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RESEARCH ARTICLE

THE IMPACTS OF CREDIT PROVISION OF MICRO FINANCE INSTITUTIONS ON JOB CREATION AND POVERTY REDUCTION: ACASE STUDY OF SMFI, HAWASSA CITY, ETHIOPA

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ABSTRACT

This study is to assess the impact of credit provision of microfinance institution on job creation and Poverty Reduction in Hawassa city. In order to carry out this study the field survey was conducted on a sample size of 100 members randomly from 27 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. Thus, Microfinance programs have been considered as one of the main instruments in reducing poverty in recent development agenda. It is a means to support the marginalized active poor of the society. Microfinance comprises the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients through the provision of credit and other facilities like savings, insurance, and transfer services to poor low-income household. The main objective of the study was to assess the accessibility, contributions and the implications of microfinance institutions in reducing poverty and promoting sustainable income in Hawassa City. Microfinance Institutions have an explicit potential that intends to reduce poverty. This 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 The secondary data has been collected from different review of literatures, unpublished and published materials.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 reduces 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 outcome of the study has established that microfinance intervention on Job creation and Poverty reduction has 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.

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INTRODUCTION

The prevalence of poverty has been a common phenomenon in Ethiopia. The prevailing operation of the conventional financial institution in Ethiopia is efficient providing financial service to the poor people who live in the urban and rural area. The challenge racing today is to reduce poverty and achieve sustained economic growth for development. It is not until the recent that Microfinance had gained recognition thanks the noble prize winner Yunus Muhammad of the Grameen Bank. It should be noted that Microfinance is not a panacea but it is main tool that foster development in developing countries. It is known worldwide that the poor cannot borrow from the banks. Banks do not lend to them because they do not have what is required to be granted a loan or to be provided with the bank

service. The lack of financial power is a contributing factor to most of societal problems. These problems emanate from poverty and it is known that with poverty one is bound to suffer so many consequences ranging from lack of good health care system, education, nutrition, microfinance has proved this bank concept to be wrong. They target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks (Zeller and Sharma, 1998). 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). 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. 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 areas 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 spot light 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 2262 small scale enterprises.

Statement of the problem: Recently poor countries, like Ethiopia, are highly attached with different problems like poverty, unemployment, backward culture, famine, illiteracy, high population growth rate etc. It is the fact that poverty is all about lack of basic needs such as better nutrition, health care, clean water, sanitation, education and low or inadequate level of income and consumption, and poor command over resources. Ethiopia is predominantly an agricultural country that accounts 85 percent of its population depends on agriculture for their livelihood. Its agriculture is also characterized by low productivity, which can be attributed to shortage of skilled human, lack of good governance and lack of capital that compounded by inaccessibility of the poor to the existing formal financial institutions due to some factors such as high collateral requirements for small loans. Since poor people were regarded as credit worthless, access to credit is very limited (Gebrehiwot, 2002). Finance is the base point for any business activities. Lack of adequate finance has always been a major problem of Ethiopia small business, since small businesses do not have easy access to the capital market because of they organized on proprietary basis and very small in size and their supplies which can be utilized to loan are negligible small forms that are not public company.

There are clear observable facts that Micro finance industries failing close to Micro finance supply and demand gap. Also lack of capital hindering the growth of MFIs and internal capacities to grow the largest scale of operation. Micro Finance Institutions are established with the purpose of providing financial services to poor segment of Society and to play a great role in the poverty reduction strategy are a special focus of the government. The demand for credit and private banks are not interested to operate in such area because of discouraging factor in connection with collateral risk (Harnig Alal, 2006). 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. In the world, development of micro and small scale business is viewed as a major means towards the improvement in the standard of living of the whole world population. In spite of this, small scale enterprises have different challenges, market problem, financial access or support provided by formal financial institution in Africa (Mukras 2003; Mukras and Seemule; 2005). Likewise, Microfinance institution is influenced by many factors such as lack of accessibility at the time they need to get; limited funding alternatives, limited financial products, weak internal control system, lack of giving appropriate training regarding how to use the money before providing the loan, lack of technological support and lack of strong regulatory frameworks. The problems that were addressed in this study are in position of Microfinance institution in creating job and reducing poverty. 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. MFI has been one of the means developed with the purpose of helping the poor to escape out of the poverty. Sidama Micro Finance Institution focused mainly on the performance and operation activities of the institution rather than assisting the poor people in mitigating and alleviating abject poverty in the study area. Therefore, The Impacts of Credit Provision of Micro Finance Institution on Job creation and Poverty reduction, the case of Sidama 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.

