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The Role of Microfinance Institutions in the Growth of Micro and
Small Enterprises

(A Case Study of Woliso Town)

A Research Thesis Submitted in Partial Fulfillment of the
Requirements for Master of Business Administration (MBA)

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List of Acronyms and Explanation

| | |
|---------|--|
| ACSI | Amhara Credit and Saving Institution |
| AEMFI | Association of Ethiopian Micro-finance Institutions |
| BRICS | Brazil, Russia, India, China and South Africa |
| CSA | Central Statistical Authority |
| DECSI | Dedebit Credit and Saving Institution |
| et al | And others |
| EU | European Union |
| FSS | Forum for Social Studies |
| FeMSEDA | Federal Micro and Small Enterprises Development Agency |
| GDP | Gross Domestic Product |
| GTZ | German Technical Co-operation |
| IFS | International Finance Cooperation |
| ILO | International Labour Organization |
| MFI | Micro-finance Institution |
| MoTI | Ministry of Trade and Industry |
| MSE | Micro and Small Enterprise |
| MSME | Micro, Small and Medium Enterprise |
| NGO | Non Governmental Organization |
| OCSSCo | Oromia Credit and Saving Share Company |
| ODA | Oromo Development Agency |
| ReMSEDA | Regional Micro and Small Enterprise Development Agency |
| RSA | Republic of South Africa |
| SDDA | Special Demand Deposit Account |
| SGB | Solidarity Group Based |
| SMB | Small and Medium Business |
| SME | Small and Medium Enterprise |
| SPSS | Statistical Package for Social Science |
| TVET | Technical and Vocational Educational and Training |
| UN | United Nations |
| UNCTAD | United Nations Conference for Trade and Development |

| | |
|-------|---|
| UNIDO | United Nations Industrial Development Organization |
| USA | United Nations of America |
| USAID | United Nations Agency for International Development |
| WB | World Bank |
| WTO | World Trade Organization |

ABSTRACT

Agricultural led Industrialization is an alternative economic policy that Ethiopia pursues. Micro and Small Enterprises occupy a prominent position in the development agenda of many developing countries like Ethiopia. MSEs are long recognized as important vehicle of economic diversification, employment creation, income generation and distribution, and poverty alleviation. Although the number of MSEs in Ethiopia is growing, it is not much more than their number; their stage and pace of growth and development are constrained by different challenges. Lack of access to finance is the most from among all adverse factors hindering the growth and development of the MSE sector in the country in general and in Woliso Town in particular.

The Federal Democratic Republic Government of Ethiopia has been promoting the development of MSEs through the formulation and implementation of Microfinance Institutions' and supporting strategic policies.

The purpose of this study is to assess the Role of Microfinance Institutions in the growth of Micro and Small Enterprises with special emphasis on Oromia Credit and Saving Share Company Woliso branch and its clients MSEs in the town. The information was collected using census data collection technique from the total population of twenty five MSEs operators/owner managers. Face-to-face interviews were conducted with selected MSE operators and MFI officials (OCSSCo's branch manager). Ten MSE operators were selected from the twenty five MSEs' owner managers for interview on the basis of their experience in the enterprises.

For the sake of achieving the objective of the study, the questionnaires were analyzed using descriptive analysis technique. The contribution of OCSSCo to its client MSEs growth was analyzed based on the changes on some growth indicators like MSEs' productivity, profits, accumulation of business assets, and employment.

The finding revealed that the OCSSCos' financial service delivered plaid a significant role in the growth and development of clients Micro and Small Enterprises in the town. But the study did not consider other factors than financial and non-financial services of OCSSCo that can influence the growth of the MSE sector. The study also identified the potential effects of some major challenges of MSEs in accessing micro credit of OCSSCo. Based on the findings, recommendations and suggestions were forwarded.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A dynamic and growing Micro and Small Enterprises (MSEs) sector can contribute to the achievement of a wide range of development objective (UNCTAD, 2003). In cross-section of both developed and emerging economies, the contribution of MSE sector to total employment, the attainment of income distribution and poverty reduction, entrepreneurship and innovation, saving mobilization and production of goods and services that meet the basic needs of the poor is promissory. For example, this sector generate about 6.2 per cent of the aggregate employment in the United State, 22.3 per cent in China, about 80 per cent in India, 67 per cent in Japan, and about 70 per cent in EU countries (Forum For Social Studies, 2011).

The potential advantages of a dynamic MSE sector have generated high expectations in many developing countries about the contribution of this sector to job creation and poverty reduction. Hopefully, the full development of the MSE sector can foster competitiveness in the economy and achieve a more equitable distribution of the benefits of economic growth among citizens.

In spite of MSEs large contribution in the countries development and economic growth, their growth and development in the developing countries were mainly inhibited by access to finance, poor managerial skills, poor financial records, lack of training opportunities and lack of facility premises and high costs of input. Further studies conducted by UN suggest that finance is the most importan constraints for the MSE sector. The MSEs have (as to say no) access to financial services from formal financial institutions to meet their working and investment needs.

However, the generation of self-employment in the Micro and Small Enterprise sector requires investment in working capital, at low levels of income, the accumulation of such capital may be difficult. Under such circumstances, loans can help the poor to accumulate

capital and invest in employment generating activities (Amina, n. d.-a). Loans enable the individual member or enterprises to enjoy the benefits of economies of scale and new technology (Amina, n. d.-b). Availability of credit to small business and low income households could greatly enhance their economic strength and eventually break the vicious circle of low-income, low-saving, and low-investment (Mohammed Yunus, 2004).

According to the study done by (Rweymamu, 2003), formal financial institutions have failed to serve the MSE sector. According to Yunus (2003), the problems why MSEs are not bankable are the lack of collateral, steady employment, income and verifiable credit history. Financial problems of most MSEs arise due to poor financial management, existence of information asymmetry and bank credit rationing (Chijoriga and Cassimon, 1999). The other reason why banks do not want to offer loans to MSEs is because the nature of loans required is too small and those banks find it more expensive to offer such loans. Most formal financial institutions regard low-income households as too poor to save, and are not personally known to them, do not keep written accounts or business plans, they usually borrow small and uneconomic sums. In general, formal financial institutions (banks) are for people with money, not for people without (Javed and Gobind, 2011a).

In Ethiopia, according to study conducted by Central Statistic Agency (CSA) in May 1997, showed that there were 584,913 informal sector activity operators and 2,731 small-scale manufacturing industries, employing a total of 739, 898 people (Zewde and Associates, 2002a).

With regard to the divers nature of activities in the informal sector (mainly microenterprises), the survey indicated that the majority of activities are concentrated into two main broad sectors; namely, 47 per cent in manufacturing sector, and 42 per cent in trade and services. The distribution of activities among the rest of the MSEs is about 6 per cent in community and personal services, with the remaining 5 per cent involved in agriculture, mining and quarrying, construction and transportation, activities; while the small-scale manufacturing activities are mainly engaged in the manufacturing of foods, fabricated metals, furniture and clothing.

The MSEs sector is characterized by a range of highly diversified activities, which can create job opportunities for substantial segments of the population. The MSE sector has also been instrumental in bringing about economic transformation by providing goods and services that are of adequate equity and are reasonably priced, to a large number of people particularly in the rural areas, and by effectively using the skills and talents of a large number of people without requiring high-level of training, large sum of capital or sophisticated technology. In all successful economies, MSEs are seen as an essential springboard for growth, job creation and social progress. The small sector is also seen as important force to generate employment and more equitable income distribution, activate competition; exploit niche markets, enhance productivity and technical changes, and through the combination all these measures, it stimulates economic development.

While we cannot deny the importance of medium and large industry and other enterprises for the growth of the Ethiopian economy, there is ample evidence to suggest that labor absorptive capacity of the micro and small business sector is high, the average capital cost per job created is usually lower than in big business, and its role in technical and other innovative activities is vital for many of the challenge facing Ethiopia

Despite their huge contribution to the national economy, in most developing countries, Ethiopia alike, MSEs face a wide range of constraints and they are often unable to address the problems they face on their own. According to (Zewde and Associates, 2002b) the constraints relate amongst too: the legal and regulatory environments, access to markets, finance, business information, business premises (at affordable prices and appropriate site); the acquisition of skills and managerial expertise, access to appropriate technology, access to quality business infrastructure.

Therefore, the Federal Democratic Republic Government of Ethiopian in recognizing the contribution of Micro and Small Enterprises in country's economy and the problems they are facing, developed National Microfinance policy which aims at enabling low-income earners to access financial and related services.

Microfinance Institutions (MFIs) provide a wide range of services including deposit, loans, payment service, money transfer and micro-insurance to the poor/low-income households and their enterprises (Yirsaw, 2008).

The introduction of MFIs in Ethiopia is seen as the best alternative source of financial services for low-income earners as a means to raise their income, hence reducing their poverty level and contributing in nation's economy.

Formal financial institutions (Banks) cannot reach millions of poor whom small loans could make huge differences (FSS 2011). Along this line the service of microfinance institutions enable poor people to start their own business generating with reduced risk or sustain an income and often begin to build up wealth and exit poverty.

Microfinance increases household income which leads to attendant benefits such as increased food security, the building of assets and increased likelihood of educating one's children. Microfinance is also a means for self-employment. It enables the poor to make change, when they increase income, become business owners and reduce their vulnerability to external shocks (Kereta, 2011).

Micro and Small Enterprises in Ethiopia, Woliso alike, however encountered with several factors that hinders their growth. Lack of access to finance is the most from among all adverse factors hindering the growth and development of the MSE sector. Related factors like lack of appropriate training, proper record keeping, lack of collateral (serious), inadequacy of loan granted, and shorter payback period are factors affecting the very growth of MSEs in the town.

1.2 Statement of the Problem

Micro and Small Enterprises need both financial and non-financial services to enhance their productivity, profitability and growth. The access to financial and business development services is essential for growth and development of Micro and Small Enterprises (Daniel, 2011).

When we see the current condition of MSE activities in the Woliso town, it is on the way to be the main possible solution to minimize the current un-employment problem of the

town. The distribution of MSE activities by type is: trade 155, manufacturing 174, service 10, construction 83, urban agriculture 92 (WTI Office, 2008)

Currently more than 58 different types of associations of MSEs are engaged in different activities that employ about 514 economically active part of the community of the town and made them productive (Abafita, 2003).

Micro finance industry has been a backbone in the sustenance and survival of Micro and Small Enterprises. Microfinance institutions, as part of their core business, provide loans to Micro and Small Enterprises. In addition to these financial services, MFIs also provide non-financial services like business training and consultancy services, financial and business management training to help improve the capacity of their clients in managing the loan resources granted them.

In Woliso, currently there are eight financial institutions (five Banks and three credits and saving) that to serve the town community engaged in different business activities with that of the surrounding small towns and rural hinterland areas. There are two privately owned credit and saving financial institutions providing services for the citizens in the town and one branch of Oromia Credit and Saving Share Company which is under Oromia Regional State government.

As an empirical study, done by Forum for Social Study, in the MSE industry indicated, there is great reliance on credit as tool for business growth and productivity. However most entrepreneurs/MSE operators assert to the fact that they are facing with a challenge to access to or inadequate capital in their business and this inhibits their growth.

Micro Finance Institutions have been providing credit services to the Micro and Small Enterprises in Woliso town since 2009. However, the extent to which the credit facilities contributed in improving the income and growth of the client enterprises and solving problems which hinders them not to get accessed to the loan services is not assessed. Therefore, this study tried to investigate the underlying issues micro and small firms are facing in their development. Particular attention was given to the issue of financing firms'

development, where the major microfinance institution in Woliso town, OCSSCo, plays an active role.

1.3 Research Questions

To be able to meet objectives of the research, the study adopted the following key guiding question:

1. What are the contributions of MFI to Micro and Small Enterprises' growth?
2. What are the changes on MSEs after accessing credit services?
3. What are the challenges of MSEs in accessing credit?

1.4 Objectives of the Study

1.4.1 General Objective

The main objective of this study is to assess the role of Microfinance services of OCSSCo in the sustainable growth of the client micro and small enterprises in Woliso town.

1.4.2 Specific Objectives

Specifically the Study attempted:

To assess the Micro Finance Services available to MSEs in the town

To assess the extent to which the Micro Finance Services, in terms of loan/credit, saving, training and consultancy, contributed to the MSEs have changed their business.

To examine the challenges that MSEs face in accessing to microfinance services

To recommend/suggest possible solutions to the problems of MSEs in accessing financial services

1.5 Significance of the Study

This area of the study is very important to the development of the socio-economic activities for developing countries like Ethiopia in general and for Woliso Town in particular. The study motivation stem from the fact that although few studies have been done on this issue in the country, it focuses mainly on national, regional or metropolitan area level; whereas, the severity of poverty and unemployment is experiencing in villages and towns like Woliso too. Therefore, the result of this study can spot important information about the activities of MFIs in the sustainable growth of MSEs in the town. Hence,

For the researcher: The study contributes to the body of knowledge on the role of MFIs in the sustainable growth of MSEs.

For the MSE sector: This study provides basic information about OCSSCo's financial and other related services to the MSEs operating in Woliso and to others who are not yet clients so that they can use the credit services.

The study assists MSEs to adopt the necessary measures needed to ensure the desired growth in the MSE industry.

For Government Agents: A study of this nature is very important as it provides the administrative body with the needed information in implementing policies to enhance the development of the MSE industry and direct their efforts of sector development appropriately and do the right thing.

For the Public as a whole: It also enlightens the public on the role that MFIs play in the MSE sector.

For Interested Researchers: From an academic perspective, this study's insight should contribute to the future development of this line of research.

1.6 Limitation and Delimitation of the Study

1.6.1 Limitation of the study

Like all other researches, this research had its own limitations. Although, there are number of different internal and external factors that can be researched in relation to the growth of MSEs, this study is limited to financial and non-financial products of MFI (OCSSCo); and the research was also limited to one Microfinance Institution and Small number of Micro and Small Enterprises that were found in the town. The researcher used descriptive data analysis technique which is limited to frequency, percentage and total, this may not indicate the magnitude of changes of the variables in the study.

1.6.2 Delimitation of the study

This study assessed the role of Oromia Credit and Saving Share Company Woliso branch on the growth of client Micro Enterprises in Woliso Town. The scope of this study was extended to those micro enterprises who are active clients of OCSSCo in the town during the study was conducted between March 25 and April 27, 2013.

