

Oromia Credit and Saving Share Company (OCSSC) in Strengthening Small and Micro Enterprises (SMEs) of Guder Town, Toke Kutaye District, West Shoa Zone of Oromia Regional State, Ethiopia

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Abstract

In Ethiopia, several microfinance institutions (MFIs) have established and have been operating towards resolving the credit access problem of the poor particularly to those who participate in the petty business like SMEs. The objectives of the study were to assess the roles of MFIs in strengthening SMEs, examine the preference level of MFIs than others, and identify factors affecting SMEs in accessing MFIs in a specified area. The study used both primary and secondary data sources. The primary data was collected via close ended questionnaire while secondary data gathered from different documents of the MFIs and internet. Both purposive and random sampling techniques were used to select 60 sample size using Probability Proportional to Size (PPS) in which 22 and 38 of them were from 01 and 02 kebeles respectively. Quantitative data was analyzed using descriptive statistics such as arithmetic mean, standard deviation, frequency and percentage, figures, and charts while description, narration, and interpretation were used for qualitative data analysis. The finding reveals OCSSC was highly preferred due to benefiting SMEs providing easy loan access, low interest charge, and opening saving account. However, SMEs encountered absence of loan as per demand, insufficient supervision, training, and advice, high tax charge, lack of working place, market connection problem, and lack of advanced technology-based services. The study recommends MFIs should provide sufficient supervision, training, and advice, grant amount of demanded as much as possible, and deliver advanced technology-based services for SMEs while the government should overcome high tax charge, lack of working place, and marketing problem.

Keywords: microfinance, preference level, enterprise, credit access, saving account

1. Introduction

The establishment of microfinance institutions (MFIs) in Ethiopia is a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various MFIs have legally been registered and started delivering microfinance services for different small and micro enterprises (SMEs) (Wolday 2000). MFIs are an asset to the developing and transition countries. The services they provide are tailored to meet the needs and aspirations of the local inhabitants and emphases are towards the poor (Asmamaw 2014). Microfinance gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future endeavors. It plays both economic and social roles by improving the living conditions of the people as cited by (Asmamaw 2014). Further, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood 1999).

Microfinance provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in strengthening, expanding or establishing their businesses. It is mostly used in developing economies like [Ethiopian Economies] where SMEs do not have access to other sources of financial assistance (Robinson 1998). SMEs lack access to financial services due to the fact that formal banks are either unwilling (high risk and transaction costs, lack of reliable information on borrowers, difficulties in enforcing contracts) or unable (lack of appropriate information systems and instruments for managing risk, by penalization of banks by the NBE for lending to enterprises that lack traditional collateral) to serve SMEs (Amha 2002).

Solving unemployment problem through the development of small and micro enterprise is a key area of government policy and direction in Ethiopia. The initial capital for SMEs emanate from diverse sources, the major one being loans. Since most SMEs lack the initial start-up capital, facilitating access to loan would definitely help establish new SMEs and address working capital problems of existing ones. Although it is not limited to MFIs, they are the major lenders to SMEs throughout the country Ethiopia. Obviously, large scale commercial banks do not extend loans to SMEs due to high transaction costs and inability of SMEs to fulfill the various requirements of big banks (EEA 2015).

SMEs are important to almost all economies in the world, but especially to those in developing countries. There is considerable interest in SMEs in developing countries due to probably two main reasons. The 1st is the belief that SMEs development may prove to be an effective antipoverty program. The 2nd is the belief that SMEs

development is one of the building blocks of innovation and sustainable growth. These two reasons are of course linked because most of the international evidence says that growth and real poverty reduction go hand in hand. If SMEs development helps growth, more than likely it helps reduce poverty as well (Hidayetet *al.* 2010).

