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Analysis of Credit Service Utilization by Rural Households: The Case of Humbo Woreda, Wolaita Zone, Ethiopia

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Abstract
The objectives of the study were to analyze credit service utilization by rural households and to assess the prevailing challenges faced by microfinance institutions in the provision of credit service in the study area. In this study multi-stage sampling techniques were used to select 5 kebeles out of 42 kebeles of the study area and 150 sample households were randomly selected, of which 82 were credit users and 68 of them were non-users. Primary data were collected through structured and semi- structured interview schedule, Key Informant Interviews and Focus Group-Discussions. Various documents were reviewed to collect secondary data. To analyze the data, descriptive statistics such as mean, standard deviation, percentage, and frequency distribution were used to describe the institutional, socio-economic and demographic characteristics of the sample households. In addition, t-tests and chi-square tests were used to compare credit user and non-user sample groups with respect to the explanatory variables. Socio-economic factors such as income, possession of fixed asset, risk fearing, saving habit and opinion on group lending had showed significant relationship with credit service utilization. In addition to this, institutional factors like lending procedure, type of collateral required, and training and technical advice had showed significant relationship with credit service utilization. Therefore, credit service providers should give attention to factors that significantly influence credit service utilization by rural households, focus to institutional capacity building, implementing a working and effective follow-up system, and designing human resource development plan need to be implemented by the concerned authorities to improve the performance of microfinance service provision and credit service utilization.
Keywords: Credit Service, Rural Households, Credit Utilization, Microfinance

Introduction

The delivery of credit has been as one of the antipoverty tool for the development of programs. This is because it helps unemployed became employed, thereby increasing their income and consumption. Improving credit access to the poor also facilitates economic growth by easing liquidity constraints in production, by providing capital to start up new production or adoption of new technologies (Wolday, 2003). The provision of credit services to the poor people in the rural economy and micro-enterprises operators in towns is believed to alleviate poverty, increase the income of credit recipients, create employment, and reduce dependency and latter development (Fantahun, 2000).

Credit is considered as a lubricant that helps to provide a push to the development process. However, supplying large amounts of money to farmers on credit basis is not an end by itself. The impact of credit needs be analyzed so that the credit suppliers as well as the credit receivers can achieve their respective goals effectively (Singh, 1985).

Farm credit is usually considered as an essential input to increase agricultural production and productivity, mainly of land and labour, to boost food output and income levels, to encourage employment and thereby to alleviate poverty. Credit accomplishes this task by enabling small farmers to overcome their liquidity problem and to make farm investments, particularly in improved farm technology and inputs that could lead to increased agricultural production (Abbott, 1976; Fuentes, 1996). In the Ethiopian case, Freeman (1996) has found empirical support saying, "Improving farmers' access to adequate credit accelerates the uptake of advanced technologies."

In order to get a substantial increase in agricultural production and productivity, the provision of credit must be accompanied by the provision of technical advice and physical inputs. Hence, we need to study the pros and cons brought about by credit. Since, there are many factors affecting access to credit, it is crucial to identify the important ones. Lack of access to formal credit service and to full financial intermediation services impedes agricultural development and hampers the efforts to alleviate rural poverty (Meehan, 2001).

Many agricultural development banks and microfinance institutions (MFIs) were created for political purposes. As they were established to channel subsidized donor and government funds to farmers, they lacked the market discipline and incentives of commercial banks. The provision of credit depended upon political decisions and interests (Sisay, 2008). Moreover, the irregular availability of loan funds, requirement of collateral and initial saving, the setting of interest rate ceilings and the periodic write-offs of overdue loan seriously undermined the effectiveness of these agricultural development banks and MFIs. Therefore, this study was concerned with analysis of credit service utilization by rural households and assessment of the prevailing challenges faced by microfinance institutions in the provision of credit service in the study area.

Research Methodology

Description of the Study Area

Humbo Woreda is the largest woreda among the 12 Woredas in Wolaita Zone and is located at about 420 km south of Addis Ababa. It has a total population of 155,495, from which 77,481 are male and 78,008 are female population. Mixed agriculture is the main economic activities and population density is estimated at 283 person/ km2 one of the highest density in Ethiopia. The overall altitude varies between 1171-2342 meters above sea level which implies *kolla* and *woiynadega* agro-climatic zone. The total area of Humbo woreda is 86,646 hectare which is divided into two agro-climatic zones namely: *woiynadega* (mid highland) and *Kolla* (lowland) accounting for 30% and 70% of the area, respectively. The annual rainfall ranges between 841.3-1134.1mm (WBoARD, 2013).

