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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 Work Proposal**

(MECP-001)

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Title of the project: THE INFLUNCE OF MICRO FINANCE INSTITUTION ON THE DEVELOPMENT AND PERFORMANCE OF MICRO AND SMALL BUSINESS ENTRPRISES IN ADDIS ABABA(ETHIOPIA)

(By Fasikaw Sissay Amera)

I hereby certify the proposal for the project entitled THE INFLUNCE OF MICRO FINANCE INSTITUTION ON THE DEVELOPMENT AND PERFORMANCE OF MICRO AND SMALL BUSINESS ENTRPRISES IN ADDIS ABABA(ETHIOPIA) by **Fasikaw Sissay Amera** has been prepared after due consultation with me. I agree To supervise the above mentioned title completion

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## **CHAPTER ONE**

### **1. INTRODUCTION**

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 holds more employment share in low-income economies than in high-income countries. International development agencies want to promote and finance micro small and medium enterprises 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 expansion. In this center of concentration the study examine the influence and role of microfinance institutions (MFIs) in serving micro, small and medium enterprises.

Microfinance is not a fresh model. It is dates back in the 19th century when money lenders were informally performing the role of the formal financial institutions. 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 MSMEs. These institutions are those that provide savings and credit services for micro, small and medium size enterprises. 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 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 granted a loan or to be provided with the bank services. The lack of financial power is a causal factor to most of the common problems for MSMEs. These problems derive 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 the 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 both 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 small and medium size enterprises MSEs and focusing mostly in the rural areas. The UN millennium development 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 work including the setting up of agencies like the Federal Micro and Small Enterprises agency, office and micro finance institution up to city woreda and kebele level, 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%), Cobbel 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 microfinance institutions in the process of enhancing the development of MSEs in both urban and rural level. It is significant to seem at this because even though the government promotes MSMEs in the urban and rural areas through different institutions, microfinance institutions are not leaving any evidence un turned 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 Microfinance Institutions (MFIs) in the development performance of Micro and Small Size Enterprises (MSEs) in Addis Ababa Ethiopia.

### **1.1 Statement of the problem**

The increase of micro and small enterprises (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 require of financing options for MSEs is the introduction and development of microfinance. According to the Ethiopian credit and saving Associations of Microfinance, microfinance in Ethiopia refer 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 study 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 MFI loan have sustain the MSEs to produce regardless of the accurate price incurred on the procedure, as a result industry never know if MFI loans have really helped MSEs to develop.

## **1.2 Objectives of the Study**

### **1.2.1 General Objective**

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

### **1.2.2 Specific Objectives**

#### **1.2.3 Specifically the study attempt:-**

- A. To check up the contribution of MFI on micro and Small enterprises development
- B. To assess the impact of MFI loans on work of Micro and Small Enterprises operators.
- C. To assess the costs and challenges that micro and small enterprises 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 MFIs to MSEs enterprises development performance?
2. What is the influence of MFI loans to the work of operators of micro and small and medium enterprises?
3. What are the costs and challenges that Addis Ababa micro and small enterprises face when accessing microfinance services?

## **1.4 Hypotheses of the study**

In this study the following hypotheses will be 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, the study will contribute to the body of knowledge on the influence of microfinance on the development performance of micro small medium enterprises taking into concern the real cost and challenges incurred by MSEs apart from interest cost.

Second, this study is planned to drop light on the relationship between microfinance services and development performance of micro small and medium enterprise 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 micro and small enterprises face.

Third, this study will offer empirical evidence on the impact of microfinance services on the growth of micro small and medium enterprises 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 is going to enlighten the government and the public on the role of MFI in the MSMEs sector.

### **1.6 Scope and limitation of the study**

To concentrate on all the areas in the entire city up to district level will be impossible because of the limited time frame and amount of funds for this research. For this reason, the research will be cover ten sub-city of Addis Ababa city, which are Arada, Addis Ketema, Kirkos, Lideta, Gullele, Bole, Kolfe, Nifas Silk Lafto, Yeka and AkakakiKaliti. The sub- city's preference is to address all side of Addis Ababa Area MSEs and the existence of MFIs like Addis Ababa credit and saving share company in all sub city's and thus will provide good source of data for the study. The influence of microfinance to the Development performance of MSMEs in this area will be analyzed, looking at its contributions, and in what form, and of course the response of MSEs to the contributions of MFIs.

