

**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**

The effect of Omo Microfinance credit on the growth of Micro and Small enterprises in Hossana Town.

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A Thesis submitted to the Department of Accounting and Finance of Addis Ababa University in Partial fulfilment of the Requirements for the Degree Master of Science in Accounting and Finance.

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Declaration

I, **Worku Belachew**, hereby declare that the thesis entitled **the effect of Omo microfinance credit on the growth of MSEs in Hossana Town, Ethiopia** is the outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged. This study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfilment of the requirement for the degree in masters of Science in Accounting and Finance.

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Abstract

This study was discussing the effect of Omo Microfinance credit on the growth of Micro and Small enterprises in Hossana town, Ethiopia. The study utilized an Explanatory and descriptive survey design with the aim of achieving the objectives of the study. This design was considered appropriate tool for collecting information for the goals of the research called for both quantitative and qualitative data. The research design used was case study strategy whereby a single unit was selected data collection methods includes questionnaires and documentary review. Findings revealed that due to credit obtained from Omo microfinance in Hossana, MSEs have been able to expand their business operations, and profit growth, reduction of poverty among others. It was also revealed that collateral request, grace period of loan and long loan process of credit, Long process of loan and High interest rate firm influence the access to credit and growth MSEs. It was that were significant positive relationship between Micro and Small enterprise growth and factors towards Training of MSEs, Access to credit finance and mobilization of saving , and micro and small enterprises growth and factors had significant negative correlation to Grace period of loan and collateral request. Although the researcher also conclude that majority of MSEs firms agreed on have profit and sales revenue after being engaged in Omo micro finance credit service, So that there exists a significant relationship between Omo microfinance credits and terms and MSEs growth in Hossana town. The study recommends that Omo microfinance institution with the Urban Food security and Job creation bureou and other supporter sectors so as to create awareness of the availability and the process of accessing Omo microfinance credit. Although, the Omo Microfinance Institutions and minimize the collateral conditions by using “social-collateral”. This fund should be made available to the MSEs at reduced interest rate, long credit process, appropriate loan grace period and collateral requirements.

KEY WORDS: Effect, Microfinance Credit, growth and Micro and Small Enterprises

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Abbreviations and Acronym

AAMSDA	Addis Ababa Micro and Small Enterprise Development Agency
ANOVA	Analysis of variance
CBE	Commercial Bank of Ethiopia
CGAP	Consultative Group to Assist the Poor
CSA	Census Statistic Agency
DBE	Development Bank of Ethiopia
EDAP	Enterprise Development and Performance
EDPA	Enterprises development Program Agency
EFSMEDA	Federal Micro and Small Enterprise Development Agency
EMTI	Ethiopia Ministry of Trade and Industries
GDP	Gross domestic product
H	Hypotheses
NBSSI	National Board of Small Scale Industries
NMB	National Morogoro Bank
NGO	Non-government organization
NBE	National Bank of Ethiopia
MFIs	Micro Finance Institutions
MSEs	Micro and small Enterprises
MF	Micro Finance
MSMEs	Micro, Small and Medium Enterprises
SNNPR	South Nation Nationality of People Region
SPSS	Statistical Package of Social Science

CHAPTER ONE

1. INTRODUCTION

1. Background of the study

Poverty, unemployment, unfair economic distribution and food insecurity are the main challenges and fundamental issues of economic development in Ethiopia. To address the challenges of unemployment, economic development and fairness in the country, the Federal and Regional Government of Ethiopia has implemented development programs such as the micro and small enterprise program to increase income, assets and employment opportunities (Hagos, 2012). According to study of, Fasikaw, (2016) show that, in the modern political and economic environment, jobs are at the core of political debates in both developed and developing economies. There are many potential that micro, small and medium enterprises can create new jobs, although recent studies suggest that Micro and small enterprises contribute more to the employment share in low-income economies than in high-income countries. The government has recognized the importance of micro and small enterprise development to the overall economic growth of the country and poverty reduction. It has established the Micro and Small Enterprise Development Agency to co-ordinate and supports this sector. According to Proclamation No. 33/1998, the Agency shall be involved in designing policies and strategies for the development and expansion of the micro and small enterprise; study the demand for training and conduct training; establish skill up-grading, technical and demonstration centres in different regions of the country; and disseminate information to the entrepreneurs.

According to the study of, Moris , (2013) Micro and Small Enterprises (MSEs) all over the world are known to play a major role in social and economic development and the backbone of every country's economy. Most of the large corporations of today were developed from MSEs, do not only serve as the backbone of a county's economy but also support the larger corporations in a form of sub-contractors, suppliers of manufacturing materials or customers. According to the study of, Hatem, (2010) Micro and Small Enterprises (MSEs) do play a major and important role in today's world economy, and they are recognised as one of the main contributors to economic, national development and employment growth. According to Mulhern (1995) 99% of all European companies are micro, small and medium sized (MSME) and from 1985-1995 it provided 66% of the employment in Europe. In Africa, according to the study of, Hagos.Y, (2012) MSEs are estimate their chip of the employment strata also

stands at 50% with a correspondingly high contribution to the overall productivity output of most African economies (UNIDO, 1999).

The Micro and Small Enterprises (MSEs) are described as the natural home of entrepreneurship. Most big business in Ethiopia have started as Micro and Small Enterprises and grown to their maturity over long period by cumulating capital and business management experience (Ethiopian Economics Association, 2015). In Ethiopia, according to the study of (Fredu, & Edris, 2016) the MSE sector is believed to be the major source of employment and income generation for a wider group of the society. The sector's contributes 3.4% of GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001(CSA 2005, cited by Selamawit, and Negus, 2014).

South Nation National Peoples Region (SNNPR) is the leading innovative commercial centre for Micro and Small Enterprises, Chakebo, (2014). As a sector, micro finance institutions and micro and small enterprises sector is a relatively new phenomenon in South Nation National Peoples Region (SNNPR) particularly, Hossana town, with a few branches and sub branch and few enterprises firms starting about 14 or few years ago but the sector gaining the status of an industry only in the last 8 years. The Government of the region has directly provided an improvement to the micro and small enterprises sector. During 2010-2017, the South Nation National Peoples Region (SNNPR) Micro and Small Enterprises agency has been implemented a many development work on the Micro and Small Enterprises firms which has resulted in the industrialization of the economy transfer.

The Government of South Nation National Peoples Region and Haddiya zone administration identified areas of job creation activities and project needing external donor support, basically like, micro and small-scale enterprises. According to the study of, Chakebo, (2014), Micro finance institutions' role in the development and growth of Micro and Small Enterprises (MSEs) is crucial to the growth and development of an economy. It is recognized that the accessibility of capital is essential for speedy development. In developing countries, Micro-finance institutions (MFIs) are acknowledged as one of the financial tools that reduce poverty, solves unemployment problem and stimulate growth and economic development. Various challenges are usually faced by MSEs in these countries. The key one is access to micro-financing which is considered as a crucial part of doing any business.

Omo microfinance played important function in development procedure. In the context South Nation National Peoples Region specifically in Hossana town, Omo microfinance was founded to enlarge access to financial product to low income level of people micro and small

enterprises operators. It also supplied both term loans and repayment loans. It was illustrated that Omo microfinance assisted MSEs, specifically micro and small enterprises that are not accessed from formal source especially banks, to overcome financing limitations and lack of access to credit was considered a major challenge for entrepreneurial development. Though, MSEs have an obstacle in obtaining access to credit and service from microfinance institutions specifically Omo microfinance incapable collateral and long process of supply. Finally, Omo microfinance may have positive role over effects such that its impact surpasses the economic and social improvement of the borrower. However, the socio cultural and political problems, lack of enterprise culture, lack of positive attitude towards society for micro and small enterprises effect on the development of county, and the gap between needs of enterprise and government policy performance in the sector of supporting, etc., were the main obstacle for the development and growth of the micro and small enterprises. To this end, this study was significantly playing as its key to examine microfinance credit effect of the growth on Micro and Small Enterprises in Hossana town.

1.2. Statement of problems

The study focused on the Micro and Small Enterprises, which play a strong effect on the national development and growth of country and were base of medium and large firms. The contribution of microfinance institutions loans in the growth of Micro and Small Enterprises is very important for moving the country forward.

According to the study of (David, 2017) the role of microfinance institutions in development of a country is demonstrated through the crucial role that savings and credit play in economic growth. As the study of above report, MFI are a cheaper way of source of finance to Micro and Small Enterprises. Basically Micro and Small Enterprises are a critical issue, which are the source of job creation for unemployed people and great proportion income creation for society. Another study done by (H, Madole, 2013) on the impact of microfinance credit on the growth of Micro and Small Enterprises in Tanzania found that; the role of financial institutions toward Micro and Small Enterprises success is a vital important to development and growth.

However, lack of financial resources is one of the major problems facing Micro and Small Enterprises, their enlargement and progress in emerging countries were mainly influenced by right to use of finance, poor decision making ability, lack of knowledge on searching market access, lack of training opportunities, less amount of loan to starting business and increasing capital and increasing price of inputs (Chakebo, 2014).

A microfinance institution is still confronted with various constraints with credit availability limitation availability as the principal one. Many MSEs have not accessed lending and those that have acquired loans from MFIs find it expensive to pay. According to the study of, Tenishu, (2014) lending to the poor or lower income group raises many debates among practitioners and academicians. Chakebo, (2014) poor people have no access to get credit or money for self-employment and lack of access to financial support are some of the major problems that prevail in the urban areas of the developing countries. Usually the poor people are excluded from credit facilities because of many reasons, like insufficient collateral to support their loans, unstable income, lower literacy, lack of borrowing experiences, to get loan from MFI's involves high transaction cost and due to Bureaucratic procedures and time involved in processing the loan, high interest rate and high monitoring costs. Basically, access to financial services is still a big challenge to the micro and small enterprises in Hossana. SNNPR Haddiya zone of Urban Food Security and Job Creation Bureau, (2017).

Hossana is one of the towns found in southern part of Ethiopia, with high unemployment level. In recent years, the problem of unemployment is aggravated in the town because of rapid migration of people from various parts of the zone woreda's, and high natural growth rate of population, and limited job opportunity by the private sector and government, Hossana due to lack of employment opportunities, Hossana town Urban Food security and Job creation Bureau annual report, (2017). In addition to the unemployment in the town, poverty has aggravated in urban areas.

To this problem could be creating to inadequate financial resources, insufficient collateral to support their loans and lack of knowledge on searching market access, lack of training opportunities about trading and improving service, long loan process, high transaction cost due to Bureaucratic procedures and high interest rate which micro finances need in order to give out loan.

Even though researchers note that, the safe way were to have comprehensive measures of success than relying on a single indicator in dealing with the growth of Micro and Small Enterprises; studies conducted so far in line with this issue give more emphasis to single measurement criteria of growth as methodology. And even no enough study known to the researcher has been conducted to determine the effect of MFIs on access to credit by Micro and Small Enterprises.

1.3. Research Hypotheses

In this section, the hypotheses that will be tested in this study are presented. The hypotheses are constructed on the basis of existing literature. In this study the following hypotheses were formulated.

H₁: There is a positive association between the access to credit and enterprise growth.

H₂: There is a positive effect between the training of MSEs and growth of MSEs.

H₃: There is negative relation between collateral request by MFIs and the growth of MSEs.

H₄: There is a positive relationship between mobilization of saving and the growth of MSEs.

H₅: There is negative relation between grace period of loan and the growth of MSEs.

1.4. Objective of the study

This thesis has both general and specific objectives.

1.4.1. The General objective of the study

The general objective of the study was to investigate the effect of Omo microfinance credit on the growth of Micro and Small Enterprise in Hossana town.

1.4.2. The Specific objectives of the study

- To determine the effect of micro finance credit on the growth of micro and small enterprises.
- To assess whether or not training help MSEs to the growth of MSEs.
- To assess the effect of collateral request by MFIs in the growth of MSEs.
- To determine the mobilization of saving and growth of MSEs.
- To assess the effect of grace period of loan on growth of MSEs operators and to determine microcredit access challenges faced by Micro and Small Enterprises owners in Hossana town.

1.5. Significance of the Study

First, this study contribute to a deeper understanding of how the participation in a microcredit service has influence on business growth of its clients and what characteristics of the borrower that were the most important to improve MSEs business growth in Hossana town . This will help them to come out with substantive possible alternative policy interventions which might help to address problems and challenges which micro and small enterprises face.

Second, this study offer empirical evidence on the effect of Omo microfinance credit on the growth of micro and small enterprises for use in short term and long term interventions especially in the fight against poverty. A study of this nature is equally very important because it is going to enlighten the government and the public on the effect of Omo microfinance credit in the MSEs sector.

Third, the study was be a source of reference material for future researchers on other related topics.

Fourth, the research was come up with products which are tailor made to fit into entrepreneurship financial needs and to stakeholders like financial institutions, investors, shareholders, employees, pressure groups, etc., the research provides information for suggesting improvement in service delivery of the respective credit facilities providers in Ethiopia specifically in Hossana town.

1.6. Scope of the study

At the beginning, a decision was taken to focus the research attention on the effect of Omo microfinance credit on the MSEs growth in Hossana town. A discussion of the study restricted itself to the address of on the effect micro credit on the MSEs growth in Hossana town Omo micro finance in the statement of the problem. Even if there are so many factors that affect the growth of MSE this research delimited to firm characteristics factor, business environment factor and institutional factors. To this end, the study must be understood in its academic discourse only as an educational spokesperson in the discipline of Accounting and finance.

1.7. Structure of the study

This thesis have five major chapters: those were; the first chapter was structure into 8 sections; Introduction, Back ground of the study, Statement of the problem, Hypothesis ,Objective of the study, Significance of the study, Scope of the study and Structure of the study. The second chapter was a review of theoretical and empirical literature encompasses four sections; theoretical literature which focuses on: Definitions of key concepts (microfinance and MSE), relationship between microfinance and MSEs growth, strategy of supporting to micro and small enterprises, and the empirical literature review that focuses on giving a review of relevant literature on the following sub-sections: Effect of microfinance in MSE growth, Linkage between Microfinance and empirical evidences on effect of micro credit MSEs performance in case Global Studies and Empirical evidences in case of Ethiopia, research gap on the literature review and conceptual frameworks the third chapter represents

the data and methodology used in the study. The third chapter was encompasses research method, the data type and source, research sampling technique, study population, study sample size, data collection instrument, distribution and collection of the questionnaire, research design the approaches to the research, data analysis and data collection procedures which encompasses choice of dependent variable, choice of independent variable, research question, model specification, reliability and validity of the study and. The fourth chapter represents discussions of results and it encompasses descriptive statistics analysis, diagnostic assumption tests, multiple regressions result, and hypothesis testing. While, the fifth last chapter of this study represents summary of finding, conclusion, recommendation and limitation of the study.

CHAPTER TWO

LITERATURE REVIEW

2. Introduction

The purpose of this chapter was to review the literature in the area effect of Omo microfinance credit on the growth of MSEs and related factors affecting of growth of MSEs .It forms the literature of the study in two major parts; namely: theoretical literature which focuses on: Definitions of key concepts (microfinance and MSE), relationship between microfinance and MSEs growth, strategy of supporting to micro and small enterprises and the empirical literature review that focuses on giving a review of relevant literature on the following sub-sections: Role and impact of microfinance in MSE growth, Linkage between Microfinance and MSE review of inside on county and Review of studies done outside of Ethiopia, conceptualization of the research and research gap in literature.

2.1. Theoretical perspectives literature

2.1.1. Definition of microfinance

Microfinance refers to financial services provided to low-income people, usually to help support self-employment. Examples include: small loans, savings plans, insurance, payment transfers, and other services that are provided in small increments that low-income individuals can afford. These services help families to start and build “micro” enterprises, the very small businesses that are important sources of employment, income, and economic vitality in developing countries. According to, Marguerite (2000) it also refers to small scale financial services-primarily credit and savings- provided to people who farm or fish or herd and who operate micro enterprises or small enterprises where goods and services are produced and, microfinance institutions are important for poor people in providing credit and mobilizing of savings. MFI can expand and diversify enterprises and helps to reduce risk, improve management, raise product, helps in increase household’s income and provide credit at much lower cost than credit from informal commercial money lenders. According to Robinson, (2001) definition: ‘Microfinance’ refers to small-scale financial services-primarily credit and savings-given to people; who work in microenterprises or small enterprises where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft

animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban.

