

Does Microfinance Really Help the Poor? Evidence from rural households in Ethiopia

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Abstract

The role of financial institution expansion in growth and poverty alleviation in developing countries has received a lot of attention in the literature over the last two decades. The primary goal of this study was to determine whether the provision of microfinance services resulted in changes in clients' living standards in Ethiopia. To assess this effect, the researchers collected primary data via questionnaires from 351 randomly selected respondents from five districts of OCSSCO (Dambi Dollo, Nekemte, Ambo, Jimma, and Woliso). The data collected was analysed using both a descriptive and a logistic regression model. Based on the result of the findings, the researchers concluded that the OCSSCO is successful in improving the living standards of poor households and plays a significant role in poverty reduction. However, respondents identified a lack of adequate client training, follow-up and supervision of each household's activities, a lack of sufficient lending amount, and a high imposed lending rate as some of the main problems. According to binary regression output, access to microfinance institution (OCSSCO) loan significantly increased amount of household annual income, household annual saving, livestock of households, food security and diet intake, and household cash crop. Because the majority of clients indicated that the loan amount and period was insufficient to run their business, OCSSCO should make an effort to increase the loan amount and period for its clients in relation to the size and type of business.

Keywords: OCSSCO, Microfinance, rural households, poor, poverty-reduction, living standard improvement

1. INTRODUCTION

The services of microfinance in poor rural household community have the major role to eradicate poverty by enabling the farmers to use modern inputs and supplying these input for their agricultural work and responsible to avoid this difficulty by providing financial service for those individual household in order to upgrade their living standards (Alam & Azad,

2021). Various micro finance institutions (MFIs) are now serving as part of Ethiopia's poverty reduction plan by providing much-needed financial services, mostly to the informal sector, which would otherwise rely on exploitative moneylenders. One of MFIs operating in Ethiopia is Oromia saving and credit share company (OCSSCO), which targeting to fill the gap of commercial banks and other financial institution which do not serve poor people

due to high collateral requirement and therefore the poor need another source of credit services (Geleta et al., 2018).

Providing affordable financial services to the rural population still remains to be an important component of development strategy in Ethiopia (Alemu, 2015). In line with this the major objective of the OCSSCO is improving the living conditions of rural households through mobilization of saving and provision of credit. Hence, it is expected that the income of clientele households would increase. According to a growing collection of empirical studies cited in (Chirkos, 2014), Microfinance has a favourable impact on poor people's ability to better their living situations. Previously conducted studies point out that the poor have taken advantage of increase their incomes by start-up new venture or expand the existing ones to improve consumption levels, send their children to school, and build assets. According to United Nations Office of Special Adviser on Africa (2013) cited in Nigusu Abera & M Asfaw (2019) "when properly harnessed and supported, Microfinance can economically empower individuals and small enterprises and enable them to contribute to and benefit from economic development", currently most developing countries target is enabling poor to economically empower through microfinance institutions, "Poverty reduction has been a concern of developing countries through emerging microfinance industry" (Ramanaiah & Gowri, n.d.).

Some anecdotal observations on the ground, however, show that there are mixed influences of credit provisions on the incremental income of the clients. From the point of view of Dr Martina Mutheu in cited (Benti, 2019), "Most of the credit given to the target segment is used to finance saturated business activities whose margin of return is far less than what is charged on the borrowed funds, the outcome is a deficit, pushing the borrower further into debt and in effect making him poorer", in addition to this argument "micro- credit

increases poverty by increasing debt and that husbands use their wives as conduits to secure loans (Gelaw & Dawa, 2019). Hence according to these scholars microfinance alone play minor role towards altering the problem of the poor. Adding to these, (Ayele, 2014) opined that rather than achieving long-term living improvements of household, access to credit from microfinance only means temporary consumption flattening with a risk of being stuck into debt for poor households.

Hence, having the above gap, by combining and studying critical aspects connected to MFIs' involvement in improving households' living conditions, this study aims to fill a knowledge gap and presumes enormous value for the area. The major question to be answered is whether this microfinance service significantly contributes to increment the income of household.

In light of the overhead discussion, the main assessment queries to guide the study are as follows:

1. What are the practices of OCSSCO in providing financial services?
2. To what extent the client standard of living was improved after the loan service by OCSSCO?
3. To what extent client are able to reimburse their loan on time without any difficulty?