### **1.7 Methodology**

#### **1.7.1 Data Types and Sources**

Both quantitative and qualitative data will be used. Primary data will be collected through observation, structured questionnaires and semi-structured interviews using checklist of leading questions. Secondary data will be obtained from the following sources: 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 like UNDP and World Bank will be used to gather more information for international comparisons.

## **1.7.2 Population, Sampling Frame and Sample Size**

### **1.7.2.1 Population**

This is the set of 53,044 MSEs populations or entities to which findings are to be generalized from Ethiopian Federal Small and Micro Enterprises agency /EFSMEDA/ Reports and additional selected households access to MFIs. In analyzing the influence of micro financing institutions on the development performance of micro and small entrepreneurs 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.

### **1.7.2.2. Sampling Frame**

In order to perform non probability sampling, a sampling frame will be constructed basing in the study area. The list of MSMEs and households' in the study areas will be generated from 10 sub-City selected microfinance institutions in Addis Ababa. The list of control group will be selected randomly. The households to be included in the control group will be those living in close proximity to the households which access and use micro financing services.

### **1.7.2.3. Sample Size**

Data collection may be done on 530 MSEs and 150 households by taking 1% of the total population of MSMEs and Specifically the coverage will focus households who have access use micro financing services and who do not use micro financing services.

## **1.7.3. Study Area, Sample Type and Sampling Procedure**

### **1.7.3.1. Study Area**

The spread of microfinance institutions is throughout the City the study will mainly be carried out in 10 Sub City. 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 are located in these Sub City.

### **1.7.3.2. Sample Type**

The study will use two different sample types. First, the study will use 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 will use a second type of purposive sampling which is Quota Sampling.

Quota sampling will be 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 will use 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 will consider the following factors; time frame of the study, financial resources, coverage of households, and accuracy of information, reliability of information and precision of information.

#### **1.7.3.3. Sampling Procedure**

The sampling procedures will involve the following steps:

- I. Obtaining the 1 % total number of 53,044 MSEs accessing and 150 households using microfinance services from microfinance institutions in Addis Ababa.
- II. Select MSEs to be studied. This however, will take into account access characteristics.

#### **1.7.4. Data Collection Techniques**

Data for this study will be collected through the following ways:

- I. Documentation: This will involve collecting information and data from existing surveys, reports and documents.
- II. Structured Questionnaires: This will be used to collect information from MSMEs and households. Questionnaires will be developed to obtain survey data that allows an understanding of the impact and influence of micro financing services on the Development performance of micro and small entrepreneurs.
- III. Semi-Structured Questionnaires: This will be 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 people in the areas of study.
- IV. Focus Group Discussion (FGD): The Focus Group Discussion (FGD) will be done to compliment the field data. The main purpose of FGD will be to draw upon respondents' attitudes, feelings, beliefs, experiences and reactions. In particular FGD in this study is intended for exploring the experiences. Snowball sampling technique will be used to select the participants. one Focus Group Discussions for each of the Sub City will be conducted with between 10 to 15 people in each group. All Focus Group Discussions will employ the funnel approach

(This approach involves the use of broad questions followed gradually by more narrow questions) in collecting information.

- V. Key Informants Interviews (KIIs): Key informants will be purposively selected because they are knowledgeable about various issues related to micro financing and entrepreneurship. Key informants interview will be conducted with local government officials, religion leaders, officials from microfinance institutions and some of the heads of households which have access and using microfinance services. Overall, Five KIIs will be conducted in sampled areas. Trained interviewers will conduct interviews with the aid of question guides that elicit responses on various aspects of related to the impact of microfinance on growth of micro and small entrepreneurs. Interviewers will meet the participant in a place convenient for them. The interviews are expected to last for about one hour. Attempts will be made to audiotape record all interviews. In cases where informants do not allow such recording, interviewers will make detailed notes of the responses of the informants.
- VI. Observation: Observation during the fieldwork will be used mainly to probe issues beyond those covered in the structured questionnaires and semi-structured questionnaires.