According to study of (Medhin, 2014) Microcredit emphasizes the provision of credit services to low income clients, usually in the form of small loans for micro enterprise and income generating activities. According to study of (woldey,2003) MFIs are often defined in terms of the following characteristics: (i) targeting the poor (especially) unemployed people; (ii) promoting small business; (iii) building capacity of the poor; (iv) extending small loans without collaterals; (v) combining credit with saving; and (vi) charging market rate of interest. According to Ngehneu & Nimbo (2010), Microfinance is defined as a growth instrument which contributions or supply financial services such as little loan, investments, insurance and cash transfer to help the very low income group grow or start their businesses. Microfinance is the provisions of little level of economic services to low income client parts, which has no right to use financial services provided by the formal sector (chakebo, 2014). Micro finance can be a critical element on effective poverty reduction strategy. Improved access and efficient provision of savings, credits and insurance facilities in particular can enable the poor to smooth their consumption, manage risk better; built assets gradually develop micro enterprises, enhance their income earning capacity and enjoy improved quality life (Momba, 2013)

Generally, the goals of micro-credits service according to Moazami (2005) are:

- a. Increasing access coefficient of low income people to credit facilities
- b. Considering and focus on low income rural and urban societies.
- c. Empowering rural and urban people to enjoy needed job skills.
- d. Empowering rural and urban to deal with group works and cooperative activity.
- e. Equipping non-productive villager's saving to effective and productive investment.
- f. Planning in order to perform projects that are based on capacities and facilities of that area.
- g. Breaking poverty cycle and saving rural family.
- h. Developing employment and stabilizing jobs which faced financial crisis

2.1.2. Mechanism of lending and funding

Different studies, show that various sources of funds for microfinance institutions operating in Ethiopia. Among them are equity, grants, guarantees and on lending facilities, There are several international bodies and aid agencies which take part in assessing the needs of additional funds according to the regional requirements and given grants a long with sharing

experiences of other microfinance practical countries these to increase the performance and quality of microfinance sector of the subject country.

Microfinance institutions give out loans to their customers using two main techniques group-based lending which is also called solidarity lending and individual lending, Group micro-lending has been used successfully in some parts of the world to expand the reach of microcredit programs (Odongo ,2013). In group based lending groups of people are formed who are together responsibility for fulfilling the terms of agreement of the loans. This technique leads to a higher repayment rate as there is added peer pressure on each group member to fulfil his end of the promise loans given out to individuals are similar to the consumers. This type of lending relies more on bank customer relationship and the responsibility of the bank staff increases to ascertain whether the loan will be repaid or not by the borrower.

Ledgerwood, (1999) says that the individual lending strategies are less costly and less labour intensive to implement than the group based strategies. The type of lending strategy can affect the efficiency and performance of the microfinance institution. One cannot establish the predominance of one strategy over the other as each geographical setup may have varying circumstances and its rests on the microfinance institution to use that mode of lending which increases its efficiency and performance the most in particular circumstances and communal setup like in urban areas individual based lending may better way where as in rural areas the solidarity lending may help in achieving higher repayment rate.

The theory of a 'social-collateral' is a mechanism within microfinance that lends to communities and not to specific individuals. By doing so it induces borrowers to select themselves into groups of same risk level and hold it each other accountable. Group lending gives incentive for borrowers to pay back the loan on time, to avoid a default. Members within the community new have more incentive to monitor neigh hours and exclude risky borrowers who might put them into risky situations.

Although group microfinance lending may seem as successful anti-poverty police, researchers from the Green Bank of craga performed tests to evaluate the effectiveness of such mechanism compared to the individual lending of microfinance loans. The results showed on change in the repayment in loans.

2.1.3. Contribution of Microfinance Institutions

Microfinance institutions refer to expansion tools for MSEs by financing their financial and nonfinancial resources. Resource which make available such as tiny credit, investments, indemnity, training controlling and money relocate to facilitate the very or unusually poor in rising or beginning their firms (Robinson, 2003).

2.1.4. Importance of Micro credit

According to Peck and W/Yohannes (2009) much of the excitement behind microfinance is driven by its potential to help poor people better manage their financial resources, take on new economic opportunities, mitigate everyday risks, reduce exposure of poorness and improve their living condition. According to study of (Gosa , 2014) show that, Microfinance is the provision of financial services to poor and low income households without access to formal financial institutions. Besides it is a strategy for providing to the poor in rural and urban areas, especially unemployed society with savings and credit facilities to set up or expand business, and increase household security (Wolday, 2002). This implies that it involves the provision of financial services such as savings, loans and insurance to poor people living in both urban and rural settings who are unable to obtain such services from the formal financial sector. Although the potential demand for financial services, particularly microfinance, in Ethiopia is huge, the existing supply of financial services to the poor is very limited. Commercial banks, MFIs, and same semi financial services like “Iquibs”, “Idders” and “Mahabers” and informal sources like money lender and trader are major suppliers of credit service in Ethiopia. However, it should be noted that the MFIs meet only less than 20 percent of the demand for financial service of the poor (Peck and W/Yohannes, 2009).The micro credit and saving institutions in Ethiopia focus mainly on group and individual based lending and promote compulsory and voluntary savings. Increasing access to financial services is main development tool, because it helps in increase their income and consumption, which would finally reduce poverty.

2.2. Meaning of Micro and Small enterprise

Definition of the MSEs is used to mean micro and small enterprises. It is sometimes referred to as micro and small enterprises (MSEs). There is no universally accepted definition of MSE. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. According to UNIDO defines MSEs in developing countries based on the number of employees in an enterprise. A small enterprise has between 5 and 19 workers and

takes the example of the ubiquitous small shops in the cities such as hair dressing saloons and chop bars. And according to the National Board of Small Scale Industries (NBSSI) defines MSEs as enterprises that employ no more than 29 workers, with investment in plant and machinery (excluding land and buildings) not exceeding the equivalent of \$100,000.

According to world Bank, Micro Enterprises are defined as; individuals/firms with total assets less than \$100,000 and total sales less than \$100,000 and employees less than 10 persons. MSEs were sector that improves the economy, creating job for the employment and generating income. "In Ethiopia background micro and small enterprises are a particular core of the government issue, which is a sector, acting vital function by generating income and job chances and eradicating poverty, then government sketched first micro and small enterprises development in (Chakebo,2014).

2.2.1. National Strategy for the Development of MSEs

The Ethiopia government understands the role of the informal sector. It has accepted and paid due concentration to the promotion and growth of MSEs for they are significant vehicles to address the challenges of unemployment, economic development and fairness in the country. To this effect, it has formulated a National MSE Development and Promotion Strategy in 1997 that enlightens a methodical approach to alleviate the problems and encourage the expansion of MSEs. The overall purpose of the strategy is to make an enabling situation for MSEs, with definite intentions to assist economic progress; bring reasonable growth; provide long-term jobs; build up cooperation between MSEs; provide the basis for medium and large scale enterprises; promote export; balance preferential treatment between MSEs & bigger enterprises. Hence, as specified in the national Micro and Small enterprises Development Strategy, Published by Ministry of Trade and Industry (MoTI, 1997) short comings in the drafting of the detail may have meant that some capital concentrated founding that should belong to medium or large scale firms can perhaps have come within the scope of the definition for the MSE sector. Therefore, in order to eliminate the capital intensive firms the MSE Development strategy accepted a definition which is based on capital and that takes the level of scientific and technological capable into consideration.

2.2.2. Growth Definition and Its Measurements

A current study investigated by Gupta, (2013) cooperatively revised aspects of growth definition. Growth can be defined in provisions of income generation, value addition, and expansion in terms of volume of the business. As well this, it can also be evaluated with qualitative features like;

Market share → Product quality → Customer satisfaction.

Gupta et al. (2013), on his academic study of rising firms, he has done that business move through five distinguishable stages of growth. All stage contains a comparatively quiet period of expansion that ends with a management crisis (Masurel and Montfort 2006). These five phases and crises of expansion are creativity, direction, delegation, coordination, and collaboration Churchill and Lewis (1983) have developed five stage of an enterprise growth. There are

Existence → survival → success → take-off → resource maturity

2.2.3. Microfinance and its impact in growth of MSEs

Microfinance has a very important role to play in development according to proponents of microfinance. UNCDF (2004) states that studies have shown that microfinance plays three key roles in growth of micro and small enterprises.

It:

- helps very poor society meet basic needs and protects against risks,
- is associated with improvements in household economic welfare,
- helps to empower women by supporting women's economic participation and so promotes gender equity.

According to, Littlefield, Murdugh and Hashemi (2003) state “microfinance is a critical contextual factor with strong impact on the achievements of the MDGs...microfinance is unique among development interventions: it can deliver social benefits on an ongoing, permanent basis and on a large scale”. Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women (2003). However, not all commentators are as enthusiastic about the role of microfinance in development and it is important to realise that microfinance is not a silver bullet when it comes to fighting poverty. Hulme and Mosley (1996), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be” (1996). They state that microfinance is not a panacea for poverty-alleviation and that in some cases the poorest people have been made worse-off by microfinance.

2.3. Micro and Small Enterprises growth

To ensure a reliable growth measure among MSEs, there is need to use the Key growth Indicators because a new pattern of growth measure has been adopted by many MSE's. This is based on identifying what the business does in terms of levels of processes and attaching

Key growth Indicators to those processes. The recording and analysis of the Key growth Indicators should significantly contribute to the achievement of business goals. The main reason for using Key growth Indicators include; telling businesses how well they provide services, how long they take to process customer requests, their product delivery performance and how much time they spend fixing mistakes.

A growth Indicator measures is a measure of the behaviour of a business process. In business, understanding the state of the financial health of a business is a very important issue relating to business survival. There is a strong similarity between physical fitness and the health of a business. The Cash Flow of a business can be likened to the blood circulating through a person. If there is blood loss in the flow, the consequences are swift and predictable

It was established that customer requirements were the major causal factors while internal factors such as self-efforts and in-house technical capability along with external factors in the form of technical inputs, suggestions and initiative from Large Enterprises customers were the sources of innovations for these MSEs. Because of these innovations, MSEs achieved growth in terms of investment in plant and machinery, output and customer base, which are ideal indicators of MSE growth.

Profitability is one of the important measures of growth that must be considered as it is unlikely that firm growth can be sustained without profits being available for reinvestment in the firm. Growth along this dimension can be considered in terms of net profit margins or return on assets. If we take the definition of enterprise as the creation of rents through innovation (Stewart, 1991) where rents are defined as above average earnings relative to competitors, then profitability measures are particularly attractive. This also implies that economic success is required by high performance firms.

2.3.1. Factors Affecting growth of MSEs

The growth function in micro and small MSEs was affected by a number of factors. Chakebo, (2014) most MSEs face critical constraints both at the operation and start up level. The major challenges facing MSEs are finance credit problem, lack of work place, market and business development services (BDS), unsatisfactory working premises, unfavourable policy environments and an absence of institutional linkages, lack of business management skill, problems related with tax, rent etc. Furthermore, a survey by the Mesfin .S, (2015) & CSA (1997) indicated that their growing role and the contribution that micro and small enterprises could make to the national economy were largely constrained by various policies, structural

and institutional related problems and bottlenecks. Also, survey of Weldegabriel M,(2012) Some of the major constraints of micro and small enterprises in Ethiopia affecting the growth of MSEs are: Cumbersome rules /regulations related problems such as high tax level, uncertainty about tax policy, high collateral requirement, lack of / inadequate business premise, lack of business support service and inadequate access to credit, an inadequate access to finance, lack of infrastructure, weak supporting institutional quality, access to land, access to raw material, access to training, marketing and competition. Bureaucratic requirements, penalties, weak legal enforcement, entry regulations, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure and inability to use the institutional enforcement mechanism were also among the major problems of MSEs Ethiopia economics association (EEA) ,(2015)

2.3.2. Relationship between MFIs and MSEs

Economic examinations of MSEs growth have basically focused upon infrastructure endowments such as financial services, human capital, and innovative technology. Little or some attention has been paid to the effect of micro and small enterprises and the capacity of micro finance institutions to finance and promote the growth of micro and small enterprises Harper (2003), (Vanpraag 2005).

2.3.3. Credit, MFI-MSE relationship and growth

Organization for Economic Co-operation and Development (2006) reported that the MSE sector does not have access to external funds due to stringent terms that the financiers tend to tie to their credit and investment, this leads to the possibility that capacity building are seriously impaired. In the same report, it was noted that the difficulties that MSEs experience can stem from several sources of their financial needs. For example, the domestic financial market may contain an incomplete range of financial products and services, the lack of appropriate financing mechanisms.

In this case, suppliers of finance (MFIs) may rationally choose to offer an array of financial services that leaves significant numbers of potential borrowers without access to credit. Such credit rationing is said to occur if among loan applicants who appear to be identical some receive credit while others do not; or there are identifiable groups in the population that are unable to obtain credit.

According to Asia-Pacific Economic Cooperation (2003), it is recognized that the effect of micro finance institutions are very important for growth of MSEs. At least two main goals of

giving access for MSEs through growth of micro finance institutions, namely: increasing business activity of micro and small enterprises through working capital or investment fund, and promoting and developing spirit of entrepreneurship. This without a close relationship between MFIs and MSEs may not be achieved.

According to study, about MFI-MSE financing in Afghanistan by Mennonite Economic Development Associates (2009) it was established that financing interventions that focus exclusively on MSEs may in the end prove to be a high credit risk. While there is value in focus and specialization in financial service delivery, it can also become a weakness if the needs of MSEs are set at to limit its affordability and access.

2.3.4. Challenges of Micro and Small Enterprises

Micro and Small Enterprises in developing countries are however confronted with several drawbacks and challenges they have to overcome in order to operate successfully.

Major obstacles include for example access to finance, competition, market access, appropriate technology, unskilled man power, lack of business development experience and access to raw materials Mead & Liedholm, by Eva, M., (2008).

Micro and Small scale enterprises account the bulk of economic activities in most developing countries. However, they face many critical problems such as lack of infrastructure, inadequate or lack of training in entrepreneurial management skills, lack of information in business opportunities, social and cultural impacts, different entrepreneurial cultures, and lack of development of appropriate regulatory frame works, government reforms and excessive corruption Workneh, (2007). As indicated in the Ethiopian urban Socio-economic Survey, the problems of MSEs in Ethiopia both at the existing and the emerging enterprises. Some of these includes: access to financial capital and credit, problems of raising investment +capital, lack of sufficient loan able funds and facilities, Tenishu, (2014). In addition, lack of access to premise and land, considerable insecurity on business owners concerning location and acquire lands which are not suitable to get easy access to markets, lack of training on entrepreneurial and management skills, lack of training institutions and centres, lack of specific national policy to enhance the development of the sector and problems on the education system Gosa S, (2014). The Federal Micro and Small Enterprise Development Agency, (2004) stated that “despite their undisputable contribution to the overall economic development of the country, they are entangled in varied problems of varied degrees and complexity like those in other developing economies globally”. Their problems include:

- Lack of access to start up and operating financial resources,

- Lack of work premises both for production and sales,
- Shortage of skill and managerial expertise,
- Inadequacy of supply of material,
- Marketing problems and promotional supports.
- Instability of performance policy and others.

In general, micro and small enterprises have great potential to achieve the desired development goal and to reduce poverty and unemployment. They do have the capacity to increase the level of income of individuals and to improve the living standards of the large poor. They are highly applicable in developing countries since they require low start-up capital and have great potential to absorb a huge amount of work force. However they are confronted by many problems like mentioned above. Therefore, they need special attention to make better out of them.

