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DO URBAN POOR BENEFIT FROM MICROFINANCE INSTITUTIONS?

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ABSTRACT

Microfinance institutions (MFIs) play a vital role in the economic development of many developing countries. They offer loans and/or technical assistance in business development to low-income community in developing countries (Hartungi, 2007). Given the existing reality of microfinance institutions in Ethiopia, this studywas intended to examine whetherurban poor benefit from micr finance institutions with particular reference of Jimma administrative zone Kersa Distric,Ethiopia. The empirical evidences of different countries and concept of different literatures showed that the provision of money (credit) to the poor will contribute towards increasing their income, schooling of their children, their nutritional status, saving and productivity which are the major parameters in alleviating poverty. The population for the study encompassed the people who have been engaged in microfinance activities for at least two years and live Kersa District. The sample size for the purpose of this research was 90 microfinance clients for whom structured questionnaire were used for collecting the data, and interview were held with the employees of the microfinance institutions. Hence the study reveals that MFI' are playing their pivotal role in alleviating urban poverty.

INTRODUCTION

Microfinance institutions (MFIs) play a vital role in the economic development of many developing countries. They offer loans and/or technical assistance in business development to low-income community in developing countries (Hartungi, 2007). They have a variety of products including micro loans, savings and other deposit products, remittances and transfers, payment services, insurance, and any other financial product or service that a commercial bank does not offer to low-income clients in the banking system (Hoque and Chisty, 2011). In Sub-Saharan Africa microfinance institutions include a broad range of diverse and geographically dispersed institutions that offer financial services to low-income clients, non- governmental organizations (NGOs), non-bank financial institutions, cooperatives, rural banks, savings and postal financial institutions, and an increasing number of commercial banks (Lafourcade, Isern, Mwangi and Brown, 2005). Since its birth in the

1970s, microfinance has endeavored to develop sustainable enterprises and its innovations have been replicated from country to country, each time with renewed enthusiasm and innovation leading to international best practices that have benefited and guided the practice of microfinance-credit (Kiweu, 2009; Stauffenberg, 2001; Rhyne, 2001a; Labie, 2001; Manroth, 2001 cited by Mbogo and Ashika 2011). Given the ongoing developments in microfinance, there is considerable interest for many MFIs in Africa to keep pace with the changing landscape in the industry.

Formal microfinance in Ethiopia started in 1994/5. In particular, the Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance Institutions (MFIs) in both rural and urban areas as it authorized them among other things, to legally accept deposits from the general public, to draw and accept drafts, and to manage funds for the micro financing business (Getaneh, 2005). All MFIs have low average loan size. This is probably because Ethiopia is so poor that it extends very meager loans as compared to many countries. The small absolute size of the loans does not make Ethiopian MFIs to be better performers in reaching the poor (Yohannes, 2006; Letenah, 2009). According to Demirguc-Kunt, the importance of microfinance is explained as follows, “When they work well, financial institutions and markets provide opportunities for all market participants to take advantage of the best investments by channeling funds to their most productive uses, hence boosting growth, improving income distribution, and reducing poverty.” (Demirgüç-Kunt et al. 2008)

Given the existing reality of microfinance institutions in Ethiopia, this study intends to examine whether micro financing is a good tool in alleviating poverty with respect to the urban poor with particular reference of Kersa District Jimma administrative zone, Ethiopia.

STATEMENT OF THE PROBLEM

Over 2.7 billion people in the world live on less than 2 $ a day and 2008 year food crisis has thrown more than 90 millions into extreme poverty (Collins et al 2009; World Bank 2009). Financial sector development, access to credit and inclusive finance became buzz words in contemporary poverty reduction policies. To ensure sustainable economic growth improved access to finance has to reduce income inequality so that low-income households, that still constitute a majority, have chances to escape from poverty. Despite wide-ranging efforts, poverty still persists in the world. Sub-Saharan Africa (SSA) is the region worst affected by extreme poverty – according to the World Bank, more than half of the SSA population lives on less than 1.25 dollars a day (World Bank, 2008).

Poverty in Ethiopia is a manifestation of complex factors such as, high population growth, environmental degradation, unemployment, drought, limited access to resources, limited access to health and education serves, etc. In other words, poor economic performance, low technological base, frequent occurrence of drought and famine, internal conflicts and displacement have continued to exacerbate poverty in the country, and about 45 percent of the country’s population lives below the poverty line (Robinson, 2001). The small absolute size of the loans does not make Ethiopian MFIs to be better performers in reaching the poor (Yohannes, 2006; Letenah, 2009). Therefore, this study intends to examine whether Urban poor benefit from the programs of Micro Finance Institutions at Kersa District.