1.7 Organization of the Thesis

The rest of the paper is organized as follows: Chapter Two presents the theoretical and empirical related literature to the study, while Chapter Three provides research methodology. Chapter Four outlines data presentation, analysis and presentation and Chapter Five concludes and suggest some recommendations.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Introduction

This part focuses on some of the concepts of Micro and Small Enterprises. It assessed the role that Micro Finance Institution services play in the growth of Micro and Small Enterprises.

2.1.1 Micro and Small Enterprise Definition

2.1.1.1 International Overview

According to (Javed and Gobind, 2011b), Micro and Small Enterprise can be defined as productive activity either produce or distribute goods and/or services, mostly undertaken in the formal sector.

While the importance of MSE sector is acknowledged internationally, defining MSE firm is a challenging task, as every county has its own definition. There is no single, uniformly accepted definition of a micro or small firm. Firms differ in their level of capitalization and employment. Hence, definitions which employ measures of size, when applied to one sector might lead to all firms being classified as micro or small, while the same size definition when applied to a different sector might lead to a different result.

This section provides a broad overview of Micro and Small firms definitions used across the globe within the objective of understanding what Micro and Small Enterprises really are.

In the newly revised ADS219, USAID, for example defines micro enterprise as a very small enterprise owned and operated by poor people, and usually in the informal sector (Jason and Carissa, 2008)

According to UNIDO (2002), the definition of MSE is a significant issue for policy development and implementation and depends primarily on the purpose of the classification. For the purpose of policy development, UNIDO generally advises countries to take into account the qualitative and quantitative indicators for Micro and Small Enterprise definition.

Qualitative indicators are:

| <u>Category</u> | <u>Micro and Small Enterprise</u> |
|-----------------------|---|
| Management | Proprietor entrepreneurship Functions – linked personality |
| Personnel | All-rounded knowledge Lack of University graduate |
| Organization | High personalized contacts |
| Sales | Competitive position not defined and uncertain |
| Buyer's relationships | Unstable |
| Production | Labor intensive |
| Research development | Following the market, intuitive approach |
| Finance | Role of family funds, self financing |

The following table summarizes employment indicator for the purpose of differentiating among Micro, Small and Medium Enterprises in different regions.

Table 2.1 Synopsis of SME Definitions by Region

| | | | | | | BRICS | | | | | |
|----------------|------------------------------|------------------------------|------------------------------|-------------------------------------|-------------------------------------|------------------------------|------------------------------|------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | EU | USA | ASIA | EGYPT | GHANA | BRAZIL | | RUSSIA | INDIA | CHINA | RSA |
| | | | | | | Industrial | Commercial | | | | |
| WORDS | Small and Medium Enterprises | Small and Medium Enterprises | Small and Medium Enterprises | Micro, Small and Medium Enterprises | Micro, Small and Medium Enterprises | Small and Medium Enterprises | Small and Medium Enterprises | Small and Medium Enterprises | Micro, Small and Medium Enterprises | Micro, Small and Medium Enterprises | Micro, Small and Medium Enterprises |
| # of EMPLOYEES | | | | | | | | | | | |
| Micro | < 10 | 0 | < 5 | 1 to 4 | Up to 5 | Up to 19 | Up to 09 | 0 | 0 | 0 | < 20 |
| Small | < 50 | < 100 | 5 to 50 | 5 to 14 | 6 to 29 | 20 to 99 | 10 to 49 | 15 to 100 | 0 | < 300 | 50 to 99 |
| Medium | < 250 | < 500 | 51 to 150 | 15 to 49 | 30 to 99 | 100 to 499 | 50 to 99 | 101 to 250 | 0 | 300 to 2000 | 100 to 200 |

Source: Underhill Corporate Solutions (UCS, 2011:23); Pretoria, South Africa

The abbreviation “MSE” occurs commonly in the European Union (EU) and international organizations such as the World Bank (WB), the United Nations (UN) and the World Trade Organization (WTO). The term “Small and Medium Business” or (SMBs) is predominantly used in USA. In Africa, MSME is used for micro, small and medium enterprises.

2.1.1.2 Official definition of Micro and Small Enterprise in Ethiopia

Ministry of Trade and Industry (MoTI) adopted official definition of Micro and Small Enterprises in Ethiopia. Micro enterprises are the smallest, informally organized business activities while small enterprises are rather formal businesses that fall under the purview of the country's legal and regulatory system. MSEs operate in all sectors -manufacturing, trade, services both in rural and urban areas (Berihun et al., 2009a).

Accordingly, Micro Enterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000 but excluding high-tech consultancy firms and other high-tech establishments. Small enterprises are business enterprises with a paid-up capital of more than Birr 20,000 but not more than Birr 50,000 but excluding high-tech consultancy firms and other high-tech establishments.

Other working definitions that were in use classify firms into different size categories based on number of workers as criteria. For example, according to Central Statistical Authority (CSA), a Micro Enterprise is one with fewer than 10 workers; those with 10-50 workers constitute small enterprises while medium and large scale enterprises are those with more than 50 employees.

Table 2.2 Classification of enterprises by paid up capital and number of employees in Ethiopia

| Type of Enterprise | Paid Up Capital | No. of Workers |
|--------------------|-----------------------|----------------|
| Micro Enterprises | Less than Birr 20,000 | Less than 10 |
| Small Enterprise | Birr 20,000 – 500,000 | 10 - 50 |
| Medium Enterprises | More than Birr 50,000 | More than 50 |

Source: AEMI, 2009

Recently, the CSA classified manufacturing establishment as: (i) Large and medium scale that engage 10 or more persons and use power driven machines; (ii) Small scale manufacturing establishments engaging less than 10 persons and use power driven machines; (iii) Cottage/handicraft manufacturing establishments performing their activities by hand (i.e. using non-power driven machines/hand tools).

2.1.2 Contribution of MSEs to the Economy

It is worth mentioning that Micro and Small Enterprises all over the world are known to play a major role in socio-economic development. This business sector is recognized in economies world-wide, irrespective of the economy's developmental stage. The contribution towards growth, job creation and social progress is valued highly and small business are regarded as an essential element in a successful formula for achieving economic growth (Underhill Corporate Solutions, 2011a).

The role of Micro and Small Enterprises (MSEs) in income and employment generation is increasingly recognized. In developing countries the informal sector, in which most the MSEs, lay is large source of employment and livelihood of particularly the urban population (Gebreeyesus, 2007).

Micro and Small Enterprises remain one of the most reviewed topics in literature especially as its impact on all kind of economies cannot be overlooked. Worldwide, they are accepted as the engine of economic growth and for promoting equitable development. The major advantage of the sector is its employment potentials at low cost. The rapid expansion of small scale enterprises in economies of developed countries in the 1980s and 1990s has created a widespread conviction that small, new ventures are the most important sources of entrepreneurship and as dynamic and innovative factor, they contribute directly to economic growth (Pioty and Rekowski, 2008)

According to (ILO, 2002) estimations informal employment (outside agriculture) defined as employment that comprised of both self-employments in informal enterprises (i.e. small and/or unregistered) and wage employment in informal jobs (i.e. without secure contracts, worker benefits, or social protection) represents nearly half or more of the total

non-agricultural employment in all regions of the developing regions. It ranges from 48% in North Africa, to 51% in Latin America, 65% in Asia and 72% in Sub-Saharan Africa.

According to the estimation of (Underhill Corporate Solutions, 2011b), SMEs represent over 90% of private business and contribute to more than 50% employment and of GDP in most African countries.

2.1.3 The Micro and Small Enterprise Sector in Ethiopia

Due to the increasing unemployment problem, Ethiopia is forward to combat unemployment by injecting Micro and Small Enterprises (Kefale and Chinnan, 2012d). Micro and Small Enterprises have a tremendous potential to generate employment for the majority of the urban labor force. They are also important sources of income not only for those people who could not find employment in other sectors but also provide cushion to falling income of low wage earners (Kefale and Chinnan, 2012c)

According to Hbtamu Tezera, since 1991, in Ethiopia, there has been significant improvement in the incentive system and the Macroeconomic environment with positive implications for manufacturing activities. A liberal investment code has been introduced. The financial system has been partially liberalized. Tariffs have been reduced and non-tariff barriers have been removed. A public sector reform programme has also been introduced and one of the main objectives being to privatize MSEs that were nationalized in the 1970s. All these reforms have immensely improved the domestic policy environment for MSEs. In fact, the government has gone a step further in its support for Micro and Small Enterprises by formulating a National Micro and Small Enterprises Development and Promotion Strategy.

The Government of Federal Democratic Republic of Ethiopia has recognized and paid due attention to the promotion and development of MSEs for they are important vehicles to address the challenge of unemployment, economic growth and equity in the country. To this effect, the government has formulated a National Micro and Small Enterprise Development and Promotion Strategy, which enlightens a systematic approach to alleviate the problem and promote the growth of Micro, Small and Medium Enterprises.

In recognition of the important role of MSEs in creating employment opportunities and generating income, hence reducing poverty, the Ethiopian Government introduced its first Micro and Small Enterprise Development Strategy in 1997 (Berihun et al., 2009b). Measures that support the development of the private sector, including many measures to support the development of small enterprises were taken. Provision for incentives to the creation and development of micro-entrepreneurial activities is considered as one of the main components of economic growth or poverty reduction promotion strategies by the government and other development stakeholders (Berihun et al. 2009)

Recently the Micro and Small Enterprise sector has received growing attention both by government and stakeholders alike. General policy guidelines and specific strategies that facilitate the development of the Micro and Small Enterprise sector are well in place; the government is also incorporating MSEs in its various sectoral policies and strategies.

At a national level, the Federal Micro and Small Enterprise Development Agency (FeMSEDA) is responsible for the overall implementation of the MSE development strategy. Each regional state used to have its own regional MSEs development agency (ReMSEDA).

Micro and Small Enterprise Development program in Ethiopia meaningfully had been given due attention by government since 2004/2005. Of course, in 1996/97 National Micro and Small Enterprise Strategy was developed by the government. However, the degree of recognition to the sector with regard to job creation and the alleviation of abject poverty among impoverished youth and women was not sufficient (Debela, n. d.) . Until 2004/2005, the national strategy was implemented by Federal MSEs Development Agency organized only at national level. Because of this, it was very difficult to make the strategy practical specifically in delivering business development service for Micro and Small operators.

Thus, by considering the critical role of the sector and the constrained faced by Micro and Small operators since 2004/2005 the Government of Ethiopia decide to establish Micro and Small Enterprises Coordinating body at regional level. Accordingly, MSEs Development Agencies are set up in all regions, even in sub branch offices at

zone/ district level. The system helps to support a lot of Micro and Small enterprises and thereby to create job opportunity for unemployed sub sector of the society.

Currently, the government amends MSEs strategy with the objective of that in addition that the sector play alleviating poverty and reducing unemployment, to help out the sector to play its pivotal role as a base to medium and large scale industry.

In amending the strategy, a lot of experiences had taken from different countries especially from India, Japan and Malaysia (Debela, n. d.).

Generally speaking, Micro and Small Enterprises are ubiquitous in Ethiopia. With MSE sector cutting across of all the economy, however, it has provided to be a source of productive employment next to agriculture, both in urban and rural set-ups. According to the 1997 CSA survey, the Ethiopian informal sector along with the small manufacturing sector comprised of a labor force which eight fold compared to the medium and large scale manufacturing sector (Ic Net limited 2007; in Haftu et al 2009:10).

The cottage and handicrafts and small manufacturing sub-sectors amount for 87 per cent and 7 per cent of total employment of the manufacturing sector respectively. Similarly, micro enterprises constitutes 97 per cent of the establishment and account for 19 per cent of production in the manufacturing sector (Central Statistical Authority, 2003).

According to the CSA report on survey of small-scale manufacturing industries (GTZ, 2002), there are 39,027 small-scale manufacturing industries. Of these, about 51 per cent (100 per cent in case of rural area) are grain mills. The other important industrial groups are manufacturing of furniture 14 per cent, manufacturing of wearing apparel 10 per cent, manufacturing of fabricated metal products 10 per cent, and manufacturing of food products 7 per cent. The remaining is shared by publishing and printing, manufactures of wood and wood products, other non-metallic mineral products, textile, luggage, handbags, footwear etc...

2.1.4 Challenges Facing Micro and Small Enterprises

Micro and Small Enterprises are known to face a host of problems at various stages in their life span. Micro and Small Enterprises lack managerial skills, resources and experience to motivate the potential investors to invest on them. They view them as high risk business concern and some well to do MSEs may be hindered critical financing (Boma and Zechary, 2010a)

MSEs in developing countries are considered to be too unstable by banks to invest in. Due to this instability, the banks consider MSEs to have high risk and the costs those banks suffer to monitor the activities of the MSEs are high. According to Boma and Zachary (2010:20), Bhattacharya et al. (2000), Hossain (1998), Sia identified that formal financial institutions (banks) are reluctant to lend to MSEs since investing in MSE activities is considered by banks to be very risky. They find it risky in sense that if invested in, and in an event of unfavorable business conditions, they have low financial power, assets and easily go bankrupt (Sia 2003).

The cost of borrowing from bank is very high and this prevents MSEs to borrow from this institution. The application process for loan is long and difficult for MSEs to meet up with the demands. The collateral demanded by banks for a loan is based on fixed assets and which are very high in other to hinder these business organizations to acquire loans.

Researchers grouped problems of MSEs into five – finance, government, marketing, equipment and infrastructure and finally found that finance is the most crucial problem (Kefale and Chinnan, 2012b). Poor banking services, with high interest rates, lack of working capital, poor market selection and rapidly changing external market conditions are the major reasons for failures for MSEs (Kefale and Chinnan, 2012a)

The report of CSA, (2006) indicates that 32 per cent of small scale manufacturing industries faced problems during their commencement of their operation; for 38 per cent of these, the major problem was shortage of initial capital; 57 per cent absence of market demand; 12 per cent shortage of supply of raw materials, and shortage of spare parts 7 per cent (CSA 2006; AEMFI 2009).

According to CSA report (2009), the top three problems faced by urban informal sectors operators during start-up stage are: lack of sufficient capital 38 per cent, in adequate skills 10 per cent and lack of premises 6 per cent. After starting their operation they confront serious problem of shortage of working capital, and also face problem of limited market.

2.1.5 Micro Finance and Micro Finance Institutions

“Microcredit, or Microfinance, is banking for the un-bankable; bringing credit, saving and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases, because they are unable to offer sufficient collateral. In general banks are for people with money, not for people without” (Gert van Maanen, 2004).

Micro Finance can be a critical on effective poverty reduction strategy. Improved access and efficient provision of savings, credit and insurance facilities in particular can enable the poor to smooth their consumption, manage risk better, built assets and gradually develop microenterprises, enhance their income earning capacity and improved quality life (Rubambey 2001).

