

**The Influence of Micro Finance Institution on the Development and Performance of Micro
and Small Business Enterprises in Addis Ababa (Ethiopia)**

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Project submitted to the Indira Gandhi National Open University in partial fulfillment of the requirements for the award of the Degree Master of Arts (Economics).

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“The Influence of Micro Finance Institution on the Development and Performance of Micro and Small Business Enterprises in Addis Ababa (Ethiopia)”

Project submitted to the Indira Gandhi National Open University in partial fulfillment of the requirements for the award of the Degree Master of Arts (Economics). I hereby declare that this work has been done by me and has not been submitted elsewhere.

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Table of Contents

Table of Contents	i
List of Tables	iv
List of Figures	v
List of Annexes	vi
Acronyms and Abbreviations	vii
Abstract	ix
Chapter One	1
1. Introduction.....	1
1.1 Statement of the problem	3
1.2 Objectives of the Study	5
1.2.1 General Objective	5
1.2.2 Specific Objectives	5
1.3 Research Questions	6
1.4 Hypotheses.....	6
1.5 Significance of the Study	6
1.6 Scope and limitation of the study.....	7
1.7 Expected Outcomes of the Study	7
1.8 Organization of the Study	7
Chapter Two.....	8
Literature Review.....	8
2.1 Theoretical literature	8
2.1.1 Definition of Key Terms	8
2.1.2 Types of Microenterprises	11
2.1.3 Significance of Micro and Small Enterprises.....	11
2.1.4 Major focus areas of the MSEs sector in Ethiopia	12
2.1.5 Supports provided to SMEs in Ethiopian.....	13
2.1.6 MFIs Financial Service in Ethiopia	14
2.1.7 Financial intermediation	15
2.1.8 Challenges for the Expansion of MSEs in Ethiopia and other Countries	17
2.2 Theoretical links between Microfinance and MSE development	25
2.3 Review of Empirical Studies.....	27

2.3.1 Empirical Studies outside Addis Ababa.....	27
2.4 Overall Assumption and review of the Conceptual Model.....	29
Chapter Three.....	31
Methodology.....	31
3.1. Introduction.....	31
3.1.1 Data Types and Sources.....	31
3.1.2 Population, Sampling Frame and Sample Size	31
3.1.3 Study Area, Sample Type and Sampling Procedure	32
3.1.4 Data Collection Techniques	33
3.1.5 Data Analysis	34
Chapter Four	35
Data Presentation and Analysis	35
4.1 Respondents Demographics.....	35
4.1.1 Respondent’s distribution by sub-city.....	35
4.1.2 Respondent’s business organization life time	36
4.1.3 Respondent’s employments opportunity size.....	37
4.1.4 The respondent’s business size	38
4.1.5 The respondent’s business type in the study	38
4.2 Descriptive statistics of the data.....	39
4.2.1 Descriptive statistics on the type of business the MSEs engaged	39
4.2.2 Training status of MSEs representatives in a year	40
4.2.3 The MSEs and households challenges faced in starting and expanding their business	40
4.2.4 Type of service currently provided by MFIs for MSEs and households	41
4.2.5 Types of services demanded by MSEs and households from MFIs	42
4.2.6 The decision of loan amount to MSEs from MFIs.....	43
4.2.7 The source(s) of finance for MSEs to start their business.....	44
4.2.8 The rank of the weight of source of capital for MSEs before and after got loan from MFIs	45
4.2.9 Access of loan from MFIs to start MSEs business in Addis Ababa	46
4.2.10 Challenges faced by MSEs to got loan from MFIs	46
4.2.11 The performance of MSEs before and after got access of loan from MFIs	47
4.2.12 Competition status of MSEs before and after got access of loan from MFIs	49
4.2.13 The level of productivity status of MSEs before and after got access of loan from MFIs..	50

4.2.14	Status of MSEs employee’s educational back ground before and after got loan from MFIs	51
4.2.15	Status of repayment.....	52
4.2.16	Monitoring and evaluation existence by MFIs.....	53
4.2.17	Significant of monitoring and evaluation to MSEs development	53
4.3	Model estimation result and regression analysis.....	54
4.3.1	Analysis of finding.....	56
Chapter Five.....		58
Conclusion and Policy Recommendation		58
5.1	Conclusion	58
5.2	Policy Recommendation	60
REFERENCES		62
Annexes		67

List of Tables

Table 2-1The Current definition of MSEs in Ethiopia.....	8
Table 2-2 Loan Amount Provide by MFIs to MSEs in Ethiopia	15
Table 2-3 Summary of the constraint faced by MSEs	25
Table 4-1 Number of participants and questionnaire status.....	35
Table 4-2Distribution of MSMEs Business	38
Table 4-3Types of Business Engagements	39
Table 4-4Service provided by MFIs for MSEs.....	42
Table 4-5Types of service demanded by MSEs and households from MFIs.....	42
Table 4-6Percentage Distribution of Different Demand Driven Loan Amount to MSEs.....	43
Table 4-7Descriptive statistics on the source of finance.....	45
Table 4-8Source of capital for MSEs before and after they got loan from MFIs	45
Table 4-9Performances of MSEs before and after they got access of loan from MFIs	48
Table 4-10Competition status of SMEs before and after got access of loan from MFIs	49
Table 4-11productivity level status of MSEs before and after got access of loan from MFIs.....	50
Table 4-12 MSEs employee’s educational back ground before and after got loan from MFIs	51
Table 4.13 Respondents answer for status of repayment.....	53
Table 4-14Percentage of respondents either Monitoring and evaluation tasks are	53
Table 4-15Respondents answer for significant of monitoring and evaluation.....	54
Table 4-16Regression Result A	55
Table 4-17Regression Result B.....	55
Table 4-18Regression Result C.....	56

List of Figures

Figure 4.1 Respondents Distribution by Sub-city	36
Figure 4.2 Respondent's business organization life time.....	37
Figure 4.3 Employments Opportunity and Operating Years of MSMEs.....	37
Figure 4.4 Distribution of MSMEs Business	38
Figure 4.5 Types of Business Engagements	39
Figure 4.6 Number of Training Attendance of SMEs Representatives in a Year	40
Figure 4.7 Challenges Faced in Starting and Expanding MSEs Business	41
Figure 4.8 Different Demand Driven Loan Amounts to SMEs	43
Figure 4.9 Source(s) of Finance for SMEs to Start their Business	44
Figure 4.10 Loan access from MFIs to start SMEs business	46
Figure 4.11 Respondents answer for challenges faced by SMEs to got loan from MFIs	47
Figure 4.12 Respondents answer for status of repayment.....	52

List of Annexes

Appendix 1: Questionnaire distributed to the respondents.

Appendix 2: Proposal Approved by the University.

Acronyms and Abbreviations

AAMFISC: Addis Ababa Microfinance Institutions Share Company

AAMSDA: Addis Ababa Micro and Small Enterprise Development Agency

ANOVA: Analysis of Variance

CMFI: Collateral Requirement MFIs

E.C.: Ethiopian Calendar

ECA: Economic Commission for Africa

EDAP: Enterprise Development and Performance

EFSMEDA: Ethiopian Federal Micro and Small Enterprise Development Agency

EMTI: Ethiopian Ministry of Trade and Industries

ETB: Ethiopian Birr

€: Euro

FGD: Focus Group Discussion

GB: Grameen Bank

GTP: Growth and Transformational Plan

ICT: Information Communication Technology

LMF: Liquidity of Matching Fund

LSMFI: Loan Size of MFIs

KIIs: Key Informants Interviews

MFIs: Microfinance Institutions

MSEs: Micro and Small Enterprises

MSEDS: Micro and Small Enterprises Development

MSEDS: Micro and Small Enterprises Development Strategy

MSMEs: Micro, Small and Medium Enterprises

NGOs: None-Governmental Institutions

PPP: Public Private Partnership

RI: Rate of Interest

SD: Standard Deviation

UK: United Kingdom

UN: United Nations

UNDP: United Nations Development Program

US\$: United States of American Dollar

TVT: Technical and Vocational Training

X: Mean

Abstract

Micro and Small Enterprises are engines for both developing and developed countries according to their SMEs definitions but many developing countries SMEs face major challenges in Africa and also in Ethiopia, is formulating appropriate development strategies that will capture the financial service requirement of Micro, Small and Medium Enterprises which will accounts 80% of the business sector .Delivery of credit for Small and Micro Enterprises for developing countries like Ethiopia is increasingly being viewed as a strategic means of assisting the working poor society. Over ten years a considerable amount of multi and by lateral support has been channeled in to micro finance in Ethiopia (Addis Ababa) with a varying degree of success.

Like all development intervention evaluation and impact assessment studies to ascertain achievement and failures of this programs would help a lot for further programs design in Ethiopia(Addis Ababa), the SMEs sub-sectors has tremendous growth in terms of income, capital accumulation, employment opportunity, business diversifications, up grading capital goods e.t.c. The Small and Micro Enterprises has there for attracted great attention of financial services providers to extend a range of financial offer for this target groups. However, little is still know of contribution of Micro Finance Institutions for the development and performance of the Small and Micro Enterprises.

The study sought to establish the influence of Micro Finance Institution on the development and performance of Small and Micro Enterprises in Addis Ababa (Ethiopia). The study employed both qualitative and quantitative data analytical methods, and a multiple regression was run to estimate the effect of Financial Institutions on the development and performance of Small and Micro Enterprises to source of credit and contributed to their development and performance in terms of productivity, competitiveness, profitability, introducing new technology, up grading capital goods, in increasing their market share and diversifying their business. It is recommended that there is a need of institutionalized public-private partnership for crating conducive business working environment for SMEs operations this will reduce on the numerous constraints challenging Small and Micro Enterprises so as to make the national benefits from their overall contribution to poverty reduction and creating employment opportunity. Thus the government and MFIs should develop the quality and accessibility of the service of supporting institutions by assigning employees that have accurate knowledge in the specific area to identify the SMEs gaps and to provide continuous follow up of the development and performance of Small and Micro Enterprises.

Key words: MSEs, MFIs, Development, Performance, Collateral, Credit service, Financial Service

Chapter One

1. Introduction

In the modern political and economic environment, jobs are at the core of political debates in both developed and developing economies. There are many potential that micro, small and medium enterprises can create new jobs, although recent studies suggest that small enterprises contribute more to the employment share in low-income economies than in high-income countries. International development agencies want to promote and finance MSMEs while the G-20 is also devoted to improving access to finance for small businesses in developing countries. Embedded in these efforts is the assumption that access to finance is a key constraint to micro, small and medium business enterprises expansion. In this center of concentration the study examine the influence and role of MFIs in serving MSMEs.

Microfinance is not a fresh model. It is dates back in the 19th century when money lenders were informally performing the role of formal financial institutions at the moment. The informal financial institutions compose; village banks, urban credit and saving share company, cooperative credit unions, state owned banks, and social venture capital funds to help the poor and MSEs. These institutions are those that provide savings and credit services for MSMEs. They mobilize urban and rural savings and have simple and straight forward procedures that originate from local cultures and are easily understood by the population (Germidis et al., 1991). These funds are to finance the informal sector MSMEs in developing countries and it is known that these MSEs are more to be expected to not succeed (Maloney, 2003).

The establishment of MSEs generates employment but these enterprises are short live and accordingly are clear to pass away after a undersized though causing those who gained job positions to lose them and even go not as good as than how they were. It is not awaiting recent time that Microfinance had gained recognition thanks to the noble prize winner Yunus Muhammad of the Grameen Bank(GB). It should be noted that Microfinance is not a panacea but it is a main tool that foster development in developing countries. It is well-known worldwide that the poor cannot borrow from the banks. Banks do not lend to them because they do not have what is required to be grantee for the loan or to be provided for the bank services. The

lack of financial power is a causal factor of most of the common problems for MSMEs. These problems derived from insufficiency and it is known that with poverty one is spring to suffer so many consequences ranging from lack of good health care system, education, nutrition, microfinance has proved this bank concept to be wrong.

They aim the poor who are considered risky but their repayment rate turns to be positive as compared with the regular commercial banks (Zeller and Sharma, 1998). Researchers have viewed microfinance in unlike magnitude. Microfinance gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them accountable for their own hope. It broadens the horizons and thus plays economic, political and social roles by improving the living conditions of the people (Microfinance Radio Netherlands, 2010). These improvements are in a nutshell to alleviate poverty, and according to this project, it will be seen from the point of the development of Micro and small size enterprises MSEs and focusing mostly in the rural areas. The UN millennium goal to alleviate poverty by the year 2015 is far from fetch despite the enormous works that microfinance institutions are doing to contribute in this domain (Hiderink and Kok, 2009). The main challenge facing the poor is to gain financial to enable them boost their income generating activities (Yunus, 2003).

At this time, the government of Ethiopia has embarked on several attempts aimed at promoting industry and agricultural development in the country. The government embarked on the policy of “Green Revolution”, which was aimed at encouraging the development of industry and agriculture in the country and other hard works including the setting up of agencies like the Federal Micro and Small Enterprises agency, Office and Micro Finance Institution up to the level of city, woreda and kebele, and other business development services programmers’.

Ethiopian Public investment program in mega projects are also critical to support MSEs build capacities and create massive employment in urban areas. Thus, Micro and Small Enterprises development as well as job creations were integrated in the construction of new public universities, the development of sugar industry, integrated housing development, road construction, rail way networking and construction of power generation, as well as cobblestone development during the past three years of GTP period. Accordingly, from 2010/11-2013/14

fiscal year, a total of 2,464,915 job opportunities were created through public mega projects. When we see the distribution of job opportunities created by public mega projects by project type: Housing development program 474,213 (19.24%), Electric power expansion program 44,320 (1.8%), Water & irrigation development program 48,338 (1.96%), Universal Rural Road Access Program 716,228 (29.06%), Rail way network program 33,993 (1.38%), Cobble Stone & Urban infrastructure program 275,477 (11.17%), Fertilizer & Industry zone development program 5,103 (0.21%), Telecommunication works 12,163(0.49%),sugar development program 187,810 (7.62%), Mining development program 79,211 (3.21%), Metal & Engineering works 101,260(4.11%) and jobs were created for 486,799 (19.75%) citizens by participating in private and public building construction(MSED Sector Statistical Bulletin_N0.2_2010/11-2013/14 25).

In spite of all these effort, much is still required to improve the Micro Finance Institution, which is well thought-out very essential in the economic life line of the country. A current development in this sector has been the increasing involvement of NGOs and the Micro Finance Institutions in the process of enhancing the development of MSEs in both urban and rural level. It is significant to see at this because even though the government promotes MSMEs in the urban and rural areas through different institutions, Micro Finance Institutions are not leaving any evidence unturned to make sure that the sensitive poverty exceptional the urban and rural population is re-addressed.

Industry and MSEs are the key sectors to the Addis Ababa City Administration and of course has a great influence in the socioeconomic and political development of the city but productivity and development keeps on dropping with a growing population. This research consequently seeks to analyze the influence of Micro Finance Institutions (MFIs)in the development performance of Micro and Small Enterprises (MSEs) in Addis Ababa Ethiopia.

1.1 Statement of the problem

The increase of Micro and Small Enterprise (MSEs)in Ethiopia is fast rising attention in the country. The production of MSEs in Addis Ababa accounted for over 14.2 % of Ethiopia total GTP employment opportunity plan by MSEs by 2006 E.C. Increasing from 1% in the 1997 E.C but, MSEs in Addis Ababa have been facing challenges of financing or refinancing since their

delivery as it is difficult to obtain predictable loans from commercial and private banks to start up micro, small or medium scale enterprises. The main reason is that commercial and private banks demand collateral before giving loans for business purposes.

The advanced the threat the business has the more the collateral the banks necessitate to claim, while MSMEs are subject to higher risk and easily fail to pay. The limited funding sources of MSEs make the matter of providing adequate collateral even poorer. The high collateral demanded by commercial and private banks fundamentally cuts the bureaucrat channel of MSEs in receiving loans. As a result, the difficulty of access to loans from state and private financial institutions such as commercial and private banks constitutes enormous hinder to entrepreneurial development.

