



Review on Farmers' Microfinance Services Participation and Its Impact on Poverty Reduction In Ethiopia

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Abstract

The financial sector has enabling role for agriculture as credit is used for investments and savings ensure a safe storage of money. In Ethiopia, regarding microfinance service provision, consecutive reforms were made to sustain the service. However, utilization of the service among the community is at low-level and affected by a different factors. This review was crucial to review different research works on how farmers participate in the microfinance services and it is necessary to assess the determinants of farmers' participation in microfinance services and evaluate its impact on clients poverty reduction. Despite the increased outreach and expanded service provision of microfinance in Ethiopia, the agricultural sector has low financial service provided due to clients and the institution related characteristics. The major objective of this review was to review farmers' Microfinance services participation and its impact on poverty reduction in Ethiopia. Significant variation across different microfinance impact studies on methodological, analytical, conceptual and outcome variable selection has been happened. These conditions resulted in limited evidence about real impact of microfinance service due to scope, reliability, quality and ability to generalize the findings. Therefore, this review findings argue for further investment in impact assessment through broadening the criteria on which the impact is assessed and generalization is made for further policy directions.



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Background and Justification of the Review


The financial sector has enabling role for agricultural sector as credit is used for investments that increase the productivity of agricultural production through diversification of economic activities of farmers which in the long run create employment, provide income, and ensure food security.¹ Savings products ensure a safe and guaranteed storage of money

and ensure excess capital that can be induced to its most productive use. On the other hand, payment products assist the ease of exchange of agricultural goods and insurance products help to spread risks of agricultural players in an efficient manner. Generally speaking, loan, savings, and insurance services are essential for protecting and improving the livelihoods of the rural poor.¹

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Microfinance is related with the supply of different loans, savings, transaction transfers, insurance, and other financial services to low-income/poor people. Microfinance institutions (MFIs) which covering a wide range of providers that differ in legal structure, mission, and methodology provide these financial services to clients who couldn't get access to mainstream bank service or other formal financial products providers.²

Despite these increased outreach and expanded service provision of microfinance in Ethiopia, the agricultural sector is less financed because of its characteristics like, small transaction (loan) sizes, lumpy" cash flows, illiquid and perishable collateral, high covariance across borrowers, diverse sub-businesses with distinct dynamics and current microfinance service programs in Ethiopia are primarily designed and implemented by men with little or zero participation of women. Despite consecutive reforms and efforts were made by the MFIs to sustain the service, utilization of the service among the community is affected by a number of factors.³

Shortage of finance is especially critical among the millions of farmers. Farmers needed to buy improved agricultural inputs and services to increase their income and break the perpetuity of the poverty cycle they are involved with. However, they cannot do this easily if they lack finance. The likely solution for this seems to improve vastly farmers' access to financial services, notably credit and saving services. It is unlikely to attain sustained agricultural development without sustained utilization of improved agricultural technologies by farmers by providing rural financial services at all.⁴

According to Wassie *et al.*,⁵ MFIs in Ethiopia attain their goal of serving the poor with higher and deeper outreach; showing positive impact. When we talk about impact, we are concerned not only with what changes have happen in selected indicators of welfare, but also with establishing how much such changes can be attributed to specific MF products or interventions. Firstly, is indication of positive and negative effects on distinctive clients, their immediate family members and employees. Secondly, it is useful to realize the extent of variation in impact according to the nature of MF services used, who used the service and in what context

also. Thirdly, impact assessments at last need to be viewed in the context of local and national changes in all financial products and indeed the wider welfare environments of which they are a part. Fourth, evidence is also required on what forms of secondary assistance (technical as well as financial) most effectively promote more impelling MF services and systems.⁶

Hence, it is crucial to review different research works how much farmers participate in the services provided by MFIs and it is necessary to identify the determining factors of farmers' participation in microfinance services and evaluate its impact to sort out constraints and opportunities for the better of farmers and the institution itself through further policy implication. Therefore, this review was conducted with major specific objectives of to review the factors affecting rural households' credit participation, to review saving behavior of rural farmers in microfinance institution and to review the impact of microfinance service on clients poverty reduction in Ethiopia.