Objective of the study

General Objective: The general objective of the study is to assess and identify the Provision of MFI Services to job creation and poverty reduction in relation to Credit Provision.

Specific Objectives

The specific objective of the study is

- To assess the Impact of Credit Provision of MFI in terms of ownership of assets, the level of income and self-employment for livelihood improvement.
- To investigate the role of Micro finance institution credit provision sustainability to poor people in urban area.

Research questions

Parallel to the above objectives, the following questions whose answers are believed to clarify facts to analyze the impacts of MFI on Job creation and poverty reduction are presented.

- What is the impact of credit provision of MFI in terms of ownership of assets, the level of income and self-employment for livelihood improvement?
- What are the role of micro finance institution in job creation and poverty reduction in urban area?

Significance of the study: As our country is one of the least developed and poor countries with rapidly rising population that increases the rate of unemployment proportionally, this study is show the potential of small scale enterprises to limit the unemployment and reduce poverty and their problems that should be solved for better performance of the enterprises. In order to achieve the desired efficiency of economic development of small scale enterprises, this study has a great relevance. Because, it helps to understand different factors those promote or hinder job creation and poverty reduction on small scale entrepreneurs and it is expected to provide valuable solutions to these different factors that leads to improvement in small and micro enterprises. In line with this, there is no comprehensive and Authoritative literature conducted on SMFI Services on job creation and poverty reduction. Therefore, 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 and it can also serve as a source document to those who would like to pursue further investigation in the area. It also serves as a basis for further investigation on impacts of Micro finance Institution on job creation and poverty reduction.

Scope of the study: The study is limited to small scale enterprises engaged in manufacturing at three sub-cities among other eight sub-cities in Hawassa City. The scope of this study is the Impacts Credit Provision of Micro Finance Institution on job creation and poverty reduction involving on both primary and secondary data from 2006 - 2010. This study is limited on the impacts of SMFI on job creation and poverty reduction and it assesses their contribution to the SSEs that are working in Hawassa City.

Review of related literature

Theoretical perspectives

Definition of Micro finance: Micro finance is a term used or refers to the activity of previous financial service to client who is excluded from the tradition system on account of their economic status. These financial services will most commonly take the form of loans and saving. In other words, micro finance is the provision of saving and Credit and other financial product in small amount to primary poor customers conventionally. Micro finance, according to Oretto (1999, P, 8) is the provision of financial service to low income poor and very poor self - employed people. The financial services according to Ledger wood (1999) generally increasing saving and credit but can also include other financial service such insurance and payments service. Schreiner and Colombet (2001, p.339) define micro finance as the attempt to improve access to small deposit and small loan for poor households neglected by banks. Therefore micro finance institution involved provision of financial service such as saving, loan and insurance to poor people living in both urban and rural setting who are unable to obtain such service from the formal financial sector. Schreiner (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.

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). 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).

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 for 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 Rekowski, 2008).

History and Theories of MFIs and MSEs

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.

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.

The MSE development strategy and institutional support in Ethiopia: The industrial development strategy of federal government of Ethiopia reissued in (2003), indicate that promoting micro and small scale enterprise are one of the important improvement will give do emphasis and priority to promote this sector .The primary objective of existing of micro and small scale enterprise issued, 2003 is to create and enabling legal institutional anther supportive environment of micro and small scale enterprise

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).

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. (Calgagovski.J.V.M.C.Germany and C.Hamphereys, 1991).

Micro financing 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 MFEs. They are sponsored by regional governments, local associations, NGOs, and government departments.