1.1 Objective of the Study

The objective of this study is to assess whether microfinance institution (OCSSCO) playing in enhancing living standard by reducing poverty of rural households in Ethiopia.

1.2 Significance of the Study

This study was conducted to point out the existing operation of OCSSCO towards its impact on reducing rural household poverty, therefore the results of this research will assist the rural households (for both client of OCSSCO and non-client of OCSSCO) in order to understand the existing opportunity for them and utilized this opportunity and then improve their living standards. For policy makers this

research will benefit in order to undertake proper microfinance policy in the manner of supporting rural development or over all country development by providing comfortable microfinance services for their clients. Additionally, this research also may have a significance for other individuals and organization who wants to conduct further study concerning on this topic.

2. REVIEW OF RELATED LITERATURE

Poverty is highly affecting the life's of the population of Less Developed Countries (LDCs) in general and that of rural people in particular. High vulnerability, lack of balanced diet, lack of education and medical services, less participation in different decision-making activities are some of the major problems the rural people faced (Tarozzi et al., 2015). To overcome these and other related socio- economic problems, micro finance Institutions (MFIs) targeted the poor in general and the rural people in particular. The most important role of microfinance institution is to offer financial intermediations and financial services to the poor; this involves the transitions of capital or liquidity from those individual who have surplus fund to those who are deficits of funds at similar time (Geleta et al., 2019). According to Ledgerwood (2006) cited in Alemu (2015) "If I were asked to suggest the best possible means of lifting people, especially people from developing countries from financial and social poverty without any confusion I would states that it is through the provision of soft and well managed loans from the community of microfinance institutions". It is expected that microfinance services create employment opportunities, increasing income, enhancing empowerment and in aggregate improve the livelihood of the poor by generating access to valuable capital for the poor (Alam & Azad, 2021). Adding to this, they opined that by giving that material capital to a poor

person, their sense of self confidence and social acceptance is improved and this can help to empower the person to contribute in the economy and society. Hence, the main objective of this study is to find out whether the provision of microfinance services has brought changes on the living standards of clients in Ethiopia.

2.1 OCSSCO and Rural households in Ethiopia

Ethiopian microfinance institutions are emerged in recent years to achieve the development goal. As a matter of fact the objective of microfinance in Ethiopia is to provide financial services by reaching limited access with formal financial sectors to the poor household and to make poor to let the poor save their money from their profit for long term financial stability. Micro finance institutions started operations in the country following the issuance of Proclamation No. 40/96, which regulates the businesses of micro finance in the country. The National Bank of Ethiopia, that is the licensing authority, has since then been issuing a number of guidelines that underpin the operation of micro finance institutions in the country. The major target groups of most of the MFIs operating in urban areas are women while the lion's share of the target groups are men in rural areas. These institutions have been trying to enlarge their client and area outreach for the last almost two decades (Aregawi et al., 2019). Among these institutions Oromia credit and saving share company (OCSSCO) is one of the institution that functioning to alleviate poverty in the state, OCSSCO began operations in 1997 the access to credit institution is not yet sufficient in the country; and similar to different microfinance institutions in Ethiopia, currently Oromia credit and saving share company (OCSSCO) is improving the economic status of the region by increasing access to finance to poor households particularly in rural area of the region (Gebru, 2011).

The major purpose of OCSSCO is to improve the economic position of low-

income, productive impoverished people in the Oromia region, primarily through expanded access to lending and saving services (Bekele, 2013). It will maintain cost effectiveness in service delivery, and integrates its activities with government

and NGOs working towards achieving food security and poverty alleviation in the region” (Dar 2004, 4). OCSSCO is working on sustainable development goal by increasing the living standard of poor and absolute poor in the region.

