Full Length Research Paper

Determinants of Microfinance Service Utilization: The Case of Dire Dawa, Ethiopia

Endalew Wale, Endrias Geta* and Jema Haji

School of Agricultural Economics and Agribusiness, Haramaya University, Ethiopia.

In Ethiopia, poverty is pervasive and it is argued that one of its causes is deprived access to credit and other microfinance services to be used for the purpose of working capital as well as investment. Thus, micro credit service was discovered as an area of priority in the fight against poverty and ensuring sustainable development. The objectives of this study were to identify the determinants of microfinance credit service utilization and the prevailing challenges and opportunities faced by the Microfinance Institutions in the provision of the service in Dire Dawa Administration. It was based on the data obtained from 160 respondents' selected using multi-stage sampling technique as well as focus group discussions and key informant interviews. A binary logit model and descriptive statistics were used for the analysis of the data gathered. The result indicated that utilization of microfinance credit service was significantly influenced by factors such as area of residence, possession of fixed asset, sex of the respondent, educational level attained and distance of the respondents' residence from microfinance service giving center. Therefore, developing gender sensitive strategies that promote the service provision among the female members of the community as well as developing an incentive package targeting female members of the community, establishment of satellite offices in the rural part of the administration, focus to institutional capacity building, implementing a working and effective follow-up system, and designing human resource development plan need to be implemented by the concerned authorities to improve the performance of microfinance service proving and utilization.

Keywords: Dire Dawa, Credit, Logit, Microfinance

INTRODUCTION

Everywhere around the world, it is common to observe some rich people and a lot of poor people who cannot fulfill the minimum requirements of basic needs for their survival. Despite the score of modernization and advancement that have been registered in the world, the percentage of people living below poverty line is still huge (Todaro, 2000). Such condition is pervasive especially in least developed countries like Ethiopia.

Like most of the developing countries, Ethiopia is one of the lowest income countries in the world. Its economy, which is mainly dependent on agriculture, has been hit by several internal and external shocks. Devastating wars, frequent draughts, high population growth, distorted investment environment, volatile primary product prices, etc. have been some of the shocks the economy has been experiencing. These and a lot other factors resulted in the decline of the economy as a whole, while the living conditions of the population have been continuously deteriorating. Specifically during the Derg period (1974-1991) the Ethiopian economy was

_____

*Corresponding author, E-mail:geta.endrias@gmail.com
Tel: +251916868202.

performing very poorly under a socialist oriented command economy (Jemal, 2007).

The unemployment problem in the country has forced a lot of people to join the informal sector of the economy. This sector of an economy is said to have a significant role in the creation of jobs and income generation for quite a large proportion of the population in Ethiopia. According to a paper compiled by the Ministry of Finance and Economic Development, the number of people earning their livelihood from the informal sector activities and small scale manufacturing industries is eight times larger than those engaged in the medium and large scale industrial establishments (MoFED, 2002).

This problem has motivated various scholars to devise various ideas and come up with divergent views. Finally, a consensus has been reached by all development economists. All believe that any improvement without consideration of the lives of the huge proportion of the poor is meaningless. For the matter of this, fair distribution of resources and poverty alleviation has become the most important development agenda. Accordingly, different mechanisms and policy measures have been introduced, among which the establishment of Microfinance Institutions (MFIs) is the one which is believed to create access of financial services to the poor (MU, 2002). As indicated in the same source, establishment of MFIs that provides access to credit is regarded as a means of tackling the financial constraint of the poor. This is because one of the major problems poor people in the rural and urban areas face is lack of capital. Formal banking procedures often marginalize poor borrowers because poor borrowers want financial services in tiny amount which are exposed to high risks through the eyes of the formal banking system. Moreover, these borrowers are too poor to offer collateral. Thus, microfinance can provide a range of benefits that poor households highly value. Access and utilization to micro credit is deemed to help the poor to smooth cash flows and avoid periods where access to food, clothing, shelter or education is lost. Credit can make it easier to manage shocks like sickness of wage earner, theft, or natural disasters.

In Ethiopia, delivery of financial services to the poor is a very recent development. Micro credit programs were introduced as components of Non Governmental Organization (NGO) operations in the 1980s. Since then the government of Ethiopia opened commercial banking sector to private banks, and in 1996. MFIs were created to serve populations with no access to financial services. One successful outcome of these institutions is the liberalization of financial sector and, thus among other things, the creation of legal framework allowing for the emergence, establishment and operation of MFIs to serve poor Ethiopians (proclamation (40)1996). Following the proclamation, several credit programs operated by NGOs or government departments were established and transformed into licensed MFIs (MFI, 2009). Dire Dawa Microfinance Institution (DMFI) is one of those MFIs that were established as per the proclamation number 40 of 1996. It was supposed to create access of financial services to a large number of low income group and unemployed residents of the administration who were not able to have access to the financial services including micro credit service provided by formal banks due to perceived risk and lack of collateral (DMFI, 2010).

