

The Role of Microfinance Institutions in Improving Livelihood; In Case of Oromia Credit and Saving Share Company In Agaro Town, Jimma Zone

Ayalew Sida

Oromia Agricultural Research Institute, Haro Sabu Agricultural Research Center, P.O.Box 10, Kellem Wollega Zone, Dale Sadi District, Haro Sabu, Ethiopia Telephone +251920359759 email: ayalew.sida@yahoo.com

Abstract

Livelihoods are 'means of making a living', the various activities and resources that allow people to live. It comprises the capabilities, assets (including both material and social) and activities required for a means of living. Thus, microfinance programs have been considered as one of the main instruments in livelihood improvement in recent development agenda. The study was conducted in Geniji-Dalecho and Bulbulo kebeles among 35 target kebeles of the OCSSCO. The main objective of the study is to identify the contribution of Oromia Credit and Saving Share Company in improving household livelihood through providing credit. Further, the study used both primary and secondary data sources. The primary data was collected with semi-structured interview and focus group discussion from sampled respondents; whereas, secondary data gathered from different documents of the microfinance institution that exists in the study area. Stratified random sampling was used to select 60 respondents (35 beneficiaries and 25 non-beneficiaries) based on the principle of probability proportional to size (pps). Descriptive statistics like frequency, percentage, mean and standard deviation were employed to analyze the data. Finally, conclusion and recommendation were made based on the findings obtained from result and discussion. Generally, Microfinance Institutions have an explicit potential that intends to improve the livelihoods of households. While improving livelihood, microfinance (OCSSCO) credit service increases the income of the clients; which, in turn, enable them educating their children and improves their nutritional status.

Key words: Assets, Client, Role, Microfinance Institution, Livelihood

1. Introduction

1.1. Background

According to a World Bank (2012), Ethiopia is one of the poorest and largest populated countries in Africa. Its total population was 84,734,262 in 2011; its economy is based on agriculture, which accounts for more than 50% of GDP, 80% of exports, and 80% of total employment. The biggest sources of foreign trade are coffee, flowers and oilseeds. Yet, in spite of high rates of growth most Ethiopians live in poverty.

The formal microfinance in Ethiopia started in 1994. In particular, the Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance Institutions(MFI) in both rural and urban areas as it authorized them among other things, to legally accept deposits from the general public (hence diversity sources of funds), to draw and accept drafts, and to manage funds for the micro financing business. Currently there are 23 licensed MFIs reaching about 905,000 credit clients and some saving clients. Considering the potential demand, particularly in rural areas, this only satisfies an insignificant proportion (Gobezie, 2005).

Most of the MFIs have two types of loan products, namely loans for on-farm activities, which are due in four to twelve months, and off-farm investments with more flexible repayments on weekly or monthly basis (IFAD, 2001). On average, 60% of the MFI portfolio represents loans for on-farm investments while income generating activities and petty trading accounted for about 40%. (Dejene, 1999).

Oromia Credit and Saving Share Company (OCSSCO) is currently operating largely in rural areas to complement the agriculture lead and rural centered development effect of the Federal Government of Ethiopia in general and Oromia Regional National State (ORNS) in Particular. Agaro town is also one of the places where OCSSCO is giving credit for the households.

The study tried to assess the role of OCSSCO in improving the livelihood of the household of the study area. It was conducted by assessing the clients who are participating in the program; dropouts from the program and potential clients in the near future.

Lack of financial resources is one of the major problems facing poor households. Formal financial institutions are inefficient and inaccessible in providing credit facilities to the poor (Assefa *et al.*, 2005).

The study desired to achieve three objectives. These are:-

- ✓ Identifying the contribution of credit in increasing household income.
- ✓ Assessing the challenges of households in accessing microfinance credit service in study area and
- ✓ Examining loan purposes and income generating activities of households in the study area.

2. Methodology

2.1. Description of the Study Area

Agaro is the town and separate district in the south western of Ethiopia in the Oromia regional state and it is one of the 17 district town of Jimma zone. It is located 390 km south west of Addis Ababa and 50 km west of Jimma town. The average annual rain fall is 1560 mm and the small rain fall is ranges from March to April and the main rainy seasons extend from June to October. The monthly temperature varies between 12.67^oc and 27^oc. It has 7^o 51'N and 36^o35'E coordinates and an elevation of 1560 meters above sea level. Ecologically Agaro town is classified as 96% wet weinadega and 4% kola (Wikipedia, the free encyclopedia).

According to the 2007 national census, a total population for this district was 25,458, of whom 12,946 were men and 12,512 were women. The majority of the inhabitants were Muslims with 60.7% of the population, while 33.76% of the population practiced Ethiopian orthodox Christianity, and 5.04% were protestant. The 1994 census reported this town had a total population of 23,246 of whom 11,687 were men and 11,559 were women.

