The Impacts of Credit Provision Of Micro Finance Institutions On Small Scale Enterprises Expansion: A case Study Of Omfi, Hawassa City, Ethiopia

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ABSTRACT

The objective of this study is to assess the impact of credit provision of microfinance institution on small scale enterprises expansion in Hawassa city. In order to carry out this study the field survey was conducted on a sample size of 133 members randomly from 35 small scale enterprises of the package program. The credit provision was assessed using various indicators of economic and social aspects such as income, access to education service, and health care, nutrition condition and self- employment. The research work employed both primary and secondary data like questionnaires, interviews, focus-group discussions and on-site observation to collect primary data. The secondary data has been collected from different review of literatures, unpublished and published materials. The questions to be addressed in this study required both quantitative and qualitative research methodologies. This study discloses microfinance institution credit provision increase in: income and diversified sources, and reduce income inequalities. It has also contributed to increase personal consumption and improved living condition in terms of assets, access to education and medical services, and creation of employment opportunities. The findings of the study indicate that the beneficiaries of credit in the area perceived their lives have improved after the intervention of the credit. The outcomes of the study has established that microfinance intervention on small scale enterprises have achieved significant improvements. Therefore, it is recommended that such a strategy and micro finance institutions should be encouraged and diversity their activities and approaches to include the active poor.

KEY WORDS : MFI, Credit Provision, Poverty Reduction, Savings, Income generation, Self-Employment

1. INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Micro finance institutions are institutions that provide suitable financial and other services using innovative methodologies and systems at low cost to meet the need of low-income sections of the population and act as financial intermediaries in a genuine sense and they are also setup to provide fund to the enterprising poor (Wolday, 2000). Therefore, the necessary emphasis should be given to Small or Micro Enterprises development as it is powerful and effective poverty reduction tool. In some developing countries, successful measures have been taken for the improvement of credit provision at small or micro enterprises level aimed at the reduction of poverty of the poor people. Currently, the Federal Government of Ethiopia has taken several Economic Reform measures to address poverty. The poverty reduction strategy is to address poverty as its core objectives. This strategy is known as plan for accelerated and sustained development to end poverty (PASDEP). It covered five years (2006-2010) and focused on the eight elements (BoFED, 2006). Rural and urban unemployment is a serious challenge in Ethiopia. Therefore, self-employment generation through the promotion of microfinance is one of the eight
focus area of PASDEP. More recently, the ongoing five years growth and transformation plan has given due attention for overall development of MSEs in the urban industry development strategy puts the economically active poor people back in the spotlight of the country's development agenda (MoFED, 2010). The study is undertaken in Hawassa Town concerning seven fringes (division) including food processing, clothing and garments, urban agriculture, municipality works, construction, metal and wood work, and Hand crafts which consist of 2260 small scale enterprises.

1.2. STATEMENT OF THE PROBLEM
Poor people have no access to get Credit or Money for Self-Employment and lack of access to financial support are some of the major problems that prevail in the urban areas of the developing countries. As a result they cannot take credit from financial sectors like governmental and private banks. This forces them to borrow money from urban money lenders at exorbitant interest rates. All the above problems are manifestations of poverty in the developing countries including Ethiopia. Concerning these problems, various approaches and many innovative institutional mechanisms have been developed across the world in reducing poverty by providing credit and related services to enhance the access of house hold to financial service to poor. Now-a-days, poverty reduction is the main issue of developing countries and governments to pull out their people from poverty. MF has been one of the means developed with the purpose of helping the poor to escape out of the poverty. In many low income countries, the prevailing operation of the formal financial institutions is insufficient to provide sustainable credit facilities to the poor (Khandker, 1998). However, the credit provision of Omo Micro Finance Institution, in the Region as well as Hawassa Town, has not been well studied whether it does in fact reduce poverty in terms of income, asset and employment generation and plays all the roles intended to achieve. Omo Micro Finance Institution focused mainly on the performance and operation activities of the institution rather than assisting small scale entrepreneurs and the poor people in mitigating and alleviating abject poverty in the study area. These are to be considered as real problems of our case firm. Therefore, The Impacts of Credit Provision of Micro Finance Institution on Small Scale Enterprises Expansion, the case of Omo Microfinance Institution is the main focus of the study to find out the beneficiaries link to MFI for solving the problems of access as well.

1.3 OBJECTIVE OF THE STUDY
1.3.1 GENERAL OBJECTIVE
In consideration of the vital and critical role of Small Scale Enterprises in Poverty Alleviation in Rural and Urban area and their contribution to the growth policies of the Country, a detailed study on the structure and pattern of small enterprise has been found timely. The general objective of the study is to assess and identify the Provision of MFI Services to Small Scale Enterprise Expansion in relation to Credit Provision and finding out the feasible solution of the access towards microfinance activities and bring into light the problem faced by SSE operators.