Sample size and Sampling techniques

In this study multi-stage sampling techniques were used; in the first stage Humbo woreda was purposively selected based on easy access to transportation and it is the largest woreda among the 12 woredas in the zone; in the second stage five kebeles were selected randomly out-of the total kebeles in the woreda, and finally using simple random sampling techniques and probability proportional to size, 150 households were selected from the five kebeles.

Data type and sources

Both primary and secondary data were collected. The primary data were collected from the primary sources such as sample respondents, key informants and focus group discussions. The secondary data were collected from relevant sources such as books, woreda annual report documents, internet, and journal articles.

Data collection methods

Data for this study were collected using interview schedule, key informant interviews and focus group discussions. The qualitative data were also collected through focus group discussions and key informant interviews using checklists.

Methods of data analysis

The data were compiled by using SPSS Version 20 and analyzed by descriptive statistics such as mean, frequency, percentage and standard deviation, as well as inferential statistics like t-test and chi-square test were used. The qualitative data obtained from focus group discussions and key informant interviews were organized and reduced into themes through a process of coding and condensing the codes; then interpreted, narrated and finally complemented with the descriptive results.

Results and Discussion

This section deals with analysis of the survey data and interpretation of the study results. Specifically, the socio-economic, demographic and institutional factors influencing the use of credit service among rural households discussed using descriptive statistics. Moreover, different constraints were identified and discussed as the major challenges hindering microfinance service provision.

The t-test result in table 1 below revealed that there is statistically significant mean difference between credit users and non-users in reference to total income of the households. However, other variables did not show significant mean difference between credit users and non-users.

Table 7: The results of continuous independent variables (n=150)

Variables	**Users (82)**		**Non-Users (68)**			
	Mean	Std.dev	Mean	Std.dev	**t-value**	**P-value**
Age	42.19	10.49	43.44	11.99	0.679NS	0.498
Family size	7.13	2.25	6.88	2.32	-0.673NS	0.502
Farm size	1.26	1.33	0.95	0.92	-1.601NS	0.112
Total income	6682.93	5352.83	3913.04	3452.57	3.678***	0.000
Livestock holding	2.89	2.35	2.36	2.02	-1.467NS	0.144

Source: survey result, 2014; ***, significant at less than 1% probability level; NS= not significant

Sex of household head: The number of credit user of female headed households is lower than the credit users of male household heads. However, the chi-square test result revealed that there is no significant relationship between sex and credit service utilization in the study area (Table 2). The result from FGDs confirmed that now a day there is high concern and support for female headed households in credit provision.

Table 8: Percentage distribution of sample households by Sex

Sex of household head	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
Female	13	15.9	9	13.2	22	14.7		
Male	69	84.1	59	86.8	128	85.3	0.204NS	0.652
Total	82	100	68	100	150	100		

Source: survey result, 2014; NS= not significant

Education level of the respondents: As it can be seen from the (Table 3) majority of sample households were under the category of couldn't read and write comprising about 34% of sample respondents. The chi-square test result didn't show a significant relationship between educational status and credit service utilization. This is mainly due to both users and non-users of credit service in the study area highly illiterate and no significant difference between users and non-users in education status.

Table 9: Percentage distribution of respondents by educational status

Educational Status of household head	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
Unable to read & write	26	31.7	25	36.8	51	34		
1-4 Grade	28	34.1	20	29.4	48	32		
5-8 Grade	17	20.7	13	19.1	30	20		
9-12 Grade	7	8.5	9	13.2	16	10.7	2.653NS	0.618
Above 12 Grade	4	4.9	1	1.5	5	3.3		
Total	82	100	68	100	150	100		

Source: survey result, 2014; NS= not significant

Saving habit: As it was understood during the focus group discussion (FGD), saving is mandatory requirement to get credit services; hence, all newly attending credit users are required to make initial saving. As it can be seen from Table (4), majority of non-users have no saving habit as compared to credit users. The chi-square test result showed that there is a significant relationship between saving habit and credit service utilization.

Table 10: Distribution of credit users and non-users by saving habit

Saving Habit	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
No	41	50	46	67.6	87	58		
Yes	41	50	22	32.4	63	42	4.752**	0.029
Total	82	100	68	100	150	100		

Source: survey result, 2014; **, significant at less than 5% probability level

Collateral type required: Different types of collateral are required to acquire the credit service in the study area, (Table 5); among these, land certificate is a dominant one. It was also identified that other collaterals such as buildings, livestock are also highly important assets identified especially during the focus group discussion. Therefore, the chi-square test result showed that there is a significant relationship between collateral type and credit service utilization.

