



THE ROLE OF ETHIOPIAN MICROFINANCE INSTITUTIONS IN POVERTY ALLEVIATION: THE CASE OF OROMIA CREDIT AND SAVING INSTITUTION

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ABSTRACT

The objective of this research paper is to analyze the role of micro finance institutions in alleviating the poverty in Ethiopia in general and Oromia region in particular. Poverty is a common problem of almost all developing as well as underdeveloped countries. Ethiopia is one country which is facing similar problem. Micro financing started in Ethiopia in 1992 for elimination of poverty. Oromia credit and saving institutions was established in 1997, Oromia region Ethiopia as part of this strategy of the government. The aim of micro finance is that, loans disbursed to beneficiaries have to be used for income generation activities. Around 120 respondents have been selected on stratified sampling procedure out of the total 1872 beneficiaries of the Oromia micro finance. In this study an attempt has been made to assess the economic position of the beneficiaries in terms of income, saving, participation in formal education, use of medical facilities, before engagement in credit service program and after participation in micro finance program. Finally, researchers found that after participation in the program, the respondents reported an increased income and savings, more participation in formal education, more use of medical facilities, increased consumption frequency of food and

clothing. Thus, it reveals that micro finance has contributed a lot in poverty alleviation in Ethiopia.

Key words: Micro finance, Oromia, Poverty alleviation.

Paper type: Research.

1. Introduction

Poverty is common problem of almost all developing countries. Ethiopia is one of those countries which have been experiencing its consequences. About **85%** of its population is driving their livelihood form agriculture which is rain fed although the country export earnings and house hold consumption directly depend on the agricultural sector, it could not fully support the massive dependents in a sustainable way. To reverse the worsening poverty situation, the government has implemented new economic policy under SAP. One of the main aim of the policy is to support the household's farm income and increase their capability to save for further investment activities and also finance micro enterprises. Hence this research will aim to explore the role of Oromia micro finance institute in combating poverty.

II. Review of the Literature

What is microfinance?

Microfinance is broadly defined as financial services, such as credit, savings, and insurance, for low-income clients who are either unserved or underserved by the mainstream financial services industry. Microcredit, a significant component of microfinance, is characterized by small loans with frequent repayments, usually monthly or bi-monthly, and short maturities that typically range between four months and two years. While microloan amounts and terms vary greatly by region, the average global microloan is approximately US\$1,026, with an average interest rate of 30%.

The impact of microfinance on poverty

Poverty is more than just a lack of income. Wright (1999) highlights the shortcomings of focusing solely on increased income as a measure of the impact of microfinance on poverty. He states that there is a HIV/AIDS, malaria and other diseases; ensure environmental sustainability; and develop a global partnership for development (Littlefield, Murdugh and Hashemi, 2003). There is a significant difference between increasing income and reducing poverty (1999). He argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty. It

depends what the poor do with this money, often times it is gambled away or spent on alcohol (1999), so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to “sustain a specified level of well-being” (Wright, 1999, p.40) by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved.

It is commonly asserted that MFIs are not reaching the poorest in society. However, despite some commentators’ scepticism of the impact of microfinance on poverty, studies have shown that microfinance has been successful in many situations. According to Littlefield, Murdugh and Hashemi (2003, p.2) “various studies...document increases in income and assets, and decreases in vulnerability of microfinance clients”. They refer to projects in India, Indonesia, Zimbabwe, Bangladesh and Uganda which all show very positive impacts of microfinance in reducing poverty. For instance, a report on a SHARE project in India showed that three-quarters of clients saw “significant improvements in their economic well-being and that half of the clients graduated out of poverty” (2003, p.2). Dichter (1999, p.26) states that microfinance is a tool for poverty reduction and while arguing that the record of MFIs in microfinance is “generally well below expectation” he does concede that some positive impacts do take place. From a study of a number of MFIs he states that findings show that consumption smoothing effects, signs of redistribution of wealth and influence within the household are the most common impact of MFI programmes (ibid.). Hulme and Mosley (1996, p.109) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programmes can improve the incomes of the poor and can move them out of poverty. They state that “there is clear evidence that the impact of a loan on a borrower’s income is related to the level of income” as those with higher incomes have a greater range of investment opportunities and so credit schemes are more likely to benefit the “middle and upper poor” (1996, pp109-112). However, they also show that when MFIs such as the Grameen Bank and BRAC provided credit to very poor households, those households were able to raise their incomes and their assets (1996, p.118).

