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Role of Credit and Saving Share Company in Poverty Reduction in Rural Communities of Gumay District, Jimma Zone, South West Ethiopia

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ABSTRACT

The study has evaluated the role of Oromiya Credit and Saving Share Company (OCSSCo) in reducing poverty in rural communities of Gumay district, Jimma Zone, South West Ethiopia. Purposive sampling techniques were employed to collect data for selecting sample respondents from the staff, farmers, women and youth association representatives. Accordingly, from currently existing 10 active credits and saving associations found in the rural areas of the district; 10 respondents from each member group which amounts a total of 100 sample participants were included. The results were subjected to ANOVA and all statistical computations were made by using SPSS version 20 computer software. According to the analysis conducted, most of the respondents were found to register significant increasing trends in their income, increase in quantity and quality of the daily dish served for consumption and housing improvements. The outcome of current research also indicated that there was the diversification of business activities, for the loans were disbursed for agricultural and other business activities but the size of the loan that the institution allows is very limited. Therefore, strengthening financial capacity to OCSSCo to increase the amount of loan it disburses for each client might reverse the direction. As most of the clients suggested that the loan was not sufficient to run their projects, OCSSCo ought to make an effort to increase the size of loan for its clients in relation to the business size and type of activities.

Key words: Economic, development, microfinancial institutions, loan, OCSSCo, poverty

INTRODUCTION

The issues of poverty and attempts of poverty reduction have gained strong attention at international level than ever. With this regard, it is assumed that microfinance has become to be an effective and powerful tool for poverty reduction (Cleland and Ginneken, 1988; MkNelly and Dunford, 1999; Alemayehu, 2008; Banuri and Texas, 2006; Desta, 2010). The traditional rural financial systems emphasized at the provision of capital to satisfy the needs of the rural and urban people with limited resources (Barr, 2005; Charmes, 1992; Khandker, 1998). According to World Bank (2001), it is assumed that the absence of credit is the major constraints which hindered the rural people from pursuing better options of lives and adopting the new technologies and suggested that the low productivity of farm labors is due the absence of credit systems. Morduch and Stuart

(2003) stated that evidence from the millions of microfinance clients around the world demonstrates the access to financial services enables poor people to increase their household incomes, build assets and reduce their vulnerability to the crises that are integral part of their daily lives. The supply of new agricultural inputs through credit system is the best development strategy to improve agricultural productivity (Alemayehu, 2008; Banuri and Texas, 2006; Desta, 2010; United Nations, 2006) as micro-financial credit is the most flexible form of transferring economic resources to the rural poor community. As described by Banuri and Texas (2006), the term Microfinance pertains to the lending of extremely small amounts of capital to poor entrepreneurs in order to create a mechanism to reduce poverty by providing the poor and needy with resources at a smaller scale.

Most literatures argue that, microfinance institutions provide micro-credit services or small loans to extremely poor people for self-employment projects that generate income for their survival, allowing them to care for themselves and their families over the last twenty years (Cleland and Ginneken, 1988; MkNelly and Dunford, 1999; Caldwell, 1986; Banuri and Texas, 2006; Desta, 2010). Hence, micro-credit is now considered as one of the most effective tools that we have to fight poverty. It is not charity but an investment and to understand it, we need to look at poverty in the world today (Cleland and Ginneken, 1988; MkNelly and Dunford, 1999; Murray and Boros, 2002). About 1.3 billion extremely poor people struggle to live on less than \$1 a day that they cannot adequately feed, wear or shelter themselves or their families (Al-Mamun, 2005; Caldwell, 1986; Desta, 2010; Dercon, 2002; Hartungi, 2007). According to Alemayehu (2008), the ultimate objective of microfinance institution is intended toward rendering financial services to improve the welfare of the poor. Indeed, access to financial services through micro-finance strengthens the capacities of the poor to achieve the Millennium Development Goals by their own means and in a lasting manner. In Sub-Saharan Africa, microfinance institutions include a broad range of diverse and geographically dispersed institutions that offer financial services to low-income clients; nongovernmental organizations, non-bank financial institutions, cooperatives, rural banks, savings, postal financial institutions and an increasing number of commercial banks (Dercon, 2002; Hartungi, 2007).