In Ethiopia, several MFIs have established and have been operating towards resolving the credit access problem of the poor particularly to those who participates in the SMEs or petty business (Befekadu 2007). Currently, the Ethiopian government has made a major push to increase financial services for SMEs and other sectors (IFAD 2009). By looking funds from international donors, provision of support to MFIs is one of the Ethiopian government identified priority areas of actions as part of the state's poverty reduction and development programs as discussed by Meklitet *al.* (2005). One primary objective of supporting MFIs is to make them able in strengthening and supporting SMIs providing financial and non-financial services. Thus, the researchers were initiated to assess how MFIs (OCSSC) in strengthening and supporting SMEs in a specified study area.

2. Objective

The general objective of the study was to assess the how MFIs (OCSSC) doing in strengthening SMEs; particularly to analyze the role of MFIs in strengthening SMEs, examine the preference level of MFIs than others by SMEs, and identify factors affecting SMEs in accessing MFIs in Guder town, Toke Kutaye district, West Shoa zone, Oromia regional state, Ethiopia.

3. Significance

This investigation will benefit micro and small enterprises, and micro finance institutions of the study area, especially those engaged in wood work, dairy production, metallic work, food and beverage, coffee and tea, juice house, and trading businesses. It will help them to understand different factors that promote or hinder the strength of small and micro enterprises. Further, the study may serve as an input for policy makers and extra investigation of related fields.

4. Methodology

Toke Kutaye one of the districts of West Shoa zone. It is located 124km away from Addis Ababa. The district has 23 kebeles among which 01 and 02 kebeles have high number of small and micro businesses. The 2007 national census reported that total population for this district of 56,624, of whom 32,023 were men and were women 115,641 of its population were urban residents. The rests are rural dweller. Its total annual rainfall about 800-1100mm, higher mean temperature 29⁰c, and lowest mean monthly temperature 10⁰c. The climatic conditions of Toke Kutaye are Dega 18%, Wina Dega 57%, and Kolla, 25% to cover total area. The study were used both primary and secondary data sources. The primary data was collect through close-ended questionnaire which helped the researchers gather relevant qualitative and quantitative data.

The secondary data was gathered from internet and different relevant documents. Questionnaires were prepared and distributed to SMEs owners who were clients of OCSSC. The main purpose of questionnaire was to obtain quantitative data from the respondents. The study used mixed sampling techniques. Accordingly, probability and non-probability sampling techniques were used. The Toke Kutaye district has 23 kebeles among which 01 and 02 kebeles were purposely selected because of their high number of SMEs availability. The sample size of the study from each kebele was being determined based on the Population Proportion to Size (PPS) of the specified kebeles. Thus, the total number of SMEs found in 01 and 02 kebeles of Guder town is 397 among which 145 and 252 SMEs were of 01 and 02 kebeles respectively.

Among 397 SMEs 60 of them were randomly selected from as sample size in which 22 and 38 respondents were from 01 and 02 kebeles respectively. PPS was used to determine distribution size of respondents for both kebeles. Accordingly, $PPS = \frac{N}{NT} * n$ formula was applied where N represents the total population of one Kebele, NT represents the total population in both Kebeles, and n represents number of sample size. Thus, the sample size of 01 Kebele was $PPS = \frac{N1}{NT} * n = \frac{145}{397} * 60 = 22$ while 02 Kebele was $PPS = \frac{N2}{NT} * n = \frac{252}{397} * 60 = 38$. The methods of data analysis used by the study were descriptive statistics such as arithmetic mean, standard deviation, frequency and percentage. The Statistical Software for Social Science (SPSS), version 20 was used in which the output of statistics was presented using tables, charts, figures and graphs. Further, both qualitative and quantitative data collected was described, interpreted, and summarized using mean and standard deviation.

5. Results and Discussion

5.1 Characteristics of Respondents

This section presents the characteristics of SMEs owners by their sex, age, educational background, and marital status.