1.3.2 SPECIFIC OBJECTIVES
The specific objective of the study is:-
a. To assess the Impact of Credit Provision of MFI in helping Small Scale Enterprises,
b. To assess the collection period flexibility of MFI to Small Scale Enterprises activities,
c. To identify the trends among Small Scale Enterprises in terms of ownership of assets, the Level of income and self-employment for livelihood improvement,
d. To assess MFI Credit Provision Sustainability to small scale enterprises and to poor people in urban areas,
e. Assess possible improvement etc so as to improve the delivery of microfinance services to Small Scale Enterprise and other poor people
f. To recommend over all directions to MFI to address the problems existing in small scale Enterprises

1.4. RESEARCH QUESTIONS
Parallel to the above objectives, the following questions whose answers are believed to clarify facts to analyze the contribution of MFI on market expansion of SSE are presented.
1. Does microfinance credit provision contribute to generate additional income, asset and employment to households?
2. What does the repayment of small scale enterprises credit provision look like?
3. What problems do small scale enterprises face in microfinance credit provision and Saving service?
4. What are the standards used by the MFIs so as to evaluate the credit provision to the clients?

1.5 SIGNIFICANT OF THE STUDY

- This study is undertaken to assess the impacts of Credit Provision and Related Services provided by the OMFI. It is also intended to study the constraints and limitations of Micro Finance Services to the Poor and identify the areas of improvement.
- In spite of the fact that OMFI has been undertaking its Credit Provision and Savings Programs for the working poor joining in Small Scale Enterprises in the Urban areas of SNNPR, there is no evidence whether the assessment program as well as the growth of enterprises operation in those areas has contributed to the development. This study, therefore, investigates the Institution’s Credit Provision in relation to Small Scale Enterprises to bring about Sustainable Development towards Urban Employment and Poverty Reduction.
- The findings of this study can be useful to help policy makers and Micro Finance Institution to make decisions regarding the betterment of the urban working poor and their Small Scale Enterprises.
- There are also other problems in OMFI such as lack of transparency to clients, poor service delivery, information mismanagement, weak client follow-up and consultancy, lack of strong control and monitoring mechanism, the short term of credit repayment, lack of providing training, and the low amount of credit provision to the clients. Even though all these problems are prevailing in the institution, no study was conducted to bring a solution to the problems. This study, therefore, was conducted to Bridge this Gap and to give possible Solutions to the Problems.
- The study was conducted to critically investigate the contribution of Omo Micro Finance Institution services on Small Scale Enterprises Expansion and to give suggestions and comments to aid Policy-makers in their decisions.
- There is no comprehensive and Authoritative literature conducted on OMFI Services on Small Scale Enterprises Expansion. This study is undertaken to fill the gap of literature review and reference material for students and all those who would like to pursue their studies. It can also serve the Institution, Government and the publics as a document. It can also serve as a source document to those who would like to pursue further investigation in the area.

1.6 SCOPE OF THE STUDY

The scope of this study is the Impacts Credit Provision of Micro Finance Institution On Small Scale Enterprises Expansion involving both primary and secondary from 2006 - 2010. This study was conducted in Hawassa City Administration which consists of 8 sub cities as beneficiaries of Microfinance credit provision services that has one branch covered in 32 kebeles and which consists of 2260 beneficiaries incorporated in 227 enterprises.

1.7 LIMITATION OF THE STUDY

The major limitation is the shortage of time in relation to the study area. Due to this, to assess the performance of OMFI and its current status requires longer time. However, there is acute shortage of time to cover the study area.

The other limitation of this study is lack of substantial literature on formal Micro Finance institutions in the study area (OMFIs with reference to Small Scale Enterprise). Third limitation is financial problem and paucity of data regarding the study.
2. REVIEW OF RELATED LITERATURE
2.1 THEORETICAL PERSPECTIVES
2.1.1. DEFINITION OF MICRO FINANCE
Shreiner (2001) defined microfinance as an effort to improve the access of loans and to saving services for poor people is a key development strategy for prompting poverty eradication and economic empowerment.

2.1.2. DEFINITION OF MFIs
MFI is an organization that provides financial service to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristics of providing financial services to clients who are poorer and more vulnerable than traditional bank clients (CGAP, 2010). Though by definition, MFIs provide financial services to the poor. They may also offer other services such as non-financial services as a means of improving the ability of its client to utilize financial services. However, there is still much debate in the field as to where the focus of the institutions should be offering only intermediation and other services (Ledger Wood, 1999).

2.1.3. DEFINITION OF MSEs
Small scale Enterprises remains one of the most reviewed in literature especially as its impact on all kind of economics can be overlooked. Worldwide, they are accepted as the engine of economic growth and fox promoting equitable development. The major advantage of the sector is its employment potentials at low capital cost. The rapid Expansion of Small Scale Enterprises in Economies of developed countries in the 1980s and 1990s has created a widespread conviction that small, new ventures are the most important source of entrepreneurship and as dynamic and innovative factor, they contribute directly to economic growth. (Pioty and Rekowsky, 2008).

