongovernmental offices, while, the other group who attended lower than diploma level educations are eager to incorporate in MFIs services, may be due to lack of adequate professional skills to involve in formal job market. So those who attended level of education above a diploma, below diploma and illiterate are beneficiaries from MFIs services.

4.2.4. Marital status of the respondents

Table 4:4 Sample Respondents by Marital Status

Marital status	Frequency	Percent
Single	101	28.1
Married	235	65.3
Widowed	5	1.4
Divorced	19	5.3
Total	**360**	**100.0**

***Source**: Own Field Survey, 2017*

Table 4.4 revealed that 235 (65.3%) of clients are married, 101 (28.1%) of respondents are unmarried, 19(5.3%) of respondents are divorced and 5(1.4%) of them are widowed. This indicates that majority of the borrowers are married and the evidence shows that MFIs gives a loan to married clients than unmarried and divorced clients. This could be to minimize the non-payment rate and maximize the repayment rate.

Hence, the above table shows that most proportions of married and single women and men are able to participate in MFIs, and the sector is capable of absorbing both single and married individuals indiscriminately and is increasing their income. This shows that the majority clients have families and they obliged/forced to provide any support to their respective family members in group base (partnership and cooperative) business.

4.3. The Product or Services of MFIs

According to Jimma town MFIs employees and branch manager report, the MFIs provide both financial and non-financial services to the low-income group of the community. The product/services that supplied by microfinance institutions were financial services such as loans, savings, and payment facilities and non-financial services like training and follow-up and supervision. The financial services that provided by MFIs are important sources for job creation, new businesses formation, and livelihoods improvement. However, financial services alone are not enough to continuously improving the livelihood of the clients and enhancing the sustainability of their micro and small businesses and the necessary of integrated nonfinancial services and financial services. The main services provided by MFIs are:-

4.3.1. Loan/Credit Service

The loan is the main product of microfinance institutions given to poor people at reasonable interest for generating income through self-employment. The target clients eligible for its services are the active poor who are willing to engage in income generating activities of their own in rural and urban areas of the country. As mentioned earlier MFIs provides its services using mostly the group-based methodology. Each self-selected group, which contains three to five members including their leader. What is more, the center has been serving as a core body of clients to make a manageable and direct link with the institution. The center leader is the main contact person to the credit officers through which direct link is made with the institution. As the groups are self-selected, members are expected to know each other, have a similar background, enjoy the trust and develop confidence. Given that group members are jointly responsible for the loan, they will take the risk if one of the group members fails to repay the loan.

Besides, cooperative and individual based lending methodologies are lately introduced into the system. The cooperative based loan requires physical asset or capital as collateral. Similarly, the individual loan requires property or salary of permanent employees as collateral. In fact, if the client reaches a higher level of loan intake he/she will be allowed to operate individually rather than on a group basis. Loan disbursements are made at a sub-branch or branch level. However, cash collections and savings mobilization activities are carried out at the center levels.

4.3.2. Savings Mobilization

MFIs focus on disbursing loans. Their savings services are designed as a means of collateralizing loans and providing cost capital, they are not designed to meet the poor need for saving mechanisms. MFI's provides two forms of saving scheme these are compulsory saving and voluntary saving. Compulsory saving is a saving in which all of the credit beneficiaries attend whether they like or not which is done in constant proportion according to their loan intake. Compulsory saving is where clients are expected to save some amount of money deducted from the initial loan. For which the institute adds 4 % interest rate per annum until the credit is paid back. Besides, clients continue saving as per the repayment schedule until he/she finishes the debt. Having finished the repayment, clients can withdraw their compulsory saving including the interest. When borrowers receive first round loan, it is a must to save 10 % of the received money as compulsory saving, this, in turn, has 4 % interest per annum. In the second round, the % of initial saving decreases to 5 % but the same interest rate will be added on yearly basis.

On the other hand, voluntary saving is saving type in which an individual have the right to save at any time without obligation and withdraw at any time when the need arises. Therefore, for this analysis, voluntary saving is considered to assess the attitude of clients towards saving habit and its uses for future investment.

Table 4:5 Saving Account of respondents

Items		Frequency	Percent
Have you Saving Account	Yes	281	78
	No	79	22

Source: *Own Field Survey, 2017*

Out of total respondents 281 (78%) said that they have saving accounts and the rest, 79(22%) of respondents reported that they do not have saving accounts. The reasons were that they do not have money to save in MFI due to fewer amounts of profit that earn from the business. The majority of borrowers either they do have a saving account but they do not save frequently by their own or they have a lack of awareness about important of saving. Hence Jimma town MFIs should revise the saving system to meet the demand of the poor especially to increase the number of voluntary saving and the borrowers should learn about the benefit of saving that can be the part of assets. Wisniwski (1998) indicated that Voluntary savings can be facilitated savings which kept outside the MFI as part of the MFI's overall financial services or deposits held by an MFI. The advantages of saving service can be read from the perspective of the clients as well as microfinance institutions.

4.3.3. Training

MFIs provide both financial and non-financial services to poor clients. Majority 356(98.9%) of respondents they not got training or orientation before credit client and only 4(1.1%) of the respondent is taken (got) any training before and after the credit. If MFIs want poor people to access to credit services, they have to integrate financial services with non-financial services such as training, business development services and counseling, in order to help poor clients become good and responsible entrepreneurs. This data can imply that training support is required for how to use the borrowed money for the intended purpose, how to keep daily sales and expenditure, how to save part of their earnings and how to repay the loan according to a term of the loan.

Table 4:6 Training Services Before or After Received the Loan

Items		Frequency	Percent
Did you get any training and/or counseling services before or after you received the loan about its utilization?	Yes	4	1.1
	No	356	98.9
	Total	**360**	**100.0**
If your answer is "Yes", you took training or counseling on what?	Loan utilization	2	0.55
	Technical skills and knowledge support	--	--
	About saving	1	0.275
	Business management	1	0.275
	Total	**4**	**1.1**

Source*: Own Field Survey, 2017*

As specified in Table 4.6 above, 2(0.55%) and 1(0.275%) of the respondents replied that they were given with loan utilization, about saving, business management, technical and entrepreneurship training respectively. The majority of the respondents have taken training on loan utilization and saving. The orientations given by MFIs were only for the clients first joined the institutions but after taking the loan they didn't give any counseling/training for the clients. So MFIs must give training before and after loan to increase the awareness of their clients.