Table 11: Types of collateral required to get credit service

Types of collateral required	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
Group security	11	13.4	2	2.9	13	8.7		
Land certificate	61	74.4	61	89.7	122	81.3		
Both	10	12.2	5	7.4	15	10	71.639***	0.000
Total	82	100	68	100	150	100		

Source: survey result, 2014; ***, significant at less than 1% probability level

Training and technical advice: Most rural people lack knowledge in how to manage money; hence, there is high demand for training and orientation especially while receiving loan. Most of the credit users were indentified that they have got training and orientation while receiving credit. The chi-square test result revealed that there is a significant relationship between training and credit service utilization (Table 6).

Table 12: Relationship of training and technical advice with credit utilization

Training and technical advice	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
No	9	11	52	76.5	61	40.7		
Yes	73	89	16	23.5	89	59.3	66.086***	0.000
Total	82	100	68	100	150	100		

Source: survey result, 2014; ***, significant at less than 1% probability level

Distance to credit lending institution: The formal institution providing credit service in the study area is OMO Microfinance. It is located at the woreda town and providing the service for all kebeles in the woreda. Therefore, all households in the same kebele are located at equal distance to credit service providing institution. The chi-square test result showed that there is no a significant relationship between distance of credit providing institution and credit services utilization in the study area (Table 7).

Table 13: Distance of respondents to credit lending institution

Institution Distance	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
Less than 1 Km	16	19.5	9	13.2	25	16.7		
1-5 Kms	32	39	21	30.9	53	35.3		
6-10 Kms	26	31.7	24	35.3	50	33.3	4.694NS	0.196
Above 10 Kms	8	9.8	14	20.6	22	14.7		
Total	82	100	68	100	150	100		

Source: survey result, 2014; NS= not significant

Lending procedure: from the total respondents, 59.8% of users and only 29.4% of non-user households thought that the lending procedure was not difficult and constraint to utilize credit service; whereas 70.6% of non-users and 40.2% of users reported that the lending procedure was difficult and a constraint to utilize credit service. Hence, the result showed that the lending procedure was less difficult to users as compared to non-users. The chi-square test result showed that significant relationship between lending procedure and utilization decision of credit service in the study area (Table 8).

Table 14: Respondents' opinion to lending procedure of the institution

Lending procedure	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
It is not a constraint	49	59.8	20	29.4	69	46		
It is a constraint	33	40.2	48	70.6	81	54	77.776***	0.000
Total	82	100	68	100	150	100		

Source: survey result, 2014; ***, significant at less than 1% probability level

Opinion on group lending: according the results of survey conducted peoples are very happy on individualism rather than group approach so that lending in group (1 to 5) approach is not based on their interest and needs. The results of the following (Table 9) reveals that majority of the respondents perceived that group lending is a one of the constraint in credit utilization in one community. The result of chi-square test also indicated that the relationship between opinion on group lending and credit service utilization is statistically significant.

Table 15: Respondents' opinion on group lending

Opinion on group lending	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
It is not a constraint	29	35.4	25	36.8	54	36		
It is a constraint	53	64.6	43	63.2	96	64	4.032*	0.059
Total	82	100	68	100	150	100		

Source: survey result, 2014; *, significant at less than 10% probability level

Risk Fearing: Many households, as can be expected, are very risk-averse that even when credit service is available, they do not like to venture into activities. This is due to risks of repaying loans that come from loss of crops due to seasonal changes, pest and insect damage, and failure of proposed business plan. As it can be seen from the Table (10), among the total respondents 60% of them reported that they fear the risk of business failure and inability to repay back their loans. The chi-square test result showed that there is a significant relationship

between risk fearing and credit service utilization.

Table 16: Distribution of respondents in relation to risk fearing behavior

Risk Fearing	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
No	35	42.7	25	36.8	60	40		
Yes	47	57.3	43	63.2	90	60	14.243***	0.000
Total	82	100	68	100	150	100		

Source: survey result, 2014; ***, significant at less than 1% probability level

Possession of fixed asset: it reflects ownership of assets like house, farm size, cattle, etc; it was expected to affect access and utilization of different financial services including credit services. Individuals with secured asset ownership most likely access service from the microfinance institution as they can easily settle issues related with collateral. As it is indicated in Table (11), majority of the non-users (58.8%) have no fixed assets as compared to credit users. The chi-square test result showed that there is a significant relationship between possession of fixed asset and credit service utilization.

Table 17: Households possession of fixed assets

Possession of Fixed Asset	Credit Service Utilization						χ 2- value	P-value
	Users		Non-Users		Total			
	No	(%)	No	(%)	No	(%)		
No	10	12.2	40	58.8	50	33.3		
Yes	72	87.8	28	41.2	100	66.7	4.290**	0.049
Total	82	100	68	100	150	100		

Source: survey result, 2014; **, significant at less than 5% probability level

Challenges of Microfinance Service Provision

The responses obtained from the sample respondents were triangulated with the experts and authorities affiliated to microfinance service provision. The following constraints were forwarded and underlined by the participants of the focus group discussion and individual interview as the main challenges hindering microfinance service provision in the study area.