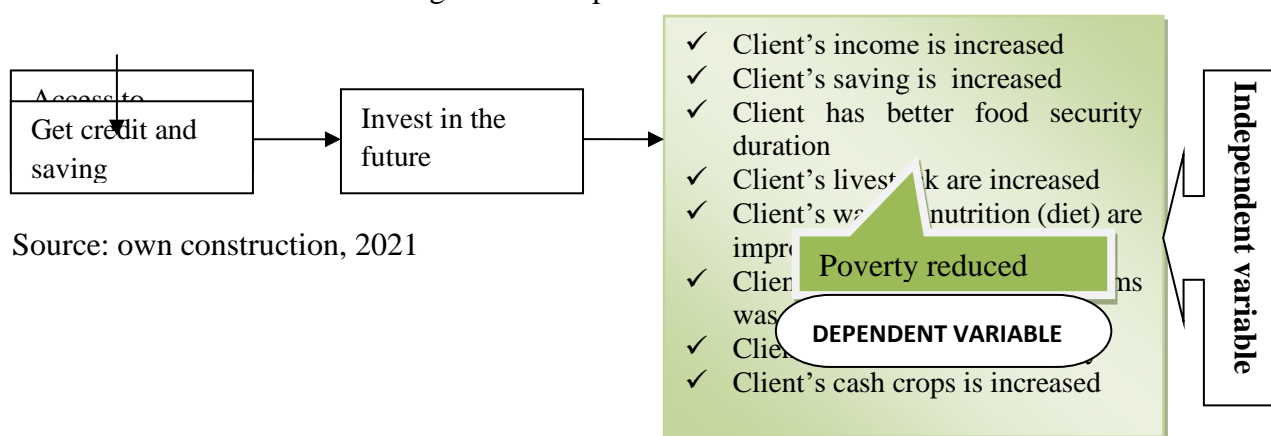
Table 2.1: Summary of empirical literatures in Ethiopia

Author(s)	Title	Methodology	Major finding
(Geleta et al., 2019)	analyzing the impact of credit on rural household income in Cheliya District, West Shoa, Oromia, Ethiopia	<ul style="list-style-type: none"> ➤ questionnaire was distributed to 188 sample households ➤ stratified and simple random sampling techniques ➤ both descriptive statistics and logistic regression model 	Household heads’ sex, education level, cultivated land size, livestock holding and frequency of extension contact positively and significantly affected the rural household’s income; while dependency ratio affected their decision negatively and significantly.
(Alam & Azad, 2021)	Microfinance's Impact on Women's Income and Employment in Jigjiga, Ethiopia	Questionnaires collected from 146 active clients and analyzed both in descriptive and logit model	Microfinance credit has a positive impact on women's income creation and employment rates.
(Tarozzi et al., 2015)	The Impacts of Microcredit: Evidence from Ethiopia	data from a randomized controlled trial conducted in 2003–2006 of time series	the impact of increasing microfinance access on a variety of socioeconomic outcomes, including agricultural income, animal husbandry, nonfarm self-employment, labor supply, education, and women's empowerment indices
(Siyoum et al., 2012)	The differential impact of microcredit on rural livelihoods: district of Ebinat, northern Ethiopia	A survey of 106 households was conducted, as well as a series of 18-monthly in-depth interviews with 15 households.	Results show that Credit did not help impoverished households escape poverty or food insecurity, but it did help better-off and labor-rich households improve their living conditions.
(Teferi, 2011)	A study on impact microfinance	panel data	When compared to those who do not have access to these microfinance services, the loan supplied to the

	on poverty reduction in Northern Ethiopia		needy has had a favorable influence on the lives of the clients.
Kebede, et al. 2002	Influence of Micro-Finance Services on Farm Households Income: OCSSCO Kuyu Branch, Ethiopia	binary logit model	Proper utilization of the disbursed loan, average loan size, appropriateness of loan disbursement schedule, and access to required amount of loan were found to be significant factors influencing the incremental income of the clientele.
(Abera & Asfaw, 2019)	Impact of Microfinance on Rural Household Poverty in Ethiopia	Descriptive method, by collecting data from household through questionnaires.	The findings of this study suggested that MFIs employ people to better their living situations. According to this study, the poor have used rising incomes to enhance their consumption, send their children to school, and acquire assets. Microfinance, according to the report, enables underprivileged people to boost their income by launching new businesses or growing existing ones.
(Alemu, 2015)	Micro financing and Poverty Reduction in Ethiopia	descriptive statistics (like Chi-Square, Paired T-test and ANOVA) and Logistic Regression	The clients were using the loan for unanticipated reasons, according to the findings of the investigation. Clients were also found to be lacking in technical abilities, making it difficult for them to engage in more lucrative commercial activities. As a result, OCSSCO's present services, in addition to loan providing, should emphasize business training skills to assist the poor in moving beyond day-to-day survival and planning for the future.
(Ewunetu, 2011)	Microfinance: Does it Support Households to achieve an Income above Self-Sufficiency? Evidence from Rural Northern Ethiopia	Using data from two rounds of regional representative household surveys (2006 and 2010)	the researcher finds consistent evidence of a causal effect of Microfinance participation on lowering child malnutrition and boosting yearly per capita consumption spending. More crucially, the research revealed that the poorest of the poor in Tigray gain more from the Microfinance loan program than the moderately impoverished rural households.