Financial services alone are not enough to continuously improving the livelihood of the clients and enhancing the sustainability of their micro and small businesses. Thus, the necessity of integrated nonfinancial services and microcredit has been recommended by many studies and researchers. Lidgerwood (1999) declares that microfinance is not a simple bank; it is a development tool for human skills to effectively use financial sources. Murdoch and Hayley (2002) point out that the entrepreneurial skills and ability are essential to drive a successful microenterprise and not all microfinance institutions' clients are evenly able to take on credit.

4.3.4. Follow up and Supervision

The organization aspires to be able to have a successful and default free clients. Subsequently, MFIs provides a monitoring and supervision service. In fact, the credit officers make an assessment on whether the clients diverted the loan they have taken to another purpose or so together with this the organization opens a door for helping clients designed for enhanced management of the loan money. Hence, sampled respondents were asked for their responses about supervision and training that is given by the institution. The following Table 4.7 shows the borrowers their responses.

Table 4:7 Respondents follow up and Supervision

Items		Frequency	Percent
What is your opinion about follow up and supervision provided by the MFIs office?	Very low	101	28.1
	Low	257	71.4
	Neutral	1	0.3
	Good	1	0.3
	Total	**360**	**100.0**

***Source**: Own Field Survey, 2017*

As is indicated in Table 4.7, out of the total respondents 257 (71.4%) reported that the follow-up and supervision is given by MFIs officials or workers was low, 101(28.1%) of respondents were said that follow-up and supervision was very low, 1(0.3%) and 1(0.3%) of respondents were reported that the follow-up and supervision was medium and good respectively. This implies that less the institutional supervision and follows up especially after the credit of their borrowers seems to be encouraging. In order to improve the performance of microfinance institutions and assess the demand along with facilitating the success of the clients, supervision is of paramount. Particularly a regular monitoring and supervision of loan utilization are anticipated to lend a hand in fall the diversion of loan towards unintended activities (Assefaet al, 2005).

In general, Employees and managers of MFIs were mentioned that the contributions of MFIs to the business activities of the poor people were good enough. The clients benefit from microfinance program by improving access to their capital, which helps them to expand their business. Through this expansion, a business can increase productivity, profit, and create job opportunities to their household and the others people. The provision of the loan, it becomes easier for the entrepreneurs to start up income generating activities such as retail trade in shops, petty trade in fresh produce sold in daily markets, and other business activities.

4.4. Role of MFIs in Minimizing Unemployment

In Ethiopia, the challenge of employment creation is equivalent to achieving the objective of sustained growth and reduction of poverty. In fact, the reduction of unemployment and ensuring sustainable growth is not a simple activity, and it takes a long time to achieve goals. According to the tasks of both federal and local government to create employment opportunities for people, MFIs is one to curb unemployment problem.

A sizable literature reveals that MFIs play an important role in the creation of job opportunities to unemployed citizens. In Ethiopia, especially in urban areas, strengthening, expanding, and developing MFIs could serve as a major instrument to alter unemployment and address poverty problems. With respect to this, in different activities, many people have become beneficiaries from the job opportunities, related to MFIs activities. Since the growth and expansion of enterprises are positively related to the growth of employment opportunities, MFIs could minimize the unemployment rate.

Critical to the issue of microfinance institution service is its employment creation among the poor society where money can use their "labor-commonly identified as the most important asset of the poor" to generate income (Moser, 1998). It has been noted that in many countries of the world, microfinance programs, provides access to the small amount of startup capital for entrepreneurial projects which will then presumably help individuals to create employment opportunity and to create long-term self-employment in income generating activities.

According to interview made with MFIs managers and employees regarding the role of MFIs towards reducing unemployment, they said that MFIs more contributes in Jimma town to reduce the level of unemployment by smoothing conditions to create job for who are unemployed by preparing source of fund (loan) and forming a group of youth to work together and improve their life standard. MFIs created different kinds of jobs such as full time recruited, part time recruited, casual work, family part time job, family full-time job, full-time self-business, part time self-business etc. From the total clients of MFIs, 55% of the clients were created jobs for others average one up to three employees. From this, it can be concluded that MFIs has a great role in reducing unemployment of the Jimma town.

4.4.1. Previous Occupation before Joining the Current Business

It is clear that a related work experience gives a person the required skills necessary for starting and running the same activity efficiently. With regard to the earlier work experience of the respondents, they were asked about the type of activities they were doing before engaged (joined) in their respective current activities.

Table 4:8 Previous Occupations of the respondents

<table>
<tr><th colspan="2">Items</th><th>Frequency</th><th>Percent</th></tr>
<tr><td rowspan="3">Did you have a job before becoming the customer of this Institution?</td><td>Yes</td><td>222</td><td>61.7</td></tr>
<tr><td>No</td><td>138</td><td>38.3</td></tr>
<tr><td>Total</td><td>360</td><td>100.0</td></tr>
<tr><td rowspan="6">If your answer is ‘Yes’, what was your previous activity before coming to this member?(previous experience might be related or unrelated)</td><td>Self-owned informal related business activity</td><td>74</td><td>20.6</td></tr>
<tr><td>Self-owned informal unrelated business activity</td><td>31</td><td>8.6</td></tr>
<tr><td>Self-owned formal related business activity</td><td>6</td><td>1.7</td></tr>
<tr><td>Self-owned formal unrelated business activity</td><td>13</td><td>3.6</td></tr>
<tr><td>Civil servant</td><td>98</td><td>27.2</td></tr>
<tr><td>Total</td><td>222</td><td>61.7</td></tr>
</table>

Source*: Own Field Survey, 2017*

As specified in Table 4.8 above, the majority of them 222 (61.7 %) had previous occupations and 138(38.3%) had not had previous occupations. According to this survey, MFIs created employment opportunities for those haven’t job before joining to MFIs. From this, we can conclude that MFIs have a vital role in employment creation.

It is known that clients’ previous related experience has a paramount positive impact on business that gives a person the required technical skill necessary to start and run the new business efficiently.

As indicated in Table 4.8, about 98(27.2) of the respondents were civil servants, 74(20.6%) of respondents were self-owned informal related activity before joining the business activities, 31(8.6%) of the respondents were self-owned informal unrelated business activity.

The rest 13(3.6%) was in self-owned formal unrelated business activity and 6(1.7%) in self-owned formal related business activity before come joining the business activities. Most of the clients of MFIs have been engaged previously in different activities before current activities.