Table 1: Characteristics of Respondents by Gender, Age, Educational, and Marital Status

S/N	Variables		Frequency	Percent	Valid %	Cumulative %
1	Gender	Male	33	55.0	55.0	55.0
		Female	27	45.0	45.0	100.0
		Total	60	100.0	100.0	
2	Age	19-25	19	31.7	31.7	31.7
		26-35	26	43.3	43.3	75.0
		>=36	15	25.0	25.0	100.0
		Total	60	100.0	100.0	
3	Educational Level	Illiterate	3	5.0	5.0	5.0
		Can write and read without formal education	9	15.0	15.0	20.0
		Primary school complete	5	8.3	8.3	28.3
		Secondary school complete	26	43.3	43.3	71.7
		Diploma/TVET graduate	6	10.0	10.0	81.7
		Bachelor degree and above	11	18.3	18.3	100.0
		Total	60	100.0	100.0	
4	Marital Status	Single	41	68.3	68.3	68.3
		Married	12	20.0	20.0	88.3
		Divorced	6	10.0	10.0	98.3
		Widowed	1	1.7	1.7	100.0
		Total	60	100.0	100.0	

Source: Field Study (2017)

Accordingly, Table 1, S/N-1, indicates near to half (45%) of SMEs owners were female. This can tell us as female participation in SMEs is increasing which consequently would achieve gender equality. Regarding age, majority (43%) of respondents falls in early adult age followed by 32% of youth age, and 25% of adult age. The age related finding shows physically powerful owners owned SMEs. As described by S/N-3, near to half (43%) of owners were secondary school complete while the rest falls in above and below. Meaning, almost half of SMEs owners in Gudar town were working without any college or university complete profession. Lack of education of owners, specially related to their businesses, can hinder their operation performance as well as how to manage money. With S/N-4 majority (68%) of SMEs owners were not married which may help them reduce family load so that they can freely run their business activities.

5.2 Roles of MFIs in Strengthening and Developing SMEs

This part shows roles of MFIs in strengthening SMEs owners related to their respective businesses.

Table 2: The Roles of MFIs in Strengthening SMEs

S/N	Variables		Frequency	Percent	Valid %	Cumulative %	Mean	St. Deviation
1	Do you have saving account?	Yes	50	83.3	83.3	83.3	1.1333	.34280
		No	10	16.7	16.7	100.0		
		Total	60	100.0	100.0			
2	Do you get credit with amount of money you want from OCSI?	Yes	6	10.0	10.0	10.0	1.9000	.30253
		No	54	90.0	90.0	100.0		
		Total	60	100.0	100.0			
3	Do you get only credit from OCSI?	Yes	5	8.3	8.3	8.3	1.9167	.27872
		No	55	91.7	91.7	100.0		
		Total	60	100.0	100.0			
4	Did you benefit from OCSI services?	Yes	52	86.7	86.7	86.7	1.1333	.34280
		No	8	13.3	13.3	100.0		
		Total	60	100.0	100.0			
5	How do you get credit from OCSI?	Via secured loan	56	93.3	93.3	93.3	1.0667	.25155
		Via unsecured loan	4	6.7	6.7	100.0		
		Total	60	100.0	100.0			

Source: SPSS Output (2017)

As indicated by Table 2, S/N-1 explains very greater number of owners had saving account as described by 1.1333 (83%) value of arithmetic mean. Meaning, still there are 17% SMEs owners who were not saving from their income. Further, the finding tells us the weakness of OCSSC in creating awareness for owners on how to save and the use of saving money. Among the total number of owners, 63%, 20%, and 17% of them were opened saving account after loan, before loan, and have not opened saving account respectively as shown in Figure 1. This finding informs us as OCSSC's loan delivery service helped SMEs owners open their saving account. Although, how the owners are saving money in their opened saving account needs further investigation.

