Determinants Of Microfinance Loan Utilization for Specified Purposes: Evidence from Selected Microfinance in Ethiopia

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ABSTRACT

Eradicating poverty is a major dimension focused on by the Ethiopian government as poverty was the existing enemy of the country. One of the leading mechanisms that help to shrink poverty at the farmers' level is the provision of a microfinance loan. Even though the very essential issue, that has a contribution to the reduction of poverty is not only providing microfinance loan for the farmers' but considering the time after loan provision is also another very important issue that enables to identify whether the farmers' utilized loan for a specified purpose. The objective of this study was therefore to investigate the determinants of Microfinance loan utilization for a specified purpose by farmers clients based on data collected from 244 randomly selected farmers' clients as well as data collected through key informant interview from manager and officer of Buusaa Gonoofaa microfinance institution in Oromia Regional State. Thus, this study employed a descriptive and more explanatory research design. The study used both primary and secondary data sources. Descriptive statistics and the Binary logit model were used for the analysis of the data. The results of the study indicate that clients' utilization of microfinance loans for specified purposes was significantly influenced by factors such as level of education, amount of loan provided, delay of loan provision, and age of farmers' clients. The study suggests that Microfinance institutions should pay appropriate attention to those key factors that influence clients' utilization of microfinance loans to improve the living standard of farmers' clients.

Keywords

Microfinance, Microfinance institution, Loan, Loan utilization, Buusaa Gonoofaa

1. Introduction

Microfinance is small-scale financial services that primarily provide credit and savings service to the poor people. Microfinance services can help low-income people by reducing risk, improving management, raising productivity, obtaining higher returns on investments, increasing their incomes, and improving the quality of their lives and those of their dependents (Robinson, 2001).

Microfinance loans can help to increase the living standard of clients when the provided loan is properly utilized for intended and productive purposes. 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. Provision of loan is, therefore, a necessary input in the various aspects of farm operations.

Proper utilization of loans usually generates higher productivity and finally results in better prosperity. The provided loan can be utilized for two purposes; for production purposes such as income-generating activities and consumption purposes or for meeting personal needs (Jain, and Parveen, 2014). Previously studies show that the borrowers do not use the full loan amount for the purposes for which they borrowed funds. Once the credit is used for unproductive purposes, it is responsible for the low production and indebtedness of the farmer. The diversion of loans to unproductive purposes affects financial institutions and the repaying capacity of the farmers (Sahu et al., 2017).

Microfinance is relatively new to Ethiopia and came to existence during 1994-95 with the government's licensing and supervision of microfinance institution proclamation (Zerai and Rani, 2012). The main objective of these institutions is to deliver micro-loans, micro-savings, micro-insurance, money transfer, and leasing to a large number of productive resource-poor people in the country cost-effectively and sustainably.

Provision of loans by microfinance institutions to its clients is not enough to improve the living standard of the marginalized people. The very important issue is considering the way of the utilization of provided loan to the clients by the microfinance institution. This was the case for the rationality of conducting study entitled determinants of microfinance loan utilization for a specified purpose by its clients in the case of Buusaa Gonoofaa microfinance institution.

Statements of Problem

Previous researches conducted on the utilization of microfinance loan my clients found out that there is a significant difference between provided loan by microfinance institution to the clients and the amount of loan utilized properly for the intended purpose because of different factor such as demographic, institutional, socioeconomic and natural factor (Osifo et al., 2016; Ugbem and Douglas, 2011). The studies indicated that loans provided to the clients of microfinance institutions were not used for a productive purpose in full amount (OSIFO et al,2016).

Sahardid (2019), conducted research that related to this title on microfinance service utilization and its determinants among farmers households in the Somali region by using descriptive statistics and the Binary logit model. The researcher focused on the factor that determines the farmers household to access the microfinance loan by considering the variable such as the family size of the household, farm size, training, the gender of the household, education of the household and Loan size, whereas the study doesn't emphasize the utilization of loan after accessing the loan from a microfinance institution. Ayele and goshu (2016), investigated factors determining microfinance loan utilization by smallholder farmers from Omo microfinance institution in Lemo District of Hadiya Zone in Southern Ethiopia. Those researchers also consider only the determinant factor for accessing a loan from the microfinance institution, whereas their study doesn't give weight for the time after utilizing a loan from microfinance whether the farmers use that loan for intended and productive purpose. The study was tried to fill this gap by considering the time after accessing microfinance loans and by giving weight to the determinant factor that determines farmers' clients' utilization of microfinance loans after accessing a loan from a microfinance institution.

The researcher has noticed that the microfinance institution has encountered problems from the collection of outstanding loans from its client on the due date and also the clients encounter difficulties for the repayment. The previous research conducted on a similar research topic ignored one of the potential factors that affect the loan utilization for a specified purpose, and which is the climatic condition under which the loan users are making use of their loan and which were not addressed. The researcher was included climate condition as a new explanatory variable as our countries farming system is based on climate condition and the researcher was believed as including this variable is meaningful. The researcher was motivated to conduct the study to fill the time gap, variables gap, and area gap by examining the determinants of microfinance loan utilization for a specified purpose by farmers' clients in Oromia regional state microfinance institution.

Objectives of the Study

General Objective

The general objective of the study was to investigate the determinants of microfinance loan utilization for specified purposes by farmers' clients in the case of Buusaa Gonoofaa microfinance institution.

Specific Objectives

Specifically, the study endeavors to.

1. Examine the effects of socio-economic factors (farm size, and household size) on farmer clients' microfinance loan utilization in the study area.
2. Investigate the effects of institutional factors (training and supervision, delay of loan provision, and loan size) on farmer clients' microfinance loan utilization in the study area.
3. Evaluate the effects of demographic factors (age, level of education) on farmer client's microfinance loan utilization in the study area.
4. Examine the effects of natural factors (suitability of climate) on farmer client's microfinance loan utilization in the study area.