OBJECTIVE OF THE STUDY

The general objective of the study is to assess whether Urban poor benefit from the programs of Micro Finance Institutions at Kersa District.

METHODOLOGY

Sample Selection and Data Collection Procedure

The population for the study encompassed the people who have been engaged in microfinance activities for at least two years and live in Kersa District. The study targeted on those people having experience in microfinance activities This is, because they are well informed and know much about the pros and cons about its activities, so they can reflect better to study questionnaire. The structured questionnaire has been used for collecting the data by interviewing the clients attached to the MFIs Items like source of income, consumption and nutritional status, access to education, medical facilities, expenditure, employment conditions, saving, empowerment and business conditions which are the variables that have been included in the questionnaire. The respondents for the questionnaire were selected through disproportionate stratified random sampling for clients and purposive sampling for employees of MFIs. The strata formation was based on their duration on MFI's. Accordingly, 90 (Ninty) clients and employees of MFI's were chosen. Out of which, it is 72(seventy-two) questionnaires which were returned back. Hence, based on those questionnaires and interview discussions that the analysis was done by using SPSS version 16

LITERATURE REVIEW

Some Contributions of MFIs towards Some Poverty Alleviation Parameters

Credit and poverty alleviation

The impact evaluation research in Bolivia provides evidenced that credit and education services, when provided together to groups of women, can increase income and savings, improve health/nutrition knowledge and practice, and empower women. Positive impact on the nutritional status of clients and clients' young children was not evident, except when deeper analysis of the client group alone revealed that children's weight-for-age was positively associated with the quality of education services provided. This finding supports one of the central assumptions underlying the design of the Credit with Education strategy—that without important improvements in caregiver practices, income increases and even empowerment are unlikely to bring about marked improvement in children's nutritional status also income is increased about 5-fold and assets, animals for family needs and savings increased significantly. Furthermore, participants offer more advice to other mothers extending the benefits to non-participants. They are more outspoken and "politically" active which can also benefit the community at large in health: better breastfeeding practices,(cited in MkNelly, Barbara and Christopher Dunford. 1999)

Microfinance reduces poverty by increasing per capital consumption among program

participants and their families. Poverty reduction estimates based on consumption impacts of credit show that about 5 percent of program participants can lift their families out of poverty each year by participating and borrowing from microfinance programs. Microcredit programs also help smooth consumption, as well as the seasonality of labor supply. Targeted credit also improves the nutritional status of children. The nutritional impact of credit is especially large for girls, and the impact is larger for loans made to women. Micro credit had a significant and positive impact on schooling, especially for boys cited by Khandker, Shahidur R. 1998**.**

Microfinance and other Social Welfare Programs

Khandker (1998) concluded that microcredit programs were more cost-effective in delivering financial services than state-controlled agricultural development banks. Furthermore he concluded that microcredit is more cost-effective than formal rural financial intermediation, targeted food interventions and rural infrastructure development projects in Bangladesh. As Khandker states (1998) in his assessment of the Bangladeshi experience “NGOs introduced non-credit targeted measures to help the poor in the aftermath of the 1971 war for independence and the following natural disasters. The purpose of the programs was to reduce poverty by providing needed goods and services to the poor. NGOs soon realized however that poverty had to be confronted on a sustained basis and that human capital services such as adult literacy, skills training, and primary health care were inadequate to sustain poverty reduction among the rural poor (BIDS 1990, Holtsberg 1990). In addition to promoting the human development of the poor, programs need to promote the productive capacity of the poor through physical means.”

RESULT AND DISCUSSION

In order to assess whether urban poor benefit from MFI the following variables have been analyzed and discussed. Accordingly, here it is worth to notice that the mean result greater or equal two(>=2) is favorable, 1.5-2,is moderate, <1.5(less than one point five), is un favorable

Table 1. Poverty Assessing Variables

Serial Number	Items	Mean	Standard Deviation
1	Income Increment	2.77	0.243
2	Sufficiency of Loan	1.75	0.879
3	Nutrition(Consumption pattern of food)	2.69	0.609
4	Owning of Assets (eg. House hold furniture, and other goods)	2.31	0.536
5	Fulfillment of Educational materials and tutuition fee for children	2.15	0.911
6	Affording Medical Costs	2.38	0.840

As the above table illustrates, majority of the respondents responded that there is an increment in their income level after they have been participated in the micro finance(MF) program . This is also justified by the focus group discussions made along with respondents. In line with some evidence from the millions of microfinance clients around the world demonstrates that access to financial services enables poor people to increase their household incomes, build assets, and reduce their vulnerability to the crises that are so much a part of their daily lives. Khandker (2001) reported that the incidence of poverty among participating households is lower after they become clients of microfinance services than they were before.