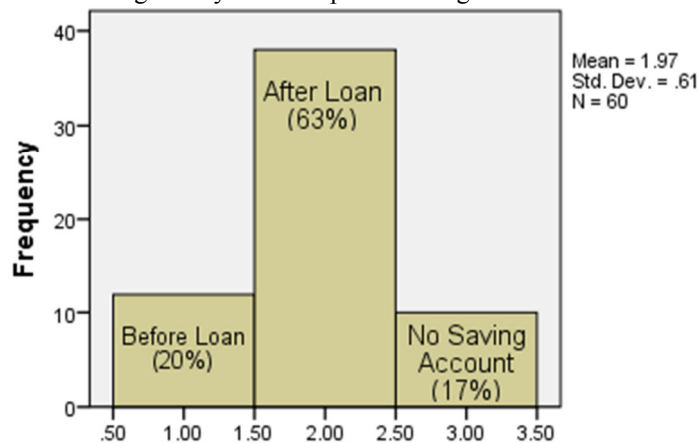


Figure 1: Histogram of Period of Saving Account Opening
 Source: SPSS Output (2017)

As described in Figure 2, 25% of SMEs owners opened saving account after they got loan due to advice from OCSSC followed by due to their understanding about saving (23%). Some of them (15%) have opened saving account after loan due to their income increases and security. Also there were owners who already opened saving account before they got loan accounting 20%.

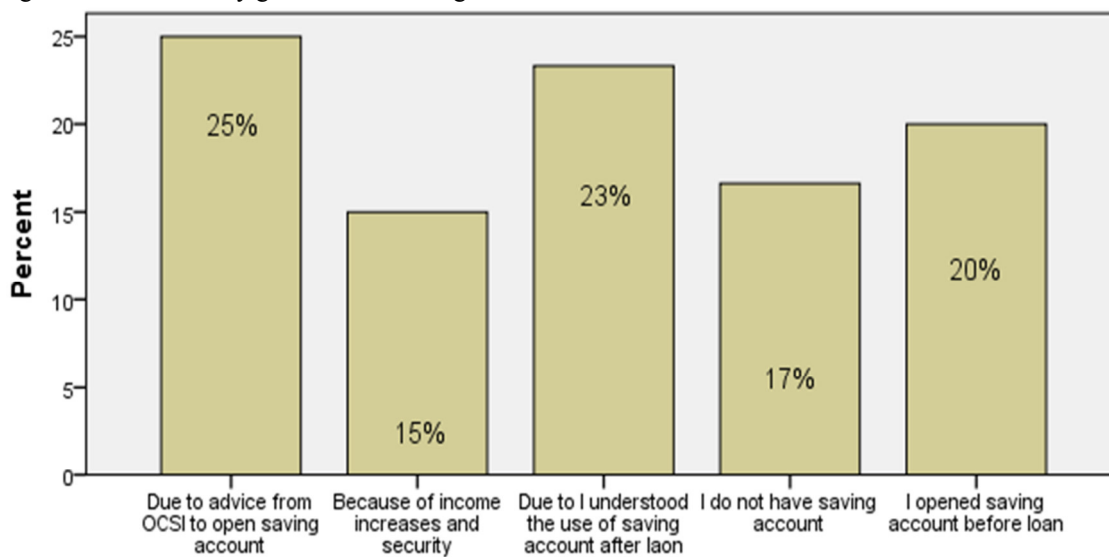


Figure 2: Chart of Reasons of Opening Saving Account After Loan
 Source: SPSS Output (2017)

Finding with S/N-2 shows almost all of SMEs owners located in Guder town were not getting credit from OCSSC with amount of money they want as evidenced by 1.9000(90%) value of arithmetic mean. As a result, the owners might face lack of working capital, and even they might not run their businesses as per the market demand which consequently hinder business income. Even among 10% of owners who get amount of money as of their interest, 8% of them were due to collateral while 2% and 3% of them were due to their plan and the OCSSC's rules and regulations. With S/N-3, as of 1.9167(92%) value of arithmetic mean, very large number of SMEs owners was agreed they do not get only credit service from OCSSC. They also get other services like saving, money transfers, advisory, training and m-birr services.

Discovery with S/N-4 indicates very majority of SMEs owners were benefited from OCSSC services as supported by 1.1333(87%) value of arithmetic mean. From the benefited owners, 43.3% and 30% of them were benefited of change in life standard and easily accessible collateral respectively as of Figure 3. There were

owners who not satisfied with OCSSC services delivery as 13.3% of them replied we did not benefit. Further, we can understand there are that MFIs do not appropriately reached SMEs owners delivering their services.

