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CAUSALITY BETWEEN MICRO-FINANCE AND POVERTY IN ETHIOPIA: AN EMPIRICAL INVESTIGATION

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ABSTRACT

Lack of finance is one of the major bottlenecks for economic development; as access to formal institutional credit is very limited. Thus, the government of Ethiopia brought micro finance institution into formal sector by issuing proclamation No. 40/1996 that empowered the National Bank of Ethiopia to issue licenses to supervise and regulate micro financing business in the country. Omo Micro Finance has been operational and has managed to reach more needy poor people who otherwise have no access to financial resources from banks. The evaluative research of empirical investigation were using for this study, involving both quantitative as well as qualitative studies which aims in tracing the likely effects of microfinance in poverty reduction by comparing the level of income, health and educational expenditures of beneficiaries. The two stage stratified sampling procedure were used to come up with representative sample towards a target population. Thus, this study found that micro finance credit services particularly Omo Microfinance Institutions (MFI) has a positive impact poverty reduction, in increasing income level and improving access to health care and educational services of the beneficiaries. In other words, the micro finance credit service plays a significant role in poverty reduction endeavor in the study area, Sidama zone-Dale wereda.

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INTRODUCTION

Ethiopia is one of the poorest countries in Africa. The country has an estimated number of about 90million. Poverty is an endemic to the country; the poor makes insufficient money to cover daily meal, health, education and other services. Poverty alleviation is the central element of the government's development agenda and hence, rural financial policies, goals and objectives focus on targeting primarily the poorest and disadvantaged rural households (Birhanu, 2008). Majority of the population engaged in agriculture sector (accounts for nearly 50 percent of the GDP for the national economy) although non-farm activities are increasing nowadays. Ethiopia has implemented a number of policy measures to increase food production and thereby to alleviate poverty. Ethiopia's major policy document, Sustainable Development and Poverty Reduction Program (SDPRP), emphasizes the role of small and micro credit and saving services. Intervention through micro finance have also been considered as one of the policy instruments of the program and NGOS to enable poor households increase output and productivity, induce new technology adoption, increase income, reduce poverty and

assist in attaining food security (Welday,2000). There are many governmental and NGO's involved in and intervening against poverty in Ethiopia in general and Southern Nations Nationalities People Regional State (SNNPRS), Ethiopia in particular. Most of them are engaged in agricultural and rural development projects. There are more than 30 unions in SNNPR which were formed from primary cooperatives engaged in credit and savings to be organized and assisted by government. Rural Financial Intermediation Program (RUFFIP) is under implementation in SNNPR starting from 2003/2004 based on the program agreement made by IFAD (International Fund for Agricultural Development), AFDB (African Fund For Development Bank) and Government of Ethiopia. This program mainly aims at improving the rural financial services by supporting the rural communities in creating and capacitating rural financial intermediation institutions such as saving and credit cooperatives & their unions to be able to provide improved financial services to their beneficiaries and thereby improving their house hold income as a means to mitigate poverty. Despite large number of organizations engaged in credit provision and savings particularly in urban and rural areas of the region, reports indicated that there are not as such significant changes at smallholder level. This might be because the system of credit provision and the time of credit provided is not vis-a-vis with

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the interest of the target groups. Credit provision and reimbursement program might not be well formulated by discussing with the target groups so that the credit provided will not be used for the intended purpose. Furthermore, the capacity of the target groups was not well built with regard to the activities (agricultural or else off-farm activities). Although poverty is beyond the credit unions and savings, the union has to contribute for the poverty reduction as far as it is programmed properly. However, there are no as such well recognized performances reports. In Ethiopia, micro finance assessment studies at the district level are very limited. However, different researchers are recording some positive results. Mengistu (1998) noted that some positive result considering the increase in the number of program beneficiaries. He argues that the number of program beneficiaries is one indicator of the assessment program to employment creation and income generation. A study by Birhanu Lakew (2004) on Oromia Credit and Saving Share Company's financial scheme showed that there is a positive contribution of micro finance towards employment creation, income generation, access to improved health and educational facilities as well as improved house nutrition and generally reduction of poverty.

Fiona Mean (1996) found out that 94 percent of clients of Dedit Credit and Saving Institution (DECSI) in Tigray Region experienced a considerable increase in income as a result of the credit taken. Overall, credit provision had a significant impact on increasing agricultural production through buildup of production assets. Also, the increased income generated by the credit input had a positive impact on house hold food supply, educational service provision for children as well as clothing and other basic necessities. Similarly, the finding by Asmelash (2003) from the study conducted in Tigray region reveals that the credit provided to the poor has brought a positive impact on the life of the clients as compared to those who do not get access to these microfinance services. He showed that MFI has brought a positive impact on income, asset building and access to schools and medical facilities in the study area. The research conducted by Padma and Getachew (2004) on women clients of Omo and Sidama microfinance institutions in Hawassa town of SNNPRS shows that some clients were able to send their children to private schools and build assets. However, lack of entrepreneurial skills and low returns in business and marketing were indicated as major obstacles. Since the development of micro finance in Ethiopia especially in the study area is quite a new phenomenon, no sufficient study has been done with regard to problems and contributions of institutions. And, this study aims to understand the constraint, importance and generally evaluate the performance of micro finance institutions in the study area. Thus, the study could help all stake holders to identify the strong and weak sides of the microfinance institutions and to look for solutions of developing the strong sides and improving the weak sides of the institutions.