An overwhelming majority of the world's poor live in the Third World countries. Several studies noted different causes of poverty in these countries. In Ethiopia, poverty is pervasive and some argued one of the causes of poverty is deprived access among the larger community group to credit and other microfinance service to be used for the purpose of working capital as well as investment (Jean-Luc, 2006). Various approaches have been employed in alleviating poverty of which provision of credit that targets the poor is the main one. Many are now of the opinion that allowing the poor to have command over resources through credit can contribute towards poverty alleviation. Thus, micro credit service was discovered as an area of priority in the fight against poverty and ensuring sustainable development. To this end, many developing economies have been providing credit to the poor in the urban, rural and sub-urban area through microfinance schemes (Mulat, 2004).

In Ethiopia, microfinance credit service has been one of the most prominent instruments in the development programs and strategies. Over the past 40 years, millions of Birrs have been provided in the form of credit to support agricultural production, increase agricultural productivity and create employment in urban and semi-urban and rural areas. However, financing the poor, particularly the rural poor have been characterized by poor loan repayment rates and unsustainable subsidies (Assefa, 2009). The MFIs of Ethiopia have been exerting commendable efforts in the provision of sustainable financial services to the poor in the urban, semi-urban and rural areas of the country for more than a decade. Despite, the continued hard work and effort of microfinance providers, government, donors, and development partners to increase outreach in financial services, there is still a huge amount of unmet demand for such services in both urban and rural areas of the

country in general and Dire Dawa in particular (MFI, 2009).

According to the report from MFDR (2009), despite the consecutive reforms and efforts by the organization to sustain the service, utilization of the service among the community is affected by a number of factors. Hence, it is crucial to identify the determinants of microfinance credit service utilization and explore related challenges and opportunities with a particular reference to microfinance credit service in the study area. This study was, therefore, carried out with the objectives of to identifying the determinants of microfinance credit service utilization in Dire Dawa Administration and prevailing challenges and opportunities faced by the MFI in the provision of the service.

RESEARCH METHODOLOGY

The Study Area

Dire Dawa Administration is located between 09⁰ 28.1 to 09⁰ 49.1 N and 41⁰3 8.1 to 42⁰ 19.1 E. The altitude of the Administration ranges from 1000 to 2450 masl while the mean annual minimum and maximum temperature ranges from 19 ⁰c to 34.6 ⁰c, respectively. December and January are relatively the coldest months, while May, June, and July are the hottest months. The mean annual rainfall of the administration is 640.3 mm; and the highest is in August.

The population of Dire Dawa is estimated to be 377,321 of which 50.1% are female, while the remaining 49.9% are male. About 68% of the population of Dire Dawa Administration lives in the urban area whereas 32% resides in the rural part of the Administration. On the other hand more than 36% of the population is found to be of less than 15 years of age. The overall population density of the administration is 196 people per km^2. The average family size varied from 4.3 to 5.0 persons/households in the urban and rural areas, respectively.

Types and Sources of Data and Methods of Data Collection

Both primary and secondary data were collected to achieve the stated objectives of the study. The data were collected from sample of 160 households both from urban and rural parts of Dire Dawa were selected on the base of prior exposure to the service by MFI. Secondary data

were collected from DMFI, Central Statistical Agency (CSA) abstracts and Regional Bureau of Agriculture and Bureau of Finance and Economic Development. The quantitative data were gathered using structured survey questionnaire, while the researcher collected the qualitative data through focus group discussions with the communities in the rural and urban areas, officials and experts of DMFI. In addition to these, the researcher used an in depth interviews and personal observation as a means of qualitative primary data collection. To this end the researcher organized three separate focus group discussions and in-depth individual interviews with 20 key stakeholders including experts and officials of DMFI, Development Agents, credit beneficiaries and other community representatives. A total of 26 individuals participated in the three focus group discussions with an average of 8.5 participants in each focus group discussion.

Sampling Design and Procedure

A multi-stage stratified sampling technique was employed to select sample respondents to be included in this study. In Dire Dawa administration, 9 urban kebeles and 5 rural kebeles were identified to have access to microfinance credit service in the past years. Hence, the target groups were stratified based on the geographical location. Taking time, budget and accessibility into consideration, for this particular study, a total of four kebeles that is two rural and two urban kebeles were randomly selected. Accordingly, kebele 01 and kebele 06 from the urban Kebeles and Biyo Awale and Wahele kebeles from the rural Kebeles were selected.

A total of 160 were selected for an interview. The number of non-user respondents from each kebele was taken based on probability proportional to the total number of households in each kebele. Since the size of user members in each kebele was relatively small as compared to the size of the non-user households, all the households reported to use microfinance credit service were purposively included in the study (Table 1) below.