One of the responses to the challenges of the required financing options for MSEs is the introduction and development of micro finance. According to the Ethiopian credit and saving Associations of Microfinance, microfinance in Ethiopia refers to financial services provided for the middle and low income population that cannot get loans from banks. Micro finance has the capacity to strengthen and improved the development performance of MSEs and encourages best practices among actors and operators of MSMEs. In provisions of make available of microfinance, private ,share company and government oriented microfinance suppliers and supply channels have emerged in Ethiopia since the 1992s. But, the overall volume of supply is limited, and the majority of such supply is in its experimental step. From the standpoint of demand, there are different types of people in need of microfinance, including urban laid-off workers, rural households, and Micro, Small and Medium Entrepreneurs. At the same time, there is limited of service in microfinance such as microcredit, micro savings, micro insurance, and investment for the development performance of MSEs.

MFI are said to be a cheaper way of source of finance to MSMEs in Addis Ababa. Regardless of MFI service been cheaper means of source of finance to MSEs, very little is known on the actual cost for microfinance clients to access these services, except interest rates. The interest rate is not the only cost of credit incurred by MSEs, there are also other costs related to the process of obtaining information about the services and the whole procedure of applying

for the loan, cost of getting transportation to make loan payments, time spent obtaining loan and tracking the debt all these are referred as transaction expenses.

To get loan from MFI's involves high transaction cost due to bureaucratic procedures and time involved in processing the loan, the studies also pointed out that asymmetric information between borrower and lender is very high and this led to MFIs imposing tight monitoring and supervision policy to borrower. On the other hand, regardless of high transaction costs, MSEs in Addis Ababa are still utilizing the services, and thus, it is importance asking if the MFI loans have impact on development performance of MSMEs at enterprises level and household level taking into concern the true charge of MFIs loans. This study therefore seeks to investigate the influence of microfinance service on the development performance of MSEs in Addis Ababa and to examine the benefit received from microfinance loans if they offset the cost incurred by MSE's when servicing the loan accountability, and the contribution of MFI in Addis Ababa on enhancement of welfare of MSE's.

Also there is little study that have been conducted in Addis Ababa which appear on the price and advantage of MFI loans to MSEs and weather the MFIs loan have sustain the MSEs to produce regardless of the accurate price incurred on the procedure, as a result industry never know if MFIs loans have really helped MSEs to develop.

1.2 Objectives of the Study

1.2.1 General Objective

The major objective of this study was to assess the influence of MFI services on the development performance of MSEs in Addis Ababa.

1.2.2 Specific Objectives

Specifically the study attempt:-

- A. To check up the contribution of MFI on MSEs development.
- B. To assess the impact of MFI loans on work of MSEs operators.
- C. To assess the costs and challenges that MSEs face when accessing the microfinance services.

- D. To evaluate the MFIs influence in enabling the MSEs to be competitive, facilitate economic growth and lays foundation for industry development.

1.3 Research Questions

To be able to meet the above objectives, the study adopts the following key guiding question:

1. What are the assistances of MFI to MSEs enterprises development performance?
2. What is the influence of MFI loans to the work of operators of MSMEs?
3. What are the costs and challenges that Addis Ababa MSEs face when accessing Microfinance services?

1.4 Hypotheses

In this study the following hypotheses are tested:

H1: MFI services have a positive role on the growth of MSEs.

H2: There is limitation on MFIs service to MSEs.

H3: The liquidity of matching fund requested by MFIs is negatively affected SMEs.

H4: There are limited suppliers of MFIs analogous to MSEs demand to MFIS.

H5: MFI loans have a positive effect on the livelihood of MSE owners.

H6: The collateral request by MFIs negatively affects the MSEs.

H7: High transaction costs on MFI loans to MSEs have a negative impact on growth of MSEs and MSE owners.

H8: There is a significant difference in development performance of MSEs with MFI services and MSEs without the service of MFI.

H9: The monitoring and evaluation activities performance of MFIs directly related to the development and performance MSEs.

1.5 Significance of the Study

First, this study will contribute to the body of knowledge on the influence of Microfinance on the development performance of MSMEs taking into concern the real cost and challenges incurred by MSEs apart from interest cost.

Second, the study is planned to drop light on the relationship between Microfinance services and development performance of MSMEs particularly with the center on their livelihoods for both planners and policy makers in government, agencies and NGOs. This will help them to come out

with substantive possible alternative policy interventions which might help to address problems and challenges which MSEs face.

Third, this study will offer empirical evidence on the impact of Microfinance services on the growth of MSMEs for use in short term and long term interventions especially in the fight against poverty. A study of this nature is equally very important because it enlighten the government and the public on the role of MFI in the MSMEs sector.

1.6 Scope and limitation of the study

To include the entire city up to district level was impossible because of the limited time frame and amount of funds for this research. For this reasons, the research was covered ten sub-city of Addis Ababa city, which are Arada, Addis Ketema, Kirkos Lideta, Gullele, Bole, Kolfe, Nifas Silk Lafto, Yeka and Akakaki Kaliti. The sub- city's preference is to address most of MSEs in Addis Ababa Area and the existence of MFIs like Addis Ababa Credit and Saving Share Company in sub cities and thus provided good source of data for the study. The influence of Microfinance to the development performance of MSMEs in these areas was analyzed, by looking at its contributions, and in what form, and of course the response of MSEs to the contributions of MFIs.

1.7 Expected Outcomes of the Study

From the findings of the study: It is possible to know the contribution of MFI for the development of MSEs. Moreover, the output of this research work will provide opportunity to see how far MSEs growth is influenced by MFI.

1.8 Organization of the Study

The structure of the thesis is organized, within five chapters. Chapter one showed overall introduction of the paper. The second chapter deal with literature review, the third shows methodology of the study, the fourth contain data presentation and analysis and the final one is about conclusion and policy recommendation

Chapter Two

Literature Review

2.1 Theoretical literature

2.1.1 Definition of Key Terms

2.1.1.1 Micro and Small Enterprises in Ethiopia

The MSE nomenclature is used to mean MSEs. It is sometimes referred to as Small and Microenterprises (SMEs).

1. Micro Enterprises

A micro enterprise in the industrial sector (manufacturing, construction and mining) is one which operates with up to five peoples including the owner and/or has total assets not exceeding Birr 100,000 (approx. US\$5,000). Similarly, for activities in the service sector(retailer, transport, hotel, tourism, ICT and maintenance), a micro enterprise is one which operates with up to five people including the owner and/or has total assets not exceeding Birr 50,000 (approx. US\$2,500).

2. Small Enterprises

A small enterprise in the industrial sector is one which operates with between 6 to 30 persons and/or has paid up capital or total assets not exceeding Birr 1.5 million. Similarly, a small service sector enterprise is one that has between 6 and 30 persons and/or has total assets or paid up capital of Ethiopian Birr(ETB) 500,000.

Table 2-1The Current definition of MSEs in Ethiopia

Level of Enterprise	Sector	Human power	Total Asset/ETB/
Micro Enterprises	Industry	≤5	≤Birr 100,000 (\$6,000 or €4,500)
	Service	≤5	≤Birr 50,000 (\$3,000 or €2,200)
Small Enterprises	Industry	6-30	≤Birr 1.5million (\$90,000 or €70,000)
	Service	6-30	≤Birr 500,000 (\$30,000 or €23,000)

Source: Ethiopian Micro and Small Enterprise Development Strategy (2011)

2.1.1.2 The concept of microfinance

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in way of expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998).

In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self-confidence and trainings to members in group on financial literacy and management (Ledgerwood, 1999). There are different providers of Microfinance (MF) services and some of them are; non-governmental organizations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non-bank financial institutions. The target group of MFIs are self-employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999).

2.1.1.3 Growth, Development and Stage of MSEs

2.1.1.3.1 MSEs Growth and Development

The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organization whose legal entity or frame-work may expand in time with the collection of both physical resources, tangible or resources that are human nature (Penrose, 1995). The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements (Penrose, 1995). The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labour and appropriate management and opportunities for investments that are profitable. The determining factor for a firm's growth is the availability of resources to the firm (Ghoshal, Halm and Moran, 2002).

Enterprise development services or business development services or non-financial services are provided by some MFIs adopting the integrated approach. The services provided by nonfinancial

MFI services are; marketing and technology services, business training, production training and subsector analysis and interventions (Ledgerwood, 1999).

Enterprise development services can be sorted out into two categories. The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving and as well as persons who want to start up their own business. The second category of enterprise development service rendered to its clients is the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in terms of production and marketing.

Enterprise development services are not a prerequisite for obtaining financial services and they are not offered free of charge. The charges are subsidized by the government or an external party since to recover the full cost in providing the services will be impossible by the MFI. The enterprise development services may be very meaningful to businesses but the impact and knowledge that is gained cannot be measured since it does not usually involve any quantifiable commodity. It has been observed that there is little or no difference between enterprises that receive credit alone and those that receive both credit packages and integrated enterprise development services (Ledgerwood, 1999).

2.1.1.3.2 Growth and Stage of MSEs in Ethiopia

1. Start- up Stage

Start-up stage refers to enterprises that incorporate people who are interested to establish MSEs and those who are completed the required profession/skill from various institutions and established legally either in the form of association or private. It is also a stage where an enterprise begins production and service under legal framework or legal entity mainly they are micro enterprises.

2. Growth Stage

An enterprise is said to be at growth stage when it became competent in price, quality and productivity. And its man power and total capital is greater than the start-up stage, and it starts to use book keeping system. And they are called small enterprises.

3. Maturity Stage

Maturity stage is a stage given to an enterprise when an enterprise is able to be profitable and invest further by fulfilling the definition given to the sector and using the support provided; most of the time they are medium enterprises.

2.1.2 Types of Microenterprises

The type of population to be served and the activities that the target market is active in and also the level or stage in development of the business to be financed is determined by the MFIs. SMEs differ in the level in which they are and the products and services offered to them by the MFIs are towards meeting the demands of the market. SMEs are financed differently and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable or growing. The type of activities that the business is involved also determined by; production, commercial or services activities (Ledgerwood, 1999).

The supply of Microfinance services to clients is the approach taken by an MFI which will depend on the degree to which the MFIs will provide each of these services and whether it follows a “minimalist” approach or “integrated” approach. The minimalist approach offers only financial intermediation but they can sometimes offer partial social intermediation services. This approach is based on the fact that there is a single “missing piece” for the growth of enterprises and it is assumed to be the lack of affordable, accessible, short-term credit which the MFIs can offer. The integrated approach takes a more holistic view of the client. This approach creates avenue for a combination or range of financial and social intermediation, enterprise development and social services. MFIs take advantage of its nearness to the clients and based on its objectives, it provides those services that are recognized as most needed or those that have a comparative advantage in providing. The demand and supply of these services will determine the approach that a MFI will choose and also the circumstances in which it is operating (Ledgerwood, 1999).

2.1.3 Significance of Micro and Small Enterprises

MSEs all over the world are known to play a major role in socio-economic development. Some of the significance of are:-

2.1.3.1 Economic Significance

From economic perspective, MSEs maintain fair distribution of income, create broad job opportunity, require low start-up capital, use simple technology and local raw materials, play role

in import substitution and export activities, serves as a milestone for industrial development, create broad base for industrial development and create rural and urban economic linkage.

2.1.3.2 Social Significance

In social side, MSEs develop active social participation, develop conducive working culture and environment, create active social relationship and help people to exercise their right and duties in social organizations.

2.1.3.3 Political Significance

MSEs are also encourages political and social stability, ensure good governance, play important role in poverty alleviation and economic growth and ensure sustainable development.

2.1.4 Major focus areas of the MSEs sector in Ethiopia

2.1.4.1 Manufacturing Sector

The manufacturing sector includes textile and garment, leather and leather products, food processing and beverage, metal and engineering works, furniture and ornaments service agro-processing.

2.1.4.2 Construction sector

The construction sector target on sub-contracting building materials, traditional mining works, and cobble stone infrastructure sub contract and prestigious goods.

2.1.4.3 Trade sector

Trade sectors include whole sale and retail sale of final products and raw materials supply.

2.1.4.4 Service sector

The major area on service sectors focus on small and medium rural transport service, cafe and restaurants store service, tourism service canning/packing service management service, municipality service, project engineering service, product design & development service, maintenance service, beauty salon, electronics software development, decoration and internet café.

2.1.4.5 Agriculture sector (urban agriculture)

The urban agriculture includes modern livestock breeding bee production, poultry, modern forest development, vegetables and fruits, modern irrigation and animal food processing.

2.1.5 Supports provided to SMEs in Ethiopian

2.1.5.1 Human resource development /HRD/

The first support SMEs have in Ethiopia are developing attitudinal change and providing entrepreneurial and technical skill development trainings.

2.1.5.2 Technology development

Technological support includes selecting, developing and expanding appropriate technologies, and producing project profiles, providing appropriate machines which are not affordable to buy on fair fee or rent basis are among the major technological side supports.

2.1.5.3 Industry extension service

The extension services consists of providing organized information and facilitate trainings on entrepreneurship and business management, developing appropriate technologies and transferring best experience and Marketing and productivity quality improvement.

2.1.5.4 Market development and marketing support system

Marketing side supports provided for MSEs are such as sub-contracting, out-sourcing, franchising and out-grower constructing and organizing market centers, organizing exhibition and bazaars and disseminating enterprises' information through website and directory.

2.1.5.5 Finance and credit service support system

The financial support refers to facilitate trainings for actors on finance development and saving. Facilitates and formulates system that helps actors to carry out credit service based on their growth level.

2.1.5.6 Production center and market area development

The center facilitates common production materials, provide training on marketing and other relative fields, and organize consultation services that enable enterprises to build their capacity for transition and growth.

2.1.5.7 One Stop Shopping Service

The service like identification and registration of unemployed, registering and organizing operators according to commercial law of the country, certify the MSEs registering and providing trade license, providing tax identification numbers and facilitate book keeping and auditing service organizing MSEs basic data (profile) are among one stop shopping services.

2.1.5.8 Overall, governmental support provisions and services for MSEs include:

- i. Facilitate, utilize and administrate cluster centers.
- ii. Facilitate credit and saving services.
- iii. Consolidating pay back of credit and saving.
- iv. Collecting, organizing and disseminating data to users.
- v. Facilitate market linkage between the enterprises and public mega projects.
- vi. Coordinating bazaars and exhibition to promote MSEs.
- vii. Facilitating events for enterprises to share experience and
- viii. Create market linkage among each other and support enterprises in utilizing common property, purchases and searching market linkage.

2.1.6 MFIs Financial Service in Ethiopia

As part of implementing Growth and Transformational Plan (GTP), the government developed and implemented the five year Micro and Small Enterprises Development Strategy (MSEDS). As per the targets set in the GTP, MFIs are expected to provide ETB 11 billion to 2.2 million and to mobilize ETB 8.8 billion saving from MSE operators. To this end, MFIs are expected to develop financial products that match the financial needs of MSEs; assist MSEs to develop saving culture; provide loan to MSEs. To meet the financial needs of MSEs, implementing actors of the Micro and Small Enterprises development has been working in collaboration (MSED Sector Statistical Bulletin_N0.2_2010/11-2013/14 25). The MFIs financial services include:

2.6.1.1 Saving Mobilization

The government of Ethiopia has been trying to make MFIs accessible to the community by establishing them in most of the regions and city administrations. MFIs were trying to introduce the different saving modalities and trying to mobilize saving from MSEs operating & the

community in coordination with other MSED implementing actors. As per the report of MFIs, in the four years of GTP implementation period, a total of ETB 11 billion has been collected by MSEs from the community.

2.6.1.2 Credit Service

The main input to start-up and expand MSEs is credit. MFIs were providing credit to MSEs on actors saving and families guarantee basis. Due to capacity limitation, the credit supply have been focused on enterprises that produce products for export market, engaged in production of import substitute products, that are owned by university & college graduates and that have their own saving and good background in credit. Accordingly, a total of ETB 9.87 billion has been provided by MFIs to new and existing MSEs throughout the country during the first four years of the GTP implementation period.