Microfinance is a provision of thrift and other financial services and product of very small amount to the poor in rural and semi-urban and urban areas for enabling them to raise their income level and improve living standard. Microfinance is provided in varying context, either to individuals or groups ranging from personal microcredit to small enterprises support and rural finance.

Micro Finance Institutions are institutions that provide suitable financial and other services using innovative methodologies and systems at low cost to meet the needs of low-income section of the population and act as financial intermediaries in a genuine sense (Wolday, 2000).

The main features of microfinance institution which differentiate it from other commercial institutions are, such that, it is a substitute for formal credit; generally requires no collateral; have simple procedures and less documentation; easy and flexible payment schemes; financial assistance of members of group in case of emergency; most

deprived segment of population are efficiently targeted; and last but not least, is group interaction.

2.1.6 Micro Finance Industry in Ethiopia

Based on the development of the microfinance industry at national and global level, Ethiopia took the direction of building sustainable microfinance institution in order to deliver financial services to the poor. Microfinance was first seen in Ethiopia in the late 1980s, offered mostly by NGO relief and development programs. The year 1996 saw the formalization of the industry with the government issued “Proclamation for licensing and supervision of microfinance institutions No 40/1996” Wolday A. (2004). This Directorate officially brought MFIs under Ethiopia’s monetary and financial framework. It enabled all MFIs to accept deposits and stressed the need for sound commercial principles in the sector.

The Ethiopian microfinance sector is characterized by its rapid growth, an aggressive drive to achieve scale, a broad geographic coverage, a dominance of government backed MFIs, an emphasis on rural households, the promotion of both credit and savings products, a strong focus on sustainability and by the fact that the sector is Ethiopian owned and driven. The industry has a strong focus on loans to the very poor. Sector outreach is impressive and the financial performance of the sector is considered good; MFIs have also mobilized a significant amount of savings Wolday, A (2004).

The microfinance sector of Ethiopia, as at 2009, recorded 2.3 million borrowers. There are currently 31 MFIs registered with the National Bank of Ethiopia serving clients through 433 branches and 598 sub-branches. Studies estimate that this figure serves between 10-25 per cent of the total microfinance demand in the country. The Ethiopian microfinance market is dominated by a few large players, all of which are closely linked to regional government ownership. The three largest institutions account for 65 per cent of the market share in terms of borrowers, and 74 per cent by gross loan portfolio. These are Amhara (ACSI) 694,993 active borrower and 1,940, 8274,401 gross loan, Dedit (DECSI) 396,648 active borrowers and 1,849,942,011 gross loan and Oromia (OCSSCo) 503,000 active borrowers and 1,280,000,000 gross loan; Credit and Savings Institutions.

In contrast to many other African countries, MFIs in Ethiopia reach relatively large numbers of clients, with ACSI reaching over 650,000 borrowers. Most institutions have over 20,000 clients.

2.1.7 Oromia Credit and Saving Share Company

Oromia Credit and Saving Share Company (OCSSCo) is one of the largest Micro Financial Institutions (MFIs) in the nation. According to Ethiopian Commercial Code, the company was established in 1987 and has been operating in Oromia Regional State which is also the largest and most populous regional state in the country. OCSSCo is devoted to alleviate poverty and encourage entrepreneurship through micro credit and saving. It provides small, low-cost loans, for poor people and encourages them to have their own business and develop their saving habits.

OCSSCo has four administrative layers which include center, branch, area office and head office. The company's 245 branches in Oromia categorized under six area offices in Assela, Neqempte, Jimma, Shashemene, Harargdhe, and Addis Ababa (Finfinne). The head office of OCSSCo is located in Addis Ababa at Africa Street, Qirquos sub city, in front of Bole Printing Enterprise.

OCSSCo provides small amount of loan to low-income individuals and unemployed citizens mostly for income generating activities. Micro and Small Enterprises use the loans to run their small businesses that focus on production of construction materials, wood and metal products, animal fattening, poultry and other related business activities. In addition to lending money, it offers training and business advisory services to its clients.

Amount and Terms of Loans – OCSSCo has mainly two types of clients; Solidarity Group Based (SGB) and Micro and Small Enterprises (MSEs). The type of client determines the term and loans of the company. The ceiling of the solidarity group based loan is about 5000 Br. for each group member. The payback period for solidarity group based is one year or the end of harvesting time; because many of the clients are peasants. For Micro and Small Enterprises the amount of loan is determined by their business plans and its visibility. Based on agreement, the payback period varies from quarter to a year.

Lending Models – Oromia Credit and Saving Share Company mainly has two types of lending models; Solidarity Group Based (SGB) and Micro and Small Enterprises. For group based, the company requires prospective borrowers to form or to join a group of four members. These groups are organized into centers with eight to twelve groups to a center. The group and center model encourage a culture of financial responsibility among the group. The group also serves as a social network of voluntary mutual support, as members have responsibility to settle the loan, because they are liable for their group members.

The other model is cooperative lending system – In this case a group of people who organized under any form of cooperatives and has a legal license could access OCSSCo's loan. However, OCSSCo has mostly been working with micro and small enterprises that create job opportunities for many unemployed citizens.

Special Demand Deposit Account (SDDA) – A special account designed to fulfill the needs of those clients who do not wish to collect interest that accrues on their saving account.

OCSSCo's Approaches to Encourage Savings by its Borrowers – Saving is one of the major products of Oromia Credit and Saving Share Company. The company pays due emphasis on the importance of regular savings. Savings are required during the life of each client's loan relationship with the company. Each borrower is required to save 10 per cent of its fresh loan and 10 birr every month at center meeting until their quite from membership.

OCSSCo also encourage regular voluntary saving both from clients and non-clients. To encourage the saving habits of the society, OCSSCo pays 5 per cent interest which is greater than Conventional Banks by 1 per cent. OCSSCo has also implemented Hndura and Sorama (Children's and Pensions saving) to widen its saving sources.

OCSSCo's Products/Services

Although credits and savings are principal products of the company, it also provides products such as: local money transfer and micro-insurance to its clients. More over it offers advisory services free of charge.

How Does OCSSCo Make Money

Oromia Credit and Saving Share Company is Micro Finance Institution with profound social objectives. Its main sources of revenue are contribution from its share holders, bank loans, grant fund, loan interest and service charge paid by borrowers. Since its vision is to become self-sustained organization that can support itself, the company gives more attention to saving mobilization. In addition any profit will be reinvested in the company to disburse more microloans to generate more income.

2.1.8 Theoretical Links between Microfinance and MSEs Development

About 90 percent of the people in developing countries lack access to financial services from institutions, either for credit or savings, which further fuels the “Vicious Cycle of Poverty”. If the people of less developed countries have a limited capacity to invest in capital, productivity is restricted, incomes are inhibited, domestic savings remain low, and again, any increases in productivity are prevented. A lack of access to financial institutions also hinders the ability for entrepreneurs in developing countries to engage in neither new business ventures, inhibiting economic growth, and often, the sources and consequences of entrepreneurial activities are neither financially nor environmentally sustainable. The main objective of microcredit 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 (Boma and Zechary, 2010b). Microfinance serves as a means to empower the poor, and provides a valuable tool to assist the economic development process.

Financial services help the poor expand their economic activities and increase their incomes and assets, their self-confidence grows simultaneously.” And finally, “Large-scale sustainable microfinance helps create an enabling environment for the growth of political participation and democracy.” Thus, the economics of microenterprise make it a

compelling anti-poverty strategy (Rubinstein, 1993). With a loan of \$100, in a poor country one can start a small business; repay the loan in a year, while still owning the productive assets. Over time, a poor person can earn enough to escape poverty. Sustainable Micro Entrepreneurship is a small-scale, self-sustaining active development process initiated by the poor to help themselves break free from their poverty.

The extent to which microfinance, entrepreneurship and sustainability are interdependent is becoming increasingly recognized by experts in their respective fields of work, associated with economic development. *Over 500 million poor people around the world run profitable microenterprises and often cite credit as the primary constraint to business growth (IFC, 2002) thus, credit is essential for poor entrepreneurs in less developed countries. Additionally, firms supplying the finance to these entrepreneurs are equally dependent on them for business, and to expand their services to more villages or urban areas.* However, this dependency belies the assumption that microfinance can be profitable in less developed countries. (Robison, 2002), a prominent expert in the field of microfinance, notes that “The formal sector has begun to realize that financing the poor can be both economically and socially profitable.”

The interrelationships and interdependency of microfinance and entrepreneurship in less developed countries further exemplify the informal practice of “sustainable micro entrepreneurship” among the world’s poor. But although interrelated and interdependent, each of the aspects must be further explored individually to gain a greater understanding of the complexities of the connection between them. This will also aid in evaluating the case of sustainable micro entrepreneurship in reducing poverty in developing countries.

2.2 MSEs Growth and Its Indicators

The purpose and goal of any business firm is to make profits and growth. A firm is an administrative organization, whose legal entity or framework may expand in time with the collection of both physical resources, tangible or resources that are human nature (Ngehneve and Nembo, 2010).

The term growth in this text can be defined as an increase in size or other objects that can be quantified or a process of changes or improvement (Penrose, 1995). The firm size is the result of firm's growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Ngehneve and Nembo 2010). The growth of a firm can be determined by supply of capital, labor and appropriate management and opportunities for investment that is profitable. The determining factor for a firm's growth is the availability of resources to the firm (Ngehnev and Nembo 2012)

For the purpose of this study, productivity of the MSEs, profits, accumulation of business assets, business expansion and employment were considered as indicators of growth for the enterprises.

2.3 Empirical Study

According to USAID, Development Alternatives, Inc. USA, DC (2005:21) study entitled 'Understanding Micro and Small Enterprise growth', for the various reasons ranging from a lack of collateral to bias against small firms, MSEs tend to face greater financial constraints than do large firms. Empirical studies provide evidence about the ways in which reduced access to finance hinders firm growth. MSEs in developing countries apply for and receive formal banks loan relatively infrequently, and thus rely on other types of credit such as trade credit, overdraft, and informal loans. Microfinance Institutions also provide important sources of financing for MSEs, but their outreach is more limited than that of lenders especially in rural areas. In some sectors, such as agriculture, the suppliers' credit portfolio may be as much as 100 times the size of the traditional microfinance loan portfolio. According to USAID's study, across the world entrepreneurs typically start firms primarily through their own savings because their limited access to start up capital. Even after MSEs overcome the startup hurdle, a lack of credit frequently hinders their growth during earlier years, because younger firms tend find financing even more difficult than older firms. The study also indicated that, over the life the firm, growth also can be hindered by credit constraints that curb investment to maintain or improve technology. While MSEs owners often claims that insufficient is their most pressing obstacle, entrepreneurs perceptions may not always correspond to actual growth trends.

Eshetu Bekele and Mammo Mushie (2009:15) in their study titled ‘Promoting Micro, Small and Medium Enterprises (MSMEs) for Sustainable Rural Livelihood’, identified that financing is one of the crucial element to undertake research and development activities that determine the development of MSMEs. According to this study result while encouraging strides have been made in liberalizing the domestic financial sector, still it is a bottleneck for the rapid growth and development of the sector. In the study, 79% of MSMEs that getting credit finance from formal financial institutions is a key problem. It is obvious that inadequate access to credit limits the expansion of firms, choice to technology, hiring suitable premises, and the employment of skilled personnel. This types of problem hinders the finance potential of MSEs to adequately meet the needs of their consumers. Access to credits on favorable terms is essential for initiating new business ventures, fulfilling working capital requirements, as well as expanding existing business.

2.4. Previous Studies on Ethiopian Micro and Small Enterprises

In his study based on the survey covering 50 MSEs in Addis ketema city of Addis Ababa, and aimed to investigate the underlying causes of micro and small business failures, (Mulugeta, 2008) indicated that lack of capital was the major problem which leads to failures of MSEs. Among the respondents, most of them complained that lack of capital (financing problem) was contributing to the malfunctioning of their business.

Hbtamu Tezera conducted a research to assess Challenges and Opportunities of Small and Medium Scale Enterprises, in Addis Ababa by using a sample of 150 SMEs from Arda Sub City. According to this research finance and related factors like inadequacy and costly of credit facilities and sources, shortage of working capital, lack of record keeping and documentation, and failure to analyze financial statements, constrained the growth of MSEs (Tezera, n. d .)

Other study was conducted by (Bekele and Muche, 2009), to assess the impact of influential factors that affect the long-term survival viability of small enterprises by using a random sample of 500 MSMEs from five major cities in Ethiopia. According to this research, the factors that affect the long-term survival MSMEs in Ethiopia are found to be adequacy of finance, level of education, level of managerial skills, ability to convert part

of their profit to investment. This is so because the finding of the study revealed that business that failed, during the study period were characterized inadequate finance.

Teggene and Meheret (2010) was conducted research with intention to assessing the contribution of the MSEs strategy to poverty reduction, job creation, and business development, relying on a sample survey of 557 operators and 200 MSEs chosen from four major cities of Ethiopia, Adama, Hawassa, Bahirdar and Mekele. The raised causes for this prospect of business were not growing; lack of finance, lack of market, and lack of working place

The major challenge identified by various studies on MSEs in Ethiopia is associated with finance. There are many causes of finance related problems of MSEs. Micro and Small Enterprises are considered by banks as very risky firms because they have low financial power and assets. They borrow low amount of loan which result in high processing cost. Therefore banks are reluctant to grant loan for this sector. On the other hand MSEs unable to supply collateral securities required by majority financial institutions.