Hulme and Mosley (1996) show that when loans are associated with an increase in assets, when borrowers are encouraged to invest in low-risk income generating activities and the very poor are encouraged to save; the vulnerability of the very poor is reduced and their poverty situation improves. Johnson and Rogaly (1997, p.12) also refer to examples whereby savings and credit schemes were able to meet the needs of the very poor. They state that microfinance specialists are beginning to view improvements in economic security, rather than income promotion, as the

first step in poverty reduction (ibid.) as this reduces beneficiaries' overall vulnerability. Therefore, while much debate remains about the impact of microfinance projects on poverty, we have seen that when MFIs understand the needs of the poor and try to meet these needs, projects can have a positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in society.

III. Importance of the study

Many of the developing countries in the Latin America, Africa and Asia remain behind the developed countries. This happened due to lack of infrastructure, education, health services and higher poverty incidence. But after the 1970's some of the Asian countries showed remarkable economic growth that enabled them to reduce the incidence of poverty to 15.9 percent in 2008 compared to 77.1 percent in 1981. In the same period, in sub-shaharan Africa (SSA), the percentage of poverty incidence only decreased from 53.7 percent to 44.3 percent (Evan Hillebr, 2008).

Ethiopia is one of the world's poorest countries, where about 44 percent of the population lives under the poverty line. Most of them live in rural areas with agriculture as their main occupation with 80% of Ethiopians dependent on agriculture as their main livelihood, severe arid conditions due to persistent lack of rainfall coupled with civil disputes have worsened Ethiopian economy.

The low production level also results in low household income, which in turn holds back the household saving. According to the World Bank development report, the country's real per capital income in year, 2010, was only USD 125, which is very low compared to event other developing countries. Diminishing household saving in turn limits the investment ability of the people; this chain of problems inevitably leads the country in general and the households in particular to live in vicious circle of poverty.

To reverse the prevailing economic decline and worsening poverty situation in the country with the ultimate goal of putting the economy on long-term growth path, the Ethiopia government has implemented new economic policy in 1992 under SAP.

Oromia micro finance institution is established in 1997 to provide credit to the poor. It is operated at Adama city in Eastern showa zone of Oromia region at a distance 100 K.M east of Addis Ababa. Enterprise like metal, wood work, food processing, construction, agriculture and petty trade are among the intervention area focused by Oromia Micro-finance institution.

Hence this study is carried out to assess the role of micro-finance in poverty alleviation by take in to consideration of activities of Oromia microfinance institution.

IV. Microfinance Today

By the end of 2013/14, the number of micro-finance institutions (MFIs) operating in Ethiopia reached 31. Their overall performance was encouraging as their total capital and total asset increased by 24.6 and 38.6 percent and reached Birr 5.6 billion and Birr 24.5 billion, respectively. At the same time, their deposit mobilization and credit provision have expanded remarkably. Compared to last year, deposit mobilization of MFIs went up by 54.8 percent and reached Birr 11.8 billion while their outstanding credit rose by 31.9 percent indicating their expanded outreach. The four largest MFIs, namely Amhara, Dedebit, Oromia and Omo Credit and Savings institutions accounted for 74.9 percent of the total capital, 84.0 percent of the savings, 80.6 percent of the credit and 81.6 percent of the total assets of MFIs at the end of 2013/14.

V. Statement of the problem.

Micro finance evolved as an economic development approach for helping the poor people. The government and non-governmental organizations considered micro-financing as an efficient means of poverty reduction (Jhonson & Rogory, 2008). It assumed to be one of the ways to help the poor in increasing their income and productivity.

Micro-financing has been applied in various ways, by different bodies in Ethiopia, with the ultimate goal of poverty reduction, such poverty alleviation schemes should have noticeable impact on target group for them to be sustainable and acceptable (Khandker, etal, 2003). In addition to the explicitly stated objective of employment creation and income generation, the micro-financing programme should bring improved nutrition, improved access to health care and educational service, etc to the households.