2.2. Type of Research Design

A cross-sectional type of research design was used, which employed comparative study between participants and non- participants of micro finance scheme. Furthermore, descriptive survey type of research was used. Cross-sectional survey design was selected to collect data from the sample population at specific point in time and based on the results to make generalizations. Descriptive survey research was chosen to generally describe the differences experienced by households aroused from obtaining microfinance services in comparison with non-beneficiary households.

2.3. Sampling Techniques

The sample frame comprised of two categories: the microfinance participant and non- participant households. The sampling frame was compiled by drawing together lists of names of beneficiaries obtained from the microfinance documents who were providing micro finance service to them. For non-participants names were obtained from village savings and credit cooperatives using credit seekers data.

The total number of target population is 580 i.e. the number of households registered in credit seeker data and the clients of the OCSSCO in the two kebele. From the total of.580 target population 60 respondents were selected randomly as a sample. Hence the corresponding number of respondents from the two kebele was obtained based on the principle of probability proportional to size as it is indicated in the table below.

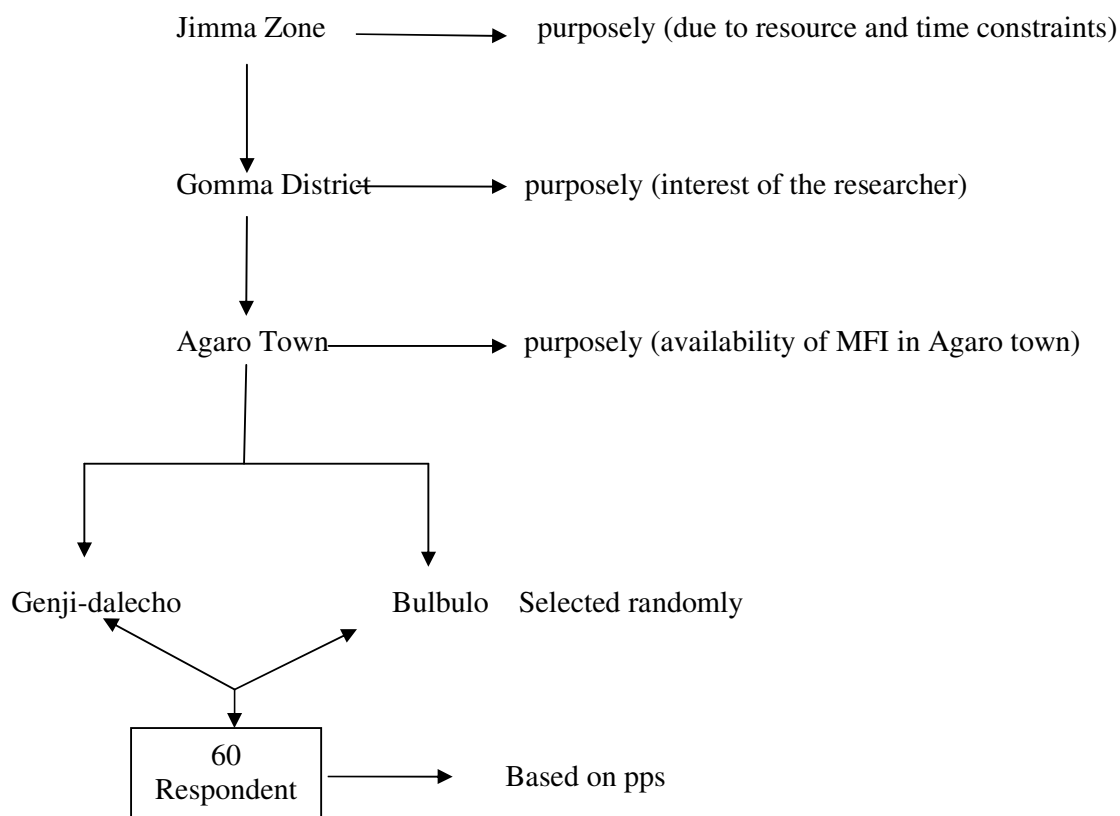
| | Beneficiaries | | Non-Beneficiaries | | Total |
|---------------|----------------|--------------|----------------------|--------------|-------|
| | No. of clients | Sample taken | No. of credit seeker | Sample taken | |
| Kebele | | | | | |
| Bulbulo | 162 | 17 | 118 | 12 | 29 |
| Genji-dalecho | 180 | 18 | 120 | 13 | 31 |
| Total | 342 | 35 | 238 | 25 | 60 |

Table 2.1 Sampling Techniques of the Respondents

The participants in the micro finance service were selected from the lists using stratified random sampling method, based on the loan cycle of the beneficiaries. OCSSCO provides microfinance credit and other services

for 35 kebeles. Among these kebeles, two kebeles Genji-dalecho and Bulbulo were selected through random sampling techniques. Purposive stratified random sampling technique was used to select a total of 60 households (35 households participating in micro finance scheme and 25 non-participants) for the study. Those participants who have reached second the loan cycle and above have been targeted to study the role of the OCSSCO scheme in improving household livelihood.

