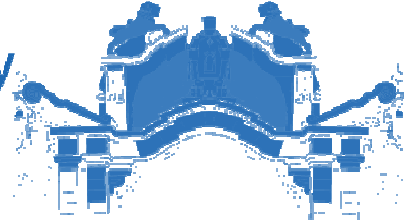




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**COLLEGE OF DEVELOPMENT STUDIES
CENTER FOR RURAL DEVELOPMENT**

**MICROFINANCE SERVICE UTILIZATION AND IT'S DETERMINANTS AMONG
SMALLHOLDER FARMERS IN DEGAHABOUR WOREDA, SOMALI
REGIONAL STATE**

BY:

ABDIHAKIM SAHARDID OMER

I.D.NO. GSR/4375/10

**THESIS SUBMITTED TO THE COLLEGE OF DEVELOPMENT STUDIES CENTER
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FULFILLMENT OF THE REQUIREMENT FOR THE DEGREE OF MASTERS OF
ART IN RURAL LIVELIHOOD AND DEVELOPMENT**

ADVISOR:

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JUNE, 2019

ADDIS ABABA, ETHIOPIA



APPROVAL SHEET

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As thesis research advisor, I hereby certify that I have read and evaluated this thesis prepared, under my guidance, by **Abdihakim Sahardid**, entitled with: **Microfinance Service Utilization And its Determinants among Smallholder Farmers in Degahabour Woreda, Somali Regional State**, I recommend that it can be submitted as fulfillment of the Thesis requirement.

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DECLARATION

I, **Abdihakim Sahardid**, hereby declare that this thesis work entitled **Microfinance Service utilization and its Determinants among Smallholder Farmers in Degahabour Woreda, Somali Regional State**, Submitted by me in partial fulfillment of the requirements for the award of the degree of Master of Art in (**Rural Livelihood and Development**) to the College of Development studies, Addis-Ababa University is original work carried out by myself. The matter embodied in this thesis work has not been submitted earlier for award of any degree or diploma to the best of my knowledge and belief. Where other sources of information have been used, they have been duly acknowledged.

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CERTIFICATION

This is to certify that this Thesis work entitled **Microfinance Service Utilization and its Determinants among Smallholder Farmers in Degahabour Woreda, Somali Regional State.** Submitted in partial fulfillment of the requirement for the award of the degree of Master of Art in Rural Livelihood and Development to the College of Development Studies, Addis-Ababa University, done by Abdihakim Sahardid I.D No 4375/10 is an original work carried out by him. The matter embodied in this Thesis work has not been submitted earlier for award of any degree or diploma to the best of my knowledge and belief. Where other sources of information have been used, they have been duly acknowledged.

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DEDICATION

I dedicated this thesis manuscript to my beloved Mother **Seida Abdiwali** and My father **Sahardid Omer** for nursing me with affection and love to successes in my life.

STATEMENT OF AUTHOR

By my signature below, I declare and affirm that this thesis is my own work. I have followed all ethical and technical principles of scholarship in the preparation, data collection, data analysis and compilation of this thesis. Any scholarly matter that is included in the thesis has been given recognition through citation.

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Name: Abdihakim Sahardid

June, 2019

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LIST OF ABBREVIATIONS

AAU	Addis-Ababa University
CGAP	Consultative Group to Assist the Poor
CSA	Central Statistical Agency
CBN	Central Bank of Nigeria
DMFI	Degahbour Microfinance institution
FGD	Focus Group Discussion
GTP	Growth and Transformation Plan
KII	Key Informant Interview
IFAD	International fund for agricultural development
MA	Master of Art
MC	Management Capacity
MDGs	Millennium Development Goals
MF	Micro-finance
MFIS	Micro-finance Institutions
MFT	Microfinance Transparency
NBE	National Bank of Ethiopia
NGOs	Non-governmental Organizations
SMEs	Small and Medium enterprises
SMFI	Somali Microfinance Institution
SPSS	Statistical Package for Social Science
SRS	Somali Regional State
VIF	Variance Inflation Factor
X²	Chi-square

ABSTRACT

The government of Ethiopia has been working on eradicating poverty which is the enemy of the country. One of the dominant tools that help to reduce poverty at households' level is provision of microfinance services to the poor in a sustainable way. The objective of this study was therefore to investigate Microfinance service utilization and its determinants among smallholder farmers based on data collected from 134 randomly selected respondents, in Degahabour Woreda Somali Regional State. The study used both primary and secondary data sources. Primary data was collected through un-structured questionnaires, interview schedule and focus group discussion. Secondary data was collected from Degahabour microfinance institution and reviewing of various documents. A descriptive statistics and econometric model (Binary logit model) were used for the analysis of the data gathered. The result indicates that utilization of microfinance service is significantly influenced by factors such as gender of the household, distance of the farmers from the MF institution, saving habit and training. More over the study pointed out major problems confronting utilization of MF services such as in adequate amount of credit, low level of awareness about the services, smallholder farmers' mobility, and climate change, fear of interest rate, risk fearing. Microfinance institution is advised to pay appropriate attention to factors that influence microfinance service utilization in order to improve the performance of microfinance service provision and service utilization and develop gender sensitive strategies that promote the service provision among the male members of the community.

Keywords: MF service utilization, Smallholder farmers, MF institution, Degahabour Woreda

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

Microfinance, the programme that extend small loans to very poor people for self-employment projects that generate income, is considered to be an important strategy for eradicating poverty in developing countries. The concept has emerged since Muhammad Yunus started the Grameen Bank Project in 1976 (Bornstein, 1997). Mohamed Yunus founded the Grameen bank of Bangladesh, which was one of the first microfinance institutions (MFIs) that he was won the noble peace prize. Mohammad Yunus came upon a group of villagers that were unable to pay off their debt to a money collector. He found that he was able to lend them what they needed out of pocket. Moved by this situation, he started a lending service that avoid high interest rates that the traditional moneylenders charged. The moneylenders charge rates were as high as 100% per month on the loans they give (Cabraal, *et al*, 2006, cited by Fikirte K. Reta, 2011).

In developing countries, Microfinance institutions have emerged as unique institutions providing opportunities to poor people who do not have access to institutional loan providers, like public and private banks. MFIs are primarily expected to provide permanent access to appropriate financial services, such as credit, savings, micro-insurance, remittances, and leasing, to low-income clients including consumers and the self-employed who traditionally lack access to formal banking and related services (Jegatheesan, *et al*, 2011).

In Ethiopia the government has been working on reducing poverty which is the enemy of the country and one of the dominant tools that help to reduce poverty from households and a nation in a widely is provision of microfinance services to the poor in a sustainable way. The microfinance institutions (MFIs) of Ethiopia are basically established and putted in to practice serving of the poor and low-income individuals who lack collateral, steady employment, verifiable credit history, or other requirements necessary to gain access to formal credit and reduces vulnerability by helping smallholder farmers diversify their sources of household income, increase their savings, expand their options for credit, and improve household money management. However, the level of impact of microcredit on borrower's economic wellbeing depends on how they utilize the microfinance services. Subsequently, there has been a rapidly increasing of MFIs in different regions of the country (CGAP, 2011; Dereje *et al.*, 2013).

Thus Microfinance service utilization is among one of the many alleviation measures to exit poverty and improve the livelihood of smallholder farmers. Microfinance service has been increasingly considered as a significant instrument for raising the income level of smallholder farmers, particularly by making their resources more productive uses and developing of entrepreneurial skills and activities. Specifically, for smallholder farmers, for whom the accumulation of capital may be difficult, Microfinance services helps smallholder farmers to inspire self-employment and develop their small businesses, to alleviate poverty and improve their social status and thus improve the condition of their families and their children in terms of standard of living on the one hand, and level of access to social services such as health, education, among others on the other hand. (Wolday, 2000).

Small-holder farmer's utilization of microfinance services has been difficult due to high risks of small-scale lending, lack of collateral and high transaction costs (World Bank, 1989). According to Teressa 1997 in Ethiopia the situation of microfinance service utilization has not been different to other countries in the reason that formal financial institutions have not developed to expectations and/or have hardly reached the rural populations. The provision of credit depended upon political decisions and interests Furthermore, the setting of interest rate ceilings, requirement of collateral and initial saving, the irregular availability of loan funds, and lack of training and technical advice, group lending and risk fearing seriously affects the effectiveness of MFIs and microfinance service utilization (Sisay, 2008).

According to SMFI operational manual 2010 SMFI is one of the Microfinance institutions established in the country that licensed on January 31/2011 by the National Bank of Ethiopia according to proclamation No. 626/2009. The institution consists of 23 branches and one sub branch and the total number of clients reached is 26,815 of which 19,496 are female beneficiaries and Birr 1,012,993,628.62 loan has been disbursed up to now, The outstanding loan is birr 581,689,561.24. its principle objectives is to offer finance and savings services to the active poor both in rural & urban areas, to Support self-employment and income generating activities, to promote rural and urban micro and small enterprises and to improve the culture of savings by the wider public. Thus utilization of such services of smallholder farmers is very small and hindered by a number of factors that needs to explore.

1.2. Statement of the Problem

Microfinance institutions spread out almost the entire Country. Its services are basically made for supporting the economic development of smallholder farmers and to produce income generating activities. Thus SMFI is one of them that have been dispersal across the region and put forth laudable efforts in the provision of sustainable financial services to the smallholder agro-pastoral farmers more times, but the success is minimal. (SMFI, 2010)

Despite the spreading of microfinance services institutions in the region most of the smallholder agro-pastoral farmers remain without utilization of such services that they need to improve their livelihoods, for example a total 17,250 households, 919 household beneficiaries were utilizing on the microfinance services in the study area (SMFI, 2010). This shows us a small number of beneficiaries were utilizing the microfinance services as there is lack of knowledge about the concept. Although there have been consecutive reforms and efforts that were made by the organization to maintain such services; the utilization of the service among smallholder farmers was affected by number of factors. Thus it was very important to identify that whether the microfinance services is utilized or not and what factors undermine utilization of such services.

Whereas many studies such as (Mesfin and Bogale, 2015, Muluken and Mesfin, 2014, Dilayehu, 2014, Amanuel and Degye, 2016, Kiros, 2012) have been conducted on Microfinance service utilization and its determinants of smallholder farmers in Ethiopia there was inadequate empirical evidence on smallholder agro-pastoralists farmers where majority of them are low income and subsistence farmers. This justified the need for more research of microfinance service utilization to bring a strong policy implication of the impact of microfinance services the country on poverty alleviation.

Due to limited number of beneficiaries, the microfinance institutions in the study area were underperforming (SMFI, 2010). Therefore such an exercise provided much needed insight to the practice of micro financing itself, in general, and to the future inquiry into the various practices, policies and performances of the client base, and gave more understanding on smallholder farmers integration in the MF services through agro-pastoralist oriented micro finance institutions, more importantly, the effect on livelihood of small holder farmers, in particular.

This study therefore was concerned with investigating on microfinance service utilization and its determinants affecting smallholder farmers' utilization in Degahabour Woreda Jarar zone, Somali Regional State and tried to narrow the research gap by paying attention to these fundamental aspects of microfinancing service utilization by smallholder farmers and factors affecting it.

1.3. Objectives of the study

The general objective of the study was to investigate microfinance service utilization and its determinants among smallholder farmers based on data from Degahabour Woreda, the study area. Specifically, the study endeavors to.

- ✓ Describe the microfinance service provision in the study area
- ✓ Examine smallholder farmers' utilization of microfinance services in the study area.
- ✓ Identify factors determining smallholder farmers' utilization of microfinance services in the study area.

1.4. Research Questions

1. How does the microfinance service provision in the study area?
2. How is microfinance service utilization of smallholder farmer's in the study area explained?
3. What are the factors determining smallholder farmer's utilization of microfinance services in the study area?

1.5. Significance of the Study

The study was considered microfinance service utilization and its determinants among smallholder agro-pastoral farmers in Degahabour woreda of Somali regional state and the result of this study was very critical to overcome of new strategies and mechanisms for the utilization of microfinance services by smallholder farmers and it was expected to give more understanding how the smallholder farmers in the study area were integrating in the MF services through agro-pastoralist oriented micro finance institutions which they could diversify their income due to the accessibility of financial resources and to recover their agricultural production and productivity.

The study informs microfinance institutions and other financial service providers about the best practices and policies of MF service management tailored towards the financial needs of the property less, voiceless and poor people in order to increase their utilization of MF services. Academically, the study contributed to the existing body of knowledge; which was useful to present and future scholars, researchers and students interested in the subject matter. The outcome of the study were also useful for policy makers, researchers and different organizations whether they are governmental or non-governmental organizations in formulating rural credits policy and working on areas of agro-pastoral microfinance services and their utilization. Also the study was provided useful and effective information on the current status of smallholder farmers and their utilization of microfinance services as well as it will make awareness creation on the determinants affecting utilization of these services.

Finally, the study was significant for rural smallholder farmers' organizations that are ruthless to address the services from the institutions which will link for future researches and improve the life standard of the participants.

1.6. Scope and limitations of the study

The study examined Microfinance service utilization and its determinants among smallholder farmers. The study was conducted in Degahabour woreda microfinance branch of Somali Regional State. More emphasis was given the utilization of microfinance services and factors affecting it among smallholder farmers in the woreda which increase the agricultural production and productivity of the farmers to change their standard of living. The study was done between February and April 2019. In addition to this the study depends on the information which was provided by the sample respondents that were taken from the microfinance institutions to make precise and understandable manner.

Moreover the study data was complemented with the inputs of primary and secondary data related to microfinance service utilization of smallholder farmers and the determinants affecting it. Even if the study was essential to undertake at wider scale in all woreda of Ethiopia, including the Somali Region and required involvement of majority of the household respondents, due to shortage of time, personal and budget, it was limited only in Degahabour woreda taking for sample households.

More over the major asset in the study area was livestock but missed to include the variable during the study due to shortage of the given time to collect the data.

1.7. Organization of the paper

This Thesis is composed of five chapters which I organized as follows: Chapter One includes background of the study, statement of the problem, objectives and research questions of the paper, Importance of the study, scope and limitation of the study. Chapter Two includes the literature review in both theoretical and empirical studies which related to utilization of micro finance services for smallholder farmers. Chapter Three includes Research Methods of the study like the description of the study area, the research design, methods of data collection, data analysis methods, sampling technique and sample size determination. Chapter Four also focus on the main findings of the study and lastly chapter five which is the conclusion and recommendation of the study.

1.8. Ethical considerations of the study

A letters of introduction was obtained from the necessary institutions particularly the University. The letters was presented to all involved in the research study and explained the purpose while seeking permission and cooperation where necessary. The researcher has given assurance to the respondents that information seen would be used only for purposes of research. Other ethical considerations were included ensuring ambiguity for the respondents and organizations participating in the study as well as the respondents. All sources of information that does not belong to the researcher were acknowledged through citations. The participants were notified of their voluntary participation and all their rights even as to the results of the study.

More over during under taking of the study the researcher was avoided bias and act as impartial for collecting the data and kept away from whatever harming the sample respondents or participants of this study and also doing the study the researcher considers the quality of the data he was collecting. Lastly the researcher was taken in to account the cost benefit analysis of the research which gives more emphasis in doing such researches.

CHAPTER TWO: REVIEW OF LITERATURE REVIEW

2.1. Theoretical/Conceptual Foundations of Microfinance

2.1.1. Microfinance

Several researchers defined the concept of microfinance from different perspectives. Robinson (1998) stated that Microfinance refers to the prerequisite of a wide range of monetary services such as; deposits, loans, payment services, money transfers and insurance products, to the poor and low-income households for their micro enterprises and small businesses, to enable them to raise their income levels and improve their living standards. According to Ledge wood, (1999) micro financing is based on the idea that traditional banking sector cannot reach millions of poor for whom small loans could make huge differences. This is because most of the poor are rural, and they are much isolated. They have low education levels, if any. As a result, administrative cost of supplying loans to the poor population is extremely high.

The World Bank (1998) clarified that microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. Microfinance refers to provision of small loans and other facilities like savings, insurance, transfer services to poor low-income household and microenterprises. Lashley (2004) defined microfinance as, lending small amounts of money for enterprise development to achieve a sustainable rise in incomes above the poverty line.