Hypothesis of the Study

H1. The age of the clients has a positive and statistically significant effect on microfinance loan utilization.

H1. The size of the loan provided by microfinance has a positive and statistically significant effect on microfinance loan utilization.

H1. Training and Supervision have a positive and statistically significant effect on microfinance loan utilization.

H1. Delay of loan provision has a negative and statistically significant effect on microfinance loan utilization.

H1. The level of education of clients has a positive and statistically significant effect on microfinance loan utilization.

H1. A suitable climate environment has a positive and statistically significant effect on microfinance loan utilization.

H1. Farm size owned by clients has a positive and statistically significant effect on microfinance loan utilization.

H1. Household size within the family of clients has a positive and statistically significant effect on microfinance loan utilization.

2. REVIEW OF RELATED LITERATURE

Definition and Objective of Microfinance on the Livelihood of the Clients

Microfinance: refers to the provision of formal financial services to poor and low-income people, as well as others systematically excluded from the financial system. However, microfinance embraces not only a range of credit products (for business purposes, for consumption smoothing, to fund social obligations and for emergencies), but also savings, money transfers, and insurance. Besides, microfinance refers to formal financial services are delivered by providers that are registered with or licensed by a government (CGAP, 2013).

Microfinance through Self Help Groups (SHG) has assumed prominence in recent years. SHG is a group of rural poor who volunteer to organize themselves into a group for eradication of poverty of the members. Moreover, micro-finance is considered as loans and other services provided by organizations which recognize themselves as a Microfinance institutions. Principally, the concept micro-finance can be closely defined as the provision of basic financial service such as loans, savings, insurances, and other to the low-income clients, people who are self-employed are also part of it (Ledgerwood, 1998). According to Conroy (2002), Micro finance is the wide range of provision of financial services included services of payment, accepting deposits, lending loans transfer of money and insurance to low income and poor people.

MF has developed steadily and rapidly over the last 20 years. Its antecedents include co-operative and community endeavors in the 19th century in Germany and elsewhere in Europe. Micro-finance emerged in the 1970s as social innovators began to offer financial services to the working poor those who were previously considered 'un-bankable' because of their lack of collateral. Once given the opportunity, not only did clients of MFIs expand their businesses and increase their incomes, but their high repayment rates demonstrated that the poor are capable of transforming their own lives, given the chance. This model of lending disproved all conventional thinking about banking (Matthaus and Von, 2009).

Loan Utilization

Utilization simply refers to the capacity and manner in which one exploits a given opportunity at a given point in time. Proper utilization of microfinance loan thus

refers to a state at which loan recipient utilizes scarce resources properly and sustainably (Omari, 2009). Farmer access to credit and effectively utilize of loan to improve farm performance. It can be proved for improvement with higher productivity as higher yield per hector by selection of quality seed for farm, adoption relevant farm technology early and effectively. By choosing quality seed, adoption farm technology effectively, farmer can manage to choose suitable rice harvesting time and selling with higher price in market (Kyaw, 2018). Credit utilization refers to the amount of credit you have used compared with how much credit you have been extended by a lender. It also refers to a ratio that lenders use to determine your creditworthiness and is a factor that is used to determine your credit score.

Determinants Factor of Microfinance Loan Utilization

Demographic factors that expected to determine microfinance loan utilization of clients are age of clients, education level of clients, household's size of clients and gender of clients of microfinance institution.

Age of Clients with Microfinance Loan Utilization

The studies found that age was a significant variable in accessing and utilizing micro-lending loan. This implies that age is a strong indication for high productivity which can significantly boast proper microfinance loan utilization. A reflection on the above result depicts a boast in the agricultural sector for food production, national development and economic advancement of the study area (Lawrence et al., 2014). Udensi et al. (2014) found the same result on cooperative societies in Abia State upheld the implication of age as a significant factor that can positively promote and sustain high growth and turn-over in business enterprise.

Age has a positive and significant influence on loan utilization. This implies that an addition year of business existence increases the proportion of loan being invested for productive activity. Age of the Micro Agricultural Enterprise was also an indicator of years of business experience. This implies that one additional year of business experience increases the proportion of loan being invested. As the business gets older, the owner gains more business experience. This motivates the entrepreneur to invest a larger proportion of loan borrowed in order to exploit the potential of the agricultural-enterprise (Chepkwony et al., 2019).

H1. The age of clients has a positive and statistically significant effect on microfinance loan utilization.

Clients' Level of Education with Microfinance Loan Utilization

There is a highly significant impact of the educational level of clients on the purpose of agricultural credit utilization. Majority of client which are following school have utilized agricultural credit for agriculture activities. The respondents without schooling have utilized agricultural credit for non-agriculture significantly higher than educated respondents (Lokesha and Iqbal, 2019). Education have a positive relationship with loan allocation to the farm sector. The more educated clients have the more probability of allocating microfinance loan for productive purpose (Ugbem and Douglas, 2011).

H1. The level of education of clients has a positive and statistically significant effect on microfinance loan utilization.

Institutional Factor with Microfinance Loan Utilization

Training and Supervision with Microfinance Loan Utilization

The entrepreneurship training enhance entrepreneur`s ability to recognize business opportunities and thus mobilize resources for investment. As a result, the entrepreneur will invest larger proportion of loans borrowed from Table Bank in the agricultural-enterprise (Chepkwony et al., 2019). Jain and Parveen (2014) found out in their research as the training provided by officer on entrepreneurship skill increases utilization of loans in productive activities. Extension service provided by institution was significant and was positively related to credit utilization. This implies that interaction with the extension agents increases the awareness of borrowers on the existence of credit facilities and hence utilization of credit (D. Alio et al., 2017).