The World Bank, on poverty reduction strategy paper indicated that in the year 2000, about 45% of the country's population lives below the poverty line (World Bank, 2001). In addition to this, the Federal Government of Ethiopia in its Poverty Reduction Strategy Paper (PRSP) stated that the incidence of poverty both in rural and urban areas is 47 and 33%, respectively (MEDC, 1999). Poverty which is seen as a manifestation of complex factors such as high population growth, environmental degradation, unemployment, drought, limited access to resources, health and education services, etc. (Morduch and Haley, 2002; Woller *et al.*, 1999; Zaman, 1999; Zeller, 2001; World Bank, 2001). In the rural areas, marginal land holdings, degraded natural and livestock resources, decline agricultural income, limited opportunities in non-farm activities, growing food shortages and lack of access to education, health and poor infrastructures, etc., are some of the features of rural poverty (Dercon, 2002; Hartungi, 2007; Belshaw and Coyle, 2001; Hartungi, 2007; Kalyango, 2005; Khandker, 2001; Ejigu, 2009). In Ethiopia, where the majority of the productive work force lives in rural areas, micro-credit system is the best alternative development strategy that encourages the majorities of the productive forces to actively participate and that enables them fight against poverty by insuring the sustainability of food sufficiency. Ethiopian microfinance has made remarkable progress over the past decade, reaching almost two million clients in a country of 77 million people (MEDC, 1999; Ejigu, 2009). Nevertheless, financial services for the low-income population, poor farmers and medium and small micro enterprises are still

characterized by limited outreach, high transaction costs for clients, a generally weak institutional base, weak governance and a nominal ownership structure as well as dependence on government and other Non Governmental Organizations (Morduch and Haley, 2002; Woller *et al.*, 1999; McNelly and Dunford, 1999; Murray and Boros, 2002). All microfinance institutions have low average loan size which shows that Ethiopian microfinance institutions are good at depth of outreach. This is probably because Ethiopia is so poor that it extends very meager loans as compared to many countries. The small absolute size of the loans does not make Ethiopian microfinance institutions to be better performers in reaching the poor (Yohannes, 2006; Ejigu, 2009).

This particular study deals with the effect of the Oromiya Credit and Saving Share Company which is one of the microfinance institutions established as a tool on poverty reduction in 1997 (Ejigu, 2009) for the purpose of providing services like loan, saving, money transfer, advisory and micro-insurance services to the poor people. Accordingly, the study has investigated the role of Oromiya Credit and Saving Share Company (OCSSCo) in reducing poverty in Gumay district, Jimma zone, south west Ethiopia.

MATERIALS AND METHODS

Description of the study area: This study has conducted in Jimma Zone, Gumay District, south west Ethiopia with particular reference to rural inhabitants. Gumay District is located at 77 km from Jimma town and 405 km from Addis-Ababa in south-western part of the country. It is located within the longitudinal range of 35° 57' and 37° 37' East and latitudinal range of 7°13' and 8°56' North. Didessa River, Setema and Gomma districts in North-West, North-East and East and by Limmu-Seka in the South, respectively.

Sampling design: Preliminary visit was carried out on the selected study villages of the rural areas in order to familiarize the researcher with the study area for prior understanding of living conditions of rural inhabitants. Discussion was also held with the administrators of the district and local leaders of the area to explain and clarify the purpose of the study and to get permission to conduct the research in the area. Purposive sampling techniques were employed to collect sample respondents from the credits and saving association users' members. In the study area, 17 groups of micro finance clients' are found to perform different economic activities. Based on the agreement arrived at the preliminary visit to the area, 10 active micro-finance from bee keeping, coffee retailers, fattening, irrigation and poultry production (3, 2, 2, 2, 1) groups, respectively; 10 respondents from each member of the groups which amounts a total of 100 individual respondents were considered for the study.