1. **Lack of application of technologies:** During focus group discussion with officials and experts of Omo microfinance institution (OMFI), lack of application of technologies for running the business and addressing the clients was mentioned as the main challenge. As it was mentioned by the participants, they are using a manual system with pen and paper, and there is no digital record keeping system. It was marked by all participants that the institution is not using internet (for web-based communications with head office, potential stakeholders and with other branches), no mobile banking system for SMS reminders of loan repayments, repayment date and to know their saving, and no digital documentation system to manage portfolio of clients. Generally, it was stated that lack of investments on technologies has limited their ability to grow, respond to demands and compete.
2. **Lack of saving culture**: As it was understood during focus group discussions saving is mandatory requirement to get credit services and all newly attending credit users are required to make initial savings. However, the participants of focus group discussion both from the community and the institution clearly revealed that there is no strong saving culture in the community. The community prefers savings through buying cattle or cereals rather than saving money in formal institutions. Due to lack of saving culture in the community the institution is facing challenge in service provision.
3. **Lack of incentives:** The participants of group discussion both from the community and the institution clearly disclosed the limitation capacity of Omo Microfinance Institution in comparison to the huge demand of the service by residents in the area. The importance of participation of other stakeholders in the microfinance service provision was also considered to be crucial for which there has been no established attractive incentive structure. Since this sector is high development priority with potential to create jobs and increase household incomes there should clearly defined incentives for participants in the sector.
4. **Staff turnover:** During the focus group discussion with the officials and experts as well as the beneficiaries of the microfinance institution, workers turnover was mentioned as the main challenge faced by the institution. In discussion with the staff, the key reasons were identified to be low salary rate and absence of incentive packages.
5. **Problems related with institutional capacity building:** The result of key informant interview and focus group discussion indicated that there was lack of focus in targeting institutional capacity building. In the

focus group discussion with the experts and officials of Omo microfinance institution (OMFI), it was indicated that the organization lacks clear vision of targeting institutional capacity building to meet the growing demand of the service by the organization. Lack of sufficient funds for training and capacity building was also mentioned to be the main problem.

6. **Client mobility:** In the group discussion with the microfinance officials, client mobility is one of the major challenges affecting the service provision of the institution. As a result, the organization is being forced to prefer dealing with clients of fixed abode as security for their investment. It was mentioned that large number of clients were reported to change their residence after taking credit from the institution. They either change residence or relocate to other places in search of better job opportunities.
7. **Lack of coordination among partners:** In discussion with the experts and officials of Omo Microfinance Institution, the participants mentioned that different NGOs have been using microfinance institution as a means of providing revolving fund to their targeted beneficiaries. Despite increasing number of NGOs coming work with microfinance services, there is no coordination among the organization. This created lending duplication in addition to challenges created to control defaulters.
8. **Lack of capacity for screening defaulters:** With expansion of the service the number of microfinance service users has increased by many folds. Despite the increase in the number of beneficiaries of the service, the institution does not have a well-functioning system to screen the defaulters. In the discussion with the officials it was clearly stated that with the increasing number of defaulters, a well-developed mechanism and capacity to screen defaulters has become imperative. Lack of such a capacity is a constraint to the development of the microfinance service in the area.

Conclusion

The objectives of the study were to analyze credit service utilization by rural households and to assess the prevailing challenges faced by microfinance institutions in the provision of credit service in the study area. In the study multi-stage sampling techniques were used. Primary data were collected through interview schedule, Key Informant Interviews and Focus Group Discussions. Various documents were reviewed to collect the secondary data. To analyze the data, both descriptive and inferential statistics were used. The findings of the study revealed that there are a number of social, economic and institutional factors that influence credit service utilization among rural households in the study area.

Among the explanatory variables categorized under socio-economic factors: income, possession of fixed asset, risk fearing, saving habit and opinion on group lending had showed significant relationship with the dependent variable, i.e. credit service utilization. In addition to this, institutional factors like lending procedure, type of collateral required, and training and technical advice had showed significant relationship with credit service utilization.

Moreover, different constraints were forwarded and underlined by the participants of the focus group discussions and key informant interviews as the major challenges hindering microfinance service provision in the study area. Some of the factors are problems related with institutional capacity building, Client mobility, Lack of incentives and Staff turnover. Therefore, to alleviate these problems and improve credit service utilization in the study area some strong commitment and reformation should be done by credit service providers and other responsible bodies.

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