H1. The training and supervision has a positive and statistically significant effect on microfinance loan utilization.

Loan Delay with Microfinance Loan Utilization

Time of loan acquisition is significantly related to utilization of the loan, and this has a positive implication on loan repayment or remittance. Given that farming activities have season and timing which if hinder, could result to non-utilization of the fund

acquired. Hence, fund could be diverted due to the fact that the farmer was granted loan (that was applied in due season), in a period that is out of farming season (Lawrence et al., 2014).

Credit delay (number of days between application and receipt) was also found to be significant and negatively influences the proportion of credit allocated to farming operations. When there is loan delay the proportion of credit allocated to farm businesses decreases. In other words, farmers who receive credit shortly after submission of loan application form tend to allocate greater percentage of the credit to their farm businesses. (Danso et al., 2016)

The loan delay has a negative and statistically significant effect on microfinance loan utilization.

Size of Loan with Microfinance Loan Utilization

Amount of loan received determine the allocation of loan to agricultural business. The positive relationship and the significance of amount of credit received to the proportion of credit allocation to farming operations implied that farmers who receive a larger amount of loan allocate greater proportion of the loan to their farming businesses (Danso at al., 2016). As the amount of provided loan to the farmers increase the percentage of loan allocated to the farm business also increase. There is a positive relation between the productive utilization of loan and size of the land holding and per capita income of farmers. But there is also a negative relationship between the productive use of credit and the area of crops grown by the borrowers (Dasgupta&Dey, 2015).

H1. The loan size has a positive and statistically significant effect on microfinance loan utilization.

Socio-Economic Factor with Microfinance Loan utilization

Clients' Family Size with Microfinance Loan Utilization

Household size is the number of family that can be the children and matured and survive together under one household. From factor of production labor is the major one and when the number of the size of family increases there is abundant labor force which is one of the factor of production. A greater number of family members implies free labor and thus leads to increased production. Household size was significant and positively associated with credit utilization. This implies that the larger the size of household the more credit

will be borrowed for use in productive purposes since family labor is readily available (D. Alio et al., 2017).

H1. The family size has a positive and statistically significant effect on microfinance loan utilization.

Farm Size with Microfinance Loan Utilization

Land is one of the main factors of production in agricultural and size of landholding was found to be a significant determining factor of farmers' microfinance loan utilization. Size of landholding increased the probability of microfinance loan utilization increased. The reason for is that larger farms require higher input use which in return needs higher financial resources utilization. The farm size have a positive effect on loan allocation to the farm. This implies that the allocation of loan by farmers to the farm activities increases with increasing farm size (Ugbem and Douglas, 2011). Emerole (2004) found as increase in farm size necessarily requires the employment of more farm inputs which in turn require additional capital for their purchase.

H1. The farm size has a positive and statistically significant effect on microfinance loan utilization.

Natural Factor with Microfinance Loan Utilization

Suitable Climate with Microfinance Loan Utilization

Natural hazard reduced farm and non-farm income of farmers by affecting the productivity of agricultural and non-agricultural activities. Unsuitable climate condition results in natural catastrophic like flood, draught frozen and the death of livestock. Farmers are affected by unsuitable climate that can lead them for un-proper utilization of microfinance loan for un-intended purpose. Therefore, natural hazard is influencing borrowers not to repay their loan on the time of due date. Natural disaster reduced farm and non-farm income of farmers by affecting the production and productivity (Berhe, 2010).

H1. The suitability of climate has a positive and statistically significant effect on microfinance loan utilization.

Summary of Literature and Research Gap

From the reviewed empirical literature, different factors that affect the microfinance loan utilization by farmers' clients have been identified. The studies reviewed were conducted in different countries by focusing on determinants like socio-economic, client's factors, demographic factors and institutional factors which are primarily influence the microfinance loan

utilization of farmers' clients. As per researcher knowledge there is no research done on the tittle which is Determinants of microfinance loan utilization for specified purpose in the study area and across the regions, therefore it is necessary to carry out the thesis for the investigation of the determinants of microfinance loan utilization for specified purposes in the Oromia Regional State, Buusaa Gonoofaa Microfinance institution. In addition to the area gap previous researcher doesn't include about the climate condition as explanatory variable. As most of our communities are based on agricultural economy, the climate change have great impact on the utilization of MF loan that is the reason why the researcher want to include suitable climate as a new independent variables.

The other concern of this study was to supplement previous research and bridge the knowledge gap by looking back previous studies to determine the determinants of microfinance loan utilization for specified purposes among clients' in Oromia regional State, Ethiopia. In the literature reviewed, there is neither study investigating determinants of microfinance loan utilization by farmers' clients in Oromia region, in general. Hence, this research will contribute substantively to fill the research gap and generates foundational information.