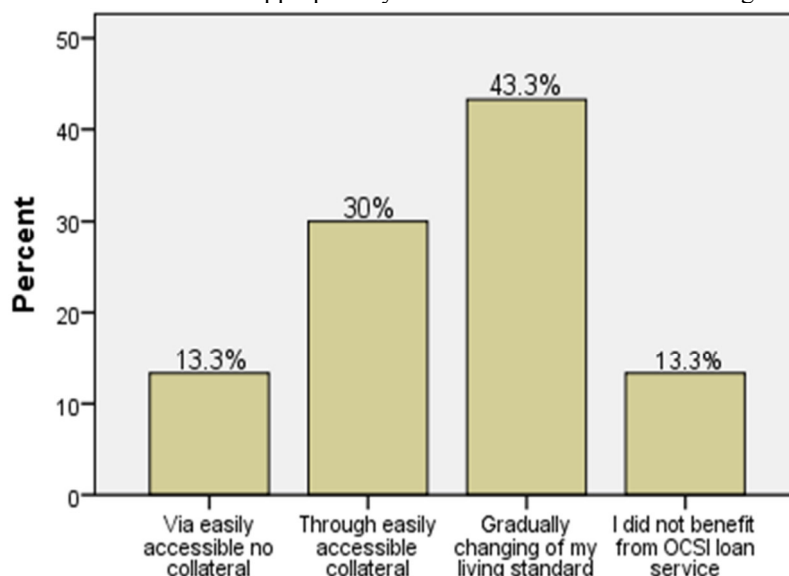


Figure 3: Chart of Ways of SMEs Owners Benefit From OCSI
 Source: SPSS Output (2017)

As shown in Table 2 (S/N-5) by 1.0667 arithmetic mean value, almost near to all of SMEs owners (97%) in Guder town were getting loan through secured type of loan while only 7% of them were getting via unsecured loan. Meaning, majority of owners were getting loan with collateral which might be difficult to them because of their lack of potential make available necessary fixed assets. MFIs were primarily established to solve the problem SMEs owners cannot access loan from commercial banks. Evidencing the finding, but still there are MFIs like OCSSC not appropriately serving for their primary purpose in the study area.

5.3 Preference Level of MFIs than others by SMEs

This class notifies readers the preference level of MFIs, especially O OCSSC, than others by SMEs owners in a specified study area.

Table 3: The Preference Level of MFIs than others by SMEs

S/N	Variables	Frequency	Percent	Valid %	Cumulative %	Mean	St. Deviation
1	Do you prefer MFIs than other financial institutions?	Valid Yes	52	86.7	86.7	1.1333	.34280
		No	8	13.3	13.3		
		Total	60	100.0	100.0		
2	What is your preference level to MFIs than other financial institutions?	Valid Very high	25	41.7	41.7	1.8833	.99305
		High	24	40.0	40.0		
		Medium	5	8.3	8.3		
		Low	5	8.3	8.3		
		Very low	1	1.7	1.7		
		Total	60	100.0	100.0		
3	Does it easy to get loan from MFIs compared with other financial institutions?	Valid Yes	54	90.0	90.0	1.1000	.30253
		No	6	10.0	10.0		
		Total	60	100.0	100.0		

Source: SPSS (2017)

Therefore, as written in Table 3 with S/N-1, 87% of owners responded they do prefer MFIs than other financial institutions whereas very small number (13%) of them not evidencing 1.1333 value of arithmetic mean. When SMEs owners asked why you do prefer, half of them (50%) responded because of their attainability at collateral while 23% of said due to their initiative at creditor financial institution followed by 13% of them replied because of freedom to invest the loan as per our interests. Figure 4 can further explain reasons of preference as follow.