Sampling design follows the following path:



2.4. Method of Data Collection

Primary data was gathered through informal and formal survey. Informal survey was under taken first; to collect background information which was useful for subsequent survey. Then formal survey was conducted to assess the role of microfinance institution in improving household livelihood in the study area by using open ended and closed ended questions for semi-structured interview schedule and checklist for focus group discussion. The interview was help to gather the necessary qualitative and quantitative information through asking questions and writing down the response of the respondents which build research purpose. It was proposed to those people selected as a sample. On the other hand, focus group discussion was used by the researcher to obtain qualitative data. Focus group discussion (FGD) allowed a dialogue among participants and stimulates them to openly express their views on the issues raised.

Secondary data was gathered through reviewing of documents, reports and records of published and unpublished documents. It is the main source of information and these data were easily available inexpensive and obtained quickly. These secondary data indicate the past and current performance of microfinance institutions in improving livelihood through providing microfinance credit service.

2.6. Methods of Data Analysis

The quantitative data, which was collected, based on semi-structured interview analyzed by using inferential statistics like cross tab, Custom table and independent sample t-test. Descriptive statistics such as frequency,

percentage, mean and standard deviations were used to analyze the quantitative data. Chi-square (for categorical variables) and t-test (for continuous variables) were used to identify the significance of the relationship of independent variables with dependent variables. It includes the comparison of demographic factors, income, sources of income, and household income and expenditure on food items & non-food items using SPSS. Moreover, the qualitative data was analyzed by describing, summarizing and interpreting for further clarity.

2.6.1. Econometric Method of data analysis

The modeling methodology used to analyze the factors determining household's participation in credit program is logistic regression that allows the prediction of discrete variables by a mix of continuous and discrete predictors (McCullagh and Nelder, 1983). The model constrains the estimated probabilities to be either 0 or 1, relaxes the constraints that the effect of independent variables is constant across different predicted values of the dependent variable

3. Result And Discussion

3.1. Demographic Characteristics of Sample Respondents

3.1.1. Sex sample respondents

In order to analyze the role of MFI (OCSSCO) on the livelihood, the sampled respondents were classified into beneficiaries and non-beneficiaries. They are further categorized according to their kebeles due to there is some difference among respondents in terms of sex in the two kebeles.

Table3.1 Sex of the respondents

| Description | | Genji-Dalecho | | Chi-square | Bulbulo | | X ² -square |
|-----------------------|--------|---------------|-----------------|------------|-------------|-----------------|------------------------|
| | | Beneficiary | Non-Beneficiary | | Beneficiary | Non-Beneficiary | |
| | | Column N % | Column N % | Column N % | Column N % | | |
| Sex of the Respondent | Male | 40.0% | 13.3% | 2.727* | 13.3% | 26.7% | 0.833 |
| | Female | 60.0% | 86.7% | | 86.7% | 73.3% | |

*, statistically significant at 10%

Source: Primary Data

In the table 3.1, the proportion of female respondents in Genji-Dalecho kebele is 60 percent as compared to male respondents (40%). Similarly, the proportion of male respondent of non-beneficiaries is much less than the proportion of the female respondents in this kebele. Moreover, for both the beneficiary and non-beneficiary respondents in the Bulbulo kebele, the male respondents' proportion is also lower than female respondents. From this data 76.7% of the respondents are female. This implies that MFI are working for the empowerment of women, the poor group of the society, in economical, social and on other aspects. Similarly, evidence from Mayoux (1997) indicates access to credit was seen as vital to women's ability to earn income, to wider their status and autonomy.

3.1.2. Religion and Marital Status of Sample Households

Religion and Marital status of sample household are the aspects of determining demographic characteristics of sample households. Review of related literatures emphasis, religion and marital conditions of households influence the income and the consequent livelihood situation of the family. In this research, religion and marital statuses of sample households were assessed and the result is displayed in the table 4.3 below.