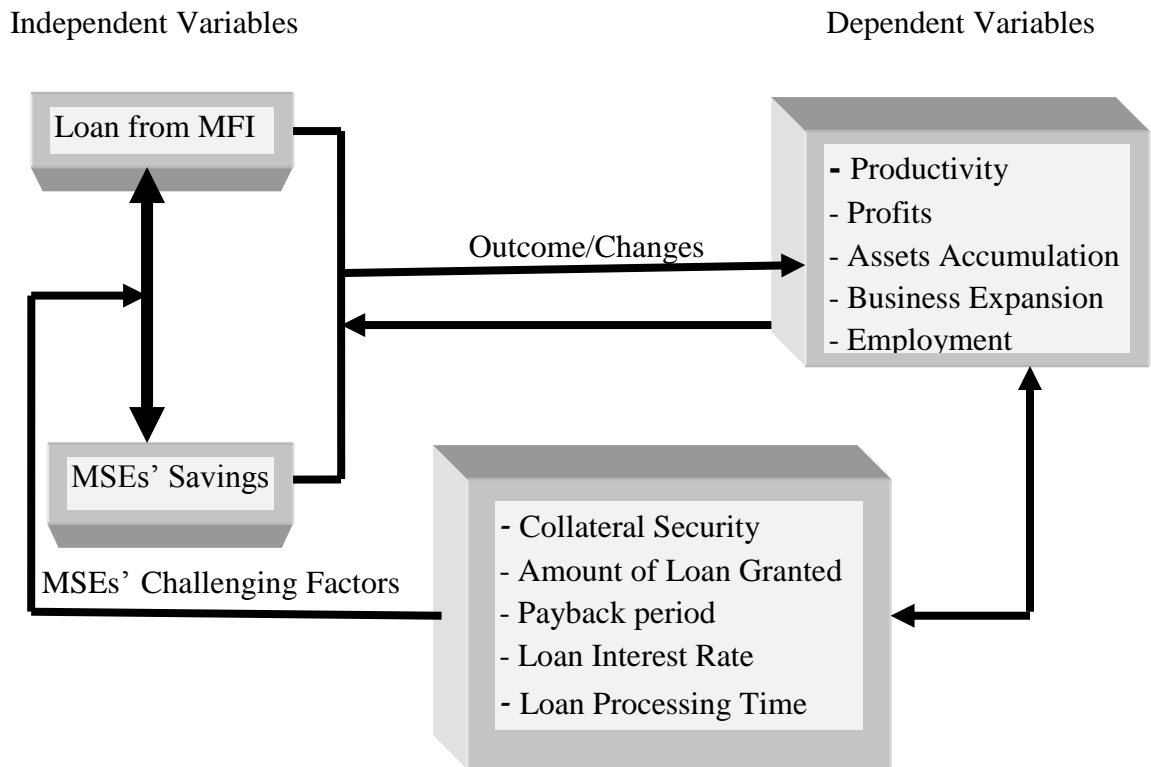
Until recently, the dominant approach has been based on the view that poor people lack the financial capital that will enable them to invest and engage in productive activity, in particular making use of their labor. In general, this view identifies capital constraints to growth as a key cause of slow development. In reality, literature on MSEs in Ethiopia is scanty and most of the available studies were not conducted specifically in line with finance related services of MFIs to the growth of MSEs. However, this study tried to assess the role of microfinance service by targeting and deeply investigating those operators who use the microfinance services of Oromia Credit and Saving Share Company in Woliso Town.

2.5 Conceptual Framework

Conceptual framework means concepts that relate to one another were used to explain the research problem. Since business growth is influenced by credit and saving factors, MSEs owner managers need to understand what influences businesses to grow. The conceptual factors include the financial service facilities that are credit and saving. The influence of these factors to the firm growth is very important. To match the research objective to

conceptual framework, business growth is dependent variable and credit and savings are independent variables. The relationship is shown in figure 2.1 below

Figure 2.1 Conceptual Framework



Source: Own Model

The assessment were then made by comparing the changes in terms of productivity, profits, accumulation of business assets, and employment shown after MSEs have started doing business with MFI.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1. Description of the Study Area

3.1.1 Physical Features

3.1.1.1 Geographical Location and Administration Structure

Woliso is one of the emerging towns in South West Shao Zone, Oromia regional State. The town is situated at about 115 km away from the capital city of Ethiopia, Addis Ababa; on the highway from Addis to Jimma.

Around late 1920s, Woliso had developed into a sizeable village settlement that took the form of town and it is under Municipal administration since then. In 2005, Woliso has become capital of the newly structured South West Shao Administrative Zone.

The name Waliso is attributed to one of the Oromo clans of the area. According to Macha tradition, Waliso is the second son of Liban. Accordingly, the name Waliso (or Woliso land) is given to this area where the waliso clan predominantly inhabited. At the moment the town of Woliso has area coverage of 2,225.25 hectares and seven Administrative Kebeles.

3.1.1.2 Topography and Climate

The altitude of the town ranges from 1500m to 1900m above sea level. The town has mid-lands (Woina Dega) climatic condition from the major eco-logical zone of Ethiopia. It has mean annual rain fall of 1200ml and temperature of 18 – 27°C. Approximately, all the area within the town is defined as plain land that can be considered as convenient and easy for every activity.

3.1.2 Socio-Economic Aspects

3.1.2.1 Population

Woliso town is spatially growing at a growth rates of 6.2 per cent from time to time mainly due to population increase as the result of immigration from the surrounding rural areas, including from the Gurage land. According to Woliso Town Administration Office, population projection in 2008 (based on Population and Housing Census of 1994, conducted by Central Statistical Agency) the size of population is more than 60,729 of which 29,870 were Males and 30,859 were Female. According to the same source, the average family size of household is estimated 5.1. Statistical record of the administration office of the town indicates that out of the total population, about 40.4 per cent were under 15 years of age, 3.2 per cent were above 64 years of age and 56.3 per cent were in the intermediate (15 – 64) and economically active age group.

Ethnically the population is composed of almost all nation and nationalities of the country, Ethiopia. More over the availability of different infrastructures has made Woliso a strategic place for living and investment.

The vital factor that makes Woliso an ideal town is the life style of its population. Regardless of ethnic and religious diversity, the population lives in harmony and tolerance. Industriousness and hospitality are the basic assets of people of Woliso, which makes the town unforgettable by anyone who spends a while in Woliso.

3.1.2.2 Employment and Economic Aspect

Cities and towns are engines of economic growth. Yet, for this potential to be fully realized, attention needs to be paid to employment generation, improvement of working conditions, enterprise development and many other aspects related to labor (ILO's Sectoral Activities Department).

According to report of Woliso Administration office of 2008, from the economically active population of the town which is 34, 190.43 (56.3 per cent) only 12,035 (35.2 per cent) were employed in different economic sectors.

Wholesale and retail trade, Garage service, and household goods, 24.5 per cent; Hotels and restaurants 19 per cent; Education, health and social work 7.83 per cent; Public administration, defense and compulsory social security 7.74 per cent; and Manufacturing 5.5 per cent are sectors that absorb more labor in the town.

Unemployment Rate – According to the administrative office report of 2008 of the town, of the total economically active population unemployment rate of the town was estimated to be 16 per cent (M=16.78 per cent, F=15.44 per cent). According to the report, based on the report of CSA 1994, this figure is less than the urban average unemployment rate of the country as a whole (22 per cent), nearly equal to the corresponding figure for Oromia region (15.4 per cent), and quite more than the West Shao Zone (14.83 per cent).

Although a 22 per cent urban unemployment rate was reported by CSA in 1994, this agency indicated in its 2012 report as the urban unemployment rate dropped consequentially, from 20 per cent in 2009, 18.9 per cent in 2010, and 18 per cent in 2011.

Agricultural led industrialization is one and the primary elements of the economic development goal of the country. Woliso, as one of those towns of Oromia region which located at an approximate radius of nearly 100 km distance from the National Capital Addis Ababa, is indicating a good start in micro and small scale enterprises. Currently, there are some industries like soap factory, Food complex factory and other small scale industries in the town.

Commercial activity in the town is relatively hot, because it serves as a market center for many different producers who bring their product to the town. On the other hand Tourism attraction potential of the town is very high. Hot spring water, historical and cultural sites, its land features and historical as well as cultural beliefs are areas for interested group to visit and invest in.

3.2. Target Population

The target population for the study comprises users of the services of Oromia Credit and Saving Share Company (OCSSCo) micro and small enterprises (MSEs) in Woliso. An enquiry from the Woliso office of Trade and Industry showed that fifty-eight Micro and Small Enterprises were registered; but at present there are about twenty five active participants in the town. In addition, there are three Micro and Financial institutions operating in the Town. For the purpose of this research, from the micro financial institutions, Oromia credit and saving share company (OCSSCo) would be dealt with purposefully. Though, there are three other private micro finance institutions in the town, they are not suitable for this study because they are not well organized and lack experience. Therefore, the researcher used Oromia Credit and Saving Share Company (OCSSCo) for its great experience in micro credit operation.

3.3 Data Collection Method

3.3.1 Census

Data can be collected using three main types of surveys: censuses, sample survey and administrative data. The method you choose will depend on a number of factors. Census is a type of survey where data is collected from all the units in the population of interest; (Royal Statistical Society, 2005). There is no sampling variability attributed to the statistics because it is calculated using data from the entire population. In a sample survey, only part of the total population is approached for data. Administrative data are collected as a result of an organization's day-to-day operations. These administrative data files can be used later as a substitute for a sample survey or a census. Since the group of population at which the researcher aimed to deal is relatively small in number and can be reached within a given time and cost, he used census data collection method to collect appropriate data from twenty five MSEs for research at hand.

3.4 Research Approach

The two main types of research approaches used in social sciences are: quantitative and qualitative research approaches. There is no one best approach to study management research rather the approach that is the most effective for resolution of a given problem. The choice of a research approach is determined by many variables such as the nature of the study, the objectives that the study seeks to achieve, resource availability and time constraints.

Quantitative research approach refers to the systematic empirical investigation of phenomena and quantitative properties and their relationships. Quantitative research approach provides a relation between empirical observation and mathematical expression of quantitative relationships.

Qualitative research approach refers to all non-numeric data or data that have not been quantified and can be a product of all research strategies (Saunders et al, 2009). As argued in the literature, quantitative analysis cannot always reveal the views and opinions of people involved in a novel programme.

Also, qualitative and quantitative methods can be used in the same study. They can bring together the depth and the width into a research. I think that a combination of qualitative and quantitative research methods will give this study a good deal since the researcher designs to use some structured questionnaires for MSEs actors.

With the research set objectives, and to understand chosen subject, the researcher laid emphasis on the qualitative research method, though he induces some level of quantitative approach that could be realized through questionnaires.

3.5 Research Strategy

3.5.1 Case Study

Case study is one of the many ways of carrying out social science research. Hence, case study is an appropriate research strategy used in writing this thesis since it investigates a real-life phenomena, and gives answers to what role microfinance institution's services played in the growth and development of SMEs in Woliso Town.

This study has fundamentally focused mainly on the role of MFI to the growth of MSEs for a number of reasons. First, MSE sector is the most important source of employment, income, and it is one of the means that can bring industrial transformation in the country. Second, a wide range of and diversified problems are associated with this sector which needs to be addressed in order to make the industry competitive. Furthermore, the MSE industry is at its infancy in the country and Woliso too; and critical to job creation and poverty reduction. Lastly, MSEs potentially exhibit most of the prerequisite conditions essential to support them, especially in accessing finance, availability of convenient work area (premises), training on how to manage resources and how far networks among different enterprises and stakeholders form. Growth of MSE sub sector in the country's economy in general and Woliso in particular will thus in a realm of the possible.

The reason for selecting Woliso Town as a case study is that the town accommodates largest number of unemployed work forces those from vocational schools, high schools complete, universities as well as school dropout. In addition to this, there are jobless migrants from the surrounding rural area due to different social and economic reasons. On the other hand there is high rate of failure in MSE sector as evidenced by Oromia Credit and Saving Share Company. The researcher, therefore, hopes that this study serves to investigate the contribution of Microfinance institutions for the sustainable growth of Micro and Small Enterprises in the town and also to identify any gaps thereof.

3.6 Data type and source

This study mainly used primary data gathered by means of a structured questionnaire responded to by clients of OCSSCo Micro and Small Enterprises owner managers in Woliso Town. In addition, separate interviews were conducted using semi-structured interview guide with officials and experts of Oromia Credit and Saving Share Company and some purposively selected MSEs entrepreneurs. Similarly, information was gathered from MSEs operators who have case histories and from other relevant bodies through interview. The study was also augmented by Secondary data that obtained from different sources.

3.7 Data Collection Techniques

Data for this study were collected through the following ways:

Documentation: This would involve collecting information from existing surveys, reports, and documents. This type of secondary data gathered includes policy and strategy documents, project documents, strategic action plans and other similar corporate documents. To access the secondary data, requests were made to different organizations to supply the researcher with published or unpublished data on these sectors.

Structured Questionnaires: A questionnaire is a type of data collection instrument and provides a structure to the data collection process. A questionnaire asks for information using specific questions. This was used to collect information from entrepreneurs in the MSE sector. Questionnaires were designed and used by the researcher to obtain survey data that allow an understanding of the contribution of micro financing services to the growth of micro and small enterprises. The questionnaire is prepared in English language. The respondents should know and told about the research objectives in the language, which they can understand. Most respondents in the survey speak Amarigna. Therefore, the questionnaires were translated into Amarigna. This enables the respondents to easily understand the questions, express their ideas comfortably and reduce communication barriers. Questionnaires allow the researcher to collect large amount of data in relatively short time. And questionnaires are more objective in their nature.

Interview Guide/Semi-Structured Interview: Interview guide were used to gather information from OCSSCo's Woliso branch manager and some key informants purposively selected entrepreneurs from MSEs. They were purposively selected, because they are expected to be well knowledgeable about the issues related to the MSE activities. Interview guides help to elicit response on various aspects related to the role of micro finance in growth of micro and small enterprises. Leedy and Ormrod (2005) argue that interviews can yield a great deal of useful and in-depth information, because people are reluctant to provide sensitive and confidential information to someone they have never met. Some of the motivations for semi-structured interviews are: "In semi-structured interviews the researcher will have a list of themes and questions to be covered, although

these may vary from interview to interview. This means that you may omit some questions in particular interviews, given specific organizational context that is encountered in relation to the research topic. The order of questions may also be varied depending on the flow of conversation. On the other hand, additional questions may be required to explore research questions and objectives given the nature of events within particular conversations” (Saunders, *et al.* 2007).

Observation: Observation during the fieldwork will be used mainly to uncover issues beyond those covered in the questionnaires. The researcher observed such areas as premises in which they are working, business assets owned (accumulated), expansion, and related living conditions of the entrepreneurs.

3.8 Data Analysis

Data collected from the questionnaire were analyzed, summarized, and interpreted accordingly with the aid of descriptive statistical techniques such as frequency, total score and simple percentage. Qualitative as well as quantitative methods were used in the analysis of the primary data collected. The quantitative data were analyzed using Statistical Package for Social Scientists (SPSS) and Microsoft Excel. The findings presented in the form of tables, charts and figures.