(Benti,2019)	How Effective is Microfinance on Poverty Reduction? Empirical Evidence on OCSSCO (Ethiopia)	Used questionnaires and analyzed by Descriptive research design.	Based on the strategy of poverty eradication, microfinance institutions are playing significant role on the reduction of poverty and increase source of income by providing financial services, such as saving and credit to rural poor household society particularly poor women household.
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Fig 2.1: Conceptual Frameworks



Source: own construction, 2021

3. METHODOLOGY

Both descriptive and explanatory research design is employed. The total population considered under this study is the total loan active clients of OCSSCO from in five main

districts (**Dambi Dollo, Nekemte, Ambo, Jimma, and Woliso**). These are 13,623 loan active clients from all three districts as of June 2021. By using Yamane (1967) formula the sample size is:

$$n = \frac{N}{1+N(e)^2}, \quad n = \frac{13,623}{1+13,623(0.05)^2} = 389$$

Based on estimated sample, 389 active clients of OCSSCO from these five districts

were selected through strata sampling technique.

Table 3.1: proportionate sample size selected from each stratum (districts)

Districts	Active clients	Sample size
Nekemte	3,627	103=(3627/13623*389)
Woliso	2,415	69=(2415/13623*389)
Dambi Dollo	2,154	62=(2154/13623*389)
Jimma	2,879	82=(2879/13623*389)
Ambo	2,548	73=(2548/13623*389)
Total	13,623	389

Source: OCSSCO and compiled by the researcher, 2021

The study was survey research; Primary data was obtained from questionnaire (both open-ended and closed-ended

questionnaire), which is actual information obtained from respondents, by distributing structured questioner to the active clients of OCSSCO. In the questionnaire, the researcher tried to combine the numerical questions as well as some non-numerical questions. Thus, the result of the research depends on numerical and non-numerical analysis, using both quantitative and qualitative methods. Further, interviewing and observation was applied to validate data obtained using the questionnaire survey.

3.1 Variables measurement

According to World Bank report (2015), An individual household has been considered as poor when his/her households income per a day fall below the minimum standard or poverty line, which is 1.25\$ (which is 62.5 Ethiopian birr/currency) per a day and a household whose income per day greater than or equal to this poverty line was considered to as non-poor. Hence, two binary responses, if household is poor it was takes a value of 0 and 1 otherwise since it was a binary response poor and non-poor.

Table 3.2: Summary of explanatory variables included in the model

Explanatory Variables	Type of variables	Definition	Measurements	Expected sign
INC	Dummy	Improvement in income	1 yes and 0 no	+ve
SAV	Dummy	Improvement in saving habit and amount	1 yes and 0 no	+ve
LVSTCK	Dummy	Improvement in livestock owned	1 yes and 0 no	+ve
FSD	Dummy	Improvement in food security duration and diet	1 yes and 0 no	+ve
LRPA	Dummy	loan repayment ability	1 repay on time and 0 not repay on time	+ve
DWHI	Dummy	Improvement in dwellings and house items	1 yes and 0 no	+ve
CCROP	Dummy	Improvement in Cash crops such as maize, coffee and khat	1 yes and 0 no	+ve

Source: from reviewed literature and compiled by the researcher, 2021

3.2 Method of Data Analysis

It includes the comparison of income, saving, livestock ownership, housing condition, food security duration and nutrition, repayment ability and cash crops of the clients before and after use of credit from OCSSCO and hence it can be seen that, if there is any improvement in their living standard after using credit or not. Hence, both descriptive and inferential data analyses were used. Descriptive statistics such as mean, tabulation, frequency distribution and percentage used to analyse and interpret data obtained from questionnaires. Once the data was organized and presented then the researcher

was performed binary logistic regression model by used SPSS version 23 in order to show the relationship between dependent and independent variables.