Table 2-2 Loan Amount Provide by MFIs to MSEs in Ethiopia

No	Credit Service by sector	Amount of loan provided based on sector growth Stage		
		Start-up Stage	Growth Stage	Maturity stage
1	Micro loan			
	Industry	≤ ETB 50,000	≤ ETB 85,000	≤ ETB 100,000
	Service	≤ ETB 30,000	≤ ETB 40,000	≤ ETB 50,000
2	Small Loan			
	Industry	≤ ETB 150,000	≤ ETB 500,000	Up to Ethiopian national Bank Limit
	Service	≤ ETB 50,000	≤ ETB 50	≤ ETB 500,000
3	Agriculture related	≤ ETB 50,000	≤ ETB 100,000	≤ ETB 350,000

Source: From Addis Ababa Micro Finance Share company (AAMF S.C)

2.1.7 Financial intermediation

MFIs have as main objective to provide financial intermediation which involves the transfer of capital or liquidity from those who have excess to those who are in need or both at the same time. Savings and credit are made more efficient when intermediaries begin to transfer funds from firms and individuals that have accumulated funds and are willing to shed liquidity, to those that desire financial intermediation to acquire liquidity (Von Pischke, 1991, p27). It is visually known that almost all MFIs provide credit services. Other MFIs also provide some financial products such as; savings, insurance, and payment services. Each MFI has its objectives

and the choice of the financial service to provide depends on the demands of its target market and its institutional structure.

Two important considerations when providing financial services are; to respond effectively to the demand and preference of clients and to design products that are simple and easy to understand by the clients and easily managed by the MFI. The common products that MFIs provide include; **credit, savings, insurance, credit cards, and payment services**. These points are briefly described and also show how financial services are provided to SMEs.

Credit: These are borrowed funds with specified terms for repayment. People borrow when there are insufficient accumulated savings to finance a business. They also take into consideration if the return on borrowed funds exceeds the interest rate charged on the loan and if it is advantageous to borrow rather than to postpone the business operations until when it is possible to accumulate sufficient savings, assuming the capacity to service the debt is certain (Waterfield and Duval, 1996). Loans are usually acquired for productivity reasons; that is to generate revenue within a business.

Savings: Saving mobilization in Microfinance is a very controversial issue. They have awareness among policy makers and practitioners on the vast number of informal savings schemes. MFIs such as credit union organizations around the world have been very successful in rallying clients to save (Paxton, 1996a, p8).

Insurance: This one is the services and products that are experimented by MFIs. Many group lending programs offer insurance or guarantee scheme as collateral and the Grameen bank is a typical example of MFI in this scheme. One percent of the loan is required to be presented by the group member as their contribution for the insurance for the loan (Ledgerwood, 1999).

Credit cards: These are cards that allow borrowers to have access to a line of credit if and when they need it. This card is also use to make purchase assuming the supplier of the goods will accept the credit card or when there is a need for cash. The card is also called a debit card when the client is accessing his or her own savings (Ledgerwood, 1999).

Payment Services: Payment Services include cheque cashing and cheque writing opportunities for clients who retain deposits (Caskey, 1994). In addition to cheque cashing and cheque writing

privileges, payment services comprise the transfer and remittance of funds from one area to another (Ledgerwood, 1999).

2.1.8 Challenges for the Expansion of MSEs in Ethiopia and other Countries

According to commission on Legal Empowerment of the Poor (2006), most MSEs in Ethiopia face critical constraints both at the operation and start up level. Some of these constraints include **lack of access to finance, access to premise, infrastructure, training in entrepreneurial and management skills, information on business opportunities, and social and cultural factors particularly related to deficient entrepreneurial culture and excessive corruption.**

Lack of access to finance and credit: lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector. Most Micro and Small Enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with Financial Institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide loan and credits for small enterprises, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new enterprises and the growth and survival of existing ones will be impeded (Commission on Legal Empowerment of the Poor, 2006).

Access to finance is a major bottleneck for the rapid growth and development of MSEs mainly due to targeted mechanism put in place to address the financial needs of small scale enterprises. Most Micro and Small Enterprises do not have access to Micro Finance Institutions and most banks are reluctant to avail credit facility to small enterprises unless they have acceptable collateral. The standard of loan appraisal, the long delay the banks take to sanction loans, unfavorable disposition towards small loans and the limited collateral requirement, which is over 100 percent of the loan amount, are the major obstacles that small scale enterprises are facing (Commission on Legal Empowerment of the Poor, 2006).

Moreover, the interest rate by most Micro Finance Institutes, which is higher than the lending rate of formal banks, inhibits effectiveness in addressing the needs of micro enterprises (Commission on Legal Empowerment of the Poor, 2006). According to Wolday and Gebrehiwot (2006), more than 93 percent of MSEs replied that they did not apply for bank loans for the

reasons they considered themselves as discouraged potential borrowers, need credit but are discouraged from applying by the perceived or real high collateral requirement, high cost of borrowing, difficulty of processes, ineligibility, or concern about their repayment ability and uninformed (i.e. not aware of the facility, or where and how to apply, etc.). The findings of Mulu (2007) also indicate that Banks and MFIs do not seem to support MSEs expansion. Due to this 85 percent of the respondents have never received credit from these formal sources.

The availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks appear more appealing for MSEs. Hence, firms with better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster. Lack of finance has been considered in many studies as a key success factor for MSEs such as Rolfe et al (2010), Mboniyane & Ladzani (2011), Olawale & Garwe (2010) Okpara (2011) and Etumeahu, (2009)

Lack of clear and pragmatic national policy and institutional qualities: Despite the strategies and other rules and regulations that are in vigor in theory, most interventionist policies regarding MSEs are inappropriate and impractical. For instance, most government policies have a tendency to over regulate and limit the growth of private sector enterprises and they are over bureaucratized and unfriendly to support small businesses (Commission on Legal Empowerment of the Poor, 2006). A study conducted by Economic Commission of Africa (ECA) (2001) in countries such as Ethiopia, Cameroon, Gabon, Nigeria, Senegal and Uganda have shown that the regulatory and policy environment in which MSEs operate proves to be major handicap for their expansion and growth. The same study reveals that the complexity of customs system and many forms and declarations required have had a negative impact on the general business environment diverting entrepreneurs' efforts from more productive tasks. The findings of Eshetu and Mammo (2009) also indicate that legal and regulatory problems are major obstacles to efficient operation of Micro and Small Enterprises.

According to this study, bureaucratic registration requirements for licensing, high policy control, overregulation, corruption, high tariffs and unfair tax were found as major policy-related constraints that adversely affect the sector. Free market policy has also exposed them to international competition, and this had a significant negative impact on their performance.

Mbonyane & Ladzani (2011) further found that the government is not actively providing support mechanisms for business registration to ensure the success of micro-enterprises. There is also poor communication between the government and small business owners. Lack of proper regulation in terms of borrowing funds from the banks by small business owners is also additionally challenged.

Lack of focus in formulation and implementation of policies and tax laws: -this affects the performance of MSEs. For the proper promotion of the development of small business enterprises, there is a need for a well-articulated plans or programs by the government (Etumeahu, 2009).

Location and working space problems: - For MSEs, lack of premise is unquestionably a serious problem. Most informal operators do not get access to suitable locations where they can get easy access to markets. The issue of acquisition and transaction cost has become very prohibitive to the emergence of new enterprises and to the growth and survival of existing ones. The issue of land provision and the land lease system has greatly constrained the chances of MSMEs who aspire to startup businesses (Eshetu & Mammo, 2009).

According to Rolfe et al (2010), obtaining location is critical factor for sales and income of small scale enterprises and hence entrepreneurs benefit from businesses in formal residential areas. Logically, this finding stems from the higher per-capita income and demand density in developed urban areas. Demand density also makes taxi ranks and train stations more lucrative. These spaces are limited and thus a source of competitive advantage that cannot be copied or re-created. Mbonyane & Ladzani (2011) found that small businesses select a site without first thoroughly analyzing the suitability of location.

The same researcher found that most of the micro-enterprises are failing owing to a lack of space provided by the government and the various shortcomings of the small business owners regarding their businesses. Olawale & Garwe (2010) too found that poor location has a negative impact of the performance of Micro and Small Enterprises.

Lack of managerial and other skilled labor and lack of training: There is lack of knowledge of entrepreneurial and managerial capacity, and marketing experience. Lack of skill leads to problems in production due to the unfamiliarity of workers with rapid changing technology, lack

of coordination of production process, and inability to troubleshoot failures on machinery and/or equipment's is a critical problem that MSEs are facing since they cannot afford to employ specialists in the fields of planning, finance and administration, quality control, and those with technical knowledge (Commission on Legal Empowerment of the Poor, 2006).

Moreover, MSEs lack resources required for research and development and there is inadequate technical and entrepreneurial skills (Commission on Legal Empowerment of the Poor, 2006). There is lack of formal education and training for MSEs operators. The most common form of acquiring skills in the MSEs sector is through apprenticeships. Though, the formal education system prepares students for paid employment, there are very few vocational institutions that cater for developing skills. This inevitably leads to low level of innovation in almost all sectors of the economy and severe shortage of training opportunities for potential entrepreneurs (Gebrehiwot & Wolday, 2004).

Mbonyane & Ladzani (2011) found that more than 50 percent of micro-enterprises lack training in proper business management. As a result, there is lack of technology available to Micro and Small Businesses Enterprises. The results of this research shows that the government does not have enough support mechanisms available to ensure that small business owners and their employees receive the training that would enable them to run the business successfully. Most owners do not have management experience and adequate training and skills to operate a business (Okpara, 2011). Olawale and Garwe (2010) also found lack of business skills and shortage of skill labor which results from absence of proper training are affecting MSEs negatively.

Furthermore, there has been research that indicates enterprises who had received training in their areas of business reported that their businesses were doing well. But enterprises who did not receive training in their areas of business perform less. This indicates that relevant training can produce positive results in the running of businesses (Bowen et al 2009). Management is one of the fundamental bases of business development. Most of the small business owners do not acquire enough education before establishing business of their own and they are still blind in seeing the wisdom of formal learning or acquiring managerial skills in doing business though claim to be successful with their acquired experience. This has resulted to the low level of

attention to the welfares of their workers. It is therefore important for small business owners to absorb the skills of proper management (Etumeahu, 2009).

Lack of sufficient marketing and high competition level: - The marketing problem is the main constraint for the growth of enterprises (Rahel & Paul, 2010). MSEs in Ethiopia faced various marketing problems. There is lack of product diversity and as a result similar products are overcrowding the market. In addition to this certain MSEs lack the skill to modify their products and they have lack of sufficient range of product designs (Assegedech, 2004).

Ethiopian MSEs have different pricing problems such as lack of costing knowledge, did not include overhead costs, salary or wage of family members involved in the production process are not considered, and do not know the exact earning from sales (Assegedech, 2004).

Many MSEs plan to promote their products, however, their budget is mostly limited. In addition to this, such MSEs have lack of awareness to compete in the market. MSEs are less advantageous to compete in the market than large companies since they have smaller economies of scale (Assegedech, 2004). In terms of problems related to product diversity, the findings of Assegedech (2004), Rahel and Paul (2010) and Eshetu and Mammo (2009) are similar. According to Eshetu and Mammo (2009), majority of MSEs produce or give services of similar products in a limited domestic market. Most of them do not seek new possibilities and opportunities outside the local markets.

(Rahel and Paul 2010) also reported the presence of competition is the most significant factor. This is because of the reason that enterprises in the same sector sell identical products without any additional distinctiveness and innovative activities. This led them to compete for the same demand. Due to this, the local markets crowded with similar products or services and the level of competition among local producers of goods and services is intense. As result, the returns are fairly low.

In addition, presence of illegal traders around their market place leads to unbalanced competition and low demand for merchants who are legal. This results in lack of demands which is another problem for the enterprises. The establishment of markets in residential areas also limits the demands. The change in demand and being unable to modify their products with the demand is the other marketing problem. Because of such collective factors (stiff competition from local and

foreign products), most of the MSEs are claimed that they are at a disadvantage. There are no sufficient institutional facilities that nurture the promotion, growth and development of MSEs.

Marketing their products effectively as well as accessing and acquiring information on business opportunities is the major bottlenecks that Small and Micro Entrepreneurs face all over the country. As a result, the design and quality of products of MSEs are below standard. In addition, lack of marketing skills and weak infrastructural facilities renders small businesses to be uncompetitive (Commission on Legal Empowerment of the Poor, 2006).

Mbonyane &Ladzani, 2011, Olawale & Garwe, 2010 Bowen et al, 2009 also found that lack of appropriate marketing practices are among the major constraints that hinder the smooth function of MSEs. Bowen et al (2009) found that there is fierce competition in the small business sector which leads to price competition and small margin of profit. Olawale & Garwe (2010) also show that high competition is among the major factors that hinder the growth of MSEs. This is due to the reason that most of MSEs tend to congregate in dense markets and overcrowded cities. Small business owners do no longer find it easy in competing with their own goods which is mostly perceived by consumers as low quality ones when compared with those of the multinational companies.

Due to the aggressive competition small business enterprises are facing from companies that operate with large capital outlay, companies with better and modern equipment's for production, companies with better manpower and companies with marketing capabilities have resulted to low level of business and at times outright closure by small business owners (Etumeahu, 2009).

Lack of formal or informal linkages/business cooperation amongst enterprises:-according to Gebrehiwot and Wolday, 2004 a good portion (about 50 percent) of MSEs do not consider them as useful at all. The other factor that hinders growth and expansion of MSEs is the effectiveness with which they interact with large or similar firms. In other words, formal and informal linkages or business cooperation through networking are not common. Large public enterprises and the few foreign affiliates do not outsource some of their operations to local MSEs. The legal and institutional mechanisms to enforce contractual obligations and government policy to design appropriate incentive mechanism to encourage the expansion of business linkages/sub-contracting managements is at its infant stage.

A study conducted by Eshetu & Mammo (2009) also indicates that there is poor linkage between enterprises. Despite the existing market problems, only 14.26 percent of respondents considered linkage as being important for development. According to that research finding one factor that could explain this low level of partnership and other forms of business undertakings could be the capacity of MSEs in Ethiopia.

Lack of good infrastructure facilitates: - Good infrastructure facilitates have a positive effect in reducing the cost of operation. In Ethiopia MSEs owners reflect lack of efficient, reliable, safe and affordable infrastructure affect the performance of their business. The physical infrastructure facilities are not adequately developed and expanded in Ethiopia to meet the growing demand of MSEs activities. As a result, most MSEs have problems related to business premises such as an increase in house rent, lack of basic services such as telephone lines, electricity supply, sewerage and water services (Eshetu & Mammon, 2009). According to Commission on Legal Empowerment of the Poor (2006), though not directly linked, inadequacy of infrastructure (road, banking service, electricity, telecommunication and other services in facilitating smooth operation of private investment are serious impediments. Rahel & Paul (2010) also identify that even if access to infrastructure is not reported as a significant problem, lack of access to water and lack of awareness about the advantages of telephones and media leads to a negative or insignificant effect on the growth of enterprises. According to the findings of the same research most MSEs have an easy access to transportation. But, the number of enterprises that has access to the rest of the infrastructures such as telephone, television, radio and water are limited.

Previous business experience and service year: - Previous business experience of the owner affects growth significantly and positively (Mulu, 2007). The researcher further found that smaller and younger firms grow faster than large firms. The previous ownership of business has a positive and significant contribution, since they acquire the knowledge in running business and they expand their social networks (Rahel & Paul, 2010). Eshetu & Mammo (2009), Rolfe et al, (2010) and Olawale & Garwe (2010) also found that, lack of experience is among the factors that adversely affected the performance of MSEs. Bowen et al (2009) further found that majority of businesses that had been in operation for a shorter period reported that their business performances were on the decline. It also seems that most micro and small businesses hit their

peak at the fifth year. After the fifth year, most entrepreneurs seem to suffer from what may be described as entrepreneurial burnout and the excitement declines.

License and record keeping: Micro enterprises with business license grow faster than those who have not license. But, the results for small enterprises were not significant. This might be due to the fact that unlike the micro firms the variation of possession of business license might not be important predicting growth differential among the small firms' category since most of them (above 90 percent) have business license (Mulu, 2007).