Discussion

Agriculture and Microfinance

Agriculture and agricultural finance have been the topic of constant and high value loaded censorious political argument. Faced with various and sometimes contradictory challenges of attaining national food security and encouraging rural populations while providing food at approachable prices to urban dwellers, governments have always interfere in the agricultural markets, regarding in finance. During the post-colonial 1960s and also 1970s, governments tried to protect access to agricultural financing through carefully set interest rates and compulsory lending quotas on banks. In addition, and nearly universally, governments make happen development banks specifically mandated to finance agricultural sector.⁷

Starting from the early 1980s, and in response to the non achievement of state-directed lending services, debt forgiveness, and public involvement in almost all aspects of agricultural finance, more of developing countries set out to modify financial markets, including opening access to external financial institutions and this increased the amount and quality of financial products/ services. This liberalization of financial markets and interest rates

also widen the way to new improvements and experiments by microfinance institutions movement to the sustainable and cost-efficient provision of financial services to the farmers. This liberalization of financial markets also made space for a different member owned and managed savings and credit associations, like village and rural banks and MFIs, that usually focus on rural populations employed in agriculture. Even though MFIs mostly started from the urban areas, through time, they have gradually increased their outreaches in the rural areas with mission to serving the poor (ibid).

The term microfinance mean to the financial transactions related to both agricultural and non-agricultural operations that take place among poor households and institutions in rural areas. In some cases, rural finance has been wrongly related with agricultural credit merely, based on the assumption that credit is the tight constraint to achieving project objectives attached to agricultural sector. A more impressive and comprehensive view of rural finance is that it encompasses the wide range of financial services including saving and insurance that farmers and rural households require, not merely credit.⁸

Microfinance contribute to reduce vulnerability while at the same time help to agricultural growth in a different ways as it can release existing funds for production use, or itself contribute directly to agricultural production. Ololade and Olagunju⁹ submitted that the modernization of agriculture sector demands increased application of modern agricultural inputs like fertilizers, herbicides, machineries, improved crop seeds and storage facilities which consequently boost the demand for credit service.

On the other hand, several researchers argue that the consequence of microfinance on agriculture production is not always positive as it was expected. They argue that service providers of micro credit have not considered the credit need of small and marginal farmers as their priority of funding to the low income farmers and because of risk and uncertainty associated with investing in agricultural activities; seasonality of crop production; agricultural output price fluctuation, weak loan repayment performance of agricultural lending; and the nature of agriculture production. Clearly, these factors made it highly

risky for lenders to provide credit to farmers thereby restricting production and consequently pushing considerable number of farmers out of the service as they seek livelihood possibility in other sectors.¹⁰

Microfinance in Ethiopia

Ethiopia is a country which employed more than 83.8 percent of the population in the agriculture where small scale farmers share over 95 percent of the annual production which cannot meet the food need of the country's population. One of the reasons for why rural households continue to exist in a vicious cycle of persistent poverty for long period of time is lack of access to financial services.¹¹

Since 1970s, in Ethiopia, different NGOs like World vision, save the children project, Christians children's fund organization, care, etc. have been providing credit service to their beneficiaries directly with varying loan size and interest rate ranging from zero to very little. However, loans were not regularly collected on time and large amount of unpaid loan contaminated credit environment in a country.¹² During this time, there had not been strong competition within the financial sector due to all of the formal financial institutions were government owned and private financial sources were not allowed to provide services. Due to this problem, various consultation have been made between different organizations and government to establish specialized institutions which could manage these financial interventions of NGOs. After the decision and implementation of the reform process in 1992, clear opportunities created to put investment in financial institutions with different policies encouraging private investors to participate in the banking service, MFIs and insurance companies markets.¹³

After the reform, the first groups of some MFIs were established in early 1997 following the provision of Proclamation No. 40/1996 in 1996. The mission of the MFIs is fundamentally poverty alleviation through the provision of sustainable financial products to the poor who actually couldn't get access to the financial support services of formal financial institutions.¹² The new microfinance proclamation which replaced 1996 proclamation was came in 2009 which was characterized by articles and sub articles explaining in broadly detail about licensing,

operational and financial requirements to operate in MFIs industry which was reason for expansion of range of different products. Currently, 38 micro-finance institutions (MFIs) moving in the country mobilizing birr 43.3 billion in saving deposit, total outstanding credit reached birr 60.8 billion, and their total asset reached birr 89.6 billion.¹⁴