Microfinance is a powerful tool to self-empower the poor people especially women at world level and especially in developing countries (Noreen, 2011). While Steel & Addah (2004) describe micro finance as small financial transactions with low income household and micro enterprises, using nonstandard methodologies such as character-based lending, group guarantees and short term loans. Generally Microfinance can be characterized as supplying loans, savings and other related financial services like insurance to the poor segments of the society; that in general have less access to credit and other financial facilities under conventional banking setup (Dr. Athar, 2015). Micro finance involves the provision of financial services that aim to improve and protect the livelihoods of active economic agents who have limited access or are denied access to normal financial services as provided by banks and other formal financial sector institutions (Mohamed I, 2009).

2.1.2. Theories of Microfinance Service Utilization

There are different theories regarding to microfinance and its utilization including Loan able funds theory, Theory of interest rate, Neo-classical of interest rate, Permanent income theory. Among the above mentioned theories the most relevant one in this study is permanent income theory which I briefly discussed below.

2.1.2.1. Permanent Income Theory

According to Freidman, (1957) this theory confirmed that beneficiaries will spend money at a regular level with their expected long term average income. The expectation level of their long term income then becomes thought of as the level of “permanent” income that can be carefully spent. According to Abdi (2015) in permanent income theory, the client’s wealth can be determined by two reasons. First reason is that the Assets owned by the borrowers both in the attributes of the economic activity of the person such as the occupation followed or main source of income, diversified sources of income and sources of credit available to the borrower. The second reason is that physical factors such as livestock ownership, the personal attributes of the individual borrower such as education, experience, saving habit and investment planning, personality. These factors influence household decisions to use and utilize the credit.

Alvarez-Cuadrado, (2011) stated that the relative income hypothesis that the percentage of income consumed by an individual depends on his/her percentile position within the income distribution. The important implication of the above permanent income theory in the study is developed a theoretical model to explain and highlight the important determinants of microfinance service utilization to smallholder farmers particularly the agro-pastoral smallholding farmers in the study area.

2.1.3. History and emergency of microfinance

The concept of microfinance is not new to the world because it is rooted in rich histories that span the globe. Savings and credit groups date back many centuries to the Susu tradition in Ghana, the Chit Funds of India, and the Tandas associations in Mexico (RWMFS, 2014). But the establishment of the modern microfinance as a formal financial institution in many developing countries or the rise of modern day microfinance emerged.

Microfinance arose in the 1980s as a response to doubts and research finding about state delivery of subsidized credit to poor famers. In the 1970's government agencies were only the services for providing productive credit to poor famers. People were forced to pay usurious interest rate. The government and international agencies forward to help poor and help them to promote agricultural production. In adding to providing subsidized agricultural credit, donors set up credit union inspired by the Raiftesion Model developed in Germany into 1884.

Beginning the mid-1980, the subsidized targeted credit model support by many donors was the object of steady criticism, due to frequent recapitalization to continue operating. This led to new approach that considered microfinance as an internal part of the overall financial system. Since the 1980s the field of microfinance has growth sustainability donors actively support and encourage microfinance activities, focusing of MFIs that are committed to achieving, substantial outreach and financial sustainability. Today the characterized by an integrated package of credit and training which required subsidizes. Most recently, microfinance NGOs have began transforming into formal financial institutions that recognize the need provide saving services to their clients and to access market finding sources, rather than rely on donor funds (ibid., pp. 3)

The establishment of Grameen Bank in 1983 by Muhammad Yunus has spread rapidly in Bangladesh addressed the banking problem faced by poor villagers in southern Bangladesh through a program of action research. With his graduate students at Chittagong University, he designed an experimental credit program to serve the villagers and its system is utilized and spread in many developing countries including Ethiopia. Since then MFIs and their loan provision services are mainly viewed as an economic development strategy, and particularly relevant approach in countries where disadvantaged groups tend not to benefit from involvement in the formal economy (Hussen, 2013)

2.2. Benefits and importance of microfinance services to smallholder farmers

The significance of microfinance institutions in the field of development was reinforced with the launch of the microcredit summit in 1992. The main purpose of this microcredit summit was to address 175 million of the world poorest families the women of those families, with credit for their businesses by the end of 2015. To increase the production and productivity of the smallholder farmer's microfinance institutions is very important and Microcredit will be needed to a farmer right from land preparation to harvesting, as well as the marketing of the produce.

Fernando (2005) confirmed that Microfinance services become one of the fundamental driving mechanisms for addressing the Millennium development Goals (MDGs), most especially with respect to the target of halving extreme poverty and hunger by 2015. According to Ledgerwood (1999) the development of microfinance services serves as an opportunity economic tool which targets low income sector through the prerequisite of flexible and affordable financial services with goals of reducing poverty.

Remenyi (1991) and Rogally (1996) stated that, micro credit contributes to income generating activity of the borrower by providing the farmer with a working capital in order to increase farm investments. Some of the benefits of microcredit loans to farmers may include the following: It fills the gap in credit delivery that are not addressed by other credit providers and attempt to speed up economic development and reducing poverty and food insecurity in the country. It helps numerous farmers to undertake various investment decisions to expand their farming operations to realized profit in order to improve their standards of living. It provides a blue print to solve poverty in most of the developing world today.

Microcredit seeks to foster principal local markets for goods and services produced by the poor. (Sometimes, microcredit seeks to create genuinely trans-border markets for those goods). Ahmed (2004) indicated that the significance of microfinance to smallholder farmers is as follows: it promotes savings habit among poor farmers, it increases family income and provide better standard of living, it raises awareness and contributes to various socio-economic activities and it motivates farmers to take active role in politics.

2.3. Microfinance service institutions in Ethiopia

Microfinance development in Ethiopia is a recent phenomenon in institutionalized form. But it has a long history in different forms. Government efforts of delivering financial services especially credit to accelerate socio-economic development in Ethiopia may date back to the immediate post Italian occupation period with the establishment of the Ministry of Agriculture in 1943 and Agricultural Bank of Ethiopian in 1945 (Abebe, 2006).

According to Wolday (2000) the development of microfinance institutions in Ethiopia is a recent phenomenon. The proclamation, No. 40/1996, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services. In Ethiopia, like many other countries of the world, microfinance is seen as one of the most efficient instruments to promote economic development and to fight poverty and numerous MFIs all over the world have proven that financial services can be offered on an sustainable basis with high outreach.

Although the Government of Ethiopia has allowed private ownership of financial institutions, the financial sector is still dominated by large public financial institutions. Also within the microfinance sector, the major Microfinance Institutions (MFIs) are owned by regional governments/endowment companies. The public financial sector (excluding MFIs) has problems of excess reserves and a relatively large share of non-performing loans (20%). In recent years, the state and regional governments have made a major push to increase financial services for agriculture, micro and small enterprises and low-income households (IFAD, 2009).

The Ethiopian microfinance sector is characterized by its rapid growth, an aggressive drive to achieve scale, a broad geographic coverage, and a dominance of government backed MFIs, an emphasis on rural households, the promotion of credit and savings products, and a strong focus on sustainability and by the fact that the sector is Ethiopian owned and driven. The industry has a strong focus on loans to the very poor, as indicated by the relatively small loans when compared to neighboring countries. Sector outreach is impressive and the financial performance of the sector is considered good, although the operational margins and profitability are low. MFIs have also mobilized a significant amount of savings, thereby improving financial as well as operational sustainability (MFT, 2011)

2.4. Over view of Somali Microfinance institution (SMFI)

The Somali Microfinance Institution (SMFI) is a company formed and established by Somali regional that was registered on January 31, 2011 by National Bank of Ethiopia (NBE) according to proclamation No.626/2009, it became functional later months of that year and started December 2011. Its vision is to be a competent and sustainable Microfinance service provider in Somali regional state and the underserved neighboring regions that addresses the financial service needs of the urban and rural low income people and Its mission is to provide inclusive financial service to the active poor who have no access to non interest financial other banks both in the rural and urban areas as vital tool to alleviate poverty and support the poverty reduction effort of the regional state and the country at large (SMFI, 2010).

According to the operational manual document of SMFI in 2010, like other MFIs in the country Somali MFI has its own general and specific objectives to achieve its goals. The general objectives of the institution are: To offer finance and savings services to the active poor both in rural & urban areas, To Support self – employment and income generating activities, To promote rural and urban micro and small enterprises, To improve the culture of savings by the wider public. The Values of SMFI include, Trust worthiness and zero tolerance for fraud and embezzlement, No tolerance for delinquency, Commitment to excellence and quality operation, Effective & Efficiency Management, Hard work and completeness.

More over the SMFI has a lot of specific objectives among them are as follows: to accept voluntary saving and time deposits, to extend credit (investment) to rural and urban farmers and people engaged in other similar activities as well as micro and small – scale rural and urban entrepreneurs, to draw and accept drafts payable within Ethiopia, to acquire, maintain and transfer any movable and immovable property including premises for carrying out its business, to support income generating projects of urban and rural micro and small scale operators, to render managerial, marketing, technical and administration advise to customers and assisting them to obtain services in those fields, to manage funds for micro and small scale business, to provide local money transfer services, to provide financial leasing services to peasant farmers, micro and small scale urban and rural entrepreneurs in accordance with the Capital Goods Leasing Business Proclamation No. 103/1998, and to be engaged in other activities as specified by directives of the National Bank from time to time (SMFI, 2010).

2.5. Mode of financing of Microfinance institutions

A microfinance institution around the world has different methods of financing that they applied their clients across religion, region, societies, etc. here are mentioned below different theories and their modes of financing. According to Khan and Ben Djilali, Metwally (1997), Wilson (2007) the following are the primary financing instruments used for the Islamic Microfinance initiative.

Profit and Loss sharing Financing: This is a mutual agreement between the supplier of the capital and the entrepreneur, who are agreed to undertake a specific business project. In which one party is providing his capital in form of money and other party puts his efforts and knowledge to run the project. Both the parties are agreed to the profit sharing on a pre determined basis. But in case of loss, it is beard only by the supplier of the capital.

Partnership Financing: This concept is similar to business partnership or joint venture with little difference that the profits earned from a project are shared on the basis of agreed ratio but in case of loss, it is borne by the both parties on the basis of equity participation. Specific proportion of profitability should be granted to client as the “management fee”.The remaining profit is to be distributed between the bank and the borrower. Profit and loss sharing ratio is pre determined and thereafter cannot be changed.

Resale Contract Financing: Under this contract, the supplier of the capital purchases an asset on the request of the borrower and resale it to him on cost plus profit basis. Logic behind this resale contract is that Islam prohibits charging interest on the money but Islamic law doesn't prohibits profit earning on the original cost.

Leasing: It is a type of operational lease that involves property or purchase of any equipment. This can be used as a tool for micro finance for home financing to the poor people and for helping in purchase of required equipment by the needy small low income entrepreneur.

According to Al-Omar & Abdel-Haq, (1996), the mode of financing of Islamic microfinance is based on the “Sharia”, which is the strict prohibition of paying or receiving any fixed, interest (*riba*) is the most widely known feature of this financial system. Therefore, Islamic microfinance institutions should operate on the basis of profit. In the vein of Islamic banks, these institutions can earn profits in three areas: trading, leasing and by direct financing in Profit Loss Sharing (PLS) contracts. AbduRahman, (2007) indicates that in Islamic microfinance the loan is provided for short term financing and repayments can be made on a weekly or longer basis. The procedures of given loans are normally fast and easy. There is possibility to give additional capital after the full settlement of the previous loan.

Obaidullah, (2008) stated that besides the provision of alternatives to exploitable lending via *Mudaraba* and *musharakah*, Islamic Microfinance can allow the integration of the poorest by savings schemes via *wadiah* and *Mudaraba* deposits, money transfers through *zakat* and *sadaqah*, and insurance via *takaful* concept. According to CGAP (2013), Murabaha and Qard-Hassan loans are the main Islamic financing products for the poor which also focus note on Islamic Microfinance, the overall supply of Islamic products is still quite small relative to the conventional microfinance sector in spite of a twofold increase in the number of providers and in the number of poor client using Sharia-compliant products. Based on CGAP surveys in 2011, customers using Sharia-compliant products represent less than 1 percent of total microfinance outreach.

According to Hassan (2002), the Grameen bank of Bangladesh has chosen, in the methods it employs to serve this clientele and in the products that it offers to this clientele. Accordingly Grameen has chosen to serve the ‘poorest of the poor’ in rural Bangladesh and has targeted women, believing that they are the most needy of the poor. Through its lending and social policies, Grameen intends to permanently elevate these poor to an acceptable level within their society. Women are among the most vulnerable group of the society in Ethiopia. Most of the clients of MFIs are women. This shows the idea of Grameen bank is shared by many micro finance institutions. Grameen is attempting to reach a very large population of uneducated, rural poor.

On the contrary there are different modes of financing which Non-Islamic microfinance institutions they use those include: According to Abdulrahman (2007) the mode of financing of conventional microfinance is interest based, Secular, behavioral, ethical and social development and these concepts are more focused.

Micro-credit: Micro-credit is considered as an alternative to micro-credit offered by conventional microfinance institutions (MFIs). Contrary to this credit that violates the fundamental prohibition of *riba*, Islamic MFI allows customers the acquisition of assets that are required to their productive activity by giving them for rent. To finance these acquisitions, MFIs use a variety of Sharia -compliant mechanisms, such as, *qardhasan*, *Murabaha* with *bai-bithaman-ajil*, *ijara*, *bai-salam* etc. All these modes create debt for the customer by paying the price of assets with gross margin.

Micro-lease: Microfinance institution tolerates its client using its assets. Contrary to conventional lease, the risks are very high to the institution which takes on the responsibility all damages involuntary caused to its customer. The idea is to avoid that leasehold is considered as a sale transaction with interests. Besides, the modalities of leasing contract are defined in advance.

Micro-takaful: For protection against unpredicted risks by borrowers, micro-insurance would take the form of *microtakaful* based on mutual guarantee. The contribution of each member to insurance fund helps them to improve prevention to risks and strengthen the security of borrowers. This fund compensates borrowers who face emergencies—such as fire, flood, agricultural losses, and death—that affect their businesses.

The overall desired impact of conventional microfinance has been questioned given the critics addressed to the financing process of microfinance institutions (Abdulrahman, 2007). Among these critics, there is high interest rate (up to 30%) charged to poor receivers in order to make financial gains for these institutions. On the other hand, while conventional microfinance institutions focused mainly in women as their client.

2.6. Determinants of microfinance service utilization of smallholder farmers'

Great concern has been given that smallholder farmer's utilization of microfinance services in developing countries which plays a significant role in the welfare of the rural poor. Underlying this concept, many studies focus their attention on the utilization of microfinance services. Accordingly, studies have identified numerous factors that determine smallholder farmers' MF service utilization that fall into four major categories; namely, institutional factors, demographic factors, client factors and socio-economic factors.

2.6.1. Institutional factors

Institutions play an important role in the development process of any country. In Ethiopia one of the most effective institutions that are often mentioned is the microfinance institution. Based on this different empirical literatures have been reviewed regarding on the institutional factors.

Duflo *et al.* (2008) in Morocco suggested that, due to lack of collateral, group lending, involving in agricultural activities and costs from small loan sizes, smallholder borrowers are assumed risky and constrained from utilizing of microfinance services. In their study they also revealed that the institutions' lending policies such as giving limitations on credit for specific purposes for example smallholder farmers who have no other source of income except agriculture were not able to earn credit from the institutions, time taking and complicated application procedures, repayment capacity and regulatory of revenues were the other factors that limit utilization to credit. A similar study was done by Tang *et al.*, (2010) in China and revealed the same result but they added that factors like, group guarantee; monthly payments and prior credit experience are determinant factors to access and utilization of credit.

Abdelateif. H. Ibrahim, *et al* (2015) found that application fees, value of assets, frequency of repayment period, punishment expected and group lending collateral required were significant variables that influencing the outcome equations (loan utilization and loan repayment). They provided evidence that the MF service utilization mechanism adopted by microcredit institutions in the study areas is somehow linked to the repayment behaviour of the borrowers. Also their findings confirmed that yet lenders do not put emphasis on the age and education level of borrowers during the process of contract formation.