According Commission on Legal Empowerment of the Poor (2006), MSEs complain about the bureaucratic system governing the business environment and it requires a lot of money to get the business license. According to Mbonyané & Ladzani (2011) most MSEs acknowledged that their businesses had not been licensed, although owners were reluctant to disclose this fact. The results also indicate that more than half of the micro-enterprises and about 4 percent of the small businesses did not keep records.

Raw material problems: - Raw material is a basic component for the existence of the MSEs since they create a backward linkage and demand for other sector products. The high cost is the key raw material problem for the growth of enterprises. Lack of standardization, raw material storages, and poor quality of raw materials are also major problems (Rahel & Paul, 2010). Strong forward and backward linkages between sectors of the economy in supply of raw materials facilitate market for the output goods and services (Eshetu & Mammo 2009).

The factors reviewed in this study are summarized in table 4 below. From the factors analyzed in the literature of this study, year of establishment, favorability of the business environment, level of competition, access to raw material, access to training and management practice, quality of supporting institutions, financial, infrastructural and marketing factors, and rules and regulations related factors were tested to see their impact on the performance of MSEs.

Table 2-3 Summary of the constraint faced by MSEs

Descriptions of MSEs Constraints	Others Country	Ethiopia
<ul style="list-style-type: none"> ➤ Lack of access to finance and credit ➤ Lack of clear and pragmatic national policy ➤ Lack of institutional qualities ➤ Location and working space Problems ➤ Lack managerial skill and training ➤ Lack of sufficient marketing and high competition level ➤ Lack of formal or informal linkages ➤ Lack of good infrastructure facilitates ➤ Previous business experience and service year ➤ Record keeping ➤ Raw material problems 	<ul style="list-style-type: none"> ➤ Lack of access to finance and credit ➤ Lack of clear and pragmatic national policy ➤ Location and working space problems ➤ Lack of managerial skill and training ➤ Lack of sufficient marketing and high competition level ➤ Lack of good infrastructure facilities ➤ Previous business experience and service year ➤ Record keeping 	<ul style="list-style-type: none"> ➤ Lack of access to finance and credit ➤ Lack of clear and pragmatic national policy ➤ Lack of institutional qualities ➤ Location and working space problems ➤ Lack managerial skill and training ➤ Lack of sufficient marketing and high competition level ➤ Lack of formal or informal linkages ➤ Lack of good infrastructure facilitates ➤ Previous business experience and service year ➤ Raw material problem

Source: Compiled based on the reviewed literature

2.2 Theoretical links between Microfinance and MSE development

Accessing credit is considered to be an important factor in increasing the development of MSEs. It is thought that credit augment income levels, increases employment and thereby alleviate poverty. It is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments such as the improvement of farm technology inputs thereby leading to an increase in agricultural production (Hiedhues, 1995).

The main objective of microcredit according to Navajas et al, (2000) is to improve the welfare of the poor as a result of better access to small loans that are not offered by the formal financial institutions.

Diagne and Zeller (2001) argue that insufficient access to credit by the poor just below or just above the poverty line may have negative consequences for SMEs and overall welfare. Access to credit further increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime. With these arguments, Microfinance is assumed to improve the welfare of the poor.

It is argued that MFIs that are financially sustainable with high outreach have a greater livelihood and also have a positive impact on SMEs development because they guarantee sustainable access to credit by the poor (Rhyne and Otero, 1992).

Buckley (1997) argue that, the indicators of success of microcredit programs namely high repayment rate, outreach and financial sustainability does not take into consideration what impact it has on micro enterprise operations and only focusing on “microfinance evangelism”. Carrying out research in three countries; Kenya, Malawi and Ghana, Buckle (1997) came to the conclusion that there was little evidence to suggest that any significant and sustained impact of microfinance services on clients in terms of SME development, increased income flows or level of employment. The focus in this augment is that improvement to access to microfinance and market for the poor people was not sufficient unless the change or improvement is accompanied by changes in technology and or technique.

Zeller and Sharma (1998) argue that Microfinance can aid in the improvement or establishment of family enterprise, potentially making the difference between alleviating poverty and economically secure life. On the other hand, Burger (1989) indicates that microfinance tends to stabilize rather than increase income and tends to preserve rather than to create jobs.

Facts by Coleman (1999) suggest that the village bank credit did not have any significant and physical asset accumulation. The women ended up in a vicious cycle of debt as they use the money from the village banks for consumption purposes and were forced to borrow from money lenders at high interest rate to repay the village bank loans so as to qualify for more loans. The main observation from this study was that credit was not an effective tool to help the poor out of poverty or enhance their economic condition. It also concluded that the poor are too poor because of some other hindering factors such as lack of access to markets, price stocks, unequal

land distribution but lack of access to credit. This view was also shared by Adams and Von Pischke (1992).

A study of thirteen MFIs in seven countries carried out by (Mosley and Hulme (1998)) concludes that household income tends to increase at a decreasing rate as the income and asset position of the debtors is improve. Diagne and Zeller (2001) in their study in Malawi suggest that microfinance do not have any significant effect in household income meaning no effect on SME development. Investing in SME activities will have no effect in raising household income because the infrastructure and market is not developed.

Some studies have also argued that using gender empowerment as an impact indicator; microcredit has a negative impact (Goetz and Gupta, 1994; Ackerly, 1995; Montgomery et al, 1996). Using a “managerial control” index as an indicator of women empowerment, it came to conclusion that the majority of women did not have control over loans taken by them when married. Meanwhile, it was the women who were the main target of the credit program. The management of the loans was made by the men hence not making the development objective of lending to the women to be met (Goetz and Gupta, 1994). Evidence from an accounting knowledge as an indicator of women empowerment concluded that women are marginalized when it comes to access to credit (Ackerly, 1995).

2.3 Review of Empirical Studies

2.3.1 Empirical Studies outside Addis Ababa

Kushoka (2013) adapted a research to examine the contribution of MFIs on enterprise development in Tanzania. The article is aimed at moving poor small-scale entrepreneurs and/or would-be entrepreneurs from low-growth enterprises to high-growth Enterprises using MFIs. The study employed both descriptive and explanatory approaches to seek answers to the research question. The study reveals that there is an increase in the number of employees and amount of working capital of entrepreneurs after using the services of MFIs. The researcher concludes that MFIs are key players in entrepreneurship development; it is recommended that MFIs should package their services together (financial and non-financial) in order to positively boost growth of MSEs.

Sakthi and Praveen Kumar S (2011) conducted a research study about the role of MFIs in the development of entrepreneurs in Africa. The study is focus for entrepreneurs who want to run a business and yet can't afford a piece of equipment and merchandise. The research whereby providing equipment or merchandise to enable the project to run a self-funding profitable project. The research find out that only 6percent of Africans borrow money to start a business where as 13percent borrow to buy food and 50 percent of the population live with less than 1US\$ or less per day. Most of the Africans lack the understanding of what it would take to successful entrepreneurs. They lack necessary technical management skills and confidence. They lack personal ambition and willingness for fear of sharing ownership and failed to form partnership.

Ekpe (2010) have studied the effect of microfinance factors on women entrepreneurs' performance in Nigeria. Women play a crucial role in the economic development of their families and communities but certain obstacles such as poverty, unemployment, low household income and societal discriminations mostly in developing countries have hindered their effective performance of that role. It is discovered that women entrepreneurship could be an effective strategy for poverty reduction in a country; since women are the worst hit in such situation. However, it is discovered that women entrepreneurs, especially in developing countries, do not have easy access to microfinance factors for their entrepreneurial activity and as such have low business performance than their men counterparts, whereas the rate of their participation in the informal sector of the economy is higher than males, and microfinance factors could have positive effect on enterprise performance.

Mamun (2009) did his studies of microfinance in Bangladesh for graduation of Master's degree program from University of Glamorgan, UK. The aim of the study was to assess the factors that led to the success of Microfinance, in particular, Grameen Bank (GB), in Bangladesh. The study was investigated the innovation, design and implementation of GB. Besides, this research also examined the adaptation and learning practice of GB and the motivation and contribution of GB and some environmental factors that supported GB especially in Bangladesh. The study findings were in relation to the purpose of this research. This study revealed that some innovation, design and implementation of GB such as group based lending, the collateral free lending system, peer group monitoring system, the designed training staff of GB were the major factors that contributed to the success of Microfinance; the adaptation and learning practice such as

flexibility of obtaining a loan, a housing loan with lower interest rate, mandatory and voluntary savings were the most significant issue; the motivation of GB such as incentive schemes to staff, encouragement for financial independent by the borrowers of GB, borrowers motivated to mobilize and allocate resources were also the most leading issue, the contribution of GB such as Microfinance program contributed to female's control over resources and decision making at family level enormously as well as the environmental issues such as ongoing population growth that favored GB very significantly.

Finally, the researcher recommended that GB should necessitate the expansion of the organizational capability to recognize the appropriate innovation, creating the cultural innovation, sustainable development program on the basis of demands and problems of the borrowers, the initiative for an appropriate macro-economic policy and financial designs in order to alleviate poverty from the rural arena.

Olu (2003) investigates the impact of microfinance on entrepreneurial development of small scale enterprises that are craving for growth and development in a stiffened economy of Nigeria. The study reveals that (i) there is a significant difference in the number of entrepreneurs who used microfinance institutions and those who do not use them; (ii) there is a significant effect of microfinance institutions activities in predicting entrepreneurial productivity; and (iii) that there is no significant effect of microfinance institutions activities in predicting entrepreneurial development.

The researcher concludes that microfinance institutions world over and especially in Nigeria are identified to be one of the key players in the financial industry that have positively affected individuals, business organizations, other financial institutions, the government and the economy at large through the services they offer and the functions they perform in the economy.

2.4 Overall Assumption and review of the Conceptual Model

The modern theories on Microfinance hypothesize that Microfinance structures are essential for MSMEs performance development which is based on three basic assumptions: one is that underprivileged populations possess the capacity to implement income generating activities. Two is the idea that underprivileged people given access to capital and guided properly are in a position to implement and manage income generating business enterprises. Three is that once

the financial systems are established, the underprivileged people “are able to use it (the financial tools) for productive purposes and progressively incorporate themselves into the financial setting, repaying the loans, and accumulating savings”. This is because Microfinance provides the means to generate income that eventually leads to a sustainable development performance. The conceptual framework developed from literature review sheds the light for the methodology of this study. The conceptual framework developed has two parts; one part includes the MSEs which have received MFI services and the other part includes MSEs with no services from MFI which is referred to as control group. Aim of having two parts is to make comparison on MSEs receiving MFI services against those who do not, this will help on assessment of other factors than MFI services that can contribute to MSEs growth and development.

MFI services have impact not only on the SMEs growth but also on the owners and community at large, therefore the conceptual framework developed reflect the outcome of MSEs growth at household level this is due to the assumption that increase on growth of result into an increase of MSEs owner’s wealth and overall standard of living since the profit obtain from SMEs activities enable the SMEs owners to meet his/her living expenditure, hence create a possibility of trickledown effect. The conceptual framework reflects the effect of transaction cost on SMEs when accessing and servicing MFI services. High transaction cost limit MSEs effective utilization of the services received, hence limit MSEs and household growth.

Finally, the effect of Microfinance on Micro, Small and Medium Business has not received adequate research attention in Addis Ababa. This means that there is a major gap in the relevant literature on developing countries including Ethiopia, which has to be covered by the research. This research attempts to fill this gap by studying the situation in Addis Ababa and providing more empirical evidence on the effects and influence of Microfinance on the growth of MSMs.

Chapter Three

Methodology

3.1. Introduction

3.1.1 Data Types and Sources

Both quantitative and qualitative data are used. Primary data are collected through observation, structured questionnaires and semi-structured interviews using checklist of leading questions. Secondary data are obtained from Ethiopian Federal Micro and Small Enterprise Development Agency (EFSMEDA), Ethiopian Ministry of Trade and Industries (EMTI), Addis Ababa Micro and Small Enterprise Development Agency (AAMSDA), Addis Ababa MFIs S.C (AAMFISC) and other international sources such as UNDP and World Bank are used to gather more information for international comparisons.

3.1.2 Population, Sampling Frame and Sample Size

3.1.2.1 Population

There is a set of 53,044 MSEs populations or entities to which the sampling findings are generalized from Ethiopian Federal Small and Micro Enterprises Agency /EFSMEDA/ reports and additional selected households access to MFIs. In analyzing the influence of MFIs on the development performance of MSEs and at household level the focus will be given to households which access microfinance services. This population is given priority due to the needy of getting empirical evidence in Addis Ababa. However, for comparison purposes, control group will include households which do not access micro financing services.

3.1.2.2 Sampling Frame

In order to perform non probability sampling, a sampling frame was constructed basing in the study area. The list of MSMEs and households' in the study areas are generated Microfinance institutions selected from ten sub-cities in Addis Ababa. The lists of control group are selected randomly. The households included in the control group are those living in close proximity to the households which access and use Micro-financing services.

3.1.2.3 Sample Size

Data collection was done on 530 MSEs and 150 households by taking 1 percent of the total population of MSMEs and specifically the coverage will focus on households who have access of Micro-financing services and who do not use Micro-financing services.

3.1.3 Study Area, Sample Type and Sampling Procedure

3.1.3.1 Study Area

The spread of MFIs is throughout the city, the study was mainly carried out in 10 sub cities. The sub city are selected since they have large numbers of people with access to Microfinance services and who are using the services and second reason is that, a large number of Micro and Small Entrepreneurs engaged in different entrepreneurship activities located in the Sub Cities.

3.1.3.2 Sample Type

The study applied two different sample types. First, the study implemented purposive sampling which is a non-probability sample that conforms to certain criteria for selecting households. Purposive sampling will be very useful since it will help to reach targeted samples quickly and it will help to get easily the opinions of the targeted population. Specifically, the study used a second type of purposive sampling which is quota sampling.

Quota sampling was used since it improves the representativeness of the sample especially with other variables in the population which we have no control of them (Cooper, 1998). Second, the study used random sampling in choosing households which do not access and use Microfinance services and living in close proximity to households accessing and using Microfinance services. Selection criteria considered the following factors; time frame of the study, financial resources, coverage of households, and accuracy of information, reliability of information and precision of information.

3.1.3.3 Sampling Procedure

The sampling procedures involved the following steps:

- I. Obtaining 1 percent out-of total numbered 53,044 MSEs accessing and 150 households using Microfinance services from Microfinance Institutions in Addis Ababa.
- II. Selecting MSEs to be studied. This however takes into account accessing characteristics.

3.1.4 Data Collection Techniques

Data for this study was collected through:

- I. Document review: was involved during the collection of information and data from existing surveys, reports and documents.
- II. Structured Questionnaires: This was used to collect information from MSMEs and households. Questionnaires were developed to obtain survey data that allows an understanding of the impact and influence of Micro-financing services on the development performance of MSEs.
- III. Semi-Structured Questionnaires: used to guide dialogue with a range of stakeholders from Microfinance Institutions and officials who are involved in outreach missions of spreading Microfinance services especially in rural areas and informed peoples in the areas of study.
- IV. Focus Group Discussion (FGD): The Focus Group Discussion (FGD) was done to compliment the field data. The main purpose of FGD was to draw upon respondents' attitudes, feelings, beliefs, experiences and reactions. In particular FGD in this study was implemented for exploring the experiences. Snowball sampling technique is also used to select the participants. One Focus Group Discussions for each of the Sub-City was conducted with between 10 to 15 people in each group. All Focus Group Discussions was employed the funnel approach (which involves the use of broad questions followed gradually by more narrow questions) in collecting information.
- V. Key Informants Interviews (KIIs): Key informants were purposively selected because they are knowledgeable about various issues related to Micro-financing and entrepreneurship. KIIs was conducted with local government officials, religion leaders, officials from Microfinance Institutions and some of the heads of households who have access and using Microfinance services. Overall, five KIIs are conducted in sampled areas. Trained interviewers conducted interviews with the aid of question guides that elicit responses on various aspects of related to the impact of Microfinance on the growth of Micro and Small Entrepreneurs. Attempts were made to audiotape record all interviews. In cases where informants do not allow such recording, interviewers were made detailed notes of the responses of the informants.