As mentioned above, the society is vulnerable to various shocks that make them vulnerable to hunger and illness. The formal financial sector could not provide credit service to the poor. The prevalence of such situation retards them from participation in employment and income generation activities. Therefore, an attempt is made to explore the role played by Oromia micro finance institution in poverty reduction in Hawasa city.

VI. OBJECTIVES

The main objective of the study is to assess the role of Oromia Microfinance institution in reducing poverty in the Adama city. Specific objectives are:

- To know the role of Oromia microfinance in improving socio-economic conditions of the people in Adama city
- To investigate the positive impact of micro finance in life change.

VII. RESEARCH METHODOLOGY

The study based on both qualitative and quantitative approach.

TOOLS OF DATA COLLECTION

The study employed both primary and secondary sources of data in order to explain the role of microfinance institutions in poverty alleviation in Adama city. To increase the reliability and creditability of data, primary data has been collected through structured questionnaires.

SAMPLING DESIGN AND SAMPLE SIZE

The questionnaires have been designed so as to get information on the characteristics of sample beneficiaries such as age, sex, marital status, educational background, access to health services, and access to education to their children (school enrolment), wealth condition, and income status before and after participation in microfinance programmes.

Oromia micro-finance has extended credit for about 1,872 beneficiaries in Adama. Out of this total population 120 beneficiaries have been selected for the survey based on stratified random sampling procedure.

DATA ANALYSIS AND INTERPRETATION

The various data gathered by both quantitative and qualitative methods were analyzed using descriptive statistical tools such as averages and percentages. The result of this data was presented by using tables and charts.

VIII. RESULTS AND DISCUSSIONS

This section has two parts. The first part focuses on general demographic characteristics of respondents' mainly marital and educational status of respondents. The second part deals with the contribution of Oromia credit and saving institution in alleviating poverty

GENERAL DEMOGRAPHIC CHARACTERISTICS OF RESPONDENTS

The demographic characteristics of the respondents such as their marital status and educational level have direct or indirect relations with the way one can attempt to reduce poverty.

Concerning marital status of the respondents, table one shows that 50 (41.67%) of respondents were single while 43 (35.83%) and 27 (22.5%) were married and divorced, respectively. From the table mentioned below one can interpret that regardless of marital status, there are many people who are fighting poverty by taking loan from Oromia credit and saving institution.

The result of the study in table two shows that 85% of the respondents are literate while 15% are illiterate. This implies that education plays a great role in reducing poverty. Schooling is one of the key variables that may cultivate the activities and competence of people because it improves their skills and makes them more creative and innovative. Literacy may have positive impact on the way the clients use the financial services that they receive. Literate clients may use the microfinance services effectively through increased savings, repeat loans, amount of loan taken and thereby contribute to the success of their business (Tesfay, 2003).

Table 1: Marital status of Respondents

Marital status	Male	Female	Total	Percent (%)
Single	20	305	505	41.67
Married	234	19	423	35.0083
Divorced	1841	10	2870	23.33333335016.4
Total	61231	598681	1202	100

Table 2: Educational Qualification of Respondents

Educational status	Male	Female	Tota	Percent (%)
Below primary	12	6	18	15.00
Primary	17	20	37	30.83
Secondar	14	18	32	26.67
Above higher secondary	18	15	33	27.50
Total	61	59	12	100