Methods of Data Analysis

The data were analyzed using econometric model and qualitative approach. An econometric model known as binary logit regression model was used to identify the relative influence of explanatory variables on the dependent variable. A qualitative approach was used to

Table 1. Sample kebeles and sample size

sample kebele	Total household heads	Users of service households	Total non-user households	Sample non-user households	Total sample
Kebele 01	1400	18	1382	14	32
Kebele 06	4950	40	4910	50	90
Wahele	950	7	943	10	17
Biyo Awale	1050	10	1040	11	21
Total	8350	75	8275	85	160

Source: Authors' design (2012)

summarize the constraints and opportunities identified during focus group discussion and key informant interview.

Definition of Variables and Working Hypotheses

The Dependent variable: The dependent variable is defined as "microfinance service utilization" which was measured as a dummy variable taking a value of 1 for users of microfinance credit service and 0 for non-users.

The independent variables: Microfinance credit service utilization was hypothesized to be influenced by a combined effect of various factors such as household characteristics, socioeconomic characteristics, and other institutional characteristics. Based on literature review, in this study the following variables were hypothesized to explain the dependent variable.

Sex of respondent (SEX)

This is a dummy variable that assumes a value of 1 if the head of the household is male and 0 otherwise. Assefa (2009) who empirically tested a set of socio-economic and other important factors influencing microfinance credit service utilization among small farmers aimed at differentiating borrowers from non-borrowers. Using discriminate analysis, he found that sex of respondent to significantly affect and distinguish borrowers from non-borrowers. The study of Meehan (2001) also indicated that there were clear differentials in utilization of micro

credit related both to gender. Women took consistently lower loans than men. With this background including the existing gender differences, mobility male headed households and their participation in different meetings and exposure to information, it was hypothesized that male headed households have more access to use formal credit.

*Education level attained by household head (*EDULEVL*)*

This is a continuous variable, which is measured by the grade level attained by the respondent. Educated individuals are expected to have exposure to external environment, to be acquainted with different contemporary needs, etc. Abreham (2002) and Asefa (2009) reported positive and significant relation between microfinance credit service utilization and literate educational status. In addition, Miller and Ladman (2003) applied discriminate analysis to identity a set of socio-economic, physical and psychological factors that influence utilization of the microfinance credit service use among small farmers with a view to differentiate between borrowers, potential borrowers, and non-borrowers. The results of the study indicated that borrowers were characterized by higher resource base, farm size and higher level of education. Therefore, the educated were expected to access and utilize microfinance service. Therefore, education level was hypothesized to be positively associated with the utilization of microfinance service.

Lending procedure (LENDNGPRO)

This is a dummy variable, which is measured to capture the perception of respondents about the lending procedure followed by credit service providers. It is hypothesized that if respondents disagree with the lending procedures, it is unlikely that they will be users of microfinance credit services. Therefore, a negative relationship is expected between the perception of respondents about lending procedure and microfinance credit service utilization.

Age of respondents (AGE)

This is a continuous variable, which is measured by the age (in years) of the respondent at the time of the survey. Younger respondents are expected to be users of microfinance credit service than that of old due to better awareness and knowledge related with benefits of micro credit service. In addition, younger and adult age respondents were believed to be in favor of taking a calculated risks unlike that of old age respondents. Berhanu's (1999) result also reported that age of household   to have positive impact on microfinance credit service utilization. On the other hand, there was a negative relationship between old age of respondent and microfinance credit service utilization. In the same study, a non-significant relation between marital status and microfinance credit service utilization was reported. Therefore, being young and adult was hypothesized to be positively associated with the utilization of microfinance service.

Perception towards risk (PERRSK)

The other factor, which influences the household's utilization of micro credit service, is their attitude towards risk. Many individuals, as can be expected, are very risk-averse that even when credit is available, they do not like to venture into activities. This is due to risks of repaying loans that come from loss of property and failure of proposed business plan. Vigano (1993), in a case study of Burkina Faso, stated that large number of residents do not take credit service fearing they might be in risk of losing their property. It was measured based on the respondent positive or negative perception. This is a dummy variable which takes 1 if the respondent does not fear risk to take loans and 0 otherwise. Therefore, it was expected that the respondents who are risk averse will not demand credit.

Possessions of fixed asset (FAHH)

This is a dummy variable, which takes a value of 1 if the household possesses fixed assets and 0 otherwise. This variable reflects asset ownership status of the respondent. Since it reflects ownership of an important asset like house, farm, it is expected to affect access and utilization of different financial services including microfinance services. Individuals with secured asset ownership most likely access service from the microfinance institution as they can easily settle issues related with collateral. Miller and Ladman (2003) indicated that borrowers were characterized by higher resource base, farm size large number of cattle, higher household incomes, higher level of market integration, and greater use of improved technology, larger operating costs and investments. Matin (2000), in his study on micro finance credit service utilization in Bangladesh, also obtained a significant and positive relationship between ownership of fixed asset with micro credit service utilization. Therefore, ownership status of the individual was expected to be positively correlated with access and utilization of microfinance credit service both in the urban and rural areas.