2.1.2. HISTORY AND THEORIES OF MFIS AND MSEs
2.1.2.1. HISTORY OF MICROFINANCE
The decade of the 90’s has revolutionized the microfinance movement in many developing countries of Asia, Africa, Latin America and South Pacific. Microfinance has also come to be accepted unquestionably as the most effective intervention strategy to alleviate poverty even though the role of the financial system in poverty reduction remains as one of the under-explored areas in research. Over the years, substantial body of theoretical and empirical work has been attempted on microfinance.

2.1.2.2. THEORIES ON MSEs
At different times various theories were developed on the growth of MSEs. For instance Tambunnan (2006) developed two theories concerning MSEs: The classical and the Modern Theories. The classical theory states that the importance of MSEs development is positively correlated with poverty. Due to these short comings, the modern view theory emerged in 1980s. From the different countries evidence, We can say that MSEs have great potential to achieve the desired growth to reduce poverty, unemployment and income inequality in urban and rural area of the country they are also capable to increase the level of income of individuals and improving the living standards of the many Poor’s.

2.2. EMPIRICAL REVIEW OF THE LITERATURE
Microfinance is said to have brought positive impacts on the life of the clients. The empirical studies show that microfinance has positive impacts to boost the ability of poor people to improve the conditions in which they live. The argument is that through diversified sources of income, the people could be able to shield themselves against external shocks. Savings also allow poor individuals to plan for future expenses, cope with stochastic crises and cover unanticipated expenses. (Bares, 2001)

2.2.1. MICROFINANCE IN AFRICA
Africa microfinance is as diverse as the continent itself. An array of approaches have been used, ranging from traditional kinship networks Revolving saving and Credit Association (RSCAs) to NGOs and development projects, and found by the informal and formal financial sectors, as well as domestic and international and donors. (Calgagovksi.J.V.M.C.Germany and C.Hamphereys, 1991).

2.2.2. MICROFINANCING IN ETHIOPIA
The poor in Ethiopia are often self-employed in small scale Business due to lack of education and skill, and limited employment opportunities. The Ethiopian government has laid down a regulatory framework for the establishment of MFIs by issuing a proclamation No. 40/1996 that provide for the licensing and supervisions of MFIs. They are sponsored by regional governments, local associations, NGOs, and government departments.

**2.2.3. The Role of Micro Finance in Poverty Reduction**

**2.2.3.1 INCREASE IN INCOME**

The poor use financial services not only for business investment in their micro enterprises but also to invest in health and education, to manage household emergencies, and to meet the wide variety of other cash needs that they encounter. The large of services includes loans, saving facilities, insurance, transfer payments, and even micro–pensions (Murdock and Haley, 2002).

**2.2.3.2 BETTER NUTRITION**

Access to financial services also translates into a better nutrition and improved health outcomes, such as higher immunization rates. It allows poor people to plan for their future and send more of their children to school for longer. Similarly, microfinance has substantial effect on the nutrition and health of poor especially for children (Wright, 2000); in this case, microfinance can significantly increase the income of the poor households, which translate into better nutrition and health for impoverished families. The nutritional benefits are particularly felt by children.

**2.2.3.3 PROMOTING CHILDREN’S EDUCATION**

One of the first things poor people all over the world do with new income from micro enterprises is invest in their children’s education studies show that children of microfinance clients are more likely to go to school and stay in school longer. Student dropout rates are much lower in microfinance client households (Littlefield and Murdoch, 2003). Recent theoretical models routinely portray human capital investment (eg. education) as primary engine of economic growth.

**2.2.3.4 INCREASE EMPLOYMENT OPPORTUNITY**

As study of Share clients in India documented those three-fourths clients who participated in the program for longer periods saw significant improvement in their economic well being based on source of income ownership of productive assets, housing conditions, and household dependency ratio and that half of the clients graduated out of poverty. These was a marked shift in employment patterns of clients from irregular, low-paid daily labor to diversified source of earnings, increased employment of family members, and strong reliance on small business (Littlefield and Murdoch 2003).

**2.2. DEVELOPMENT OF MSEs**

In the 18th and 19th century, manufacturing industry took place in workers of cottage or small industry. Through the production process the industrial productivity motivated of labor and liked with the process of market availability (Halberg, 2000). Each member of the community receives the share of the total output in accordance with his/her status and in immemorial custom governing the distribution of income.

**3. RESEARCH METHODOLOGY**

**3.1 DESCRIPTION OF THE STUDY INSTITUTION**

This study is focused on the Impacts of Credit Provision of Micro finance Institutions on Small Scale Enterprises Expansion. The units of assessment that were applied in this study are the impacts of credit provision to SSEs in relation to their income, asset, self employment, access to education and medical service. This research Methodology section presents an overview of the methods that were used in the study such as: types and source of data, Research design, Target population, sample size, Sampling design, data collection instrument and data analysis.