VI. Observation: Observation during the fieldwork was used mainly to probe issues beyond those covered in the structured questionnaires and semi-structured questionnaires.

3.1.5 Data Analysis

Analysis in this study were done through comparison between MSEs using Microfinance services and MSEs not using the services. The comparisons were take place on outcome variables such as: MSEs and households income, consumption expenditure on food and nonfood, MSEs and household asset and household livelihood characteristics. All the comparisons were separated for location level analysis. Quantitative data generated and analyzed through questionnaires.

Data was presented in the form of frequencies; mean average, percentages cross tabulation, charts and regression analysis, so as to establish the relationship of variables. Regression analysis was done in order to test some of the assertions raised. Regression coefficient will be used to quantify the strength of association between the dependent variable and independent variables.

Chapter Four Data Presentation and Analysis

4.1 Respondents Demographics

As stated earlier in the section on methodology, a total of 680 informants constituting MSEs and households of different sub-cities of Addis Ababa city administration participated in the study. Out of a total distributed questionnaires to MSEs 86.4 percent are returned and 13.6 questionnaires were unreturned. From house-hold side, out 150 questionnaires distributed, a total of 131 or 87.3 percent were returned and while the remaining percentage is unreturned. See the participants' distribution of the informants in the next table.

Table 4-1 Number of participants and questionnaire status

Description	Questionnaires	Frequency	Percentage (%)
Data collected from SMEs	Returned	458	86.42
	Unreturned	72	13.58
	Total	530	100
Data collected from house holds	Returned	131	87.33
	Unreturned	19	12.67
	Total	150	100

Source: - Research findings

The demographic part captures the respondent's demographic information as regards to respondent's distribution by sub-city, business organization life time, the size of employment opportunity, the size of business, and they type of business.

4.1.1 Respondent's distribution by sub-city

The study sought to address the respondent's sub-city distribution to observe the degree of the population engaged in MSEs in the study area. Findings are presented in the following figure.

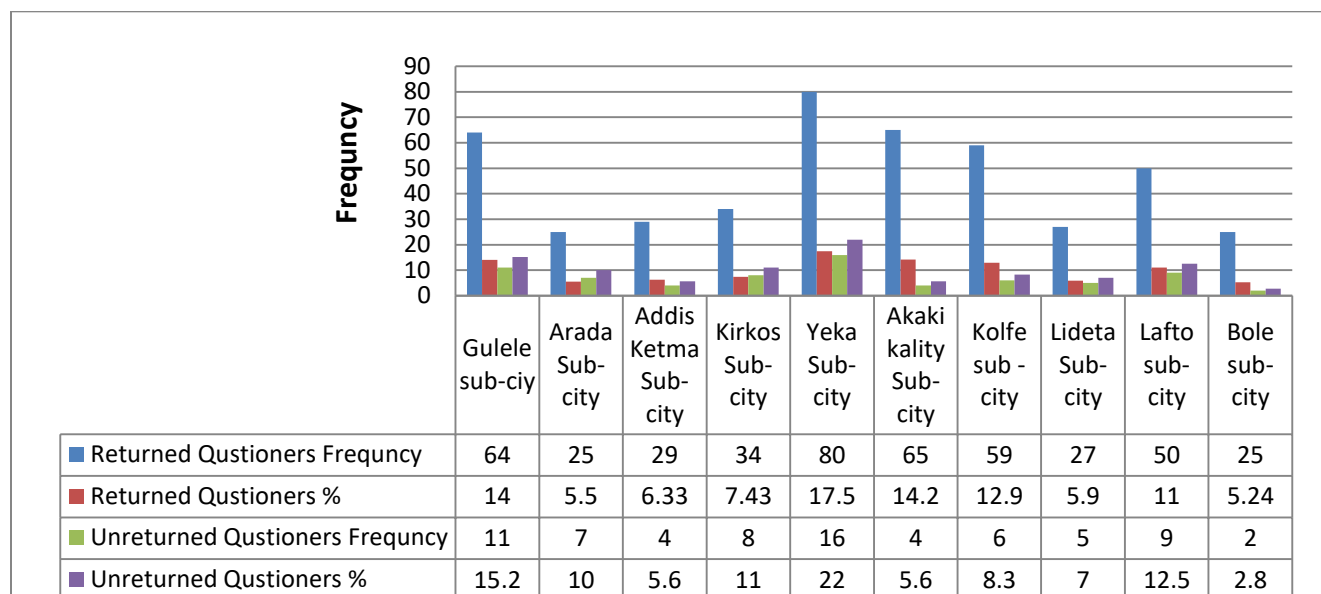


Figure 4.1 Respondents Distribution by Sub-city

Source: - Research findings

As shown in figure 4.1 above, the highest respondent population by sub-city is recorded in Yeka Sub-city and the lowest is in Arada, Lideta and Bole Sub-cities. Gulele, Akaki-Kality, Kolfe, Lafto, Kirkos and Addis Ketema sub-cities ranks from second up to seventh position.

4.1.2 Respondent’s business organization life time

The overall life time distribution of the business organization is dominated by life time between three to five years. In Summary figure 4.2, the life time structure of the business organizations in Addis Ababa, which is typical for current country’s economic performance, which is characterized by much higher proportion at age group between one and ten years old and low proportion at older ages, reflecting the prevailing recent phenomena of the business. As can be seen from figure below, the business organization life time aged less than ten years make-up more than 80 percent of the total and those at operating life time aged 10 years above constitute around 20 percent.

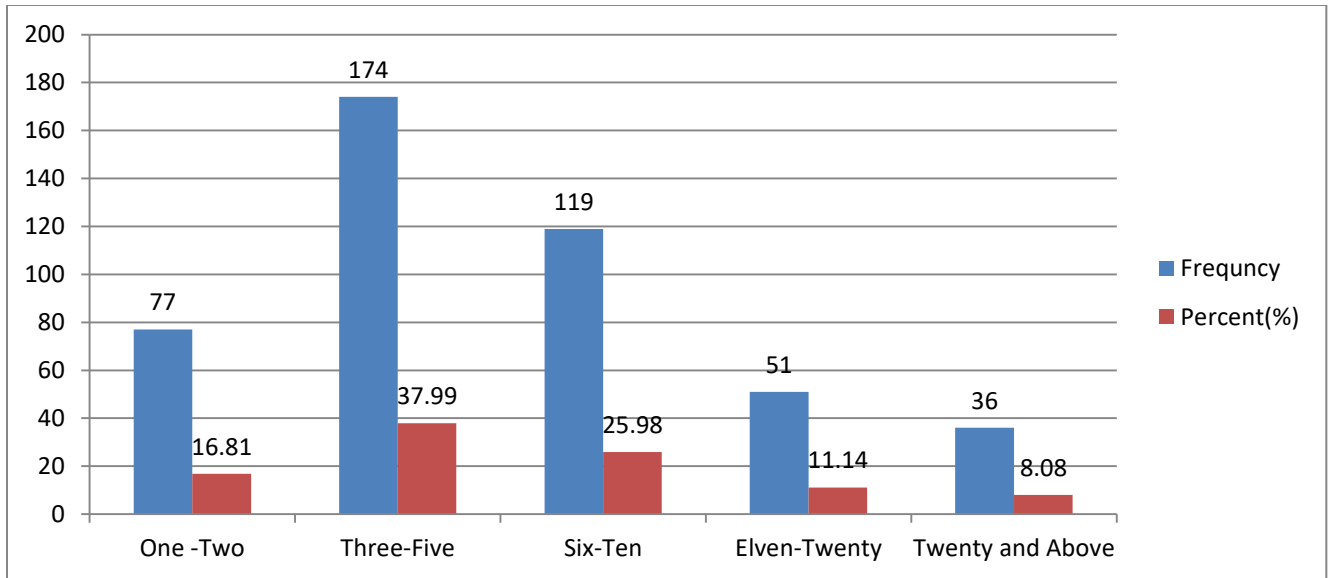


Figure 4.2 Respondent's business organization life time

Source: - Research findings

4.1.3 Respondent's employments opportunity size

The MSEs employment opportunity creation capacity is mostly concentrated with business firms of operational life time of six to twenty five year. Enterprises with less than five year of operating life contribution are only 19.8 percent and those with operating life between six up to twenty five year are 64 percent. With operating life of twenty five and above are only 16 percent. This is because of those with life time of less than five are at starting stage of their business and those enterprises with operating life of more than twenty five years are very minimum in number.

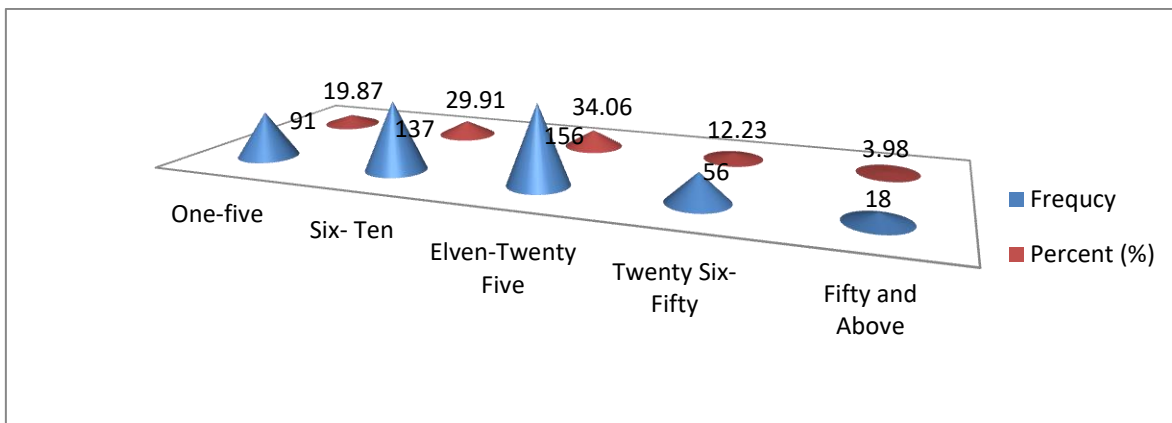


Figure 4.3 Employments Opportunity and Operating Years of MSMEs

Source: - Research findings

Thus, majority percentage of employment generation capacity is concentrated on hands of firms with operating life between six and twenty five years.

4.1.4 The respondent’s business size

The research sought to find the business size distribution among enterprise or business operators. This would be serving to know the share of the MSMEs business size in Addis Ababa economy.

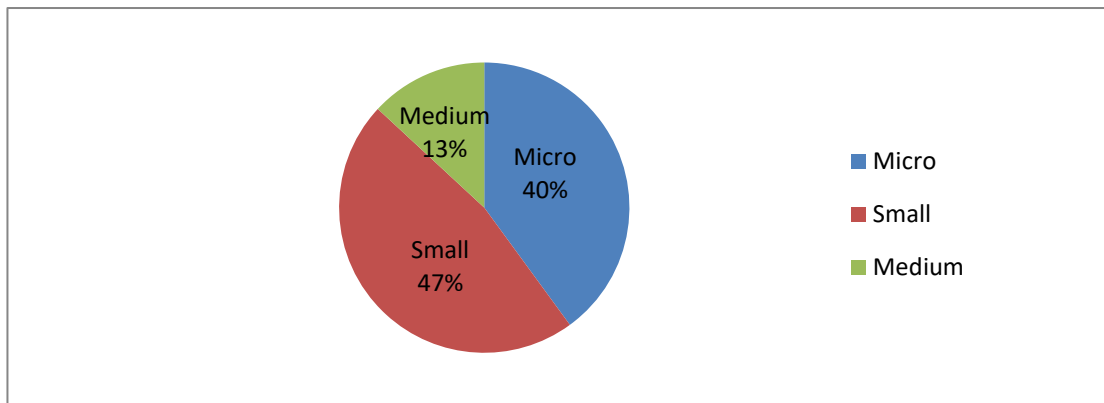


Figure 1.4 Distribution of MSMEs Business

Source: - Research findings

Table 4-2 Distribution of MSMEs Business

	Micro	Small	Medium
Frequency	183	215	60
Percent (%)	39.96	46.94	13.1

Source: - Research findings

In this regard, 39.9 percent of them are micro scale enterprise, 47 percent consists of small scale and 13 percent comprises medium sized enterprise. The low number of medium scale enterprise is seems clear due to low capital capacity, recent development of the enterprises and slower growth rate.

4.1.5 The respondent’s business type in the study

Construction, textile and wood & iron, are the first three main occupations of MSEs inthe city. The three occupations stated account for more than half the business engagements opportunities in the city. Other business opportunities such as cobble stone, food processing, municipal and urban agriculture have little contributions: less than 10 percent occupations are occupied by each business type.

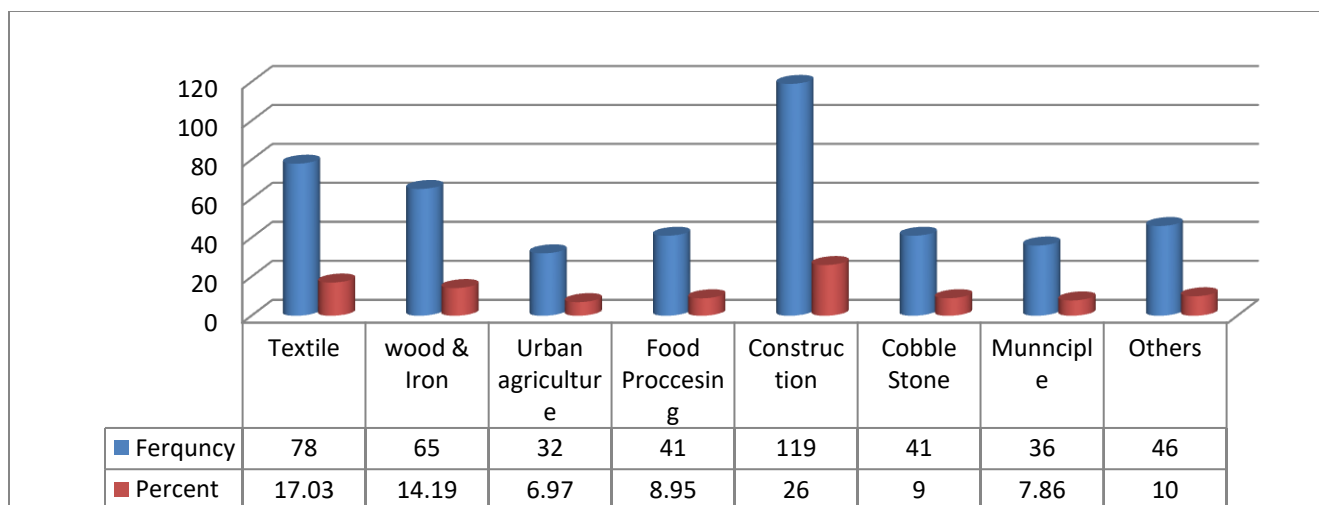


Figure 4.5 Types of Business Engagements

Source: - Research findings

In figure 4.5 above the construction sector is the leading sector and the textile is the second. Due to the expansion of the construction industry in overall country, government focus and easy access of raw materials contributed for construction sector boom in the city.

4.2 Descriptive statistics of the data

4.2.1 Descriptive statistics on the type of business the MSEs engaged

From the study conducted to know the type of business where MSEs business operators engaged is an important issue to understand and provide MFIs service and to know the degree or range of MSEs in different sector in the study area i.e. Addis Ababa.

Table 4-3 Types of Business Engagements

Description /business type	N	Mean	SD
Construction	458	8.43	.513
Textile	458	6.64	.487
Wood and Iron	458	5.45	.488
Others	458	4.32	.593
Cobble stone work	458	2.84	.465
Food Processing	458	2.83	.465
Municipal	458	2.24	.568
Urban agriculture	458	2.13	.473

Source: - Research findings

The study observed that from the above table the wider range of the business operator engaged in construction sector where (X= 8.43, SD= .531), Textile sector where(X= 6.64, SD= .487) and wood and Iron where (X= 5.45, SD= .488).The middle range of business operators engaged in others sector where (X= 4.32, SD= .593).While the lowest mean suggested that the lower SMEs operators engaged in this sectors from the above table in cobble stone work, food processing, municipal and urban agriculture sector SMEs business actors are small in number by having mean and SD (X= 2.84, SD= .465), (X= 2.83, SD= .465), (X= 2.24, SD= .568) and (X= 2.13, SD= .473)respectively.