4.4.2.Previous, Reason of Shifting and Current Experience of respondents

Prior experience of owners and employees have a countless advantage in the success fruit of in any business whether owned individual, partnership or cooperatively. Table 4.9 illustrates the previous occupation (job) of the respondents engaged in the microfinance institutions. From table, about 141(39.2%) , 49(13.6%) , 22(6.1%), 9(2.5%) and 1(0.3%)of respondents of sampled microfinance institutions have more than 10 years, 6-10 years, 1-2 years, 3-5 years and less than one year experience before starting to operate the current business respectively. Most of the respondents have more than five years experience before starting the current business.

Table 4:9 Previous Experience, Reason of shifting and Current Experience of respondents

Items		Frequency	Percent
How many years of experiences do you have before current occupation?	Less Than 1 Year	1	0.3
	1 – 2 Years	22	6.1
	3 – 5 Years	9	2.5
	6 – 10 Years	49	13.6
	More than 10 Years	141	39.2
	Total	**222**	**61.7**
What was a reason for shifting from your previous activity to current businesses?	To create jobs for own and others	20	5.6
	Lack of alternative	110	30.6
	To get high income	92	25.6
	Total	**222**	**61.7**
How many years of experiences do you have in current occupation?	Less Than 1 Year	15	4.2
	1 – 3 Year	67	18.6
	4 – 6 Years	205	56.9
	7 – 9 Years	66	18.3
	More than 9 Years	7	1.9
	Total	**360**	**100.0**

Source*: Own Field Survey, 2017*

Most respondents started their business activities and forced to discontinue their previous business due to different problems. The problem forced them to find another business opportunity. The above Table 4.9 shows reasons made the respondents were asked reasons of why they joined current activities. The respondents' evidence in the table below indicates that the most factors made them start a new/ current business are the lack of alternative opportunities 110 (30.6%).

Other respondents were asked, their reasons for shifting to current business were believed in getting high income 92(25.6%) and create jobs opportunities for other job seekers 20 (5.6%). As illustrated in Table 4.9, the majority of the respondents were shifted from the previous operation to current due to lack alternative and to get high income and also create a job for other job seekers.
As shown from the above table 4.9, from the total most of the respondents 205(56.9%), 67(18.6%) and 66(18.3%) of the respondents have an experience in current occupation between ranges 4-6 years, 1-3 years and 7-9 years respectively, while about 15(4.2%) and 7(1.9%) of the respondents have less than one year and more than 9 years experience respectively. People prefer to venture a new business on those types they are well acquainted with in terms of the required skill. The familiarity and pre-information of the type of business and its market atmosphere also enhance peoples' confidence to start a business that most of the respondents had experienced before current business.

4.4.3. Job Created By Clients for Others

Table 4:10 Job Created by respondents for others

Item		Frequency	Percent
Have you generated jobs for other in your business today?	Yes	239	66.4
	No	121	33.6
	Total	**360**	**100.0**

Source*: Own Field Survey, 2017*

As indicated in Table 4.10, 239(66%) of respondents reported that they generated jobs for others jobs seeker and121 (34%) of respondents said they not created jobs for others because of lack of capital to create jobs for others and they used the loan for others purposes (house expenditure, pay old debt, used to construct house.etc. The respondents took the credit for other uses than running a micro-business, which are not expected to directly create employment opportunity. This implies that the majority of respondents can be able to create employment opportunity for others and for themselves. MFIs play an important role in the creation of job opportunities to unemployed citizens. In Ethiopia, especially in urban areas, strengthening, expanding, and developing MFIs could serve as a major instrument to alter unemployment and address poverty problems. With respect to this, in different activities, many people have become beneficiaries from the job opportunities (Markoskdani et.al, 2015).

The results show that after the clients joined the microfinance programs they created a job for themselves and for others. From this, it can be concluded that MFIs has a role in reducing unemployment of the Jimma town.

4.4.4. The number and Types of Jobs Created

As shown in the table below 4.11, about 138(38.6%) of the respondents has created a job within the employment category of fewer than 3 persons. The other 84 (23.3%) and 16(4.4%) of the jobs were created within the employment category of 3-6 persons and 7-10 persons by respondent in their business respectively. The majority number of persons employed in the surveyed enterprises was employment category of fewer than three persons and there were no respondents creating an employment category of more than 10 persons.

Table 4:11 The number and Types of Jobs Created

Items		Frequency	Percent
The number of jobs generated	Less than 3 Persons	139	38.6
	3-6 persons	84	23.3
	7 -10 Persons	16	4.4
	Above 10 Persons	-	-
	Total	**239**	**66.4**
Type of job created	Full time recruited	29	8.1
	Part time recruited	80	22.2
	Family part time job	45	12.5
	Family full-time job	79	21.9
	Full-time self-business	6	1.7
	Total	**239**	**66.4**

Source*: Own Field Survey, 2017*

As it shown in Table 4.11 above, several types of employment have been mentioned with figures. According to the study, there are different kinds of jobs such as full time recruited, part time recruited, casual work, family part time job, family full-time job, full-time self-business, part time self-business etc. Among those 80(22.2%) of respondents type of job created were part time recruited and 79(21.9%) of respondents created the family full-time type of business. The others 45(12.5%), 29(8.1) and 6(1.7%) of respondents were created Family part time, full time recruited job and full-time self-business type jobs respectively. This implies the majorities of respondents' generated employment type were per time recruited and family full-time jobs than any other type of business. After the respondent clients joined the microfinance programs permanent or non-permanent, full-time or part-time employment opportunities; and permanent and paid employment opportunities have been created.

Table 4:12 Respondent's response about help of MFIs in job creation

Item		Frequency	Percent
Do you agree microfinance institutions helps in job creation?	Strongly disagree	7	1.9
	Disagree	8	2.2
	Undecided	11	3.1
	Agree.	317	88.1
	Strongly Agree	17	4.7
	Total	**360**	**100.0**

Source*: Own Field Survey, 2017*

As the table 4.12 shows that 317(88.1 %) of the respondents agree and whereas 17(4.7%) and 11 (3.1%) of the respondents believed that strong agree and undecided respectively. 8(2.2%) and 7(1.9%) of respondents replied that disagree and strongly disagree on the MFIs help in job creation. The most of the people answered that microfinance participates job creation. In addition to the reduction of unemployment and income generation microfinance institution also serve as an input towards sustainable industrial growth to create job opportunity and decrease unemployment (Yunus, 1999).