Table3: The Role of Oromia Microfinance Institution in alleviating poverty

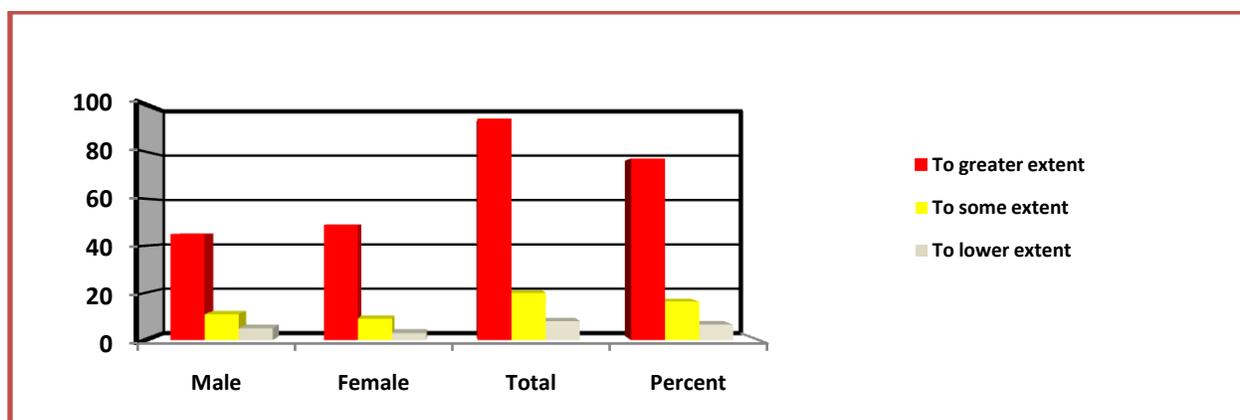


Table 4: The employment status of respondent`s before and after loan from Oromia credit and saving institution

Are you self-employed?		Male	Female	Total	Percent (%)
Before loan	Yes	17	19	36	30.00
	No	44	40	84	70.00
	Total	61	59	120	100
After loan	Yes	51	55	106	88.33
	No	10	4	14	11.67
	Total	61	59	120	100

Table 5: The Response of respondents towards savings

Do you use saving?	Before loan				After loan			
	Male	Female	Total	Percent (%)	Male	Female	Total	Percent (%)
Yes	12	6	18	15	44	51	95	79.17
No	49	53	102	85	17	8	25	20.83
Total	61	59	120	100	61	59	120	100

Table 6: Tune of activities/businesses clients of Oromia credit and saving institution are involved

In what type of activities/businesses are you	Male	Female	Total.	Percent (%)
Metal works	10	5	15	12.50
Wood works	15	5	20	16.67
Computer and internet centres	8	7	15	12.50
Petty trade	16	15	31	25.83
Beauty salon	0	27	27	22.50
Barberry	12	0	12	10.00
Total	61	59	120	100

According to table three 80% of the respondents opined that microfinance has reduced their poverty level to a greater extent. This implies that Oromia microfinance is successful in giving loans and mobilizing savings from low income people.

The results of the study in table four shows that 70% of respondents were not employed in anywhere else before they received loan from Oromia microfinance. About 88.33% respondents were self employed after they received loan from Oromia microfinance. This implies that Oromia microfinance is creating job opportunities for unemployed section of society through offering efficient financial services. It is possible to argue that one would reduce poverty via creating wide opportunity for many section of population regardless of their sexes and marriage status. One can understand from table four is that Oromia microfinance is changing the living conditions and diet of the poor section of the people.

Table five demonstrates that only 15% of respondents have capacity to save before participating in microfinance activities but later it increased to 79.17%. It is evidenced that the Oromia microfinance is significantly developing saving culture among the participants. It is increasing standard of the family unit, quality of food consumption and others. This means Oromia microfinance is appreciating culture of saving of its clients and in turn its clients are increasing the amount of their income and businesses.

The result of the study in table six depicts that 12.5%, 16.67 %, 12.5%, 25.83%, 22.5,% and 10% of the respondents are engaging in metal works, wood works, computer and internet centres, petty trade, beauty salon and barberry, respectively.

XI. FINDINGS

It is noticed from the study that Oromia credit and saving institution has improved the standard of living of the poor section of the people. Oromia microfinance plays a significant role in contributing to poverty reduction by providing loans and mobilizing savings. It is also creating job opportunity for the unemployed section of the society through offering efficient financial services. Besides that it is also developing saving culture of its clients. It is also cultivating and prioritizing many economic sectors. Among others, these include metal works, wood works, computer and internet centres, petty trade, beauty salon and barberry.

X. CONCLUSION AND RECOMMENDATION

Based on the above analysis the following conclusions are made on the role of Oromia Credit and Saving Institution in poverty alleviation in Adama city. Poor households are using Oromia microfinance to move from hand to mouth survival to planning for the future in the sense that it invests in better nutrition, housing, health, and education. Priority should be given to the poor section of the society because poverty alleviation efforts should be transformed to development efforts through microenterprise development. Finally, critical studies and impact assessments should be conducted to identify problems and limitations of Oromia microfinance in alleviating poverty.

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