According to Ethiopian Economics Association, (2015) although improvements have been registered during the last few years, the growth of MSEs has fallen short of expectations due to various challenges. These include, problems related to finance, access to market and low competitiveness, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure.

Surrounded in these efforts is the assumption that access to finance is a key constraint to micro and small business enterprises expansion. According to Joan Parker (2000), poverty has always been a concern of microfinance; and some microfinance institutions use methodologies that target the very poor as a separate client groups, while others are based on non-targeted financial services for all those who lack access to formal credit institutions. Sound practice in microfinance institutions is based on the ability to provide appropriate financial services to individuals and households that are otherwise excluded from the financial system (Joan P., 2000). According to his report, most microfinance clients are poor and many are extremely poor. Poverty remains a pervasive national problem that calls for urgent action. Microfinance refers to the delivery of financial services such as credit, savings, insurance, etc. to clients who are without access to the services of formal sector financial institutions on sustainable basis (Chakebo, 2014).

2.3.5. Determinant of the Growth of Micro and small enterprises

The assessment of the growth performance of any business venture is very important. The growth of MSEs is determined by several factors:

2.3.5.1. Access to credit

Micro financing or access to credit can be defined as giving small amounts of money in form of loans(microloans) to micro and small scale borrowers who in one way or another lacks collateral / security, employment or/and a verifiable credit history. Mainly, microcredit is purposed for poverty eradication and empowerment.

An important factor that considered leading to improved growth, development and general growth of MSEs is access to credit. Credit results in increased income and employment thereby alleviate poverty. Through access to credit poor people are able to undertake investments and overcome their liquidity constraints. Improvement of farm technology, for instance, leads to increased agricultural production (Hiedhues, 1995). The key end product of microfinance is to enrich the welfare of the poor through provision of micro-loans that the formal financial institutions do not offer. Navajas et al, (2000).

For the poor just around the poverty line, inadequate access to credit finance may lead to adverse consequences for the MSEs and on the overall welfare of the poor. Diagne and Zeller (2001). With access to credit MSEs can further increase their abilities on risk-bearing, improve strategies of coping with risk and enable smoothing of consumption overtime. Considering these arguments, it is clear that micro financing services improve the wellbeing and welfare of the poor.

2.3.5.2. Mobilization of Saving

Saving is not only important to private persons but it is also equally important for success and growth of any business. While the business is making profit, the business owner should explore starting a savings plan which can provide relief during tough times as well as for funding investments. A study by Zeller (1995) shows that for purposes of smoothing household consumption, liquid savings are better as compared to other savings techniques. Savings can be withdrawn and used in times of emergency as well as to cover healthcare. The growth of the household economic asset portfolio can be realized through the use of savings accounts. Mobilization of savings provides a means of funding investments. Capability to deposit and withdraw funds from a bank reduces the need to use inconvenient techniques of savings. Whereas it is common to withdraw cash from a business, the practice is not a good means of funding household expenses or unanticipated business expenses. A savings account has the potential of enhancing the ability to plan and cover such expenses.

The rapid evolution of microfinance, with specialization in lending small sums, is partly the reason why the poor can borrow at all. Several MFIs also offer savings accounts. A prominent example is Grameen Bank in Bangladesh. However, the sector remains credit

dominated, and the saving ability through an MFI often has a linkage to the customers' inclination to borrow funds from it. According to a 2009 survey of 166 MFIs by Microfinance Information Exchange, all advanced loans whereas just 27% provided savings facilities. The argument of those who advocate for a wider range of financial services is that a better balance should be established (Guichandut, 2006).

2.3.5.3. Training of MSEs

Business management knowledge is key ingredient to a firm's growth (Macpherson & Holt, 2007). Business training is critical for enhancing productivity and improving quality of business. It also positively influences the employees' efficiency, effectiveness and motivation (Thassanabanjong et al., 2009). The MSEs owner significantly influences the strategies, tactics, operations and decision-making process across the firm. As a consequence, decision making process tends to be centralized around the owner. This MSEs characteristic of centralized decision-making means that the business-owner personality, skills, responsibilities, attitude and behaviour will have a significant impact on business strategy (Levy and Powel, 2005)

In order to address the various inadequacies that MSEs face, one of the solutions that MFIs can offer is business management training. According to (Armyx 2005), it is commonly acknowledged that MSEs are faced by unique challenges that affect their profitability, viability and growth thereby diminishing their capacity to effectively contribute to sustainable development (Wanjohi 2007) mentioned that key amongst these challenges is inadequate business management training and experience. Wanjohi noted that, through trial and error, a typical owner/manager of an MSEs develops his own style of business management. As a consequence, the style is likely to be skewed towards being more intuitive than analytical, which means more emphasis placed on routine operations than on long-term strategic issues (Hill 1987). Whereas this position is often an important area of strength at the initial phase of a business because of the needed creativity, it's likely to be problematic at later stages where multifaceted decisions have to be made.

An outcome of low quality managerial ability is that MSEs' proprietors are not well equipped to adapt to the ever changing external and internal business environments. According to Mugure (2008) some learning institutions have attempted to integrate business management training for MSEs in their programs. However, there is limited knowledge about how MFIs are imparting business management skills among MSEs and the impact on growth and development of MSEs.

2.3.5.4. Collateral request

Collateral is an additional form of security which can be used to assure a lender that you have a second source of loan repayment. Assets such as equipment, buildings, accounts receivable, and (in some cases) inventory are considered possible sources of repayment if they can be sold by the bank for cash. Micro and Small Enterprises in developing countries are however confronted with several drawbacks and challenges they have to overcome in order to operate successfully.

The study conducted By Fasikaw, (2016) that major obstacles include for example access to finance, collateral request, market access, appropriate technology, lack of business development experience and access to raw materials.

2.3.5.5. Grace period of loan

Grace period of loan refers to MSEs would give the entrepreneurs adequate time to invest the loan and use the returns from the investment partners for loan repayment, government and partners could consider channelling more funds for micro financing programs.

According to study of Gebrehiwot, (2002), revealed that this strategy enable more entrepreneurs to access to finance from financial institutions because entrepreneurs have the reasonable time starting repayment of loan given to them, adequate starting business time and mostly is considered to manufacturing activities since it takes a long time and large amount of loan for these firms before making profit.

The loan period or term of a loan is usually classified as either short-term or long-term. A short-term loan in bank parlance is one that is repayable within a period of one year. A long-term loan on the other hand, is any loan with payment terms extending beyond one year.

Although the relationship between loan maturity and borrower risk has been addressed in some theoretical models" (Ortiz-Molina &Penas, 2004),there is very little observed research that tests these theoretical models in the context of bank lending to small firms (Berger & Frame, 2005). Bragg (2010:597) asserted that "the short time frame reduces the risk of non-repayment to the bank, which can be reasonably certain that the business's fortunes will not decline so far within such a short time period that it cannot repay the loan, while the bank will also be protected from long-term variations in the interest rate".

2.4. Models guiding business financing

Challenges facing MFI in serving MSEs are the little amount and high interest rates offered by MFIs do not meet MSEs Needs. Mnenwa and Maliti, (2008), investigation and follow up, at the same time the loan amount is very small compared to that offered by the commercial

banks, this is because of lack of enough fund by MFIs. Most of the theoretical work on small firm finance and the behaviour of institutions that lend to small scale enterprises have been undertaken on the industrial countries. A large proportion of this work has tended to concentrate on firms that, in terms of size, lie towards the upper end of the spectrum, where the range of ownership and financing options becomes wider.

2.4.1. The trade – off Model

Different explanations provide the theoretical basis for the decision taken by firms in the respective areas on the justification for the choice of financing sources and the appropriate mix. The trade-off model postulates that the firm will aim at the optimal gearing levels that will balance the tax benefits of additional debt with the expected costs of financial distress as the level of indebtedness rises Brierley, (2001); Bunn, Cunningham, and Drehmann, (2005). Considering non-tax benefits of debt such as information asymmetries between lenders and borrowers, managers may raise equity only when company's shares seem overvalued. Investors will consequently discount any new and existing shares when a new equity issue is announced.

Cassar and Holmes, (2001) found out that firms' trade-off several aspects, including the exposure of the firm to bankruptcy and agency costs against the tax benefits associated with debt use. Firms are faced with higher cost of capital because of the increased risk of liquidation and thus they tend to avoid debt. However, firms use debt in order to enjoy tax benefits as a trade-off with the costs associated with bankruptcy and agency, and this implies that there is an optimal debt-equity ratio for the firm, which changes as benefits and costs alter over time Modigliani and Miller, (1963). It is clearly evident that managers will opt for the mix of sources that minimizes the cost of capital but at the same time not exposing the entity to the factors that may adversely affect the going concern of the firm.

2.4.2. The Pecking order model

This model attempts to avoid the resulting risk that profitable investment projects will be foregone by seeking to finance them internally. If retained earnings are insufficient, they will opt for debt rather than equity finance, because debt providers, with a prior claim on the firm's assets and earnings, are less exposed than equity investors to errors in valuing the firm. In these circumstances, corporate gearing will reflect a company's need for external funds and — unlike the trade-off approach — there will not necessarily be any target or optimal level of gearing. This model was initially proposed by Myers (1994) and suggests that firms

tend to finance their needs in a hierarchical fashion, first using internally available funds, followed by debt, and finally external equity.

Central concern appears to be a concentration by small firms on “sources of finance that minimize intrusion into business” Lopez-Gracia and Aybar-Arias, (52000). Consequently firms do not have an optimal debt-equity ratio but rather it varies, justified by the firm’s need of external finance. The pecking-order model to a great extent tells the way certain characteristics of a firm may influence gearing decisions. As Myers suggested, some entities follow a certain hierarchy to determine which the next alternative source of finance is, and that fear of intrusion and dilution of power in an entity may cause a certain sources to be selected. Myers (1994) suggests that issuing debt secured by collateral may reduce the asymmetric information related costs in financing. The difference in information sets between the parties involved may lead to the moral hazard problem (hidden action) and/or adverse selection (hidden information). Hence, debt secured by collateral may mitigate asymmetric information related cost in financing.

2.5. Empirical literature

2.5.1. Empirical literature in other countries

The purpose of this section was assume the empirical evidence of microfinance credit and its effect to the growth of MSEs, there appear to be thin convenient facts accessible and mainstream of them habitually stress on hindrance of MSEs in right to use finance and on the effect of micro finance credit in the micro and small enterprise. For that reason, slight survey was prepared on the effect of microfinance credit in the growth of MSEs. Moreover, the observed confirmations of this thesis match up to varied investigators assessing the influence of microfinance credit contributions and well success of micro and small business in the country as well as in Hossana Town.

According to study of Hamisi, (2013) the impact of microfinance credit on the growth of MSEs in Tanzania, this research design was a case study. Data were collected from 100 respondents. It collected using interviews, questionnaires, observation and documentary review. Simple random and purposive sampling techniques were used to arrive 80 customers as well as 20 Bank staff respectively. Data were analysed using descriptive statistics using computer package called Statistical Package of Social Science (SPSS) 16 version. Finding shows that credit obtained from NMB Bank in Morogoro, MSEs have been able to improve businesses in term of: increased business profit, increased employees, increased sales

turnover, increased business diversification, increased business capital and assets as well as reduction of poverty among customers surveyed. Result also shows that collateral, age or experience of the MSEs owners, and, size of the firm influence the access to credit.

Leah Atieno (2017), Factors affecting the effectiveness of bank credit in enhancing the growth of micro and small enterprises in Kenya. This study examined factors hindering the effectiveness of bank credit in enhancing the growth of MSEs in Kenya in terms of credit terms, loan utilization and managerial competencies. Findings revealed that the three factors cumulatively accounted for 24% of the variance in MSE growth. Credit terms was the most significant accounting for 31.1% of the variance, Loan utilization challenges 28.8% while managerial competence contributed 24.4% of the variance in growth for a majority of MSEs.

Camilla J, (2014), Microcredit Impact on Business growth Microcredits has become a popular way to include poor people in the financial market. Former research on the effect on business growth has provided divergent findings and its impact on the Salvadoran market is not yet investigated. The results show that participation in a microcredit program enlarged the enterprise size in terms of sales, total assets and equity, but did not have any significant effect on business profit, marginal return to capital or fixed asset. Regressions are conducted to describe what individual characteristics of the clients are the most important for the business growth.

According to the study of Simon W, (2013), the effect of microfinance credit on the financial growth of micro and small enterprises in kiambu county, Kenya. The research was aimed at investigating the effects of micro-finance credit on the financial growth of micro and Small Enterprises (MSEs) in Kiambu County, Kenya. The study found that there was a strong positive relationship between credit and the financial growth of MSEs. This is similar to Heidhues (1995) who stated that accessing credit is considered to be an important factor in increasing the development of MSEs. The study also established that the enterprises benefit from loans from microfinance institutions; the MSEs seek financial assistance from the MFIs.

Kibet, k. (2015) Study discusses the effects of microfinance credit on the growth of micro and small enterprises in uasingishu county, Kenya. In the final analysis, the research clearly found that MFC have a positive effect on the growth of MSEs with a level of significant of less than 5%. In order to enhance a sustained and accelerated growth in the operations of MSEs credits should be client-oriented and not product- oriented. Although, the study found that all MSEs borrow investment capital and they use it for the purpose in which they

borrowed for, most of them do not have other source of financing other than from micro-finance institutions and they did not have other form of financing before they started receiving financing from microfinance institutions.

Zawadi, (2014) the study assessed the role of microfinance on entrepreneurial development. The objectives of the study were: to identify barriers impede entrepreneurial development; to determine constrains facing micro entrepreneurs and to find out challenges facing microfinance institutions in providing services to micro entrepreneurs. A sample of 120 respondents was taken from FINCA and PRIDE. Primary data were collected by using questionnaires and in depth interview. The study found that MFIs play significant role in enhancing micro entrepreneurs. MFIs provide loan services, consultation, training and business monitoring services. The study found that majority of the respondents (51.67%) identified that high interest rate is the strong barrier in impede entrepreneur development. Also, the study found that majority of the respondents (60%) identified high interest rate is a major constrains facing micro entrepreneurs. Moreover, the study the study found that majority of the respondents (58.3%) revealed that poor management is the strong challenge for microfinance institutions in providing loans to micro entrepreneurs. The study concludes that MFIs play significance role in enhance micro enterprises operations. The study concludes that there are various barriers impede entrepreneurs' development. The major challenges involve, lack of collateral, high loan interest rate and lack of registration.

Moris, (2013) this study examines the impact of the Microfinance on growth of the Micro and Small Entrepreneurs (MSEs) in Morogoro Municipality. The specific objectives of this study were as follows; to determine at what extent accessibility of microfinance lead to increase the volume of gross sales of participants and to understand other factors that enhancing MSE's growth. The study used cross-sectional research design in which 150 MSEs were used as a sample size. Data were collected using questionnaires, direct observations and documentary reviews. Descriptive statistical procedures including descriptive and frequency distributions from the database template was used and then, running Linear Regression Model. The result findings revealed that most of the respondents who were engaged in micro enterprises were female. Indeed, they were also in the age of briskest and economical active individuals of mean age 31.2 years, and the majority of them had primary level of education. However, the statistical findings also revealed that the following null hypothesis are statistically significant under t-test at 0.05 level of significance; There is statistical significant on microfinance access on MSEs growth. While null hypothesis stated that there is statistical significant relationship between MSEs growth and access to finance and the other which stated that there

is no statistical significant that experience on MSE activities improves MSE's growth which reveals that it is not statistically significant at t-statistic 0.05 level of significance.