Marital status (MARTAL)

It is a variable indicating whether a respondent is married or not. It is a dummy variable that takes a value of 1 if an individual was ever married and 0 otherwise. The result of previous studies reported a significant association between marital status and utilization of microfinance credit service (Mulat, 2004). In this study it was hypothesized that unmarried individual is less likely to utilize microfinance service than the married one.

Know someone emerging successful (KSESFSMF)

This is a variable indicating whether the respondent knows someone successful after utilizing microfinance service credit or not. It is a dummy variable that takes a value of 1 if a respondent knew someone successful and 0, otherwise. Kashuliza (2000) reported a positive and statistically significant relationship between first-hand information about the service and microfinance credit

service utilization. Similar findings were also reported by other researchers. For instance, Yaqub (1995), in his Bangladesh case study, indicated that first-hand information about micro credit service to possibly and significantly influence microfinance credit service utilization. The variable was hypothesized to positively correlate with the utilization of microfinance service as the experience energizes an individual to be beneficiary.

Usage of mass media (USEMEDIA)

This variable refers to frequency of using mass media by respondents. Individuals who are frequently using mass media will have more awareness and consequently increased ability of utilizing microfinance service. Ike (1986), in his economic and financial analysis, showed information about the service and access to business information from media or other informal source to positively influence utilization and participation in micro credit services. It is a dummy variable that takes value 1 if an individual regularly follows a mass media and 0, otherwise. Therefore, usage of mass media was hypothesized to positively influence utilization of microfinance credit service among the respondents.

Area of residence (AORSR)

It refers to respondent contemporary area of residence. The place where they live and the cultures which they shared, have great impact on their access and utilization of microfinance institution. Sharma and Zeller (2005) reported area of rural residence to negatively affect credit utilization. It is a dummy variable and takes a value of 1 if the respondent is living in rural area and 0, otherwise. Therefore, in this study it is hypothesized that area of residence positively influences utilization of microfinance credit service.

Participation in different local issues (PDLI)

It is a dummy variable and takes 1 if the respondent participated in local issues and 0 otherwise. This variable is defined by active participation of respondent in different formal and informal local issues such as participation in local administrative affairs such as Kebele meeting, Iddir meeting and workshops. Research finding on the issue come up with a finding showing that active participation by the individuals on different social issues facilitated

information sharing among the community members and an individual with such habit will have more access to get information related to microfinance. Matin (2000) reported positive and significant relation between participation in local issue with micro finance credit service utilization. Thus, the variable was hypothesized to have a positive relationship with the utilization decision of microfinance service.

Membership of the respondent in multipurpose cooperatives (MEMCOOP)

This is a dummy variable which takes a value 1 for a member and 0 otherwise. Some of the households are members of the multipurpose service cooperatives and they get different services including credit. Matin (2000) reported a positive relationship between microfinance credit service utilization with membership to cooperative. Therefore, it was hypothesized that respondent households who are members of cooperatives have more access to credit from microfinance institution.

Respondent's perception of lending procedures (LEPROC)

To get formal loans individuals are expected to pass through different processes, which is time-taking, cumbersome and sometimes difficult to understand. Rather they prefer to take loan from the informal credit institutions for the sake of ease even if it charges higher interest rates. Bhenda (2003), in his India case study, revealed that households with positive perception about the service were among the users. This is manifested in the form of complicated application procedures and restrictions. This variable represents the borrower's perception of difficulty of the lending procedure. It is a dummy variable which takes a value 1 for those who perceive it as a constraint and 0 otherwise. Therefore, it was expected that, this variable negatively affects household's utilization of micro credit.

Physical distance of farmers from lending institutions (DINST)

It is a continuous variable measured by the distance in kilometer from the home of the respondent to the nearest microfinance credit service providing institution. Respondents near the lending institutions have a location

advantage and can contact the lender easily and have more access to information than those who live in more distant locations. Miller and Ladman (2003) indicated that borrowers were characterized by shorter distance to MFI to highly utilize micro credit than those in longer distance. Therefore, location advantage was expected to increase access and utilization of credit from the microfinance institution.

Respondent's perception of loan repayment period (LONPAY)

Formal credit institutions have rules and regulations that limit the time at which the borrower should repay the loan. If the respondents fail to repay on time they will be sent to the court or their property may be confiscated. Due to this reason individuals fear taking loans from formal credit sources. This variable represents the borrower's perception of how the loan repayment periods and time discourages respondent from participating in credit market. Bhende (2003) and Wenner (2000) confirmed that this variable has a negative effect on microfinance credit service utilization. It is a dummy variable which takes a value 1 for those who perceive it as a constraint and 0 otherwise. And it was hypothesized that, this variable negatively influences the dependent variable.