**3.2. DATA TYPE AND SOURCE**

This study employed both primary and secondary sources for the collection of data. The primary data were collected through structured questionnaires from the sample respondents and by conducting interview for officials. The secondary data were collected from the journals, report, and magazines. In
addition, The Omo Micro Finance Institution /OMFI/ head office and its Branch office (Hawassa City) were instrumental in providing Secondary data in order to get some understanding of the credit beneficiaries (borrowers) in this study area. The present study has chosen six year of period, i.e. from 2006-2011 to evaluate the impacts of credit provision of micro finance institution on small scale enterprise expansion.

3.3. RESEARCH DESIGN
The Methodology of Study includes quantitative and qualitative approaches based on structured techniques of data collection by using descriptive analysis of existing situations. The research strategy that the study applied was the descriptive techniques. The descriptive study approach is chosen for this survey since it facilitates the identification and analysis of relevant data and variables. This approach tries to describe present conditions, events or systems based on the impression or actions of respondents of the research. Consequently, the research was designed to achieve the objectives set out by the researcher.

3.4 TARGET POPULATION
This study was conducted on OMFI, Hawassa branch which is provide credit for small scale enterprises. Eight sub-cities are the target population of the study. The total population of the study is 2260 members who were consisted of 227 enterprises. The target group of this study is 621 members those incorporated in 112 (49.33%) enterprises of Hawassa city /HCOMFI, 2011/.

3.5. SAMPLING DESIGN
This study adopts the sampling methods to conduct the research in three sub-cities of Omo Microfinance credit beneficiary in Hawassa city. Three sub-cities (Menaheria, Tabor and Misrak) are selected for the collection of primary data, because Menaheria sub-city has got highest number (511) of beneficiaries, Tabor sub-city has got average numbers (237) of beneficiary and misrak has got the least number (106) of beneficiaries in Hawassa city. All the beneficiaries in three sub-cities are sampled by using simple random sampling method for the purpose of this study. The sample beneficiaries (target groups) is divided in such away they are proportionally represent from all groups depending on their social back ground.

3.6. SAMPLE SIZE
During the survey time there were 63 enterprises in the food processing sector, 14 enterprises in the construction materials production work sector and 35 enterprices in metal and wood work sector, totally 112 enterprises consisting of 621 members as the sample of study population. Among these, 10 enterprises were selected from the food processing sector, 6 enterprises were selected from the construction material production sector, and 19 enterprises were selected from the metal and wood work sector, totally 35 enterprises (31.25% of total enterprises) included in the study from three sampled sub-cities (Menaheria, Tabor, and Misrak). The desired sample size of this study is 133 which constitute 21.42% of the study population.

3.7 DATA COLLECTION INSTRUMENT
The primary data were collected with questionnaires and interview

3.7.1 QUESTIONNAIRES
The data were collected by means of self-administered questionnaires. The questionnaire was both close-ended and open-ended questions. These questionnaires have been distributed to selected enterprises members in Hawassa city by the researcher. The respondents were asked to circle the choice that provided under close-ended questions and give comments for open-ended questions.

3.7.2. FOCUS GROUP DISCUSSIONS (FGDS)
The focus group discussions held with selected individual from SSEs, OMFI head and sub branch Officials. In this regard important and selected issues, from semi-structured questionnaires and site observations were raised from the focus group discussions were regarded with written notes and recording device to summarize the information for analysis. Personal observations were also made on the residence of selected respondents and the working sites of the SSEs. The researcher has to use basic questions related the credit Provision of MFI to guide the discussion with the selected members of the focus group discussions.

3.8. DATA PROCESSING AND ANALYZING
The data collected through the questionnaires were systematically analyzed out using different comparison techniques like, percentages, and mean value methods. In addition to these methods, some tables were also used to analysis data which was collected from various sources. The data was analyzed using descriptive statistics (like percentages, mean values, and standard deviation). Qualitative tools were also used to analysis some attitudinal and perceptual data. The qualitative data collected through interviews, on-site-observations, and through focus group discussion were analyzed and results were incorporated with quantitative results and the conclusion of the study.

Descriptive statistics were used as the first step in the analysis to describe relevant aspects of observable facts about the variables and provide detailed information about each relevant variable and to gain answers to the research questions. The data collected were analyzed using the computer software known as statistical package for social science (SPSS) and for data representation tables and graphs were used.

4. RESULTS AND DISCUSSION
This chapter is concerned with the examination of the field survey on the impacts of credit Provision of Omo Microfinance Institution on Small Scale Enterprise Expansion in three sub-cities of Hawassa city. During the survey, an attempt was made to assess the existing situation of the sample respondents for searching the real picture of the enterprises and the livelihood of the members.