Amanuel Ayele and Degye goshu (2016), Akpan *et al* (2013), and Sebu (2013) pointed out that utilization of microfinance services and distance from borrowers to the MF institution has negative relationship. Akpan & Nneji, (2015) has been discovered that services of microfinance institutions such as advisory services, per loan and pre-credit training enhance the growth and utilization of smallholder farmer's for the microfinance services.

Abafita (2003) pointed out that loan sizes are negatively related to the utilization and repayment of microfinance services Moreover, loan diversion is significant and negatively related to loan repayment and in generally utilization of the services.

Endalew Wale *et al* (2013) indicated that utilization of microfinance credit service was significantly influenced by factors such as area of residence, possession of fixed asset, and distance of the respondents' residence from microfinance service giving center. Moreover, problems related to institutional capacity building, client mobility, and lack of facility for screening defaulters, harsh intervention environment, prevalence of HIV/AIDS, lack of incentive and limited awareness among the community were found to be the major challenges of credit service provision.

2.6.2. Demographic factors

Oboh and Ekpebu (2011) suggested that age, education, and household size were significant variables that affect the rate of credit utilization to the farm sector. A similar study was conducted on Nigerian farmers in Benue State by Oboh and Kushwaha (2009) and showed that age; education, farm size, household size and visitation by banks significantly influenced the proportion of microfinance service utilization to farm operations.

Akudugu (2012) discovered that age of farmers, gender and political affiliations among others were the main determinants of credit utilization by farmers while type of crop grown; farm size and amount of savings had significant influence on the amount of credit supplied by service institutions. According to Nwaru and Onuoha (2010) observed that when agricultural credit is properly extended and utilized, it encourages diversification which stabilizes and often increases resource productivity, agricultural production, value added and net incomes of farmers. The study suggested that the production of agriculture needs to rise at least by some 6% per annum for Africa to be able to meet its food needs and for African agriculture to become a real motor for economic development.

Chaudhary and Ishafq (2003) found that borrowers with higher educational levels had a higher probability of utilizing microfinance services. They concluded that a subsidized interest rate was not the best way to ensure good utilization of microfinance services by borrowers.

Dalio *et al* (2017) confirmed that women were excluded from institutional credit due to loss of respect and cooperation from their husbands. Consequently women allowed their husbands to control the cash transaction in order to preserve their marriages. Household size was a key significant factor influencing productive use of credit. They recommend that there is need for investment in attitudinal change in men and women in order to reduce gender differences within the household concerning credit use decisions.

Mugenzi (2014) pointed out that Farmers with high collateral assets, level of income, saving and level of education are more likely to utilize microcredit while farmers with high household size and age are less likely to utilize microcredit. However, farmers lack sufficient knowledge in business planning, they are very afraid to borrow and uncertain to pay MFI's loans. They are threatened by the high interest rates on borrowing, short payback period, lack of collaterals and MFI's slow decisions making on loan applications.

The role of human capital in financial sector development is widely recognized (Vanroose, 2008). Paulson (2002) cited in (Vanroose, 2008) finds that regions with higher levels of education have more developed financial systems. Guiso *et al* (2004) cited in (Vanroose, 2008) also find positive effects of social capital in financial sectors. Amanuel and Degye (2016) pointed out that different variables such as literacy status, household size, size of landholding, perception about loan repayment period and were the significant determinants of microfinance service utilization by smallholder farmers. The borrower's sex, literacy status, income level, purpose of loan taking and perception about loan repayment period were found to be the factors influencing the services received by smallholder farmers.

2.6.3. Client factors

Stieglitz and Weiss (1981) cited in (Vanroose, 2008) stated that access of information influence microfinance service utilization of smallholder farmers. In some cases, they lead to market failures. Good interconnectivity between clients, the availability of electricity, communications and sanitations networks lower these services.

2.6.4. Socio-economic factors

Yonas (2015) stated that themes like socio-economic characteristics, loan utilization behavior, sources of financial for loan repayment and perceived delinquency/default reasons of clients as well as capacity of the lending institution has an effect on the utilization of rural households to the microfinance services and classified the rural clients as adult working age and less educated individuals which largely depend on disposed smallholding agriculture. He finalized that Clients' borrowing purpose vis-à-vis actual loan utilization deviates to a certain extent, suggesting loan diversions.

Mesfin *et al* (2015) found out that saving habit, collateral type, training and technical advice, and possession of fixed assets, risk fearing and lending procedure as factors determining microfinance service utilization.

Assefa (1989) found that large farm size, high investment, adoption of improved technology were significant variables in distinguishing borrowers from non-borrowers. Sisay (2008) argued that the prerequisite of credit much depend on political decisions and interests. He further estimated that the irregular availability of loan funds, requirement of collateral and initial saving, the setting of interest rate ceilings, and lack of training and technical advice, group lending and risk fearing seriously affects the effectiveness of Microfinance service institutions and credit service utilization.

Salma (2004) confirmed that factors like, saving, household income can increase the utilization of credit among microfinance service participants. In her study she concluded that microcredit program has direct and higher contribution to generate income than non-microcredit program. According World bank (1989), rural smallholder farmer's access and utilization of formal credit has been difficult due to different factors including transaction costs, risks of small-scale lending and lack of collateral. Similarly Waheed (2009) argued that smallholder farmers underutilize agricultural fund for investment purposes by using it to personal consumption. The shift of farmers to deflect agricultural credit from its anticipated purposes could be explained by socio-economics, farm specific and institutional factors.

According to different development scholars such as Okurut *et al* (2004), Johnson and Rogaly (1997), and Yunus (2004) who is the mastermind of the Grameen bank, view micro-credit as a conduit to development.

This means that; such cultural practices and beliefs cannot stand in the pathway of improving people's welfare and productivity through micro-credit innovations. Burritt (2006) found that microcredit service utilization by smallholders can be classified into three broad categories; production credit (for seed, pesticides, fertilisers, animal traction/tractor services and credit for field production); Commercialization credit (for warehouse credit, fixed term credit and overdraft facility) and lastly transformation credit utilized for processing purposes and usually by processing companies.

2.7. Gap in the literature

From the above empirical literature reviewed, different factors that affect the microfinance service utilization have been identified. All the studies reviewed were conducted in different determinants like socio-economic, clientele factors, demographic factors and institutional factors which are the primary factors that influence the utilization of microfinance service by smallholder farmers. Considering the socioeconomic and environmental peculiarities across regions, it is therefore necessary to carry out thorough investigation of the various aspects of microfinance service utilization, or lack thereof, in the Somali Regional State. This exercise is important from two fundamental standpoints. First, Microfinancing is the foundation on which smallholder farmers are growing across the country, not just in the study area. Second, information generated on various aspects of Microfinancing are importance to policymakers, the lending institutions, a variety of governmental and nongovernmental agencies engaged in reducing poverty in developing countries.

Hence, the major concern of this study is to supplement previous research and bridge the knowledge gap by looking back previous studies to determine various aspects of microfinance service utilization among smallholder farmers Degahabour woreda, Jarar Zone Somali regional State. In order to identify the major socio-economic, demographic, clientele and institutional factors that affect microfinance service utilization for smallholder farmers is one way to improve the utilization of Microfinance services. In the literature reviewed, there were neither study investigating determinants of microfinance service utilization for smallholder farmers in Somali agro pastoralist farmers, in particular, nor those financed by the Somali MFSIs, Degahabour branch in general. Hence, this research was contributed substantively to narrowing the research gap and generates foundational information.

2.8. Conceptual Framework

According to Kothari (2004) conceptual framework clearly depicts by a structure that presents relationship between the main constructs in a given study. Mugenda (2003) further adds that a conceptual framework gives an explanation of how the researcher perceives the relationship between variables deemed to be important in a study.

Microfinance service utilization can be affected by a number of factors. Institutional factors, client factors, socio-economic factors and demographic factors have direct influence on smallholder farmer's utilization on microfinance service. Institutional factors related to microfinance service utilization were considered as distance of the farmers to the microfinance institution, training and loan size. On the other hand socio-economic factors affecting microfinance service utilization was considered as farm size, saving habit and culture. There are also demographic factors that have been considered in the study such as age of the sample respondents, educational status, gender, marital status and family size of the sample respondents those are affecting utilization of microfinance services. Lastly but not least the study pointed out clientele factors that affect utilization of microfinance service of smallholder farmers i.e. access of information.

Therefore based on the above literatures reviewed concerning on the determinants of microfinance service utilization of smallholder farmers a conceptual framework that depicts the relationship between various factors and microfinance service utilization was developed. The framework shows that institutional factors, client factors, socio-economic factors and demographic factors have direct influence on smallholder farmer's microfinance service utilization. On the other hand these factors can influence each other. However, the focus of this study is only on the formers relationship. Below is the diagrammatic representation of the conceptual framework

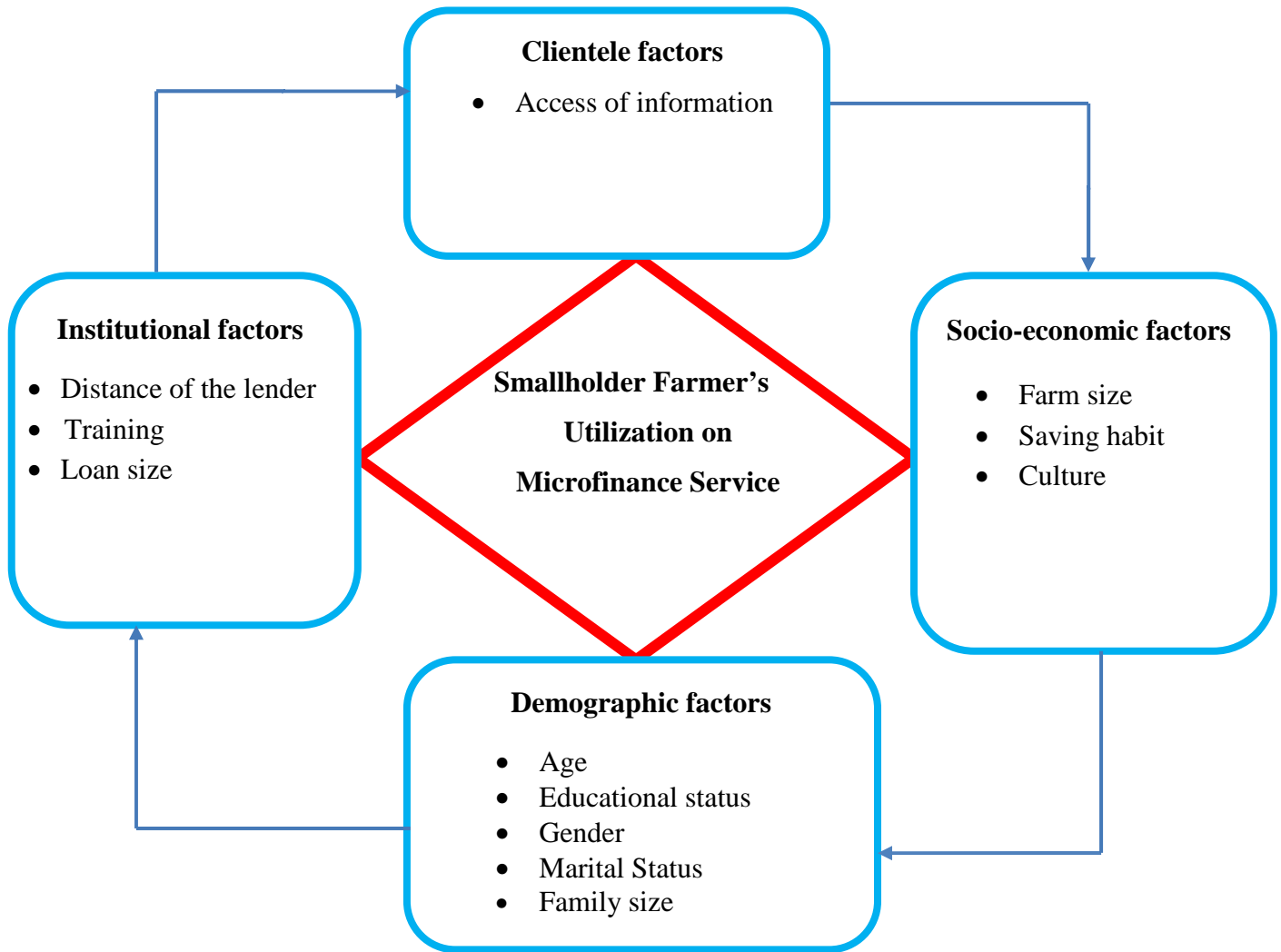


Figure2.1: Conceptual Framework **Source:** Own Compilation 2019, based on literatures

CHAPTER THREE: METHODOLOGY

This chapter of the Thesis focused on a detail explanation and discussion of the methodology that was applied in the study. Thus, the topics related to methodology and covered in this chapter is the General description of the study area, Research design, Methods of data collection, Procedures of data analysis, and sampling technique and sample size determination.

3.1. Description of the study Area

3.1.1. Location

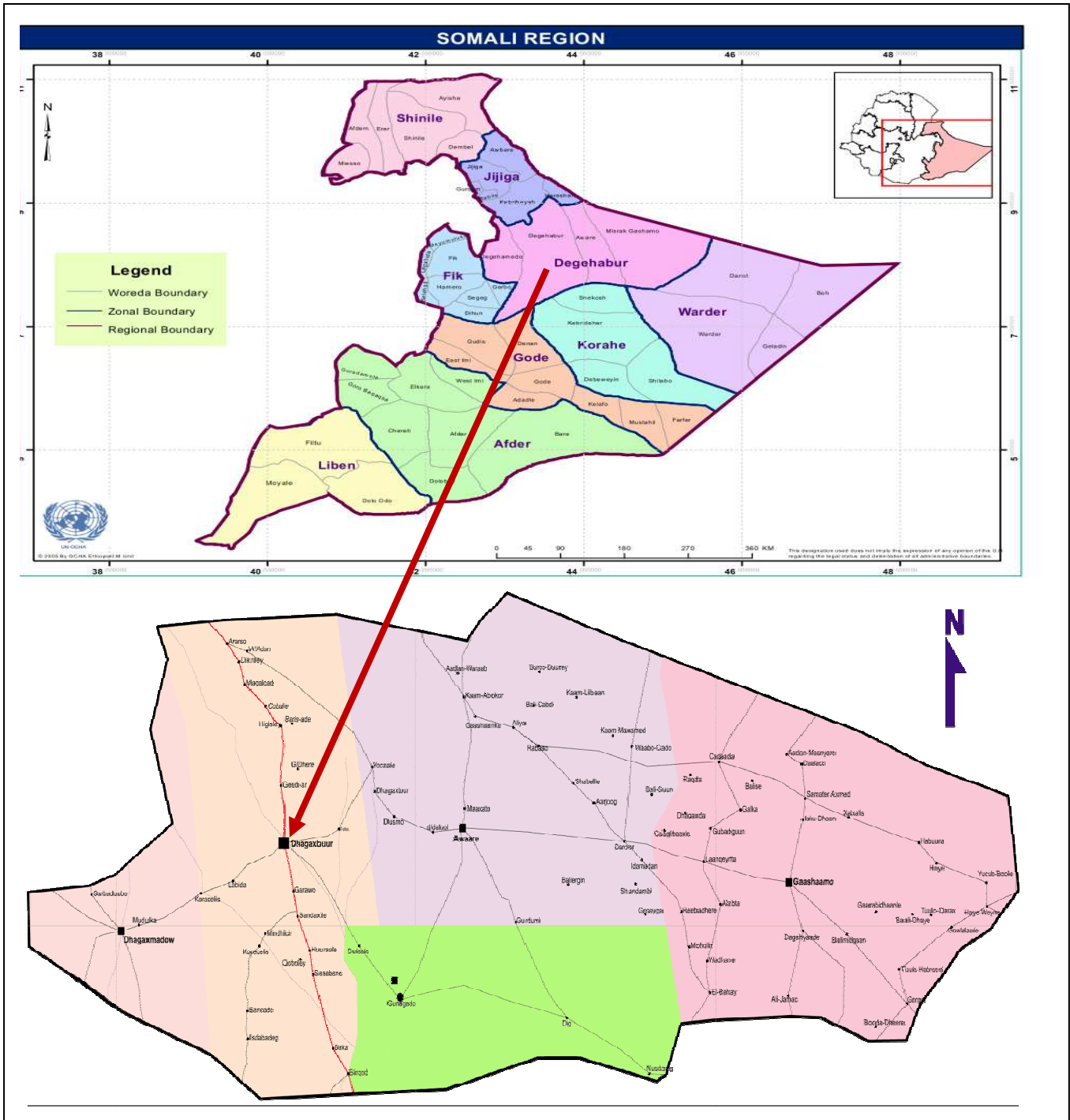
The study area was in Degahabour woreda which is one of the woreda's in the Somali Regional State. Degahabour Woreda is located and bounded between north and east. The woreda is found in Jarar zone of the Somali Regional State and borders in the north Ararso, in the South and South-east Birqod, in the East & East-North Aware and West-South Dhagahmadow woreda. Degahabour City is at a distance 165 Km from the regional capital Jigjiga towards the East direction. Degahabour woreda has agriculturally suitable land in terms of topography which it's at 1044 meters above sea level, and there are perennial rivers including Fafan and Jarar. It's located 8-13 N latitude and 43-48 E longitude and frequently considered part of the Hawd. The woreda is the administrative center of Jarar Zone.