3.9 Ethical Considerations

All the research participants included in the study were appropriately informed about the purpose of the research and their willingness and consent was secured before commencement of distributing questionnaire and asking interview questions. Although the interview sessions were being tried to tape (mobile)-record, it was impossible as majority of the respondents hesitated to be voluntary. Regarding the right to privacy of the respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential, thus collective names like ‘respondents’ were used.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

Questionnaires were distributed to operators /owner managers of micro and small enterprises who were active clients of Oromia Credit and Saving Share Company in the town. The researcher himself delivered the questionnaires to the respondents in seven different Kebeles of the town and got back, duly filled by them. In all questionnaires were distributed to twenty five MSEs Owner operators and all (100%) were collected. The questionnaires received were fully filled and complete.

Data Entry, Validation and Cleaning: Prior to data entry, a series of questions were checked for errors. In particular, attention was given to ensuring the completeness of each questionnaire and whether all the questions were answered as per the instruction. Attention was also given to identify miss recorded items and responses for the open ended and multiple answer questions. Data from questionnaires that passed through such checking were entered, using software package of SPSS version 16.0. The entries were checked by comparing with the original questionnaire. Data cleaning was involved printing and reviewing a series of tables.

4.2 Demographic Characteristics of Respondents

Table 4.1. Demographic Background of respondent (n = 25)

| S. No | Descriptions | Respondents | |
|-------|------------------------|-------------|------------|
| | | Frequency | Percentage |
| 1 | Sex | | |
| | 1.1 Male | 17 | 68 |
| | 1.2 Female | 8 | 32 |
| | Total | 25 | 100 |
| 2 | Age | | |
| | Below 18 | - | - |
| | 18 -35 | 20 | 80 |
| | 36 -50 | 5 | 20 |
| | Above 50 | - | - |
| | Total | 25 | 100 |
| 3 | Level Education | | |
| | Illiterate | - | - |
| | Grade 1 -8 | 6 | 24 |
| | Grade 9 – 12 | 2 | 8 |
| | TVET 10 +1 – 10 + 3 | 14 | 56 |
| | 1 st Degree | 3 | 12 |
| | Total | 25 | 100 |

Source: Own Field Survey, 2013

Majority of the micro enterprises were headed by men, 68 per cent, but only 32 per cent by female. Majority of the women-headed business tend to concentrate on activities such as, retail trading, cafeteria, and local enjera baking. The finding is relatively consistent with the country's business environment where majority of owner manager entrepreneurs are male Eshetu Bekele and Zeleke Worku, (2008).

With regard to age, as indicated in Table 4.1 above, majority of the respondents 80 per cent were found between 18 – 35 years, which is powerful productive age category of the

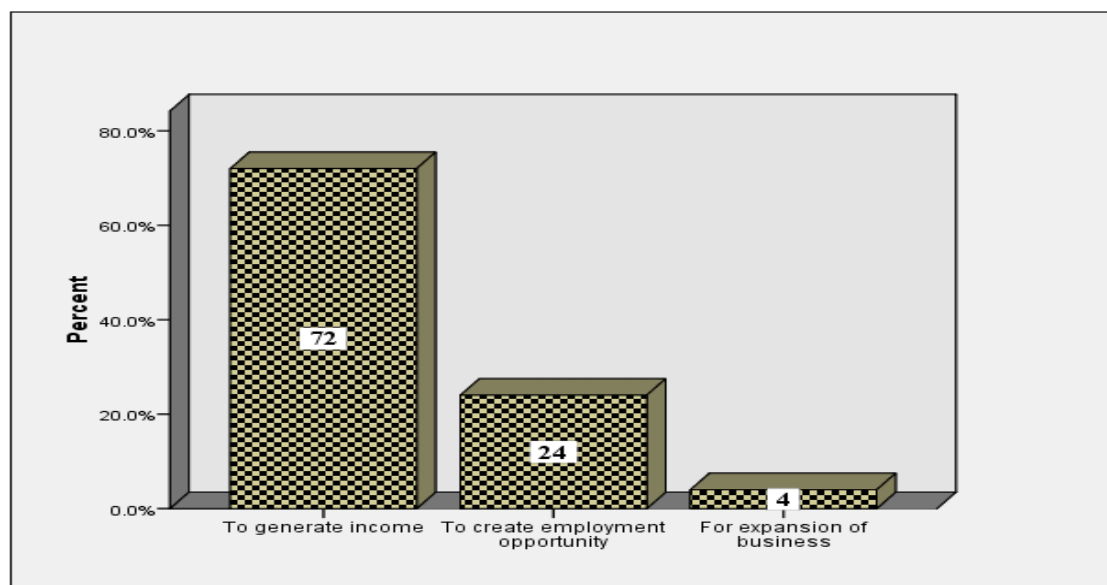
society. The remaining 20 per cent were adult that were found between 36 – 50 years. In general these age categories imply that it is active productive force age group, can negotiate the loan terms, and shoulder deferent responsibilities in the enterprises' life.

The respondents exhibited some degree of education attainment. A great proportion of operator managers 56 per cent have some TVET college education, 24 per cent have some elementary school education, 8 per cent of them have high level of education, and the remaining 12 per cent of the respondent operators have first degree of formal education. The presence of people that have gone to school eases the sensitization process and training about business development and credit utilization and repayment. This is because the educated people could grasp the idea faster than those with low education level. It was also found out that the issue of expansion, asset accumulation, and financial record keeping were all found to be well understood and practiced by the educated people in the enterprises.

4.3 Background of Surveyed MSEs

4.3.1 Year and Objective of Establishment

Figure 4.1 Objective of Establishing Enterprises (n = 25)

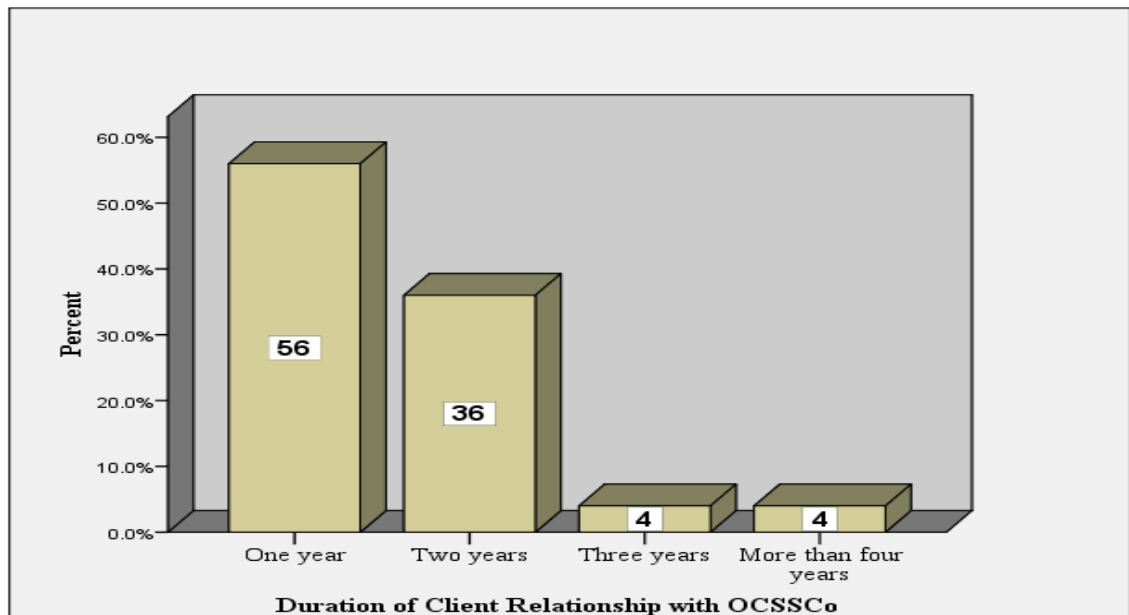


Source: Own Field Survey, 2013

According to response gained from the managers/operators of MSEs, most of the business enterprises, 68 per cent were established between 2011 and 2013, the remaining 32 per cent started their operation between 2007 and 2009. This data indicate that majority of these organizations came into being when OCSSCo’s Woliso branch began operation in the town.

Starting a new business rests on a set of beliefs that the organization can offer some product or services to some customers, in some geographic area, using some type of technology at a profitable price (David, 2011). Organizations have both vision and mission statement. “Where there is no vision, the people perish”; proverbs in Fred R. David. A clear vision provides the foundation for developing a comprehensive mission statement. A mission statement allows for the generation and consideration of a range of feasible alternative objectives and strategies. Prior to establishment various objectives are taken into consideration that can motivate and lead towards growth. As the respondent replied for, what motivated them to establish business enterprise, 72 per cent responded that they wanted to generate income (make money) to be rich, 24 per cent wanted to be self employed and create job opportunity for others as well, and 4 percent wanted to operate and expand existing business which was ran by the family and other partners.

Figure 4.2 Client’s Business Relationship with OCSSCo (n = 25)



Source: Own Field Survey, 2013

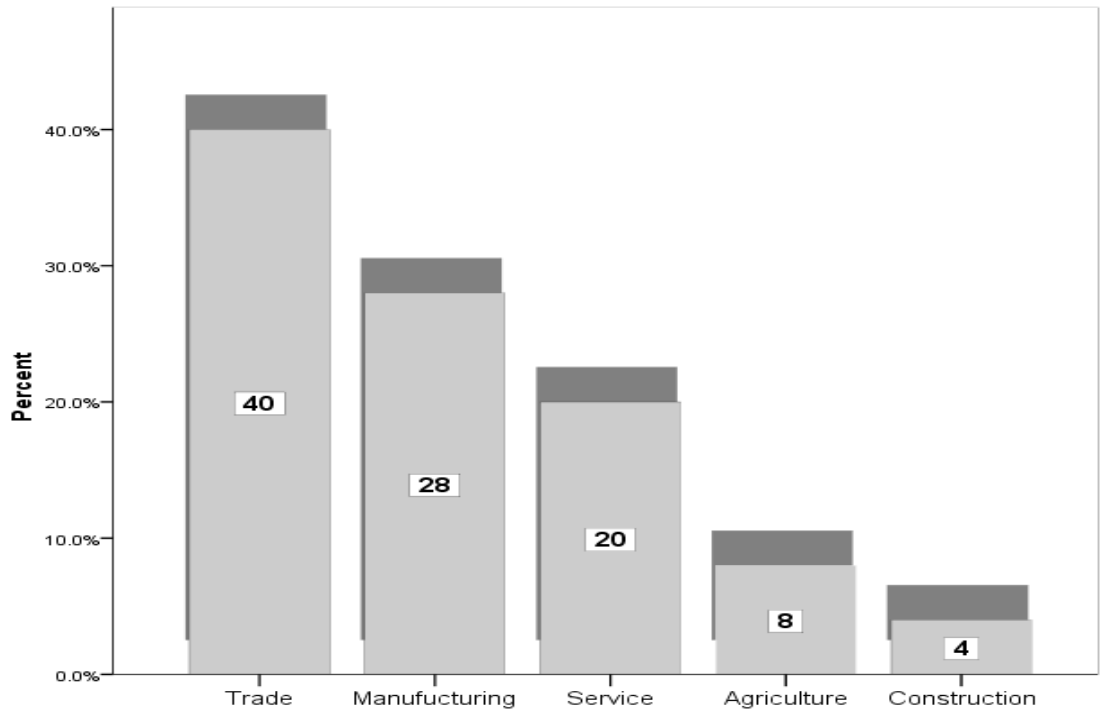
Growth of Micro and Small Enterprises can be hindered not only by lack of access to credit facilities at appropriate time and term, but also by not using the borrowed many in appropriate manner. High Investment in physical/fixed assets at the early stage of MSEs means that a huge sum is unnecessarily tied up in fixed assets. As indicated in figure 2 above 56 per cent of the owner/ manager respondents are doing business with OCSSCo for one year, 36 per cent for two years, 4 per cent for three years, and 4 per cent for more than four years. This indicates that majority of the firms have shorter time in credit life with less experience. On the other hand, they have indicated that they appropriated different machineries and other business assets for their firm. The study suggests that, although the physical assets can be used as collateral for loan, it is difficult for MSEs to get adequate money to be used as working capital.

4.3.2 Business Sector/Line

4.3.2.1 Types of business sectors

As indicated in Figure 4.3 below, there are five business sectors which are active clients of OCSSCo operating in the town. From these line of business 40 per cent of them were engaged in retail trade such as shops, boutiques, mobile accessories, and grain; 28 per cent were engaged in manufacturing of products such as leather products, construction materials (block-ate and ceramics) and other traditional household materials (zemenawi magedo-kotabi midija); 20 per cent of them were engaged in services such as Garage, radio and mobile repair, and cafeteria; 8 per cent were engaged in urban agriculture like Animal fattening and poultry; and 4 per cent of them were engaged in construction.

Figure 4.3 Business Sector/line Respondents Engaged In. (n = 25)



Source: Own Field Survey, 2013

Hence, the analysis indicated that retail trade business sector is dominating sector in the town with an employment level of 40 per cent. The next dominating business sector in the town is manufacturing with an employment level of 28 per cent; and service sector with an employment level of 20 per cent respectively.

The above data indicate opportunities for entrepreneurs to invest on urban agriculture. As observed, there is high demand for urban agricultural product like eggs, hens (chicken), milk, meat, and other agricultural products in the town. As the town is suburban in its nature it is suitable to produce such products. Therefore, eyes have to look at this area of business activity.

4.3.2.2 Number of Employees in the sectors

Regarding employment level, majority of them 76 per cent hired less than six workers in their enterprises; 24 per cent of them employed 6 – 10 workforces in their organizations.

Table 4.2. Number of Employees in the business sectors (n = 25)

| Below 6 | | 6 -10 | | 11-30 | 31-50 | Above 50 |
|---------|----|-------|----|-------|-------|----------|
| F | % | F | % | % | % | % |
| 19 | 76 | 6 | 24 | 0 | 0 | 0 |

Source: Own Field Survey, 2013

Hence, it is imperative to say that there is more job opportunity for others in the sector because more workers can be employed in each of these enterprises.

The other aspect of the analysis shows that majority of the MSEs 76 per cent employed less than six workforces; 24 per cent of them hired 6 – 10 employees. Therefore, the data in the above table indicates all the MSE are at their micro level, because all of them employed 10 and less number of workers in their enterprises. Even though, the definition of micro and small enterprises varies from country to country this definition is eligible to Ethiopian definition of MSEs by MoTI. When we see the qualitative factor of the definition as stated by UNIDO (2002), most of the enterprises were managed by owner entrepreneurs and production is labor intensive. Moreover, the data in the table 4.3 below indicated that the manufacturers and services providers use hand tools; not power driven machine. As they told to the interviewer their ceiling net invested capital in their enterprise is Birr 19,000.