3.3 Model Specification

The list of all variables for logistic model estimation in impact assessment of microfinance on poverty reduction for this research can be written as follows

First to obtain the LOGIT model from logistic function, write “Y” as the linear function of Xs (independent variables in the model) along with their parameters as;-

$$Y = \alpha + \beta_1 x_1 + \epsilon_i \dots \dots \dots e$$

equation (1)

Then the model can be specified as:

$$PVTRED = \alpha + \beta_1 INC + \beta_2 SAV + \beta_3 LVSTCK + \beta_4 FSD + \beta_5 LRPA + \beta_6 DWHI + \beta_7 CCROP + \epsilon_i \dots\dots\dots$$

equation (2)

3.4 Ethical Consideration

Standard ethical guidelines and procedures were followed to gather information from each household which take part in the study. Each of the participants took part in the study voluntarily and an explanation was provided to each of the respondents about the purpose of the study, along with their right to drop out of the study without having to explain why. They were informed that responses obtained from each participant will be kept in confidence and

respondents will not be exposed to any risk as a result of taking part in this study. In order to collect reliable data, questionnaires were translated and distributed to respondents by local (Afaan Oromo) language to reduce language barriers.

4. DISCUSSION

4.1 Descriptive analysis

From 389 questionnaires were distributed to the active clients of OCSSCO in five main districts, 351 questionnaires (90.2% response rate) were responded via properly filled and used for discussion in both descriptive and regression statistics.

Table 4.1: demographic statistics of the respondents

Variables	Measurement	Frequency	Percent
Gender	Male	246	70.1%
	Female	105	29.9%
	Total	351	100%
Educational back ground of respondents	Unschoolled	134	38.2%
	Educated	217	61.8%
	Total	351	100%
Age of respondents	18-30	102	29.1%
	31-45	152	43.3%
	>45	97	27.6%
	Total	351	100%

As shown in Table 4.1, among the overall sampled households, 246 (70.1%) were male-headed while 105 (29.9%) were female. This implies that, male are more participated in microfinance service than female in the study area. From the selected household heads for the study, 61.8% are literate while 38.2% are unschooled. This shows that the educated households were

more participating in microfinance credit than the unschooled. From the selected household heads for the study, 29.1% were under 30 years old households while 43.3% were between 30-45 year old and 27.6% were above 40 years old. This shows that the working age households were more participating in microfinance credit than the elders.

Table 4.2: Impact of Microfinance on Income of Participants

Households	Mean
Household annual income before OCSSCO services	6392.6 Birr.
Household annual income after OCSSCO services	9372.56Birr.

According to output in Table 4.2, the average annual income of households before receiving microfinance credit is 6392.6 birr. The average household income

after receiving microfinance credit is 9372.56 birr. It reveals that the average household income has increased by 46.62 percent. To summarize, OCSSCO

microfinance credit aids and plays an important role in improving household income. It has been noted that the major objective of microfinance is to create income among poor households and thereby improve living standards, empowerment and alleviate poverty. The increase or decrease in the level of income may have an implication on the life

standard of the individuals. An increase in income, for instance, can pave the opportunity to open business, employment and entrepreneurship. Similarly, in terms of their ability to afford different expenses like clothing, nutritional foods, house ownership and basic social services; compared to before will be improved also.

Table 4.3: Impact of Microfinance on saving of Participants

	Mean
Household annual saving before OCSSCO services	892.32 Birr
Household annual saving after OCSSCO services	1259.24 Birr

The result obtained in Table 4.3 shows that the average annual saving of households before getting credit from OCSSCO microfinance is 892.32 Birr while after getting credit is 1259.24 Birr which means increased by 41.12%. This figure indicates that the average annual saving of households' level was improved after they get credit from OCSSCO. According to the

respondents, the main reason behind saving is; the loans given to them are mainly short term loan and to avoid accumulated interest, the clients are encouraged to make regular savings and this partly explains the increment because they work hard. This saving is included physical assets but excluded the obligatory loan guarantee saving.

Table 4.4: Impact of Microfinance on the improvement of Participants' livestock

	Respond	Number	Percent
Does your number of livestock are increased after you received a loan from OCSSCO?	Yes	237	67.52%
	No	114	32.48%

As seen from table 4:4 based on collected questionnaires, 237 (67.52%) of household increase their number of livestock after getting credit from OCSSCO while 114 (3.48%) failed to increase their livestock after receiving loan. This finding implies

that OCSSCO microfinance improve number of livestock ownership of households if they do on. Hence, improvement in livestock indicates that betterment in living standard of household which implies poverty reduction.