2.5.2. Empirical literature in Ethiopia

In Ethiopia there are some researches done effect of MFI credit on growth of MSEs issues with different titles among them some of them are mentioned below:

Chakebo , (2014), this study investigated the role of Microfinance Institutions in the growth of Micro and Small Enterprises in Hawassa city. Micro and Small Enterprises are best known as the structure block of both developed and emerging economy. Recognizing the expansion behaviours of MSEs is fairly diverse. The basic aspire to comprise this research is to recognize and examine factors that affect the growth of MSE. In this survey growth of MSEs was measured with sale and accessibility of external business environment. Firm specific issue control variables and external business environment source as: size, age, education level, credit of microfinance and business environment factor which include access to finance, access to market, and infrastructure are realized as major factors for MSEs Working in Hawassa. In this study both quantitative and qualitative approach (mixed approach) was used. As well, primary data was collected to achieve the purpose and Stratified sampling technique was applied to select the sample from a selected inhabitants. The results indicated that the loan criteria inversely related with growth of MSEs. Participation of female in enterprise less than male and manufacturing sector was growing faster than other economic sector. The policies and support programs that aim at promoting the need of MSEs. Thus, the needs were finance, available loan criteria and access to market for the enterprise.

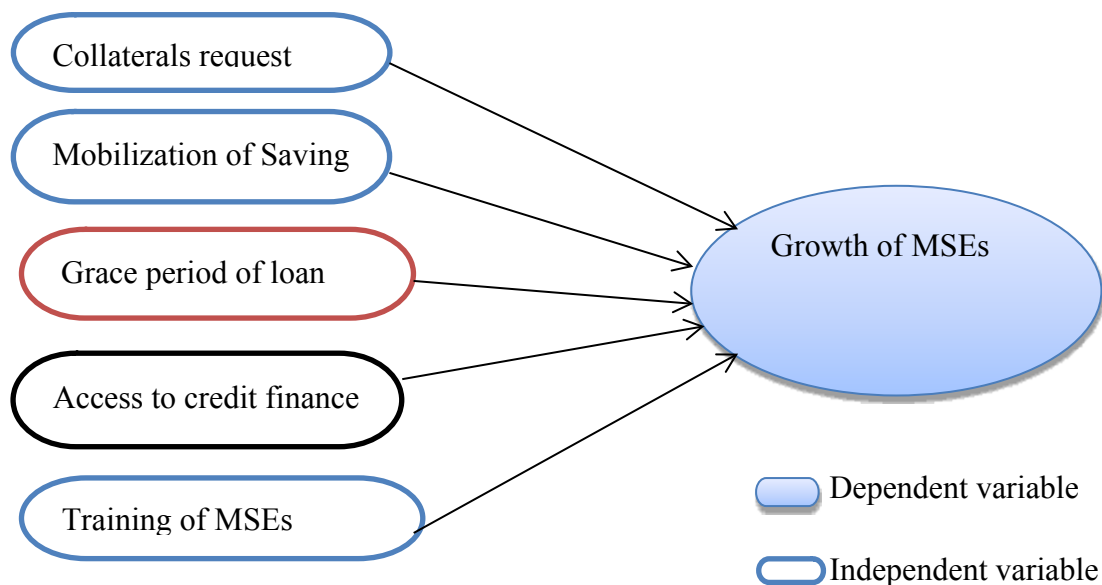
According to study of Fetene, (2010) Access to Finance and Its Challenge for Small Business Enterprises Case of Addis Ababa City .The purpose of this paper was to bring to light one of the major prerequisites, namely access to finance aspects, of the micro and small scale enterprises which are foundation in accelerating economic growth and factors influence the extent of accessing finance. The basic factors aggravated the problem for small business are loan covenants need by financial institution, lack of collateral, level of cost of financing and availability of other financing instruments. In addition; as it was confirmed from the research, luck of credit history with the financial institutions, willingness of banks and suppliers to provide credit and the firm's specific outlook about sales and profitability have contributed to the problem. Finding of the study was accessing finance from the existing formal financial institution as listed by the owner managers were loan covenants and information requirement of the financial institutions, availability of loan size, their firm's sales and profitability, level

of cost of financing, willingness of businesses to provide sales on account, financial institutions willingness to provide loan, the firm's capital, the economy of the country and availability of costless financing instrument that can easily be accessed. Although, preference of small business indicates more in banks than microfinance and the reason was indicated as loan size, interest rate and time period. Around 37% of the total small businesses replied that their preference was microfinance since these institutions did not require collateral for loan provision, simple procedures and easily to fulfil and one can find them in Kebeles.

Fasikaw, (2016) in order to analyse the factors that effect of micro finance institution on the development and growth of micro and Small Business Enterprises in Addis Ababa (Ethiopia).The study employed both qualitative and quantitative data analytical methods, Primary data are collected through observation, structured questionnaires and semi-structured interviews using checklist of leading questions. Secondary data are obtained from Ethiopian Federal Micro and Small Enterprise Development Agency (EFSMEDA), Ethiopian Ministry of Trade and Industries (EMTI), Addis Ababa Micro and Small Enterprise Development Agency (AAMSDA), The results indicated that a correlation value (R) of 0.832 which represents that there is a good linear dependence of EDPA on loan size of MFI, collateral of MFI, interest rate and liquidity of matching fund. It is also resulted that a unit increase in loan size of MFI leads to an increase in EDPA by 2.149. This implies, the dependent variable and loan size has a direct relationship with in the model and a unit increase in collateral would be resulted in decrease of the EDPA by 1.792,a unit increasing in interest rate also resulted a decreasing of EDPA by 0.57 and a unit increase in marching fund for the loan would be resulted in a decrease in EDPA by 0.905.Therefore, the independent variables collateral, interest rate and matching fund have an inverse relationship with the dependent variable EDPA in the model.

2.6. Conceptual frameworks

This section summarizes the framework or the model of the study in terms of variables relationships. The main variables of the study are; Access to credit finance, mobilization of Saving, Collaterals request, Grace period of loan and Training of MSEs. The variables are considered in the study as independent variables which effect microfinance credit on the growth of MSEs in Hassana town.



Source: Researcher, 2018

2.7. Research Gap in literature

From the literature examined, studies show inadequacies in the way provides a theoretical analysis of the hindering factors on failure to achieve performance of the MSEs growth in Hossana town. The researcher believes that this study fills some gaps in this topic area, Waithanji, S .Wakaba,(2014)did a research on the effect of microfinance credit on the growth of micro and small enterprises in developing county and found that all MSEs borrow investment capital and they use it for the purpose in which they borrowed for, most of them do not have other source of financing other than from micro-finance institutions and they did not have other form of financing before they started receiving financing from microfinance institutions. In Ethiopia, particularly as to the knowledge of the researcher there were few studies which relate with this title, which look on the cost and benefit of MFI loans to MSEs and weather the Omo microfinance credit have helped the MSEs to growth despite of the true cost incurred on the process, as a result industry never know if Omo microfinance credit have truly helped MSEs to growth. Also more importantly there is also lack of studies on the role of providing comprehensive micro financial services on the micro and small entrepreneur's growth. These literature gaps hinder the objective of relationship between Omo micro finance credit and micro entrepreneur which are poverty reduction, create job opportunity, empowerment and sustainable development which lead the need to be studied further. Further, previous studies only focus on credit effect of financial institutions by ignoring other effect such as governance, non financial services/social intermediation services, risk sharing

and monitoring and controlling. Finally, to the knowledge of the researcher, in Ethiopian context there appears to be no attempt to examine the effect of financial institutions in the growth of MSE. Therefore, my study was intended to measure if the micro and small entrepreneurship growth was be influenced by Access to credit finance, Mobilization of Saving, Collaterals request, Grace period of loan and Training of MSEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter describes the research methodology, research design, the population and the sampling technique to be used for the field research. The chapter highlights the data collection and analysis procedures that was used in the study. The second section discusses the approach, data collection methods and analytical tools.

3.2. Study Approach

The three common approaches for conducting a research are quantitative, qualitative, and mixed methods. The knowledge claims, the strategies, and the method all contribute to a research approach that tends to be more quantitative, qualitative or mixed (Creswell 2003). Quantitative research is a methods in which researcher investigated a sample from a larger study population which was used to produced information that can be completed to a wider society and the information was offered in statistical numbers and tables.

Qualitative research method was an approach which the researcher utilized this type of research method as it was require cooperate with loan user as well as to ensure so as to definite information was collected from exactly responsible respondents.

3.3. Research Design

The general objective of this study is to examine the factors that effect of Omo microfinance credit on the growth of MSEs. The study was utilizing a descriptive and explanatory survey design with the aim of achieving the objectives of the study. Descriptive research studies were those studies which are concerned with describing the characteristics of particular firms. Explanatory designs try to stablish cause and effect relationships and characterized by research hypotheses that specify the nature and direction of the relationships among variables being studied.

This design was considered appropriate tool for collecting information for the goals of the research called for both quantitative and qualitative data. According to Kothari (2004) a research design is “the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure.” It was the conceptual structure within which research was conducted; it constitutes the blue print for collection, measurement and analysis of data. It also shows how the study was implemented from problem definition to conclusion of study and it is use to provide a plan of

how important data can be collected with smallest expenditure of time, efforts and money. It is through research design that one can answered various questions such as ‘what is the objective of the paper? What data is need? How data will be collect and analyse?’ That being the case, a cross sectional design allows data to be collecting roughly at a single point in time without repetition from the representative population. The aim was to gain knowledge on how the Omo microfinance credit effect on the MSEs growth in Hossana town.

3.4. Sampling method

3.4.1. Population of the study

The study population was micro and small enterprises in the Hossana town. According to, Cohen (2000) shows that population is a group from which the study expects to get useful information and draw conclusions for the study. The total population was 348 enterprises from different sub-city in Hossana town. The study was used stratified sampling methods in micro and small enterprises owners which growth of business. MSEs are distributed the length of the town with most of them located in three sub-city of the town. These means located in Addis-Ketam sub-city, Sech-duna sub-city, and Gofarmeda sub-city. In adopting a case study methed in a research, the selection of the research site is most important (Yin, 1994). With this in mind, Addis Ketam sub-city was selected for the following reasons.

1st, Most of the MSEs are located in this area and this area was good commercial location to performed business operations.

2nd, It was easier for the researchers to approach these MSEs operators since the researchers are also located in the same sub-city. Choosing any other sub-city would mean travelling a long distance to contact with the MSE operators.

The sampling frame however for this study chose 116 MSEs out of 348 total populations in the Hossana town, specifically those in the Addis-ketam sub-city because of the easy access to these MSEs. Stratified random sampling will be applied to pick 89 MSEs out of 348 that will be surveyed in the study.

3.4.2. Sample size

Sampling was a research procedure that is used for selected a give number of subjects from a target population as representative of that population. As using yamane (1967) formula as following .The study was based the sample frame work of three sub-cities.

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

$$n = \frac{116}{1 + 116(.05)^2} = 89$$

Where: - **n** is sample size, **N** is the total number of study population size and **e** is the level of accuracy at 95% confidence level and $\pm 5\%$ accuracy, 89 MSEs was selected out of 116 sampling frame population.

The researcher determined statistically viable sample size for the study; by the adopting the previous study of Felruz.J (2015), to suit the case MFIs. Stratified random sampling technique was used. A stratified random sample was a random sample in which members of the population were first divided in to strata, and then were randomly selected to be a part of the sample. Stratified sampling was used with size of the enterprises as the basis of the stratification.

3.5. Data collection Instrument

3.5.1. Types of data

Data to be collected by used both primary and secondary data. Primary method of data collection was used in this study and the tool used for data collection was questionnaire techniques method, and Secondary data was had documentary data collected.

3.5.2. Data collection Methods

This study is based on primary and secondary data. Primary data was collected directly from MSE owners, a structured questionnaire was developed on the bases of some valuable indicators to which the respondents was be asked to put the right mark against the basic questions. Secondary data was had documentary data; it's collect from Omo-microfinance institution, Hossana town urban Food security and Job creation bureau and related organizations.

3.5.2.1. Questionnaire

The researcher used this method to collect primary data from respondents. They were at first pre-testing by a small number of respondents and then after them distributed to clients of these micro-credit MSEs for collected the data needed. Structured questionnaires were used to gather information from entrepreneurs through questionnaires in order to obtain significant information which helps in understanding the effect of microcredit towards the growth of micro and small enterprises. This was used to collect information from MSEs. Questionnaires were found appropriate for a large population as they involve the respondents responding to

the questions themselves and they are precise and time saving (Kendall, 2008). The researcher initially distributed questionnaires hand to hand to the respondents and finally collected them from the respondents by hand. It was develop to obtain survey data that allows an understand of the effect of micro financing services on the growth of micro and small entrepreneurs. The question is formulated in English and translated into Amharic to make them understandable to respondents. They were distributed to collected quantitative data from respondents.

3.5.2.2. Documentary Data

Under this method, the researcher was to examine whether the data collected were reliable, suitable and adequate. The method was therefore being helpful to understand the contribution made by this micro-credit service in different areas and periods, seeking to explore the magnitude of the problem as documented by other researchers. Annual work performance report and other forms of documented materials were examined.

3.6. Data collection procedures

After fulfilling the requirements to collect data, the questions were distribution to the selected respondents. Researcher then Apply for an authority letter from the Department, to be allowed to collect data from the suggested branch. He orders for an appointment to meet the branch manager and MSEs owners. After agreement on when it was deliver the questionnaires to the credit clients on the ground, and questionnaires was collected from respondents in after two weeks. The respondents have a number of alternative options with structural questionnaire from which they must choose the one that most closely approximates their view.

The value of the study and the instructions was explained to the subjects. Respondents were requested to complete the questionnaires which was be collected personally by the researcher from individual respondents which ensured a high return rate and encouraged freedom of expression from the respondents.

3.7. Validity of the instruments

Three aspects of validity were determined for the instruments. Face validity were establish by assessed the items on the instrument and ensuring that they appear relevant, meaningful and appropriate to the respondents. Content validity was determined by the supervisor who Construct validity was obtained by correlating the scores on one instrument with scores from another instrument.

3.8. Data Processing and Analysis

The qualitative data collected were to analyse used statistical and qualitative approaches in order to make meaningful presentations and conclusions. Data collect from the 87 respondents was examined and arranged basing on the research objectives. In order to making meaningful presentation of the data collected and to match it with the study objectives and research questions, the data was subjected to various steps included; editing in order to identify missing gaps, spelling mistakes, incomplete answers and to eliminate unwanted data; coding, classification of data with common characteristics. In the statistical method, analysis of clearing and forwarding data focusing on various process and procedures involved by the port and other agents activities.

The researcher described the study population by background characteristics purposely relating to the effect of Omo Microfinance credit on micro and small enterprises growth, the influence of credit terms and access to finance on MSEs growth and as to whether Microfinance provide favourable credit periods to MSEs in Hossana or to determine microcredit access challenges faced MSE owners in Hossana town. Once the questionnaire or other measuring instruments have been administered, the mass of raw data collected must be systematically organized in a manner that facilitates analysis (Mugenda and Mugenda, 1999). In order to facilitate the analysis of data from questionnaires and documentary sources, findings were extracted and presented to answer the research questions.

Statistical Package for Social Sciences (SPSS. 23) and Eviews-8 computer software for storage, processing and analysis of data so as to obtain answers to the research questions, and use for data processed before data analysis. Descriptive statistical analysis procedures by used multiple regression method: including frequency distributions from the database template was used to determine the relations between among different variables.

In the proposed study, instruments were employed to measure five continuous independent variables and one continuous dependent variable. These are outlined below: -

3.9. Definition of Variables and Conceptual Model

3.9.1 Dependent variable

The response variable is the growth of MSEs proxies by sale turnover and it is measured by both the controlling variables and external business environments. The measure of growth of MSEs were growth indicators which were commonly used to help an organization define and evaluate how profitability of MSEs. Measurement of actual growth must be done in the same

terms in which standards have been laid down so that comparisons are easier and meaningful. It can also be measured quantitatively like units of production, units of sales / percentage of market share, number of employees, sales revenue and net profit.

3.9.2. Independent Variables

To measure the predictor variables of factors which affect the Omo Microfinance credit on the growth of MSEs in Hossana town, five measures were used as independent variables which were collected from different studies. The variables namely; - Access to credit finance, Mobilization of saving, Collaterals request, Grace period of loan and Training of MSEs.

Summary of variables was test, expect sign and explanations.