4.2.2 Training status of MSEs representatives in a year

While looking at the training status of MSEs representatives, per a year more than two-third of the business representatives attends less than three training sessions. Those with training session attendance of more than four are only 18 percent. Thus, the percentage distribution shows that skill development trainings are less frequent to the representatives of the SMEs.

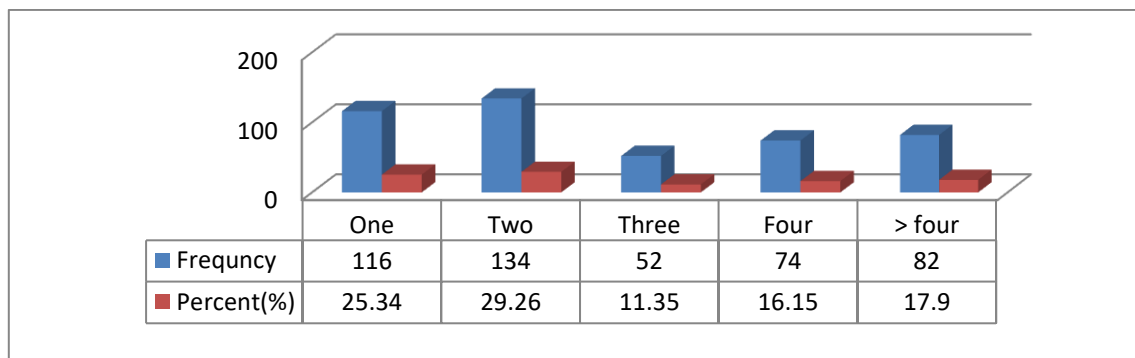


Figure 4.6 Number of Training Attendance of MSEs Representatives in a Year

Source: - Research findings

4.2.3 The MSEs and households challenges faced in starting and expanding their business

Among respondents' collectively 74 percent are replayed lack of land, lack of finance, government policy problem, lack of market access and lack of management skill are the major challenges faced while starting and expanding their business. Although there are differences in the contribution of each of the factors mentioned above, lack of finance and government policy problem are the dominate one.

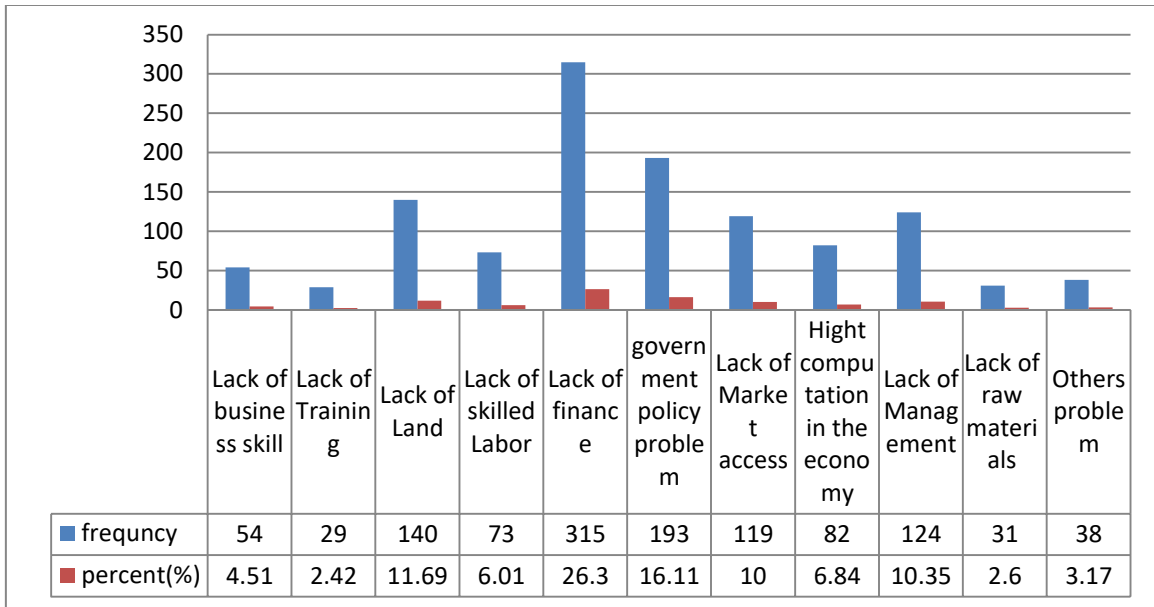


Figure 4.7 Challenges Faced in Starting and Expanding MSEs Business

Source: - Research findings

Lack of training, raw materials, and business skill are also been mentioned as bottlenecks to create own jobs or to engage in business activities jointly. Together they makes-up around 10 percent contributions from overall bottlenecks.

4.2.4 Type of service currently provided by MFIs for MSEs and households

This part of the study observed the respondents perspective among the type of service provided by MFIs and the impacts of MFIs on MSEs activity. The MFIs major services to MSEs are loan provision and saving services. Services such as mobile payment and transfer service, internet payment and transfer service, cheque payment service and guarantee service, which are related to modern financial institution systems, are not applicable. In light of this, persons who participated in the study have been asked question and their answers result are presented in the following table.

Table 4-4 Service provided by MFIs for MSEs

Type of MFIs service	Frequency	Percent (%)
Loan	322	55.50
Saving	238	44.5
Mobile payment and transfer service	0	0
Internet payment and transfer service	0	0
Check payment service	0	0
Guarantee service	0	0

Source: - Research findings

Table 4.4 above shows that, loan provision service account for 55.5 percent of the share out of total expected service and the remaining percentage is saving service.

4.2.5 Types of services demanded by MSEs and households from MFIs

The services demanded by MSEs are: Loan, saving, Mobile payment and transfer service, Internet payment and transfer service, Check payment service and Guarantee service. From total demands by MSEs from MFIs services, demand for loan, saving and check payment service separately 29.24 percent, 21.62 percent and 20.89 percent share respectively. They collectively makes-up 71 percentage share of total service demand from MFIs.

Table 4-5 Types of service demanded by MSEs and households from MFIs

Type of MFIs service	Frequency	Percent (%)
Loan	322	29.24
Saving	238	21.62
Mobile payment and transfer service	152	13.81
Internet payment and transfer service	71	6.45
Check payment service	230	20.89
Guarantee service	88	7.99

Source: - Research findings

In the table 4.5 we have seen that service such as: Mobile payment and transfer service, Internet payment and transfer service, Check payment service and Guarantee service are not supplied by MFIs to MSEs. But from demand side these services together represents 49 percentage of total demand of MSEs from MFIs. Particularly, demand for check payment service, which account for 21 percent and demand for mobile payment and transfer service, which account for 13.8 percent requires deep attention from supply side. In the focus group discussion and from KIIs justification the existing MFIs in Ethiopia and or in Addis Ababa are not competitive financial

institution because of their service limitation mainly they focus only credit and saving services thus they indicated that to be competitive financial institution the MFIs must observe all others financial institution services for SMEs operator

4.2.6 The decision of loan amount to MSEs from MFIs

The decision of loan amount to MSEs from MFIs is elaborated in figure 4.8 and table 4.6. They show that high dependence of decision on loan amount by MFIs representative person demand driven. Demand driven by MFIs and MSEs for loan amount is 49 percent and demand decision on loan amount by MFIs representative person is 51 percent.

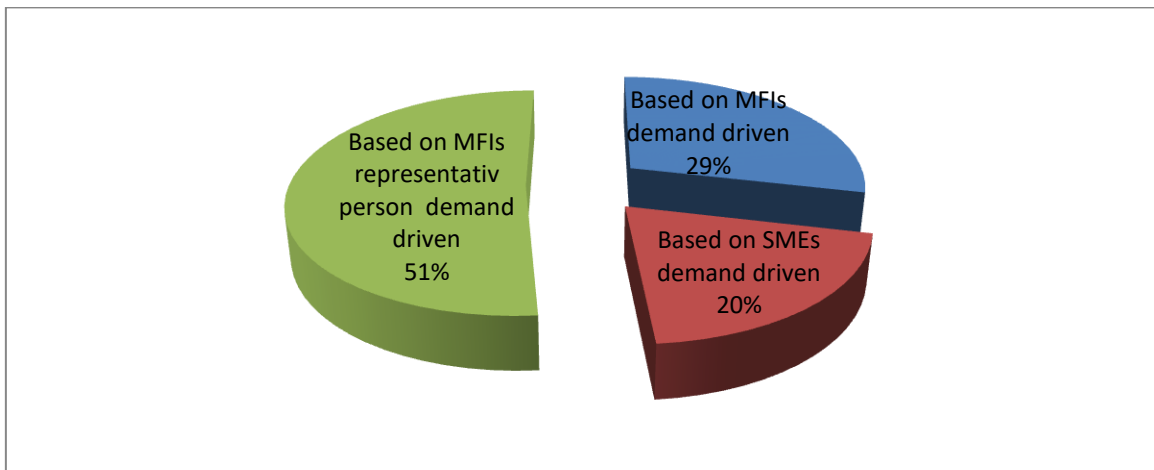


Figure 4.8 Different Demand Driven Loan Amounts to MSEs

Source: - Research findings

Table 4-6 Percentage Distribution of Different Demand Driven Loan Amount to MSEs

Description	Frequency	Percent (%)
Based on MFIs demand driven	131	28.60
Based on SMEs demand driven	92	20.09
Based on MFIs representative person demand driven	235	51.31
Total	458	100

Source: - Research findings

Table 4.6 above shows a striking difference in decision of loan amount to MSEs from MFIs. The highest share is goes to MFIs representative person demand driven; the second share is goes to MFIs demand driven, and third goes to SMEs demand driven.

4.2.7 The source(s) of finance for MSEs to start their business

The finance for MSEs is already becoming visible. And can be expected to impact their business for the upcoming cohorts of start-up and expansion. As shown in Figure 4.8, the MFIs contribution to start-up their business out weights the sum of personal contribution, bank loan, relatives' provision and donors/NGOs support. The MFIs contribution to start-up business alone fills 57.4 percent of start-up financial need.

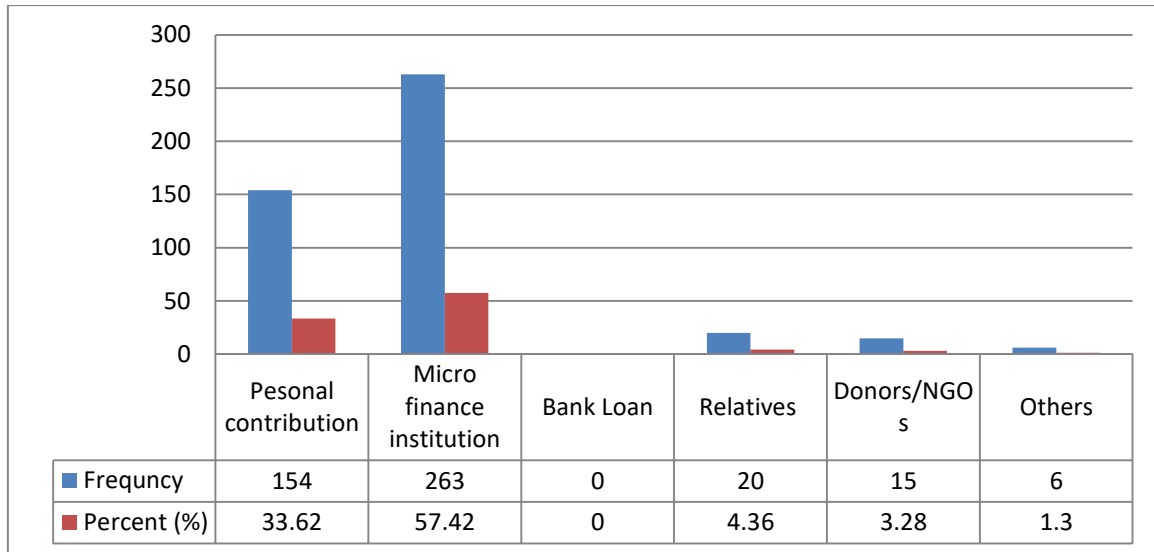


Figure 4.9 Source(s) of Finance for MSEs to Start their Business

Source: - Research findings

The differences are striking when compared to bank loan, relatives' provision and donors/NGOs support. The percentage share of personal contribution is 33.6 percent, relatives' is 4.36 percent, donors' is 3.28 percent, and other sources of financing are about 6 percent. Bank loan with zero percent contributions requires more additional attention. This is due to un-affordably collateral requirement from bank side.

Table 4-7 Descriptive statistics on the source of finance

Description	N	Mean	SD
Persona contribution	458	7.86	.513
Micro finance institutions	458	9.47	.536
Bank loan	458	0	0
Relatives	458	1.89	.463
Donors/NGOs	458	1.68	.588
Others	458	1.43	.434

Source: - Research findings

The means that from table above data the major source of finance for MSEs covered by MFIs which accounted a mean of 9.48 ($X=9.48$, $S.D= 0.536$) the other sources of finance for SMEs like personal contribution, relatives, donors and others contributes the following mean respectively, ($X=7.86$, $S.D= 0.513$) ($X=1.89$, $S.D= 0.463$) ($X=1.68$, $S.D= 0.588$) and ($X=1.43$, $S.D= 0.434$). On the other side, banks have not any contribution for source of finance for MSEs.

4.2.8 The rank of the weight of source of capital for MSEs before and after got loan from MFIs

MSEs source of capital before got loan from MFIs are persona contribution, MFIs, bank loan, relatives, retained earnings, donors/NGOs and other sources.

Table 4-8 Source of capital for MSEs before and after they got loan from MFIs

Description	MSEs source of capital Before got loan from MFIs		MSEs source of capital after got loan from MFIs	
	Frequency	Percent (%)	Frequency	Percent (%)
Persona contribution	198	45.21	29	6.62
Micro finance institutions	0	0	146	33.33
Bank loan	0	0	0	0
Relatives	83	18.95	48	10.96
Retained earnings	131	29.91	196	44.75
Donors/NGOs	10	2.28	0	0
Others	16	3.65	19	4.34

Source: - Research findings

The majority of finance source for MSEs before they got loan from MFIs is personal contribution, source from relatives and retained earnings. Together they add-up 94.07 percent of finance source for MSEs. When we look the source of capital after they got loan from MFIs,

more than forty (44.74)percent is out-of retained earnings; this is due to the accessibility of credit from MFIs it accounts 33.33 percent of share from the total source of capital. Personal contribution and donors/NGOs funding sources are fall 28 percent to 6 percent and from 2.2 percent to nil after they got loan from MFIs. What surprising is that, bank loan in MSEs operation is nothing in both cases.

4.2.9 Access of loan from MFIs to start MSEs business in Addis Ababa

Among MSEs, majority of the respondents answers access of loan to start-up new MSEs. Out of 458 numbered respondents' about 66 percent of respondents' replied as they have access to loan and as shown in the figure below MSEs have access to loan from MEIs and around one third proportions answered as they didn't got loan.