Table 4.5: Impact of Microfinance on food security duration improvement of Participants

	Duration	Number	Mean
For how many months does your household guaranteed for food before the loan?	<3months	83	23.65%
	3-6months	119	33.90%
	6-9months	63	17.95%
	9-12months	56	15.95%
	>12months	30	8.55%
	Total	351	100%
For how many months does your household guaranteed for food after the loan?	<3months	41	11.68%
	3-6months	76	21.65%
	6-9months	97	27.64%
	9-12months	81	23.07%

	>12months	56	15.95%
	Total	351	100%

From table 4.5, the food security guarantee of household before getting credit is on average less than six months while after credit is nine months. This indicates

OCSSCO microfinance improved the food security duration of households in the study area.

Table 4.6: Impact of Microfinance on diet improvement of clients

	Per day	Number	Mean
How many times does your household eat meals in a day before the loan?	2	236	67.2%
	3	115	32.8%
	Total	351	100%
How many times does your household eat meals in a day after the loan?	2	172	49%
	3	179	51%
	Total	351	100%

As displayed on the above table 4.6, the collected data indicates on average (around 67.2%) the households eat twice per a day before getting credit while three times (around 51%) a day after getting loan from

OCSSCO microfinance. This implies improve their living standards and they have got more chance of getting meals per a day and quality diet after the loan from OCSSCO as compared to before.

Table 4.7: status of your loan repayment of clients

status of your loan repayment	Number (frequency)	Mean
repay according to the schedule	204	58.12%
Not repay according to the schedule (default)	147	41.88%

Regarding the loan repayment performance (period) of the clients, about 41.88% of respondents failed to repay on time due to loan period is too short. Even if 41.88% of clients failed to repay within given time, majority (58.12%) clients were paid their

loan on time which implies majority of the clients are in good position. Henceforth, despite the discomfort in repayment period for some clients, still most of the households can repay their loan on time after they engaged in the loan access.

Table 4.8: Impact of Microfinance on housing condition of clients

	Respond	Number	Percent
Does your house items and dwelling are improved after you received loan from OCSSCO?	Yes	192	54.7%
	No	159	45.3%

From the above result, more than half of the rural household client (54.7%) of OCSSCO microfinance of five districts, able to improve their housing condition after they

got the credit as compared to before. This finding supports the idea that MFI can slightly improve rural household housing and shelter by providing loan service.

Table 4.9: Impact of Microfinance on cash crops improvement of clients

	Respond	Number	Percent
	Yes	212	60.40%

Does your cash crop such as maize, coffee and khat are improved after you received loan from OCSSCO?	No	139	39.60%
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Based on output showed above, average (around 60.40%) of clients who have received credit from OCSSCO microfinance were improved their cash crop. The district is ideal for a wide range of crops, including maize, sorghum, wheat, haricot bean, and others. Maize, sorghum,

wheat, and other major crops are grown during the main rainy season, while coffee and Khat is the most important cash crop grown in the district. This result implies the improvement of household living standard as these crops are their main financial source.

Table 4.10: summary of OCSSCO practices, monitoring and implementation

Items	Strongly agree		Agree		Neutral		Disagree		Strongly disagree	
	no	%	no	%	No	%	no	%	no	%
OCSSCO provides continues training	82	23%	96	27%	127	36%	34	10%	12	4%
OCSSCO provides advisory service in business startup and expansion	106	30%	159	45%	63	18%	23	7%	-	-
OCSSCO conducts continues follow up	95	27%	87	25%	136	39%	31	8%	2	1%
OCSSCO lending procedure is difficulty	102	29%	93	26%	107	31%	29	8%	20	6%
OCSSCO repayment time is too short	174	50%	109	31%	61	17%	7	2%	-	-
OCSSCO lending interest rate is high	101	29%	131	38%	66	19%	53	15%	-	-
OCSSCO amount of lending money is not enough	130	37%	102	29%	97	28%	15	4%	7	2%

Training is very crucial to develop private outcomes and inclusive well-being for beneficiaries and to progress institutional consequences for the microfinance institutions (Chomen, 2021). About 50% of the respondents got training from the institution especially on saving, loan utilization and about the market and general training while the others do not get training. In addition to financial services, OCSSCO provides nonfinancial services (like training, advising, follow up and monitoring) for the beneficiaries to build up their capacity (Sabit & Mohammed, 2015). Based on collected data about 75% of respondent were received necessary business advice and business plan preparation. Concerning OCSSCO's control

and follow-up, the majority of respondents (52 percent) responded positively, in that it's doing very well to make in touch with client business in order to make the smooth relationship in paving the atmosphere in motivating clients to repay back the loan and help them to in refreshing their knowledge of business.