3.1.2. Demographics

Based on the 2007 Census conducted by the Central Statistical Agency of Ethiopia (CSA), this woreda has a total population of 115,555, of whom 65,081 are men and 50,474 women. While 30,027 or 25.99% are urban inhabitants, a further 45,818 or 39.65% are pastoralists. 98.6% of the population said they were Muslim.

3.1.3. Farming system

The farming system of the woreda is characterized by ranching farming system since the area is pastoral and agro pastoral area i.e. practicing of grazing animals as well as browser animals such as camel and these ranching is communal that the community utilize as a whole. In some parts of the woreda there was mixed crop and livestock farming system and the most important crops grown in the area were Maize, Barely, and Sorghum and some part of vegetables etc. (DMFI, 2018)



Map 3.1: Location Map of Degahabour Woreda

Source: OCHA, 2005, Ethiopian Map Unit

3.2. The Research design

The study was concerned with assessment of the determinants of microfinance service utilization for smallholder farmers. A cross-sectional study was made to investigate the determinants of microfinance service utilization of smallholder farmer by collecting data from randomly selected respondents at a single point in time. The choice of this design is due to the fact that it is cheap in terms of time and human resources as data was collected simultaneously from Degahabour microfinance clients at a distinct point in time. The design further enabled to triangulate between the quantitative survey questionnaires and the qualitative FGDs and key informants interviews. Descriptive studies and econometric model were needed to obtain quantitative information more about the Smallholder agro-pastoralist farmer's utilization to MF services related to their agricultural production and productivity in the study area.

3.3. Sampling techniques and sample size

The study has employed on both purposive sampling and simple random sampling techniques to select sample respondents. First Somali microfinance institution has 23 branches and 1 sub branch, out of this purposive sampling design was selected Degahabour branch for non-probabilistic sampling technique because this branch has been actively involving and providing of services on smallholder agro pastoral borrowers to other branches and then simple random sampling was used to select a sample from the total clients of the Degahabour microfinance institution branch based on the probability proportional to sample size and in simple random sampling each item in the population has the same probability of being selected as part of the sample as any other item. The unit analysis in this research was households who were selected randomly from the given beneficiaries of Degahabour microfinance institution.

3.3.1. Sample size determination

Based on the sampling technique used in the study it can also determine the sample size and this varies for various type of research designs and there are several approaches in practice. Sample size depends on sampling error, population size, and variation in the population with respect to the characteristics of the interest. Therefore sample size determination is much significant element in any survey research, this study used in Yamane formula (1967:886) which provides a simplified

formula to calculate sample sizes, as follows.
$$n = \frac{N}{1+N(e)^2} \dots\dots\dots (1)$$

Where

n = is the sample size,

N = is number of beneficiaries, and

e = is the level of precision.

According to the purposely selected clients of Somali MFI, Degahabour branch the total household of borrower's was 919 of which 617 are female and 302 male members those are currently in operation. A 95% confidence level, 0.05 degree of variability and $e = 8\% = 0.08$ the level of precision measures how close an estimate is to actual characteristics in the population which are inserted into the equation 1.

$$n = \frac{919}{1 + 919 (0.08)^2} = 134$$

Then according to the Yamane (1967) formula the sample size of 134 beneficiaries was selected randomly from selected the total number of beneficiaries' of 919 and was investigated their utilization in microfinance service considering of different variables. This sample size was assumed to enable us to gather richer data with regard to demographic, socio-economic behaviours, institutional, MF service utilization behaviours, and others. After having the total number of clients in the institution smallholder farmer's client's probability proportional to size was employed to select the sample from the agro-pastoral smallholder sector. Accordingly, the selected 134 sample beneficiaries' was interviewed by using un-structured survey questionnaires.

3.4. Methods of data collection

To meet the objectives of this research listed in the above section there were different methods of collecting data from the sample households these methods include qualitative methods of data collection and quantitative methods of data collection i.e. mixed method of data collection. In qualitative method of data collection the data was collected by using instruments like key informant interview, focus group discussion, regarding on the microfinance service utilization and its determinants among smallholder famers. On the other hand quantitative data was collected through quantitative methods of data collection like questionnaires, which was carefully prepared and developed. The above mentioned data collection instruments are discussed below in detail

3.4.1. Key Informant Interview

Key informant interview was the main method of generating data from the household head to understand their utilization of microfinance service utilization and factors affecting it. This technique was used because of to obtain basic information on households and organizational profile. Consequently, they are relatively quick and easy to administer and may be of particular use if clarification of certain questions are required or if there are likely to be literacy or numeracy problems with the respondents. More over they are essentially verbally administered questionnaire, in which a list of predetermined questions is asked, with little or no variation and with no scope for follow-up questions to responses that warrant further elaboration. The informants were selected in consultations with microfinance officials and woreda administrations. **(See Appendix II)**

3.4.2. Focus Group Discussion

Focus group discussion (FGD) was conducted with a members of the sample respondents which were the clients of DMFI. This technique was used because it allowed exploring how a group thinks about MF service utilization and factors affecting it, the range of opinions and ideas, and the inconsistencies and variations that exist in a particular community in terms of beliefs and their experiences and practices. Based on this two focus group discussions composed of 6-8 members were held with the help of FGD guide and involvement of the researcher. **(See Appendix II)**

3.4.3. Questionnaire

Questionnaire was the main tool to collect the data which was prepared for the respondents of the study in a un-structured manner, as they are advantageous for gathering data from a number of respondents at one place, which was first prepared in English language and then translated in to the local language (Af-Somali) since most of the respondents are not literate and need to understand for the clarity and convenience of the purposes. Therefore, based on the research questions and a review of related literature, a questionnaire was prepared and administered for microfinance service utilization and its determinants among smallholder farmers. In the field, enumerators were trained to develop their understanding regarding the objectives of the study, the content of the questionnaire, and how to approach the respondents and conduct the interview and finalized based on the information given. **(See Appendix I)**

3.5.Methods of data analysis

3.5.1. Descriptive statistics

Descriptive statistics is the term given to the analysis of data that helps describe, show or summarize data in a meaningful way. It was used to analyze the quantitative data the terms such as measures of central tendency and dispersion, chi-square, percentage, frequencies, and tables, and it would analyze provision of microfinance and service utilization among smallholder farmers in the study area. Therefore one can describe the situation of smallholder farmers to utilize or not the microfinance services to improve their standard of living so as to draw important conclusions.

The collected data was coded, entered and analyzed using SPSS Version 25. Whereas Qualitative data were analyzed through interpretation and narration

3.5.2. Econometric Model

The study applied binary logistic regression model to analyze the relationship between dependent and independent variables. Hosmer and Lemeshew (1989) pointed out that a logistic distribution (logit) has got advantage over the others in the analysis of dichotomous outcome variable in that it is extremely flexible and easily used model from mathematical point of view and results in a meaningful interpretation. By using of Hosmer and Lemeshew the arrangement tests was checked and the significance level of the model.

Once the analytical procedure and its requirements are known, it can prompt to identify the potential dependent variable and independent variables and describe their measurements and how these variables can affect the dependent variable's i.e. smallholder farmer's utilization on microfinance service because different variables are expected to affect utilization of microfinance service by smallholder farmers (the dependent variable).

3.5.3. Model Specification

In order to identify the factors that determine smallholder farmer's utilization on microfinance services in this study, smallholder farmer's clients were assumed to be either utilizing or not utilizing the microfinance services. Hence, the binary choice logistic regression model that

assumes dichotomous dependent variable which takes either 1 or 0 value depending on Y^* was used.

Let $Y_i = 1$, if the smallholder farmers' utilize the Microfinance services

$Y_i = 0$, if the smallholder farmers' not utilize the Microfinance services

But $Y_i = 1$, if y^* is > 0

$Y_i = 0$, if y^* is ≤ 0

Where y^* is a latent variable, It is unobserved variable which can affect the Microfinance service utilization by the smallholder farmers, hence it cannot be measured.

Mathematically, the model was specified as follows:-

$$MSU = \ln\left(\frac{P_i}{1-P_i}\right) = \beta_0 + \beta_1 \text{ AGEHH} + \beta_2 \text{ EDUHH} + \beta_3 \text{ GENHH} + \beta_4 \text{ MRTLSTS} + \beta_5 \text{ FSHH} + \beta_6 \text{ CL} + \beta_7 \text{ DS} + \beta_8 \text{ LS} + \beta_9 \text{ SAVHAB} + \beta_{10} \text{ FARS} + \beta_{11} \text{ TR} + \beta_{12} \text{ ACC INF} + e_i$$

Where, $\ln\left(\frac{P_i}{1-P_i}\right) = Z_i$ is the logit so, natural logarithm of the odd ratio (logistic model), which is the marginal effect.

MSU= Microfinance Service Utilization (Dependent variable).

AGEHH= Age of the household head

EDUHH= Education of the household head

GENHH= Gender of the household head

MRTLSTS= Marital status of the household head

FSHH= Family size of the household

CL= Culture

DS= Distance of the clients to the institution

LS= Loan size

SAVHAB= Saving Habit

FARS= Farming size

TR= Training

ACC INF= Access of information

3.5.4. Variable description and study hypothesis

Table 3.1: Dependent and independent variables and their measurements

Variable	Description	Unit of analysis	Hypothesized sign
AGEHH	Age of the household head	Age in years	(+/-)
EDUHH	Education of the household head	Years of formal schooling	(+/-)
GENHH	Gender of the household head	(1=Male, 0=Female)	(+)
MRTL	Marital status of household head	(1= Married 0= Single)	(+)
FSHH	Family size of the household	Total number of household	(+/-)
CL	Culture	Norms to use MF service/not use	(+/-)
DS	Distance of the clients to the institution	Kilo-Meter (KM)	(-)
LS	Loan size	Amount of money received (Birr)	(+)
SAVHAB	Saving Habit	(1=Yes, 0= No)	(+)
FARS	Farming size	Hector/household	(+)
TR	Training	(1=Yes, 0= No)	(+)
ACC INF	Access of information (1= farmers access to information, 0 otherwise)	(1=Yes 0= No)	(+)

Explanatory variables of the study were selected based on the literature reviewed and researcher knowledge in the study area. Definition and brief explanation of the explanatory variables and their likely influence on microfinance service utilization are mentioned below.

The dependent variable in the logit model: the dependent variable of the study is smallholder farmer's utilization on microfinance services. It's is dummy/discrete variable whether the smallholder farmers utilize the microfinance services or not utilize that can be measured, smallholder farmers household assets, amount of money saved and their entire production.

Independent variables of the model: the independent variables of the study are those which are hypothesized to have an association with the utilization of microfinance services. The potential independent variables which were hypothesized to have affected the dependent variable are mentioned below.

Age of the household head (AGEHH): A categorical variable which was measured in a year that affect the utilization of microfinance services. Thus smallholder farmers within the productive age can have better chance and quite understandable in utilization of microfinance services. It's hypothesized that as age of household head increases, farmer could acquire more knowledge and experience there in utilizing of microfinance services.

Educational status of household head (EDUHH): A discrete variable which is measured by the years of formal schooling. It was supposed that the educated farmers have more chance to utilize the microfinance services rather illiterate farmers. Chaudhary and Ishafq (2003) found that borrowers with higher educational levels have higher probability of utilization of MF services.

Gender of the household head (GENHH): A dummy variable which shows us the gender of the household being male or a female has an effect on the utilization of microfinance services.

Marital status of the household head (MRTLSTS): its categorical variable which shows the status of household head being married, single, divorced, and widowed. It's obvious that married households are more matured and responsible for social values and their occupational performance is highly consequential as far as making a god family. It's assumed that married households have better chance to utilize microfinance services.

Family size of the household (FSHH): A categorical variable which indicated that the total number of members living in a particular household which the researcher assumed that the higher the family size the lower the utilization of services from microfinance services institutions.

Culture (CL): Is the whole way of life found in a particular society, including a set of ideas, values and norms (procedures, customs, laws, morals) in society. The main purpose of inclusion of this variable was to observe the cultural practices and attitude held by the sample respondents towards borrowing and utilization of microfinance services. It's hypothesized that the culture of the smallholder farmers has effect on microfinance service utilization.

Distance of the clients to the institution (DS): A categorical variable measured in KM which shows us the distance of the smallholder farmers from microfinance institution. It's comprehensible that the nearer the distance the better the utilization of the microfinance services is. It is estimated that if there is a long distance the utilization of farmers for microfinance services will become very poor.

Loan size (LS): Loan size is continuous variable and it's the amount of money received by the borrowers. An efficient amount of loan which equals with the prepared business plan can create conducive environment for the borrower to use it properly. But, if the disbursed loan size is below or above the required, it would lead to diversion of the resource to other activities or mismanagement respectively. Thus it's supposed that if the loan size was higher and enough for the intended project, the chance of utilization of the service was very high.

Saving habit (SAVHAB): This is a dummy variable having of value of 1 if the farmer has saving culture and 0 otherwise. It's hypothesized that the higher a farmer's savings, the better his /she likelihood for utilizing microfinance services.

Farm size (FARS): This indicates that the size of the farm in hectares that is owned, rented, or sharecropped by the farmer which is measured by the total land area under crop production per household. The main hypothesis was a farmer who cultivates large size of land can demand more microfinance services and would lead to increase the utilization for microfinance services.

Training (TR): Is a dummy variable having a value of "1" if the farmers taken training regarding on MF service utilization, "0" otherwise. It's assumed that the higher the training is provided to the farmers, the higher is the probability of farmers to use the available microfinance service and utilize.

Access of information (ACC INF): This is also important variable indicating that access of information can have impact on the utilization of farmers to microfinance services. It's a dummy variable having a value of 1 if the smallholder farmer access information for a source of radio or telephone regarding on microfinance services to use, 0 otherwise.

CHAPTER FOUR: RESULTS AND DISCUSSIONS

This chapter presents the main findings of the study in terms of the general characteristics of sample households, provision of microfinance services, utilization of smallholder farmers of microfinance services and determinants of microfinance service utilization of smallholder farmers in the study area. The study have been planned to undertake a total respondent of 134(100%) to collect the data and to keep away from response error of the sample respondents extra questionnaire was prepared to re-correct the wrongly filled questionnaire. According to this the result indicated all the entire targeted respondents 134(100 %) gave appropriate response for inquires.