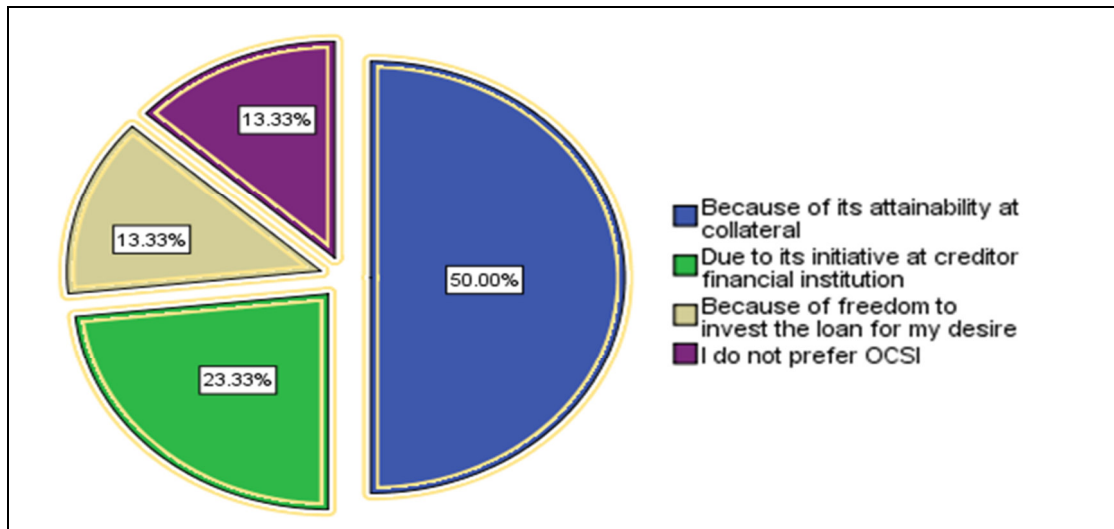


Figure 4: Chart of Reasons of Preferring MFIs than Others by SMEs

Source: SPSS Output (2017)

Regarding the preference level as of S/N-2, 82% of SMEs owners highly preferred MFIs than other financial institutions while 8% and 10% of them preferred medium and low respectively with 1.8833 value of arithmetic mean. With S/N-3, majority of owners (90%) agreed that getting loan from MFIs was easy compared to other financial institutions whereas only 10% of them said difficult as of 1.1000 value of arithmetic mean. Meaning, accessing loan from MFIs specific to OCSSC has no difficulty than other commercial banks which could help SMEs owners get loan within a short period of time. When respondents asked why you said easy to access loan, 87% of them replied due to both easy collateral requirement and low interest charge of the institution as depicted in Figure 5. Not difficult collateral requirement and low interest charge were advantages to owners as well as good practices to OCSSC in sustaining and increasing its clients.

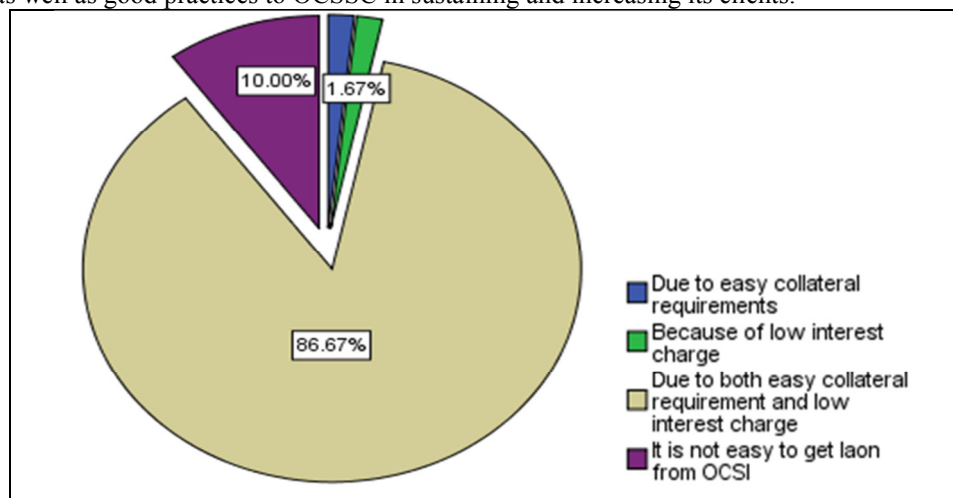


Figure 5: Chart of Reasons of Highly Preferring MFIs than Others

Source: SPSS Output (2017)

5.4 Factors Affecting SMEs in Accessing MFIs

This division discusses the major factors influencing SMEs owners located in Guder town in accessing MFIs services.