The role of micro finance in poverty Reduction: Dichter (1999), states that microfinance is a tool for poverty reduction and while arguing that the record of MFIs in microfinance is "generally well below expectation" he concedes that some positive impacts do take place. From a study of a number of MFIs he states that findings show that consumption smoothing effects, signs of redistribution of wealth and influence within the smallholder farmers are the most common impact of MFI programs. Hulme and Mosley (1996) in a comprehensive study on the use of microfinance to combat poverty, argue that well-designed programs can improve the incomes of the poor and can move them out of poverty. Wright (1999), states that there is significant difference between increasing income and reducing

poverty. He argues that by increasing the income of the poor, MFIs are not necessarily reducing poverty. It depends on what the poor do with this money, oftentimes it is gambled away or spent on alcohol, so focusing solely on increasing incomes is not enough. The focus needs to be on helping the poor to “sustain a specified level of well-being” by offering them a variety of financial services tailored to their needs so that their net wealth and income security can be improved.

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).

Better nutrition: Access to financial services also translates in to 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 in to better nutrition and health for impoverished families. The nutritional benefits are particularly felt by children.

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 micro finance client are more likely to go to school and stay in school longer. Student dropout rates are much lower in microfinance client households (Little field and Murdoch, 2003). Recent theoretical models routinely portray human capital investment (eg. education) as primary engine of economic growth.

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 (Little field and Murdoch 2003).

RESEARCH METHODOLOGY

Description of the study institution: This study is focused on the Impacts of Credit Provision of Micro finance Institutions on Job creation and Poverty reduction. 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, and data collection instrument and data analysis.

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 Sidama Micro Finance Institution /SMFI/ 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 Job creation and poverty reduction.

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.

Target population: This study was conducted on SMFI, 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 2262 members who were consisted of 246 enterprises. The target group of this study is 623 members those incorporated in 124 (50%) enterprises and the target number of sampled enterprises for this study is 27 (11%) enterprises of Hawassa city /HCSMFI, 2011/.

Sampling design: This study adopts the sampling methods to conduct the research in three sub-cities of Sidama Microfinance credit beneficiary in Hawassa city. Three sub-cities (Menaheria, Bahil Aderash and Tula) are selected for the collection of primary data, because Menaheria sub-city has got highest number (511) of beneficiaries, Bahil Aderash sub-city has got average numbers (220) of beneficiary and Tula has got the least number (101) 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.

Sample Size: During the survey time there were 65 enterprises in the food processing sector, 4 enterprises in the gravel production, 16 enterprises in the precast/block production work sector and 39 enterprises in metal and wood work sector, totally 124 enterprises consisting of 623 members as the sample of study population. Among these, 15 enterprises were selected from the food processing sector, 2 enterprises were selected from the Gravel Production, 1 enterprise was selected from precast/ block /construction material production sector, and 9 enterprises were selected from the metal and wood work sector, totally 27 enterprises (24.1%) of total enterprises included in the study from three sampled sub-cities (Menaheria, Bahil Aderash and Tula). The desired sample size of this study is 100 which constitute 16.05% of the study population.

Data Collection Instrument

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.

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.

RESULTS AND DISCUSSION

Assessment of the credit provision of clients: Four small and microenterprises were analyzed by using several parameters. These four enterprises researched were food preparation, gravel production, precast/construction materials production and metalwork. The members of these enterprises were youths who had no job opportunities and living under poor economic status. For a poor segment of a society, a provision of credit helps to shift from their existing economic conditions. This is because; economically poor people may use the credit more efficiently to move from a poverty trap. As depicted in Table 4.1, the respondents were requested to reply whether they have access to credit or not. Accordingly, 44% had reported as they have access to credit services, whereas, the remaining 56% replied that they had no access to credit. As can be seen from the data, the majority of the respondents didn't have access to credit which requires intensive efforts towards changing the existing situations. Moreover, the respondents also reported that 35(79.5%) had used a credit from Sidama Microfinance Institution which is one of the most important providers of credit for small scale businesses in the study area. Few numbers of respondents 9(20.4%) also reported that they had received a credit from other sources, like Omo Microfinance Institution. On average, the small scale enterprises received the credit amount of 26262.8 Ethiopian Birr. On average the largest amount of credit (43846) birr was received by metalwork enterprises which show its capital intensiveness. On the other hand, on average food preparation enterprises obtained 12740 Ethiopian Birr. This type's enterprises require small capital and with training, job opportunities can be created for the vast number of unemployed youths.