Data collection and instruments: Different approaches were used to generate the different information required for the study. In this research, both primary and secondary data were used. Primary sources are the data which is collected by employing questionnaires, interviews and personal contact to focused group discussions. So, the information required was collected from the clients of OCSSCo facilities and from some selected employees of the company. Secondary sources were collected from different operational manuals and documents of the company in addition to different literatures including published and unpublished books, yearly or quarterly reports, journal or articles, Central Statistics Authority reports and other relevant official reports.

The questionnaires were distributed and interviews were conducted after making a week visit and attachment to both the clients and employees. This enabled us to conduct a pre-test on questionnaires and interviews paper to reproduce valid and reliable questions and select the appropriate respondents in line with the study. In addition, direct and indirect simplified questions were used to avoid miss-understanding and confusion to minimize the ambiguity that respondents may refuse to replay.

Ethical consideration: During data collection process, the key informants were briefed about the objective of the research and their response has been kept secret. In order to collect reliable data, the questionnaire and interview questions were translated in to local language (Afan Oromo). In addition to this, for those respondents who cannot read and/or not willing to read the questionnaire, the researcher bridged the gap. All the processes of data collection were made in such a way that through maintaining the socio-cultural values and norms of the respective community as a whole that the socio-cultural values and norms of respective community as a whole was maintained.

Statistical analysis: The results were subjected to analysis of variance (ANOVA). All statistical computations were made by using SPSS version 20 computer software. The Least Significant Difference (LSD) at $p \leq 0.05$ was used to determine statistically significant differences within each variable.

RESULTS AND DISCUSSION

Background of respondents': One of the various instruments that reduce poverty from rural area is providing the poor access to credit. As formal financial institutions failed to reach the poor for collateral requirements, micro finance program is being practiced all over the world as one of the major strategies being used to reduce poverty through the delivery of financial services such as credit saving, insurance, etc. Micro finance institutions have established in Ethiopia after the issuance of proclamation No. 40/1996. Today, the provision of credit and saving mobilization is thought of as an avenue for development. Based on this line, OCSSCO was established in 1997 in Oromiya Regional state with the objective to reduce poverty and promote economic development through the provision of credit and saving services (MEDC, 1999). This study, has assessed the impact of OCSSCO's program whether it has improved the quality of living standard of the poor and reduce poverty in rural area.

In order to address this objective, we have assessed the backgrounds of the local community particularly the users of OCSSCO financial services whether it pose impact not to use the credits. Accordingly, most of the respondents 88% are Muslim, where as 11% are followers of Orthodox Christians. The majority of the respondents 64% have completed grade 1-8, followed by over 24% have attended informal school and the rest 12% have attended high school studies. This literacy level indicates that the possibilities of developing mutual understanding in between individuals and groups of the members towards the rules and regulations of OCSSCo.

On the other hand, the marital status of the respondents shows that about 40% are married; where as 34% are single. From this data it is possible to summarize that most of the clients could shoulder responsibilities being settled there which forces them to be loyal clients that keeps their social dignity in the community. On the final, it is concluded that each of their social background does not pose any impact towards financial credit services utilization.

Loan Repayment, sufficiency and fairness of loan interest: According to the study, the sources of information about OCSSCo, the majority of the respondents about 62% have responded that they heard about OCSSCo from the nearby residents. As per the focused group discussion made along with officials of OCSSCo, they witnessed that they have made tremendous ad-vocations about OCSSCo.

It has been revealed about loan repayment, sufficiency and fairness of loan interest that the majority of the respondents 60% responded positively, where as 40% have responded negatively. Despite the advocacy made by OCSSCo, still there are gaps in repayment of the loan. Accordingly, as per the group discussion made along with some clients, most of the defaulters encountered a clumsy challenges like extended drought, animal diseases, market information gaps and other social defaults retarded them from loan repayments. About 66% of respondents replied that they are not comforted very well to make the use of the loan as it is insufficient to run the business (Fig. 1). Of course, it is possible to understand that the aim of Micro Finance Institutions is not enriching clients with sufficient level of loans; rather it is to supply them with seed money to start up small business.