4.1. General characteristics of sample respondents’

Table 1.1: General Characteristics of sample households

Variables	Description	No of respondents	Percentage (%)	χ^2
Sex of the respondents	Female	87	64.9	0.032
	Male	47	35.1	
Educational level of the respondents	Illiterate	83	61.9	0.869
	Primary	36	26.9	
	Secondary	9	6.7	
	Diploma	6	4.5	
Marital Status	Married	86	64.2	0.377
	Single	11	8.2	
	Widowed	19	14.2	
	Divorced	18	13.4	
Family Size	Between 1-3	38	28.4	0.613
	Between 4-6	54	40.3	
	Between 7-9	30	22.4	
	More than 9	12	9.0	
Farm Size	Less than 0.5 ha	4	3.0	0.484
	Between 0.5 ha–1ha	30	22.4	
	Between 1 ha -5ha	66	49.3	
	Between 5 ha-10 ha	32	23.9	
	More than 10 ha	2	1.5	
	Minimum	Maximum	Mean	Std
Age of the respondent	24	64	38.84	7.503

Source: Own Survey, 2019

As shown in the Table 4.1 above six variables were used to collect the demographic information of the sample respondents which is relevant to the study. Gender was the first demographic variable in which the respondents were asked to classify themselves as female or male for the beneficiaries of microfinance institution. Out of 134 respondents 87(64.9%) were female beneficiaries. Their counterpart result also shows that 47(35.1%) were male beneficiaries who was using the microfinance services. This indicates that the dominant beneficiaries of microfinance services were female respondents as they are preferable than male due to management of the services provided by the microfinance. Even though there are cultural issues in the region that allow male farmers to dominate the household responsibility the microfinance officials preferred females as household head. This result contradicts with the study undertaken by Endalew Wale *et al* (2013) who argues that male beneficiaries have high involvement in the outdoor activity. This is because the strategy of the microfinance is more focusing on female beneficiaries.

During the FGD participants claimed that...Now day's there is high concern and support of female headed household's services provision, this is due to the perception of the Microfinance officials believing that male beneficiaries are not fit using of the services as they are wasting the given amount of loan for other purpose rather than the purpose given which is socially acceptable manner..... **(FGD participants, DMFI Clients)**

The second demographic variable asked the respondents their educational level or background. As shown in the Table 4.1 above majority of the respondents were illiterate; i.e., out of 134 respondents 83(61.9%), those were using the microfinance services due to the level of formal education in rural parts of the country is assumed as not well developed and most of the smallholder farmers could be leveled as illiterate. Primary education has been finished 36(26.9%), while 9(6.7 %) and 6(4.5%) of the sample respondents' finished secondary education, diploma level of education respectively.

There are several reasons that the illiterate smallholder farmers are very high since the area was agro-pastoral the access of the education was very low and this shows the probability of smallholder agro-pastoral farmers don't read and write was very high which have effect of the utilization of MF services. Chaudhary and Ishafq (2003) found that borrowers with higher educational levels had a higher probability of utilizing microfinance services.

The third demographic variable was the marital status of the sample respondents and out of 134 sample respondents 86(64.2%) were married beneficiaries, who were using microfinance services whereas 19(14.2%) of the sample respondents widowed. The study also identifies 11(8.2%) of the sample respondents were single beneficiaries, while 18(13.4%) were divorced respondents who was using microfinance services. This shows that to use the microfinance services the institution was not classifying the marital status of the sample respondents as they are considering beneficiaries in all cases which indicates married women or men shared responsibilities with their partner and gives respect and privilege to utilize the microfinance services.

The study also identified family size of the sample respondents as a demographic variable which determines the number of members living in a particular household. As shown in the above table the analysis shows that out of 134 respondents 54(40.3%) had 4-6 members which indicates the majority of the beneficiaries were moderate family sizes while 38(28.4%) of the respondents were between 1-3, whereas 30 (22.4%) of the sample respondents have between 7-9 members. The study also shows us that only 12 (9.0%) of the respondents had more than 9 family members who utilize the microfinance services. Therefore the main point of inclusion in this variable is to find out the effect of large and small family size on the utilization of microfinance services (credit and saving). As there is higher level of consumption of the large family size which in turn requires more income the utilization of microfinance services was minimal. The result agrees Oboh and Ekpebu (2011) which suggested that family size is significant variable that affect the rate of MF service utilization.

The participants of the focus group discussions stated the situation of family size as follows: ...Family size has a direct and negative effect on using microfinance services such as credits and saving. However, families who have a large number of family sizes have not been able to meet their utilization of microfinance services. This is because using of the services for unplanned purpose like family needs and living conditions of the households. As a result of this, our saving habit becomes poor and the utilization of the services was very low.... **(FGD, Participant, clients)**

In addition another 45 years old man noted that the situation likes this

“My family size is only four members; I got a loan from the institution and used to buy farming items, seeds and materials. And just worked, after utilization I was able to pay back the money” **(Key informant interview, from DMFI clients)**

The researcher also asked the respondents' farm size which is a demographic variable describing the higher the farm size the utilization of the microfinance services will be high and as shown us in the above table majority of the smallholder farmers that is 66 (49.3%) their land was between 1 ha -5ha, even though there were challenges like erratic rainfall and lack of improved seed for production whereas 32(23.9%) had between 5 ha-10 ha. The study also shows that 30(22.4%) between 0.5ha- 1 ha and 4(3%) have less than 0.5 ha which is very small plot of land to produce a large amount of production for investing the given service. Also the study pointed out study also shows that 2(1.5%) respondents had more than 10 ha of land which they can't afford to use as it's due to shortage of rainfall within the provided services.

As mentioned in the above Table 4.1 for the variable age we have 134 respondents ranging in age from 24 to 64 with a mean of 38.84 and standard deviation of 7.503 which were using of microfinance services. The mean age of the respondents is the economically active population who has the ability to engage smallholding farming. As the data indicates a huge number of the participants fall between 24 and 64 this means most of the sample respondents fall within productive age (working stage) that they can utilize the services provided by the microfinance services and quite understandable of the utilization of such services. This result agrees with the study that has been undertaken by Akudugu (2012) who discovered that productive age members of the smallholder farmers can better utilize the microfinance services.

4.2. Provision of Microfinance Services

Degahabour microfinance institution is one of the microfinance branches of SMFI which was begin operation in February, 2013 as per the perception of the sample respondents, with the support of the regional state the branch has been showing greater effort to other branches of microfinance institutions. Although there was shortage of trained man power in the branch, shortage of loan able fund, poor infrastructure of the woreda, along with some social and cultural barriers, which couldn't allow it to have as much outreach as possible. As a result of this, there were still many economically productive poor smallholding farmers of the woreda waiting for the service to come up to.

4.2.1. Main objectives for establishing Degahabour Microfinance institutions

As per the perception of the respondents there were different objectives behind establishing of Degahabour microfinance branch. Generally the branch has been established to offer finance and savings services to the active poor both in rural & urban areas, to reduce poverty and food insecurity of smallholder agro-pastoral farmers, to Support self – employment and income generating activities, to improve the culture of savings by the wider public. Specifically the major objectives of the branch were to accept voluntary saving and time deposits, to extend credit service to rural smallholder farmers and people engaged in other similar activities as well as micro and small – scale rural and urban entrepreneurs, to support income generating projects of urban and rural micro and small scale operators, to provide local money transfer services ,to provide financial leasing services to peasant farmers, micro and small scale urban and rural entrepreneurs in accordance with the Capital Goods Leasing Business Proclamation No. 103/1998, and to acquire, maintain and transfer any movable and immovable property including premises for carrying out its business for smallholder farmers.(SMFI, 2010)

4.2.2. Major Services provided by Degahabour Microfinance for smallholder farmers

It has been learnt from the data obtained from Degahabour Microfinance that the institution is offering various services that include credit, saving, local money transfer service, mobile agent banking (hello cash), and remittance. Credit service was among one of the most important service that the institution established and provided for the clients. Due to this objective and its participation on the side of economic development existed inside the woreda, the institution has made a total amount of disbursement of 656,751.71 birr to Nearly 650 clients of which 550 are active clients and over 81% of whom were smallholder farmers (DMFI, 2018)

As it is known, most parts of the pastoral and agro-pastoral did not have banks to save the money that they earned the microfinance, due to this problem; the clients were experienced /vulnerable to different risks for safety of their money. So saving service was among one of the most important service that the institution provide for the clients and this service benefited the smallholder farmers enabling them to overcome from the risks to the safety which they were saving inside their homes.

In general terms, there are two types of saving services provided by the DMFI and they were Compulsory (involuntary) savings from clients and voluntary savings from members or non-members. Voluntary and compulsory savings were different in purpose and access to withdrawal. Compulsory savings had introduced as a condition for obtaining a financing and are designed to ensure that clients are able to meet their repayments. In contrast, voluntary savings services are provided based on client's free will to save. What required from the institution is offering a range of quality saving products that satisfy savers needs, then the option of savings to be left to the clients. On the other hand compulsory savings are collected from the financing clients of the company and the voluntary savings are collected from the non-financing and clients of the company. (SMFI, 2010)

As per the perception of the sample respondents most of the farmers did not have money transfer service. The smallholder farmers were used to carry their money in their pocket with huge risk they were facing. As long time effort, the Degahabour microfinance institution partnering with SMFI enabled to open local money transfer service throughout the zone and the region 1/4/2013. After these services was started, the clients enabled to use the fast money transfer service, with low price transaction which alleviate them to overcome from the risk they were experienced and eventually booms their business and smallholding activities.

Mobile Agent Banking (Hello cash): Hello Cash is the number #1 mobile and agent banking (mobile money) service in Ethiopia provided by banks and microfinance's. Hello Cash allows the smallholder farmers to do financial transactions from the convenience of their mobile phone. It is convenient, efficient, fast, secure, and operates 24-hours a day, 7-days a week. According to SMFI 2010 the service is currently provided by three major financial institutions; Lion International Bank S.C. Cooperative Bank Oromia S.C. and Somali Micro Finance Institution S.C.

The Remittance service also was one of the services that Degahabour microfinance institution provided by its clients. It's a set of products or facilities implemented by the microfinance institution in order to allow the clients to receive (send) money from (to) an individual located in the abroad. As per the respondents perception most of the clients have a relative to the foreign and transferred money. This service has been operating the institution since 2018 G.C and much amount of money had been transferred from abroad to the clients those were using this service.

4.2.3. Mode of financing of Degahabour Microfinance institution to smallholder farmers

According to the Degahabour microfinance (DMFI, 2018) the mode of financing of the institution were included Murabaha, Mudaraba, Ijarah, Wadiah, Qardul hasan, and Mudaraba-based saving. Murabaha which is probably the most popular and widely used Islamic financing technique perhaps because it is relatively simple to apply, certainly when compared to other Islamic financing techniques which require more elaborate arrangements for their application. *Murabaha* involves the resale of a commodity, after adding a specific profit margin (often referred to as a 'mark-up') by the lender to the borrower who agrees to buy that commodity for the new offered price. Usually, repayment is made in installments to the financier, who pays the price to the original supplier of the commodity. This type of finance is commonly used for financing assets or working capital inputs, such as raw materials, machinery or equipment.

Mudaraba is a contract involved between two parties; the financier, who provides all the money and the entrepreneur (or *mudarib*) who uses his or her skill to invest the money in an attractive business. In a Mudaraba contract when a profit is realized, it is shared between the financier and the entrepreneur according to a pre-determined ratio. Importantly, profit-sharing rates must be determined only as a percentage of the profit and not as a lump sum payment. In the case of a loss, providing it has incurred in the normal process of business and not due to neglect or misconduct by the entrepreneur, the financier loses all his or her money, while the entrepreneur merely loses his or her time and effort.

Ijarah is a contemporary lending methodology that has been increasingly adopted by Islamic lenders and is similar to the concept of leasing. Under this arrangement an entrepreneur short of funds may approach the financier to fund the purchase of a productive asset. The financier may do so by buying the productive asset and renting it out to the entrepreneur. The asset remains in the ownership of the financier who is responsible for its maintenance so that it continues to give the service for which it was rented. The *Ijarah* contract is terminated as soon as the asset ceases to give the service for which it was rented or the leasing period comes to an end and the physical possession of the asset and the right of use reverts back to the financier.

In specific cases the entrepreneur can make regular payments and become the owner of the financed equipment once he or she has paid all agreed installments. The latter transactions are referred to as *ijarah waiqtina* or lease purchase arrangements.

Wadia is an Islamic deposit. Under this mechanism, the deposits are held as *amana* or in trust and utilized by the microfinance institution at its own risk. The depositor does not share in the risk or return in any form. Any profit or loss resulting from the investment of these funds accrues entirely to the microfinance institution. Another feature of such deposits is the absence of any condition with regard to deposits and withdrawals. The term “wadia account” or “trust account” is used for such deposits.

Qardul hasan, as in above, the microfinance institution is free to utilize these funds at its own risk. The depositor in its role as the lender is not entitled to any return as the latter would constitute *riba/usury*/. In fact, any kind of benefit passed on to the depositor that is a part of the agreement, is deemed to be *riba/usury* (SMFI, 2010).

Mudaraba-based saving, the microfinance institution now requires the depositors to authorize it (or appoint it as *mudarib*) for the purpose of investing the funds. Profits on investments if positive are shared between depositor and microfinance institution as per a pre agreed ratio. Under this mechanism, depositors have the right of withdrawal. Profits are calculated on the basis of the minimum balance maintained for a time period (say, a month).

4.2.4. Distance of farmers to the institution and service utilization

Table 4.2: Distance of farmers to the MFI

Variable	Description	No of respondents	Percentage (%)	X ²
How far (km) the microfinance institution distant from the beneficiaries residential place?	0-5 km	43	32.1	0.267
	5 -10 km	49	36.6	
	10 - 15 km	27	20.1	
	above 15 km	15	11.2	
Total		134	100.0	

Source: Own Survey Result, 2019

The institution providing services for the clients was located on the center of Degahabour town and as shown in the above Table 4.2, the survey result clearly showed that distance was one variable that effect utilization of microfinance service utilization (the nearer the distance the better the utilization of the microfinance service) and highest percentage of the sample respondents 49(36.6%) were far from 5-10 km of whom using the microfinance services. On the other hand 27(20.1%) of the respondents were far from the institution 10-15km whereas 43 (32.1%) far from nearly 5km. The study also shows that 15(11.2%) of the sample respondents were far away from the institution above 15 km those mostly not utilized the services due to the long distance between the institution and their settlement. This shows that most of the clients were near from the institution to utilize the microfinance services.

This implies that smallholder farmers far away from the MF institution had less probability to utilize than those farmers reside closer than the institution and this is due to farmers with long distance may be constrained transportation and may not get reach on the specified time. This result is parallel with the findings of the Amanuel Ayele and Degye goshu (2016), Akpan *et al* (2013), and Sebu (2013) which discovered that utilization of microfinance services and distance from borrowers to the microfinance institution has negative relationship.

4.2.5. Overall services provision of Degahabour Microfinance for smallholder farmers

Table 4.3: Over all service provision of DMFI

Variable	Description	No of respondents	Percentage (%)	X ²
How do you rate the overall services provision of the Degahabour Microfinance institution?	Excellent	19	14.2	0.577
	Very Good	47	35.1	
	Good	52	38.8	
	Average	9	6.7	
	Not Good	7	5.2	
Total		134	100	

Source: Own data Survey, 2019

The availability of microfinance institutions in rural areas is founded on their role to increase financial abilities of unwarranted, poor communities through service grant. In this study, all farmers (n=134) were asked to give their perception on the overall service provision of Degahabour microfinance institution and as shown in the above table 52(38.8%) of the sample respondents reported that the service provision of DMFI was good where as 47(35.1%) respond that the service provision of the branch was very good.

The study has also shown 19(14.2%) of the sample respondents' utilized the services as they were revealed the services provision of the DMFI was excellent whereas 7(5.2%) of smallholder farmers expressed their doubts about the Microfinance service's was not good due to cultural beliefs and high interest rate and requirement of documents to complete before obtaining the services, which is difficult to smallholder farmers to utilize the services provided by the microfinance institution. There were also some respondents those claimed that the service provision of the branch was Average those 9(6.7%) of them utilized the microfinance services for the planned purpose.

Thus the result shows that the overall services provision of Degahabour Microfinance institution was medium even though large part of the community live in the woreda are not accessed the service, the result test only those are beneficiaries of the Degahabour branch.

4.3. Microfinance service utilization

The intention here was the smallholder farmers clients utilization of microfinance services and all the sample respondents were the microfinance clients who were using the different types of services that microfinance provided whether they utilize or not utilize the services.