Table 3.2. Religion and Marital Status of Sample Households

| Description | Genji- Dalecho | | Chi-square | Bulbulo | | Chi-square |
|----------------|---------------------------|-------------------------------|------------|---------------------------|-------------------------------|------------|
| | Beneficiary Column N % | Non-Beneficiary Column N % | | Beneficiary Column N % | Non-Beneficiary Column N % | |
| Marital Status | | | | | | |
| Married | 86.66% | 60% | 2.861 | 86.67% | 73.33% | 6.167** |
| Divorced | 6.67% | 13.33% | | 0 | 26.67% | |
| Widowed | 6.67% | 26.67% | | 13.33% | 0 | |
| Religion | | | | | | |
| Muslim | 66.67% | 100% | 6.00** | 80% | 80% | 0.667 |
| Orthodox | 26.67% | 0 | | 13.33% | 6.67% | |
| Protestant | 6.66% | 0 | | 6.67% | 13.33% | |

Source: Primary Data **, *statistically significant at 5%*

Table 3.2 reveals, although the microfinance beneficiaries are the women groups, 86.66% of them for Genji-Dalecho and 86.67% for Bulbulo kebeles are married. This indicates married respondents have good social relationship within the society; as a result they get loyalty from the MFI scheme and given credit. Similarly, married non-beneficiaries in the two kebeles are 60% (Genji-Dalecho) and 73.33% (Bulbulo). Since the sample of none beneficiary respondents is taken from the village credit seeker data, this indicates the social acceptance of married households in one aspect and on the other hand this could denotes the married households need credit to meet the needs of their family. The percentage of divorced beneficiaries in the two kebeles is lower as compared to the percentages of non-beneficiaries of the two kebeles. This might be because of those divorced households are considered as poor in social relationship by the society. Hence, they fear to include in their group. Similarly, the percentage of widowed beneficiaries in the two kebeles is lower relative to the percentages of the non-beneficiaries in the two kebeles. This implies widowed households are less likely to participate in credit program; this might be due to fear associated with the repayment of the loan.

The result of the chi-square indicates that there is significant relationship between beneficiaries and non-beneficiaries in terms of their marital status. The result indicates that married respondents have greater tendency to participate in the credit program than divorced and widowed respondents. This might be related with preference of microfinances that married clients are more responsible in managing the finance and this may reduce the default rate for the microfinance.

On the other hand, around 70 percent of beneficiaries are Muslims; whereas around 90% of non-beneficiaries are Muslim. The percentage of non-beneficiary Muslims is higher than the percentages of beneficiaries. From the whole respondents around 81.7% are Muslim. The result of the chi-square also indicates as the number of Muslim respondents' increases, the chance to participate in the credit program decreases. But, the percentages of Orthodox and protestant are higher in beneficiaries than non-beneficiaries. This may be due to religious view towards the system.

3.1.3. Age, family size and age composition of sample households

Family size and age composition of households determine household livelihood. When there are extended family members and broad based age distribution, there is a need to get credit in order to meet the needs of the family i.e. food, shelter, clothes, health and primary education. The extended family members require more expenditure for food and less for savings and investment. The following table illustrates the mean family size and age composition of respondents for both beneficiaries and non-beneficiaries.

Table 3.3. Age, family size and age composition of sample households

| Description | Beneficiary | | Non-beneficiary | | t-value |
|-----------------------|-------------|--------------|-----------------|--------------|---------|
| | Mean | St.deviation | Mean | St.deviation | |
| Age of the respondent | 37.83 | 9.731 | 38.80 | 11.146 | -0.358 |
| Family size | 6.3333 | 2.02286 | 6.3333 | 2.07337 | 0.000 |
| age group under15 | 3.1000 | 1.97135 | 3.2333 | 1.63335 | 0.143 |

Table 3.3. Age, family size and age composition of sample households

| | | | | | |
|-----------|--------|---------|---------|---------|----------|
| age group | 3.2333 | 1.54659 | 3.2333 | 1.63335 | 0.000 |
| 15-65 | | | | | |
| Olds | 0.0000 | 0.00000 | -0.0333 | 0.18257 | -1.000** |

Source: Primary Data **, statistically significant at 5%

From the table 3.3, both t-value and p-value indicates even though there is difference between beneficiaries and non-beneficiaries in terms of their age of the respondents, the variation are not significant.

On the other hand, the result of the t-test implies the mean difference between beneficiaries and non-beneficiaries at old age is -0.03333. And it is statistically significant at 5%. This shows at old age, when the household increase by one unit of age, the likelihood of credit participation decreases by 0.3333.

3.1.4. Educational Status of Sample Household Heads

In most developing countries illiteracy rate is higher especially in rural areas Shimelles and Zahidul (2009). Since Ethiopia is developing country, illiteracy is common among the rural societies. Similarly, from the field survey, illiteracy rate is higher as compared the other educational levels in the Geniji-Dalecho and Bulbulo kebeles' respondents.