As depicted in Table 4.2, respondents were asked whether they have used the acquired budget in accordance with the business plan. It is known that, during the acquisition of a credit, ever enterprise is required to develop its own business plan. With this regard, all of the enterprises developed their own business plan. In fact, among these four enterprises researched, 86.3% of food preparation enterprises and 100% of gravel production enterprises utilized the acquired credit based on the activities they put their business plan respectively. Against this, as compared with other enterprises, precast groups show a low score in using the budget based on the plan. The reason for not using based on the business plan as reported by the enterprises is that most of the time the amount indicated in the plan is not availed by the credit organization. Therefore, the enterprises are forced to rearrange the available budget for all activities required for the operation. Moreover, weak follow and evaluation mechanisms of the lending organization found to be sources for not using the credit obtained

based on the business plan. To solve the problem, consecutive additional credit training on business plan development, different training facilities, and market study to make the borrowers/poor use the money according to the enterprise's business plan and to make credit provision more effective. This because providing credit alone may not bring dramatic change or it will not reduce poverty and improve productivity and income on a sustained basis. In light of this, the previous study dealing with Ethiopian microfinance institution indicated that the 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 issues should be improved and they point out so many things that the MFI should provide. As depicted in Table 4.2 majority (70.4%) of microcredit utilizing enterprises responded that they have been benefited from the credit scheme. It can be concluded from this fact that the credit scheme to poor people in an urban area has a great race in the reduction of poverty. Contrary to this fact, 29.6% of respondents reported that they have not been benefited from the credit scheme. The reason for not benefited from the credit scheme is that the lending organizations forced them to repay within a short period of time. The respondents urged the lending institution to provide them an adequate time to get benefited from the process and can be able to pay without default. Moreover, the amount of credit was not adequate and it is better to increase the credit amount of money. This indicates that the microfinance institution should adjust the repayment period and the credit amount. The focused group discussions also confirmed that the time period for loan repayment is very short and most of the time they pay back the money credit as it is without engaging in any business activities. As depicted in Table 4.3 reveals about the adequacy of credit provided by SMFI to run their businesses, 34% replied that the amount of loan taken from SMFI is adequate (sufficient) to run their business effectively. Whereas, the majority (66%) of the total respondents confirmed that the load provided by the institution was the inadequacy of loan size to run their business. This indicates that the credit provider is not sufficient enough for enterprises' business to run their operation effectively.

From this, it can be concluded that despite the significant contribution of SSEs are making towards employment and national economy, their growth has been hampered by several challenges and constraints like low credit amount and repayment periods rank on top being reported as the major constraints by a large proportion of the enterprises. Therefore, microfinance institutions should adjust the credit amount that offers to SSEs business /beneficiaries. It was also suggested that they should be able to extend repayment of loans in cases where beneficiaries face problems beyond their control and loan repayment periods should be flexible and be based on the pattern of income flows from business activities. Slack period for some of the activities should be identified and the loan repayment periods be based on the specific circumstances.

Impacts of Microcredit on Small and Micro Enterprises: It is believed that microcredit services bring significant impacts on both the users and family networks. As depicted in Table 4.3 that level of current personal or family income compared with against past time. The microfinance credit program is the main source of finance for low-income people. Studies that have been carried so far confirmed that participation in microfinance programs resulted in improvement in the beneficiary's income. These improvements in the household's standard of living may have resulted from the point of increase in income. , From overall respondents, 85% respondents reported that their income has improved after being credit beneficiary than before being credit beneficating, while 7% reported that their income remained the same as before and 8% out of the total sample reported that their income level has been become lesser and lesser after being beneficiary respectively.