4.1. ASSESSMENT OF THE CREDIT PROVISION OF SMALL SCALE ENTERPRISES
As table 4.1 Reveals that Credit provisions is an important instrument that can be used effectively when it is given to credit worthy among the economically poor people. In this regard, respondents were asked their access to received credit from other source previously. So, 53 respondents which is constituting 39.8% had access of other sources and 80 respondents which accounts 60.2% responded that they had no other sources of credit. This indicates that for almost more than 60% enterprises members, OMFI is the only source of credit for their enterprise. Accordingly, to indicate the time of having access to credit from other sources, 3 respondents which accounts 5.7%, 5 respondents which accounts 9.4%, 31 respondents which accounts 58.5%, and 14(26.4%) respondents responded that they were received credit from the other sources in the time period between 1985-1990, 1991-1995, 1996-2000, and 2001-2004 respectively. The overall average amount of credit received from other source is 66540 birr per work/job sector.

<table>
<thead>
<tr>
<th>TABLE 4.1.ASSESSMENT OF THE CREDIT PROVISION OF SMALL SCALE ENTERPRISES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of small scale enterprise</td>
</tr>
<tr>
<td>Access to credit from other sources (%)</td>
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<tr>
<td></td>
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<tr>
<td>Time of having access to credit from other sources (%)</td>
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<tr>
<td></td>
</tr>
<tr>
<td>Amount of credit received from other Institutions (Mean ±Std.Dev.)</td>
</tr>
<tr>
<td>Sources of credit (%)</td>
</tr>
</tbody>
</table>
In light of this, the previous study dealing with Ethiopian microfinance institution indicated that most of the institutions did not give these service and they considered this as a major challenge for MFIs; and they all commented that this issue should be improved and they point out so many things that the MFI should provide.

Table 4.1 above indicates that almost all beneficiaries, 114(85.72%) respondents have been benefited from the credit scheme. This implies that the credit scheme to poor people in urban area has a great race in reduction of poverty. Accordingly, 19(14.28%) respondents depicted that they have not been benefited from the credit. Because the short term of repayment affects their business have not to being beneficiary from the credit. This indicates that microfinance institution should adjust the repayment period and the credit amount.

As a table reveals about adequacy of credit provided by OMFI to run their businesses, of 37 respondent which accounts for 27.8% said that the amount of loan taken from OMFI is adequate (sufficient) to run their business effectively. Whereas, 96 respondents which is constituting about 72.2% of the total respondents claimed that inadequacy of loan size to run their business. This indicates that the credit provision is not sufficient enough for enterprises’ business to run their operation effectively. Therefore, OMFI should adjust the credit amount that offer to SSEs business /beneficiaries.

4.2. SAVINGS CONDITION OF SMALL SCALE ENTERPRISES
It is obvious that people make saving of cashes for uncertainty in the future in which their lives would be put in miserable conditions. The data extracted from members of the small scale enterprises reveals
the same reality. So, 82.7% the total respondents, who make up most of the votes, testified that saving was part of their daily lives. The results found regarding saving practices of the people indicates that across each enterprises saving has been dominantly practiced because such a habit is marked by at least 75% of the individuals who have been hosted under the small scale enterprises engaged in food processing, gravel production, precast and block production, and metal & wood work sectors.

During the survey administration, respondents were asked where the sources of their savings were and it was found that members of the targeted small scale enterprises make their savings from the money collected or earned from the enterprises, lenders, and friends or from other sources. According to the data placed on table 4.2, the enterprises themselves, were found to be the out weighing sources of income for the savings of their respective members. The overall figure shows that about 72.8% of the respondents gave their responses as if their respective enterprises served them being the source for the saving they make.

This reveals that the small scale enterprises have been serving their respective members as sources of income on the one hand and the means to make their savings on the other hand. This indicates the progressive contribution of the collaborative efforts of microfinance and small scale enterprises’ development because majority of the enterprise members wouldn’t otherwise get jobs, income and the sources of saving.