Despite some positive stories of microfinance in a country, the agricultural sector is still less finance provided due to its characteristics Small transaction (loan) sizes, lumpy cash flows, illiquid and perishable collateral, high covariance across borrowers, diverse sub-businesses with distinct dynamics and current microfinance service provision in Ethiopia are basically designed and implemented by men while little or zero participation of women.¹⁵

Religion and cultural taboos also affected access and participation in micro loan in Ethiopia as over 30 percent of the total population do not participate in credit and savings activities. Other reason why microfinance institutions couldn't achieve good penetration in Ethiopia is that the products they supply to the very poor are not well suited to their desires. Ethiopian microfinance institutions join the marketplace bringing credit, however, those living at subsistence levels often just want a secured and trustful place to save and manage their risk level. Other constraints facing microfinance services in Ethiopia include the fact that the microfinance institutions themselves also are low-funded. The loans they provide are inflexible and are given without good support services like, training and followup with basic skills of marketing, management and financial literacy to the borrowers (ibid).

Commercial bank of Ethiopia accounts for almost 2/3rd of the total deposits mobilized, while MFIs and SACCOs account for the remaining one third despite MFIs', as pro-poor financial intermediaries, have the greatest opportunity to mobilize a potentially huge volume of voluntary savings from grass roots households and communities. But, distances between service providers and potential clients such as Geography, sex, religion issue, language, psychology case, ethnicity, cultural taboos, and social class became most common determinants of transaction costs.²

Factors Affecting Farm Households' Credit Demand

The concept of household demand for credit service refers to the variations in the amount of credit a rural household is expected to need for, at specified interest rate and time gap assuming that all other pertinent constituent remain constant. In related researches, some of researchers used to define demand for credit like the probability that an individual answers yes to the question "did you apply for credits service before?"^{16, 17, 15}

Factors affecting the demand for credit can be classified into two: the household/individual characteristics and the character of financial institution. Among the individual/household related characteristics, the level of income, age, sex, education level and the attributes of the financial institution affect an individual's/household's credit demand. Interest rate, terms of the credit and distance from the provider were also mentioned.¹⁵

Mamo and Degnet¹⁸ showed among 1027 rural households surveyed, 718 (70%) didn't borrow (non-participants) from any sources while only 309 (30%) of them participants in loan from available credit sources. From participants, only 63 (20.39%) were received loan from the semi-formal credit markets including MFIs, while 246 (79.61%) borrowed from informal sources. Showing informal credit sources dominate rural credit services to the rural population in Ethiopia.

Rural farm household's participation decision in semi-formal credit sources was significantly determined by household head's marital status (married), primary economic activity (farming), access to extension support services and access to market affect positively while livestock ownership affect negatively. Access to extension services has the potential to increase the information base and decision making abilities of the farm households (ibid). Their study lacks institution related determinants which could have created distance between semi-formal credit sources and farmers. However, they recommend for more inclusive policy measures in order to increase rural household's access to formal and semi-formal credit sources.

Doan *et al.*¹⁷ study on what determine households participation in credit and credit constraints of the poor showed, household size, initial income, younger households, phone ownership, and residing in more rural countryside areas are important factors affected credit participation by the peri-urban poor. On the other hand, they said gender, assets owned and education do not matter in credit demand of poor households. According to their conclusion competition by other credit user neighbors in accessing credit, especially subsidized funds, also affected credit participation by the poor in urban areas. Mengistu *et al.*¹⁹ study by Dire Dawa administration from sample of rural and urban households found that MFIs credit utilization was determined by the interaction of different demographic, socio-cultural, economic, and institutional factors. More education helps in microfinance credit service utilization because the capacity created would help the individual to analyze and interpret and make use of it than less educated individuals. Short distance from the microfinance institution were more likely to participate in microfinance credit service. Possession of households fixed asset would help the individual to easily meet the collateral requirement for the service and increases participation in credit.