4.3.1. Smallholder farmers Utilization of Microfinance services

Table 4.4: Smallholder farmer's usage of MF services

Variable	Type of services	Responses		Percentage of cases
		Frequency	Percentage (%)	(%)
Which services have you used from the Microfinance Institutions?	Credit Service	134	29.8	100.0
	Local Money Transfer	46	10.2	34.3
	Saving	119	26.4	88.8
	Remittance	47	10.4	35.1
	Mobile Agent Banking	54	12.0	40.3
	Others	50	11.1	37.3
Total		450	100	335.8

Source: Own Survey, 2019

N=134 Multiple Responses Categories

As mentioned in the above section Degahabour microfinance institution was providing different services from smallholder agro-pastoral farmers. From the above table vividly indicates that all of the sample respondents were taken the credit service which was among one of the most important service that the institution established and provided for the clients. In addition to this the second most abundant services followed by the credit service was saving of which (26.4%) of the respondents were using. This enabled them to overcome from the risks to the safety which they were saving inside their homes. Other extra services received by the sample respondents were Mobile agent banking (hello cash) in which (12.0%) of the sample respondent were using and it allows the smallholder farmers to do financial transactions from the convenience of their mobile phone, local money transfer (10.2%), remittance (10.4%) and other services (11.1%) like pension management, Counseling and Referral services to appropriate organizations for accessing working premises, market places etc

4.3.2. Perception of sample respondents about times received the credit service

Table 4.5: Times received credit service

Variable	Description	No of respondents	Percentage (%)	X ²
If you used credit from the Microfinance institution how many times have you been received?	Only One time	33	24.6	0.296
	Two Times	59	44.0	
	Three Times	25	18.7	
	Above four times	17	12.7	
Total		134	100	

Source: Own Survey, 2019

As illustrated in the above table 4.5 the study pointed out that the majority of the respondents 59(44.0%) received credit services two times, whereas 33(24.6%) received only one time and about 25(18.7%) and 17(12.7%) of sample respondents received three times and four times respectively.

This result indicates that the smallholder farmers have been using the microfinance services for different times and using of more or less times had not been effecting the utilization of microfinance services and it depends on how the entire management capacity of the smallholder farmers borrowers. As we can see the result there were clients those received more than four times in which their utilization of the service was not as such expected due to the low amount of loan and their management capability.

For example, one respondent named Maryama a client of DMFI who utilized the services narrated a story of her experience in borrowing small loans two times from MFIs.

“.....I had my first credit service (loan) from Degahabour Microfinance institution in 2016 G.C and did not have problems of underutilization and paying back of the services because I had already available resource e.g. a petty trade and I used to start another which I invest agriculture with the given amount of credit and utilized well and the second loan was from the institution itself in 2017G.C it was group based even though I was dissatisfied when one group member defaulted and we had to raise money as group members for the loan repayment. Now I am waiting to take my third loan and expecting to better utilize as the previous years. (Key informant interview, DMFI clients)

4.3.3. Credit and Microfinance utilization of smallholder farmers

Table 4.6: Amount of credit service received by smallholder farmers

Variable	No of respondents	Minimum	Maximum	Mean	Std. Deviation
How much amount of Credit service did you received from the Microfinance?	134	4000 ETB	66000ETB	21962.69	16844.448

Source: Own, Survey, 2019

The result of the study showed that the mean credit (loan size) is 21962.69 Birr and standard deviation 16844.448 with the minimum and maximum amount of being in Birr 4000 and 66000, respectively. The Credit (loan) is considered among one of the major services granted by the MFI to its clients one notes that an increase of the loan size gives a positive effect that justifies the success that achieves projects over the time. However, the loan size can have an ominous effect resulting from the growth of the risk that faces the project following its size. Therefore loan size has effect on utilization of microfinance services, since it encourages smallholder farmer's borrowers to grant larger money from MFI. This result is similar with the study done by Abafita (2003) who revealed that borrowers who receive high loan size are correctly identified as being utilized the service of the microfinance.

In addition to this most of the smallholder farmers in the study area were responding critical challenges about the loan size which was not much enough for them to utilize and believe that if the loan size increase their utilization will be also increase using of multipurpose activities. Regarding the situation a key informant fatuma a chair person of five women in a group from Degahabour Microfinance institution smallholder farmer clients said that

“Degahabour Microfinance service provision is good, even though there is insufficient amount of money or small credit given by the clients, for example in our group case we have been a members of the institution for at least two years but still the amount of money they lend us is very small comparing to other credit institutions” **(Key informant interview, DMFI clients)**

4.3.4. Purpose of taking credit from Microfinance institution

Table 4.7: Purpose of taking credit from the MFI

Variable	S/n	Response	Response cases	Percentage (%)
What is the purpose taking credit from the From the Microfinance institution?	1	Consumption	92	21.1
	2	Agriculture	103	23.6
	3	Health	65	14.9
	4	Education	67	15.3
	5	Trade and Business	44	10.1
	6	Housing Repairs	36	8.2
	7	Others	30	6.9
	Total		437	100.0

Source: Own survey, 2019

N=134 Multiple Responses Categories

The Table4.7 mentioned above shows that the summary of multiple response categories reported by survey respondents in the purpose of using credit service and majority of the survey respondents 23.6% reported that they were using credit for agricultural purpose which the main economic activity of smallholder agro-pastoral farmers and the economy of the country as well. According to (Siyoum et al. 2012) Microfinance programs aim to help rural farmers to invest in agricultural inputs, as well as enabling them to use their time effectively on their farms by reducing time spent on income generating non-farm activities. The aim is to increase agricultural production and thus improve their food security. The most cultivated cereal crops were Maize, Barely and sorghum and some vegetables (Tomato and Onion). Unlikely risks associated with seasonal changes like rainfall and drought, crop diseases (pest and insect), price fluctuation of inputs have impeded smallholder farmers' attitude towards the utilization of microfinance services in their agricultural activities. (DMFI, 2018)

The study also revealed that the smallholder farmers were using credit service for consumption (21.1%), but this does not mean that smallholder farmers necessarily used the credit services for the intended purpose. Also for education (15.3%), for health (14.9%), trade and business (10.1%), housing repairs (8.2%) and other purposes (8.2%) like purchasing of livestock especially small ruminants were the main purposes of using or receiving the credit services from the microfinance institution.

4.3.5. Saving culture and Microfinance utilization

Degahabour Microfinance institution has been customized saving service to mitigate unexpected shocks that may be face smallholder agro-pastoral farmers and enhance their repayment rate. There are different types of savings services that DMFI offered by the clients such compulsory and voluntary saving. Mandatory saving is referred to the value of savings that the clients of microfinance are required to save as a condition of obtaining future loan. Mandatory savings can be either a facilitated savings account kept outside of the MFI or a deposit held by an MFI. In contrast, voluntary savings is referred to the amount of savings kept by MFI clients which is not required as a condition of an existing to loan. Voluntary savings can be facilitated savings which kept outside the MFI as part of the MFI's overall financial services or deposits held by an MFI. (DMFI, 2018)

The following Table 4.8 summarizes the saving culture, amount of money saved in the last three years as well as the reason why smallholder farmers are saving their money and discussed as shown behind the table

Table 4.8: Perception of sample respondents about their saving culture

Variables	Description	Number of respondents	Percentage (%)	X ²
Saving culture	Very good	26	19.4	0.129
	Good	53	39.5	
	Not bad	40	29.9	
	Don't know	15	11.2	
		134	100	
Amount of saving in the last 3 years	Nothing to save	15	11.4	0.722
	1-5,000 Birr	76	56.9	
	5,000-10,000Birr	28	21	
	10,000-15,000 Birr	11	8.3	
	>15,000 Birr	4	2.4	
	134	100		
The reason why to save money	For Expand Business	42	12.8	
	For consumption	60	18.2	
	For repayment	81	24.6	
	For personal need	62	18.8	
	For emergency	57	17.3	
	For other purpose	27	8.2	
Total		329	100	

Source: Own data survey, 2019

Regarding the saving culture of the smallholder farmer's clients of Degahabour microfinance institution most of the sample respondents believe that their saving culture was good about 53(39.5%) utilized the MF services. On the other hand 40(29.9%) of the sample respondents their saving habit was not bad and they were saving the compulsory type of saving, whereas 26(19.4%) was very good and 15(11.2%) of smallholder clients borrowers don't know about saving or their saving character was very low even that of obligatory savings. This result shows that saving service can be read from perspectives of the smallholder farmer's borrowers as well as the microfinance itself as its advantageous both of them.

On the other hand the study identified the amount of money that smallholder farmers saved in the last three years in their accounts of the microfinance institution either for that of compulsory or voluntary saving and as indicated in the above table majority of the respondents 76(56.9%) saved last three years between 1-5000 Birr while 28(21%) of the sample respondents saved between 5000 up to 10,000 Birr. The study also shows that 11(8.3%) sample respondent, saved between 10,000 up to 15,000 Birr whereas four clients saved above 15,000, in which all of them utilized the service as the amount of money saved was very high which has the capacity to improve the clients livelihood and empower them. Therefore if the farmers did not save some amount of money that they earned the MF the repayment capacity will be very difficult and not free from poverty.

The study also shows that a multiple response question for the reason why the smallholder farmers were saving their money to the institution and as mentioned in the above table majority of the sample respondents' 81(24.6%) were saving for the repayment of the credit given while 60(18.2%) of the clients were saving their money for consumption purpose which they not utilized the intended purpose. The study also reveals that the sample respondents were saving their money for personal needs, for expanding of business, for emergency and for other purposes like marriage, funerals and so on.

These results agree with Salma (2004) that she confirmed saving service is very vital for the utilization of microfinance services. Saving services is very vital for smallholder farmers as it has helped clients, individuals and entrepreneurs in increasing the amount, accessibility and security of accumulated savings and Create access to food security at the times of food shortage the smallholder farmers can use his or her saving to acquire basic food items to prevent hunger.

4.3.6. Types of security needed to obtain the MF services

According to Degahabour microfinance managers and the perception of sample respondents before smallholder farmers receive the microfinance services (credit service) they must reveal their service security and the most common guarantee required were shown as follows.

Table 4.9: Type of guarantee required to obtain credit services

Form of guarantee	No of respondents	Percentage (%)	X ²
Physical Assets	32	23.9	
Group social security	51	38.1	
Both	36	26.9	0.575
Not Sure	15	11.2	
Total	134	100	

Source: Own Survey, 2019

As mentioned in the above Table 4.9 to obtain the MF services (credit) the majority of the sample respondents 51(38.1%) depended on having of group social security, 32(23.9%) physical assets and 36(26.9%) on both group social security and physical assets, whereas 15(11.2%) not sure about the type of guarantee required since they were new clients to the institution. DMFI gives high importance on this guarantee to reduce the risk of payment default by smallholder farmers. Once the farmer fail to repay the credit provided these guarantee are ceased and sold to cover the default credit. Regarding this

“A microfinance officer in DMFI reported that with regard type of guarantee required in our institution depends on the amount of service (credit) provided by the farmer and its required for individual physical assets like land title and for peer groups as group social security like 10per cent of the requested credit is retained by the DMFI as initial savings retained until you Complete the loan repayment and The loans are individually disbursed to the group members while the group is jointly liable for the repayment for each member. In both cases the relevant documents should be attached and be revised by the lawyer of the institute. Some present their livestock but this is risky because they at times pass away” (Key informant interview, DMFI Officials)

Before receiving the microfinance services the officers of the institution organize the clients with in a number of groups and individual persons. According to DMFI officials groups are formed according to the free will of the members and accepting the responsibilities attached to it then which will be safe to utilize the MF service assuming that there will be an adequate peer pressure on those who deviate from agreed standards. Group formation also was very important to test the integrity of the groups by checking or identifying the reasons behind their formations.

The result of the study reveals that 95(70.9%) of the sample respondents were organized groups before they receive the microfinance services, while was giving considerations of the eligibility of the group members. The study also shows that 39(29%) of the sample respondents organized individuals for earning of the service which was different that of groups.

Table: 4.10: Organization of smallholder farmers before they receive the MF services

Variable	Description	No of respondents	Percentage (%)	X ²
How do you organize yourself before receiving Microfinance Services?	Groups	95	70.9	0.503
	Individual Person	39	29.1	
Total		134	100.0	

Source: Own Survey, 2019

In the case of individual smallholder farmer client to access the microfinance service the clients are required to offer property collateral or personal guarantor with reasonable income to back the financing repayment. If the individuals are graduates from solidarity group under DMFI, then their integrity, savings and recorded repayment history can be used as part of the financing guarantee. As a result the individual smallholder farmer's borrowers were classified as: New individual borrower and Graduate from the group to the individual approach

4.3.7. Training and Microfinance service utilization

Training serves as an authoritative means to develop client's efficiency for better fortune in affirm (Aragon-Sanchez *et al.*, 2003). It has been discovered that services of microfinance institutions such as advisory services, per loan and pre-credit training enhance the growth and utilization of smallholder farmer's for the microfinance services (Akpan & Nneji, 2015).

Most of the rural smallholder farmers lack knowledge in how to manage and utilize the services received from the microfinance, thus there is high demand of training and giving of technical advice of how to manage and utilize the Microfinance service, especially while receiving the credit service. As mentioned in the Table 4.11, below the study shows that majority of the smallholder farmers clients that is 121(90.3%) taken training and counseling from the MF services while the rest 13(9.7%) not taken guidance due to absent of the meetings and trainings.

Table 2.11: Training for microfinance of smallholder farmers

Variable	Response	No of respondents	Percentage (%)	X ²
Did you get any training from the Microfinance before using the services provided?	Yes	121	90.3	0.136
	No	13	9.7	
Total		134	100	

Source: Own Survey, 2019

More over the farmers those who don't take the training their utilization of the MF service was very low. According to DMFI officials the smallholder farmer's clients were organized trainings and orientations before they receive the services (3-4 days). In the technical advice the topics addressed include, Vision, mission, objectives and values, Saving mobilization, Provision of financing (types, size, terms, markup service charge, cycles, fee etc), How to form solidarity group and centers, How to select group members and the responsibilities of each member and the group management, About repayment of financing, Measures to be taken in case of defaults.

Table 4.12: Types of training DMFI provided for smallholder farmers'

Variable	Type of training	No of respondents	Percentage (%)	X ²
If "Yes" for Question # 320, what type of training did you get?	Business skills/book keeping	23	17.2	0.367
	Loan servicing	46	34.3	
	Marketing and customer care	31	23.1	
	Others	34	25.4	
Total		134	100	

Source: Own Survey, 2019

As illustrated in the above Table 4.12 there were a number of trainings in which Degahabour microfinance branch provided to its clients and as per the perception of the sample respondents the major trainings provided were loan servicing, marketing of their products and customer care and business skills and book keeping. Following this majority of them 46(34.3%) taken loan servicing trainings as the smallholder agro-pastoral farmers were illiterate those who don't know how to manage the credit service. On the other hand 31(23.1%) took marketing of their products and customer care training while 23(17.2%) of the sample respondents gained business skills/book keeping trainings. The study vividly shows that 34(25.4%) of the sample respondents took supplementary trainings like How to form solidarity group and centers, How to select group members and the responsibilities of each member and the group management, about repayment of financing, Measures to be taken in case of defaults. The trainings were delivered by the managers of the institution, loan officers and some external bodies and trainings were successful for those who utilized the microfinance services. This indicates that the higher the training provided the utilization of the microfinance service will be.

Therefore the number of trainings gave the smallholder farmers borrowers has significant positive impact on the utilization of microfinance services received. This supports the view of the CBN (2005) that MFIs set up to provide services to smallholder farmers and training on how to manage and utilize these services received

4.3.8. Access of information and Microfinance service utilization

Table 4.13: Access of information of smallholder farmers

Variable	Description	Number of respondents	Percentage (%)	X ²
Did you access the information regarding for Microfinance services?	Yes	110	82.1	0.091
	No	24	17.9	
Total		134	100	

Source: Own Survey, 2019

As shown in the above Table 4.13 majority of the smallholder farmers 110(82.1%) were accessing the information of the MF services, and better utilize their counterparts 24(17.9%) who did not receive information regularly due to lack of electricity and interconnectivity between the clients and the institution. Therefore access of information was crucial factor for utilization of microfinance services.