<table>
<thead>
<tr>
<th>TABLE 4.2. SAVINGS CONDITION OF SMALL SCALE ENTERPRISES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of small scale enterprise</td>
</tr>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>FP N=33 GP n=16 PB n=8 MW n=76 Overall N=133</td>
</tr>
<tr>
<td>Personal cash savings (%)</td>
</tr>
<tr>
<td>Yes 90.9 30 93.8 15 100 8 75 57 82.7 110</td>
</tr>
<tr>
<td>No  9.1 3 6.3 1 0 0 25 19 17.3 23</td>
</tr>
<tr>
<td>Source of money for savings (%)</td>
</tr>
<tr>
<td>Income from enterprises 81.2 26 70.6 12 33.3 3 75 45 72.8 86</td>
</tr>
<tr>
<td>Borrowed from money lenders /friends/ 0 0 0 0 44.4 4 1.66 1 4.23 5</td>
</tr>
<tr>
<td>Income from other source 18.8 6 29.4 5 22.2 2 23.3 14 22.8 27</td>
</tr>
<tr>
<td>Place of Saving (%)</td>
</tr>
<tr>
<td>At OMFI saving account 68.3 28 86.7 13 77.8 7 60.7 37 67.5 85</td>
</tr>
<tr>
<td>In the formal Banks 17.1 7 0.0 0 22.2 2 31.1 19 22.2 28</td>
</tr>
<tr>
<td>In the form of asset /In kinds/ 7.3 3 0.0 0 0.0 0 4.9 3 4.8 6</td>
</tr>
<tr>
<td>Equb 7.3 3 13.3 2 0.0 0 3.3 2 5.6 7</td>
</tr>
<tr>
<td>Purpose of Saving (%)</td>
</tr>
<tr>
<td>For loan repayment 17.7 14 26.3 5 40.0 6 31.0 31 26.3 56</td>
</tr>
<tr>
<td>To undertake a new business 22.8 18 5.3 1 46.7 7 21.0 21 22.1 47</td>
</tr>
<tr>
<td>For safety purpose from theft and loss 15.2 12 0.0 0 0.0 0 16.0 16 13.1 28</td>
</tr>
<tr>
<td>For personal consumption 3.8 3 0.0 0 6.7 1 2.0 2 2.8 6</td>
</tr>
<tr>
<td>To earn interest 5.1 4 0.0 0 0.0 0 6.0 6 4.7 10</td>
</tr>
<tr>
<td>For the time of uncertainly 27.8 22 57.9 11 6.7 1 17.0 17 23.9 51</td>
</tr>
<tr>
<td>Other 7.6 6 10.5 2 0.0 0 7.0 7 7.0 15</td>
</tr>
</tbody>
</table>

FP = Food Processing; GP= Gravel Production; PB= Precast/ Block; MW= Metal and Woodwork
* is the frequency of values; % refers to the percentage
Source: Data from the questionnaire

The overall figure shows that more than two-third of the total the respondents testified that their savings were made upon the lending institution, the OMFI. This implies that most of these people were either on the duty of repaying their loan borrowed from the OMFI or fulfilling the rules and

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regulations of the institution for making compulsory saving until they gain clearance from the institution and this money would later serve the enterprise and its respective members as a good source of capital for expending their businesses. The remaining overall values 22.2% & 4.8% are attributed to the formal banks and homes as the places of voluntary savings. The lesser the enterprise members willingly make their savings in banks and at home, the lesser security they would be feeling in the times of uncertainty since the compulsory savings wouldn’t be easily withdrawn during hard times. The sector-wise data disaggregation also reveals that greater majority of the respondents have had a very recent borrowing experience in the hither to study period.

4.3. LOAN REPAYMENT AND INTEREST RATE CONDITION

Most of the time, enterprise find the loan repayment intervals being very cumbersome and strangling duties of their involvement with the micro financing institutions where as others argue the benevolence of short span repayment periods. According to the survey results provided on table 4.3 a monthly based loan installment interval was found to be the most practicable time interval in the loan repayment of the enterprise. About 79.7% of the respondents figured out the fact that they make their loan repayment in every month while the remaining 8.3%, 9% and 3% of the enterprise members responded about experiencing installment time interval of a quarter, a year and a week respectively.

**TABLE 4.3 LOAN REPAYMENT CONDITION AND THE INTEREST RATE**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Type of small scale enterprise</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FP</td>
<td>GP</td>
</tr>
<tr>
<td>Time interval of installment of the loan (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weekly</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>93.</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>73.</td>
<td>5</td>
</tr>
<tr>
<td>Monthly</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>50</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>73.</td>
<td>4</td>
</tr>
<tr>
<td>Quarterly</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Semi-annually</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Annually</td>
<td>6.1</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Suitability of repayment period set by OMFI (%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>66.</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>33.</td>
<td>1</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>50</td>
<td>4</td>
</tr>
<tr>
<td>The interest rate (%)</td>
<td>33.</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>42.</td>
<td>1</td>
</tr>
<tr>
<td>High</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>24.</td>
<td>12.</td>
</tr>
<tr>
<td>Medium</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Fair</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Low</td>
<td>13</td>
<td>4</td>
</tr>
<tr>
<td>Appropriate interest rate recommended (Mean ± Std. Dev.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(22)</td>
<td>(2)</td>
</tr>
</tbody>
</table>

FP = Food Processing; GP= Gravel Production; PB= Precast/ Block; MW= Metal and Woodwork

f* is the frequency of values; % refers to the percentage

**Source: Data from the questionnaire**

The respondents were forwarded questions whether the interest rate was fair, medium, high or low. The results found indicated that there was no any single majority exceeding the 50%; because, the
overall percentage figures up on the interest rate were 30.1%, 47.4%, 20.3%, and 2.3% which were attributed to “high”, “medium”, “fair”, and “low” respectively. The comparative highness of values in the ‘medium’ category is the composite of factors such as the suitability of the period and conditions of the loan repayment.