Furthermore, the study has investigated about fairness of loan interest and that the majority of the respondents 60% responded negatively (Fig. 1). This result assures that the Ethiopian financial services for the low income population, poor farmers and medium and small Microfinance Enterprises are still characterized by limited outreach, high transaction costs for clients, generally weak institutional base and weak governance and a nominal ownership structure as well as dependency on government and other Non Government Organizations (Cleland and Ginneken, 1988; MkNelly and Dunford, 1999; Murray and Boros, 2002). Basically, all Microfinance Enterprises have low average loan size, so it seems that Ethiopian Microfinance Enterprises are good at depth of outreach which might be because of Ethiopia which is so poor that it extends very meager loans as compared to many countries. The small absolute size of the loans does not make Ethiopian Microfinance Enterprises to be better performers in reaching the poor (Yohannes, 2006; Ejigu, 2009). Of course, despite the discomfort of clients in the amount to be borrowed, still the money can make difference in the lives of poor after they engaged in the program.

Socio-economic and livelihood improvement: Regarding the consumption and nutritional status of respondents, the majority of clients (89.4%) responded that there is a change in quality of meals they feed themselves and their family and they witnessed that the change is due to the loan they have taken from OCSSCo. Here, as focused group discussion made along with clients, the type and amount of their meal in the daily bases are also improved.

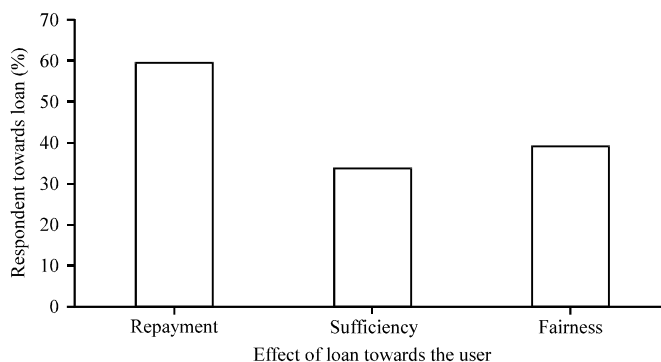


Fig. 1: Loan repayment, sufficiency and fairness of loan interest

Accordingly, many researchers like, Belshaw and Coyle (2001) revealed that a beneficiary profits had improved, savings had increased and family diet had improved. That is, the living standard of most clients' of microfinance institutions inclined towards improvement. In other words, access to financial services also transform into 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. It has made women clients more confident and assertive and thus better able to confront gender inequalities (Zaman, 1999; Zeller, 2001; Littlefield *et al.*, 2003). Of course, the role that microfinance institutions play to reduce vulnerability is significantly high. Most of client's dependents had access to education after the loan services. The result of the findings also indicated that the intervention of the micro finance in the study area had a positive impact on the educational facilities of the household clients.

The findings also indicated the positive impact of the micro finance on the improvement of medical facilities of program participants and their households. Accordingly, majority of the residents replied that their access to medical facilities has been increased after the purchasing loan they endowed. This, in line with the study by Belshaw and Coyle (2001) that shows money has been used to meet household, family health and education expenses. Increased household income improves nutrition and improves the probability that poor children from poor families will go to school (Cleland and Ginneken, 1988; MkNelly and Dunford, 1999; Murray and Boros, 2002; Versluisen, 1999). At the house hold level, micro-finance services have impacts on household income, income diversification, household assets, education, health, nutrition and coping strategies which are mainly the indirect impacts of increased in household income generated by the micro enterprises (Barr, 2005; Charmes, 1992; Khandker, 1998; Gobezie, 2001). It is possible to infer that the role of OCSSCo in reducing poverty is balled, this is justified by the focused group discussion made along with clients and officials of OCSSCo. The result of current study also indicated that the employment opportunities of clients were improved. Accordingly, the hiring capacity of the respondents 70.2% has registered improvement in creating job opportunity for non-participants of the micro finance services.