RESULTS AND DISCUSSION

Determinants of microfinance credit utilization

The binary logit model results revealed that utilization of microfinance credit service was determined by the interaction of different demographic, socio-cultural and economic, and institutional factors. To test the measure of goodness of fit in logistic regression analysis, the chi-square was computed and showed that the model was significant at 1% significance level. Consequently, the null hypothesis stating the coefficients of independent variables to be equal to zero was rejected and the alternative hypothesis of non-zero slope was accepted. The other measure of goodness-of-fit in the logistic regression model was checked by observing the value in the prediction table to verify whether the model correctly predicted it or not. The fit is said to be good if the overall correct prediction rate exceeds 50% (Lewis-Beck, 2000). Accordingly, the result indicated that 83.6% of the non-

users and 86.6% of the users were correctly predicted at the cut value of 0.5; and overall, the model correctly predicted 85% of the sample cases (Table 2) below. Hence, the model predicted user and non-user categories of micro credit service utilization among the community accurately.

Education level of the respondent (EDULEVL)

The variable was significant at 5% significance level and positively related with microfinance credit utilization. This implies that all other things being kept constant, the odds ratio in favor of utilizing microfinance credit service would increases by a factor of 0.896 for a unit increase in education. The possible explanation for this is that education helps the individual to utilize microfinance credit service, as the capacity created would help the individual to analyze and interpret and make use of it than less educated individuals. The result is similar with the findings of Abreham (2002) and Asefa (2009) who reported positive and significant relation between microfinance credit service utilization and educational level. In addition, Miller and Ladman (2003) found that borrowers were characterized by higher level of education as compared to non borrowers.

Sex of the respondent (SEX)

The variable was significant at <1% significance level and negatively related with microfinance credit service utilization in the study area. This indicates that all other things being kept constant, utilizing microfinance credit service would decreases by a factor of 0.074 for female respondent. The possible explanation may be that male respondents have high involvement in the outdoor activity and better access to information accompanied by high decision power in comparison to that of female respondent. The finding of this research is in line with the findings of Assefa (2009) who found sex of respondents to significantly affect and distinguish borrowers from non-borrowers. The study of Meehan (2001) also indicated that there were clear differentials in utilization of micro credit related both to gender. Women took consistently lower loans than men. In another study, an empirical study made in Guyana by Hunte (2006) using logistic regression model showed that male more likely participate in micro credit service than female. Whereas, in contrast to the above report the finding of Yaqub (1995) showed that women were better

Table 2. Maximum likelihood estimates of the logit model

Variable	Coefficient	S.E	Wald Statistics	Sig. Level.	Odds Ratio Exp(B)
SEX	-2.607***	0.638	16.695	0.000	0.074
AGE	0.008	0.026	0.088	0.766	1.008
LENDNGPRO	0.099	0.500	0.039	0.843	1.104
FIXDASSET	2.036*	1.225	2.763	0.096	0.131
MARGE	-0.235	0.351	0.448	0.503	0.791
KNOW	0.875	0.815	1.155	0.283	0.417
MEDAUSER	0.504	0.570	0.782	0.377	0.604
AOROFRES	2.099***	0.612	11.751	0.001	8.156
PDSEPI	0.332	0.563	0.349	0.555	0.717
MOC	0.760	0.597	1.624	0.203	0.467
LONPAYMNT	0.458	0.500	0.838	0.360	0.633
DSTFINC	-0.744***	0.227	10.751	0.000	0.475
EVRRISK	1.051	0.522	4.052	0.244	2.861
EDULEVL	0.109**	0.089	1.524	0.017	0.896
Constant	2.819	2.353	1.435	0.231	16.764

Pearson - χ^2 value   77.571***   df = 16
-2Log Likelihood   116.253
***, ** and * refer to significance at 1% and 5% and 10% probability level

than their male counter parts in micro finance credit service utilization.

Area of residence of respondents (AOROFRES)

Area of residence of the respondents was strongly significant and had positive influence at 1% probability level on probability of utilization of micro credit service in the study area. As indicated in Table 2, the odds ratio in favor of utilizing microfinance credit service increase by a factor of 8.156 for respondent residing in the urban area, all other things being kept constant. The possible explanation for this is that urban area residents may have better access to the MFI service in addition to better access to information related with microfinance credit institution than that of the rural counterparts so that respondents in the urban area better use microfinance credit service than that of respondent from the rural area. Similar finding was reported by Getaneh (2006) who come up with the finding showing significant and positive association between microfinance credit service utilization and urban residency. The study of Meehan (2001) also indicated that there were clear differentials in utilization of micro credit related both to gender and whether clients were urban or rural based. Sharma and

Zeller (2005) reported area of rural residence to negatively affect credit utilization.