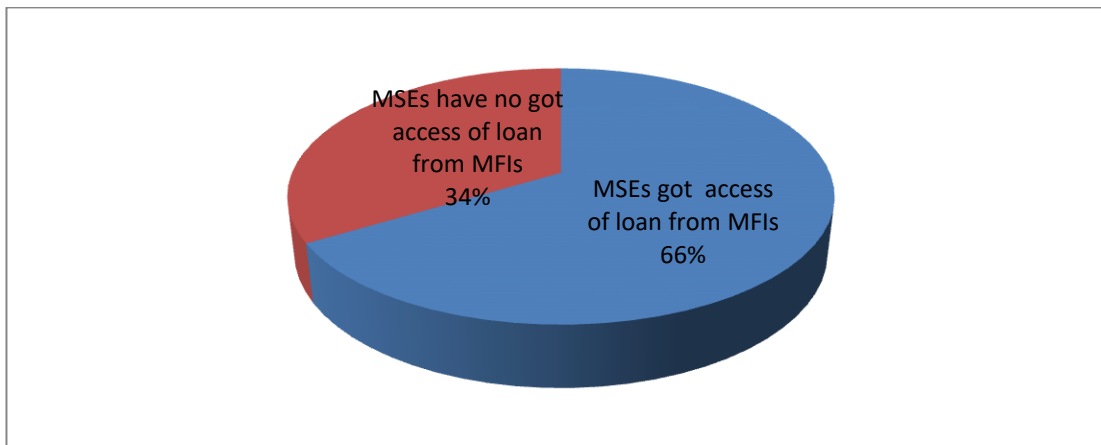


Figure 4.10 Loan access from MFIs to start MSEs business

Source: - Research findings

4.2.10 Challenges faced by MSEs to got loan from MFIs

MSEs face many challenges while in operating their business. Long process of credit service, collateral requirement, high interested rate, small loan size, problem of bureaucracy, high rate of matching fund, problem of liquidity of matching fund, existence of corruption and others (private loan, loan from family, etc). Among the motioned challenges collateral requirement, corruption, bureaucracy and high interest rate together contributes for more than three fourth or76.49 percent.

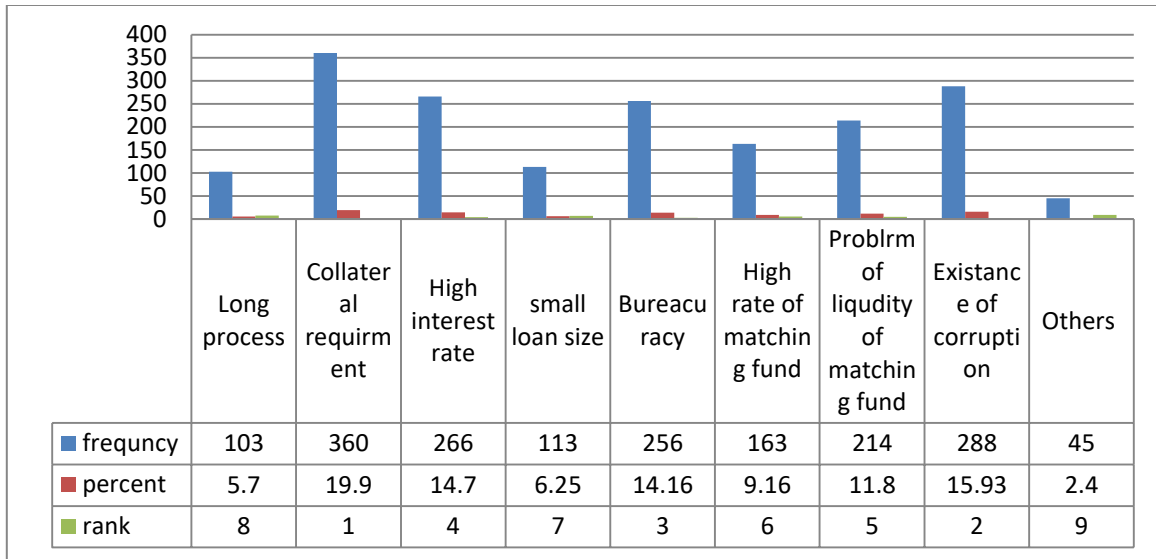


Figure 4.11 Respondents answer for challenges faced by MSEs to get loan from MFIs

Source: - Research findings

Thus, collateral requirement with percentage of 19.9, corruption with percentage of 15.93, bureaucracy with percentage of 14.16 and high interest rate with percentage of 14.7 holds from first up to fourth ranks in challenging MSEs to have loan from MFIs.

4.2.11 The performance of MSEs before and after got access of loan from MFIs

Those respondents' replied in the below table, the MSEs status would be positively changed after got access to loan from MFIs. Therefore, after got access to loan from MFIs the ability of introducing new technology, their market share capacity, productivity, and status of upgrade capital goods or machinery are increased. Their business is diversified, their ability to adopt new business strategy and size of employment opportunity increased. Overall, their net profit likewise increased. Thus, MFIs is a critical factor for the development and performance of SMEs by positively effect.

Table 4-9 Performances of MSEs before and after they got access of loan from MFIs

Description		Before MSEs got loan from MFIs		After MSEs got loan from MFIs		Increased or decreased rate by percentage
		Frequency	Percentage	Frequency	Percentage	
Has your firm introduced new technology?	Yes	132	45.05	186	63.48	This shows that the MSE capacity in introducing new technology increased by 18.43% after getting loan from MFIS
	No	161	54.95	107	36.52	
	Total	293	100	293	100	
Has your firm expanded your market share?	Yes	166	56.66	238	81.23	This shows that the MSEs market share increased by 24.57% after getting loan from MFIS
	No	127	43.34	35	18.77	
	Total	293	100	293	100	
Has your firm increased its productivity?	Yes	118	40.27	216	73.72	This shows that the MSEs productivity capacity increased by 24.57% after getting loan from MFIS
	No	175	59.73	77	26.28	
	Total	293	100	293	100	
Has your firm upgraded the capital good/machineries?	Yes	86	29.35	119	40.61	This shows that the MSEs the power of purchasing capital goods/machineries increased by 11.26 % after getting loan from MFIS
	No	207	70.65	174	59.39	
	Total	293	100	293	100	
Has your firms introduced new products/services?	Yes	153	52.21	187	63.82	This shows that the MSEs ability in producing new products and providing new services increased by 11.61 after getting loan from MFIS
	No	140	47.79	106	36.18	
	Total	293	100	293	100	
Has your firm diversified the business?	Yes	68	23.21	107	36.52	This shows that the MSEs are capable in diversifying their business increased by 13.31% after getting loan from MFIs
	No	225	76.79	186	63.48	
	Total	293	100	293	100	
Has your firm adopted new business strategies?	Yes	71	24.23	141	48.12	This shows that the MSEs designing new business strategies creativity increased by 23.89 % after getting loan from MFIs
	No	222	75.77	152		
	Total	293	100	293	51.88	
Has your firm employment opportunity increased?	Yes	128	43.69	162	55.29	This shows that the MSEs size of employment opportunity increased by 11.60% after getting loan from MFIs
	No	165	56.31	131	44.71	
	Total	293	100	293	100	
Has your firm gross profit increased?	Yes	129	44	168	57	This shows that the MSEs size of gross profit increased by 13 % after getting loan from MFIs
	No	164	56	125	43	
	Total	293	100	293	100	
Has your firm net profit increased?	Yes	126	43	173	59	This shows that the MSEs size of net profit increased by 16% after getting loan from MFIs
	No	167	57	120	41	
	Total	293	100	293	100	

Source: - Research findings

4.2.12 Competition status of MSEs before and after got access of loan from MFIs

Firms' competition for market determined by product quality, price, and size of rivalries' etc. Products with better quality will win always in the market. Two products with the same quality but different prices are in competition with price. The larger the firms number the stronger the competition will be (this is clear from competitive market characteristic). Coming to this study case, loan access determines MSEs market competitiveness.

Table 4-10 Competition status of SMEs before and after got access of loan from MFIs

Description	Competition status of MSEs before got access to finance from MFIs		Competition status of MSEs after got access to finance from MFIs		Increased or decreased rate by Percentage
	Frequency	Percentage	Frequency	Percentage	
Very Good	37	12.63	66	22.53	The status of competition of MSEs in this rank increased by 9.9%
Good	86	29.35	211	72.01	The status of competition of MSEs in this rank increased by 42.66%
Medium	123	41.98	14	4.78	The status of competition of MSEs in this rank decreased by 37.2%
Low	44	15.02	2	.68	The status of competition of MSEs in this rank decreased by 14.34%
Very low	3	1.02	0	0	The status of competition of MSEs in this rank down fall to null.

Source: - Research findings

The participants' response shows that, before MSEs got access to loan from MFIs, the competitiveness is very low. About 12.6 percent participant replay for having very high competitiveness and 29.4 percent participants answered high competitiveness of their firms. After loan access participants replayed with very high competitiveness increased to 22.5 percent and with answers of high competitiveness increased to 72 percent. Thus, loan with its various backward and forward linkages highly determines MSEs competitiveness.

4.2.13 The level of productivity status of MSEs before and after got access of loan from MFIs

The result of table 4.10 shows level of productivity status of MSEs before and after got access of finance from MFIs. Productivity more depends on efficiency and capacity of the firm, but in this study loan is seems another determinate. The level of productivity status of MSEs before having access to finance from MFIs, seems low. About 25.94 percent respondents' answers as they have very high productivity, 7.17 percent respondents' answers as they have got high productivity. Majority of the respondents' said the productivity level before loan from MFIs was medium, which accounts for about 50 percent. The productivity status of MSEs after they got access to finance from MFIs looks increased one as observed from the respondents replay. About 33 percent of the respondents' answered for having high and very high productivity status before they got access to finance from MFIs and about 53 percent of the respondents' answers as they have high and very high productivity status after they got loan from MFIs.

Table 4-11 productivity level status of MSEs before and after got access of loan from MFIs

Description	The level of productivity status of MSEs before they got access to finance from MFIs		The level of productivity status of MSEs after they got access to finance from MFIs		Increased or decreased rate by percent
	Frequency	Percentage	Frequency	Percentage	
Very High	76	25.94	82	27.99	The level of productivity status of MSEs in this rank increased by 2.05%
High	21	7.17	73	24.91	The level of productivity status of MSEs in this rank increased by 17.74%
Medium	147	50.17	84	28.67	The level of productivity status of MSEs in this rank decreased by 21.50%
Low	35	11.94	50	17.06	The level of productivity status of MSEs in this rank increased by 5.12%
Very low	14	4.78	4	1.37	The level of productivity status of MSEs in this rank decreased by 3.41%

Source: - Research findings

Those respondents with replay of medium level of productivity status also decreased from 50 percent to around 29 percent. Thus, productivity level is directly link with loan from MFIs.

4.2.14 Status of MSEs employee's educational back ground before and after got loan from MFIs

Status of MSEs employee's educational back ground before and after got loan from MFIs result shows how employee educational level behave with or without loan from MFIs. Below table describe the details of the issue.

Table 4-12 MSEs employee's educational back ground before and after got loan from MFIs

Description	MSEs employee's educational back ground before got loan from MFIs		MSEs employee's educational back ground after got loan from MFIs		Increased or decreased rate by percent
	Frequency	Percentage	Frequency	Percentage	
Illiterate	49	16.72	18	6.14	The employment opportunity for illiterate employee's decreased by 10.58%
Primary education	85	29.01	24	8.26	The employment opportunity for primary educated employee's decreased by 20.81%
High school	71	24.23	87	29.6	The employment opportunity for high school educated employee's increased by 5.37%
TVT	43	14.68	88	30	The employment opportunity for TVT graduated employee's increased by 15.32%
College diploma	26	8.87	52	17.8	The employment opportunity for college diploma holder employee's increased by 8.93%
Degree	8	2.73	16	5.46	The employment opportunity for degree holders employee's increased by 2.73%
Others	11	3.76	8	2.8	The employment opportunity for others employee's decreased by 0.96%

Source: - Research findings

Before having loan from MFIs about 45 percent of the employees of MSEs are with educational back ground of primary education and below. After having loan employees educational background improved. Many employees are with educational background of high school and above. Before loan employees of MSEs with educational background of TVT were 14.7 percent and those with college diploma are around 9 percent. After having loan from MFIs, employees with educational background of TVT increased to 30 percent and those with college diploma are increased to 17.8 percent. The employment opportunity of illiterate employees' gets worsened after having loan. The opportunity decreased from 16.72 percent to 6.14 percent. Thus, loan is determinate of employment educational background of the MSEs. With loan access the employees education background improve.

4.2.15 Status of repayment

The advantages of credit repayment are it reduces the amount aggregate interest burden, it creates good-well for additional credit access, it increases the size of additional loans, etc. Thus, due to weak monitoring and evaluation MFIs and poor awareness of MSEs the loan repayment status of MSEs is not active.

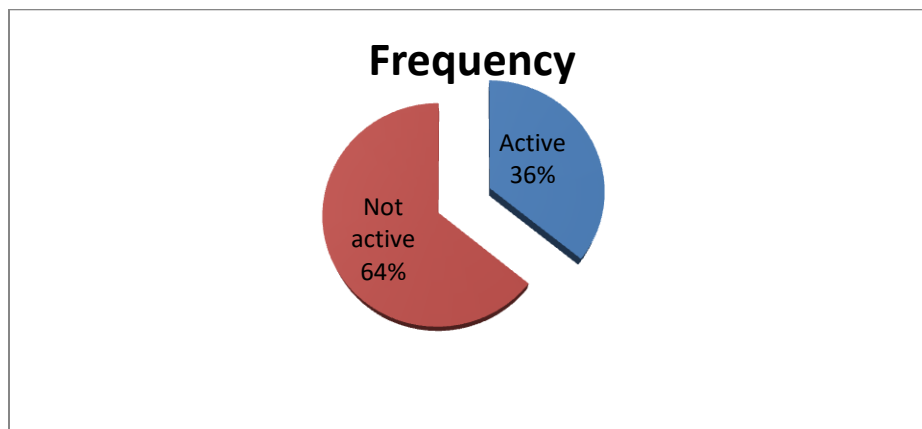


Figure 4.12 Respondents answer for status of repayment

Source: - Research findings

As shown from Figure 4.12 and Table 4.13, the credit repayment status SMEs is less than half (only 36.84 percent). Majority of MSEs are not active repays. Out of total respondent around 65 percent repayed the credit repayment status is not active.

Table 4.1313 Respondents answer for status of repayment

Description	Frequency	Percent (%)
Active	105	35.84
Not active	188	64.16
Total	293	100

Source: - Research findings

4.2.16 Monitoring and evaluation existence by MFIs

As shows in the table below, more than three-quarter of those who answered the question said that: there is no any monitoring and evaluation activity of MFIs on firms loan repayment while almost all the remaining have answered the presence of monitoring and evaluation activity of MFIs on MSEs. This is also supported by statistics (76.8 percent of no monitoring and evaluation activity).

Table 4-14 Percentage of respondents either Monitoring and evaluation tasks are exercised by MFIs or not

Description		Frequency	Percent (%)
Is there any monitoring and evaluation activity of MFIs on firms loan repayment	Yes	68	23.20
	no	255	76.80
Total		293	100

Source: - Research findings

Thus, relevance of the monitoring and evaluation activity can be seen clearly by the looking and comparing the data of active and not active repay of figure 4.11 of section 4.15.

4.2.17 Significant of monitoring and evaluation to MSEs development

In relation to the significant of monitoring and evaluation on the services the MFIs deliver, about 30 percent of the participants of the study are answered less significance of MFIs monitoring and evaluation for their development. Quite a large number of participants are answered that there must be a follow up and monitoring and evaluation on services provided by MFIs, since they believe that it affect their development.

Table 4-15 Respondents answer for significant of monitoring and evaluation to MSEs development

Description		Frequency	Percent (%)
Do you think monitoring and evaluation of MFIs on its service significant to your development?	Yes	206	70.31
	No	87	29.69
Total		293	100

Source: - Research findings

Thus, majority of the MSEs are in need of monitoring and evaluation since it is assumed as significant effect on their development. In the focus group discussion and from KIIs justification monitoring and evaluation is very important for both MFIs and MSEs operator starting from SMEs business proposals for loan up to repayment steps for MSEs development and performances. The M&E also important to decide whether the loan size and the SMEs business size are fair or not, what challenges of MFIs are resistant to MSEs for credit access and it is important to make reform in the MFIs in time.

4.3 Model estimation result and regression analysis

In the estimation process a multiple regression model was performed to establish the relative effect of the influence of microfinance institution on the development and performance of micro and small enterprises in Ethiopia (Addis Ababa). The regression model was expressed as follows below.

$$EDAP = f(\text{LSMFI}, C, \text{RI}, \text{LMF})$$

$$EDAP = \beta_0 + \beta_1 (\text{LSMFI}) + \beta_2 (\text{CMFI}) + \beta_3 (\text{RI}) + \beta_4 (\text{LMF}) + \varepsilon$$

Where:-

EDAP= the enterprise development and performance which was the dependent variable in the model.