According to the interview made with manager and employees of three microfinance institutions in Jimma town, most of them said that MFIs helps in creation job opportunity by giving loans credit and saving. The information obtained from key informant's interview, they explained that they are engaged full time in their businesses. That is, their businesses are providing them with full-time employment opportunities. They could also create job opportunities for other unemployed people as well. Those employed people in business earn an income and spend it within the locality. Directly or indirectly, this investment in the locality gives benefit for other business entities and residents in the locality.

Those employed people may save and start their own business and employ extra labor force. They concluded MFIs plays a significant role in creating job opportunities for the unemployed and helping people with low level of income.

Table 4:13 The MFIs role in increasing income of poor people and reducing unemployment

Items		Frequency	Percent
In your opinion what extent microfinance institutions participate increasing income of poor people?	Very low	2	0.6
	Low	5	1.4
	Moderate	61	16.9
	High	272	75.6
	Very high	20	5.6
	Total	**360**	**100.0**
How do you evaluate the role of MFIs in reducing unemployment?	Very low	4	1.1
	Low	3	0.8
	Moderate	30	8.3
	High	284	78.9
	Very high	39	10.8
	Total	**360**	**100.0**

***Source**: Own Field Survey, 2017*

As indicated in above table 4.13, 272(75.6%) of the respondents said that contribution of microfinance institutions to their income was high (satisfactory) and 61(16.9) of the respondents were replied that moderate or reasonable in increasing the income of poor people. The remaining 20(5.6%), 5(1.4%) and 2(0.6%) of respondents were specified that the role microfinance institution in increasing the income of poor people was very high, low and very low respectively. This implies that the contribution of microfinance institutions in increasing the income of poor people through credit and saving was high and also low-income people were a beneficiary from microfinance institutions. MFIs play a role in improving the socio-economic condition of the clients since they create employment opportunities that enable them to generate their income.

As shown from the above table 4.13, 284(78.9%) of the respondents were replied that microfinance institutions play a great (high) role to minimize the level unemployment and 39(10.8%) of respondents were said that MFIs had a crucial (very high) role in reducing unemployment. While 30(8.3%), 4(1.1%) 3(0.8%) respondents were answered that MFIs play the medium, low and very low in reducing unemployment respectively. This indicated that almost in all microfinance play a crucial role to minimize the level of unemployment.

The above issues are relatively in conformity with the result of the study by FDRE (2004) which pointed out that to tackle the challenge of unemployment in Ethiopia; the strategic emphasis was on the growth of labor-intensive sectors on facilitating the growth of MFIs. In particular, the effort of employment creation through the growth of the MFI sector is seen to require integration of efforts to increase educational attainment, both general education and skills training, with the provision of capital for the unemployed and with specialized programs to promote opportunities for self-employment (FDRE, 2004).

4.5. Challenges in Accessing Credits to Poor

4.5.1. Loan Size

Table 4:14 Loan Size given by MFIs

Item		Frequency	Percent
What do you feel about the amount of loan size given by Microfinance Institution relative to your business?	Very low	38	10.6
	Low	246	68.3
	Neutral	37	10.3
	Good enough	39	10.8
	Total	**360**	**100.0**

Source*: Own Field Survey, 2017*

As indicated in Table 4.14, 246(68.3%) of respondents reported that the loan size is low, 39(10.8%) of respondents said that the amount of loan size is good enough for those engaged in retail trade activities, these, in turn, were many in types and run in different places such as market, nearby bus station, colleges, health stations, roadsides etc, 38(10.6%) respondents reported that the loan size is very low and 37(10.3%) of respondents said that the loan size is reasonable or medium. For example, loan size for micro business range from 1000 to 5000 birr. For a small investment and working capital, loan starts with a minimum of 5000 birrs based on the viability, profitability, and absorptive capacity of the client's enterprises or projects, as well as the first cycle loans, shall not exceed on average from 10, 000 birr. But, with the ongoing market conditions, the loan size has shown an increase for small scale business ranging from 2000 up to the maximum of 10,000 birrs individually. In contrast, the maximum size of loan for group borrowers varies depending on the size of the group members. The size of the group can range up to a maximum of five and a minimal of three people, wherein only one person is allowed to be a group member from a household. The outcome shows that majority of sample respondents are not satisfied by the provision of the loan amount.

Mokhtar (2011) indicated that the purpose of loan usage, size and numbers are the main factors that influence borrowers' of microfinance institutions. Extending the size of the given loan will lead to improving the performance of the youth entrepreneurs and MFIs tend to increase automatically the size of the loan with increasing the loan cycle and age of the group borrowing. However, there is an indication that majority clients were dissatisfied by the loan size.

4.5.2. Clients First Loan used

The loan service is given for different activities and provides mainly financial services and restricts its loan products to income generating activities. Although credit is delivered to productive purposes, the majority of clients are engaged in the traditional businesses of petty trade with a low level of education and skill.

Table 4:15 Respondents According to First Loan used

Items		Frequency	Percent
What was your first loan mainly used for?	Petty trade	259	71.9
	Garment	17	4.7
	Construction work	46	12.8
	To pay my old debt	6	1.7
	other	32	8.9
	Total	**360**	**100.0**

Source: *Own Field Survey, 2017*

As indicated in Table 15, 259(71.9%) of respondents used the first loan for petty trade, 46(12.8%) respondents used the first loan for construction garments, 32(8.9%) of respondents use the first loan to another purpose like to solve the serious problem, house expenditures etc, 12(4.7%) respondents said that they used for garment and 6(1.7%) of respondents reported that they used the first loan for pay old debt .This implies that the majority of respondents the first loan mainly used for petty trade or traditional retail.

4.5.3. Lending system and Group Formation

Table 4:16 Distribution of Respondents their Lending system and Group Formation

Items		**Frequency**	**Percent**
Have you borrow by	Individuals	77	21.4
	Group	283	78.6
	Total	**360**	**100.0**
If you borrowed by the group, who form your group?	Kebele administration	102	36
	Directly, I asked other group members to join me, and they agreed	66	23.3
	Previous group members asked me to join them and I agreed	46	16.3
	Microfinance Institution staff helped me to join the group	69	24.4
	Others	-	-
	Total	**283**	**100.0**

***Source**: Own Field Survey, 2017*

According to Table 4.16, among the total sampled respondents 283 (78.6%) of them confirmed that they borrow in a group lending system and 77(21.4%) of respondents reported that they borrow in the individual lending model. The solidarity group model incorporates minimal technical assistance to the borrowers. The group members cross quarantine each others' loans to replace traditional collateral (Legderwood, 1999). This implies that such approach has an advantage because of the borrower can use the group as a collateral. From the client's response, one can understand that the institution has applied both group and individual lending system. However, the individual lending requires personal guarantee as collateral which might be difficult for the poor to borrow.