Variable description (independent variable)

S/ N	Variable standard name	Description	Variable name in regression model	Expecte d effect
	MSEsG factors			
1	Mobilization of Saving	Saving mobilization of MFI affect growth on MSEs	MSV	+
2	Access to credit finance	Access of credit affect growth on MSEs	ACFC	+
3	Collaterals request	Collaterals of the micro & small enterprises effect on the growth.	CLTR	-
4	Training of MSEs	Training of MSEs help to growth of MSEs.	TMSE	+
5	Grace period of loan	Grace period of loan affect growth on MSEs	GPL	-

Source: Researcher conceptualization (2018)

3.10. Model specification and Regression analysis

This section covers the operational panel fixed regression model (multiple regression models) that was used in the study. The multiple regression models were used for this study to effect of microfinance credit on the growth of micro and small enterprises in context Omo Microfinance Hossana Sub Branch SNNPR. Multiple Regressions were more powerful than correlation. According to Brooks (2008), unlike correlation, in the case of regression if x has significant effect on y, thus change in y was influenced by change in x. Therefore, to see the

effect of Omo-microfinance credit on growth of MSEs, the significant factors affecting credit was used as the representatives for the variation in growth.

Growth of Micro and Small enterprises = $f(\text{Access to credit finance, Mobilization of Saving, Grace period of loan, Collateral request, Training of MSEs})$

Thus the model $\text{MSEsG} = \beta_0 + \beta_1 * \text{ACFC} + \beta_2 * \text{MSV} + \beta_3 * \text{GPL} + \beta_4 * \text{CLTR} + \beta_5 * \text{TMSE} + \varepsilon$

Where: - **MSEsG**: - the micro and small enterprise growth which is the dependent variable in the model.

β_1 to β_5 :- are the coefficients of the independent variables

β_0 :- Constant term

ε :- is the random error term.

ACFC: Access to credit finance was positive effect on growth of MSEs, which is the independent variable in the model.

MSV: The mobilization of saving is one independent variable in the model. It is also equally important for success and growth of any business. It has play positive effect on the growth of micro and small enterprises.

GPL: Grace period of loan is favourable grace period receiving the loan which was the independent variable in the mode.

CLTR: Collaterals request of MSEs is negative effect on growth of MSE, which was the independent variable in the model.

TMSEs: Training of MSEs improving financial status, which was the independent Variable in the model.

3.11. Variable Description and Research Hypotheses

As presented in chapter one, the broad objectives of this study is to investigate the effect of Omo microfinance credit on the growth of MSEs in Hossana town by using disaggregated data. The study was focused on the MSEs growth and to investigate the extent to which Omo microfinance credit may have contributed to this MSEs' growth. To achieve this general objective, five hypotheses were developed and to see the relationship between growth of MSEs.

3.11.1. Dependent Variable

The study used Micro and Small Enterprises growth as a dependant variable. The response variable is the growth of MSEs proxy by sale turnover .The measure of growth of MSEs were growth indicators which were commonly used to help an organization define and evaluate

how profitable of MSEs. Measurement of actual growth must be done in the same terms in which standards have been laid down so that comparisons are easier and meaningful.

MSEsG :- Micro and small enterprises growth proxies by annual sales growth rate over the five years of study. It is defined as $Gr = (St/so)^{1/n-1} * 100$

Where :- St is the current sales level

So is the base year 2013

n is the no of years considered for study while Gr is the annual rate of growth

(Niskanen & Niskanen, 2007)

3.11.2. Independent Variables and hypothesis

To measure the predictor variables of factors which effect the Omo Microfinance credit on the growth of MSEs in Hossana town, five measures was used as independent variables which was collected from different studies. The variables namely; - Access to finance, Mobilization of saving, collaterals request, Grace period of loan and Training of MSEs.

Access to credit finance: -

It is a source of loan; the ability of individuals or enterprises to obtain financial services, the critical element on effective poverty reduction strategy and it also, measured by the percentage of different sources accounting for the total investments in a certain year. It is noteworthy that the total amount of one year's working capital and the percentage of each source largely depend on the firm's growth during the previous year in terms of revenue growth and net profit growth. Momba, (2013)

H1: There is a positive association between the access to credit finance and enterprise growth.

Microfinance credit is driven by its potential to help poor people better manage their financial resources, take on new economic opportunities, mitigate everyday risks, reduce exposure of poorness and improve their living condition. According to study of Gosa , (2014) show that, Microfinance credit is the provision of financial services to poor and low income households without access to formal financial institutions. Also it is a strategy for providing to the poor in rural and urban areas, especially unemployed society with savings and credit facilities to set up or expand business, and increase household security (Wolday, 2002). The majority of entrepreneurs in Hossana town had strongly agree on Omo microfinance credit scheme is the best way of improving the growth of MSEs, credit has played an important role provides loan on time when needed by the clients and credits satisfies the financial needs of the enterprise rates, as the study of Habitamu.,(2013) need assessment of enterprises growth

in Haddiya zone, implied that compatible with the model that was developed there is a positive relationship between Omo microfinance credits and increased sales volume of MSEs. This is could be influence of Omo-microfinance services had positive effect on the asset of the borrowers due to either borrowed money itself or increase in the asset of borrowers caused by investment return of borrowed money.

Although, conducted of Albert. (2013), the study findings revealed that there was a significant positive relationship between amount of loan taken and increase in income. There was observed significant difference between those who agreed and those who disagrees that amount of loan increased income of MSEs business activities. MFIs loans are likely to increase income of MSEs as supported by Makokha (2006) who found that amount loans enable MSEs to transferring to medium enterprises.

Training of MSEs

Training of micro and small enterprises is teaching, or developing in oneself or others, business skills and knowledge that relate to specific useful competencies. Training of MSEs is important for improving financial status of micro and small enterprises and growth of MSEs. It is one independent variable in the model. It is also important for growth of any business. It has play positive and significant effect on the growth of micro and small enterprises.

H₂: There is a positive effect between the training of MSEs and growth of MSEs. Entrepreneur's knowledge is key ingredient to a firm's growth (Macpherson & Holt, 2007). Training is critical for enhancing productivity and improving business growth. It also positively influences the enterprises' efficiency, effectiveness and motivation (Thassanabanjong et al., 2009).The MSE owner significantly influences the strategies, tactics, operations and decision-making process across the enterprises firms.

Collateral request: -

It refers to security provided by a borrower to offset the apparent weaknesses of a loan. Collateral should be considered as a protection rather than as a source of repayment. As mentioned earlier, when a lending customer run into difficulties, a microfinance officer should not try to seek its collateral in the first place but instead should try to help the customer through a restructuring.

H₃: There is negative relation between collateral request by MFIs and the growth of MSEs. .

Micro and Small Enterprises in developing countries are however confronted with several drawbacks and challenges they have to overcome in order to operate successfully.

The study conducted By Fasikaw, (2016) that major obstacles include for example access to finance, collateral request, lack of market access, and access to raw materials. As the Hossana Food security and Job creation office ,(2016) annual report was major problem faced by enterprises in taking loans from Omo microfinance institution were collateral problem, because Omo microfinance institution only accept civil servant salary guaranty, immovable assets and preferably land and buildings. And also, basic challenges face to get loan from Omo microfinance institution in Hossana were long process of loan and collateral requirement. This different research study finding implies that challenges are influencing and negative relation between on growth of MSEs.

Mobilization of saving:

The mobilization of saving is one independent variable in the model. It is also equally important for success and growth of any business. It has play positive relationship between on the growth of micro and small enterprises.

H₄: There is a positive relationship between mobilization of saving and the growth of MSEs.

Saving are funds that customers place with a finance institution and that the financial institution is obligated to repay on demand, after a specific period of time or after expiration of some required notice period. Saving are the primary funding source for most finance institutions and, financial institutions use deposits in a variety of ways, primarily to fund loans and investments.

Mobilizations of savings have a significant connection and are crucial for enhancement of potential for growth and competitiveness of MSEs. It has a positive relationship with accessing credit which in turn leads to better growth of MSEs. MFIs provide both savings and credit services for MSEs.

Grace period :- refers to MSEs would give the entrepreneurs adequate time to invest the loan and use the returns from the investment partners for loan repayment, government and partners could consider channelling more funds for micro financing programs.

H₅: There is negative relation between grace period of loan and the growth of MSEs.

According to study of Gebrehiwot, (2002), revealed that this strategy enable more entrepreneurs to access to finance from financial institutions because entrepreneurs have the reasonable time starting repayment of loan given to them, adequate starting business time and mostly is considered to manufacturing activities since it takes a long time and large amount of loan for these firms before making profit.

As study of Chakebo, (2014), Results show that credit terms and inadequate starting business time influence MSEs growth. This is due to the fact that MSEs were concerned about credit terms and adequate starting business time. This therefore decreases the performance in terms of market growth, decreases product and service, timely loan payments as well as generating low profits which decreases their capital base and grace period is negative effect on the growth of MSEs.

3.12. Data Analysis Procedure

The regression analysis also recognises that correlation, coefficient of determination and analysis of variance (ANOVA). Correlation requires giving you an idea about the nature of the relationship between dependent variable and independent variables and coefficient of determination confirming the strength of the relationship. For inferential statistics, a correlation analysis was conducted to test the relationship Omo micro finance credit and growth of MSEs Hossana town. In this case, Pearson Product Moment Correlation Coefficient was used to test the relationship between Access to finance, Mobilization of saving, Collaterals request of MSEs, Grace period of loan and Training of MSEs. Moreover, multiple regression analysis was used to test the multiple linear regression model assumptions and test the hypothesis for the study in order to determine the overall effect of Omo micro finance credit on the growth of micro and small enterprises.

CHAPTER FOUR

RESULTS, DATA ANALYSIS, AND DISCUSSIONS

4.1 Introduction

The previous chapter presented the methodology used in the thesis. More specifically, the chapter showed the adopted research approaches, methods of data collection, and analysis method in the study. This chapter is arranged into four sections: the first section presents the descriptive discussion, followed by the Correlation Analysis. Then, multiple regression analysis and model specification results and discussion are in section three, and fourth sections present the diagnostic test and hypothesis test.

This chapter presents an analysis and discussion of the research findings of the study. In this context the chapter analysed data with reference to the research objectives and hypothesis. The study provides description of the socio-economic and demographic characteristics of the respondents namely age, sex, marital status and education level. Also the main occupation and years in business (experience) were discussed. Out of the 87 questionnaires distributed to the respondents 80 questionnaires were collected. The data was analysed using SPSS version 23 and Eviews-8.

4.2. General Information to the respondents.

To find out general background of respondents who were asked about to assess the effect of Omo microfinance credit on the growth of micro and small enterprises using Hossana town, the respondents were asked their Gender, Age, educational level, and marital status. The results obtained from the structured questionnaires are represented on the table below. The study sampled 87 respondents. However, only 80 (92%) respondents successfully filled and returned the questionnaires. Therefore, the study analysis was based on 92% response rate.

Table 4.1 Characteristic of the Respondents

Characteristics of respondents		Frequency	Percent	Valid Percent	Cumulative Percent
Gender	Male	56	70.0	70.0	70.0
	Female	24	30.0	30.0	100.0
Age Group	18-30 Years	36	45.0	45.0	45.0
	31-40 Years	24	30.0	30.0	75.0
	41-50 Years	18	22.5	22.5	97.5

	>50	2	2.5	2.5	100.0
Education	Degree	17	21.3	21.3	21.3
	Diploma	34	42.5	42.5	63.8
	Certificate	25	31.2	31.3	95.0
	up-to primary	4	5.0	5.0	100.0
Marital status	Divorced	3	3.8	3.8	3.8
	Single	35	43.8	43.8	47.5
	Married	42	52.5	52.5	100.0
	Total	80	100.0	100.0	

Source: Analysis of Survey data 2018, using SPSS 23

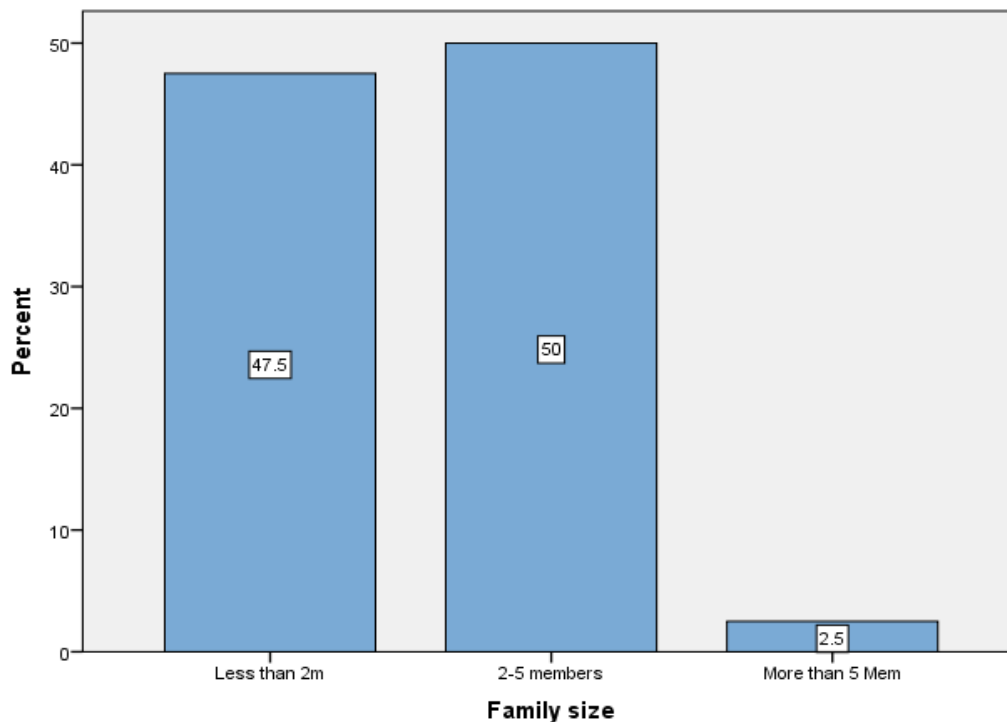
The table 4.1 above indicates that 70% and 30% of the respondents were male and female respectively. From this it was possible to say that the participation of women in micro and small enterprises is small in number.

The table 4.1 shows that respondents with age group 18- 30 years were 45%, while, 31-40 years were 30%. While with 41-50 years was made to 22.5% of the respondents surveyed and While with above 50 years were 2.5%. This result implies that majority of the MSEs owners about 45% of respondents had 18-30 age group.

Moreover, education level of respondents was also taken into account in order to find out levels of education of respondents surveyed in Hossana town. Table 4.1 shows that most of the respondents 42.5% had Diploma level followed by 31.3% that had Certificate level. While 21.3% respondents had Degree and the remaining 5.0% respondents had up-to primary education level that represented all of the micro and small enterprise owners. This result implies that majority of the MSEs owners about 42.5% of respondents had Diploma level. This level education influences the growth of the MSEs firm positively.

About current marital status of the respondents 43.8% respondents were single, 52.5% respondents were married and 3.8% were Divorced.

Graph 4.1: Family Size of respondents



Source: Analysis data Survey 2018, using SPSS.23

Graph 4.1 shows that most (50%) of the respondents was MSE operators have a family size of 2-5, while 47.5% of the respondent claimed that their family size is less than 5 and the remaining 2.5% of the respondents' family size is more than 5. The number of family size featured as a contributory factor to the need and utilization of the income from the MSE business.