Household assets and savings capacity: According to this study, majority of the respondents 66% responded that they do have income that has been earned even before they became clients of OCSSCo. As per focused group discussion made along with some clients, though it is not sounded, they had little means of income that had been registered before the OCSSCo has started the financial services. On the other hand, the amount of income after they have being clients of loan service, most of the respondents 87% responded that there is an increasing effect in the amount of loan than they have earned (Fig. 2). From this, it can be inferred that the role of OCSSCo in reducing poverty is significantly vital. In line with this study, Khandker (2001) described that in many countries, micro-finance provides a window of opportunity for the poor to access a borrowing and saving facility. In other countries, these facilities also provide organizational help, training, safety nets, empowerment, financial and other help during crises (Cleland and Ginneken, 1988; MkNelly and Dunford, 1999; Alemayehu, 2008; Banuri and Texas, 2006; Desta, 2010; United Nations, 2006).

Micro-finance organizations can alleviate liquidity constraints, stabilize consumption and enhance both income and consumption for the poor, thereby augmenting the poor's welfare (Barr, 2005; Charmes, 1992; Khandker, 1998). Borrowing from a micro-finance facility to run a business is a self-help activity. Moreover, micro-finance satisfies the derived demand for capital in

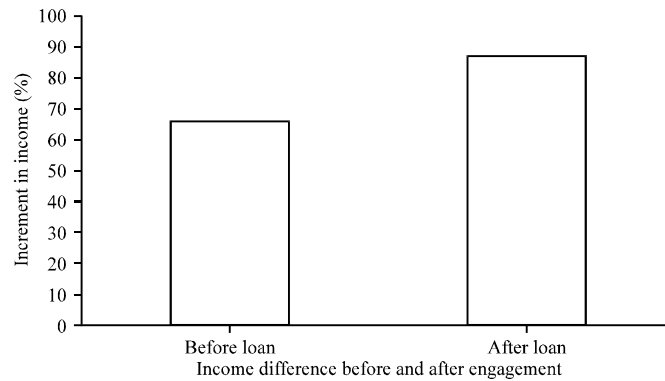


Fig. 2: Income source before and after the loan

the resource-poor households. That is, microfinance institutions would create a paved atmosphere for the poor to make use of opportunities that had been deprived due to access of working capital (Cleland and Ginneken, 1988; MkNelly and Dunford, 1999; Murray and Boros, 2002). Concerning saving, after they become the member of OCSSCo they became beneficiary of compulsory and voluntary saving.

Regarding house hold assets 61% improved their household assets and witness that the improvement is a result of improved income. From this, it is possible to infer that the provision of loan results in betterment of living standard, this is witnessed by the asset most of the clients endowed on the other fact respondents who failed to endow asset, reasoned out that the failures in agricultural product and others social default let them to be retarded in acquiring assets. On the other hand, majority of the respondents 83% replied positively that their purchasing power has been improved after loan service (Fig. 2). As per the discussion made along with respondents on the purpose of saving that revealed majority of them have saved for the purpose of business expansion, for safety purposes, for loan repayment and for other business related purposes. Littlefield *et al.* (2003) revealed that microfinance and the impact it produces go beyond just business loans. The poor use financial services not only for business investment in their microenterprises 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. Evidence from the millions of microfinance clients around the world demonstrates that access to financial services enables poor people to increase their household incomes, build assets and reduce their vulnerability to the crises that are so much a part of their daily lives. Khandker (2001) reported that the incidence of poverty among participating households is lower after they become clients of microfinance services than they were before. Hence, from this, it is possible to predict that the access to credit facilities built the clients' economic power.

In line with current study, Versluysen (1999) has revealed that household income of families with access to credit is significantly higher than for comparable households without access to credit which result to significant increases in asset accumulation, providing them with both a safety net against misadventure as well as resources for self-help investments. Hence, it indicates that the betterment of the loan provision which ends at clients' income and saving increments. Finally, the change in the quality of clients' life besides high saving practice which results in building nation's economy by leading to endowment of capital creation that can be used for capital investment (Morduch and Haley, 2002; Woller *et al.*, 1999; Zaman, 1999; Zeller, 2001).