4.3.2.3 Type of machines used

When we look at their machine usage, it is clearly indicated by the respondents that all of the manufacturers and service providers use hand tools to perform their production activities, as defined by AEMFIs, in Berihun et al (2009)

Table 4.3. Kind of Machines Manufacturer Respondents are Using (n = 25)

| Power driven machine | | Hand tool | | Others | No machine/other sectors | |
|----------------------|----|-----------|--|--------|--------------------------|----|
| % | F | % | | % | F | % |
| 0 | 12 | 48 | | 0 | 13 | 52 |

Source: Own Field Survey, 2013

4.4 Inadequacy of Capital and its sources

Capital is the most valuable item to establish, ran, and expand business enterprises. Established business enterprises such as clients of OCSSCo require adequate capital for their business activities. Each business sector has its own and critical problem. For example, respondents indicated that manufacturing sector is more affected by long term loan to buy machine and other production materials. The lack of fund can leads to excessive borrowing from different sources and consequently, business become insolvent because their liabilities (borrowing) are higher than their assets. When MSEs owner managers were asked, they unanimously (96 per cent) agreed that the capital for the operation of their business is not adequate as per the demand for goods and services they need for their operations. As they responded, the major constraint in their operation to expand and grow their business is shortage of capital.

Table 4.4 Inadequacy and Source of Capital (n=25)

| Items | Response | Frequency | Percentage |
|---|----------|-----------|------------|
| Do you have adequate capital for your Business? | Yes | 1 | 4 |
| | No | 24 | 96 |
| Do access more credit from OCSSCo than other sources? | Yes | 24 | 96 |
| | No | 1 | 4 |

Source: Own Field survey, 2013

The respondents indicated that, to mitigate this problem, beside their savings the other alternative and basic solution is borrowing from Oromia Credit and Saving Share Company. As the respondents mentioned, If they repaid the amount they previously borrowed fully, they can access more credit than before. The first main source of capital for their businesses is their own savings from the profits of the enterprise.

As they have answered for the question, ‘Do you access more credit from OCSSCo than other sources?’ almost all 96 per cent of them said ‘Yes’.

Open-ended questions were prepared to capture the opinion of the client respondents; to mention the reasons why they prefer to borrow from OCSSCo. Their reasons were low lending interest rate compared to other informal and conventional lending financial institutions, ease to communicate OCSSCo’s officials/workers and most of the time less complexity/bureaucratic nature of its documentation processes.

4.5 Products Offered by OCSSCo

According to OCSSCo’s Woliso branch manager report, the company provides both financial and non-financial services to the low income group of the community.

4.5.1 Financial Services

A significant portion of our country, Ethiopia’s population lives without access to basic, affordable and sustainable financial services. This is largely due to the perception by formal banks of the unattractive risk-return outlook of serving the low income group of the population. Data from the National Bank of Ethiopia suggests that the country has a ratio of total population per bank branch of 112 thousand (MFTransparency, 2011).

According to the same source, due to these factors, more than two third of the population of Ethiopia has resorted to traditional, informal and expensive financial services such as money lenders, keeping cash at home, funeral funds etc.

This situation however is changing in terms of creating access to services for the low income group of the population. As a result, microfinance institutions like OCSSCo have come into the picture, filling the gap in access to credit facilities. These institutions are

also slowly moving towards solving issues of access to sustainable and affordable saving at the bottom end of the market.

Saving is one of the major products of Oromia Credit and Saving Share Company offers to its clients. According the branch Manager, borrowers must demonstrate a pattern of savings as part of their qualification for loans. Clients have to have 20 per cent deposit balance in their saving account to request for loan. Savings are required during the life of each client's loan relationship with OCSSCo. Each client is required to save 10 per cent of his/her fresh loan and ETB 10 every month until him/her quite from membership. OCSSCo also encourages voluntary saving both from clients and non-clients. To encourage the saving habits of the society, it pays 5 per cent saving interest which is greater than conventional banks' interest by 1 per cent.

Initially, enterprises have to save 20 per cent of what they will request (borrow). During their operation the clients have to save 10 per cent from their profits. As of the branch manager report, the company pays 5 per cent annual interest rate to the client for what they have deposited. Savings are used as one of the instruments for arrears settlement.

According to the same source, OCSSCo provides small loans to low-income individuals and unemployed citizens mostly for income generating activities. It also lends money to Micro and Small Enterprises to undertake different business activities.

OCSSCo has mainly two types of clients, solidarity group based (SGB) and Micro and Small Enterprises (MSEs). These lending models determine the amount and terms of loans. The ceiling of the solidarity group based loan is EHB 400 for each group member. The installment (payback) period for solidarity group based is one year or at the end of harvest time. For MSEs, the amount of loan is determined by the type of business plan ant its feasibilities. Based on agreement, the payback (installment) period is from a quarter to one year. OCSSCo charges 10 per cent lending interest rate.

4.5.2 Non-financial services

Table 4.5 Training Service (n = 25)

| Q. Do You Get Any Training before or after credit | | | |
|---|----|----|----|
| Yes | | No | |
| F | % | F | % |
| 6 | 24 | 19 | 76 |

Source: Own Field Survey, 2013

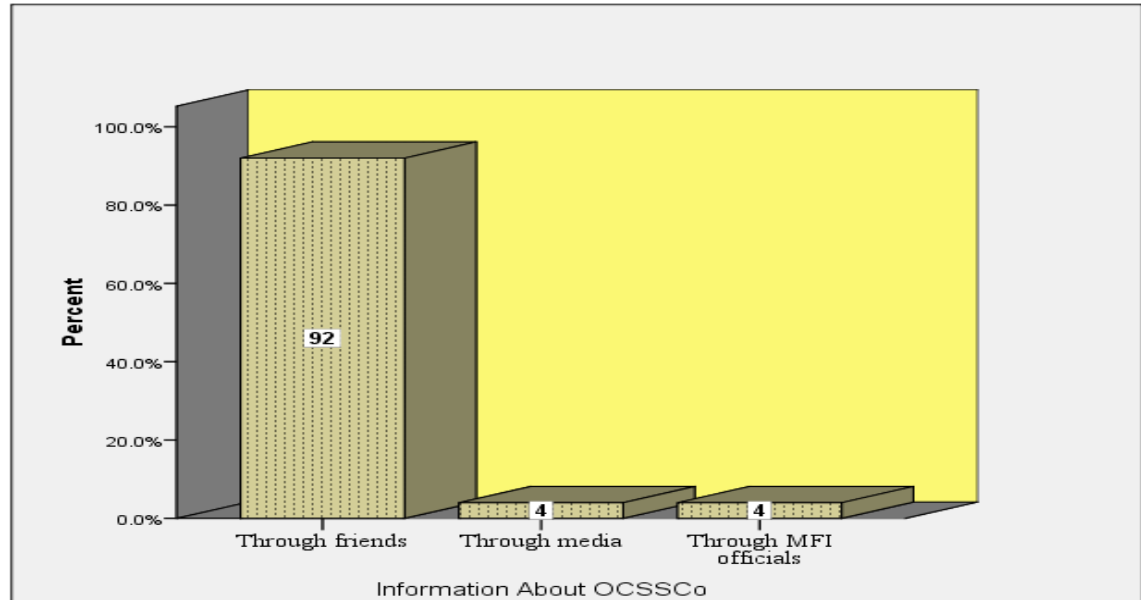
OCSSCo's Woliso branch manger also responded that, apart from financial service the Company offers non-financial services like training, micro insurance and local money transfer. But, on the other side, for the question 'Do you get any training before or after credit?' majority 76 per cent of OCSSCo client MSEs' mangers said 'No'. 24 per cent of them answered 'Yes'. If MFIs want poor people access credit services, they have to integrate financial services with non-financial services such as training, business development services and counseling, in order to help poor clients become good and responsible entrepreneurs. This data can imply that training support is required for MSEs on how to use the borrowed money for intended purpose, how to keep daily sales and expenditure, how to save part of their earnings and how to repay the loan according to term of loan.

4.6 MSEs' Knowledge of OCSSCo

To access credits, the one who needs credits has to know where the credit is obtained. It is not enough for entrepreneurs to decide to borrow, they have to decide on the source of credit to use. The decision on the choice of credit source is partly determined by the information available to the potential borrower on the available sources and their specific requirements. MSEs' leaders were asked from where they got information about OCSSCo and its services. Majority of the respondents, 92 per cent of them replied that they got the information from their friends and relatives. This finding can indicate that

there is information gap between OCSSCo and its target market (the low income group) and this information gap could limit its outreach.

Figure 4.4 Sources of Clients' Information about OCSSCo



Source: Own Field Survey, 2013

4.7 Outcome of OCSSCo's Contribution on MSEs

It is expected that enterprises can benefit from microfinance program by improving access to their capital, which helps them to expand their business. Through this expansion enterprises can increase productivity, profit, and create job opportunities to their household and the community at large. MSE growth defined simply as an increase in the number of firm employees may not be sustainable, but growth accompanied by improvements in productivity is likely to contribute to the desired development effects. Table 4.6 below shows the outcome of OCSSCo's contribution in enterprises using some of growth indicator variables like productivity, profits, accumulation of business assets, and job opportunity after taking loans.

Accordingly, majority of the operators/owner managers 84 per cent responded that they expanded their business enterprises after they accessed credit from OCSSCo. As an

example a client outlined that he expanded his business from one room container to two room container. On the other hand about 16 per cent of the respondents not expanded their business enterprises. Whereas, 84 per cent of the respondents answered for the question asked 'Did you add more enterprise?' no; about 16 per cent of the respondents reported that they added new enterprise to the existing one. A client for example, showed that apart from his Garage he started animal fattening as an additional line of business. The other client showed that she added Cafeteria beside her computer center.

Similarly, 60 per cent of the respondents indicated that they hired additional workers to their enterprises other than their coworkers. Total employment in the enterprises rose by 10 workers since they took their first loan; (Q. no. 25). Of course, according to the response from micro enterprise operators more of them (14 in number) have taken loan for the first time. 40 per cent of them said not hired workers. The above finding is relatively in conformity with a recent World Bank study (Jasmina Glisovic and Meritxell Martinez, (2012), in 104 developing countries' economies found that firms with 5-19 employees generate the most new jobs. It also indicated that small firms also have the highest employment growth and sales growth rates, but they account for a relatively small share of total employment.

On other hand, 56 per cent of the manufacturing and service enterprises' owner managers responded that their organization's productivity increased after they had started doing business with OCSSCo. Service enterprises measured their productivity in terms of their more sales to more number of customers (market penetration). 44 per cent of the respondents said 'not known'. These borrowers were not sure that whether their enterprise's productivity increased or not.

Moreover, it is clearly indicated 92 per cent of the respondents confirmed that they have acquired more business assets (computers, photocopy machines) refrigerators, hand tools, shelves and other small office materials. Similarly, 96 per cent (large majority) of the respondents confirmed that their enterprises' profits increased after they borrowed money from OCSSCo. Open ended questions were administrated to catch up their additional opinion about the financial institution and were asked to what extent the services of OCSSCo supported their overall business activities. Majority of them responded that the

OCSSCo was understood as development partner or co-worker in the field of facilitating development in their business activities. It was seen as a source of capital for the people wanted to start up investment ventures whereby loans were acquired and invested in business enterprises. This made it the central engine for entrepreneurs economic-development and it act in place of formal banks. The respondent said that “*We Sometimes Consider the Institution as ‘Mother’ of us.*” In sum, the microenterprises owner manages outlined that, through the MFI’s credit services they had been able to start and/or expand their income generating activities/enterprises; and also added that they have better level of performance and confidence than before.

This finding can be supported by the study done by Luyirika, 2010 in University of South Africa; according to her study, with the provision of loan, it becomes easier for the entrepreneurs to start up income generating activities such as retail trade in shops, petty trade in fresh produce sold in daily markets, and other business activities. The availability of capital also led the entrepreneurs to expand their stock in the shops and diversify into other enterprises in order to effectively increase their incomes. She also stated in her study that, the existence of an income generating activities from where entrepreneurs earn daily income also shows that there was socio-economic development after having acquired the capital from microfinance to set up. This is because the lack of capital is usually a setback to socio-economic development of entrepreneurs especially women and youth.

Table 4.6 Effect of OCSSCo’s contribution on MSEs (n = 25)

| Q. Did You Make Any of the Following Changes in Your Business Enterprise after you get loan capital? | | | |
|--|-----------------|-----------|------------|
| Indicators | Response | Frequency | Percentage |
| Expanded size of Business | Yes | 21 | 84 |
| | No | 4 | 16 |
| Added new Enterprise | Yes | 4 | 16 |
| | No | 21 | 84 |
| Added more Business Assets | Yes | 23 | 92 |
| | No | 2 | 8 |
| Hired more workers | Yes | 15 | 60 |
| | No | 10 | 40 |
| Your enterprise’s production after the loan | Decreased | | - |
| | Stayed the same | | - |
| | Increased | 14 | 56 |
| | Not known | 11 | 44 |
| Your business’s profit after the loan | Increased | 24 | 96 |
| | Stayed the same | 1 | 4 |
| | Decreased | - | - |
| | Not known | - | - |

Source: Own Field Survey, 2013

4.8 Challenging Factors that Micro Enterprises Face in Accessing Credits

Respondents established that although they get the services from MFI, there are some challenges faced in accessing the loan. The respondents affirmed that they were not coerced into accessing the MFI's services, but the challenges they faced affected the benefits of the services enjoyed. According to their response, accessing credit facilities from financial institutions by itself come with its own challenges that impede activities and hinder the full potential of utilization of credit granted.

The following part discusses challenging factors micro enterprises encountered in accessing credit facilities from MFIs particularly from OCSSCo.

4.8.1 Kinds of Credit Needed by MSEs

Table 4.7 Type of Credit (n = 25)

| Q. What kind of credit do you request? | | | | |
|--|----|-------------|----|------------|
| Long Term | | Medium Term | | Short Term |
| % | F | % | F | % |
| 0 | 13 | 52 | 12 | 48 |

Source: Own Field Survey, 2013

MSEs need deferent types of credits depending on the time that their business activities take to complete. Accordingly, majority of the respondents 52 per cent indicated that they want to get a medium term credit facilities. As enumerated, they want medium term credit facilities for further expansion of their business. As they replied, COSSCo hesitates to offer medium term credit and it mostly limited its credit term to short term. According to their response, the repayment period is too short for the business to have yielded any returns from which to get money to serve the loan. Some of the respondents also revealed that they have been forced by this circumstance to join other informal lenders and pay

higher interest rate or even forced to sell their assets. On the other hand, 48 per cent of the respondent wanted to get short term facilities to finance current expenditure in running their daily business activities.