The appropriates of the interest rate was further dealt by requesting the exact rate of interest that should be put into place where it comes very much favorable among all the enterprise members. According to the data presented on Table 4.3, it was found that the enterprise members suffering from higher interest rates would prefer if the interest rate is being 7% despite the deviation of this value from the mean values is being 12. The interest rates recommended across the different enterprise types had mean values of 4% food processing and metal and wood work enterprise where as the precast and block producers unanimously favored the interest rate to be 6%. The food processing small scale enterprises recommended that the interest rate to be 13%. The varying interest rates proposed by the enterprise members indirectly reveals the current performances of those enterprises and the difficulty of repaying the loan. Therefore, the food processing enterprises were found to be better off with regard to performing in the business environment. Whereas the metal and wood work and gravel producers were found to be suffering from the pressure higher interest rates.

**TABLE 4.4 TWO-TAILED PEARSON CORRELATION TEST**

<table>
<thead>
<tr>
<th>Benefits attained after borrowing of the credit</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>The level of current personal/family income against the past</td>
<td>.246**</td>
<td>0.005</td>
<td>131</td>
</tr>
<tr>
<td>The current Access to health service for enterprise member/ his family against the past</td>
<td>.219*</td>
<td>0.012</td>
<td>132</td>
</tr>
<tr>
<td>The current Access of the enterprise member/ his family to education compared with the past</td>
<td>.194*</td>
<td>0.027</td>
<td>129</td>
</tr>
<tr>
<td>The current Ability of the enterprise member/ his family to Balanced Diet compared with the past</td>
<td>0.13</td>
<td>0.138</td>
<td>131</td>
</tr>
<tr>
<td>The current Access of the enterprise member/ his family to Clean Water compared with the past</td>
<td>0.208*</td>
<td>0.017</td>
<td>132</td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).
* Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS Processed data

The correlation results found and presented on table 4.4 signifies that from the set of benefits attained after borrowing, most of the positive changes and improvement happened the lives of the enterprise members at the household level can be attributable to the fact that they are being embraced by the
saving and credit schemes facilitated for the small scale enterprises of the Hawassa city where OMFI is being the source of finances/the credit. The correlation of positive changes observed in the lives of the respondents was compared with a set of variables representing improvements in the lives of the enterprise members and their families. The variables dealt here were the change in income, health, education, and other household utilities. The correlation between benefits attained after borrowing vis-a-vis the increase in income was found to be 0.246 marked by a double star, which implies that the likelihood of relationship between them seem very strong and positive since the strength of relationship existed between the two was estimated at 0.01 level. This means, the more the enterprises, members get benefited from micro financed enterprises, the better the household incomes can become in terms of covering the domestic expenses and contribute to the increase in personal cash savings. The health conditions of the enterprise members and family members have shown remarkable progress following the post-borrowing period. The correlation value of 0.219 in table 4.10 reveals that the strength of relationship between the household health condition and borrowing was found to be significant and positive as well. It doesn’t mean that the enterprise members don’t fall ill rather, the ability they acquired in economic terms has enabled them cover all the health related dues. The current educational attainment vis-a-vis the past has shown encouraging results in the post-borrowing period, as 0.194 of the possible correlation existed between education and positive changes attained after being embraced by the OMFI’s credit and saving scheme: despite the educational attainment of respondents beyond the high school levels was non-existent, the positive coefficient for the direction of the relationship signifies that the small scale enterprise members/households educational attainment has shown a relative improvement in terms of upgrading levels from the elementary to secondary school levels or improving the access of family members to education. The above correlation results have tried to affirm the fact that the small scale enterprise members have managed to see changes in their lives which are positively related with their borrowing. Furthermore, the post-borrowing period positive changes were also more likely to be attributable to their engagement in OMO micro – finance institution supported small scale enterprises that wouldn’t otherwise happen or become better this much the way if was attained.

5. CONCLUSIONS AND RECOMMENDATIONS
5.1 SUMMARY OF FINDINGS
This study is focused on the Impacts Credit Provision of MFI on SSEs Expansion on economically poor people. So, from this survey the main results can be identified below.

- The results of study revealed that the beneficiaries were able to improve the livelihood of themselves and their family members. Coming across different literatures, the working definition of livelihood throughout this study include: income, health care, education service, asset ownership, personal consumption/diet, and self-employment.

- The operation of small-scale enterprises have the constraints of infrastructure which hinder the enterprise effective performance of their future development and the challenges that encounter during the involvement of their operation were multi-dimensional and emanated from different sources. The frustration emanates from the problems encountered and the gaps between expectation and attainments becoming unsatisfactory among most of the enterprises members.

- As the correlation test signifies that the microfinance service was found to have strong positive effect relationship with self-employment, income generation/gained and sources of income widened, asset accumulation and the booms in the total expenditure of the enterprises members.

- As the results of study showed, the difficulty of getting access to credit given by Omo microfinance institution is found to be one of the major problems due to the complication of the loan provision process, prolonged time it takes, low amount of credit provision, high rate of interest, and the request for guarantee/collateral, besides the trend of follow-up or monitoring mechanism, the short term of credit repayment, is not satisfactory.
The major results of this survey revealed that when poor people have access to financial services, they will be able to progressively increase their income, savings and investment through self-employment that pull out of poverty through the time.