4.3. Questions Related to the Study

4.3.1. Type of Enterprise and experiences

The study sought to establish the type of business the various MSEs engage in. This serves to give the researcher an overview of the operations taking place in the MSEs sector in the study area, Hossana. Findings are as illustrated in table 4.2

Table 4.2. Overview of micro and small enterprises

Overview of MSEs		Frequency	Percent	Valid Percent	Cumulative Percent
Major operating activities	Manufacturer	6	7.5	7.5	7.5
	Trade	23	28.8	28.8	36.3
	Service	36	45.0	45.0	81.3

	Construction	12	15.0	15.0	96.3
	Urban agriculture	3	3.8	3.8	100.0
Number of operating Years in this enterprise	1 up 2 Years	27	33.8	33.8	33.8
	2-5 Years	40	50.0	50.0	83.8
	5-8 Years	13	16.3	16.3	100.0
What were you doing before you started the business	Unemployed	28	35.0	35.0	35.0
	In similar business	13	16.3	16.3	51.3
	In family business	18	22.5	22.5	73.8
	Student	19	23.8	23.8	97.5
	Employed in gov't	2	2.5	2.5	100.0
	Total	80	100.0	100.0	

Source: Analysis data Survey 2018, using SPSS.23

Table 4.2 demonstrated that 45% involved in Service, especially hotel, restraints and hair cleaning barber and food processing, the next form of business 28.8% were engaged on trading activity, particular retail trading, shopping trade, the third activity 15% of involved on construction that were the recent action which include coble stone, sub-construction, the fourth activity 7.5% were involved on manufacturing special shoes work, metal work and wood work. At the end of urban agriculture special way contained 3.8% in the Hossana town engaged in type of business.

Table 4.2 Show that 50% reveals the work experience of respondents were from 2 up to 5 years' experience have in the enterprises operation, 33.8% of respondents was 1 up to 2 years work experience have in MSE sector, remaining 16.3% were 5 up to 8 years work experienced. Thus, the most experienced firms has been 2 up to 5 years work experience, this figure implied that help to the enterprises success and expansions in the town as well as in the country. And, although this experience is important in determining the extent to which entrepreneurs have knowledge in micro credit.

About question to what were you doing before you started the business, respondents result show that 35% of the MSEs operators was unemployed, 16.3% of the MSEs members was in similar business, 22.5% of the MSEs operators was in family business, 23.8% of the operators was Student, and remaining 2.5% of the MSEs members was Employed in government. These findings suggest that most of the MSEs operators are before started the business was unemployed.

4.4. Reliability and Validity test

The questionnaire and observations guide were given to an adviser to check whether the instrument reflects what it sought to measure through content validation measurement. Suggestions and comments made were incorporated in the final document before reliability testing and final administration in the field. As stated by “Hair et al., (2007) reliability indicates the extents to which some variables or set of variables is consistent in what it is intended to measure” (Cited by Siddiqi; 2011:20). Reliability analysis used to measure the consistency of a questionnaire. To ensure reliability test was met, a pilot study was conducted in some of the MSEs in Hossana town. The questionnaires were pre-tested two times in town by involving 10 respondents. There are different methods of reliability test, for this study Cronbach’s alpha is considered to be suitable. Cronbach’s alpha is the most common measure of reliability. For this study the Alpha coefficients for the effect of Omo microfinance credit on the growth micro and small enterprises and the overall scale calculated as a reliability indicator was presented in the following table. As described by Andy (2006) the values of Cronbach’s alpha more than 0.7 is good. The alpha values in this study were greater than 0.7 and had very good reliability for the questioners. Since, the number required for pre-tests should not to be too large. Mugenda&Mugenda (2003) suggest that the pre-test sample.

Table 4.3: Result of reliability analysis for the questionnaire

Dimensions	Number of attribute	Cronbach’salpha
Mobilization of Saving	2	0.797
Access to finance of MSEs	4	0.709
Collateral to get loan and challenges to MSEs	6	0.727
Training of MSEs	2	0.720
Grace period of loan	3	0.71
overall	17	0.792

Source: Analysis of Survey data 2018, using SPSS.23

4.5. Analysis the data based on to assess the effect of Omo microfinance credit on the growth of micro and small enterprises using Hossana town.

In this sub section will discussed about frequency distribution and the percentage to assess the effect of Omo microfinance credit on the growth of MSEs the following table 4.4. Summarized data show about the mobilization of saving to micro and small enterprises.

4.5.1. Mobilization of saving and MSEs growth

Table 4.4. Mobilization of saving and Micro and Small enterprises growth

Mobilization of saving and accessibility to credit		Frequency	Percent	Valid Percent	Cumulative Percent
Mobilization of saving are the increasing accessibility to credit of MSEs	Totally unhelpful	6	7.5	7.5	7.5
	Less than helpful	14	17.5	17.5	25.0
	Moderately helpful	17	21.3	21.3	46.3
	very helpful	43	53.8	53.8	100.0
Have helped to reinforce the culture of saving mobilization.	To change business	10	12.5	12.5	12.5
	To expand business	27	33.8	33.8	46.3
	To Start-up capital	T	53.8	53.8	100.0
	Total	80	100.0	100.0	

Source: Analysis of survey data 2018, using SPSS.23

According to table 4.4, 7.5% of the respondents were Mobilization of saving are the increasing accessibility to credit of MSEs totally unhelpful, 17.5% were less than helpful, 21.3% were moderately helpful and, remaining 53.8% were very helpful.

The results were presented in table 4.4 above was have helped to reinforce the culture of saving mobilization ,12.5% of the respondents were to change business,33.8% were to expand business, and majority(53.8%) of the respondents were to start-up capital. According to the Hossana town administration urban Food Security and Job creation bureau, annual work performance report of, (2017) it indicates that the importance of mobilization of saving is to play vital importance the MSEs profitability of business and increasing to start-up capital.

4.5.2. Credit accessibility to MSEs

In this sub section will discussed about Omo microfinance credit scheme is the best way of improving the growth of MSEs, credit has played an important effect provides loan on time when needed by the clients and credits satisfies the financial needs of the enterprise rates

Table 4.5. Credit accessibility of MSEs

Omo microfinance credit effect	SD	D	N	A	SA
Omo microfinance credit scheme is the best way of improving the growth of MSEs	0(0.0)	6(7.5)	17(21.3)	22(27.5)	35(43.8)
Omo microfinance credit has played an important effect in elevating status of your enterprise.	0(0.0)	6(7.5)	15(18.8)	23(28.8)	36(45.0)

Source: Analysis of Survey data 2018, using SPSS.23

The respondents were asked to give answer on table 4.5 show that 43.8% of respondents were said that strongly agree on the Omo microfinance credit scheme is the best of improving the growth needs of the enterprises rates,27.5% were agree ,21.3% were neutral ,few 7.5% were disagree, and remaining 0% of respondent were strongly disagree. And also above table information show that Omo microfinance credit has played an important effect in elevating status of your enterprise 45% of respondents were said that strongly agree, 28.8 % agree ,18.8% were neutral and remaining 7.5% were disagree. Also, according to the Hossana town administration urban Food Security and Job creation bureau annual work performance report of, (2017) it indicates that Omo microfinance credit scheme is the best way of improving the growth of MSEs.

4.5.3. Omo micro finance Credit and MSEs growth

In this sub section will discussed about effect of Omo micro-finance credit on the growth of MSEs the following below. Summarized data show about the sales volume that your enterprise reported during the last fiscal year sales volume and your business asset after taking loan from Omo microfinance institution.

Table 4.6. MSEs growth and Omo micro finance Credit

Omo micro finance Credit and MSEs growth		Frequency	Percent	Valid Percent	Cumulative Percent
Sales volume and profit growth that your	Decreased greatly	2	2.5	2.5	2.5
	Decreased	4	5.0	5.0	7.5

enterprise reported during the last fiscal year sales.	Stayed the same	14	17.5	17.5	25.0
	Increased	17	21.3	21.3	46.3
	Increased greatly	43	53.8	53.8	100.0
Your business profit after taking loan from Omo-microfinance institution.	No asset	2	2.5	2.5	2.5
	Low	4	5.0	5.0	7.5
	Medium	13	16.3	16.3	23.8
	Good	43	53.8	53.8	77.5
	Very high	18	22.5	22.5	100.0

Source: Analysis of Survey data 2018, using SPSS.23

The respondents were asked to give answer on the trend of business sales volume and profit growth after taking loan from credit institution, is shown in table 4.6 above, 2.5% of the respondents was decreased greatly, 5.0% of the respondents was decreased, 17.5% of the respondents was Stayed the same, 21.3% of the respondents was increased, and remaining majority (53.8%) of the respondents was said that increased greatly.

The respondents were asked to give answer on the trend of their business profit after taking loan from Omo microfinance institution, is shown in figure 4.6 above, 2.5% of the respondents were said that no asset, 5.0% of the respondents were said that low, 16.3% of the respondents were said that medium, majority 53.8% of the respondent were said that good, and remaining 22.5% of the respondents were said that very high. Consequently, Over 53.8% respondent said that the trend of their business asset after joining Omo microfinance credit is positive.

4.5.3.1. MFI credit and MSEs growth

On a five-point liker scale (1-Strongly disagree, 2-Disagree, 3- Natural, 4-Agree 5- Strongly agree) respondents were requested to indicate their responses to statements posited by the researcher in respect to MSE growth and MFI credit. The following below table 4.7, summarized about the Microfinance credit funds increases the profitability, contributed increases the number of entrepreneurs, increases their productivity, provide individual lending to the entrepreneurs and to support poor people for the growth on MSEs in Hossana town.

Table 4.7. MFI credit and MSEs growth

Omo microfinance credit and MSE growth	SD	D	N	A	SA
Omo Microfinance credit funds increases the	0(0.0)	7(8.8)	16(20.0)	35(43.8)	22(27.5)

profitability of the micro and small enterprises.					
Omo Microfinance credit contributed increases the number of entrepreneurs who Starting new enterprises.	0(0.0)	3(3.8)	18(22.5)	36(45.0)	23(28.8)
MSEs increase their productivity through getting fund MFIs which leads enterprise growth.	0(0.0)	6(7.5)	19(23.8)	34(42.5)	21(26.3)
Omo Microfinance provides individual lending to the entrepreneurs of micro and small enterprises.	6(7.5)	33(41.3)	22(27.5)	17(21.3)	2(2.5)
Omo Microfinance is frequently reluctant to support poor people those want to expand their businesses with a loan.	0(0.0)	32(40.0)	28(35.0)	18(22.5)	2(2.5)

Source: Analysis of Survey data 2018, using SPSS.23

Table 4.7 shows that, 27.5% of the respondents were strong agree Omo microfinance credit funds increases the profitability of the micro and small enterprises, 43.8% agree, 20% neutral and 8.8% disagree. This implies that microfinance credit funds more favourable for increasing the profitability of the micro and small enterprises. Above table result show that, 28.8% of the respondents were strongly agrees on microfinance credit contributed increases the number of entrepreneurs who starting new enterprises, 45% of the respondents were agree, 22.2% of the respondents were neutral and remaining 3.8% of the respondents were disagree. This result indicate that the majority of respondents agree that microfinance credit is play great effect on the create job opportunity and contributed increases the number of entrepreneurs who starting new enterprises.

Results also revealed that,26.3% of the respondents was strongly agrees on MSEs increases their productivity through getting fund MFIs which leads enterprise growth,42.5% of the respondents were agree,23.8% of the respondents was neutral, and few(7.5%) of the respondents was disagree. This result also revealed on increases productivity of MSEs is an important aspect on MSE growth which means that with relationship of Omo microfinance credit.

Results show that, 2.5% of the respondents were strongly agree that Microfinance provide individual lending to the entrepreneurs of micro and small enterprises,21.3% of the

respondents were agree,27.5% of the respondents were neutral,41.3% of the respondents were disagree ,and remaining(7.5%) of the respondents were strongly disagree

And ,also table 4.7 results show that,2.5% of the respondents was strongly agree that Microfinance is frequently reluctant to support poor people those want to expand their businesses with a loan,22.5% of the respondents was agree, and 35% of the respondents was neutral, remaining majority(40%) of the respondents was disagree . Findings from table 4.7 above present high number of respondents was disagree on Microfinance is frequently reluctant to support poor people those want to expand their businesses with a loan.

4.5.4. Training of MSEs and growth of MSEs

The study also sought to determine the degree to which the respondents were in agreement with the below given statements that assess the effect of MSEs’ trainings on the growth.

Table 4.8. Training of MSEs and growth of MSEs

Training of MSEs and growth of MSEs.		Frequency	Percent	Valid Percent	Cumulative Percent
Do have training of MSEs are improved your financial management skills.	Yes	62	77.5	77.5	77.5
	No	16	20.0	20.0	97.5
	No answer	2	2.5	2.5	100.0
Is helping the business management skills gained have increased your sales and profitability.	yes	63	79	79	79
	No	17	21	21	100

Source: Analysis of Survey data 2018, using SPSS.23

Table 4.8 shows that 77.5% of respondents respectively was yes that training of MSEs are improved your financial management skills, 20% of respondents was had no, and 2% of respondents no answer. About being trained on the importance of business management skill, how to grow business, they agreed with mean scores of 63 and 17 disagreed, that the business management skills gained have led to increase in sales revenues and profitability for their micro and small enterprises businesses. According to the Hossana town administration urban Food Security and Job creation bureau, annual work performance report of, (2017) it indicates that the importance of MFIs training is to enhance the MSEs Production skills, financial skills and management skills.

4.5.5. Related of collateral to get loan and challenges to MSEs

In this sub section will discussed about collateral to get loan and challenges to MSEs.

Table 4.9. Related of collateral to get loan, and challenges to MSEs.

Omo microfinance institution always require collateral to get loan	Frequency	Percent	Valid Percent	Cumulative Percent	Frequency
Yes	62	77.5	77.5	77.5	77.5
No	16	20.0	20.0	20.0	97.5
No answer	2	2.5	2.5	2.5	100.0

Source: Analysis of Survey data 2018, using SPSS.23

Table 4.9, shown that, 77.5% of respondents that were yes Omo microfinance institution always requires collateral, 20% of respondents that were no, remaining few (2.5%) of respondents were no answer. This result implies that majority of MSEs operators require collateral to get loan from Omo microfinance institution.

Table 4.10 challenges of MSEs to get loan from Omo microfinance

What challenges you face to get loan from Omo microfinance?	Str. Disagree	Disagree	Neutral	Agree	Str. Agree
Long process	0(0.0)	0(0.0)	7(8.8)	41(51.3)	32(40.0)
Collateral requirement	0(0.0)	0(0.0)	0(0.0)	20(25.0)	60(75.0)
High interest rate	0(0.0)	5(6.3)	39(48.8)	24(30.0)	12(15.0)
Bureaucracy	0(0.0)	0(0.0)	38(47.5)	32(40.0)	10(12.5)
Existence of Corruption	3(3.8)	40(50.0)	20(25.0)	11(13.8)	6(7.5)

Source: Analysis of Survey data 2018, using SPSS.23

Table 4.10 shows that 40% of respondent that was strongly agree that long process of the challenges you face to get loan from Omo microfinance, majority (51.3%) was agreed, while only 8.8% was disagreed. Also above table result show that majority (75%) of respondents were strongly agree that collateral requirement is challenge for the lending from Omo microfinance institution and remaining (25%) were agree. It also result show that 15% of respondents that were strongly agree high interest rate is challenge on MSEs get loan, 30% were agree, majority (48.8%) were neutral, remaining 6.3% of respondents that were disagree. It also above result show that 12.5% were strongly agree on faced bureaucracy to get loan, 40% were agree, majority (47.5%) were neutral. It was revealed that 7.5% of respondents that was strongly agree on existence of Corruption to get loan from MFI, 13.8% of respondents said that was agree, 25% was neutral, majority (50%) of respondents said that was disagree on existence of corruption to get loan. The remaining (3.8%) of respondents said that was strongly disagree on existence of corruption faced to get loan.

4.5.6. Grace period of loan and growth of MSEs

In this sub section will discussed about adequate loan grace period, easy repayment terms and adequate starting business time of MSEs loan.