Distance of the MFI from the respondent house (DSTFINC)

The result of the study confirmed that the distance of the respondent household from the microfinance service providing institution was significantly and negatively related to the utilization of microfinance credit service. This revealed that respondents in short distance from the microfinance institution were more users of microfinance credit service as compared to those individuals far from the station. The result also showed that, the odds ratio in favor of utilizing microfinance credit service decreases by a factor of 0.475 for those respondents residing at a far distance from the site of the microfinance institution. The possible explanation for this is that as the respondent is close (near) to the institution, he/she may have more knowledge about the service than the one in far place. The finding is found to be consistent with that of Getaneh (2006) who showed a significant association between distance and utilization of microfinance credit service. Miller and Ladman (2003) also indicated that borrowers were characterized by shorter distance to micro finance

institution to highly utilize micro credit higher than those in distance.

Respondent possession of fixed asset (FIXDASSET)

The variable was significant at 10% significance level and positively related to microfinance credit service utilization. This implies that all other things being kept constant, the odds ratio in favor of utilization of microfinance credit service increases by a factor of 0.131 for respondent having a resource considered as a fixed asset. The possible reason for this is that the possession of fixed asset would help the individual to easily meet the collateral requirement for the service. Similar finding was also reported by Abreham (2002). Miller and Ladman (2003) also indicated that borrowers were characterized by higher resource base, farm size, higher level of large number of cattle, higher household incomes, higher level of market integration, and greater use of improved technology, larger operating costs and investments. Matin (2000) also obtained a significant and positive relationship between ownership of fixed asset with micro credit service utilization

Constraints of microfinance service provision

The responses obtained from the sample respondents both in the rural and urban area were triangulated with the experts and authorities affiliated to microfinance service provision. The following constraints were forwarded and underlined by the participants of the focus group discussion and individual interview as the main challenges hindering microfinance service provision in the administration.

Problems related with institutional capacity building: The result of interview and focus group discussion indicated that there was lack of focus in targeting institutional capacity building. In the focus group discussion with the experts and officials of Dire Dawa microfinance institution, it was indicated that the organization lacks clear vision of targeting institutional capacity building to meet the growing demand of the service by the organization. Lack of sufficient funds for training and capacity building was also mentioned to be the main problem. The experts of Dire Dawa Microfinance Institution disclosed that the institution does not have strategy targeting human resource capacity building, institutional and capacity development

for microfinance. It was pointed out that institutional capacity building remained to be the least budget supported activity throughout the operational years of the organization. The constraints mentioned are against the universal fact of developing the capacity of microfinance institution before money can be invested in the sector to enable managing resources properly. While the community and micro investors are expecting professional delivery of service, the institution can neither attract nor afford professionals. Like other microfinance institution of the developing world the major constraints of Dire Dawa Microfinance Institution are related more to the lack of institutional capacity though the institution is still battling with pertinent issues of human resource management, governance, systems development and financial management.

Client mobility: In the group discussion with the microfinance officials, client mobility is one of the major challenges affecting the service provision of the institution. As a result, the organization is being forced to prefer dealing with clients of fixed abode as security for their investment. It was mentioned that large number of clients were reported to change their residence after taking credit from the institution. They either change residence within a city or relocate to other places in search of better job opportunities. It was underlined that client mobility causes lending institutions to incur huge operational costs as costs for follow-ups and tracing are high.

Lack of capacity for screening defaulters: The institution has tried to decentralize the service across offices in all the 9 Kebeles especially in the urban part of Dire Dawa. With this expansion of the service across all the Kebeles, the number of microfinance service users has increased by many folds. Despite the increase in the number of beneficiaries of the service, the institution does not have a well-functioning system to screen the defaulters. In the discussion with the officials it was clearly stated that with the increasing number of defaulters, a well-developed mechanism and capacity to screen defaulters has become imperative. Already the institution has been funding the same defaulters, thereby affecting its loan books. It is, therefore, apparent that the lack of such a capacity is a constraint to the development of the microfinance service in the area.

Harsh intervention environment: In the discussion with the officials of Dire Dawa Microfinance Institution it was found that working in the microfinance sector by itself is a challenge. The microfinance service provision is also

being significantly challenged by the existing nationwide high inflation rate. The macroeconomic environment is very challenging that demands highly competent managers who are innovative and can respond quickly to market demands and changes in the states of affair.

Prevalence of HIV/AIDS pandemic: During the focus group discussion, the participants were reminding the high prevalence of HIV/AIDS in the city and regarded it as the main constraint of microfinance service provision especially in the recent years. In the discussion it was indicated that in the past few years, some staff members of microfinance institutions have either suffered or died as a result of the disease. In addition, the clients are also being victim of the pandemic and therefore the problem forced the microfinance service to incur costs of funerals, recruitment and training new staff in addition to loss of labor productivity.