As of OCSSCo’s Woliso branch manager response, most of the time the company offers credit facilities that helps the client MSEs to run their day-to-day business activities (operating capital). But, depending on the nature of their business and their business plan and repayment capability the company can offer medium term loan.

4.8.2 Frequency of Credit needed and applied for

Microfinance institutions are expected to make constant and increasing flow of resource to finance the MSE operators and other clients’ access to full financial services. 76 per cent of the respondents indicated that they often need money to run their business actively; 16 per cent said not often, 4 per cent of them said very often and 4 per cent not sure.

Table 4.8 Frequency of Credit (n = 25)

| Q. How often do you need loan for your business? | | | | | | | |
|--|----|-------|----|------------|---|----------|---|
| Not often | | Often | | Very often | | Not sure | |
| F | % | F | % | F | % | F | % |
| 4 | 16 | 19 | 76 | 1 | 4 | 1 | 4 |

Source: Own Field Survey, 2013

Although majority of the clients wants credit often, they do not apply for credit as they need it (Table 4.9 below). This is because; they have to repay and finish the full amount they borrowed. In between, at a time of uncertainty, as they responded they face problem even their business most likely tend to fail.

Table 4.9 Frequency of Application (n = 25)

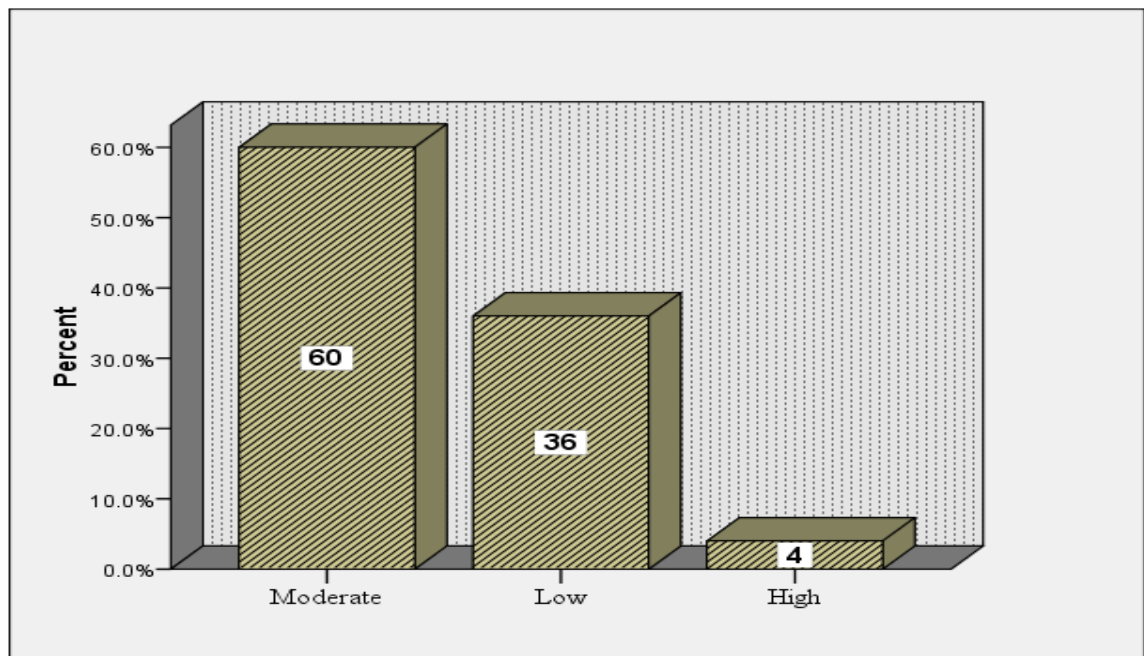
| Q. How often do you apply for loan? | | | | | |
|-------------------------------------|----|-------|----|------------|----------|
| Not often | | Often | | Very often | Not sure |
| F | % | F | % | % | % |
| 22 | 88 | 3 | 12 | 0 | 0 |

Source: Own Field Survey, 2013

OCSSCo’s Woliso branch manager was asked about this problem and he responded that, the Company has revised its lending policy and planed to inject MSEs’ business activities when applied for such problems.

4.8.3 Loan Interest Rate of Oromia Credit and Saving Share Company

Figure 4.5 Loan Interest Rate of OCSSCo



Source: Own Field Survey, 2013

Presence of affordable credit is essential for enterprises growth. According to response from Oromia Credit and Saving Share Company Woliso branch manager, OCSSCo charge 10 per cent lending interest rate. Majority 60 per cent of MSEs Owner manager respondents confirmed that OCSSE’s lending interest rate is moderate, 36 per cent of them said it is low compare to other lending institutions interest rate that ranges 12-15 per cent, and this create the feeling that they work for their own benefit not for others; because they use large portion of the result of their enterprise’s activities (profit) for their own. On the other hand 4 per cent of the respondents said the interest rate is high.

This finding is relatively consistent with Daniele Luccini’s 2005, representative of the Italian NGO Alisei, report on Meklit Micro Finance Institution Workshop. According to his report, regarding interest rate charged by MIFs in the country, we have note that they are very low in comparison to other African countries and they hardly allow the MIFs to achieve operational self-efficiency. In fact, Ethiopian MIFs have strong social mission – because of their ownership structure – with heavy focus on poverty alleviation and increased clients outreach. According to Alisei the above fact constitute a very important and positive attitude, and they should be seen as very positive even by all ODA actors as long as microcredit and microfinance are seen as relevant tools for poverty alleviation.

Table 4.10 Criteria for Accessing Credit from OCSSCo (n = 25)

| Q. Do You Find that Credit Processing procedure/criteria of OCSSCo are Complex/Time taking? | | | | | | | |
|---|---|----------|----|-------|----|----------------|---|
| Strongly Disagree | | Disagree | | Agree | | Strongly Agree | |
| F | % | F | % | F | % | F | % |
| 2 | 8 | 18 | 72 | 4 | 16 | 1 | 4 |

Source: Owen Field Survey, 2013

Concerning credit processing procedures/criteria, majority 72 per cent OCSSCo’s client owner managers were disagree, 8 per cent of them strongly disagree that the credit

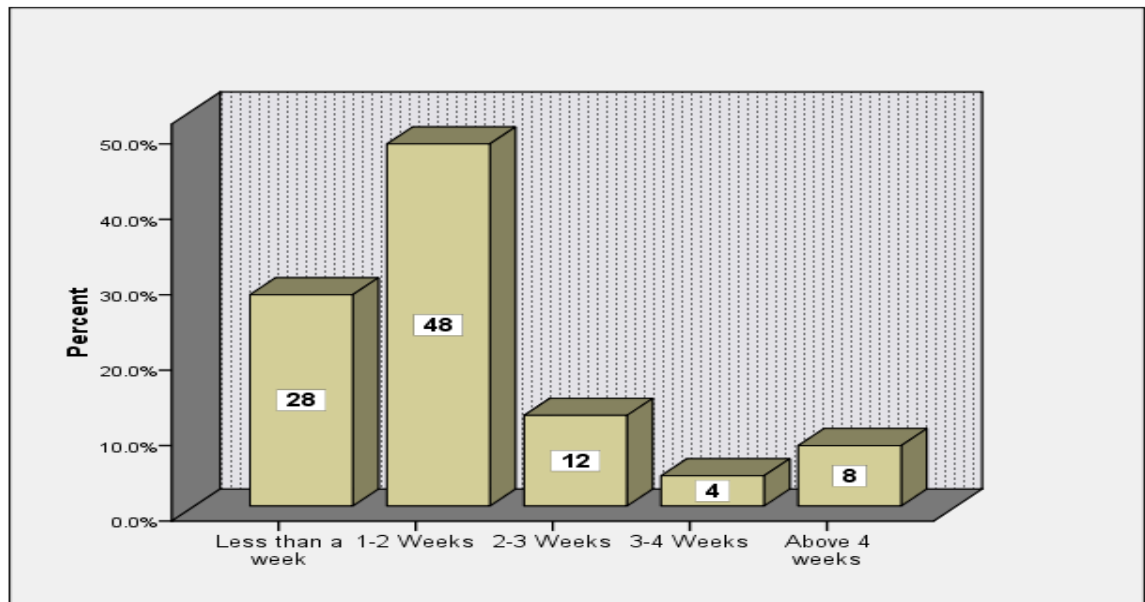
processing procedures of OCSSCo is complex and bulky, means that the period between application and actual disbursement was fairly short; whereas, 4 per cent agree and the remaining 16 per cent strongly agree that the procedure is complex and bulky. This group of respondents reported that the paper work involved in filling the forms and signing agreements and contracts was affecting the speed with which the clients handled the application

This response can indicate some dissatisfaction on some of the OCSSCo's client's side and it also implies that OCSSCo has to revisit its credit processing procedures.

4.8.4 Clients Waiting Time factor

As indicated in Figure 4.6 below, majority of the applicants 48 per cent got respond between 1 and 2 weeks from date of application to access loans from OCSSCo, while others 28 per cent takes less than a week, 12 per cent between 2 and 3 weeks, 4 per cent above 4 weeks.

Figure 4.6 Client waiting time (n = 25)



Source: Own Field Survey, 2013

Although the waiting time that takes clients to access financial facilities from OCSSCo Woliso branch is said to be better service relative to the number of clients that it serves,

some beneficiaries claimed that a period of uncertainty in getting loan that stretches for more than 4 weeks. As it was pointed out this time period includes the process of letter of recommendation required by OCSSCo from the Woliso Town administration office. One major problem that OCSSCo Woliso branch face while serving its clients, according to the branch manager report, was delay in letter of recommendation from Administrative office of the Town that specifies that the entrepreneurs were organized, took working site and licensed. Most of the clients came to the company and ask for loan without completing these requirements and they were sent back to complete it. This could discourage the clients from accessing OCSSCo.

4.8.5 Amount of Loan Needed Vs Amount Granted

According to OCSSCo’s Woliso branch manger report, as long as the client deposited 20 per cent of what they request in the company as prerequisite and support it by legal license from the administration of the town or able to bring fulltime government employee as guarantor (s) the company offers the amount that they applied for.

In the same token, majority of the client respondents 72 per cent confirmed that they were granted the total amount 100 per cent of what they applied for and this help them to run their business activities according to their pan, 16 per cent were granted between 50 – 74 per cent of what they applied for, and 8 per cent of the respondents indicated that they were granted less than 50 per cent of what they applied for. As this group of borrower clients indicated, they felt discomfort with the amount disbursed to them by OCSSCo. This was because they felt it was not enough for business activities that they were to undertake.

Table 4.11 Percent of Loan Granted (n = 25)

| Q. What Percent of Loan You Applied for Was Granted | | | | | | | |
|---|----|---------|---|---------|----|------------|---|
| 100% | | 75-99 % | | 50-74 % | | Below 50 % | |
| F | % | F | % | F | % | F | % |
| 18 | 72 | 1 | 4 | 4 | 16 | 2 | 8 |

Source: Own Field Survey, 2013

4.8.6 Collateral Security factor

Collateral security is the major challenge for MSEs as prerequisite to access credit facilities from financial institutions. According to data collected from client Micro Enterprises and shown in the Table 4.12 below, all of the respondents 100 per cent confirmed that OCSSCo always requires collateral in different form. According to the response of Micro Enterprises' operators, 64 per cent of them indicated that OCSSCo requires house (Deeds of house) as collateral, where as 24 per cent of them said it requires shop, and 12 per cent of them answered others. This group, who said 'others' were asked what others means as per their experience; If someone has no house, shop, or other physical assets as collateral he/she has to supply full time government employee(s) whose salary is above a fixed amount as guarantee(s). Unless otherwise, no one can access credit facility although he/she deposited 20 per cent of what he/she request.

When clients were asked whether they can get the required collateral, 92 per cent (almost all) of them indicated that they were always unable to supply the needed collateral securities in any form.

Table 4.12 Collateral Security Requirement of OCSSCo (n = 25)

| Items | Response | Frequency | Percentage |
|--|----------|-----------|------------|
| Q. Does OCSSCo always require collateral security? | Yes | 25 | 100 |
| | No | - | - |
| Q. What kind of collateral it requires? | House | 16 | 64 |
| | Shop | 9 | 24 |
| | Car | - | - |
| | Other | 3 | 12 |
| Q. Can you always get the needed collateral? | Yes | 2 | 8 |
| | No | 20 | 92 |

Source: Own Field Survey, 2013

In sum, for an open ended question “In general, what are the major challenges you faced in credit transaction with OCSSCo?; majority of the respondents pointed out that from their experiences, beside collateral security requirement of OCSSCo which is serious, low amount of credit granted, short repayment period, and lack of training are major challenges that they encountered while transacting with OCSSCo.

The respondents mentioned that the short repayment period scheduled by OCSSCo put them in worrisome state as they face shortage of market or input materials resulting in their inability to repay the loan within the time stipulated by OCSSCo. On this issue, the OCSSCo’s Woliso branch manager was asked, and he pointed that there is a ‘grace period policy’ for newcomer entrepreneurs.

On the other hand, brilliantly enough, tow respondents liked the issue with the shortness of payback period. This is true that when the repayment period of debts is short every borrower gives it attention and strives to on time; otherwise some may become negligent about it.

The above issues are relatively in conformity with the result of the study by Martha Luyirika (2008) which pointed out that some of the MFIs methodologies and practices have short coming that limit its full potential to benefit the entrepreneurs. Some of the constraints were identified sa short term nature of the loans and high collateral security requirements Luyirika M. (2008).