Table 4.1. Access, sources and amount of credit used by the selected enterprises

Variables	Types of Small and Micro Enterprises					
		Food preparation n=51	Gravel production n=6	Precast production n=15	Metal work n=28	Total N=100
Access to credit	Yes	22(43.2)	2(33.3%)	7(46.6%)	13(46.4%)	44(44%)
	No	29 (56.8)	4(66.7%)	8 (53.4%)	15 (53.6%)	56 (56%)
Sources of credit	Sidama MF	18(81.8)	2(100%)	6(85.7%)	9(69.2%)	35(79.5%)
	Omo MF	3(13.6)	0	1(14.2%)	3(23%)	7(15.9%)
	Other sources	1(4.5)	0	0	1(7.6%)	2(4.5%)
Amount of credit in Birr	Mean	12740.9	38750	9714.28	43846.1	26262.8
	Standard deviation	5326.81	8838.8	5758.0	15296.2	

Source: Own survey, Values in parenthesis are the percentage

Table 4.2 Credit utilization schemes of selected enterprises

Variables	Types of Small and Micro Enterprises					
		Food preparation n=51	Gravel production n=6	Precast production n=15	Metal work n=28	Total N=100
Spending on the money based on a business plan	Yes	44(86.3%)	2(100%)	4(57.1%)	11(84.6%)	38(86.3%)
	No	7(13.7%)	0(0)	3(42.9%)	2(15.4%)	6(13.7%)
Credit had a benefit	Yes	15(68.1%)	1(50%)	5(71.4%)	10(76.9%)	31(70.4%)
	No	7(31.9%)	1(50%)	2(28.6%)	3(23.1%)	13(29.6%)
Adequacy of credit	Adequate	8(36.3%)	0(0)	2(28.5%)	5(38.4%)	15(34.0%)
	Inadequate	14(63.7%)	2(100%)	5(61.5%)	8(61.6%)	29(66%)

Source: Own survey, Values in parenthesis are a percentage

Table 4.3. Impacts of the microcredit before and after engagement in the enterprises

Variable	Type of small scale enterprise										
		Food preparation n=51		Gravel production n=6		Precast production n=15		Metal work n=28		Total N=100	
Changes in own/family income	Improved	44	86.2	5	83.3	13	86.8	23	82.2	85	85%
	Remains the same	3	5.9	1	16.7	1	6.6	2	7.1	7	7
	Become Worse	4	7.9	0	0	1	6.6	3	10.7	8	8
Current use of health services	Improved	40	78.4	4	66.6	11	73.4	23	82.3	78	78
	Remains the same	2	3.9	0	0	2	13.3	4	14.2	8	8
	Become Worse	9	17.7	2	33.4	2	13.3	1	3.5	14	14
Current Access to education services	Improved	48	94.1	5	83.3	13	86.8	24	85.7	90	90
	Remains the same	3	5.9	1	16.7	2	13.2	1	3.5	7	7
	Become Worse (%)	0	0	0	0	0		3	10.8	3	3
Current access to a balanced diet	Improved	43	84.3	3	50	10	66.7	20	71.4	76	76
	Remains the same	3	5.8	0	0	1	6.6	6	21.4	10	10
	Become Worse	5	9.9	3	50	4	26.7	2	7.2	14	14

Source: Own survey, Values in parenthesis are the percentage

Table 4.4. Two-tailed spearman's correlation test

Benefits attained after borrowing of the credit			
The level of current personal/family income against the past	Spearman's rho		0.525**
	Sig. (2-tailed)		0.000
	N		100
The current Access to health service for enterprise member/ his family against the past	Spearman's rho		0.248*
	Sig. (2-tailed)		0.013
	N		100
The current Access of the enterprise member/ his family to education compared with the past	Spearman's rho		0.184
	Sig. (2-tailed)		0.027
	N		100
The current Ability of the enterprise member/ his family to a Balanced Diet compared with the past	Spearman's rho		0.294**
	Sig. (2-tailed)		0.003
	N		100