Kiros²⁰ revealed age and distance from lender negatively affect credit participation, while education, family size, livestock and loan size are positively influence farmer's participation in microfinance credit service. Mamo and Deginet¹⁸ said households having more number of livestock were not suffering from budget shortage constraint and hence less demand and participation for credit. However, Asfaw¹³ said livestock owned have a positive relationship with the credit participation as farmers owning more livestock can share risk of crop failure by selling out their animals and animal products and have more probability of credit participation.

Doreen and Philip¹⁵ showed that having more farm size would increase households demand for credit. Having more livestock owned have negative and significant impact on having access to and demand for credit service as livestock could serve as reserve to credit because it can be converted immediately into cash when the needs grow. Households' religion following had negative and significant impact in affecting demand for credit as Muslims households

showed low demand for the service. Family size had positive and significant impact on credit demand as more families members are likely to demand more credit and financial institutions prefer providing credit to large families because of their large ability to investment. Education has showed negative association with demand for credit. More educated households were likely to have more access to credit than less educated households because of their ability to clearly read and understand regulations and working procedures concerning the loan.

Kiros²⁰ by his study in Tigray Ethiopia by using Probit model showed that marital status, education and number of livestock (negatively) and family size, cultivated land, and religion affected significantly and positively farmers demand for credit in microfinance institutions. The researcher said households with big families relatively tend to demand for credit as they need credit to bridge their consumption expenditure gap and buy other stuffs for their family. Christianity followers more likely demand credit than Muslim. Married people were less likely to demand credit as they are financially better off than single households and couples can help each other and/or able to have different sources of income. Inverse relation between credit demand and educational status of the respondents related to the contribution of learning on the financial understanding of the individuals who take loan. The larger the cultivated land size owned, the farmers utilize more farm inputs such as more labor, fertilizer and other production inputs that demand additional capital that might be received through credit from microfinance institutions.

Other than these individual/household characteristics, other factors affecting credit demand were, higher interest rate paid and lack of fixed asset owned, group lending in which a whole group members can be sanctioned in the event of default by any members in a group, too late loan disbursement period to use the loan in productive way and even the voluntary saving itself as institution side factor constraining demand for credit from microfinance institutions. The researcher said about group lending that, mentioning majority of the respondents, group lending keeps advantage for the institution as it helps during loan collection and minimizes costs of services than helping the borrowers (*ibid*).

Adebosin *et al.*²¹ analyzed the demand for micro finance by farmers in Nigeria using Tobit regression model showed, farm size owned, household size, returns from farming activities, sex and time lag for loan disbursement are major significant factors implying that these variables determine the demand for microfinance. Time lag has a positive significant effect in total credit obtained showing that if the loan delivery misses the critical period of use, due to excessive delays of loan processing stage, there is tendency that such a loan is likely to be diverted for another use that is not meant for. Gender also had positive sign showing that demand for microfinance is gender biased. That is, demand for credit is positively related to the borrower's gender. Farm size, was also found to have positive significant effect on total credit. Those with large farm size are more likely to demand for finance. This may be because land provides collateral for low-income households.

Farmers' Saving Behavior in Microfinance Institutions

For agricultural households, saving plays a crucial role in consumption smoothing, financing unexpected shocks, self-financing of agricultural input purchases and other transactions done for making life better. In theory, it is arguable that households which have sufficient own savings can acquire what they want by themselves which reduced their vulnerability to the bad consequences of credit constraint conditions, showing that, the more saving the household owns the less will be their respective vulnerability to credit constraint problems.

Most of empirical studies mainly focus on aggregate national savings through macro data and few studies conducted at micro-economic level on the area of household saving. Surprisingly it is possible to say that most of studies conducted around MFIs are about credit service, neglecting voluntary saving of farmers in the institutions. In this section, some studies conducted on saving behavior of rural farm households has been reviewed. The available literature reviewed as follows.