### **1.7.5 Data Analysis**

Analysis in this study will be done through comparison between MSEs using microfinance services and MSEs not using the services. The comparisons will 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 will be separated for location level analysis. Quantitative data will be generated and analyzed through questionnaires.

Data will be presented in the form of frequencies, mean average, percentages cross tabulation, charts and correlation analysis, so as to establish the relationship of variables. Correlation analysis will be done in order to test some of the assertions raised. Correlation coefficient will be used to quantify the strength of association between the variables as well as testing the significance of relationships.

### **1.8 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.

### **1.9 Organization of the Study**

The structure of the thesis is organized as follows, in to four chapters. Chapter one shows overall introduction of the paper. The second chapter will deal with literature review and the third contain data presentation and analysis. The final one is about conclusion and policy recommendation.

## CHAPTER TWO

### 2. 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 Micro and Small Enterprises. It is sometimes referred to as micro, small and enterprises (MSEs).

##### 1. Micro Enterprises

A micro enterprise in the industrial sector (manufacturing, construction and mining) is one which operates with up to five people 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.

**Figure 1: The Current definition of MSEs in Ethiopia**

Level of Enterprise	Sector	Human power	Total Asset/ETB/
Micro Enterprises	Industry	≤5	≤Birr 100000 (\$6000 or E4500)
	Service	≤5	≤Birr 50000 (\$3000 or E2200)
Small Enterprises	Industry	6-30	≤Birr 1.5million (\$90000 or E70000)
	Service	6-30	≤Birr 500000 (\$30000 or E23000)

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

##### 2.1.2 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 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 the training of members in that 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 blacksmithetc (Ledgerwood, 1999).

### **2.1.3 Growth, development and Stage of MSEs**

#### **2.1.3.1 SME 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. These 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).

### **2.1.3.2 Growth and Stage of MSEs In Ethiopia**

#### **1. Start- up Stage**

Startup stage refers to enterprises that incorporate people who are interested to establish MSE 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 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, its man power and total capital is greater than the start- up stage, and it starts to use book keeping system 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.

### **2.14 Types of microenterprises**

The type of population to be serve 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 involve in is also determined and this can be; production, commercial or services activities (Ledgerwood, 1999).

The supply of microfinance services to clients The approach taken by an MFI will depend on the degree to which these 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).

## **2.2 EMPIRICAL LITERATURE**

Kushoka (2013) adapted a research to examine the contribution of microfinance institutions 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 Microfinance Institutions (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 Microfinance Institutions (MFIs). The researcher concludes that Microfinance Institutions (MFIs) are key players in entrepreneurship development; it is recommended that Microfinance Institutions (MFIs) should package their services together (financial and non-financial) in order to positively boost growth of Micro and Small Enterprises (MSEs).

Sakthi (2011) and Praveen Kumar S. conducted a research study about the role of microfinance institutions 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 6 % of Africans borrow money to start a business where as 13 % borrow to buy food. 50 % 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 Masters Degree Program from the University of Glamorgan, UK. The aim of the study was to assess the factors

that led to the success of Micro-finance, 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 micro-finance; 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 programme 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 programme 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 the poverty from the rural economy.

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 called 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. In Addis Ababa there is no enough academic studies towards on the effects and influence of microfinance institutions on a growth and development of SMEs.

## Research work schedule and research cost breakdown

### Work plan

No	Activities	Duration
1	Literature Review	May 6- June 16/2015
2	Secondary Data Collection	June 25 - July 28/2015
3	Data Organizing	August 5- August 20 /2015
4	Data Processing and Analysis	August 21 - August 31/2015
5	Thesis Writing	September 7- October 2/2015
6	Refinement and Submission of the first Draft	October 5 – October 23/2015
7	Final Submission of thesis report	October 25 – November 7/2015
8	Thesis defence	November 8– December 31/2015

### Cost

Items	Total Cost
Stationary	Birr 1,100.00
Personnel	Birr 5,450.00
Transport	Birr 750.00
<b>To</b>	<b>Birr 7300.00</b>
Contingency (10% of Total)	Birr 730.00
<b>Grand To</b>	<b>Birr 8030.00</b>

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