Conceptual Frame Work

Conceptual framework is clearly depicts the structure that presents relationship between the dependent variable and independent variable in a given study (Kothari 2004). The framework shows that institutional factors, natural factors, socio-economic factors and demographic factors have direct influence on client's microfinance loan utilization.
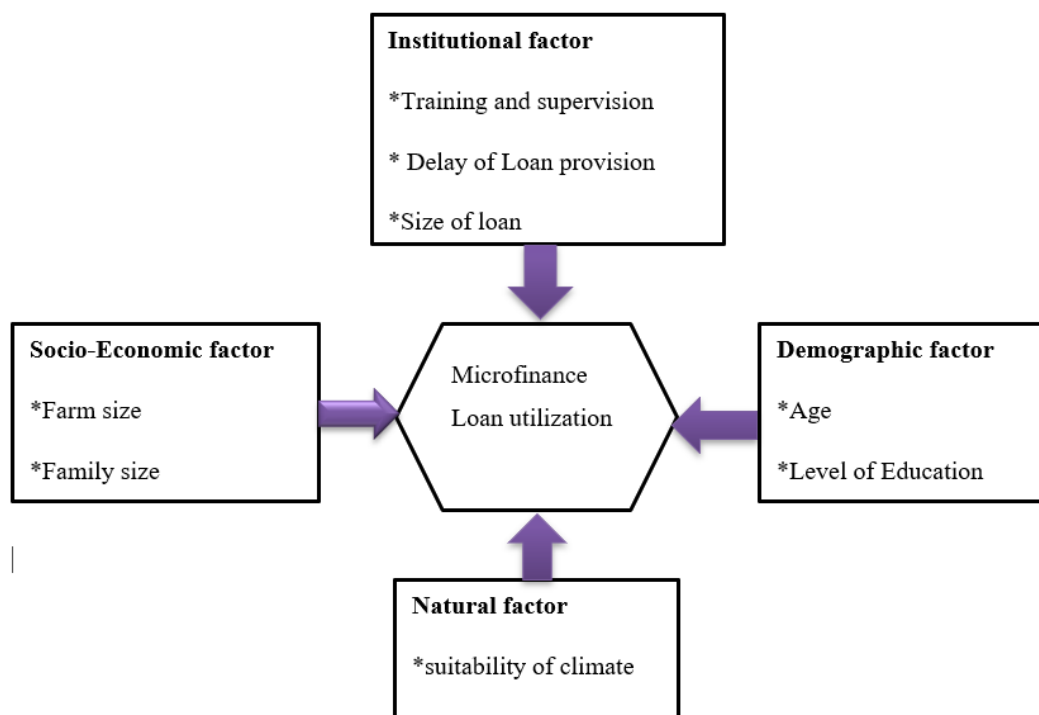
Figure 2.1. Conceptual Framework

Source: Constructed based on the literatures

3. RESEARCH METHODOLOGY

Research Design

According to Kothari (2004), a research design is defined as a conceptual structure within which research is conducted and it constitutes the blueprint for the collection, measurement, and analysis of data. The main objective of this study was to investigate the determinants of clients' loan utilization for specified purposes. Thus, this study employed descriptive and explanatory research design. Explanatory research design is one in which the researcher conducted quantitative research and supports the results of quantitative research in more detail with qualitative research (Creswell, 2014).

Research Approach

There are three types of research approach; such as quantitative, qualitative, and mixed approach. The data collection also involves gathering both numeric information as well as text information, so that the final database represents both quantitative and qualitative information (Creswell, 2014). As a result this study employed mixed research approach.

Types and Source of Data

The types of data used in this study are primary and secondary data. The primary data was used to obtain information related to demographic, institutional, socioeconomic, and natural characteristics of the respondents and clients' loan utilization practice. Primary data was obtained from sample respondents which include clients, officers and managers of Buusaa Gonoofaa MFI. Secondary data was used to obtain information to support the information collected from primary data. Those secondary data were obtained from records and documents of Buusaa Gonoofaa MFI.

Data Collection Techniques

Questionnaire

A questionnaire was prepared and distributed to the clients of Buusaa Gonoofaa microfinance institution. The study employed a structured questionnaire that brought out information about the clients' loan utilization of Microfinance. The questionnaire has contained a combination of closed and open-ended questions.

Key Informant's Interview

The key informant interview was constituted by the manager of Microfinance institution and loan officer of the institution as they are expected to provide sufficient information about the background of the Institution, clients' and loan utilization of the clients. They were addressed through the interview to cross-check the information acquired from farmers' clients.

Table 3.1. Method of Data Collection and Sample Selection

Method of data collection	Population	Sampling technique	Sample size
Questionnaire	630	Simple random sampling	244
Key informant interview	8	Not applicable	8

Survey: human resource of BG MFIs, 2024

Population and Sample Selection

Population of the Study

The population of the study was farmer's clients of Buusaa Gonoofaa microfinance institution. It has approximately total farmers' clients 630, which have got a loan currently from the institution (Buusaa Gonoofaa, 2024).

Sampling Technique

This study was employed both purposive sampling and simple random sampling techniques to select sample respondents. The study selected Buusaa Gonoofaa microfinance institution purposively. A simple random sampling technique was used to select sample respondents from the total farmer clients' of the BG MFI.

Sample Size Determination

To determine the sample size, the study employed the Yamane formula (1967:886. This formula provides a simplified formula to calculate sample sizes, as follows;

$$n = \frac{N}{1+N(e)^2} \dots\dots\dots\dots 1$$

Where

n = is the sample size,

N = is the number of beneficiaries, and

e = is the level of precision.

Buusaa Gonoofaa microfinance has a total of farmers' clients that approximately amount 630 in number which are obtained loan currently from the institution. The researcher level of confidence was 95% and the level precision was 5 %. When that information are inserted in equation 1, the sample size was as follows;

$$n = = \frac{630}{1+630(0.05)^2} = 244$$

Model Specification

This study applied a 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 an advantage over the others in the analysis of dichotomous outcome variables in that it is an extremely flexible and easily used model from a

mathematical point of view and results in a meaningful interpretation. To identify the factors that determine the utilization of microfinance loan for specified purposes by farmer' clients in this study, microfinance clients were assumed to be either utilized loan for the specified purpose or not utilized the microfinance loan for a specified purpose (divert). Hence, the binary choice logistic regression model assumes a dichotomous dependent variable which takes either 1 or 0 value depending on Y*.