Given the importance of non-farm income in alleviating the problems of low agricultural productivity, poverty and food insecurity, policies should be directed towards providing incentives to households to participate in rural non-farm activities, as well as increasing their capacity to take advantage of such opportunities. Information is limited with regard to the current status of credit delivery and reimbursement mechanisms in the study area, which could be captured by this

study. This study is limited only to analyze of the effects of microfinance in poverty reduction in agricultural and off-farm/non-farm activities in the study area. Moreover, the scope of this study converges to a limited number of clients who take credit and use saving services only from Omo Micro Finance institution since most of target clients in the area are clients of Omo. Therefore; the target clients are found in Dale Woreda Sidama zone, SNNPRS. The objective of this study is to analyze the effects of Microfinance on poverty reduction in the study area on the following specific parameters: access to education, access to health care services and income level.

MATERIALS AND METHODS

Study Design (Study type, Sample size and Sampling Procedure)

In this specific study, population to be sampled or target groups are clients of Omo Micro Finance institution who took credit and use saving services in the study area, Dale Wereda. In this study, evaluative type of research approach in the form of empirical investigation were adopted primarily to find out the effects of microfinance intervention in poverty reduction on the level of income, health and educational expenditures. Sampling allows the researcher to study a relatively small number of units representing the whole population. For this study, a two stage probability sampling procedure were applied. Population to be sampled in the area characterized by heterogeneous nature in socio-economic characteristics in a different strata for instance most of the beneficiaries settled in a rural area and the rest least portion accounted in a peri-urban areas. Thus a stratified sampling procedure were used to collect information in a settled areas of the survey scope under 'Rural' and 'Peri-urban' strata. In a second stage of sampling procedure, three types of clients were classified as 'new clients', 'medium clients' and 'matured clients'. Out of the total kebeles in the wereda, only four kebeles were selected based on the criteria of rural and peri-urban areas. Under rural strata three kebeles were selected as most of the clients lives in rural area. A total of 200 clients were allotted for this study by giving equal chance for four kebeles in both rural and peri-urban areas. To ensure the representativeness of the sample, especially proportionate stratified sampling was used by giving an equal chance for those three strata which captures the extent of membership at Omo MFI.

Study Methodology and Data Collection Procedures

The evaluative research approach has been using for this study, involving both quantitative as well as qualitative studies which aims in tracing the likely effects of microfinance in poverty reduction in the level of income, health and educational expenditures of beneficiaries before and after the loan, and more specifically investigating the causality between microfinance and poverty reduction. The quantitative assessment was done by interviewing three types of clients as 'new clients', 'medium clients' and 'matured clients' of Omo MFI. To provide a more complete picture of evaluation the study also included qualitative data that comes from individual and group interviewing. The resulting information is then triangulated with the data from the quantitative surveys and monitoring information to either confirm emerging trends or raise further questions. In order to explore the necessary information, variables representing household characteristics, credit paths (delivery and reimbursement), and others were

collected through structured questionnaire in both open-ended and close-ended questionnaire. To facilitate data analysis, the questionnaires were structured and pre-coded. A focus group discussion with local elders and officials has also undergone. Secondary data were also collect from different published and unpublished documents.

Data Management and Analysis

This study primarily wanted to assess on the ground the effect of such intervention mechanism in poverty reduction endeavor before and after possessing a financial loan on a different parameters. Thus, this study was adopted a descriptive and regression analysis to analyze the quantitative and qualitative data.

RESULT AND DISCUSSION

Effect of Microcredit Scheme on Income

As far as the impact of credit scheme on the income of the beneficiaries is among the specific objectives of this study, this subtopic of this study shows the impact of credit service on income of the sample beneficiaries in Dale wereda. The method used to assess the impact on income is by considering the income of beneficiaries before and after the loan.

Table 1. Respondents Income Per Annum Before and After Loan

Income Level (In Birr)	Before Loan		After Loan	
	No of Respondents	% age	No of Respondents	% age
Below 1000	27	13.5	4	2
1001-2000	105	52.5	56	28
2001-3000	22	11	39	19.5
3001-4000	24	12	53	26.5
4001-5000	12	6	23	11.5
Above 5000	10	5	25	12.5
Total	200	100	200	100

Source: Own Survey (2016)

Most of the respondents have their own source of income before the loan. The source of income of 91 percent of the respondents is agriculture, while the remaining get their income from petty trade. As shown in the above table, those respondents their income was below Birr 1000 before loan were 13.5 percent of the sample beneficiaries. This figure failed to 2 percent after credit program participation. Before the credit program, majority of the respondents reported their income was in the range of Birr 1000 - 2000. And, these respondents are 52.5 percent of the sample beneficiaries. After the credit, this figure declined to 28 percent. Moreover, those respondents whose income was in the range of Birr 2001 – 3000 before loan were 11 percent of the total respondents. This figure rose to 19 percent after program participation. Likewise, those respondents whose income level was above Birr 5000 per annum were 5 percent before the loan, and this figure increased to 12.5 percent after loan. The above data shows that the income level of the sample beneficiaries improved per annum after credit program participation. Therefore, the credit scheme has a positive impact in changing the income of the beneficiaries.