Table 4: The Major Factors Affecting SMEs Owners in Accessing MFIs

S/N	Variables		Frequency	%	Valid %	Cumulative %	Mean	St. Deviation
1	What type of business are you working?	Wood work	11	18.3	18.3	18.3	5.3167	2.53445
		Dairy production	1	1.7	1.7	20.0		
		Metallic work	7	11.7	11.7	31.7		
		Food and beverage	12	20.0	20.0	51.7		
		Coffee and tea	6	10.0	10.0	61.7		
		Juice house	3	5.0	5.0	66.7		
		Trading	20	33.3	33.3	100.0		
		Total	60	100.0	100.0			
2	Do you think that OCSI has a positive effect on your business?	Yes	54	90.0	90.0	90.0	1.1000	.30253
		No	6	10.0	10.0	100.0		
		Total	60	100.0	100.0			
3	Are there sufficient supervision, advice and training on loan utilization and repayment?	Yes	2	3.3	3.3	3.3	1.9667	.18102
		No	58	96.7	96.7	100.0		
		Total	60	100.0	100.0			
4	What kind of problem did you face with your business operation?	Lack of working capital	19	31.7	31.7	31.7	3.3500	2.04877
		Lack of working place	6	10.0	10.0	41.7		
		Marketing problem	7	11.7	11.7	53.3		
		Threat of competitors	8	13.3	13.3	66.7		
		Lack of training	3	5.0	5.0	71.7		
		High tax payment	17	28.3	28.3	100.0		
		Total	60	100.0	100.0			
5	What major improvement do you expect from MFIs services?	Revised loan repayment period	2	3.3	3.3	3.3	2.6833	.53652
		Advanced technology based service	15	25.0	25.0	28.3		
		Sufficient training	43	71.7	71.7	100.0		
		Total	60	100.0	100.0			

Source: SPSS (2017)

Consequently, let start with type of business owners working in the study area. As of Table 4, S/N-1, 33%, 20%, and 18% of owners responded they were working trading, dairy production, and wood work activities respectively. This find shows SMEs owner's participation in service rendering was low which requires further research to identify the reason. By indication of S/N-2, 90% of owners agreed that OCSSC has a positive effect on their business activities while only 10% of them not as of 1.1000 value of arithmetic mean. Among the agreed owners 45%, 32%, and 13% of them said MFIs has positive effect on our business because of income increases, training and advice delivery, and revised loan repayment period respectively. Less than half of owners showed income increment due to positive effect of OCSSC on their business activities which could not be much significant as further illustrated by Figure 6 below.