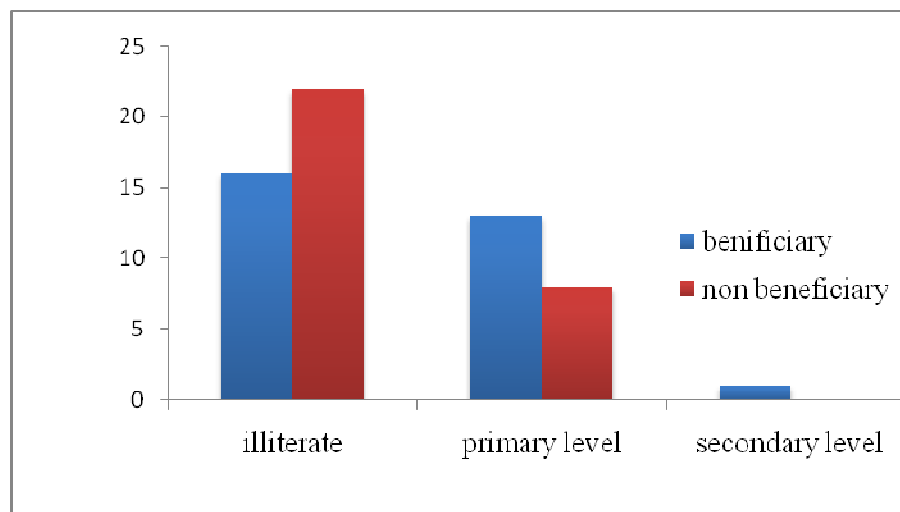


Figure 3.1 Educational levels of the respondents.

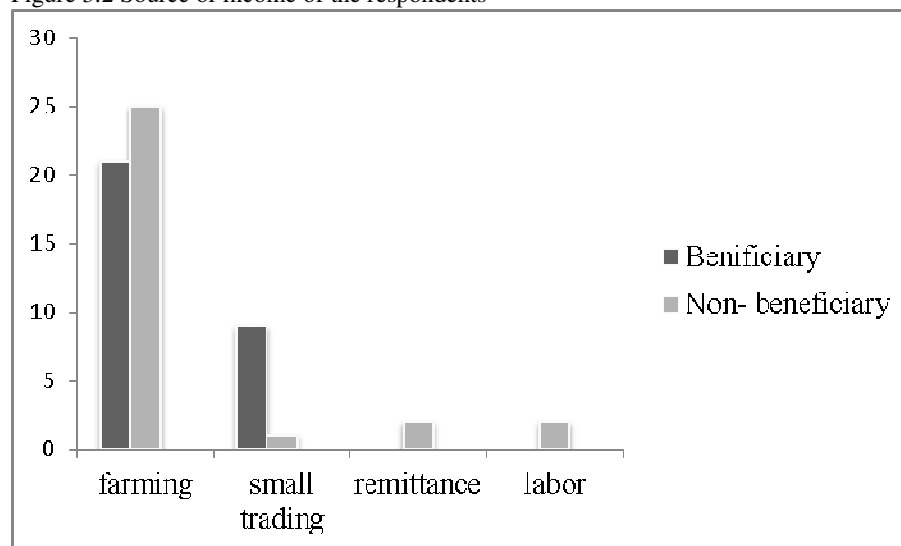
Source: Primary Data

As indicated in the figure above, from the total respondents around 63.3% are illiterate and around 35.0% and 1.7% are in primary and secondary level respectively. Comparisons were made between beneficiaries and non-beneficiaries of microfinance schemes in Geniji-Dalecho and Bulbulo kebeles, the number of illiterates are highly seen in the non-beneficiary part of the respondents. This is to mean that beneficiaries in the two kebeles have low illiteracy rate relative to non-beneficiaries. Moreover there are higher number of respondents with primary and secondary school enrollment in the beneficiary's category as compared to non-beneficiary respondents. From the result of chi-square (p-value of 8.4%) there is significance relationship between educational status and credit participation. The result implies, literate respondents have high tendency to participate in the credit program than illiterate respondents. This might be MFI scheme considers educated households are economically active; and they are assumed better in diversifying their income sources through engaging on different income generating activities than the counterparts.

3.2. Major Sources of Household Income

The household income is determined by the sources of income. In this regard, attempt has been made to identify the major sources of incomes of the sample respondents in terms of beneficiary and non-beneficiary. The major sources of household income are depicted in the chart below.