Table 4.11 Grace period of loan and growth of MSEs

Grace period of loan and growth of MSEs	Highly. Disagree	Disagree	Neutral	Agree	Str. agree
Adequate loan grace period	17(21.3)	33(41.3)	21(26.3)	9(11.3)	0(0.0)
Easy repayment terms	19(23.8)	37(46.3)	17(21.3)	5(6.3)	2(2.5)
Adequate starting business time	12(15.0)	30(37.5)	31(38.8)	7(8.8)	0(0.0)

Source: Analysis of Survey data 2018, using SPSS.23

Table 4.6 shows that 11.3% of respondent was agree on adequate loan grace period, 26.3% of respondents was said that neutral,41.3% of respondent was said that disagree, remaining(21.3) of respondents was said that highly disagree. And results show that 2.5% of respondents were strongly agree on easy repayment terms,6.3% of respondents were agree,21.3% of respondents were neutral, majority(46.3%) of respondents were disagree, and remaining (23.8%) of respondents were said that highly disagree. Lastly 8.8% of respondents were said that agree on adequate starting business time, 38.8% of respondents were said that neutral,37.5% of respondent were said that disagree, and remaining(15%) of respondents were said that highly disagree.

4.6. Correlation Analysis

This study employs correlation analysis, which investigates the strength of the relationships between the studied variables. Pearson correlation analysis was used to provide evidence of convergent validity. Pearson correlation coefficients reveal magnitude and direction of relationships (either positive or negative) and the intensity of the relationship (-1.0 + 1.0). Correlations are perhaps the most basic and most useful measure of association between two or more variables (Maceyk, etal, 2005).

Pearson Correlation analysis:-According to Shukran (2003), the relationship is expressed by value within the range -1.00 to + 1.00 as Pearson product–moment indicates. Pearson correlation is +1 in the case of a perfect increasing (positive) linear relationship (correlation), -1and 1 in all other case indicating the degree of liner dependency between variable. To determine the relationship between Micro and Small enterprises growth and factors towards Access to credit finance, Mobilization of saving, Grace period of loan, Collaterals request,

and Training of MSEs, Pearson correlation was computed. Table 4.12 presents the results of Pearson correlation on the relationship between Micro and Small enterprise growth and factors towards Access to credit finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs.

Table 4.12 Correlations results Micro and Small enterprise growth and factors towards, Access to credit finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs.

Correlation results		Micro and Small enterprise growth
Micro and Small enterprise growth	Pearson Correlation	1
	Sig. (2-tailed)	
	N	80
Mobilization of saving	Pearson Correlation	.859**
	Sig. (2-tailed)	.000
	N	80
Access to credit finance	Pearson Correlation	.783**
	Sig. (2-tailed)	.000
	N	80
Collateral request	Pearson Correlation	-.545**
	Sig. (2-tailed)	.000
	N	80
Training of MSEs	Pearson Correlation	.624**
	Sig. (2-tailed)	.000
	N	80
Grace period of loan	Pearson Correlation	-.568**
	Sig. (2-tailed)	.000
	N	80

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Correlation result output 2018, using SPSS

According to the Table 4.12, there were significant positive relationship between Micro and Small enterprises growth and factors towards training of MSEs, Access to credit finance, and mobilization of saving and Micro and Small enterprise growth and factors had significant

negative correlation to Grace period of loan and collateral request. The highest correlation is between Micro and Small enterprises growth and Mobilization of saving ($r=0.859$), in between Access to credit finance and Micro and Small enterprise growth ($r= 0.783$), in between Micro and Small enterprise growth and Training of MSEs ($r = 0.624$), and correlation in between collaterals request and Micro and Small enterprise growth ($r= -0.545$) and in between grace period of loan and Micro and Small enterprises growth ($r =-.568$). In general, factors towards Access to credit finance, Mobilization of saving and Training of MSEs had significant positive correlation to Micro and Small enterprise growth, and Grace period of loan and collaterals request had significant negative correlation to micro and Small enterprises growth.

4.7. Multiple Regression Analysis

4.7.1 Tests for the Multiple Linear Regression Model Assumptions

In order to make the data ready for analysis and to get reliable results from the research, the model stated previously was tested for five multiple linear regression model assumptions. Among them the major ones are: test for Heteroscedastic, autocorrelation, multicollinearity, normality and constant variable. Accordingly, the following sub-section presents the tests made.

4.7.1.1. Zero mean ($E(\epsilon) = 0$) or constant variable

The first assumption states that the average value of the errors should be zero. According to (Brooks 2008) if the regression equation contains a constant term, this presumption will never be breached. Therefore, since from the regression result table the constant term (i.e. β_0) was included in the regression equation; this assumption holds good for the model.

4.7.1.2. Heteroskedasticity

When the distribute of the errors is different, varying depending on the value of one or more of the independent variables, the error terms are heteroskedastic(Brooks 2008). Heteroskedasticity is a systematic pattern in the errors where the variances of the errors are not constant. When the variance of the residuals is constant it is referred as homoscedasticity, which is desirable. A more serious problem associated with heteroskedasticity is the fact that the standard errors are biased. Because the standard error is central to conducting significance tests and calculating confidence intervals, biased standard errors lead to incorrect conclusions about the significance of the regression coefficients. To test for the absence of heteroskedasticity, **white test** was used in this study. In this test, if the p-value is very small, less than 0.05, it is an indicator for the presence of heteroskedasticity (Gujarati, 2004).

A white' test has been made, to ensure that this assumption is no longer violated. The hypothesis for the heteroskedasticity test was formulated as follow;

H0: There is no heteroskedasticity problem in the model

H1: There is heteroskedasticity problem in the model

Decision Rule: Reject H0 if P value is less than significant level 0.05. Otherwise, do not reject H0.

Table 4.13: Heteroskedasticity Test: White test

F-statistic	26.81258	Prob. F(20,59)	0.0510
Obs*R-squared	72.07058	Prob. Chi-Square(20)	0.0652
Scaled explained SS	43.27830	Prob. Chi-Square(20)	0.0519

Source: Analysis of Survey data 2018, using *Eviews-8*

But from Table 4.13 presents three different types of tests for heteroskedasticity. Since the p-values are 0.051, 0.0652 and 0.0519 for F-statistic, which indicates that all the three tests are considerably greater than 0.05 it's a clear indicator that there is no evidence for the presence of heteroskedasticity. Scaled explained SS respectively were in excess of 0.05, the null hypothesis should not be rejected.

4.7.1.3. Autocorrelation

Assumption three: covariance between the error terms over time is zero ($cov(ui, uj) = 0$)

This assumption states that covariance between the error terms over time or cross-sectionally, for that type of data is zero. That is, the errors should be uncorrelated with one another. If the errors are not uncorrelated with one another it is an indicator for the presence of Auto correlation or serial correlation (Brooks 2008).

According to Brooks (2008), presence/absence of autocorrelation is by using the DW and Breusch–Godfrey test (shown in table 4.14 and Table 4. 15). As far as concerning this paper the researcher more used the Durbin–Watson test and detected the problem of autocorrelation. Can easily check using the Durbin-Watson statistic, which is a simple test to run using *Eviews-8*. The value of Durbin-Watson test statistic, d , varies between 0 and 4. Closer to 0 means positive auto-correlation while closer to 4 means a negative auto-correlation A $d = 2$, indicates no auto-correlation. There exist a soft cushion around $d = 2$ where auto-correlation does exist but its intensity is not severe enough to call for some remedial measures. So all d values within 1.5 to 2.3 interval may be taken as indicator of

either no or ignorable auto-correlation. The hypothesis for the autocorrelation test was formulated as follow;

H0: There is no autocorrelation problem.

H1: There is autocorrelation problem. $\alpha = 0.05$

Decision Rule: Reject H0 if P value is less than significant level 0.05. Otherwise, do not reject H0.

Table 4.14. Breusch-Godfrey Serial Correlation LM Test

F-statistic	1.731989	Prob. F(4,70)	0.1527
Obs*R-squared	7.204617	Prob. Chi-Square(4)	0.1255

Source: Analysis of Survey data 2018, using *Eviews-8*

Table 4.15. Model Summary and DW tests

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.886 ^a	.785	.770	.33710	1.837

a. Predictors: (Constant), Access to finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs.

b. Dependent Variable: Micro and Small enterprise growth

The result of DW and Breusch–Godfrey test the statistic labeled “obs*R-squared” presented in the above table. DW is 1.837 in between 1.5 to 2.3 and Breusch–Godfrey LM test statistic for the null hypothesis of no serial correlation shows a p-value of 0.1255 (which is far greater than 0.05). The DW tests show that there is no autocorrelation, because its value is relative to 2. And it can be concluded that this research do not reject null hypothesis (H0).

4.7.1.4. Normality

Normality test is determine whether the error term is normally distributed Brooks (2008) A normal distribution have skewness is zero and a coefficient of kurtosis 3. Jarque-Bera formalizes this by testing the residuals for normality and testing whether the coefficient of skeweness and kurtosis are zero and three respectively. Normality assumption of the regression model can be tested with the Jarque- Bera measure. If the probability of

JarqueBera value is greater than 0.05, it's an indicator for the presence of normality (Brooks 2008). The hypothesis for the normality test was formulated as follow:

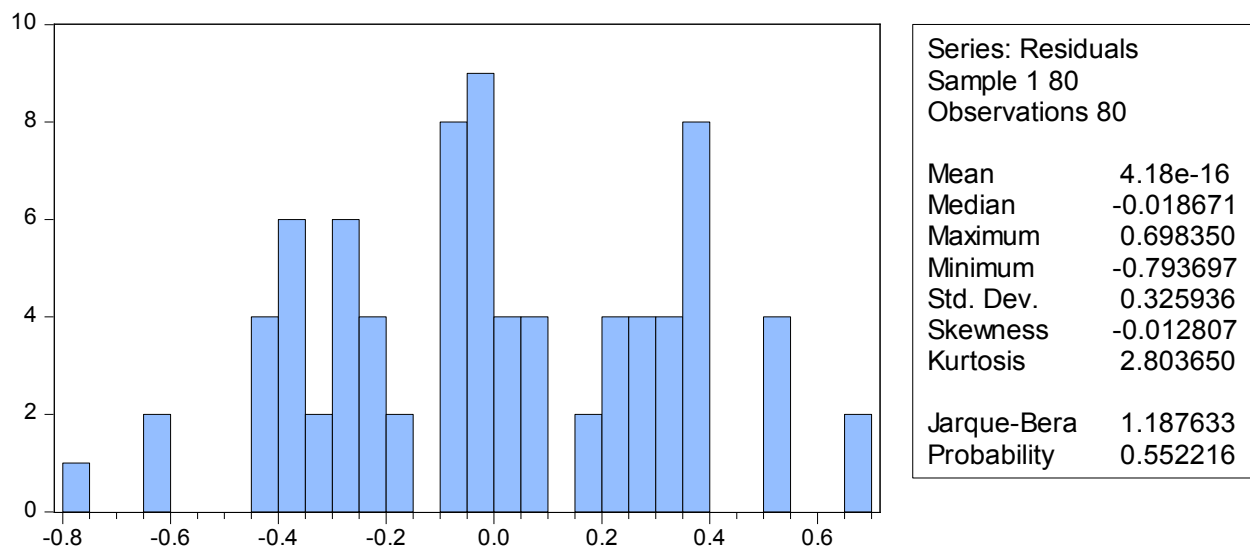
H0: Error term is normally distributed

H1: Error term is not normally distributed

$\alpha = 0.05$

Decision Rule: Reject H0 if P value of JB less than significant level 0.05. Otherwise, do not reject H0.

Figure 4.3 Normality Test result



Source: Analysis of Survey data 2018, using *Eviews-8*

The normality tests for this study as shown in Figure 4.16 the kurtosis is close to 3, skewness close to 0 and the Jarque-Bera statistic has a p-value of 0.5522 which is well over 0.05 implying there was no evidence for the presence of abnormality in the data. Thus, we don't need to reject the null hypothesis.

4.7.1.5. Multicollinearity Test

According to Brooks (2008), multicollinearity will occur if some or all of the independent variables are highly correlated with one another. It shows the regression model has difficulty in explaining which independent variables are affecting the dependent variable. If multicollinearity problem is too serious in a model, either additional important variable should be added or unimportant independent variable should be dropped. This study uses high pair-wise correlation coefficients method to detect the existence of multicollinearity high pair-wise correlation coefficients method see the correlation of independent variables between each other. According (Joseph and Rosemary 2003) to if the correlation coefficient is higher than 0.8, it is considered as the model consists of serious multicollinearity problem.

Table 4.16: Correlation matrix between explanatory variables

	MSV	ACFC	CLTR	TMSE	GPL
MSV	1.000000				
ACFC	0.673997	1.000000			
CLTR	0.529725	0.455261	1.000000		
TMSE	0.654391	0.525192	0.403159	1.000000	
GPL	0.605929	0.551028	0.127934	0.397510	1.000000

Source: Analysis of Survey data 2018, using *Eviews-8*

Table 4.18 showed that there is no strong pair-wise correlation between the explanatory variables. As a rule of thumb, inter-correlation among the independent variables above 0.80 signals a possible multicollinearity problem, Malhotra (2007). In this study of the estimated correlation matrix shows that the highest correlation of 0.673997 which is between ACFC and MSV. Thus, it can be concluded that all the variables in the study have low correlation power as a result there is no multicollinearity problem in the explanatory variables selected to effect of Omo microfinance credit on the growth of MSEs in Hossana town.

4.8. Regression Result and Hypothesis Testing

Model Summary

Multiple regressions are the most common and widely used to analyse the relationship between a single continues dependent variable and multiple continues on categorical independent variable (George et al, 2003). In this study multiple regression analysis was employed to examine the factors towards Access to credit finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs on the micro and small enterprise growth. The following table presents the results of multiple regressions analysis. Here the squared multiple correlation coefficients (R^2) which tells the level of variance in the dependent variable (micro and small enterprise growth) that is explained by the model.

Table 4.17. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.886 ^a	.785	.770	.33710

a. Predictors: (Constant), Access to credit finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs.

Source: SPSS Regression results output, 2018

The results of multiple regressions, as presented in table 4.17, above, this means 100% of the change in the dependent variable can be explained by the change in the independent variables. But, the adjusted R-squared is a modified version of R-squared that has been adjusted for the number of predictors in the model. The adjusted R-squared increases only if the new term improves the model more than would be expected by chance. It decreases when a predictor improves the model by less than expected by chance.

On this study, both the R-squared and adjusted R-squared look better, Also the coefficient estimates are significant because their p-values are less than 0.05 except one. The results obtained shows that, R-squared is 0.770. This means that 77.0% change in the dependent variable can be explained by the change in independent variables which show, that there is a linear relationship between Access to credit finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs on micro and small enterprise growth. The adjusted R² of 0.770 indicates 77.0% of the variance in micro and small enterprise growth can be predicted by factors towards Access to credit finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs on micro and small enterprise growth. This means that the dependent variable is strongly explained by independent variables. Besides, it also has an accepted higher explanatory power by 77.0%. However, the remaining 33.0% can be explained by other variables.

ANOVA Table

From the ANOVA table 4.18. Show that accepting at least one of the factors towards Access to finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs had significant effect on micro and small enterprises growth, since the p-value for F-Statistics (0.000) less than the significance level 0. 05.

Table 4.18. ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	30.648	5	6.130	53.942	.000b
Residual	8.409	74	.114		
Total	39.057	79			

a. Dependent Variable: Micro and Small enterprise growth

b. Predictors: (Constant), Access to credit finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs.

Coefficients

Table 4.19. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.442	.188		2.354	.021
Mobilization of saving	.530	.121	.547	4.394	.000
Access to credit finance	.194	.065	.262	2.980	.004
Collaterals request	-.112	.058	-.129	-1.929	.048
Training of MSEs	.008	.061	.011	.129	.898
Grace period of loan	-.065	.059	-.081	-1.112	.270

a. Dependent Variable: Micro and Small enterprise growth

Regression results output 2018, Using SPSS

Based on the table 4.18, show the unstandardized beta coefficient, which tell us the unique contribution of each factor to the model. A high beta value and a small p value (<0.05) indicate the predictor variable has made a significance statistical contribution to the model. On the other hand, a small beta value and a high p value ($p >0.05$) indicate the predictor variable has little or no significant contribution to the model. Ggorge et al., (2003). Table 4.18, also indicates that Mobilization of saving, Access to credit finance, and collaterals request had significant influence on Micro and Small enterprise growth at 95% confidence level, since their p-values (0.000 for Mobilization of saving, 0.004 for Access to finance, and 0.048 for collaterals request) less than the significance level 0.05. But, Training of MSEs and Grace period of loan had no any significant effect for the Micro and Small enterprise growth since their p-value 0.898 and 0.270 respectively greater than the significance level 0.05 in this study. The significant and insignificance effectiveness of Micro and Small enterprise growth (Access to credit finance, Mobilization of saving, Grace period of loan, Collaterals request, and Training of MSEs) have been included for the establishment of the function.