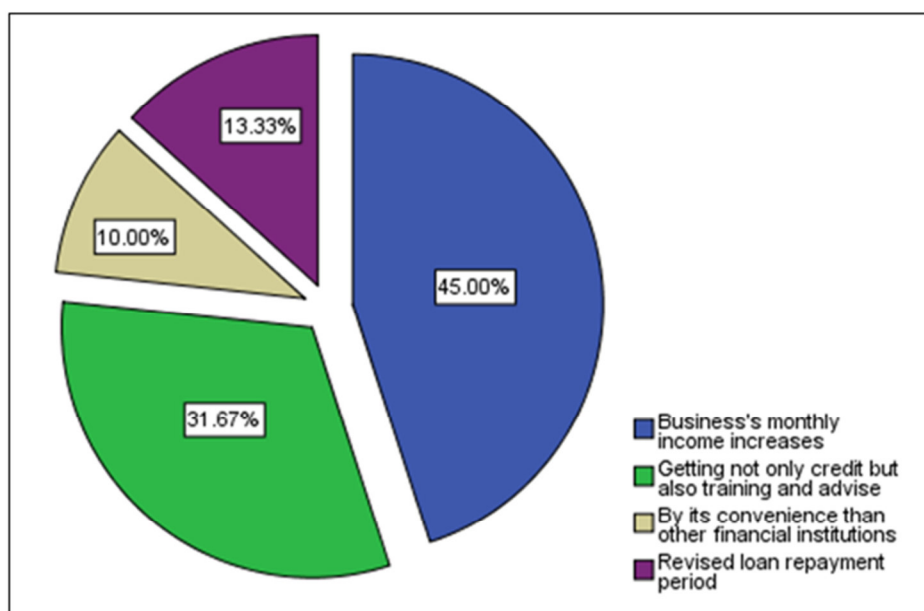


Figure 6: Chart of How MFIs Positively Affect SMEs Owners

Source: SPSS Output (2017)

One major factor hindering SMEs owners was absence of sufficient supervision, advice and training on loan utilization and repayment. To this regard, as of S/N-3, almost all owners (97%) agreed with absence of sufficient supervision, advice and training of OCSSC in a specified study area while very few (3%) of them disagreed evidencing 1.9667 value of arithmetic mean. In absence of adequate supervision, advice and training from MFIs, the SMEs owners would not use borrowed money for needed and planned activities. Even, they could not appropriately achieve loan repayment period which will hinder the loan granting institution. In the same Table (S/N-4) further depicted shortage of working capital, high tax payment, existing competitor's threat, marketing problem, lack of working place, and lack of training factors were harming SMEs owners with 3.3500 value of arithmetic mean.

Among these, 32% and 28% of owners agreed they were highly hindered by shortage of working capital and high tax payment factors respectively. Shortage of capital might happen due to SMEs owners cannot get the amount of money they want to borrow which consequently hinder their business performance. High tax payment was another headache to owners which could distract their moral of innovation. S/N-5 finding with 2.6833 value of arithmetic mean indicates majority of SMEs owners (72%) replied we expect sufficient training and advice from OCSSC as improvement whereas 25% and 3% of them were expecting of advanced technology-based services and revised loan repayment period respectively. Lack of advanced technology-based services and revised loan repayment period of MFIs were extra bottlenecks to owners.

6. Conclusion and Recommendation

6.1 Conclusion

Microfinance institutions are an asset to the developing and transition countries. The services they provide are tailored to meet the needs and aspirations of the local inhabitants and emphases are towards the poor. This study was focused on assessing how MFIs are doing in strengthening SMEs selecting OCSSC as case study in specified research area. The finding portrays OCSSC was playing an important role in enabling SMEs owners open their own saving account. Majority of owners opened saving account after they granted loan by OCSSC. The owners were benefiting from OCSSC services in which about half of them got change of life standard. Majority of SMEs owners highly preferred OCSSC than others due to its easy loan access and low interest charge.

There were challenging factors to SMEs owners in accessing MFIs services. One challenging factor to owners was they were not getting amount money they want from OCSSC which could highly hinder financial capacity. Almost all owners agreed absence of sufficient supervision, training, and advice from OCSSC which consequently could hinder their performance of financial management. Shortage of working capital and high tax were other major factors negatively affecting owners. The research found lack of working place, marketing problem, lack of advanced technology based services were further bottlenecks and headaches to SMEs owners located in a specified study area.

6.2 Recommendation

MFIs like Oromia Credit and Saving Share Company should grant loan for small and micro enterprise's owners as per their businesses demand to able them perform in line with their plan and reduce lack of working capital. Strengthening and developing SMEs owners through provision of sufficient training, advice, and supervision should be applied by microfinance institutions as well as advanced technology based services. The government should overcome high tax payment of SMEs owners closely focusing on their daily income generation performance. Further, facilitating working place and market connection should be achieved for owners by concerning government bodies.

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