Let Yi= 1, if the clients utilize the Microfinance loan for specified purpose

Yi =0, if the clients not utilize the Microfinance loan for specified purpose (divert)

But   Yi= 1, if y* is >0

Yi= 0, if y* is ≤ 0

Model specification for the study was as follows;

$Y = \ln\left(\frac{Pi}{1-Pi}\right) = \beta0 + \beta1 AGE + \beta2\ LOS + \beta3\ LOD + \beta4 TAS + \beta5 EDU + \beta6 SOC + \beta7 FRS + \beta8 FMS + ei$

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

Where; Pi = probability of clients to utilize the loan for specified purposes

l-Pi = Probability of clients not utilizing loan for specified purposes

Y= Microfinance loan utilization by clients (dependent variable)

AGE= Age of clients

LOS = loan size

TAS= Training and Supervision

LOD= loan delay

EDU= Level of education of clients

SOC= Suitability of climates

FRS= Farm size owned by clients

FMS= Family Size of clients

And ei= error term

Definition, Measurement of Variables, and Hypothesis

The dependent variable is a dummy/discrete variable whether the clients utilize the microfinance loan for a specified purposes or divert the loan for other purposes. Independent variables that would affect the dependent variables and which were hypothesized under this study would have the following expected outcome

Table 3.2. Dependent and Independent Variables and their Measurements

Variable	Measurement	Hypothesized or expected outcome
Loan utilization(dependent)	1=loan utilized for specified purpose, 0 = Loan diverted	
Age	Age in years	Positive (+)
Level of education of clients	Level of formal schooling	Positive (+)
Size of the household of clients	Total number of households	Positive (+)
Loan size	Likert Scale	Positive (+)
Training and Supervision	1=Yes, 0= No	Positive (+)
Farm size	Hector/household	Positive (+)
Suitability of climates	1=Yes, 0= No	Positive (+)
Loan delay	Likert Scale	Negative (-)

Source: By own researcher 2024

Method of Data Analysis

The data collected using various methods edited, coded, and organized to facilitate analysis. Then, the collected data were analyzed using descriptive and inferential statistics to analyze. The collected data was analyzed using descriptive statistics t-test, chi-square, frequency, and percentage to describe and show the existing situation and followed by discussion and interpretation. Then, logit regression is used to establish the nature of the relationship between the client loan utilization and the determinant variables and thereby test the hypothesized relationship.

4. RESULTS AND DISCUSSIONS

The Results of Descriptive Analysis

Regarding female clients',

"A microfinance officer in BGMFI stated that the institution gives priority to the female clients to support them and to enable them to participate and provide their contribution to the economic developments of the country. They respond as an institution provides a loan to female clients to strength and enable them to do what they had planned to do by providing the loan they required" (Key informant interview, BGMFI officers).

Table 4. 2. Presumption of clients on the sufficiency of the amount of loan provided

		Frequency	Percent	Valid Percent
Valid	Strongly disagree	65	26.6	26.6
	Disagree	72	29.5	29.5
	Neutral	15	6.1	6.1
	Agree	58	23.8	23.8
	Strongly agree	34	13.9	13.9
	Total	244	100	100

Source: Own Survey data, 2024

When we see the presumption rate of clients in terms of the sufficiency of amount of loan provided to them by microfinance institution, most of the clients around 56% responded as they were not satisfied with the amount of loan provided to them whereas around 37 % were responded as they were not satisfied with the amount of loan provided by the microfinance institution. This table shows that, as most client were not satisfied with the amount of loan provided by microfinance institutions and this implied the amount of money provided to them was not sufficient as per their request.

Table 4.3. Presumption of clients on the quickness of time gap between loan request and loan provision

		Frequency	Percent	Valid Percent
Valid	strongly disagree	78	32	32
	Disagree	67	27.5	27.5
	Neutral	38	15.6	15.6
	Agree	43	17.6	17.6
	strongly agree	18	7.4	7.4
	Total	244	100	100

Source: Own Survey data, 2024

In terms of the length of time gap between the loan requisite by the farmers' clients' and loan provision by microfinance institution, most of the farmers' client that count around 59 % responded as the institution did not provide the loan on time whereas clients that count around 25 % responded as the institution provide the loan on time as per their request. This table depicts as the majority of the farmers' clients do not receive the loan on time as per their request from the institution. Even though the activity of farmers' clients depends on the natural climate condition majority of the clients forward their response as the institution does not provide the loan on time as per their request and this may enforce the farmer clients to divert loans the other purposes other than the specified purposes.

Table 4.4. Presumption of clients regarding the suitability of climate condition

		Frequency	Percent	Valid Percent
Valid	climate condition is not suitable for loan utilization	121	49.6	49.6
	Climate condition is suitable for loan utilization	123	50.4	50.4
	Total	244	100	100

Source: Own Survey data, 2024

Climate condition is the most important factor for farmers clients as our country farming system is dependent on natural climate condition. From the above table, we can see as most of the farmers' clients' that count around 50.4 % responded as climate condition is suitable for the utilization of microfinance loan for specified purpose whereas the farmers clients that count around 49.6 % responded as the climate condition is not suitable for their loan utilization. This figure implied as the climate condition is suitable for most farmer clients' to utilize the loan for specified purposes.

Table 4. 5. Presumption of clients on the availability of Training and Supervision

		Frequency	Percent	Valid Percent
Valid	No	92	37.7	37.7
	Yes	152	62.3	62.3
	Total	244	100.0	100.0

Source: Own Survey data, 2024

Training provided by the microfinance institution had crucial importance for the farmer clients as it supports them to use the provided loan in a good manner for what they specified to do during their loan request. When we see the training and supervision provided by the microfinance from the survey most of the farmers' clients around 152 (62.3) responded as the institution provided the training and supervision regarding the utilization of microfinance loans.