Moreover, the majority of interviewed Jimma town MFIs officials explained that the mechanism used for addressing the poor in addition to group lending is an individual lending which permits the poor to get a loan with the collateral basis and the collaterals include: house and regular job salary for government and non-government employees etc. Certainly, such types of practice lead to screening out the poor as they do not have the capacity to meet the collaterals requirements and to get a loan from Jimma town MFIs.

From the viewpoint of selection requirements of the targeted poor, the needed requirement to access the credit service includes a letter of approval from the kebele which shows that they are the residents of Jimma town. In addition to this, screening committee in the Kebele level put their comments and decisions concerning applicants. This implies that is likely to be the marginalization of the poor through different requirements and direct interference of kebele administration in loan service provision.

The above Table 4.16 depicts the clients' group formation made by different stakeholder. 102 (36%) of respondents reported that kebele administration assists them to join the service, 69(24.4%) respondents reported that Jimma town MFIs staff helped them to join in the group, 66(23.3%) of respondents said that they directly ask other group members to join them, and 46(16.3%) respondents said that they establish their group with insisted by others such as parents and relatives. This implies that all stokeholds are given their technical support to the poor for group formation. Hence, it is a good practice for helping the urban poor and it should be encouraged the practices to motivate the low-income group. However, care must be taken when the kebele administration and other bodies form the group because the clients should have the right to form their groups voluntarily and get the service without others influence.

4.5.4. Criteria for Accessing Credit from MFIs

Table 4:17 Credit Processing Procedures of MFIs

Items		Frequency	Percent
Do you think that credit processing procedures/ criteria of MFIs are complex/Time taking?	Strongly disagree	45	12.5
	Disagree	133	36.9
	Agree.	173	48.1
	Strongly Agree	9	2.5
	Total	360	100.0

***Source**: Own Field Survey, 2017*

As shown from the above table 4.17 about credit processing procedures/criteria, majority 173(48.1%) of respondents were agree, 133(36.9%) of them disagree that the credit processing procedures of MFIs are complex and bulky; whereas, 45(12.5%) of respondents strongly disagreed and the remaining 9(2.5%) were strongly agree that the procedure is complex and bulky. This group of respondents reported that the paperwork involved in filling the forms and signing agreements and contracts was affecting the speed with which the clients handled the application. This response can indicate some dissatisfaction on some of the MFIs client's side and it also implies that MFIs has to revisit its credit processing procedures. This implies that even if more than half of the respondents agreed that the loan service is suitable, a significant number of clients replied that the criteria allowed getting access to credit services from MFIs is not suitable. Hence the credit criterion to get a loan needs some improvement to encompass the greater number of clients.

4.5.5. Loan Interest Rate

Table 4:18 Respondents' opinion about the interest rate

Loan Interest Rate	Frequency	Percent
Very low	4	1.1
Low	5	1.4
High	327	90.8
Very high	24	6.7
Total	**360**	**100.0**

Source: *Own Field Survey, 2017*

As indicated in above table 4.18, 327(54%) of respondents of Jimma town MFIs clients reported that the interest rate is high, 24(6%) of respondents said the interest rate charged by Jimma town MFIs is very high, 5(1.4%) of respondents were replied that the loan interest rate is low and 60 4(1.1%) of respondents reported the interest rate is very low. According to the interview made, the group lenders pay loan interest rate 13% and the government workers and urban women's pay17%. This implies that the majority of borrowers were said the interest rate of the loan is high and very high. Hence MFIs should give emphasis towards rationalizing interest rate to attract the poor people.

4.5.6. Loan Repayment Period

According to Simanowitz (2003), the most known explanations of defaulters are either external products like similar saturated product produced or internal services i.e. in the institution itself like short repayment period, the low-interest rate for saving, and low amount of loan and high-interest rate for the loan. According to the interview made with MFIs managers and employees, loan repayment or term refers to the timeframe within which the borrowed loan amount is expected to be repaid back. It structures loan repayment based on the maturity of the clients‟ businesses. So that clients are supposed to pay the loans on monthly, quarterly, semi-annually, and annual base.

The repayment term could be set at the end of loan term. As got information from the interview, the period given to clients to repay the loan is one year for group borrowers and two years for individuals or government workers. Jimma town MFIs borrowers' response towards the time of repayment of the loan is summarized in the table 4.19.

Table 4:19 Loan Repayment Period of Respondents

Loan Repayment Period	**Frequency**	**Percent**
Too short	48	13.3
Short	241	66.9
Medium	56	15.6
Long	15	4.2
Total	**360**	**100.0**

Source*: Own Field Survey, 2017*

As indicated in figure 4.19, out of total sampled respondents, 241 (66.9%) of respondents were said that MFIs gives short time to repay their loan and the repayment period loan is not enough, 56 (15.6%) of respondents were replied that give reasonable or medium time to repay the loan, 48(13.3%)of borrowers were reported that they the time that given by MFIs is too short and 15(4.2%) of the respondents were said that they enough time to repay the loan. They justified the reason for this credit and saving institution after gave it the credit, the institution gives an order to borrowers to repay within a short period of time. Rutherford (2003) indicated that the flexibility and rescheduled loan repayment to secure borrowers of loan default and facilitate the process of getting a loan. Hence, MFIs should give enough time to borrowers to adapt to the business environment especially the market situation.

4.5.7. Challenges faced in Business Activities

Respondents established that although they get the services from MFI, there are some challenges faced in accessing the loan. The respondents affirmed that they were not coerced into accessing the MFI's services, but the challenges they faced affected the benefits of the services enjoyed. According to their response, accessing credit facilities from financial institutions by itself come with its own challenges that impede activities and hinder the full potential of utilization of credit granted. Moreover, Jimma town MFIs clients answered on things they dislike, and challenges which are faced in business activities as indicated in the below Table 4.20.