According to Ejigu²² two types of saving accounts that households open in MFIs. The first one is voluntary saving account for credit users and non-users known as non-client voluntary saving. In this account clients start saving before credit application

and continues during their stay with the institution. The other saving account type is, credit user voluntary and compulsory saving mainly related with credit users. Despite it includes voluntary saving, some clients consider it as solely compulsory saving account. Fixed amount of money in compulsory saving account with restriction put on withdrawal until the full loan is repaid and voluntary saving account which starts from the fixed initial amount of money up to any higher amount the saver can do saved by monthly. The researcher reported that from total sample respondents, 26% owned this account and the average amount deposited reached 177.69 Birr. Despite farmers might have had savings on livestock and other fixed assets, community based organizations like ikub iddir etc, farmers saving within MFIs was very poor. For example Asfaw,¹³ study in Oromia region showed, the average amount of savings a clientele deposited during six years stay with the institution is Birr 1762.00, minimum and maximum savings amount being Birr 340.00 and 8,900.00 respectively, assuming other form of saving to be constant throughout.²²

Robinson cited in Muluken and Mesfin,²³ stated that, in cooperating savings mobilization in microfinance institutions makes sense for a different reasons. First, it can provide a relatively low-cost source of capital for relending. Secondly, a person who deposits today may be tomorrow's borrowers, so a savings service creates a natural client pool opportunity. More over, building up saving habit may offer better advantages to low income people directly: households can build up and own assets to use as collateral needed, they can build up a reserve money to reduce their consumption volatility over time, and they could be able to self-finance the investments rather than always turning their faces to creditors.

Low attention was given to saving by Micro finance institutions. Low saving interest rate paid and higher interest for borrowing showed a significant difference. Based on this information it may be an implication for MFIs focus much more on credit provision with little attention to saving mobilization and that discouraged farmers to be familiar with saving products.²⁰ As microfinance institutions' experience from the past couple of decades, especially, rural clients are offered savings services for first time they save small amounts and soon

withdraw almost all of it. When we see, what these clients doing is amazing. They were critically testing the system! How does it work, how is it true and if they see it works, their confidence in the institution's stability grows. Then they start saving little by little into their accounts in the institutions. However, most of microfinance institutions seem to be unsuccessful in this test as most of rural residents withdrawn the service from the institutions after they have joined.

Tsega and Yemane²⁴ study on determinants of household Saving in Amhara Regional State Ethiopia showed 54% of respondents have saving practice and from those 65.1% saved less than 5000 Birr. In addition, most of households prefer to save their money in cash than asset. The researchers said planning and expenditure controlling experience of most respondents was found weak. Their findings showed income level, marital status, age, sex, and frequency of getting money are significant factors affected household savings in the study area. Households using formal institutions have better saving than informal institutions. However, researchers did not make clear relation between saving behavior and formal institutions particularly MFIs.

Tilahun²⁵ showed 56.38 percent of the overall survey households were net savers and 43.62 percent of them were non-savers or ends at the equilibrium of zero balance at the end of the season. He said households use own savings for purposes other than agricultural production, like for health contingencies, social and cultural ceremonies and becoming net saver doesn't mean financially self-sufficient and no need credit. Rather it means net savers are relatively capable to meet their liquidity requirement fully or partially. However, the researcher skipped to show the quantified amounts of savings and either those net savers were saving in MFIs or not.

When we tried to see how saving status linked with credit constraint status, 58.24 percent of constrained households were net savers. The remaining 41.76 percent of households were constrained and none savers. And more surprisingly, 68.36 percent of net saver households were credit constrained. But on the non-savers side 63.35 percent of them are constrained. It is contradictory with our theoretical premises at the beginning of this part of the discussion. This could be explained as these

households use own savings for purposes other than agricultural production, like for health contingencies, social and cultural ceremonies which can be counted as extravagancy spending habit, as a guarantee for consumption shocks etc. And more generally, becoming net saver doesn't mean financially self-sufficient and no need credit. Rather it means net savers are relatively capable to meet their liquidity requirement fully or partially.

Muluken and Mesfin,²³ study in Hawassa city showed that, despite these respondents were not engaged in farm activities, 49.7 percent of the respondents have voluntary saving book in the institutions, whereas 51.3 percent have no voluntary saving account. He said the institutions are suffering the advantages of saving that could support to improve the performance of the institutions through encouraging saving of the borrowers for the future and solving the problem of their capital shortage. The study only showed either having voluntary saving account or not of respondents in Omo microfinance institution without any thing about how much been saved.