Lack of incentives: The participants of group discussion both from the community and the institution clearly disclosed the limitation capacity of Dire Dawa Microfinance Institution in comparison to the huge demand of the service by residents in the urban and rural areas. The importance of participation of other stakeholders in the microfinance service provision was also considered to be crucial for which there has been no established attractive incentive structure. Since this sector is high development priority with potential to create jobs and increase household incomes there should clearly defined incentives for participants in the sector.

Low level of awareness about the service: It was found out, during the group discussion, that the organization has no experience of promoting the service and there was no deliberately organized and strategically planned awareness creation mechanism that targets the promotion of the service. The same result was also obtained in the discussion with the community in which the majority of the participants did not know the objective of the institution.

Staff turnover: During the focus group discussion with the officials and experts as well as the beneficiaries of the microfinance institution, workers turnover was mentioned as the main challenge faced by the institution. Significant turnover was underlined to affect the service by the organization. In discussion with the staff, the key reasons were identified to be low salary rate and absence of incentive package. During the discussion it was mentioned that at least one staff member has resigned

both from main and branch offices during the previous budget year.

Lack of coordination among partners: In discussion with the experts and officials of Dire Dawa Microfinance Institution, the participants mentioned that different NGOs have been using microfinance institution as a means of providing revolving fund to their targeted beneficiaries. Despite increasing number of NGOs coming work with microfinance services, there is no coordination among the organization. This created lending duplication in addition to challenges created to control defaulters.

Opportunities available for effective microfinance service provision

Favorable policy environment: The focus group discussion has revealed that the existing government policy offers the best opportunity for the promotion of microfinance services. Officials of the microfinance institution have clearly stated that the existing policy environment is very supportive and allows the institutions to expand the service.

Improvement of saving culture: Different efforts are being exerted by government of Ethiopia to cultivate saving culture and thereby increase the saving. As part of enhancing saving culture, both promotional and institutional measures are being implemented. For example, the saving for housing is one form of the institutional saving promotion strategy being applied by the government. In the discussion with the community and the officials of microfinance institution it was stated that the saving culture is being improved and this is believed to be a good opportunity for the development of microfinance service in the area.

Changing attitude towards the service: In discussion with the beneficiaries and experts of microfinance institution in Dire Dawa, it was mentioned that the service is becoming effective in creating jobs and addressing the need of marginalized section of the community who can provide group collateral. All these facts helped the organization to create mass awareness and gradually build a positive image on the service. In the discussion organization's experts mentioned that the number of people benefiting from the service is increasing time after time and sometimes it appears to be above the capacity of the staff who serve the customers and as a result,

customers are obliged to stay long to get term for the service.

CONCLUSION AND RECOMMENDATIONS

In this study, it was observed that higher educational level was positively and significantly related to utilization of microfinance credit service. Therefore, it is recommended that the microfinance institution has to find ways by which the uneducated members of the community can better benefit from the service. In addition, the institution has to strengthen its effort of promoting the service among the uneducated and marginalized parts of the community.

The other important factor that was identified to significantly influence microfinance credit service utilization was sex of the respondents. It was observed that microfinance credit service utilization is higher among the male respondents. Hence, the concerned authorities have to develop the strategies that promote the service provision among the female members of the community. Furthermore, the microfinance institution has to develop an incentive package targeting female members of the community. Promotional activities focusing the female beneficiaries must ensure their active participation.

The area of residence was identified to significantly and positively influence microfinance credit utilization by the respondents. The result of descriptive statistics also showed that rural residents were found to be less involved in utilizing micro credit service. Therefore, the microfinance institution in the administration is strongly advised to design a strategy by which the rural community can better benefit from the service. In addition, in the microfinance institutions should open satellite offices similar to the field offices opened across all the urban kebeles of the administration so that the community in the rural parts of the administration could benefit from the service. Also, the distance of the respondent's house from micro credit service providing institution was identified to have a negative and significant influence on the utilization of microfinance credit service utilization. This finding clearly shows that longer distance from microfinance institution was negatively affecting micro credit service utilization. This suggests for opening satellite offices at adjacent areas of beneficiaries to ease access to the service.

The result of key informant interview and focus group discussion showed that there was a problem of lack of focus targeting institutional capacity building. Lack of

sufficient funds for training and capacity building was also mentioned to be the main problem throughout. An institutional capacity building is a very critical component in the world of stiff competition and higher demand for service. This suggests for the microfinance institution to have a clear vision of targeting institutional capacity building. In addition, the organization's higher officials need to provide financial support that would help to meet institutional capacity gap. The organization is also advised to put in place a regular capacity assessment plan so that the identified gap could be addressed in a regular manner.

In the discussion with the microfinance officials, client mobility was one of the major challenges affecting the service provision. This requires the organizations suggested to design and implement a working follow-up system so that the institution can take measures before it becomes late.