Table 4:20 Respondents According to their Constraints /Challenges

Items		Frequency	Percent
State what you dislike in Jimma town MFIs service?	Group lending	63	17.5
	Amount of loan smaller than requested	142	39.4
	Delay (bureaucracy) in service delivery	26	7.2
	High-interest rate	101	28.1
	Short repayment period	28	7.8
	Total	**360**	**100.0**
What were the major challenges of your business in jobs creation?	High-interest rate of loan	137	38.1
	Shorter repayment period	51	14.2
	Low-interest rate for saving	2	0.6
	Low amount of loan	109	30.3
	Too much paperwork	44	12.2
	Delay or bureaucracy of MFIs in credit facilities	17	4.7
	Total	**360**	**100.0**

Source*: Own Field Survey, 2017*

As can be shown in Table 4.20, 142(39.4%) respondents reported that they do not like the amount of loan due to the amount of credit smaller than requested, 101(28.1%) of respondents said that they dislike the high-interest rate of the loan, 63(17.5%) of respondents reported that they dislike group lending system, 28(7.8%) of borrowers said that they dislike short repayment period of time and 26(7.2%) of respondents reported that they dislike delay of in service delivery.

As indicated in the above table 4.20, borrowers were asked the constraints when they use the credit, based on this as indicated in the above table, 137(38.1%) of respondents reported that the main constraints to use their credit is high interest rate of loan, 109(30.3%) of respondents reported the main constraint is low amount of credit for required, 51(14.2%) of respondents said that they face the challenges of shorter repayment period, 44(12.2%) respondents reported that the constraint to use the loan is too much paperwork and their service is not computerized, 17(4.7%)of respondents reported that the main constraints to use their credit are delay or bureaucracy of MFIs in credit facilities and 2(0.6%)respondents said that they face the challenges of low-interest rate for saving.

The majority of respondents said that the main constraints to use the credit were the high-interest rate for loan and low amount of loan. Hence MFIs should give attention to solve the above constraints. Consequently, MFIs usually offer small loan amounts; this small loan size impedes large capital investments and also limits their engagement as well as the expansion of business activities.

4.6. Client Suggestions

Based on their observations, sample clients have also provided their suggestions. Looking at the responses of sample clients, the major recommendations forwarded are that which calls for increasing the amount of loan size and decreasing or minimizing the loan interest rate. 180 (50%) of the sample clients recommended increasing loan size. 81 (22.5%) of sample client suggested the decreasing the loan interest rate. 52(14.4%), 31(8.6%) and 16(4.4%) of sample clients supported extension of a maximum of loan repayment time to more than one year, giving loan to individuals based on their property which one used as collateral and giving enough training, follow-up, and supervision of the clients after took loan respectively.

Table 4:21 Suggestions of Respondents

Client suggestions	Frequency	Percent
Increasing amount of loan size	180	50.0
Giving training, follow-up, and supervision the clients after the loan	16	4.4
Extension of repayment period	52	14.4
Minimizing loan interest rate	81	22.5
Individual lending	31	8.6
Total	**360**	**100.0**

***Source**: Own Field Survey, 2017*

4.7. The Major Challenges of MFIs

MFIs in Jimma town face the challenges of expanding its operation in order to assure financial services to a large number of the poor. Based on the interview with employees and officials of the institutions, Jimma town MFIs has been encountered with the following major problems.

Lack of sufficient loan fund: MFIs lacks financial resources and urges the attention of donors and other financial resources. This is difficult to meet its loan capital requirements from local commercial sources and savings mobilized, and cover all costs from interest charges. As microfinance matures, there is an increasing expectation that this MFI moves away from donor funding and fund their growth by accessing private capital, either by borrowing from commercial banks or by mobilizing deposits. But the sample MFIs has problems in accessing commercial bank funding. There are various reasons for banks to deny these MFIs from accessing loans. The main reason is that microfinance does not have physical collateral and most of their assets are tied up in their loan portfolio. If an MFI goes bankrupt, the loans, which are in the hands of the poor, have no value for commercial banks. Similarly, commercial banks may not understand the methodology of MFIs. They perceive MFIs as risky because MFIs lend to small businesses and the poor without any property collateral.

Lack of manpower: Lack of adequate trained manpower to follow-up and supervise the activities of the institution at the branch level, lack of training to the employees of the institution, lack of adequate training and orientations to the clients about loan use, and financial managements.

Lending methodology: The lending methodology is group based and peer pressure. The group-based criteria affect the development of new financial products, which need individual instead of group collateral. Most of the key informants indicated that group lending methodology contributed to the repayment problems as well as conflicts and distrust among group members. For example, if one of the group members fails to pay his/her loan, MFIs don't collect the amount due from the rest of the group members, even if they have the capacity to pay their obligation. In other words, the policy of the MFIs contributed to the increase in arrears. Besides, this created financial problems for the group, since they are not allowed to get the next loan unless the whole group settles their loans. The current group size required to access loan is three to five members. Since clients need the loan very quickly to use it for the intended purpose, they are forced to form a group with non-creditworthy members to meet the group size requirement. As a result, the credits worthy clients are forced to pay for the defaulters (non-credit worthy group members). Consequently, conflict and loss of trust may be aggravated among the group members who increase the dropout rate.

Insufficient loan size: The loan size hinders the development of financial products with the loan size needed above the ceiling. The insufficiency of loan size makes the borrowers divert the loan from more income generating activities. The key informants also revealed that the loans provided by MFIs are small in the urban areas. Even though they have the capacity to borrow larger loan amount the institutions do not allow them to borrow larger loan amount. Again, this implies that the institutions should design a loan product that meets the demand of its clients using different mechanisms to ensure a higher repayment performance. Present physical collateral for large loan amount or through designing a tight evaluation system to evaluate the creditworthiness of the applicants.

High lending interest rate: The lending interest rate which has been fixed at 13% for group lending and 17% of government workers and urban women's has been unattractive. Arguing high-interest rate discourages the program participants from continuing with the program.

Loan term: Lack of flexibility in the repayment period is the problem of MFIs identified by key informant's interview. The loan term as per the regulation is a maximum of one year. This affects the business activities, which need more than one year.

Some key informants also identified the problems faced Jimma town are Lack of information about the advantages of credit and saving of the urban poor, fear of the credit, low awareness of clients for saving deposit, insufficient support of kebele or government administrative, lack of advertising about the services given by MFIs and lack of competition MFIs with others financial institutions like banks.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1. Summaries of the Finding and Conclusions

The role of microfinance institutions in employment creation was recognized by many individuals a few decades earlier. In both developed and developing countries, MFIs account for significant proportion of employment opportunity. They are also serving as an important source of income for the majority of less educated and less skilled segments of the population. In Ethiopia, recently the government have given due attention for the development of MSEs in different sectors. It is considered as the most effective mechanism to alleviate poverty and unemployment in the urban area.