On other hand beneficiaries of microfinance institutions face various constraints and challenges. Concerning challenges and constraints, more than (67%) of the beneficiaries said their great problem for accessing funds from this microfinance institution was the rate of interest they were charged for assessing funds (Table 4.10). Furthermore, the study has investigated about repayment period

which about 81% respondents are reacted by loan repayment period is too short (table 4.10). In addition this, most of the respondent (about 55%) reacted on credit policy of OCSSCO was restricted while 67% of respondent answered the amount of borrowed money is not enough for our business.

Generally, this result assures that rural households in Ethiopia have faced lack of access to finance outreach due to high amount of imposed interest, restricted lending procedure, weak financial institution base and governance, and insufficient loan size.

4.2 Regression analysis

Table 4.11: Summary of regression analysis

Model Summary		
-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
419.383 ^a	.600	.638

Variables in the Equation

	B	S.E.	Wald	Sig.	Exp.(B)
Step 1 ^a					
INC	.144	.246	.345	.006	.866
SAV	.025	.244	.011	.017	1.026
LVSTCK	.226	.253	.801	.031	1.254
FSD	.050	.253	.039	.044	1.051
LRPA	.429	.255	2.825	.033	.651
DWHI	-.214	.247	.753	.185	.807
CCROP	.044	.196	.050	.022	1.045
Constant	.525	.373	1.985	.019	1.691

a. Variable(s) entered on step 1: INC, SAV, LVSTCK, FSD, LRPA, DWHI, and CCROP.

Based on the binary LOGIT regression analysis result in table 4.11, the relationship between the variables included in the model can therefore, be represented as follows:

$$\text{PVTRED} = .525 + .144\text{INC} + .025\text{SAV} + .226\text{LVSTCK} + .05\text{FSD} + .429\text{LRPA} - .214\text{DWHI} + .044\text{CCROP} + \epsilon_i \dots\dots\dots\text{equation (2)}$$

From the regression results in table 4.11: R squared value is 0.60 which indicates the impact of listed variables (income improvement, saving improvement, improve in livestock, food security duration and diet improvement, loan repayment ability, dwelling and housing items and cash crop improvement of households) through access to credit by OCSSCO Microfinance improve the living standard of rural households by 60% while the remaining 40% were wavered by other

variables that are not incorporated in the model.

In table 4.11 the regression output indicates that there is positive significant at 1% level of significance with poverty reduction implication; the extent of saving improvement households and OCSSCO credit. This indicates that, other things remain constant; a unit Birr access to credit from OCSSCO can improve future income of household by 14.4cent which implies poverty reduction of household in study area. This finding also convenient with Abera & Asfaw (2019), Alam & Azad (2021) and Benti (2019) studies found that microfinance uses people to improve their income by initiate to start-up new venture which leads to increase their future income. Hence, households living in Ethiopia have

improved their income after they access credit from OCSSCO.

Another key mission of microfinance is to improved knowledge and attitude toward microcredit and the saving behaviour of its beneficiaries (Chomen, 2021). Saving is also one of the variables which significantly (at 5% level of significance) important for by (Ewunetu, 2011) and (Chomen, 2021) found-out that access credit from microfinance increase annual saving habits of households. As a result, it is possible to forecast that access to credit from OCSSCO can built the rural households' saving power which leads to economic growth of the country.

Additionally Livestock is another variable which affects positively (at 5% level of significance) the poverty of households in Ethiopia. Based on table 4.11 output, a unit Birr credit access from OCSSCO leads to incremental by 0.23 unit of households' livestock. This finding is align with the study of (Tarozzi et al., 2015) which found access to finance by microfinance increases animal husbandry and (Geleta et al., 2018) who found livestock increment has positive significant impact on household income which pointers of poverty reduction. Hence, household livestock are increased after access to credit from OCSSCO.

Loan repayment ability (LRPA) is statistically positive significant at 5% confidence level which a unit improvement in loan repayment performance by household of OCSSCO implies 42.9% reduction in poverty of households in Ethiopia. This finding was in line with Mulatu (2020) participants in microfinance institutions in Kenya had considerably the clients sold their pre-existing productive asset to pull through the defaulted loans in case of loan repayment.