5.2 CONCLUSION

Micro financing has not yet been accepted universally as formal financial services render. However, the practice is widely spread with several countries accepting it as a strategy for poverty alleviation. Ethiopia is one of this new strategies using country. Although the microfinance has an essential place in the economic development, there are quite number of problems to be addressed. Poverty and unemployment are the two basic problems that hunt the poor for want of linkage between agriculture and industries sector of the economy. Microfinance is considered as a push factor that enables the poor to work their way out of the poverty.

So, small scale enterprises occupy an important place in the Ethiopian economy, at least, in the terms of the employment and the income they provide, more so in urban areas. Most of the time many of the poor are either unemployed or even employed, they are the least paid or participated in activities which are unprofitable. It is possible to make these people more productive by providing financial services. The existing MFIs are minimalist in their approach in the sense that they only provide financial services and promote the productive capabilities of the poor and enable them to satisfy their needs better through participation in their own activities. By creating employment opportunities for the poor and increasing capacities for those with no working capital, the institute has contributed positively to generate income, improved access to medical and educational services. In addition to this, those borrowers who took credit for relatively longer period of time have benefited more from those who took credit for short period of time.

Microfinance is becoming not only as a development tool for many developing countries by providing financial services in rural and urban areas, but also it is an effective method of poverty alleviation. Hence, microfinance credit is designed to provide credit for poor to create income generating activities there by contributing towards poverty reduction. The impact of microfinance credit provision has been assessed in this study by comparing the situation of beneficiaries before and after being beneficiaries in the program. The contribution was assessed by using various indicators of economic and social aspects such as income condition, saving condition, employment creation conditions, access to education and access to medical services.

The assessment has shown that there exists a huge demand for credit for working capital and long term investment, especially from growth oriented SSEs and both the quantitative and qualitative results of the study shown that an improvement in the condition of the members following the receipt of microfinance credit and involved in the umbrella of their respective SSEs.

Based on the findings, focus group discussions as well the key informants interviews found and confirmed the correlation tests, the growth and the future expansion of smalls scale enterprises could be affected by the multifaceted problems which might hinder the enterprises from achieving their objectives. Moreover, the constraints may led to a situation where many SSEs not to be sustainable in the long run. So, the study indicated that the nature of SSEs’ business requires efficient and flexible lending policies and procedures on the part of the lending institution.

5.3 RECOMMENDATIONS

Considering the well recognized importance of SSEs in job creation, income generation and poverty alleviation, the government institutions, NGOs, MFIs and AEMFI/all stakeholders have the responsibility to make effort to remove the constraints that stand on the development path of the SSEs, especially those with the potential to grow and contribute more to the national economy. Hence, the institution also should have to adjust itself with the changes of the environment. Based on the study findings above the suggestions are provided, hoping that they will be helpful to alleviate or at least to minimize the problems that associated with microfinance credit provision to the SSEs. Therefore, the following recommendations are recommended for better performance and achievement of the institution to its effectiveness and future development.
1. Regarding sufficiency of the loan amount to meet the demand of beneficiaries, it has already been reported that the amount of loan taken from OMFI is insufficient to run the business effectively. Therefore, the size of the loan provision per head should be increased to the reasonable amount.

2. Funds for repaying loans are obtained from the returns on investment, but obtaining return on investment usually takes time. Thus, the repayment period should be adjusted so as to match the time to get return on investment.

3. The institution should note that extending credit alone is not sufficient condition to reduce poverty and increase the living standard of economically active poor. So, additional interventions that go hand in hand should be implemented, i.e. aggressive work on skill development and credit management training to assist beneficiaries had better manage their loans. This will ensure that the borrowers are equipped with necessary skills to enable them to use their resources effectively and more productively.

4. The study revealed that frequent beneficiaries those who took credit relatively for longer period of time have benefited more from new beneficiaries/borrowers those who took credit for short period of time. So, the institution should also provide long term access to credit facilities to clients because its contribution cannot be seen in a short period of time due to vulnerability and high pressure of poverty that threatens the effectiveness of the credit's contribution.

5. To ensure sustainability in poverty reduction and transform to development, MFIs should diversify or modify their products/services for SSEs development and to be productive, delivery of such services/products should be designed in a cost effective way.

6. From what has been discussed so far, it is clear that MFIs are not responsive enough to meet the needs of SSEs to the level expected. There is need for new products and/or refining the existing ones to better reach and serve the SSEs for them to flourish and contribute more to reduction of poverty and national economy. So, MFIs should refine existing financial products and develop new ones based on the assessment of their financial needs.

7. According to findings of the study, one of the series problems faced by SSEs was lack of working place for its operation. The government agencies, therefore, should provide plot of land where they operate. Moreover, it should facilitate market for SSEs operators to sell their products.

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