4.9 Clients’ Expectations

Different respondents indicated different answers and different reasons for the outcome of their expectations they had before them joining OCSSCo. Table 13 below shows clients’ expectations before they began doing business with OCSSCo and their level of satisfaction. 92 per cent of the clients expected to access credit promptly to expand their business, and 8 per cent of them expected to be assured of getting loan on time and when needed. Of 92 per cent of the clients showed their satisfaction by agreement, meaning they could receive the amount they require at the needed time. 16 per cent of this 92 per cent strongly agreed for satisfaction of their expectation; because they said, they could collect the needed amount of loan within less time than they expected. 12 per cent of 92

per cent were not satisfied by financial services of OCSSCo. They mentioned that it took them much time to access credit without clear reason and they granted lower amount than requested. Of 8 per cent who expected to be assured of getting credit on time and when needed were indifferent about financial services OCSSCo

Table 4.13 Expectations of OCSSCo’s clients (n = 25)

| Q. What were your expectations about OCSSCo before you have started doing business with it? | | |
|---|-----------|------------|
| Description | Frequency | Percentage |
| To access more fund promptly to expand the business | 23 | 92 |
| To receive support such as mgt training and accounting skill | - | - |
| To be assured of getting credit on time and when needed | 2 | 8 |
| Other | - | - |
| Q. Have these expectations been met? | | |
| Strongly Disagree | | - |
| Disagree | 3 | 12 |
| Undecided | 2 | 8 |
| Agree | 16 | 64 |
| Strongly Agree | 4 | 16 |

Source: Own Field Survey, 2013

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSIONS

The potential advantages of the dynamic MSEs sector have generated high expectations in many developing countries, like Ethiopia, about the contribution of this sector to job creation, poverty reduction and lay basis for medium and large scale enterprises. Recognizing this, the Federal Democratic Republic of Ethiopian Government launched the country's first MSEs development strategy in 2004. The primary objective of the national strategy framework was to create an enabling environment for MSEs. To further ensure the proper institutional coordination for MSEs Support function the government created Federal as well as Regional Micro and Small Enterprises Development Agencies.

Despite their huge contribution to the national economy, in most developing countries, Ethiopia alike, MSEs face a wide range of constraints and they are often unable to address the problems they faced on their own. Lack of access to finance is the most from among all adverse factors hindering the growth and development of the MSE sector in the country.

The government believed that the introduction of MSIs in Ethiopia is one of the best alternative sources of financial service for low-income earners and their enterprises. Hence, proclamation No 40/1996 was established to promote microfinance in Ethiopia. Following this, thirty one microfinance institutions have been emerging in remarkable manner in Ethiopia. Oromia Credit and Saving Share Company (OCSSCo) is one of these institutions that have established one of its 245s branches in Woliso in 2009.

This study attempted to discuss the role of MFI (OCSSCo Woliso branch) on the growth of MSEs in the town. It attempted to discuss the products that OCSSCo Woliso branch offers to MSEs in the town. It assessed the changes that have been seen on micro enterprises as a result of using OCSSCo's products. It also discussed the major challenges that micro enterprises in the town faced while accessing financial facilities from the

institution. Based on the findings of the study, recommendations are made to OCSSCo's officials, to MSEs managers (operators), and suggestion for those who want to conduct research on this area as well.

The finding indicated that majority of the micro enterprises were established since the government laid conducive environment to support their financial needs through micro financial institutions and with commencement of OCSSCo in the town. They have been formed with objectives of generating income to curb their poverty by being self-employed and also to create job opportunity for others as well.

The studied sectors are Trade, Manufacturing, Services and Urban agriculture in their dominating order. All the sectors are at micro enterprise level of their development. This shows that the sector though has a potential for growth is faced with a high capital constraint.

OCSSCo Woliso branch, offers saving and lending financial service to its clients. Even though clients appreciated the saving program of the institution for its changed their magnitude of saving habits positively, the nonfinancial services especially training and counseling and availability of information are much below their expectation.

The study found out that OCSSCo's intervention has played a significant role in the growth process of micro enterprises in the town. The finding revealed that OCSSCo's credit facilities has brought tangible changes on their productivity, profits, business assets accumulation, business expansion, and in the creation of job opportunity.

The study has identified major challenges that clients of OCSSCo encountered in accessing credit facilities from the institution. Its collateral security requirement is the major bottleneck for the enterprises. Other challenges were fixed short term credit and short payback period and minimal frequency.

Generally, the research finding showed that OCSSCo's Woliso branch have contributed much to the growth of its client MSEs in provision of greater access to credit than formal banks and other financial institutions. As most of the respondents indicated, it also enhanced their saving habit. It has been able to create a platform that enables them to save their little income that they earn on frequent basis with little cost.

5.2 RECOMMENDATIONS

Suggestions for corrective and complementary measures to support the potential growth of MSEs are essential. Based on the findings and conclusions of the study, the following recommendations are forwarded.

Information is a critical factor for any sound decision making. Thus, establishing advocacy and advertising mechanism helps the institution to expand its outreach and give opportunity for the beneficiaries. It can address its services to its target users in schools, on kebele meetings, by announcing in the town using media specialists, on coffee ceremony, and different pamphlet, brochures and etc.

To make MSEs competitive and profitable, increasing the capacity and skill of the clients/operator managers through continuous trainings, experience sharing from successful enterprises and provision of advice and consultancy are crucial. On this regard, OCSSCo is expected to provide training before and after credit on regular bases and most cases has to be tailored toward the training needs of the clients. It has to conduct orientation program for new comer clients. The training can be on job training means while the clients are working (performance related), or through especial training forum by special experts.

It is suggested that OCSSCo is better to make its collateral requirement flexible as much as possible. To do so, thorough study and investigation of the personality and background of the members and trend of the enterprise before releasing the loan is helpful to the institution. It has to support the credit with strong legal binding contract. On the other

hand, as a government body, it is better to share certain amount of risks to support majority of poor and un-bankable group of the society.

It is recommended that OCSSCo increase its loan size and payback period to support MSEs' accelerated growth, as it is part of its purposes. This requires proper and extensive monitoring and close supervision to encourage clients to repay back their debts on time. Even OCSSCo can arrange door to door debts and saving collection program from its clients.

It is advisable that OCSSCo Woliso branch work better to accomplish its objective of reaching the poor. Its outreach compared to its experience and capacity and size of the town is not as much as expectations. Serving twenty five micro enterprises (many of them are one man enterprise) in a town with 60,000 populations is below what it can serve.

It is worth for Micro Enterprises' owner managers to diversify their business and look for other demand for example in urban agriculture, like poultry, milk and milk product rather than concentrating on same business which is in most cases small shop.

Finally, investigating different factors based on the right information is vital for the good performances of any business venture. This can be achieved by conducting more researches in related areas. The focus for this study was on the financial and non-financial services provided by Microfinance Institutions to Micro and Small Enterprises. It is the researcher's view that future research could therefore investigate the other factors like Political-legal, Technological, Infrastructure, Management, Marketing, and Entrepreneurial factors and come up with specific findings which will potentially contribute a lot to the growth of MSE sector and the development of the country in general.

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Annex A

Questionnaire

JIMMA UNIVERSITY
College of Business and Economics
Department of Management

Questionnaire for Data Collection from Micro and Small Enterprises (MSEs) on the Topic: *The Role of Micro Finance Institutions (MFIs) on the Growth of Micro and Small Enterprises (MSEs)*: (A Case Study of Woliso Town).

Mekonnen Dejene, I am MBA Student in Jimma University. I am undertaking survey focused on the Role of Micro Finance Institutions (MFIs) in the Growth of Micro and Small Enterprises (MSEs). This Research will be covering the contribution of Micro Finance Institution to the growth of Micro and Small Enterprises and problems that Micro and Small Enterprises encountered in the process of their business activities in Woliso Town.

I would be very grateful if you could spend some time to respond to these questions for me. I assure you that information you provide will be used for academic purposes only and will be held strictly confidential.

If there is anything you do not understand, please feel free to ask me to explain. And please use my *mobile No 0922733675* to make sign and I will call you back.

I thank you for taking time out of your busy schedule for this questionnaire.

A. Respondent’s personal Information

- 1. Sex (please circle your answer) a. Male b. Female
- 2. Please circle your age range: a. Less than 18 years b. Between 18 to 35 years
c. Between 36 to 50 years d. Above 50 years
- 3. Level of education a. Illiterate b. Grade 1-8 c. Grade 9-12
d. TVET 10+1 – 10+3 e. First degree f. Second degree
- 4. Job position/title (please write your job position)

B. Profile of the MSEs.

- 5. When did your business begin operation? (Please write month and year)
.....
- 6. For how long have you been client of Oromia Credit and Saving Share Company?
(Please circle your answer) a. one year b. two years
c. three years d. four years e. more than four years
- 7. What was your objective for establishing the enterprise? a. to generate income
b. to be self employed and create job opportunity for others as well
c. to expand existing business
- 8. What is your business sector/line? a. Manufacturing b. Construction
c. Trade d. Service e. e. Agriculture
- 9. If manufacturing enterprise, what kind of machine do you use? a. power driven
machine b. hand tools c. others..... d. no machine
- 10. How many people are you working with/hired a. Less than 6 b. 6 – 10
c. 11 – 30 d. 31 – 50 e. above 50
- 11. Do you have adequate capital for your business? a. Yes b. No
- 12. If ‘No’, in what ways (or from where) do you intend to acquire additional capital for
your business?
.....
.....
- 13. Please, would you brief your saving trend and status?
.....
.....

C. Contribution of OCSSCs.

- 14. Where did you get information about (OCSSCo) and its services from? (Please circle your answer). a. Through friends b. Media c. MFI officials
d. Handbills e. Other (Please specify)
- 15. How many times have you applied for credit facilities from Oromia Credit and Saving Share Company? a. One time b. two times c. three times
d. four times e. more than four times f. not known
- 16. What percentage of loan applied for was granted? A.100 per cent
b.75 – 99 per cent c. 50 – 74 per cent d. Less than 50 per cent
- 17. How long does it take to access credit from OCSSCo Woliso branch?
a. Less than 1 week b. 1 – 2 weeks c. 2 – 3 weeks
d. 3 – 4 weeks e. More than 4 weeks
- 18. Did you get any training and/or counseling services before or after you received the loan about its utilization? a. Yes b. No
- 19. Do you access more credits from OCSSCo than other financial sources?
a. Yes b. No
- 20. If ‘Yes’ please mention the reasons

D. Outcome of OCSSCo’s contribution to MSEs

**Did you make any of the following changes to your enterprise after taking the loan?
(Please circle your answer)**

- 21. Expanded the size of enterprise a. Yes b. No
- 22. Added new enterprise a. Yes b. No
- 23. Added more machines (other business assets) a. Yes b. No
- 24. If ‘Yes’ for question no. 22 above, what type of machine (business assets) have you bought since the date of loan granted
- 25. Hire more workers a. Yes b. No
- 26. If ‘Yes’ for the above question, how many workers have you hired since you received the loan.....

27. Your production after loan a. decreased? b. stayed the same?
 c. Increased? D. not known
28. Do you think your business profits after the loan a. increased?
 b. stayed the same c. decreased d. not known
29. In general, please mention to what extent that the products of OCSSCo contributed to your business overall activities.....

E. Challenges in Accessing Credits.

30. What kind of credit do you normally request from MFI? (Please circle your answer)
 a. Long term b. Medium term c. Short term
31. How did you get lending interest rate of OCSSCo as compared to other financial institutions? a. high b. moderate c. low
32. Do you find that credit processing procedures/criteria of Oromia Credit and Saving Share Company is complex/Time taking? a. Strongly Disagree b. Disagree
 c. Undecided d. Agree e. Strongly disagree
33. Does Oromia Credit and Saving Share Company always require collateral securities before granting loans? a. Yes b. No
34. What kind of collateral does it request? a. House b. Shop c. Car
 d. Other (Please specify)
35. Can you always get the collateral requested? a. Yes b. No
36. How often do you need a loan for your business? (Please circle your answer)
 a. Not often b. Often c. Very often d. Not sure
37. How often do you apply for loans from the MFI?
 a. Not often b. Often c. Very often d. Not sure
38. In general, what are the major challenges, other than those mentioned above, you face in accessing loans from OCSSCo).....

39. Apart from your business activities, for what other purposes do you use your loans
for.....
.....

F. Expectations of MSEs about OCSSCo

40. What were your expectations about the MFI before you start doing business with it?
(Please circle your answer)

- a. To access more fund promptly to expand business
- b. To receive support like management training and accounting skills
- c. To be sure of getting credits on time and when needed
- d. Other please specify

41. Have these expectations been met?

- a. Strongly Disagree
- b. Disagree
- c. Undecided
- d. Agree
- e. Strongly Agree

Annex B

Interview Questions

JIMMA UNIVERSITY
College of Business and Economics
Department of Management

Interview Questions for Data Collection from Micro Finance Institution (OCSSCo) on the Topic: *The Role of Micro Finance Institutions (MFIs) on the Growth of Micro and Small Enterprises (MSEs)*: (A Case Study of Weliso Town).

Mekonnen Dejene, I am MBA Student in Jimma University. I am undertaking survey focused on the Role of Micro Finance Institutions (MFIs) in the Growth of Micro and Small Enterprises (MSEs). This Research will be covering the contribution of Micro Finance Institution to the growth of Micro and Small Enterprises and problems that Micro and Small Enterprises encountered in the process of their business activities in Weliso Town.

I would be very grateful if you could spend some time to respond to these questions for me. I assure you that information you provide will be used for academic purposes only and will be held strictly confidential.

If there is anything you do not understand, please feel free to ask me to explain.

Thank you for taking time out of your busy schedule for this interview. The interview will take only 40 minutes.

A. Respondent’s personal Information

- 1. Sex.....
- 2. Age
- 3. Job position/title

A. Interview Questions on Profile of OCSSCo. Woliso branch

- 4. Can you tell me when did your finance institution begin operation?
- 5. Can you tell me the main objective for establishing this branch of OCSSCo in Woliso Town
- 6. What product or service do you provide? a. Saving b. Loan/credit
c. Saving and Loan/credit d. Non-financial services e. Saving, Loan and non financial services
- 7. Please tell me the category of Micro and Small Enterprises you serve as your target market? a. Manufacturing b. Trade c. Service d. Agriculture
- 8. Can you tell me which category of Micro and Small Enterprises utilize your product the most? a. Manufacturing b. Trade c. Service d. Agriculture
- 9. What major challenges does your organization face in doing business with Micro and Small Enterprises?

B. Contribution of OCSSCo

- 10. What kind of credit/loan facilities do you offer? a. Long-term
b. Medium-term c. Short-term
- 11. What are your criteria for providing credits?
- 12. Do you find that your criteria for loan processing manageable.....
- 13. Do you always require collateral securities before granting loans to Micro and Small Enterprises? a. Yes b. No
- 14. If ‘yes’ what kind of collateral securities do require? a. House b. Shop
c. Car d. Guarantor(s) e. Other (Please specify)

15. Do MSEs always get the required collaterals.....?

C. Challenges

16. Please, kindly mention the major challenges in granting credits to MSE

.....
.....
.....

D. Credit Utilization of MSEs and its effect

17. As per your evaluation, do loans granted leads to growth in the MSEs' business?

.....

18. In your own evaluation, do you believe that clients use all loans granted for business activities?

19. If 'No', what other activities do you know clients use the loans for?

.....
.....

20. Kindly provide suggestions as to how credit and other non-financial services provided for Micro and Small Enterprises (MSEs) can be improved

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