Additionally, as displayed on the table 4.11 food security duration and diet is positive significant at 5% level of confidence with coefficient $\beta=0.05$ which implies as a unit increase loan from OCSSCO increase 5% in food security. In other word, as clients enable to generate better earning they could

rural households' poverty reduction (table 4.11). Based on the regressed output, a unit access to credit from OCSSCO in Ethiopia leads to increase households' saving ability by 2.5% which leads to reduce households' poverty. This finding is in line with previous conducted research

be spent on better facilities, which improve their living standards and they have got more chance of getting meals per a day and quality diet after the loan from OCSSCO than before the loan, this finding was in line with Chirkos (2014), microfinance institution clients have more chance of improving their diet in comparison to non-clients. Henceforth, the result of the finding indicated that the interference of OCSSCO in the study area had positive impact on food security and diet improvement of households.

However, Based on output from table 4.11 dwelling and house items improvement is a statistically insignificant which leads to the contribution OCSSCO on improvement of client housing and shelter and then reduce poverty is not significant.

The finding also indicated the positive significant impact of OCSSCO on the improvement of households' cash crops items like maize, coffee and khat in the study area. Based on table 4.11, one incremental in lending amount leads the improvement of household's cash crops by 4.4cents. From this, it's possible to infer that the provision of loan results in betterment of living standard by incrementing these cash crops items.

5. CONCLUSION

Hence grounded on the descriptive analysis, the majority of the respondents reported that the overall quality of living standard of rural households of Ethiopia is improved after access to credit from OCSSCO microfinance. This clearly shows that the OCSSCO is successful in improving the living standard of the poor households and plays a great role in poverty

reduction. But absence of adequate training clients, follow up and supervision the activities of each household, lack of sufficient lending amount and high imposed lending rate were some of the main problem identified from the respondents.

income, improved household annual saving, increased Livestock of households, Food security and diet intake improved and household cash crop is improved. Therefore OCSSCO plays an effective contribution to reduce poverty in Ethiopia by improving households' living welfare.

5.1 Recommendation

- ✓ The study recommend that microfinance institution (OCSSCO) to continuously improve their outreach and its accessibility for rural household to enable them users of financial service and improve their overall living standards since it has a significant role to reduce the poverty status of the rural household from the data obtained.
- ✓ In addition to this the study also recommends that OCSSCO should strengthen its monitoring and supervision about the clients' credit facilities and their usage whether they spent for the intended purpose or not.
- ✓ The government should encourage and facilitate other microfinance institution to operate in the rural area, so as to make microfinances accessibility to the poor easily and reduce the monopoly of market share by OCSSCO.

Additionally based on binary logistic regression result, the study also concluded that access to microfinance institution (OCSSCO) loan significantly increased amount of household annual

- ✓ Sufficient training and follow up has been given to the clients to minimize the difficulty of loan repayment whereas the OCSSCO ought to make an effort to increase credit period and loan size for the clients in relation to their business size and type.
- ✓ OCSSCO employees should have understood how to facilitate credit, have good knowledge technically and prosperous practices and finally know how to follow the customers operation might support the client to be capable to repay the loan.
- ✓ The institution (OCSSCO) should have to focus on the main reason for loan repayment default of clients.
- ✓ This study recommends that to change many peoples' lives; the institution has to reduce the interest rate charged to the respondents when accessing financial products.
- ✓ Finally the study recommend that the rural household who are not clients of OCSSCO and who have need of credit facility and other financial services should have to aware about the significance of OCSSCO in improving the living standard of the poor.

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Appendix

Descriptive Statistics			
	N	Mean	Std. Deviation
poverty is reduced	351	.68	.468
household income is increased	351	.59	.493
household saving	351	.58	.494
livestock of household	351	.62	.487
Improvement in food security duration	351	.64	.480
Improvement in diet	351	.58	.494
loan repayment ability	351	.63	.484
Improvement in dwellings and house items	351	.61	.489
Improvement in Cash crops	351	.62	.702
Valid N (listwise)	351		

Variables in the Equation						
	B	S.E.	Wald	df	Sig.	Exp(B)
Step 0 Constant	.745	.114	42.513	1	.000	2.106

Classification Table^{a,b}

Observed		Predicted		
		poverty is reduced		Percentage Correct
		0	non-poor	
Step 0	poverty is reduced	0	113	.0
	non-poor	0	238	100.0
Overall Percentage				67.8

a. Constant is included in the model.

b. The cut value is .500

Case Processing Summary

Unweighted Cases ^a		N	Percent
Selected Cases	Included in Analysis	351	100.0
	Missing Cases	0	.0
	Total	351	100.0
Unselected Cases		0	.0
Total		351	100.0