Effect of Microcredit Scheme on Educational Facilities

Based on the evaluative survey, more than 73 percent of the credit beneficiary parents who sent their school age children to

school before possessing a loan. This figure has increased to almost 90 percent after the loan program participation. This is the implication of the positive impact of the credit program on the educational facility of the beneficiaries. Although the factors like government policy towards the expansion of educational opportunities for all, change in society's attitude towards education, availability of the school at the nearby area, etc, affect school enrollment positively, the impact of income generated from credit program is the major determinant for the positive school enrollment recorded in the study area.

Effect of Microcredit Scheme on Access to Medical Facilities

Not only improvement in income brings significant change in health care of the poor, but also improvement in the quality of the service, providing drugs at fair cost for the poor, and making the service accessible for them. The study found that 81 percent of the respondents reported access to poor medical facilities before the loan. This figure reduced to 45 percent after credit program participation. And, those who have good access to medical facilities before loan were 19 percent and the number increased to 55 percent after the credit scheme. Here again credit scheme has a positive impact on the increased access to medical facilities of the beneficiaries. Therefore, since credit scheme has a positive impact on the income level, it has also similar impact on the access to medical facilities of the credit service beneficiaries.

Regression Analysis between Improvement of Living Standards and different variables

The major objective of providing microfinance for the poor is to increase their income level in order to change their living standard in a bid to reduce poverty. Thus, change in income will have an impact on other outcome as nutrition, consumption, health and educational services, saving etc. The estimation result of the multiple regression shows the causality between microfinance and poverty reduction

Table 2. Regression analysis between poverty reduction and different variables (coefficients)

Variable	Coefficient	Std. Err.	t
Access to education	0.26	0.103.56	
Access to health care	0.19	0.082.55	
Access to income	0.31	0.062.35	
Constant	1.29	0.364.54	
	R ² =0.42	Adjusted	
	R ² =0.41		

NB: Dependent Variable: Enhancement in living standard

The regression model is statistically significant (F ratio=26.28, probability level 0.000). The probability level 0.000 means that the chances are almost zero that the results of regression model are due to arbitrary events instead of a factual causality. The table designates that the value of R-square for the model is 0.42. This means that 42 percent of the variation in the enhancement of living standards of the household (dependent variable) can be explained from the above three independent variables. In general, R square always surges as independent variables are further to a multiple regression model. To avoid overestimating the impact of adding an independent variable to the model, it is preferable to use the adjusted R-square value. This makes it calm to associate the explanatory power of regression models with different numbers of independent variables. The adjusted R-square for the model is 0.41, which

designates only a trivial overrate with the model. Information provided in the coefficients witnesses that the independent variables are significant predictors of improvement in the living standard of house hold. The coefficients of the regression for access to education, access to health care and increase in income of the house hold are all significant. Using the beta coefficient for better economic condition in a house hold, the financial situation of the house hold increase by 1 unit, improvement in the living standard of family will increase and reduce the incidence of poverty on average by 0.36 units, if other variables are held constant. Information in the coefficients discloses that better financial situation of the house hold is the most noteworthy predictor of improvement in the living standard of family, with a high beta coefficient 0.36.

Conclusion and Policy Implications

The performance of Omo MFI at this wereda in the areas of saving mobilization is also encouraging due to the attachment of saving facility with credit scheme and training given to the beneficiaries. The credit scheme has also a positive contribution towards improving access to health care and educational facilities. This was generalized from the response of respondents as having improved access to health and educational facilities as the result of their participation in the credit program. The result from the survey indicates that most of the target beneficiaries under the credit scheme are men. This is due to the existence of males supremacy in economic decision making and their being household leaders. Female, who are primarily victims of poverty, are small in number. In spite of this, the credit scheme under Omo MFI in Dale wereda has been contributing positively towards poverty reduction by increasing access to education, health and income. Based on the finding of the study the following recommendations are drawn: the study indicated a positive contribution of micro finance credit program in improving income level, saving, access to medical facilities and education of the beneficiaries. This implies the importance of micro finance in the improvement of the living standard of the poor. Thus, government and other responsible bodies should give due attention for the expansion of micro finance institutions generally. Some respondents complained about insufficiency of loan size for the activities they want to be engaged in. This may have a negative impact on proper utilization of the loan for proposed objective.

Thus, since beneficiaries require more amount of loan, there should be flexible loan size. In relation to credit, there is a need to strengthen the training on loan supervision and advice for beneficiaries about methods of production, marketing and business management. Thus, the training should be given since it helps the beneficiaries to improve their loan utilization capacity. Gender consideration also should give a priority in delivering the microfinance services.

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