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

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

Source: SPSS Processed data

This indicates that the loan received from SMFI is insufficient for beneficiaries to run their business and even for their living condition. As indicated in Table 4.3 also confirmed that as compared with their part experience of respondents, access to education service for enterprise members of their family has improved. This could be believed that provision of credit to SSEs member to be engaged in different income generation activities, will improve their standard of living and send their children to school. In relation to this, an attempt was made to see the contribution of Sidama microfinance's credit provision on school enrolment and annual average educational expenditure of beneficiaries for children. As depicted in Table 4.3, 90% reported that engagement in borrowing money for MFI could facilitate access to education for their children after being credit beneficiary, 7% of respondents reported that their access to education service remains the same and 3% said that the access to education service become lesser after being the credit beneficiary. This indicates that they had no access to send their children to school due to a shortage of finance on one side and on another hand also there was the manifestation of poverty in a high degree of malnutrition and a general lack of access to health. It is known that the main objectives of the microfinance institution are to reduce poverty by providing effective services to poor people to ensure a sustainable source of income, which would have a positive repercussion on access to education and the health of the household members. Better health can be complementary in poverty alleviation and it also increases people's productivity, thereby not having medical bills. Therefore, health programs are valuable complementary strategies. Thus, whether beneficiaries' access to medical services improved after the loan or not, it needs the MFI contribution assessment. As depicted in Table 4.3, from the overall respondents 78% reported that they had access to medical service after being credit beneficiary than before to being credit beneficiary. This indicates that there was an improvement in access to medical service while 8% reported that their access to medical service remains the same compared with after being the credit beneficiary with before, and 14% respondents reported that their access to medical service is become lesser and lesser after being credit beneficiary. Both remain the same and become lesser and lesser after being credit beneficiary indicates that there was no improvement in access to medical services. Therefore, the improvement in access to medical service is an indication that credit has been bringing about positive conditions in improving the health condition of borrowers and non-improvement but also not.

Moreover, food security is one of the areas where the impact of credit utilization can be seen. With this regard, as indicated in Table 4.3, the current ability of the enterprise members and their families to balanced diet compared with the past time, 76% reported that the access of their consuming balanced diet was improved after being credit beneficiary than before to being credit beneficiary. While 10% of respondents reported that the access to consuming the balanced diet remains the same as previous compared to past time with a present after being credit beneficiary. This indicates that there is no difference in consumption before and after being credit beneficiary. At last, 14% of respondents reported that there is no improvement in access to a balanced diet after being credit beneficiary. This indicates that access to consuming a balanced diet was better before being a credit beneficiary. Most likely, the betterment of prior access to balanced diets than to after being credit beneficiary has resulted from external factors influencing the trend of consumption rather than the lower earned through the enterprises. The overall analysis shows that the use of microcredit to engage in different income generating activities have resulted in improvements in income, head the services, better education and increasing the household's food security status. Therefore, it can

be concluded that microfinance institutions have brought a significant change in the livelihoods of poor segments of the community. Therefore, it is better to widen opportunities through expanding access to credit and improving the amount of credit so that beneficiaries can improve their livelihoods.

Correlation Tests on MFI contribution of SSEs operation: The assessment of MFI's contribution to small scale enterprises' operation is undertaken by specifically looking at the tangible positive imprints of the Sidama Microfinance on the lives of small scale enterprises' members engaged in the areas of food processing, gravel production, precast/ block production, and the metal and woodwork. The Spearman's 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 SMFI is being the source of finances/the credit. The correlation of positive relationships 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 0.525 marked by a double star, which implies that the likelihood of a relationship between them seems very strong and negative since the strength of relationship existed between the two periods was estimated at 0.01 levels. 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 0.248 in Table 4.4 reveals that the strength of the relationship between the household health condition and borrowing was found to be significant and positive when compared with the past. It doesn't mean that the enterprise members don't fall ill rather, the ability they acquired in economic terms has enabled them to 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 0.184 of the possible correlation existed between education and positive changes attained after being embraced by the SMFI'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. Moreover, positive changes were observed in changing the diet of the beneficiaries. 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 to their borrowing. Furthermore, the post-borrowing period positive changes were also more likely to be attributable to their engagement in Sidama microfinance institution supported small scale enterprises that wouldn't otherwise happen or become better this much the way it was attained.