Regarding this

"The office of the institution said that provision of training and supervision was a very crucial activity that supports the client to utilize the loan for specified and productive activity. By understanding this our institution gave training and supervision by assigning the officer that gives clue to the client about the utilization of the loan and how they could improve their living standard by utilizing loan on productive purpose without any loan diversion" (Key informant interview, BGMFI officers).

Table 4.6. Farm size owned by the farmers' clients

		Frequency	Percent	Valid Percent
Valid	0.5-1ha	64	26.2	26.2
	1-2ha	61	25.0	25.0
	3-5ha	59	24.2	24.2
	6-9ha	54	22.1	22.1
	More than 9ha	6	2.5	2.5
	Total	244	100	100

Source: Own Survey data, 2024

In terms of farm size they own, 26.2% of sampled farmers' clients owned a farm size between 0.5 hectors to 1 hector, 25% of sampled farmers' clients owned a farm size between 1-2 hector, 24.2% of sampled farmers' clients owned a farm size between 3-5 hector, 22.1% of sampled farmers' clients owned a farm size between 6-9 hector and 2.5% of sampled farmers' clients owned a farm size which is more than 9 hector. This table depicts the majority of the farmers' clients own a farm size which is less than 2 hectors, which means a majority of the clients have a small farm size, and as a few farmers clients own the farmland which is more than 9 hectors. This figure implied most of the farmer clients' own small land size.

Table 4. 7. Family size owned by the farmers' clients

		Frequency	Percent	Valid Percent
Valid	Less than 3	87	35.7	35.7
	3-4 Family	37	15.2	15.2
	5-7 Family	79	32.4	32.4
	8and above Family	41	16.8	16.8
	Total	244	100	100

Source: Own Survey data, 2024

In terms of their family size out of the sampled farmers clients, around 35.7 % have a family size which is less than 3, around 15.2% have a family size which is between 3-4, around 32.4% have a family size which is between 5-7 and around 16.8 % have a family size which is more than 7. Concerning the family size, the above table depicts as the majority of the farmers' clients that count around 35.7% have a family size of less than 3 families, whereas the above tables depict as few farmers' clients' have a family size which is up to 8 family sizes.

Table 4. 8. Age of farmers' clients' sample respondents

		Frequency	Percent	Valid Percent
Valid	Below 22	33	13.5	13.5
	22yrs-25yrs	82	33.6	33.6
	26yrs-30yrs	36	14.8	14.8
	31yrs-45yrs	86	35.2	35.2
	More than 46yrs	7	2.9	2.9
	Total	244	100	100

Source: Own Survey data, 2024

Regarding the age of the respondents, most of them are grouped between the age of 31-45 which are 157(35.7%) whereas the client which grouped above the age of 45 are count only 7(2.9%). From the survey, we can say that majority of the clients of the institution that count more than 35% were found in the productive age and being matured in age may help the farmers' client to utilize the microfinance loan for specified purposes because get experience in farming activity as their age increase over time. In addition, for open ended questions regarding the effects of age of clients on the utilization of microfinance loan the most farmers' clients wrote their idea as follows:

"The age category of farmers' clients has great effects on the utilization of microfinance loan. The clients who were found in the age of maturity utilize the microfinance loan for productive purposes then the clients who were not found in the maturity age, as he/she may get the experience in the agricultural activity and as they were found in the productive age group".

Determinants of microfinance loan utilization of farmers clients'

Econometric analysis

In this section Binary logit regression model was employed to estimate the effects of the explanatory variables on microfinance loan utilization for specified purposes by clients in the Buusaa Gonoofaa Microfinance institution. A binary logistic regression model was fitted to estimate the effect of hypothesized explanatory variables on the probability of being loan utilized for specified purpose or loan diverted. Consequently, the variable which shows microfinance loan utilization was a binary dependent variable, taking a value of "1" for loan utilized for the specified purpose and "0" if loan diverted.

Goodness--Fit Test of the Binary Logistic Regression Model

In this sub-section, the goodness of fit of the binary logistic regression model with the data and associated assumptions were examined and checked before the actual regression analysis.

Table 4. 18. Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	211.852	8	.000
	Block	211.852	8	.000
	Model	211.852	8	.000

Source: Survey data, 2024

Regarding goodness of fit of the overall model, this study utilized omnibus test of model coefficients. As we can see from the above table the Omnibus test of model coefficients shows a Chi-Square of 211.852, which is also significant (P value < 0.05). Since the omnibus test is significant, it can be concluded that adding explanatory variables to the model has significantly increased our ability to predict microfinance loan utilization among farmers' clients.

Table 4. 19. Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	123.184a	.580	.777

Source: Survey data, 2024

The most common assessment of overall goodness-of-fit of the binary logistic regression model is the chi-square difference between the null model and the model containing predictors. The result of Cox and Snell R^2 and Nagelkerke R^2 in the above table is 0.580& 0.777 respectively. Hence, the Nagelkerke R2 of 0.777 implies that 77.7% of the variance in the dependent variable (i.e. the likelihood microfinance loan utilization for specified purposes) is explained by the predictor variables included in this study.

Table 4. 20. Hosmer and Lemeshew Test

Step	Chi-square	Df	Sig.
1	4.395	8	.820

Source: Own Survey data, 2024

The other method of overall goodness of fit assessment of the logistic regression is Hosmer-Lemeshow test, which measures the correspondence of the actual and predicted values of the dependent variable. As can be observed from Table 4.2.4, the significant values is greater than 0.05 (0.820> 0.05). Hair et al. (2010) argued that if the significant value in Hosmer-Lemeshow test is greater than 0.05, then the model we used is feasible to be used for further analysis.