Creating a favorable environment for the poor, who are engaged in MFIs activities, is essential either for the socio-economic development of the country or for benefiting the participants in multiple aspects. Institutionalizing the MFIs is one of the ways to facilitate this condition. MFIs can play a role in improving the socio-economic condition of the participants since they create employment opportunity that enables them to generate their income which in turn leads to access to socio-economic merits such as education, better health condition, good housing, and nutrition.

The overall objective of this study is to investigate the roles played by MFIs in creating employment opportunities for those need of job and poor with a low level of income. The study revealed that the main of Jimma town microfinance institutions to provide services like loan, saving, micro insurance, money transfer, and counseling/orientation to poor people in order to create job for themselves and others, and generate income for clients in different statuses, such as married, divorced, widowed, single, educated, and uneducated participants of all age joined in MFIs.

The study shows that the majorities of the clients were motivated to join the MFIs to generate income, to be self-employed and create job opportunity for others as well and to operate and expand the existing business which was run by the family and other partners. Mostly those who gave reasons as to get a job must be those unemployed and students prior to joining the MFIs.

This finding can indicate that majority of the respondents got the information from their friends and relatives. There is information gap between MFIs and its target poor population or the low-income groups.

The study revealed that follow up and supervision given by MFIs officials or workers was low. Hence, MFIs should be give attention on the supervision and follows up especially after the credit that useful for encouraged the clients.

This study attempted that MFIs play a great (high) role in creating employment opportunities for those need of job and poor with a low level of income by providing credit and saving to created job for themselves, for family members, and for other people. First, 38.3% of the respondents who were not permanently employed before they started using microfinance services have got permanent employment after the started to use microfinance services. The respondents who did not have a job before microfinance use, currently permanently employed, got the employment opportunity in other institutions than the one created through the use of micro-credit. The second aspect concerning the role in employment opportunity creation is family employment. In this context, employment is taken as permanent or non-permanent, full-time or part-time, and paid or unpaid. The third dimension role of MFIs in employment concerns the employment opportunity created for people other than family members. From this, it can be concluded that MFIs has a great role in reducing unemployment of the town.

The study has identified major challenges that clients of MFIs encountered in accessing credit facilities from the institution. The borrowers mentioned some of the constraints/problems they faced in service provision like high-interest rate on loan, a small amount of loan provided, short repayment period, the low-interest rate on saving, and some of them were dissatisfied on the application of group lending system.

The study revealed that MFIs in Jimma town faces the challenges of expanding its operation in order to assure financial services to a large number of the poor such as: lack of sufficient loan fund, lack of manpower, lending methodology, insufficient loan size, loan term, lack of information about the advantages of credit and saving of the urban poor, fear of the credit, low awareness of clients for saving deposit, insufficient support of kebele or government administrative, lack of advertising about the services given by MFIs and lack of competition MFIs with others financial institutions like banks.

5.2. Recommendations

Based on the major findings, which are discussed in the previous section, a number of recommendations have been drawn. The following points are some of the recommendations forwarded in this study.

- MFIs should be implementing the flexible lending approach in order to satisfy the needs of the poorest and contribute to creating jobs and income generation.
- MFIs in Jimma town need to assist the clients to utilize their loan for income as well as employment generation activities through different support services like business development services and skill development training.
- Jimma town MFIs have to support borrowers to save voluntarily and own assets, but the clients were no saved voluntarily for their own because of low saving interest rate and lack of awareness. For this, of course, MFIs need adopt a flexible approach in saving rate that attracts both clients and non-clients to save.
- Jimma town MFIs should be give attention to non-financial services. The training can be on job training means while the clients are working (performance related), or through especial training forum by special experts. Hence, either it needs to have skill training and awareness creation programs for its clients or it needs to establish a network with other stakeholders who can give training and education for its clients.
- Information is a significant aspect of any sound decision making. Thus, establishing advocacy and advertising mechanism helps the institution to expand its outreach and give an opportunity for the beneficiaries. It can address its services to its target users in schools, on kebele meetings, by announcing in the town using media specialists, on coffee ceremony, and different handbills, brochures and etc.
- There were low follow-up and supervision given by MFIs workers. Hence, MFIs should give due to more attention on follow-up and supervision of their clients after the loan is advanced to the clients.
- MFIs should review its strategy related to the loan repayment period, its high-interest rate on loan, a small amount of loan, its low-interest rate on saving, etc, so as to encourage the poor in both financial and non-financial services.

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Appendix I: Questionnaire

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF MANAGEMENT

Questionnaire for Clients of Jimma Town Micro Finance Institution

This questionnaire is prepared by me, a student Jimma University Masters Program in Public Management. Its objective is to assess “The Role and Challenges of Micro Finance Institutions (MFIs) on the creating job opportunity: (A Case Study of Jimma Town Micro Finance Institutions). This Research will be covering the contribution of Micro Finance Institution in job creation and problems that MFIs encountered in the process of job creation activities in Jimma Town microfinance institutions. I assure you that information you provide will be used for academic purposes only and will be held strictly confidential.

Thank you for taking time out of your busy schedule for this questionnaire.

MFI name…………………………………………………..

1. Respondent’s personal Information

1.1. Sex: A. Male B. Female

1.2. Age range: A. Less than 18 years B. 18 - 29 years C. 30 -39 years D. 40-49 E. 50 years and Above

1.3. Level of education: A. Illiterate B. Grade 1-8 C. Grade 9-12 D. TVET E. Diploma F. Degree G. Above degree

1.4. Marital status: A. Single B. Married C. Widowed D. Divorced E. Separated

2. **Information Concerning Contribution of Microfinance Institutions**

2.1. For how long have you been client of MFIs? A. one year B. two years C. three years D. four years E. five years F. more than five years

2.2. What was your objective for establishing the business? A. to generate income B. to be self-employed and create job opportunity for others as well C. to expand existing business D. other (specify) ………………………………

2.3. How many people are you working with? A. Alone B. Less than 3 C. 3 – 6 D. 7 – 10 E. 11-14 F. 15 and above

2.4. What was your Source of Initial Capital? A. Personal saving B. Inheritance C. loan family/friend D. Assistance E. Borrowing F. Other (specify)………………

2.5. Do you have adequate capital for your business? A. Yes B. No

2.6. If your answer Question N<u>o</u> 2.6 is ‘No’, in what ways (or from where) do you intend to acquire additional capital for your business? A. Loan from microfinance B. Loan from government C. Loan from NGOs D. Loan From Banks E. Family F. Saving G. Other (specify)……………………