On the other hand, there is a gap in the amount of loan they took from MFI (Micro Finance Institution). That is, the provision of loan given by microfinance institutions does not sufficient to undergo business in wider range. In other words, it is a limited amount of loan provision that is given for clients. As per interview made along with officials of MFI, the limited supply of loan is due to the intention to serve more needy clients in the district. Ofcourse, different researches were depicted this fact.All Microfinance Enterprises have low average loan size. So it seems that Ethiopian Microfinance Enterprises are good at depth of outreach. This is probably because Ethiopia is so poor that it extends very meager loans as compared to many countries. The small absolute size of the loans does not make Ethiopian Microfinance Enterprises to be better performers in reaching the poor (Yohannes, 2006; Letenah, 2009)

Regarding to nutrition (consumption pattern of food), majority of the respondents responded that the pattern of their consumption is getting improvement after being participated in MFI programs. In line with owning assets, majority of the respondents responded that they endow assets such that, dwelling home, different house furniture like TV, bed, chairs, house utilities and little reserve cash by saving in the MFI. Hence from the aforementioned analysis, it is possible to conclude that MFI play paramount role in alleviating poverty from the district.

Nowadays, the role that MFI play is not limited only to daily subsistence, rather it goes beyond this. Accordingly, those who have been participated in MFI program are liable to fulfill educational materials for their children. As it is depicted in the above table, majority of the respondents responded that they are able to fulfill educational materials and able to afford tuitution and medical expenditures for their family. Hence from this, it is possible to conclude that the role that MFI play in alleviating urban poverty is highly significant. As per focus group discussion made along with the officials , they reveal that despite its limitation to enlarge its coverage still there is a significant change in getting rid of urban poverty. Littlefield, Mordouch and Hashimi (2003), revealed that, microfinance and the impact it produces, go beyond just business loans. The poor use financial services not only for business investment in their microenterprises but also to invest in health and education, to manage household emergencies, and to meet the wide variety of other cash needs that they encounter. Besides, the provision of microfinance services in the form of small collateral-free loans, savings and insurance facilities has thus evolved as a vital alternative for poor households to smooth consumption, start their own business, cushion income shocks, and improve living conditions (Maksudova, 2010). On the other hands, According to Belshaw and Coyle, (2001) money has been used to meet household expenses, family health expenses, and education expenses. Increased household income improves nutrition, and improves the probability that poor children from poor families will go to school (Versluysen, 1999),

Generally speaking, the activities made by MFI, is promising on wards as the community engagement is increasing from time to time. Hence it is advisable to MFI to raise the awareness level of the community.

CONCLUSION AND RECOMMENDATIONS

Microfinance enables poor self-employed people to create productive capital. It attempts to build assets and create wealth among people who lack them. Accordingly, the study reveals that the MFIs clients income increases due to the program participation. Access to credit enable clients to endow better living standards. That is, it improves nutrition, family health expenses and education expenses. Furthermore, the employment opportunity and business engagement of clients is getting improved. Despite this, still there is a gap on the amount of loan provided to the clients. That is the loan which is provided by the MFIs is not sufficient to run projects in intended fashion.

Therefore, it is worth to recommend that, raising the awareness level of clients could enable MFIs to re collect the loan that they provide for their clients. Hence, it is advisable for MFIs to monitor and raise the level of awareness in regular basis.

Despite the efforts exerted by MFIs to alleviate poverty, still there is a gap in the amount of loan they provide for the poor. That is the amount of the loan is not sufficient to run businesses. Hence it is advantageous for MFIs to raise their capital being engaging in different income generating activities so that they could have more and reliable capital for their clients.

Finally, training clients pertaining to saving would result better accumulation of capital for carrying out further projects. Therefore, it is advisable to MFI and local administrators to promote savings to communities of Kersa district.

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