Table 1: Monitoring and evaluation mechanisms

Items	Strongly agree		Agree		Uncertain		Disagree		Strongly disagree	
	No.	%	No.	%	No.	%	No.	%	No.	%
OCSSCo conducts continues follow up	41	43.6	20	21.3	-	-	19	20.2	14	14.9
OCSSCo provides continues training	33	35.1	34	36.2	3	3.2	13	13.8	11	11.7
OCSSCo provides advisory services	40	42.6	30	31.9	5	5.3	10	10.6	9	9.6
OCSSCo supports in business planning	34	36.2	24	25.5	8	8.5	24	25.5	4	4.3
OCSSCo advises in business expansion	20	21.3	24	24.5	4	4.3	30	31.9	16	17.0
OCSSCo considers ideas of clients	21	22.3	31	33.0	11	11.7	23	24.5	8	8.5
OCSSCo's support accepted locally	10	10.6	18	19.1	6	6.4	47	50.0	13	13.8
Reception of OCSSCo workers is welcomed	12	12.8	17	18.1	3	3.2	52	55.3	10	10.6

Monitoring and evaluation mechanisms: This study indicates that the majority of clients agreed that the intervention of the micro financing scheme in the area improved their living standard of their households. But absence of adequate trained man power to follow up and supervise the activities of each individual, lack of sufficient financial resources, absence of sufficient infrastructures especially in the rural areas and illness or death of its clients to recollect the loan, lack of knowledge in the areas of irrigation, absence of animal clinic were some of the main problems identified from the discussion made with the official and staff of OCSSCo (Table 1).

Pertaining to control and follow-up made by OCSSCo, majority of the respondents replied positively, in that it is doing very well to make in touch with clients business in order to make the smooth relationship in paving the atmosphere in motivating clients to repay back the loan and to help them in refreshing their knowledge of business (Table 1). But, still there is a gap in advocating local ideas and it has to consider the ethical norms that its employee displays as business needs ethical responsibilities which should be levied on the shoulder of the employees. On the other hand, factors like: Policy issues, commitment of government, level of community awareness, institutional structure of micro finances and other factors to be taken in to considerations (Zaman, 1999; Zeller, 2001; Barr, 2005; Charmes, 1992; United Nations, 2006).

Therefore, in order to overcome the potential problems of microfinance services, the following strategies were forwarded through developing a set of indicators that will focus mainly on the improvements of the microfinance environment at the country level, breadth and depth of outreach of Ethiopian Development Bank supported of Micro Finance Institutions, financial viability of Micro Finance Institutions, extent of commercialization of the industry and development impact of assistance Ethiopian Development Bank on poverty reduction efforts. Hence, effort should be exerted in monitoring and evaluation of Micro Finance Institutions, if need arises to be benefited more from these programs. Summing up, it is possible to conclude that the monitoring and evaluation of micro finances needs a critical analysis in which the type of objective criteria to be set.

CONCLUSION

Based on this assumption, it was hypothesized that participating in micro finance program improves the level of income, food security of the household members, their assets and enables the poor to have access to school and medical facilities. The assessments were focused on the impact of micro finance institutions at household level which mainly associated with the changes in the living condition of the clients. According to the analysis conducted, most of the respondents were found

to register significant increasing trends in their income, increase in quantity and quality of the daily dish served for consumption of clients and their families and housing improvement. As most of the clients suggested that the loan was not sufficient to run their projects, OCSSCo ought to make an effort to increase the size of loan for its clients in relation to the business size and type of activities. The outcome of current research also indicated that there was the diversification of business activities, for the loans were disbursed for agricultural and other business activities but the size of the loan that the institution allows is very limited. Therefore, strengthening financial capacity to OCSSCo to increase the amount of loan it disburses for each client might reverse the direction.

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