Hussien²⁶ showed that 89 percent of farm households saved informally outside of formal saving institutions. The main reasons for such a informal saving behavior, are perception of taking too small volume of savings to save at formal institutions, preventative need for cash and low return on deposits. Estimated results indicated that a farm household had a conditional mean saving of 37% of his/her farm income per year. The researcher reported that farm households' saving was affected by farm size, amount of farm and non-farm incomes, farm experience, access to irrigation service, investment motive and schooling level of household heads.

Impact of Microfinance Institutions on Poverty Reduction

Reports show that, in Ethiopia, 38 micro-finance institutions (MFIs) operating with Birr 43.3 billion in saving mobilized, total outstanding credit reached Birr 60.8 billion, and their total asset reached Birr 89.6 billion.¹⁴ However, this increment in number of microfinance institutions growth in capital assets, deposit mobilization and loan deployment is not enough to fulfill the economic development goal of a country.²⁷ Evaluation of microfinance service provision impact has prominent objective to fill gaps

in service provision and attain strategic development goals of microfinance service.

Tarozzi *et al.*²⁸ study using data from a randomized controlled trial for consecutive three years in rural Amhara and Oromiya regions assessed impacts of access to microfinance on a number of socioeconomic outcomes, including income from agriculture, non-farm self-employment, labor supply, animal husbandry, schooling and indicator of women's empowerment. Their study found that substantial increases in borrowing of microfinance service users, however, no significant impact was observed for majority of outcomes. As limitation, the study didn't use data from the interim period between baseline year and end line surveys, and different respondent households from the same villages were participated in survey before and after treatment.

Birhanu²⁹ conducted impact of Microfinance on poverty reduction in Hosana town showed participation in microfinance service had brought positive and significant impact on total income, total saving, aggregate expenditure of participant households. The program participant households' got 15,354 Birr more total income, 523 Birr more aggregate expenditure and 4684.03 Birr more total saving than non-participant household implying significant impact on programme participants. However, the program has not brought impact on investment in household on selected durable asset. Based on his findings it can be concluded as the program had positive impact; however, the study had limitations of comparing saving and asset of microfinance service users and non users by using cross-sectional data and lack taking in to consideration of compulsory microfinance saving and strong emphasis of institution for poor households when analyzing impact on several outcome parameters.

Some reports showed clear difference in the microfinance service users after joining the program in relation with, savings, housing conditions, employment opportunities, and basic social services. The clients farm income has increased and that led to improvement in their overall quality of living standard as indicated by improvement access to education, housing, health care, employment, nutritional foods and clothing. This contributed in their ability to afford different expenses like clothing,

basic social services and nutritional foods, as the majority of the respondents reported as their life style is improved.³⁰ Despite the study showed strong impact of microfinance service, the findings were not based on econometric analysis and strong statistical tests and difficult to say rigorous evidence based. In addition, loan users might have utilized their loan for education, clothing, housing, health care, employment opportunities, nutritional foods and non users had no opportunity for expending on this parameters since they didn't borrow. In this condition it might be difficult to compare the two groups based on these parameters and it might be misleading to conclude based on these findings unless the loan was utilized on productive activities and generated additional income for borrowers.

Some scholars analyzed the contribution of Microfinance based on income, asset accumulation, saving, living condition, decision making power, self-confidence, self-esteem, business management skills. Aziza³¹ study on role of microfinance in poverty reduction in Addis Ababa indicated that Specialized Financial Promotion Institute (SFPI) scheme has made positive contribution to the microfinance service users in relation to the above mentioned variables. The researcher said, SFPI average loan size on a group base for the first loan period is 1, 500 Birr and after several years maximum loan size 5000 Birr provided depending on the performance of clients and how long they stayed with the institution. However, this small amount of loan size and the conclusion made merely based on cross sectional data collected from only client side makes the findings be arguable to say positive impact brought on income, asset accumulation, living condition, saving, self-esteem, decision making power, self-confidence, business management skills due to their participation in microfinance service.