4.3.9. Respondents level of perception about micro-finance services utilization

In this section the researcher gave consideration about the level of perception of the smallholder farmer's clients after utilizing the microfinance service and as shown in Table 4.14 there are criteria which I used to express the degree of mean values based on the criteria to scale rating of class interval and then Table 4.15 shows us their level of perception after utilizing MF services

Table 4.14: Criteria to scale mean score.

Range	Extent of influence
1.25 __ 1.99	Very small Extent
2.00 __ 2.74	Small Extent
2.75 __ 3.49	Moderate Extent
3.50 __ 4.24	Great Extent
4.25 __ 4.99	Very Great Extent

Source: Evann yakwara (2013)

Table 4.15: Respondents level of perception about utilizing the MF service

Level of perception	Mean	Standard deviation (SD)
Improvement in Income level	4.43	0.879
Improvement in consumption level	4.22	0.762
Increase in children enrollment to schools	3.99	0.771
Improvement in employment level	4.24	0.806
Poverty reduction	3.59	0.990
Improvement in social status	3.69	0.816
Confidence building and gaining self-respect	3.62	0.899
Increase in decision-making power	3.74	0.875
Improved communication skill	3.65	0.852
Awareness of social issues	3.87	0.853
Developed entrepreneurship skills	4.43	0.740
Better utilization of already available resources	4.28	0.770
By the help of microfinance your savings has increased	3.84	1.068
Satisfied with products and services Offered by MFI	4.02	0.854

Source: Own Survey, 2019

Based on the above Table 4.15 the study pointed out that utilization of microfinance services will lead to increase the level of income (M=4.43, SD=0.879), Development of entrepreneurship skills (M=4.43, SD=0.740), to a very great extent while utilization of microfinance for smallholder farmers clients will lead to increase in consumption level (M= 4.22, SD= 0.762), improve the employment level (M= 4.24, SD= 0.806), Better utilization of already available resources (M=4.28, SD = 0.770), satisfaction of the services of MFI (M=4.02, SD = 0.854), Increase in children enrollment to schools, (M=3.99, SD = 0.771), Awareness of social issues (M=3.87, SD = 0.853), Saving increased (M=3.84, SD = 1.068), and increase in decision making power (M=3.74, SD = 0.875), to a great extent. And other level of perception those are mentioned in the above table.

In measuring the perception of the sample respondents, expressions of scale grouping were used that means strongly agree, agree, neutral, disagree and strongly disagree and the above table summarizes their mean and standard deviation. As per the perception of the sample respondents the farmers who obtained and utilized the microfinance services have realized a great change on their livelihood and standard of living characterized by their increased abilities to pay school fees for their children, improving their physical appearance, paying health insurance facilities, increased abilities to save and to feed their families. Over all there was a positive attitude towards microfinance service utilization use amongst smallholder farmer's borrower households. For example a smallholder borrower of DMFI reveals that regarding this situation

“There are great changes in my household well being because of utilization of MF services we have been able to buy household items, to send our children to school, and builds confidence of decision making and gaining of self respect”(Key informant interview, DMFI Clients).

This finding is reinforced by the findings in Kenya by Omoro and Omwange (2013) who found that utilization of microfinance services resulted in improved health and sanitation, enhanced household consumption and living standards, earning of extra income as well as reduction of unemployment.

4.3.10. Respondents' level of importance factors using microfinance services of smallholder farmers'

Table4.16: Level importance about the given items as per the respondent degree of perception

Variables	Mean	Standard Deviation (SD)
Distance from the Microfinance facility	2.65	1.035
Saving Culture	3.07	1.016
Loan size	3.02	1.065
Training in using credit	3.93	0.927
Access of information about MFI's services	3.75	0.915
Interest rate	2.22	0.881
Payback period	2.95	1.006
Market for agricultural Products	3.46	0.907
Price fluctuation of agriculture	2.56	0.864
Service quality of Microfinance services	3.23	1.068
Culture beliefs / Influence	2.56	0.977
Existence of entrepreneurship opportunity	3.71	0.972
Membership of farmers to the Microfinance institution	3.84	0.959

Source: Own data source, 2019

Regarding the respondent's level of importance of the different factors for using microfinance services like that of their perception level the researcher here used scale rating which was along a continuum of high importance to very low importance, therefore the sample respondents were asked to choose from the categories and indicate their level of importance accordingly.

As shown in the above Table 4.16 shows that training in using credit (M=3.93, SD=0.927), membership of farmers to the microfinance institution (M=3.84, SD=0.959), access of information of information about microfinance institution services (M=3.75, SD=0.915), existence of entrepreneurship opportunity (M=3.71, SD=0.972), were great extent or highly importance for the utilization of microfinance services while saving culture (M=3.07, SD=1.1016), loan size (M=3.02, SD=1.065), market for agricultural products (M=3.46, SD=0.907), service quality of microfinance services (M=3.23, SD=1.068), and payback period (M=2.95, SD=1.006), have moderate extent (indifference) about microfinance service utilization.

The study also revealed that distance of the farmers from the microfinance institution (M=2.65, SD=1.035), interest rate (M=2.22, SD=0.881), price fluctuation of agricultural inputs (M=2.56, SD=0.864), and cultural influence/beliefs (M=2.56, SD=0.977), were small extent or not important the utilization of microfinance services in the study area.

More over majority of the survey respondents reported that interest rate, followed by distance and price fluctuation of agricultural inputs as major problem of microfinance service utilization. Other respondents also revealed that cultural beliefs and loan size, repayment period were influencing factors in utilization of MF services. These above survey responses were supported by FGD participants in Degahabour Village

.... We have enormous scare of utilizing the credit as it's as there are many other social demands, so we end up shifting the credit from its planned activities to social demands like illness which are not profitable. And persuade from other people and friends that credit is not easy to pay back due to the interest rate charged compared to the time given to pay back...you need to be hard working to return/pay back the credit as expected.....(FGD participant, DMFI Clients).

However, interview responses with one DMFI Loan Officer challenged the above argument that they charge low interest rates;

“The interest rate is very low for DMFI (15-20per cent) compared to other lending institutions. Currently we are providing of other materials using Murabaha technique of lending and Small loans which are given make it easy to pay back in the required time period the maximum repayment period is limited to one year and if the smallholder farmers invest agriculture it will be after harvesting therefore supervision must be made to monitor their utilization of the services provided” (Key informant, DMFI officials).

In addition, complementary studies also revealed that microfinance clients meet the same constraints in using the microfinance services. According to Kumar *et al* (2007) in their analysis of MFIs in India argued that there is need to reduce the interest rate. To them, Microfinance institutions can justify high interest rates by high costs charged by MFIs. However, they advised MFIs to look for ways to lower costs via efficient and technological innovations, because in lowering costs, then Microfinance institutions can be able to lower interest rates.

4.4. Determinants of microfinance service utilization of smallholder farmers

4.4.1. Econometric analysis Result

This section Binary logit regression model was employed to estimate the effects of the explanatory variables on microfinance service utilization of the beneficiaries in Degahabour Microfinance institution. A binary logistic regression model was fitted to estimate the effect of hypothesized explanatory variables on the probability of being utilized or not utilized the microfinance services. Consequently, the variable which shows microfinance service utilization was a binary dependent variable, taking a value of “1” for utilized of microfinance service and “0” otherwise.

Before running the logistic regression model analysis, the explanatory variables were checked for the existence of multi co-linearity using variance inflation factor (VIF). According rule of thumb the variable having of VIF greater than 10 are subjected to the problem and should be excluded from the model where as a variable having of VIF less than 10 believed to have no multi co-linearity. (Field, 2009). As mentioned in the below table there is no strong association among the independent variables. For this reason, all of the explanatory variables were included in the final analysis.

Table4.17: Variance Inflation Factor (VIF) for explanatory variables (n=134)

Variable	Co-linearity Statistics	
	Tolerance	VIF
Age of the respondent (AGEOFRES)	0.790	1.266
Educational level of the respondent (EDULEVEL)	0.848	1.179
Gender of the respondent (GENOF RES)	0.948	1.055
Marital Status of the sample respondent (MRTL OF RES)	0.844	1.185
Family size of the household (FSHH)	0.825	1.212
Distance to credit providing institution (DS)	0.949	1.054
Loan Size (LS)	1.000	1.000
Saving habit (SAVHAB)	0.937	1.067
Farm size (FARS)	0.924	1.082
Training (TR)	0.957	1.045
Access of information	1.000	1.000

Source: Own survey, Computation, 2019

Hosmer- Lemeshow's goodness of fit test shows how much predicted values match closely the observed values. This test states that the more closely the observed frequencies and predicted frequencies matched, the better the fitness of the model. This test is more appropriate test for binary logistic model (HosmerandLemeshow1980). The model was looked also the goodness of fitness by investigating how well the model classifies the observed data (in the classification table) or by examination of how likely the sample results actually are, given the estimates of model parameters. The Hosmer and Lemeshew significant test result is shows that the p-value (0.679) is higher than that of the sig. value (0.05). So, accept the statement which is said the model is good.

Table4.18: Hosmer and Lemeshew Test

Step	Chi-square	df	Sig.
1	5.713	8	0.679

Source: Own survey data, 2019

As the result indicates, the minimum Cook's result is 0.00237 while the maximum is 0.56503. These figures indicate that in all cases the value is less than one.

Table 4.19: Tests of outliers by using a Cook's distance

	Minimum	Maximum	Mean	Std. Deviation	N
Cook's Distance	.00237	.56503	.0719232	.08335988	134

Source: Own survey data, 2019

Based on the rule of the cooks distance, if its greater one there are extreme outliers in the model but if it's less than the value of 1 there is no extreme outliers those are affecting in the model. So, we conclude that there are not detected any outliers which affect the model.

The predictable results of the binary logistic regression coefficients, odds ratio, the p-value and the marginal effects of the explanatory variables included in the model are shown below in table4.20. A total of eleven explanatory variables were considered, out of which four explanatory variables were found significant. And mentioned in the below table.

Table 4.20: Maximum Likelihood estimates of logistic regression model

Variable	Estimated Coefficient B	S.E	Wald Statistics	Sig. Level	Odds Ratio Exp (B)	95% C.I for EXP (B)	
						Lower	Upper
AGEOFRES	-0.574	0.494	1.353	0.245	0.563	0.214	1.482
EDULEVEL	-1.888	1.468	1.654	0.198	0.151	0.009	2.689
GENOF RES	1.269	0.612	4.298	0.038**	3.558	1.072	11.810
MRTLS OF RES	-1.089	0.887	1.505	0.220	0.337	0.059	1.917
FSHH	1.559	0.950	2.689	0.101	4.752	0.738	30.608
DS	-1.459	0.831	3.083	0.039**	2.520	1.156	4.185
LS	-1.139	0.707	2.592	0.107	0.232	0.080	1.281
SAVHAB	1.581	0.763	4.294	0.042**	4.860	1.089	21.685
FARS	0.266	1.593	0.028	0.867	1.305	0.057	29.640
TR	0.832	0.626	1.765	0.014**	2.298	1.673	7.844
ACC INF	0.762	0.457	2.785	0.095	2.143	0.875	5.245
Constant	0.826	2.566	0.104	0.748	2.284		

Source: Own survey, 2019 ** indicates that variables are significant at 5%

4.4.2. Significant Explanatory Variables in Logit Model

The end result of the logistic regression model presented in Table 4.20 shows that out of the hypothesized eleven explanatory variables four were found to be significant and influence microfinance service utilization in the study area. The tested variables were age of the respondent (AGEOFRES), educational level of the sample respondents (EDULEVEL), Gender of the respondents (GENOF RES), marital status of the respondent (MRTLS OF RES), Family size of the household (FSHH), distance of the farmers from the microfinance institution (DS), Loan size (LS), saving habit (SAVHAB), farm size (FARS), and Training (TR) and access of information (ACC INF). The significance explanatory variables are discussed below.

Gender of the respondent (GENOF RES): Gender was specified as dummy variable and found to be significant at five percent significance level and positively related with microfinance service utilization of smallholder agro-pastoral farmers in the study area. This implies that the probability of female farmers to utilize microfinance services is higher than their counterparts (male smallholding farmer's clients) by 3.558% C.I (1.072, 11.810) all other things being kept constant. The possible clarification is that female borrower's respondents have better chance to utilize microfinance services and better admission of the institution accompanied by high decision power in contrast to that of male respondent. Even though there are cultural barriers who giving the domain for male farmers who can control over the resources the MF preferred the female borrowers. This result contradict with the study undertaken by Endalew Wale *et al* (2013) which assessed determinants of microfinance service utilization in Diredawa administration who argues that male have high involvement in the outdoor activity and better access to information accompanied by high decision power in comparison to that of female respondent. This is because the strategy of the MF is more focusing on female beneficiaries.

Distance of the farmers from the microfinance institution (DS): Distance of the smallholder farmers from the Microfinance institution is another factor that was significantly at 5% and negatively related to the utilization of microfinance service. This implies that As the distance of the farmers to the lending institution increase by 1 km the likelihood (odds ratio) of the farmer's utilization on microfinance services reduced by 2.52% C.I(1.156, 4.185) all other things being kept constant for those respondents who live in at a faraway from the site of the microfinance institution. This exposed that respondents in short distance from the microfinance institution were more likely to utilize microfinance service. Moreover, 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.

This result is similar with the findings of Rehman (1988) and Anang *et al* (2015) which exposed that the nearness of the microfinance institution to customers normally promotes easier and effective transactions between them to solve challenges of utilization of microfinance service. Also this result is parallel with the findings of the Amanuel Ayele and Degye goshu (2016), Akpan *et al* (2013), and Sebu (2013) which discovered that utilization of microfinance services and distance from borrowers to the MF institution has negative relationship.

Saving habit: This was the third explanatory significance variable affecting utilization of microfinance services the coefficient of this explanatory variable is positive as it was expected, and the variable was significant at 5% significance level and positively related to microfinance service utilization. This implies that all other things being kept constant, the odds ratio in favor of microfinance service utilization increases by a factor of 4.860% C.I (1.089, 21.685) for those households who have a saving habit. The possible reason for this could be those households who have a saving habit will have the possibility of utilizing microfinance service because initial saving is one of the basic requirements and criteria by microfinance institutions to give credit service.

According to (Ledgerwood, 1999; Robinson, 2001) savings services are important for enhancing the capability of poor to cope with the uncertainty shocks and reduce the financial cost of lending and secure a sustainable fund sources. The interest rate on the deposited savings of the clients has the power to help poor in accessing to large size of loans and consolidate their financial position. In addition, the availability of accessing saving accounts helps poor clients to cope with uncertain shocks.

Training (TR): Training was another variable which was positively affecting utilization of microfinance services for smallholder farmers. The variable was significant at 5% significance level. This implies that all other things being kept constant, the odds ratio in favor of Microfinance service utilization increases by a factor of 2.298% C.I (1.673, 7.844) for those respondents who have got training regarding microfinance service utilization. The basic assumption is that the more training is provided by the microfinance institution to the farmers, the higher is the probability of farmers to utilize the available Microfinance services. If the smallholder farmers provide training they will able to understand rule and regulations easily. More over smallholder farmer's clients who don't take training were not successful hence they don't have hint about how to utilize the services provided by the microfinance institutions.

This result supports the view of the CBN (2005) that training has positive relationship for the utilization of Microfinance services and MFIs set up to provide services to smallholder farmers and training on how to manage and utilize these services received

4.4.3. Cultural practices and Microfinance service utilization

Culture is the whole way of life found in a particular society, including a set of ideas, values and norms (procedures, customs, laws, morals) in society. The main purpose of inclusion of this was to observe the cultural practices and attitude held by the sample respondents towards borrowing and utilization of microfinance services. The findings of the study shows that there was no strong relationship between cultural beliefs and microfinance service utilization as most of the smallholder farmers believe Muslim religion which does not allow the followers to take a service from any institution which had interest rate. To look this cultural practices and religious beliefs were exposed by using of the data from Focus group discussion (FGD) participants those reveals the situation as follows

....Muslim religion does not allow us to borrow money which has interest rate and we believe its Harem(forbidden) but there are modes of financing in which microfinance providing us the service but most the illiterate smallholder farmers' did not believe this and they may pretend borrowing of credit is bad. Generally According to the holy Quran tare against credit and borrowing with interest fees/rates is satanic and cheating .The interest rates charged are not good and unholy.....**(FGD participant DMFI Clients).**

Regarding this the study estimated, there is a conviction among people that MF services can impoverish, and once you start engaging in borrowing then this will continue for all the life time. However, to sustain a better livelihood and improve the wellbeing of our society of utilization in such services and to adopt the rocket speed development trends, we need to adjust from such myopic beliefs. The unfortunate thing with such beliefs and practices is that knowledge and experience cannot be shared among community members who are successful in business because of Microfinance service utilization and those who fear borrowing

According to different development scholars such as Okurut *et al* (2004), Johnson and Rogaly (1997), and Yunus (2004) who is the mastermind of the Grameen bank, view micro-credit as a conduit to development. This means that; such cultural practices and beliefs cannot stand in the pathway of improving people's welfare and productivity through micro-credit innovations.