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 (0.820) is higher than that of the sig. value (0.05). So, we can accept the statement which is said the model is good.

Table 4. 21. Tests of outliers by using a Cook's distance

	N	Minimum	Maximum	Mean	Std. Deviation
Cook's influence statistics	244	.00001	.93386	.0428976	.12823597

Source: Own Survey data, 2024

As the result indicates, the minimum Cook's result is 0.0001 while the maximum is 0.93386. These figures indicate that in all cases the value is less than one. Based on the rule of the cook's distance, if its greater than 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 can conclude that there are not detected any outliers which affect the model.

Table 4. 22.Reliability Test

Cronbach's Alpha	N of Items
.715	9

Source: Own Survey data, 2024

Reliability test is another important test for the research done by collecting data through questionnaire. Reliability of a research instrument enhances its ability to measure consistently what is intended to be measured. The Cronbach Alpha was calculated to determine scale reliability of the instrument and most researchers accepted at 0.7. (Cronbach`s, 1951). Reliability test show that the value obtained from the test of scale reliability was 0.715 as showed in table 4.22 which is greater than the acceptable point which means 0.7 and the result show that the questionnaire measures what was intended to measure consistently

Table 4. 23.Variance Inflation Factor (VIF) for explanatory variables

Model		Collinearity Statistics	
		Tolerance	VIF
1	EDU	.381	2.622
	LOS	.873	1.146
	LOD	.897	1.114
	SOC	.345	2.902
	TAS	.714	1.401
	FRS	.772	1.296
	FMS	.367	2.728
	AGE	.440	2.274

Source: Own Survey data, 2024

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 to 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 and greater than 1 supposed to have no multi co-linearity. (Field, 2009). Variance inflation factors (VIF) is one of the tools used to measure the degree of co-linearity present for each factor. It tells us how much the variance of the estimated coefficients increases due to collinear independent variables. As mentioned in the above table there is no strong association among the independent variables. For this reason, all of the explanatory variables were included in the final analysis.

Correlation Analysis

Table 4. 24.Correlation matrix of dependent and independent variables

	LONULTZN	EDU	LOS	LOD	SOC	TAS	FRS	FMS	AGE
LONULTZN	1.000								
EDU	.691**	1.000							
LOS	.400**	.280**	1.000						
LOD	-.278**	-.144*	-.168**	1.000					
SOC	.700**	.736**	.338**	-.212**	1.000				
TAS	.498**	.386**	.258**	-.221**	.446**	1.000			
FRS	.374**	.410**	.174**	-.251**	.420**	.233**	1.000		
FMS	.674**	.733**	.252**	-.162*	.720**	.428**	.385**	1.000	
AGE	.739**	.658**	.308**	-.183**	.679**	.483**	.396**	.666**	1.000

Source: Survey data, 2024

Table 4.24 presents the correlation coefficients for the variables used in the binary logit model. As exhibited in the above table, all the variables correlated with microfinance loan utilization. This relationship suggests initial picture as to the nature of the relationship between explanatory variables and microfinance loan utilization.

The Spearman's rho correlation coefficient of 1.000 tells us each variable incorporated in the model is perfectly positively correlated with itself. The result shows that education level of clients, amount of loan provided for the clients, availability of climate condition, provision of training and supervision provided by the officers, farm size owned by farmers clients, family size owned by farmers clients and age of farmers clients were positively and significantly correlated microfinance loan utilization at 1% significance level.(as $P<0.01$) whereas the delay of loan provision by microfinance was negatively and significantly correlated microfinance loan utilization at 1% significance level.(as $P<0.01$).

Binary Logistic Regression Result and Discussion

The predictable results of the binary logistic regression coefficients, odds ratio and the p-value included in the model are shown in table 4.25. A total of eight explanatory variables were considered, out of which four explanatory variables were found significant. And mentioned in the below table.

Table 4. 25. Maximum Likelihood estimates of logistic regression model

Variables in the Equation									
		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1a	EDU	.581	.291	3.997	1	.046*	1.788	1.011	3.159
	LOS	.457	.175	6.806	1	.009**	1.579	1.120	2.225
	LOD	-.567	.198	8.173	1	.004**	.567	.385	.837
	SOC	.932	.677	1.896	1	.168	2.540	.674	9.574
	TAS	.729	.507	2.066	1	.151	2.074	.767	5.607
	FRS	.122	.241	.254	1	.614	.885	.552	1.421
	FMS	.316	.336	.880	1	.348	1.371	.709	2.650
	AGE	1.096	.278	15.541	1	.000**	2.991	1.735	5.156
	Constant	-5.044	1.018	24.570	1	.000	.006		

a. Variable(s) entered on step 1: EDU, LOS, LOD, SOC, TAS, FRS, FMS and AGE.
Source: Own Survey data, 2024** indicates that variables are significant at 1% and * indicates that variables are significant at 5%

Significant Explanatory Variables in Logit Model

Level of Education of clients (EDU): level of education was specified as categorical variable and found to be significance at five percent (5%) significance level and positively related with microfinance loan utilization for specified purpose in the study area and this variable agrees with H1.As of table 4.25, the estimated odds ratio of level of education of farmers' clients is 1.788, which shows that the clients' attend formal education are 1.788 times more likely to utilize the microfinance loan for specified purposes than clients' which are illiterate or those not attend the formal school. This implies that the probability of educated clients' to utilize microfinance loan for specified purpose is higher than uneducated clients, all other things being kept constant. The possible clarification is that educated clients' have better chance to utilize microfinance loan for specified purpose in contrast to that of uneducated clients that have high probability for loan diversion.