Conclusions and Recommendation

Summary of Findings: This study is focused on the Impacts Credit Provision of MFI on Job creation and poverty reduction on

economically poor people. So, from this survey the main results can be identified below. MFIs serve as a stepping-stone for economic growth and income generation of individual persons. It is also noted that these Small-scale enterprises have an enormous impact on the livelihood of the community members living there. Since the research aims at the impacts of credit provision of Micro finance Institution on job creation and poverty reduction in Hawassa City, the samplings was done as an intermediate point of the study to investigate that SMFI brings significant improvement for credit beneficiaries at study area. In addition to that, the parameters like sex of the respondents, their age, educational background, the year of establishment of business membership, the reasons why they started the business, the source of initial capital, the challenges in this business, types of incentives they could have been receiving, credit provisions from SMFI, their improvement in living standards of livelihood throughout this study include: income, health care, education service, asset ownership, personal consumption/diet, and self – employment and lastly the terms of living standard improved were discussed in a meticulous manner and explicitly. Hence, the finding this research shows particularly on job creation and poverty reduction, MFIs are one of the best alternatives to get out poor segments of society from poverty and to create income for the beneficiaries.

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 client members. As the results of study showed, the difficulty of getting access to credit given by Sidama 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.

Conclusion

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.

Recommendation

Considering the well recognized importance of SSEs in job creation, income generation and poverty alleviation, the governmental 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.

- Since, MFI is established with purpose of providing financial services to poor segment of society the institution which has the largest share in the Hawassa City to help the poor, there is a need to provide necessary support to establish its sub branch in all areas that did not get the service and to increase its client's.
- Availability of credit for SSEs both at the start up level and during operations is very important for achieving the objectives of enterprises in improving their living standard, employment creation and income generation.
- Therefore, government and stakeholders including MFI shall give better support for small scale enterprises development by providing: optimal loan size and charge optimal amount of loan repayment rate and providing sufficient amount of credit provision and Lower the amount of interest rate and Encourage savings.
- Therefore, governments or concerned body should actively participate in improving challenges that affects the respondents as they can't improve their living standards and income generation by providing access to credit.
- 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 and Government should improve access to finance and use of technology so that more SSEs to be well organized and unemployment reduced. And then SMFI also should improve interest rate and decrease bureaucracy to increase the entrepreneur's productivity and income generation.
- The most respondent involved in the small scale enterprises are male so, the government should be consider the female in order to involve in to the small scale enterprises or businesses.
- Regarding sufficiency of the loan amount to meet the demand of beneficiaries, it has already been reported that the amount of loan taken from SMFI is insufficient to run the business effectively. Therefore, the size of the loan provision per head should be increased to the reasonable amount.

ACRONYMS

AEMFI	Association of Ethiopian Microfinance
Institutional	
AVFS	African Village Financial Services
BDS	Business Development Service
CBE	Commercial Bank of Ethiopia
CGAP	Consultancy Group to Assist the poor
CSA	Central Statistical Agency
EEA	Ethiopian Economic Association
EBDSN	Ethiopian Business Development Services
Network	
FeMSEDA	Federal Micro and Small Enterprise
Development Agency	
FGD	Focus Group Discussion
GBB	Grameen Bank of Bangladesh
GTP	Growth and Transformation Plan
HDI	Human Development Index

HCHDPO Office	Hawassa City Housing Development Project
IDA	International Development Association
MDGs	Millennium Development Goals
MFI	Microfinance Institution
MOFED	Ministry of Finance and Economic Development
MOTI	Ministry of Trade and Industry
MSE	Micro and Small Enterprise
NBE	National Bank of Ethiopia
NGOs	Non – Governmental Organizations
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
PLC	Privet Limited Company
PEACE Development	Poverty Eradication and Community Development
Re MSED	Regional Micro and Small Enterprise Development Agency
S.C.	Share Company
SMFI	Sidama Micro Financing Institution
SNNPRG	Southern Nation Nationalities and People Regional Government
SPSS	Statistical Package for Social Science
SSA	Sub. Saharan Africa
SSE	Small scale Enterprise
TVET	Technical Vocational Education and Training
UNDP	United Nations Development Program
U. S. A	United States of America
USAID	United States Agency for International Development

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