Figure 3.2 Source of income of the respondents



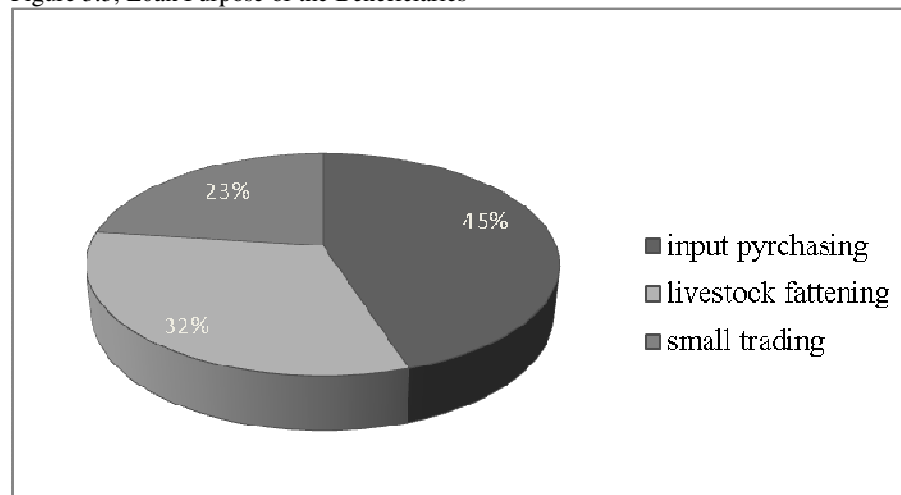
Source: Primary Data

The above figure illustrates the major source of income for both beneficiaries and non-beneficiaries is farming. However, when comparison was made between beneficiaries and non-beneficiaries in terms of income sources, beneficiaries engaged on small-scale trade in addition to farming. This indicates beneficiaries run both farm and non-farm activities by using the credit they received from OCSSCO. So, their sources of income are farm income and non-farm income. On the other hand, about 95% of non-beneficiaries depend on farming for their income. The remaining 5% of them get income from labor and remittance. From this even though, the extent is very small non-beneficiaries get income from different sources as compared to beneficiaries. This indicates households who get income from different sources are not vulnerable for different problems associated with income constraints. Therefore the probability of their participation in MF credit program for diversifying their income decreases. From the result of chi-square (10.748⁸), at 5% significance level, there is variation between beneficiaries and non-beneficiaries in terms of source of income.

3.3. Loan Purpose and Income Generating Activities of the Households

Beneficiaries of the MFI scheme (OCSSCO) borrow money for different purposes. The Figure below shows the loan purpose of the beneficiaries.

Figure 3.3, Loan Purpose of the Beneficiaries



Source: Primary Data

As it is clearly indicated in the above figure, beneficiaries borrow money for input purchasing, livestock fattening and running small trading activities. The figure shows beneficiaries use 45% of the loan for purchasing input which used in agricultural activities; 32% and 23% for livestock fattening respectively. This shows beneficiaries use greater the loan for input purchasing. From the survey the loan given by the MFI is small to run

business which needs high investment cost. As the strategy of mitigating the problem beneficiaries engaged in low initial cost business activities. The result of the figure above shows this fact too.

From the Fig.3.2, the major source of income for both beneficiaries and non- beneficiaries is farming. The income generating activities, in which non- beneficiaries engaged are mainly crop production such as; - coffee growing, cereal production (maize and teff), chat growing, fruits and vegetable production. On the other hand, beneficiaries have been engaged on small-scale trade in addition to farming. From farming they produce coffee, maize, teff, chat, fruits (avocado and mango) and vegetables like tomatoes and potatoes. They also have been engaged in livestock fattening by using the loan received from the OCSSCO. Moreover, apart from farming, they also engaged in non-farm activities like small shopping and purchasing grains during the harvesting time and sell during the cropping season.

Generally, 80% of beneficiaries are participating on farming as income generating activities for their business. Evidence from Dejene (1999), stated this fact on his research “the Village Economy and Indigenous Financial Institutions”; ‘on average, 60% of the MFI portfolio represents loans for on-farm investments while income petty trading accounted for about 40%’. This is might be due to the loan given by the institution is small to run non-farm business activities, which needs high investment, cost as compared to agricultural business type. Secondly, it may be due to the site in which they are living is rural area.

3.4. Household Income and Expenditure

In addition to the household sources of income and income generating activities, the amount of income and expenditure determine the household livelihood. Based on these, data related to household income and expenditure was collected from both beneficiaries and non-beneficiaries for the purpose of comparisons. Major household expenditures were classified into food and non- food expenditures. Therefore, table 4.4 shows the mean monthly income, expenditure on food and non-food items.