This result is in line with the study undertaken by Lokesha and Iqbal, (2019), argued that without schooling clients have utilized agricultural credit for non-agriculture significantly higher than educated respondents and Ugbem and Douglas, (2011) found as education have a positive relationship with loan allocation to the farm sector. The more educated clients have the more probability of allocating microfinance loan for productive purpose.

Delay of loan provision (LOD): delay of loan provision made by microfinance institution during loan provision is another factor that was significant at 1% and negatively related to the utilization of microfinance loan for specified purpose and according to this result the developed H1 was accepted. As far as delay of loan provision of microfinance is concerned, it is observed in the above table that the estimated odds ratio is 0.567, indicating farmers' clients that receive microfinance loan in long period of time after their requests were 56.7% less likely to utilize the microfinance loan for specified purposes compared with other farmers clients which have receive the loan in the short period of as per their request. This implies that as the time gap between loan request by the client and time of loan provision increase by a week the likelihood (odds ratio) of the clients loan utilization for specified purpose reduced, all other things being kept constant for those respondents who get loan delaying from their loan request. Moreover, the possible explanation for this is that as the respondent got microfinance loan in short period of time from his/her loan request he/she may have more chance to utilize loan obtained for specified purpose than the one who got loan in long period of time after loan requisite because the agricultural activity is mostly depend on unmanageable natural climate condition.

This result is parallel with the study by Lawrence et al., (2014). That says time of loan acquisition is significantly

related to utilization of the loan, and this has a positive implication on loan repayment or remittance. Given that farming activities have season and timing which if hinder, could result to non-utilization of the fund acquired. Hence, fund could be diverted due to the fact that the farmer was granted loan (that was applied in due season), in a period that is out of farming season.

Age of respondent (AGE): This was the another significance explanatory variable affecting clients utilization of microfinance loan for specified purpose and the coefficient of this explanatory variable is positive as it was expected, and the variable was significant at 1% significance level and according to this result the developed hypothesis was accepted. This result was agree with the previous study and exist theory. With regard to age of farmers' clients, the regression analysis indicated that age of farmers' clients has an estimated odds ratio of 2.991, which could be interpreted as farmers clients those found in the maturity age are 2.991times more likely to utilize the microfinance loan for specified purposes than farmers' clients which have found under the maturity and productive age.

This implies that all other things being kept constant, the odds ratio in favor of microfinance loan utilization increases for those clients who included in maturity and productive age. The possible reason for this could be those clients' who have get matured will have the possibility of utilizing microfinance loan for specified purpose because as the clients age increase their experience and their maturity that help them to utilize the obtained loan for specified purpose increase. This result is in line with the study by Chepkwony et al., (2019). Which revealed as the age of the Micro Agricultural Enterprise was indicator of years of business experience.

Amount of loan provided (LOS): Amount of loan provided was another variable which was positively affecting farmers' clients' utilization of microfinance loan for specified purposes. The variable was significant at 1% significance level and this result was enabled to accept the developed alternative hypothesis (H1). Amount of loan provided was statistically significant variable in the above table, which shows estimated odds ratio of 1.579. This result illustrated that those farmers' clients that receive the sufficient amount of loan from microfinance institution are 1.579times more likely to utilize the loan for specified purposes than farmer clients who have received insufficient

amount of loan from microfinance institution. This implies that all other things being kept constant, the odds ratio in favor of Microfinance loan utilization for specified purpose increases for those respondents who have got enough amount of money from microfinance institution as per their request.

This result was aligned with the study of Danso at al., (2016) agreed that there is positive significance relationship between of amount of credit received to the proportion of credit allocation to farming operations. This implies that farmers who receive a larger amount of loan allocate greater proportion of the loan to their farming businesses. As the amount loan of provided to the farmers clients' increases the probability of loan allocated to the farm activity also increase.

5. CONCLUSION AND RECOMMENDATION

Conclusion

The purpose of this study was to investigate determinants of farmers' clients' utilization of microfinance loan for specified purposes by taking Buusaa Gonoofaa microfinance institution which is found in Oromia regional state as case study. Under the study it was observed that farmer's clients' utilization of microfinance loan for specified purpose is significantly influenced by factors such as level of education, amount of loan provided, time gap between loan requests and loan provision (loan delay) and age of farmers clients'. According to this study Level of education was found to be very vital for utilization of MF loan for specified purpose.

Under the study amount of loan provided by microfinance institution positively affecting utilization of MF loan for specified purpose and observed that clients who had got large amount of money utilize the loan for specified purpose than the client who got slight amount of money from the institution.

Delay of loan has significant and negative impact on the utilization of microfinance loan utilization for specified purpose. This shows the essence that a time gap between loan request and loan provision is too long, the farmers' clients were less likelihood for utilization of microfinance loan for specified purpose.

The other variables such as training and supervision, farm size, family size and climate condition have insignificant impact on the utilization of microfinance

loan for specified purpose. More over different constraints were forwarded and underlined by participants as major problems and challenges such level of education attended by clients, amount loan provided and delay of loan provision by microfinance as a factor that hindering utilization of microfinance loan for specified purpose in the study area.

Recommendations

Based on the findings of the study the following crucial points are recommended.

- To improve farmers' clients' utilization of microfinance loan for specified purposes the microfinance institution should made an effort to train farmers' clients' by giving special emphasize to illiterate farmers' clients.
- The institution is recommended to up-grade the size of loan amount to enable the farmer client to utilize the loan for specified purpose by providing the amount which can match with what they have planned to do.
- Microfinance institutions are advised to make follow-up of farmers clients who have received the loan from the institution to make certain whether these clients' use the loan for the specified purpose or divert the loan.

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