LSMFI= Lon size of MFI which was one of the independent variable in the model.

CMFI= Collateral requirement by MFI which was the independent variable in the model.

RI= Rate of interest which was the independent variable in the model.

LMF= Liquidity of matching fund which was the independent variable in the model.

β_0 = Constant

$\beta_0, \beta_1, \beta_2$ & β_3 & β_4 = coefficients of independent variables respectively

The regression analysis also acknowledged that correlation, coefficient of determination and analysis of variance (ANOVA). Correlation required giving you an idea about the nature of the relationship between dependent and independent variables and coefficient of determination confirmed the strength of the relationship. Analysis of variance was done to show whether there is a significant mean difference between dependent and independent variable the analysis of variance was conducted at 95% confident interval.

Table 4-16 Regression Result A

R	R ²	Adjusted R ²	Std. Error of the estimate
0.832	0.681	0.575	.06725

Source: - Research findings

The regression analysis was used to analysis the relationship between the dependent variable EDAP and the independent variables i.e. LSMI, CR, HRI & PLMF. The result of a correlation value (R) of 0.832 which give a picture of that there is a good linear dependence of EDAP on the loan size of MFI, collateral requirement, high rate of interest and problem of liquidity of matching fund.

With an adjusted R-squared of 0.575, the model shows that the loan size of MFI and collateral of MFI for loan explain 57.50 percentage of the variations in profitability while 42.50 percentage is explained by other factors which were not existed in the model.

Table 4-17 Regression Result B

	Sum of squares	Df	Mean squares	F	Sig.
Regression	5.226	3	1.742	3.919	0.046
Residual	19.452	43	0.556		
Total	24.678	46			

Source: - Research findings

Analysis of variance (ANOVA) statistics was conducted to establish the difference in the means of the dependent and independent variables as a result which stated whether a relationship exists between the two. The P-value of 0.046 implies that performance and development of MSEs has a significant joint relationship with loan size of MFI and collateral of MFIs for their loan which is

significant at 5 percentage level of significant. This furthermore represented the significance of the regression analysis done at 95% confidence level.

Table 4-18 Regression Result C

	Un-standardized Coefficient		Standardized Coefficient	T	Sig.
	Beta	Std.Error	Beta		
Constant	9.655	6.257		1.929	0.165
Lon size of MFI	2.149	0.900	0.452	2.984	0.035
Collateral of MFI	-1.792	0.871	-0.423	-2.573	0.059
Interest rate	-0.570	1.034	-0.114	-0.689	0.056
Liquidity of Matching fund	-0.905	6.257	-0.952	-1.803	0.141

Source: - Research findings

As of the data in the above tale, there is positive relationship between EDAP and loan size in other words there is a direct relationship between EDAP and loan size of MFI. As loan size increases the EDAP also increases as loan size of MFI decreases the EDAP also will decreases. A negative relationship between EDAP and the rests of the independent variable existed in the model i.e. collateral of MFI, interest rate and liquidity of matching fund. That means, there is inverse relationship between EDAP with collateral of MFI, interest rate and liquidity of matching fund. Thus, as they increase EDAP decreases and as they decreases EDAP will increases. The originated regression analysis shows as follow:-

$$EDAP = 9.655 + 2.149LZMFI - 1.792CMFI - .57IR - .905LMF \quad P=0.46$$

4.3.1 Analysis of finding

This part tray to address light interpretations of the findings acquired concerning to the intention of the study. To state the influence of micro finance institution for the development and performance of micro & small enterprises in Ethiopia (Addis Ababa) a multiple regression analysis was conducted to establish the relative effect of micro finance institution for the development and performance of micro & small enterprises. The results indicated that a correlation value (R) of 0.832 which represents that there is a good linear dependence of EDPA on loan size of MFI, collateral of MFI, interest rate and liquidity of matching fund.

ANOVA statistics was conducted to verify the differences in the means of dependent and independent variables consequently shows whether a relationship exists between the two variables. The P-value of 0.46 implies that development and performance of SMEs has a significant joint relationship with loan size of MFI and collateral of MFI landing which is significant at 5 percent level of significance. This also represented the significance of regression analysis done at 95 percent confidence level.

The regression results show that, when loan size of MFI and collateral of MFI have zero values, the EDPA (dependent) value would be 9.655. It is also resulted that a unit increase in loan size of MFI leads to an increase in EDPA by 2.149. This implies, the dependent variable and loan size has a direct relationship with in the model and a unit increase in collateral would be resulted in decrease of the EDPA by 1.792, a unit increasing in interest rate also resulted a decreasing of EDPA by 0.57 and a unit increase in matching fund for the loan would be resulted in a decrease in EDPA by 0.905. Therefore, the independent variables collateral, interest rate and matching fund have an inverse relationship with the dependent variable EDPA in the model. This statistics had a t-value of 2.984 at 0.035 showing that the statistics is significant at 95 percent confidence level. A t-value -2.573 was established at 0.059 error margin. This indicates that statistics was significant at 95 percent significant level.

Therefore, positive relation was built between enterprise development and performance and loan size of micro finance institution and also there was a negative relationship was built between enterprise development and performance and collateral, interest rate and matching fund respectively in the model. In addition to these, the regression analysis indicated that when the independent variables loan size of microfinance institution, collateral, interest rate and matching fund has zero values the dependent variable EDAP value would be 9.655. To sum up the findings, due to the effect of the independent variables, a majority of the small and micro enterprises in Addis Ababa haven't become beneficiary from MFIs service especially from microfinance loan or credit.

Chapter Five

Conclusion and Policy Recommendation

This chapter provides the key conclusion and recommendation on the issue that are raised in this research paper especially on the aspect of the influence of Micro Finance Institutions on the development and performance of Micro and Small Business Enterprises in Addis Ababa (Ethiopia); as a means of increasing market share, productivity, profitability, competitiveness, creating employment opportunity and all over capability in the doing business of the research area economy and in the business system.

5.1 Conclusion

Micro finance plays a central role in the development and performance of Micro and Small Business Enterprises in the real world especially for developing country like Ethiopia, Addis Ababa. Data have been analyzed by applying both descriptive and inferential. From the data collected and analyzed Micro and Small Enterprises had a positive change after got access of loan from MFIs on their productivity, introducing new technology, expanding their market share, upgrading their capital goods, introducing new products/services, by diversifying their business, by adopting new business strategies, by increasing employment opportunity, increasing their competitiveness and increasing their profit. Micro and small Enterprises in Addis Ababa faced various challenges. These are lack of business skill, lack of training, lack of skilled labour, lack of finance, government policy problem, lack of market access, high competition in the economy, weak management skill, shortage of raw material supply, land, e.t.c. Among these finance is the central problem for Micro and small Enterprise development performance in Addis Ababa. The majority of SMEs are not benefited from existed MFIs because of high collateral requirement, long process, high interest rate, small loan size, bureaucracy, high rate matching fund, problem of liquidity of matching fund, existence of corruption, small suppliers/numbers of MFIs, ect.; constraint mainly on their credit service. From all the above challenges collateral requirement accounts for higher degree of severity for MSEs to get access of credit from MFIs. Monitoring and evaluation of MSEs by MFIs is significant for Micro and small Enterprises development and performance but MFIs monitoring and evaluation for their credit on MSEs is so poor; this is assured by 76.80 percent respondents.

As the regression analysis indicated that positive relation was build between enterprise development and performance and loan size of Micro Finance Institution and also there was a negative relationship was build between enterprise development and performance and collateral, interest rate and matching fund respectively in the model. In addition, when the independent variables loan size of Micro Finance Institution, collateral, interest rate and matching fund has zero values the dependant variable EDAP value would be 9.655. To sum up, the findings due to the effect of the independent variables a majority of the Micro and small Enterprises in Addis Ababa will not beneficiary from Micro Finance Institution service especially from microfinance loan or credit.

5.2 Policy Recommendation

In light of findings and conclusions, the research found that, it is important to make recommendation to guide the enterprises, Micro Finance Institutions, trade and industry associations, microenterprises, concerned government and non-government bodies and researchers. From the study the following recommendations are provided to sustainably improve the development and performance of Micro and small Enterprises.

The government will intervene more in increasing finance supplier or financial institutions according to the population of the small enterprises in the nation economy.

The Micro and small Enterprises will organize their own associations who reflect their voice together to solve financial and non-financial problems for their sustainable development and performance.

The trade and industry associations will work together with government by taking memorandum of understanding and by creating by laws in the sense of public private partnership/PPP/ on Micro and Small Enterprises issues especially on financial institutions.

The Micro Finance Institution will create conducive environment for their credit and other MFIs services. The MFIs also provide non-financial services for Micro and small Enterprises like business development services; strengthen micro and small business association and capacity building trainings.

The government in collaboration with the private sector needs to accelerate the pace of financial reforms to improve the range and availability of loans and other financial services for Micro and small Enterprises and also encourage financial literacy a key component of financial inclusion. Reforms could include a framework that allows MSEs to collateralize their assets and policies that promote saving mobilization, encouraging liquidity of matching fund, balance interest rate and matching fund.

A special credit will aimed to special sectors which have higher employment opportunity like manufacturing sector and construction sector in Addis Ababa.

The Micro Finance Institutions will facilitate new services that are not exercised to day like check payment service, mobile banking services, guaranty service as insurance when Micro and small Enterprise will have access to business contract agreements with others.

The government will improve information dissemination on relevant institution and project that provide assistance to Small and Micro Enterprises

Research institution, universities and all concerned bodies will conduct a number of researches on specific problem of MSEs.

The government and MFIs should develop the quality and accessibility of the service of supporting institutions by assigning employees that have accurate knowledge in the specific area to identify the MSE gaps and to provide continuous follow up of the development and performance of Micro and small Finance Institution and their execution program.

The Financial Institutions like banks will provide credit service for Micro and small Enterprises based on their business proposal and stage of MSEs development.

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Annexes

1. Questionnaire to be filled by micro Finance Institution Customers (micro & small enterprises and individuals)

Indihra Gandhi National Open University (M.A Economics Program)

Questionnaire to be filled by micro Finance Institution Customers (micro & small enterprises and individuals)

Objective of this questioner is to obtain relevant primary data for research being “**The influence of micro finance Institution on the Development and performance of micro and small Business enterprises in Addis Ababa (Ethiopia)**” Data gathered through this questionnaire would be valuable input to the research under taking the researcher would like to thank you in advance for filling this questionnaire.\

Instruction

1. Mark an “X” in the box or boxes as appropriate
2. You can provide answer in Amharic for open ended questions

Section1: Background information about your business

1. Name of Your Organization -----
2. Address of Your organization sub City -----
3. Position in the Organization -----
4. For how long have Your organization been in the business
 1 to 2 years 6 to 10 years
 3 to 5 years 11 to 20 years
 20 years above
5. What is the site of employment in your business
 1 to 5 employee’s 11 to 25 employee’s
 6 to 10 employee’s 28 to 50 employee’s
 50 employee’s above
6. What is the size of your business
 Micro Small Medium
7. Type of Your business
 Textile Construction
 Wood & Agriculture Cobble Stone
 Urban Agriculture Municipality
 Food processing others

Section 2. Main research questions

1. What type of challenges faced by MSEs?

- a. Lack of business skill
- b. Lack of training
- c. Lack of land
- d. Lack of skilled labor
- e. Lack of finance
- f. Government policy problem
- g. Lack of market access
- h. High computation in the economy
- i. Lack of management
- j. Lack of raw materials
- k. Others ,please specify -----

2. What type of service provided by MFIs?

- Loan
- Check payment Service
- Saving
- Guaranty Service
- Mobile transfer service
- Internet transfer service

3. What is Your Source of finance

- Personal Contribution
- Micro finance Institutions
- Bank loan
- From relatives
- Donors /NGOS support
- Others, specifies -----

4. Rank the % of the weight of source of capital for your business

Before MFIS loan

After MFIS loan

- Personal Contribution
- Relatives
- Bank loan
- Retained earnings
- NGOS
- Others

- Micro finance loan
- Personal Contribution
- Relatives
- Bank loan
- Retained earnings
- NGOs
- Others

5. Did you receive micro finance loan to established your business
 Yes No
6. Did you receive micro finance loan after established your firm
 Yes No
 If No why? -----

7. Do you think the loan from MFI is based on your project /Business proposal
 Yes No
 If No Why -----

8. What Challenges you face to get loan from MFIs
 Long process
 Collateral requirement
 High interest rate
 Small loan size
 Bureaucracy
 High rate of matching fund
 Problem of liquidity of matching fund
 Existence of Corruption
 Others, please specify-----
9. How do you see your computation status before MFI loan
 Very good low
 Good No computation
 Medium
10. How do you see your computation after getting loan from MFI
 Very good low
 Good No computation
 Medium
11. Has your firm employment opportunity increased after get access to loan?
 Yes No
12. What is the back ground of your employee's education?
- | Before MFIs loan | After MFIS loan |
|--|--|
| Illiterate <input type="checkbox"/> | Illiterate <input type="checkbox"/> |
| Primary education <input type="checkbox"/> | Primary education <input type="checkbox"/> |
| High School <input type="checkbox"/> | High School <input type="checkbox"/> |
| TVT <input type="checkbox"/> | TVT <input type="checkbox"/> |
| College diploma <input type="checkbox"/> | Collage diploma <input type="checkbox"/> |
| Degree <input type="checkbox"/> | Degree <input type="checkbox"/> |
| Others <input type="checkbox"/> | Others <input type="checkbox"/> |

13. How many times your firm representatives Conduct training in a year

- One Two Three
 Four more than fore

14. Has your Gross profit /revenue increased before getting access loan/credit from MFIs?

- Yes No

15. Has your Gross profit /revenue increased before getting access loan/credit from MFIs?

- Yes No

16. Has your firm introduce new technology

Before MFIs loan Yes No

After MFIs loan Yes No

18. Has your firm expanded the Market size?

Before MFIs loan Yes No

After MFIs loan Yes No

19. Has your firm increase products

Before MFIs loan Yes No

After MFIs loan Yes No

20. Has your firms upgrade the capital goods /machinery

Before MFIs loan Yes No

After MFIs loan Yes No

21. Has your firm introduce new product/service

Before MFIs loan Yes No

After MFIs loan Yes No

22. Has your firm diversified the business?

Before MFIs loan Yes No

After MFIs loan Yes No

23. Has your firm adopted new business strategies?

Before MFIs loan Yes No
After MFIs loan Yes No

24. Range your levees of productivity.

Before MFIs loan,

Very high high medium low very low

After MFIS loan, Very high high medium low very low

25. Is there any monitoring and evaluation activities of MFIs on firms' loan repayment?

Yes No

If No why? -----

26. What is the status of your firm repayment? Active Not active

If not active why? -----

27. Do you think monitoring and Evaluation of MFIs on it service is significant to your development?

Yes No

If yes why?-----

28. Has your firm demanded to save in MFIs?

Yes No

If No why? -----

29. Is there enough MFIS to cover the demand of MSEs to cover the demand of MSEs for MFIs service? Yes No

30. Please list the name of MFIs exist in your area.

- | | |
|----------|-----------|
| 1. ----- | 6. ----- |
| 2. ----- | 7. ----- |
| 3. ----- | 8. ----- |
| 4. ----- | 9. ----- |
| 5. ----- | 10. ----- |

31. On which MFI you are customer for Your MFIs service.

32. How the type of loan and the loan size determined by MFIs?

(a) .MFIs Demand Driven loan

(b). MSE Demand Driven loan

(c). Individual demand driven

Why in (a) -----

Why in (b). -----

Why in (c). -----

Section 3

33. What is the significance of MFIs for the development and performance of MSE?

34. What do you suggest the MFIs do in the future to provider better MFIs Service?

35. What do you think to solve MSE financial problem other than MFIs?

2. Proposal Approved by the University MECF-001

SMU IGNOU- Indira Gandhi National Open University-school of continuing Education

Degree Master of Arts (Economics) Thesis Research proposal

**The Influence of Micro Finance Institution on the Development and Performance of
Micro and Small Business Enterprises in Addis Ababa (Ethiopia)**

July 2015

Programme Code:

MEC

Course Code:

MECP-001

Enrolment No:

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Study Center Code:

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