Table.3.4. Annual income, expenditure on food and non-food items.

| Description | | Mean | Std. Deviation | T-value |
|----------------------------------|-----------------|----------|----------------|---------|
| Total income in 2004 fiscal year | Beneficiary | 5.0333E3 | 1828.57271 | 4.136** |
| | Non-beneficiary | 1.0047E4 | 6382.34274 | |
| Expenditure on food | Beneficiary | 2.0933E3 | 692.28922 | 1.375 |
| | Non-beneficiary | 1.8383E3 | 743.78845 | |
| Annual cost of labor | Beneficiary | 250.00 | 661.633 | 0.042 |
| | Non-beneficiary | 243.33 | 571.558 | |
| annual cost of inputs | Beneficiary | 1076.67 | 614.022 | 1.366 |
| | Non-beneficiary | 880.00 | 494.382 | |
| Annual cost for medical services | Beneficiary | 676.67 | 476.288 | 0.552 |
| | Non-beneficiary | 608.33 | 483.358 | |
| Annual cost for education | Beneficiary | 738.33 | 362.150 | 2.110* |
| | Non-beneficiary | 650.83 | 503.200 | |

Source: Primary Data **, *statistically significant at 5%*

From the above table, the mean annual income of beneficiaries in 2004 fiscal year is 5.0333E3; whereas the mean annual income of the non-beneficiaries in 2004 fiscal year is 1.0047E4. From the above illustration in the form of table, beneficiaries earned higher income as compared to non-beneficiaries in this specified fiscal year. This might indicates the role of credit received from the OCSSCO in increasing the income of the households. This in turn improves the livelihood of the households. The t-value clearly shows there is significant difference between beneficiaries and non-beneficiaries in terms of their income at 5% level of significance. Evidence from (Robinson, 2001) also stated that having access to MF services have led to an enhancement in the quality of life of clients, had increased their self confidence, and had helped them diversify their livelihood security strategies and thereby increase their income.

On the other hand, there is expenditure on food items as well as expenditure on non-food items such as expenditure for purchase of input, medical services; for education and labor (wage). As indicated in above table, beneficiaries expend on food and non-food items more than non-beneficiaries. This might be because of beneficiaries have higher income as compared to non-beneficiaries. As per the survey, the nutritional trends of the beneficiaries improved by consuming different varieties of food due to improvements in business profit and high income from the sales of coffee and chat.

3.5. Challenges of the Households in Credit Participation

The main reason to classify the respondents into beneficiaries and non-beneficiaries is their tendency of participation in credit program delivered by the OCSSCO microfinance. So, the respondents are grouped into beneficiaries and non-beneficiaries. As per our survey, non-beneficiaries are not taking part in the credit participation due to the following reasons.

One; Access to loan from individual lenders (relatives and neighbors)

Two; Fear to repay the loan back (due to risk associated with production activities)

Three: Information gap (lack of awareness the purpose and the aim of OCSSCO)

Four: The size of loan given by the OCSSCO is small to engage in business activities.

Even though all of the above factors are cited as a reason for not participating, most of them put information gap as the main reason for not participating.

On the other hand, clients are participating in the credit program because of: the interest of OCSSCO is better as compared to the interest of the individual lenders; the amount of loan given by OCSSCO is higher as compared to the amount given by the individual lenders; in addition to credit provision, OCSSCO is giving training how use the loan and encourages for saving.

3.5.1. Challenges related to transportation

According to the survey, OCSSCO is found in the town while most of the clients are farming community in the rural areas. This is a challenge for these farmers to reach on time to get the service in the town. As they said and as the researchers seen practically, there is no a facilitated road which link them with the town in which OCSSCO is operating. In spite of this, if the clients arrive late they have been punished for being late. This is a double challenge for them; they travel long journey on their foot; subsequently, they are punished economically for being late.

3.5.2. Challenges related to the size of the loan and repayment time (due time)

As the researcher collected secondary information from the document of the organization, the minimum size of the loan is 2000 birr while the maximum loan size is 10,000 birr. Clients are expected to pay interest of 150 birr per year for each 1000 birr they lent. The loan size depends on, (I) the period in which the clients stay by participating in the credit program (i.e. the client, who participated for longer years will get higher loan as compared to the beginner clients). (II) In addition, the loan size is determined by the past performances of the clients. Before taking the loan, each client proposes his/her plan. Depending on their proposal the loan is given to them; then at the end of the year, the staff members crosscheck their performance with what they had planned to do. If their performance is good the staff members encourage them to do more and the organization provides higher loan than what they received before. On the other hand, if their performance is not good the staff members decided to give them training to enhance their future performance.

However, there are respondents who complained the size of the loan given by the OCSSCO is not enough to carry out what they have planned to do. Moreover, there are also problems related to the repayment period. Most of them are engaging in agriculture. Among the factors affecting agricultural production: lack of adequate technology and product instability (yield variation) resulted from seasonal weather to variation are the common. If they get higher profit in one year, they will get low profit for the next year. Similarly if the weather condition is good they produce higher out and vice versa. Evidence from "the Contribution of Microfinance Institutions to the Economic Activities of the Youth and Women in Luwero District in Uganda" conducted by (Charles, 2003) also put high interest rates, short repayment periods, and lack of collateral security and inaccessibility of microfinance services as problems encountered in using microfinance credit service.