Microfinance credit service cannot, on its own, be attached to deliver sustained income increment and poverty reduction, and that it can be harmful to a significant minority of recipients also. Evidence of impact assessment on intermediate indicators like business activity, business profitability and asset ownership might be generally more positive, but this in turn has not been lead to income growth or poverty reduction, not least due to the opportunity cost of time taken up with that activities. However, there is a scattering of evidence on positive impact

on a range of some broader indicators of well-being, such as reduced vulnerability through smooth consumption over time.⁶

Martha³² study on contribution of micro-finance institution to the livelihood in Ethiopia showed that program participation brought positive contribution to the household income growth and social performance. The loan provided by the microfinance institution showed a positive relation in beneficiaries' income growth as 75% clients have seen improvement in their annual income. However, the rate of their children school enrolment before and after beneficiaries joined the institution showed no significant changes at all.

Some Scholars debate on the issue of MF services have negative impacts on its users. Their debate majorly focus on micro-credit has claimed a lot of the aid budget and it may not always be the best option to help the poorest. More over micro credit may take out some funds from other projects that might help the poor households more. In some cases, even when repayment rates are larger, it may be harrowing to the clients making them repay from other financial sources such as sales of their own assets. It increases associated indebtedness risks for poor microfinance users as it makes them remain cornered in the vicious circle of poverty.³³ However, it does not mean that MF is useless but the question to be answered is whether MF is better than some other development projects for the poor households as whole and/ or how the loan was managed and utilized for productive businesses

The clear remark that should be raised here as a precaution before reaching in conclusion about microfinance impact is, there are different issues and challenges in measuring the specific impact of microfinance service which can significantly affect the size and direction of results obtained. First, there is the nature of the interview or relation between client and research data collector as well as respondents problems of recall and recording accuracy. Secondly, the nature of the statistical sample size, and variation in the characteristics of sample who are clients and choose whether or not to participate in MF services. The third issue is data analysis issue including methods that take correction measures for such differences.⁶

Based on review of different research findings, the current evidences on impacts of microfinance could be seen either been misinterpreted by critics of microfinance services, or else it is very weak. Understandably, researchers came-up with weak conclusion with being able to find massively transformative microfinance impacts by their studies. The impacts of microfinance across the country are likely to be heterogeneous. However, more studies are needed for estimating meaningful heterogenous effects and decision to be made. This could be attained when conducting a enough baseline survey with a relatively larger sample size, and or doing high quality and exploratory research works before conducting microfinance impact analysis.³⁴

Conclusion and Recommendations

Despite these increased outreach and expanded service provision of microfinance in Ethiopia, the agricultural sector got less finance due to clients and the MFIs related characteristics. Different studies revealed that weak saving behaviour of clients and most of the deposits were mostly done for credit purpose. This calls for giving focus on policies in improving the existing saving mobilization through establishing incentive structure and creating opportunities to channel the savings into MFIs. There is an urgent need of MFIs for flexibility in the lending procedure so as to reduce the time lag involved in loan procurement and to attract more clients.

It can be tentatively concluded that microfinance services, cannot, by itself, be relied upon to providing sustained income growth and poverty reductions. However, it can be harmful to a recipients unless it is managed and utilized well. Microfinance impact on intermediate indicators such as, business ownership and profitability and ownership of asset is generally more positive, but this in turn has not been make income grown or poverty reduced.

Despite agricultural production and productivity increases through either increases in farm size or use of modern agricultural inputs, impossibility of land expansion due to increasing population pressure made application of improved technologies the only solution. Since these improved technologies are commonly expensive for poor farmers without effective financial services provision, removing

barriers in front of farmers' participation in microfinance services should get more emphasis. Therefore, taking immediate actions on factors affecting farmers' microfinance service participation and improving the saving mobilization is needed to provide sustainable and effective service and attain poverty reduction objective.

To some extent evidence were available on positive impact on some indicators of well being, including different expenditures and reduced vulnerability though consumption smoothing over time. Significant variation across different microfinance impact studies on methodological, analytical, conceptual and outcome variable selection has been happened. These conditions resulted in limited evidence about real impact of microfinance service due to scope, reliability, quality and ability to generalize from the findings. Therefore, this review findings argue for further investment in impact assessment through

broadening the criteria on which the impact is assessed based on it and generalization is made for further policy directions.

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