High prevalence of HIV/AIDS was identified to be the main challenge of microfinance service especially in the past few years. This suggests for mainstreaming HIV/AIDS in the regular day to day activities to increase the awareness among the concerned individuals. In addition establishing HIV/AIDS clubs and fund could help in managing the effect of the pandemic on the staff and reducing the economic risk. In this regard, establishment of closer collaboration with the concerned organization would promote awareness creation events and voluntary counseling and testing among the staff to control the pandemic.

In the focus group discussion with DMFI staff, it was indicated that staff turnover is one of the challenge the organization facing. Hence, the organization need to design an employee performance evaluation strategy and performance based salary structure as well as incentive package to retain its qualified staff.

REFERENCES

Abreham G (2002). Loan repayment and its determinants in small-scale enterprises financing in Ethiopia: Case of private borrowers Around Zeway Area, M. Sc. Thesis, AAU.

Assefa K (2009). Some factors influencing agricultural credit, among peasant farmers in Ethiopia: A case study of two districts. *Ethiopian J of Devt. Res.*, 11: 1-10.

Berhanu L (1999). Micro-enterprises credit and poverty alleviation in Ethiopia. Addis Ababa, Ethiopia.

Bhende MJ (2003). Credit markets in the semi-arid tropics of rural south India. Economics Program, Progress Report, ICRISAT, India. p 56.

DMFI (2010). Dire Microfinance Institution, Annual Report, Dire Dawa, Ethiopia.

Getaneh G (2006). Challenges of microfinance as anti-poverty strategy: experience from ACSI. A Paper Submitted on the International Workshop on Dimension of Microfinance Institution in Sub-Saharan Africa: Relevance of International Experience. Mekelle University Ethiopia.

Hunte CK (2006). Controlling loan default and improving the lending technology in credit institutions. *Saving and Development, Quarterly Review*, 1: 45-59.

Ike DN (1986). The problem of loan default in Nigerian Agriculture: An economic and fmancial analysis. *Indian J of Economics*, 66(262):409-422.

Jean-Luc K (2006). Micro and small enterprises and microfinance in Africa, the support to dynamic enterprises: an Effective Weapon for Poverty Alleviation: Quarterly Bulletin of National Bank of Ethiopia, 95. Addis Ababa.

Jemal M (2007). Challenges of microfinance as anti-poverty strategy: experience from ACSI. Paper Submitted on the International Workshop on Dimension of Microfinance Institution in Sub-Saharan Africa: Relevance of International Experience. Addis Ababa Universty, Addis Ababa.

Kashuliza A (2000). Loan repayment and its determinants in smallholder agriculture. A case study in the Southern highlands of Tanzania. Estern Africa Economic Review. 9(1).Nairobi.

Lewis-Beck MS (2000). Qualitative applications in the social sciences. Sage university papers series. Sage Publications Inc, USA.

Matin I (2000). Repayment performance in Grameen B. Saving *and Development. Quarterly Review, 22*(4): 451-473.

Meehan F (2001). Usage and impact of micro-credit provision: A case study based on the credit operations of Dedebit Credit and Saving Institution (DECSI), Tigray Ethiopia. A Paper Presented at the International Workshop on Dimensions of Microfinance Institutions in Sub-Saharan Africa: Relevance of International Experience. Mekelle University, Ethiopia.

MFI (2009). Ethiopian microfinance institutions performance analysis report, Bulletin 5. Addis Ababa.

MFDR (2009). Microfinance development review.10 (10), Addis Ababa.

Miller CJ and Jerry RL (2003). Factors impeding credit use in small farm households in Bolivia. *The J of Devt. Studies,* 19(4): pp 523.

MoFED (2002). Sustainable development and poverty reduction program. Addis Ababa, Ethiopia.

MU (2002). Microfinance theory, policy and experience, proceedings of international work shop on 'the mentions of Microfinance Institutions in Sub-Saharan Africa', 7–8 July, 2001. Mekelle, Ethiopia.

Mulat D (2004). Fertilizer procurement, distribution and consumption in Ethiopia. A Paper Presented on the Annual Conference of the Ethiopian Economy: 26-29 November, 1994. Debre Zeit.

Sharma and Zeller M (2005). Determinants of repayment performance in credit groups: The role of program design, infra group risk polling, and social cohesion. International Food Policy Research Institute. P 384.

The Free Online Dictionary (2012). http://www.thefreedictionary.com/credit. Accessed on 11 November, 2012.

Todaro M (2000). Economic development. Seventh Edition, Addison Wesley Publishing.

Vigano L (1993). A credit scoring model for development banks: An African case study. *Saving and Development*, 17(4):441-482.

Wenner MD (2000). Group credit: A menace to improve information transfer and loan repayment performance. *J of Devt. Studies*, 32(2):263- 281.

Yaqub S (1995). Empowered to default. Evidence from BRAC's micro-credit programs. *Small Enterprise Devt.* 6 (4): 4-13.