The other farm business in which they have been engaged is livestock fattening. This requires longer time period to get higher profit, but the due time given by the OCSSCO is only one year period. In addition there is the probability of the livestock to die, which is a risk for the clients.

Furthermore, due to they provide group responsibility as a guarantee to take the loan, if one of the group member cannot pay back the loan, they are forced to pay temporarily; then the MF scheme reports to the local leader in which the individual (one who refused to pay) is living. Then local leader forces that individual to repay the loan back. The reason that the OCSSCO reports to the local leader is, when the individuals come to the microfinance to be client, first they brought letter which ensures his/ her status. Even though this is the agreement that they have with the OCSSCO, it is one of the challenging conditions to the participants of the program.

3.6. Logistic Regression

Table 3.5. Factors determining participation in microfinance credit program

| Variables in the Equation | B | S.E. | Wald | Sig. | Exp(B) |
|---------------------------|---------|--------|-------|-------|--------|
| Types of asset | | | 7.156 | 0.028 | |
| land(1) | -8.877 | 4.801 | 3.418 | 0.064 | 0.000 |
| livestock (2) | -11.543 | 4.539 | 6.466 | 0.011 | 0.000 |
| Sex(1) | -3.211 | 2.064 | 2.420 | 0.120 | 0.040 |
| Age | 0.064 | 0.108 | 0.347 | 0.556 | 1.066 |
| Mstat(1) | -1.818 | 0.918 | 3.922 | 0.048 | 0.162 |
| Religion(1) | -.804 | 9.952 | 0.007 | 0.936 | 0.448 |
| Religion(2) | -1.226 | 9.982 | 0.015 | 0.902 | 0.294 |
| Famsiz | 1.943 | 1.031 | 3.553 | 0.059 | 6.979 |
| Edulevel | 0.275 | 0.384 | 0.513 | 0.074 | 1.317 |
| Depratio | -.759 | 0.822 | 0.853 | 0.356 | 0.468 |
| Constant | 2.836 | 11.665 | 0.059 | 0.808 | 17.054 |

****, statistically significant at 5% and 10%

The table summarizes the effect of variables on household engagement in microcredit function of the microfinance in the models.

From the table, asset ownership, marital status, educational level and family size are significant in the model. The likelihood ratio decreases by -8.877 as it goes from household who has land to who has livestock; similarly it further decreases for household who has different assets like livestock, land and others. In both cases the odds ratio is the same, while there is different significance levels; this could be due to the difference in unit of measurements of these asset categories are measured. This indicates household who has different types of assets (both physical and social assets) is less likely to participate in the credit program. This might be due to the primary focus of microfinance institutions is addressing the socio-economic problems of the poor part of the community not the rich part. Moreover, marital status also has significant effect on credit participation; in the above table, mstat (1) the reference category (1) shows single marital status. The negative B (coefficient of independent variable) shows from single to the next marital status the probability of credit participation decreases; while the probability of the next marital status (married household 0 in credit participation increases by 16.2%. This indicates married households are socially acceptable; so that they have good relation with their group members. Furthermore, as family size increases by one unit, the likelihood to participate or the odds of participation in credit service increases 7 times. This is may be because of households with high number of family needs high income to meet the needs of the family. So, as a means of increasing their income, they participate in the credit program given by OCSSCO. Similarly, as education increases by one unit the odds of participation increases 1.137 times.

On the other hand, the effect of variables such as sex, age, religion, and dependency ratio with credit participation is not as such strong; so, they do not significantly affect credit participation.

4. Conclusion

Access to microfinance credit services improve and diversify the income of beneficiary households. The comparisons made between the incomes of beneficiary and non beneficiary households show that there is a significant difference between them. The study in the two kebeles, Geniji-Dalecho and Bulbulo, shows microfinance credit service has enabled households to educate their children, afford the food needs of their family and enable them to get medical service. This also indicates that, improved incomes will encourage these households to invest in the education of their children. This is clearly seen by the fact that, the expenditure on education has been significantly high among the beneficiaries. Furthermore, the assessment made on the income generating activities the two categories demonstrate that, the beneficiary households engaged in non-farm activities in addition to farming, especially in the small scale trading sector which include: small shopping and purchasing grains during the harvesting time and sell during the cropping season.

Lack of good transport, small size of the loan, short or fixed repayment period and seasonal production are the major challenges that faced microfinance beneficiaries in their credit participation program. Lack of

microfinance services could be a constraining factor to income diversification, which can be an important risk management strategy for rural households. Furthermore, microfinance services are used to spread risks when catastrophe situations occur. Such circumstances may not affect the diverse income generation activities of households equally and severely. Generally, from the findings of this study one understands that access to microfinance services can result in reduced vulnerability and improved the livelihood of the beneficiaries.

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