2.7. Where did you get information about MFIs and its services? A. Through friends B. Media C. MFI officials D. Handbills E. Kebele officials F. Other (Please specify) ……………

2.8. How many times have you applied for credit facilities from MFI? A. One time B. two times C. three times D. four times E. more than four times

2.9.Did you get any training and/or counseling services before or after you received the loan about its utilization? A. Yes B. No

2.10. If your answer Question N<u>o</u> 2.10 is “Yes”, you took training or counseling on what? A. Loan utilization B. Technical skills and knowledge support C. About saving

D. Entrepreneurship E. Business Management F. General Training G. Others…………….

2.11. In general, please mention to what extent that the products of MFIs contributed to your business overall activities? A. Very low B. Low C. Neutral D. Good enough E. More than enough

3. Information Regarding Role of Micro Finance Institutions in Creating Job Opportunity

3.1. Did you have a job before becoming the customer of this Institution? A. Yes B. No

3.2. If your answer Question N<u>o</u> 3.1. ‘Yes’, what was your previous activity before coming to this member?(previous experience might be related or unrelated) A. Self-owned informal related business activity B. Self-owned informal unrelated business activity C. Self-owned formal related business activity D. Self-owned formal unrelated business activity E. Civil servant/services F. Student G. other (specify)…………..

3.3. How many years of experiences do you have before current occupation? A. Less Than 1 Year B. 1 – 2 Years C. 3 – 5 Years D. 6 – 10 Years E. More than 10 Years

3.4. What was a reason for shifting from your previous activity to current businesses? A. Small investment brings high income & create jobs B. Lack of alternative C. To get high income D. Interested in the activity E. Family tradition F. Other (specify)……………………………

3.5. How many years of experiences do you have in current occupation? A. Less Than 1 Year B. 1 – 3 Year C. 4 – 6 Years D. 7 – 9 Years E. More than 9 Years

3.6. Have you generated jobs for other in your business today? A. Yes B. No

3.7. If your answer question number 3.6 is ‘No’, why (specify)…………………………………

3.8. If your answer question number 3.6 is ‘Yes’, the number of jobs generated in your Business today? A. Less than3 Persons B. 4-6 persons C. 7 -9 Persons D. 10 -12 Persons E. 13 -15 Persons F. Above 15 Persons

3.9. What was the Type of job created in your business? Fill the following table of job created in your business.

Type of job created	**Skill level**		**Number of employees**	
	Skilled	**Unskilled**	**Male**	**Female**
Full time recruited				
Part time recruited				
Casual worker				
Family part time job				
Family full-time job				
Full-time self-business				
Part time self-business				
Others				
Total No.				

3.10. Do you agree microfinance institutions helps in job creation? A. Strongly disagree. B. Disagree. C. Undecided. D. Agree. E. Strongly Agree

3.11. Do you believe the microfinance institutions participates increasing income of poor people? A. Strongly disagree. B. Disagree. C. Undecided. D. Agree. E. Strongly Agree

3.12. How do you evaluate the role of MFIs in reducing unemployment? A. Very high B. High C. Moderate D. low E. very low

4. Information Concerning Challenges in Accessing Credits to clients

4.1. What do you feel about the amount of loan size given by Microfinance Institution relative to your business? A. Very low B. Low C. Neutral D. Good enough E. More than enough

4.2. What was your first loan mainly used for? A. Petty trade B. Garment C. Construction work D. To pay my old debt E. If any other, specify………………………

4.3. Have you borrow by A. Individuals B. Group

4.4. If you borrowed by the group, who form your group? A. Kebele administration B. Directly, I asked other group members to join me, and they agreed C. Previous group members asked me to join them and I agreed D. Microfinance Institution staff helped me to join the group E. If any other, specify…………………………….................

4.5. Do you think that credit processing procedures/criteria of MFIs are complex/Time taking? A. Strongly Disagree B. Disagree C. Undecided D. Agree E. Strongly disagree

4.6. Did you pay interest on the loan frequently? A. Yes B. No

4.7. What is your opinion about the interest rate? A. Very low B. Low C. Medium D. High E. Very high

4.8. What do you think about the repayment period of the loan? A. Too short B. Short C. Medium D. Long E. Too long

4.9. State what you dislike in Jimma town MFIs service (You can tick more than one answer) A. Group lending B. Amount of loan smaller than requested C. Delay (bureaucracy) in service delivery D. High-interest rate E. Short repayment period F. If other, specify……………

4.10. What is your opinion about training, follow-up, and supervision provided by the MFIs office? A. Very low B. Low C. Neutral D. Good E. Very Good

4.11. Did you get any formal training that helped you to undertake the kind of business you are involved in? A. Yes B. No C. No Answer

4.12. What were the major challenges of your business in jobs creation? A. High interest rate for loan B. Shorter repayment period C. Low interest rate for saving D. Low amount of loan E. Too much paperwork F. Unhelpful attitude of employees of MFIs H. Delay or bureaucracy of institutions in credit facilities I. If other, specify………………………

4.13. Do have any suggestions…………………………...……………………………………
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Appendix-II: Key Informant Interview

Interview with managers and employees of Jimma Town Micro Finance Institutions

This questionnaire is prepared by me, a student Jimma University Masters Program in Public Management. Its objective is to assess “The Role and Challenges of Micro Finance Institutions (MFIs) on the creating job opportunity: (A Case Study of Jimma Town Micro Finance Institutions). This Research will be covering the contribution of Micro Finance Institution in job creation and problems that MFIs encountered in the process of job creation activities in Jimma Town microfinance institutions. I assure you that information you provide will be used for academic purposes only and will be held strictly confidential and thank you for taking time out of your busy schedule for this questionnaire.

1. Sex of respondent: - A. Male B. Female
2. Educational level: ……………………………………………………
3. Position in the institution: A. manager B. Customer Officer C. Loan Officer D. Other (specify)
4. What product or service do you provide?
5. What kind of credit/loan facilities do you offer? a. Long-term b. Medium-term c. Short-term
6. What are your criteria for providing credits?
7. How many clients (beneficiaries) do you have in your institutions? Active and non-active clients and also the criteria to measure active and non-active clients
8. How do you describe the role of the MFIs program in creating job opportunity?
9. What extent a Jimma town microfinance institutions reduces unemployment?
10. What are the major challenges faced during the provision of credit and saving services for clients?
11. In your opinion what kinds of measures have to be taken to solve the challenges?

Thank you very much for your cooperation

(Questionnaire for MFIs Clients)

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