4.4.5. Problems of underutilization of the services confronting the smallholder farmers'

According to the perception of sample respondents and Degahabour Microfinance official's declaration regarding on the problems confronting the utilization of the services there are different problems. 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 utilization in the study area.

In adequate amount of credit: in focus group discussion of the sample respondents inadequate amount of credit was one of the most constrained to the smallholder farmers to utilize microfinance credit, as the size of the loan provided was very narrow which doesn't enable farmers to undertake efficient and effective methods of production to achieve the intended purposes.

Low level of awareness about the services: Based on the key informant interview and discussion of the microfinance officials even though there were a significant campaign that was deliberately organized and strategically planned awareness that targets the promotion of the service still the level of awareness about the services is very low. The same result was also obtained in the discussion with the sample respondents in which the majority of the participants did not utilize the services as they were planned.

Smallholder farmers' mobility: In the group discussion with the microfinance officials, smallholder farmer's mobility was also other major challenge affecting the Microfinance service utilization of smallholder farmer's. As a result, the organization is being forced to prefer dealing with clients of fixed seat 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.

Climate change: according the perception of the sample respondents for utilization of microfinance services climate change i.e. lack of rainfall, droughts, was one of the factors deteriorating for example farmers those invest their services provided for agricultural purpose may not gain their expected production and underutilize the credit services.

Regarding the climate change focus group discussion participants clarified that

...we have been using microfinance services once a year and invested in agriculture, due to shortage of rainfall we had not utilized as it's and decided not to take after that time due to loss of the production that we invested....(**FGD participant, DMFI Clients**)

Fear of interest rate: A discussion with the microfinance officials and sample respondents revealed that due to cultural beliefs perspectives in the study area always the clients fear to borrow money with high interest rate and problematic utilization of the microfinance services.

Risk fearing: sample respondents revealed that utilization of MF services is also constrained by fearing of risks of inability to repay loans that come from loss of crops due to seasonal changes, pest and insect damage, and failure of proposed business plan. Viganò (1993) indicated that large numbers of residents do not take credit service fearing they might be in risk of losing their property.

Weak monitoring and evaluation: During the focus group discussion with the officials and experts as well as the beneficiaries of the microfinance institutions, there was weak monitoring and evaluation of the utilization of microfinance services. 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 has given high priority in the development agenda because of its potential to create jobs and increase household incomes, there should be clearly defined incentives for participants in the sector.

The reality is that withstanding all those constraints, respondents have awful need for microfinance services and they adjust according to the requirements of the lending institutions. Some have gone ahead to argue that constraints are everywhere and cannot totally refuse someone to access credit for development. After all MFIs provide services to the poor, but they are also in business; looking for sustainability in their operations. Therefore, some of the constraints are justifiable, lest they run out of production like some lending institutions such as Degahabour microfinance institution

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

This chapter presents the conclusions regarding microfinance services utilization and pointed out key areas for policy recommendations, and further research based on the findings of the study.

5.1. Conclusion

The purpose of this study was to investigate determinants of microfinance service utilization of smallholder farmers by taking Degahabour woreda, Somali regional state as case. In the study it was observed that utilization of microfinance services of smallholder farmers is significantly influenced by factors such as gender, distance of the farmers from the microfinance institution, saving culture and training. Gender was found to be very essential for utilization of MF services for female beneficiaries due to this there is a tendency to serve more women than male from the microfinance institution side. This result contradicts with the study undertaken by Endalew Wale *et al* (2013) who argues that male beneficiaries have high involvement in the outdoor activity. This is because the strategy of the microfinance is more focusing on female beneficiaries. This might be due to the fact that there is a general understanding among the society that women are more credit worthy than their male counterpart. Distance of the farmers to the MF institution was found to be negatively effecting utilization of MF services of smallholder farmers and observed that beneficiaries in short distance from the institution were more likely to utilize microfinance service. This result is parallel with the findings of the Amanuel Ayele and Degye goshu (2016), Akpan *et al* (2013), and Sebu (2013) which discovered that utilization of microfinance services and distance from borrowers to the MF institution has negative relationship. This is due to farmers with long distance may be constrained, transportation and may not get reach on the specified time, lack of awareness of the services which indicated that the need to open satellite offices at nearby areas of smallholder farmers to ease access to the service

Training has significant and positive impact on the utilization of microfinance services. This shows the essence, that sustainability of microfinance services utilization is upon the preparedness, training, knowledge, skills and experience of service users so as to have remarkable outcomes of improving the livelihood and wellbeing of household members of the microfinance beneficiaries.

The other important factor identified to significantly affect utilization of microfinance services was saving. It's very vital for smallholder farmers as its has helped clients, individuals and entrepreneurs in increasing the amount, accessibility and security of accumulated savings and Create access to food security at the times of food shortage the smallholder farmers can use his or her saving to acquire basic food items to prevent hunger and malnutrition. Savings of the clients has the power to help them in accessing to large size of loans and consolidate their financial position.

More over different constraints were forwarded and underlined by participants of Focus group discussion and key informant interview as major challenges hindering utilization of microfinance services in the study area. Some of them were in adequate amount of credit, It's clear that smallholder farmers need much amount of loan which they use multiple purposes; either they may engage in petty trading or other purposes. Weak monitoring and evaluation, this is due to the institution does not have a well functioning system of monitoring and evaluating of service utilization and less capability to reach and stay among the smallholder farmers and requires the institution to design and implement effective monitoring system of the utilization of such services. This practice is intended to reduce miss-using of the clients, at the same time it helps smallholder farmers to be accountable of services facility arranged. The other challenge was Risk fearing of the beneficiaries, Microfinance institutions builds mainly on trusts and risk taking ability, so there is less social capital among the clients of the MF institution.

Also there are cultural and religious beliefs pertaining to borrowing and using of microfinance services. Among the Moslems, a service with interest is "Haram" (forbidden) and the Quran is against borrowing. These beliefs and practices cannot be mistreated because the uptake of microfinance service facilities by low income people is informed by the cultural beliefs; attitudes, perceptions, beliefs and practices of certain community. This agrees with study done by Okurut *et al* (2004), who viewed micro-credit as a conduit to development. This means that; cultural practices and beliefs cannot stand in the pathway of improving people's welfare and productivity through micro-credit innovations. Therefore to alleviate these problems and improve microfinance service utilization of the smallholder farmers in the study area its needed strong commitment and reformation by the service providers and other responsible bodies.

5.2. Recommendations

Based on the findings of the study the following crucial points were recommended

- ❖ To improve utilization of microfinance services for smallholder farmers the microfinance institution should made an effort to educate and train smallholder farmers by giving special emphasize illiterate smallholder agro-pastoral farmers. It is also 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 institution is recommended to up-grade the size of loan up to 10,000 ETB to attract those smallholder farmers who have avoided taking loan due to due to in adequate amount of loan size for their chosen activities.
- ❖ The Microfinance institution is suggested to enhance active participation of male beneficiaries' through enhancement of their trustworthiness.
- ❖ Microfinance institutions are advisable to make follow-up of smallholder farmers who have received the services from the institution to make certain whether these farmers use the services for the intended purpose or not.
- ❖ Microfinance institution have to be enhanced and Put a lot of effort on capacity building of officers by organize training for management and staff in the various fields of micro finance so as to address capacity constraints which hamper efficient management and leadership.
- ❖ Microfinance institutions is needed to diversify its services like credit, saving, local money transfer, that is compatible with the cultural set up of the society
- ❖ Over all the microfinance institution is recommended to get closer and take its services to farmer's disposal to better utilize and cope up their standard of living.

Suggested for further studies

The study recommended that areas which are to undertake further studies which is effective for the country in a whole and in the region as specific.

- ❖ Comprehensive survey of the Microfinance institutions sustainability in the provision of the services in pastoral and agro-pastoral areas.
- ❖ A further study is also needed the relationship between factors affecting microfinance service utilization.
- ❖ Lastly similar studies should be carried out in other districts of the region to see if the findings are parallel so the comprehensive Microfinancing policies and practices may be formulated to improve the wellbeing of residents in the Somali Regional State and in the country as a whole.

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APPENDIX I/ QUESTIONNAIRE

This Questionnaire is prepared by **Abdihakim Sahardid** a student of **Masters of Art in Rural Livelihood and Development at Addis Ababa University** and its purpose is to study the **Microfinance service utilization and its determinants among smallholder farmers the case of Degahabour branch clients**. Being a customer of this branch, you are in the best position to respond to the following questions. Kindly try to answer all the questions to the best of your knowledge, the answers you give will be important to the study. The information you will reveal will be used for academic purposes only and will be treated with utmost confidentiality. Thank you for your cooperation.

Note:

1. Please encircle appropriate responses, where alternative responses have been given.
2. You are kindly requested to write in the spaces provided below.

Interview Date _____

Questionnaire Number _____

Name of the respondent _____

Section One: Demographic characteristics of sample households

S/N	Demographics			
Q101	Age of the respondent	<ol style="list-style-type: none"> 1. Between 18- 30 2. Between 31-40 3. Between 41-63 4. >63 		
Q102	Education of the household head	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <ol style="list-style-type: none"> 1. Illiterate 2. Primary 3. Secondary </td> <td style="width: 50%; vertical-align: top;"> <ol style="list-style-type: none"> 4. Certificate 5. Diploma 6. Degree </td> </tr> </table>	<ol style="list-style-type: none"> 1. Illiterate 2. Primary 3. Secondary 	<ol style="list-style-type: none"> 4. Certificate 5. Diploma 6. Degree
<ol style="list-style-type: none"> 1. Illiterate 2. Primary 3. Secondary 	<ol style="list-style-type: none"> 4. Certificate 5. Diploma 6. Degree 			
Q103	Gender of the household	<ol style="list-style-type: none"> 1. Female 2. Male 		
Q104	Marital status of household head	<ol style="list-style-type: none"> 1. Married 2. Single 3. Widowed 4. Divorced 		

Section Three: Utilization of Microfinance services

Q301: Have you frequently used the services provided by the DMFI? **1. Yes** **2. No**

Q302: If “Yes” in Q301 which services have you used from the Microfinance Institutions?

(Multiple answers are possible)

- | | |
|---|----------------------|
| 1. Credit Services | 3. Saving |
| 2. Money Transfer | 4. Remittance |
| 5. Mobile agent Banking (Hello cash service) | |

Q303: If you used credit services from the Microfinance institution how many times have you been received?

- 1. Only One time**
- 2. Two times**
- 3. Three times**
- 4. Above Four times**

Q304: Have you taken a credit services from the Microfinance institution in the last three years?

- 1. Yes** **2. No**

Q305: If “Yes” in Q304, how much amount of credit service did you received from the Microfinance? Please specify _____

Q306: If “No” Why did you not? _____

Q307: What is the purpose taking credit from the from the Microfinance institution? **(Multiple answers is possible)** Rank the following in increasing order of their use by assigning 1 to the most commonly used purpose

- | | |
|--------------------------------|-----------------------------------|
| 1. Consumption | 4. Education |
| 2. Agriculture | 5. Trade and business |
| 3. Health | 6. Housing/housing repairs |
| 7. Other (specify)_____ | |

Q308: Did you use the entire credit for the intended purpose? 1. Yes 2. No

Q309: If your answer to Q308 is No, how much did you spend for other purpose?

1. Fully
2. Partially

Q310: If your answer to Q, 308. Is No, what is your reason for loan diversion?

1. The credit given is not enough for the intended purpose
2. It was my initial intention
3. Market problem the project faced
4. Others (specify) _____

Q311: How is your saving culture at the Microfinance institution?

1. Very good
2. Good
3. Not bad
4. We don't know

Q312: How much amount of money have you saved in the last three years?

1. 1-5,000 Birr
2. 5,000-10,000Birr
3. 10,000-15,000 Birr
4. >15,000 Birr
5. Nothing to save

Q313: For what purpose do you save?

1. For expand business
2. For consumption
3. For repayment
4. For personal needs
5. For emergency
6. Others _____

Q314: What form of guarantee security is required by the Microfinance service to get and utilize the services provided (Credit)?

1. Physical Assets
2. Group social security
3. Both
4. Not sure

Q315: How do you organize yourself before receiving Microfinance Services?

1. Groups
2. Individual person
3. Other (specify)_____

Q316: Did you get any training from the Microfinance before using the services provided?

1. Yes
2. No

Q317: If “Yes” for Question # 318, what type of training did you get?

1. Business skills/book keeping
2. Loan servicing
3. Marketing and customer care
4. Others (specify) _____

Q318: By whom this training was given?

1. By loan officer
2. By managers
3. By external bodies
4. Others_____

Q319: Was the training useful?

1. Yes
2. No

Q320. Did you access the information regarding for Microfinance services?

1. Yes
2. No

Q321: How would you rate the following statements relating micro financing services after utilizing such services? Rate the following factors on five point scale, ranging from 5 to 1:

Note: - **SA** - Strongly Agree, **A** - Agree, **N** - Neutral, **DA** - Disagree, **SDA** - Strongly Disagree.

Statement	SA	A	N	DA	SDA
A. Improvement in Income level					
B. Improvement in consumption level					
C. Increase in children enrollment to schools					
D. Improvement in employment level					
E. Poverty reduction					
F. Improvement in social status					
G. Confidence building and gaining self respect					
H. Increase in decision-making power					
I. Improved communication skill					
J. Awareness of social issues					
K. Developed entrepreneurship skills					
L. Better utilization of already available resources					
M. By the help of microfinance your savings has increased					
N. Satisfied with products and services Offered by MFI					

**Section Four: Importance attached to factors influencing utilization of MF services for
smallholder farmers**

Q401: How importantly are the following factors for using of Microfinance Services (rate as, (1) Not important at all (2) Not important (3) Indifference (4) Important (5) Very Important)?

S/N	Challenges	Rank				
		1	2	3	4	5
1	Distance from the Microfinance facility					
2	Saving Culture					
3	Loan size					
4	Training in using credit					
5	Access of information about MFI's services					
6	Interest rate					
7	Payback period					
8	Market for agricultural Products					
9	Price fluctuation of agriculture					
10	Service quality of Microfinance services					
11	Culture beliefs / Influence					
12	Existence of entrepreneurship opportunity					
13	Membership of farmers to the Microfinance institution					

Others Specify: _____

APPENDIX 2

Section five : Interview Questions for Degahabour Microfinance Officials

Q501: What do you think about the major factors hindering smallholder farmers' utilization of Microfinance services?

Q502: How does Degahabour Microfinance institution reach out its clients?

Q503: Does your institution organize training sessions for your clients about how to manage and utilize the services they get from your organization?

Q504: If Yes, when before or after training is given?

Q505: Can you please identify the problems of underutilization of the services confronting your clients?

Q506: What efforts are you making in order to overcome the problems identified in no Q505?

Q507: What are your suggestions to ease utilize of microfinance services to smallholder farmers in this sector?

Section Six: Focus Group Discussion (FGD) Questions

Q601: How do you explain microfinance service utilization of smallholder farmer's in the study area explained?

Q602: What do you think about the major challenges you are facing regarding the utilization and interaction with the Microfinance services?

Q603: What do you feel needs to be improved by the MFIs in future in terms of their products and doing business?

Q604: Are there any cultural practices and beliefs that hinder smallholder farmers' utilization towards microfinance service?

THANKS FOR YOUR PARTICIPATION

APPENDIX 3: SAMPLE PICTRURES



Key informant interview



Focus Group Discussion



Smallholder farmers registering and attending MF training