Micro and Small enterprise growth=0.442 + 0.530Mobilization of saving + 0.194Access to credit finance - 0.112collaterals request + 0.008Training of MSEs - 0.065Grace period of loan.

4.9. Hypothesis Testing Using Multiple Regressions

Since correlation analysis do not provide enough information to make a proper decision regarding the relationships between the variables, multiple regression has been used to test the hypothesis for the independent and dependant variables. This section discusses in detail the analysis of the results for each independent variable and their significance in effect of Omo microfinance credit on the growth of MSEs. The result for each set of factors is discussed as follows.

Hypothesis testing

Hypothesis testing is based on standardized coefficients beta and P-value to test whether the hypotheses are rejected or not.

Hypothesis 1: Mobilization of saving has significant and positive effect on micro and small enterprises growth.

The results of multiple regressions, as presented in table 4.19 above, revealed that Mobilization of saving had a positive and significant effect on micro and small enterprises growth with a beta value (Beta = 0.530), at 95% confidence level ($p < 0.05$). The beta value (0.530) shows as one-unit increase in mobilization of saving there will be 53.0% increase on Micro and Small enterprise growth. Therefore, the researcher may be accepting the hypothesis; this indicates that mobilization of saving has a strong significant and positive effect on micro and small enterprise growth. This fining is consistent with other studies mobilization of saving had as study of Hamish, (2013) which agree that most of MSEs was reason to saving of money were initial capital, guaranty of borrowers caused by investment return of borrowed money and it has direct effect on the growth of MSEs.

Hypothesis 2: Access to credit finance has significant and positive effect on micro and small enterprise growth.

The results of multiple regressions, as presented in table 4.19 above, revealed that access to credit finance had a positive and significant effect on micro and small enterprise growth with a beta value (Beta = 0.194), at 95% confidence level ($p < 0.05$). The beta value (0.194) shows as one-unit increase in access to finance there will be 19.4% increase on micro and small enterprise growth. Therefore, the researcher may be accepting the hypothesis; this indicates

that access to finance has significant and positive effect on micro and small enterprise growth. This regression result is consistent with Momba, (2013), Gosa, (2014), Wolday, (2002), Albert.N, (2013) and Makokha, (2006), which agree that on microfinance credit has played an important effect provides improving the growth of MSEs and have positive effect on the asset of the borrowers due to either borrowed money itself or increase in the asset of borrowers caused by investment return of borrowed money.

Hypothesis 3: collaterals request has significant and negative effect on micro enterprise growth.

The results of multiple regressions, as presented in table 4.19 above, revealed that collateral request had a negative and significant effect on micro and small enterprise growth with a beta value (Beta = -0.112), at 95% confidence level ($p < 0.05$). the beta value (-0.112) shows as one-unit increase in requesting collateral request there will be 11.2% decrease on micro and small enterprises growth. Therefore, the researcher may be accepting the hypothesis; this indicates that collateral request has significant and negative effect on micro and small enterprises growth. This finding is consistent with other studies, like Fasikaw, (2016) which agree that major obstacle to access to finance is collateral requirement by MSEs and it implies that challenge is influencing on growth of MSEs.

Hypothesis 4: Training of MSEs has insignificant and positive effect on micro and small enterprise growth.

The results of multiple regressions, as presented in table 4.19 above, revealed that training of MSEs had a positive and insignificant effect on micro and small enterprise growth with a beta value (Beta = 0.008), at 95% confidence level ($p > 0.05$). Even if training of enterprises had insignificant effect, the beta value (0.008) shows as one-unit increase in training of enterprises there will be 0.8% increase on micro and small enterprise growth. Therefore, the researcher may be rejecting the hypothesis; this indicates that training of enterprises has insignificant and negative effect on micro and small enterprises growth on this study. This result is inconsistent with Quansah.Ph, Amankwah and Aikins, (2012) which argue that on this study. In the above result indicate that training of MSEs is insignificant and positive effect on the growth of MSEs. But, according to above listed study result had significant and positive effect on the growth of MSEs, because of training of MSEs has play critical effect to improved financial states of MSEs.

Hypothesis 5: Grace period of loan has insignificant and negative effect on micro and small enterprises growth.

The results of multiple regressions, as presented in table 4.19 above, revealed that Grace period of loan had a negative and insignificant effect on micro and small enterprises growth with a beta value (Beta = -0.065), at 95% confidence level ($p > 0.05$). Even if Grace period of loan had no significant effect, the beta value (-0.065) shows as one-unit increase in Grace period of loan there will be 6.5% decrease on micro and small enterprises growth. Therefore, the researcher may be rejecting the hypothesis. This indicates that Grace period of loan has insignificant and negative effect on micro and small enterprises growth on this study. This finding is consistent with Gebrehiwot,(2002),Chakebo,(2014), which agree that to MSEs have the reasonable time to starting repayment of loan given to them, adequate starting business time and mostly is considered to activities since it takes a long time.

Summary of hypothesis

Multiple regression has been used to test the hypothesis for the independent and dependant variables. Mobilization of saving has a strong significant and positive effect on micro and small enterprise growth, Collateral request has significant and positive effect on micro and small enterprise growth, Training on enterprises has insignificant and negative effect on micro and small enterprise growth on this study and Grace period on loan has insignificant and negative effect on micro and small enterprise growth on this study.

CHAPTER –FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The main purpose of this study is to examine the effect of Omo micro finance credit on the growth of micro and small enterprises in Hossana town. This chapter presents the summary of findings, conclusion and makes recommendations to policy makers and researchers and entrepreneurs in Micro and Small enterprises.

5.1.1. Summary of Findings

The study examined the effect of Omo microfinance credit on the growth of MSEs in Hossana. The specific objectives included examining the relationship between microfinance credit and MSEs growth in Hossana and examining whether Omo microfinance institutions provide favourable credit service to MSEs in Hossana or not. Findings revealed that due to credit obtained from Omo microfinance in Hossana, MSEs have been able to expand their business operations, and profit growth, reduction of poverty among others. It was also revealed that collateral request, grace period of loan and long loan process of credit, Long process of loan and High interest rate firm influence the access to credit and growth MSEs. Generally respondents indicated that microfinance loans from Omo microfinance had brought an increase to business profit growth and increase productivity trend.

Positive relationship has been established between Omo-microfinance credit and MSEs growth. The study confirms the positive effect of Omo-microfinance credit towards promoting MSEs production, efficiencies and competitiveness. Although Omo-microfinance sector in Hossana town faces loan funds problems which militate against their efforts to grant sufficient loans to MSEs.

5.2. Conclusion

The intension of this study was to examine the effect of Omo microfinance credit on the growth of MSEs in Hossana town. The study examines the statistical significance between Omo microfinance credit and MSEs growth. In light of this objective, the study adopted mixed research approach to test the research hypotheses, to answer the research questions and the study used documentary review of annual work performance report. This design was considered appropriate tool for collecting information for the goals of the research called for both quantitative and qualitative data. The research design used was case study strategy whereby a single unit was selected data collection methods includes questionnaires and

documentary review. The analysis of the data was done with the help of the Statistical Package of Social Science (SPSS-23) and *Eviews-8*.

Before conducting the regression analysis, the data was tested for the reliability analysis used to measure the consistency of a questionnaire and tested for the basic assumptions of CLRM, which is vital for regression analysis all diagnostic tests were fulfilled and there have no diagnostic problems and the alpha values in this study were greater than 0.7 and had very good reliability for the questioners.

This study employs correlation analysis, which investigates the strength of the relationships between the studied variables. The highest correlation was between Micro and Small enterprise growth and Mobilization of saving ($r=0.859$). Study conclude that were significant positive relationship between Micro and Small enterprise growth and factors towards Training of MSEs, Access to credit finance and mobilization of saving , and micro and small enterprises growth and factors had significant negative correlation to Grace period of loan and collateral request.

The coefficient of dependent variables is highly statistically significant at 5% significant level. This study conclude that Mobilization of saving, Access to credit finance, and collaterals request had significant influence on Micro and Small enterprises growth at 95% confidence level, But Training of saving and Grace period of loan had no any significant influence for the Micro and Small enterprises growth since their p-value 0.898 and 0.270 respectively greater than the significance level 0.05 in this study. `

From the data collected and analysed Micro and Small Enterprises had a positive change after got access of loan from Omo microfinance. It can be concluded that most MSEs use credit as working capital mainly to source input for good performance. The discussions revealed that most of the micro and small enterprises were owned and run by a youthful labour force. This meets one of the objectives of the government, that of creating employment opportunities for the youth. This group is active economic age group that needs to be supported financially for economic growth. Entrepreneurs' level of education was also assessed; the level of education of the majority of the MSEs owners had Diploma level. A high level of education is a significant standard if one is to be able to make strategically important business decisions, carry reasonable costs, increase operational efficiency and take calculated risks.

From this it was possible to say that the participation of women in micro and small enterprises is small in number .The male-dominated nature of the small enterprises in this

study was credited to cultural norms and societal attitudes that regard women as inferior to men and place too much emphasis on women's economy responsibilities. In Ethiopia, there are five types of micro and small enterprise sectors, namely, trade, service, manufacturing, urban agriculture and construction. However, as the finding of this study majority were service deliver operators in MSEs. Thus, the service sector have been consists of majority enterprise in the town administration as well as these sector growing faster than another. Although this figure suggests that enhancing the sector has potential for increasing employment in the sector and an even greater contribution to the overall economy.

Study conclude on the growth of micro and small enterprises have established that business age plays an important effect, with smaller and newer businesses being less likely to survive than larger and older businesses. This study found that the majority had operated their 2 up to 5years experience have in the enterprises operation; this figure implied that business experience help to the enterprises success and expansions in the town as well as in the country. And, although this experience is important in determining the extent to which entrepreneurs have knowledge in micro credit.

The researcher concluded that the effect of Omo-microfinance credit toward MSEs success is a vital important. It was concluded that the nature of the structure of most MSEs in Hossana makes credit financing one of the most useful ways for start – up firms and business expansion and it had improving mobilization of saving very helpful. Additionally, the researcher also conclude that majority of MSEs firms agreed on have profit and sales revenue after being engaged in Omo micro finance credit service, So that there exists a significant relationship between Omo microfinance credits and terms and MSEs growth in Hossana town.

Although researcher concluded that the major problem faced by enterprises in taking loans from Omo microfinance institution were collateral problem, because Omo microfinance institution only accept fixed immovable assets and preferably land and buildings. And also, basic challenges face to get loan from Omo microfinance institution in Hossana were long process of loan, collateral requirement, high interest rate, bureaucracy and existence of Corruption. This finding implies that challenges is influencing on growth of MSEs in Hassana town.

5.3. Recommendations

In view of the findings made and conclusions drawn from the study, it is important to make recommendation to guide the enterprises, Omo Micro Finance Institutions, Food security and Job creation bureou, Micro and Small enterprises, concerned government and researchers. From the study the following recommendations are provided to sustainably improve the development and growth of Micro and Small Enterprises.

- There is need for the Hossana town administration Urban Food Security and Job creation bureou to facilitate the accessibility of credit in Macro and Small enterprises to the Omo Microfinance Institutions and minimize the collateral conditions by using “social-collateral”, which means a mechanism within microfinance that lends to group lending condition and together responsibility.
- The analysis results confirms that were the gap of gender participation in micro and small enterprises sectors of the growth and participation of female was very less in sector compare to male controlled MSEs in town. Therefore, the Hossana town administration Urban Food Security and Job creation bureou should increase female break in the usually male enterprises sector by giving special concentrations.
- The accesses to financial services have been the key factor to the growth of MSEs. Regarding to this Omo microfinance institution should provide available and reasonable loan/credits as well as provide the participator loan criteria for micro and small enterprise in the town.
- The Micro and Small Enterprises operators will organize their own associations who reflect their voice together to solve financial and non-financial problems for their sustainable development and growth.
- To the extent that it is practical, Urban Food security and Job creation bureou and Omo microfinance institution programs should lower financial and economic transaction costs. Therefore, actions to reduce bureaucratic procedures, be made available to the MSEs at reduced reasonable interest rate, enhance access to credit, eliminate unnecessary requirements, be made appropriate grace period of loan actions to avoid existence of Corruption problems, and expand the availability services will benefit MSEs to a greater degree of growth.

5.4. Limitations and Further Research Directions

As a research this paper is not without drawback. As a result, this part clearly discusses there drawback and also specifies potential future research information.

One of the drawback of this study is insufficiency of time constraints and shortage of money thus as to take out a careful investigate containing Omo micro financial institutions contributions and another economic activities. The centre of the study also on particular part of the economy that is MSE is another drawback.

Further, the thesis also overlooks other functions of Omo microfinance institution for micro and small enterprises and economic development. Among this it obvious such factors as effect of microfinance institutions/ Omo microfinance/ on other parts of economy were not assessed. Lastly this study was not being the detailed about MSEs instead, it simply examine the effect of microfinance credit especially Omo microfinance institutions for growth of MSEs.

These drawbacks lead to potential prospect study information. Generally this thesis merely stressed on the effect of Omo microfinance credit in the growth of MSEs. Consequently, almost all finding arrangement for Micro and small enterprises sector in the state is remains unknown. Therefore, to assess the effect of Omo microfinance credit in the micro and small enterprise and economic growth supplies in the other area of the state for future research.

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Appendix-1
ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
ACCOUNTING AND FINANCE DEPARTEMENT

Questionnaire for the beneficiaries of Omo microfinance credits

Dear Respondents

This is a questionnaire that intends to assess the effect of microfinance credit on growth of micro and small enterprises using Hossana town as a case study. In doing so, your town is one of the focus areas of my study. The information you provide is totally wanted for academic purposes and shall be kept strictly confidential. Participation in this study is totally voluntary. Personal answers were not being recognized in the researcher's thesis.

Instruction: - please write the symbol "√" in the box in front of the choice based your information about the data.

Thank you in advance.

PLEASE NOTE: Your name should not appear anywhere in this document.

Part I. General Information to the study

1. Sex: - Male Female
2. Age breakup: - < 20 20-25 year's 26-30 years 31-35 year's 36-40 41-45 > 45 years.
3. Education: - Up to primary Certificate Diploma Bachelor degree
4. Marital status: - Divorced Single Married
5. Family size: - > 2 2-5 members' < 5

Part II. Questions Related to the Study

6. What is the major operating activity of your enterprise?
 Manufacturing Trade Service Construction Urban agriculture
7. How many years have you been operating in this enterprise?
 > 2 2-4 5-7 < 7 years.
8. What were you doing before you started the business?
 Unemployed Employed elsewhere in similar business student
 working unpaid in family business Employed in government organization

Section: (A) Mobilization of Saving

9. In your view, how helpful are the Mobilization of saving the increasing accessibility to credit of MSEs?

- Very helpful Moderately helpful Less than helpful Totally unhelpful.

10. Have helped to reinforce the culture of saving mobilization?.

- To Start-up capital for business. To expand my business.
 To change over another business. To solve the serious problem of my lack of money.

Section: (B) Credit accessibility of MSEs

11. Below are statements related to Omo microfinance credit system?

Instructions: - Read each statement carefully and put tick (✓) in the appropriate box which you agree with according to the key.

No	SCALE	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Omo microfinance credit scheme is the best way of improving the performance of MSEs					
2	Omo microfinance credit has played an important role in elevating status of your enterprise					

Section: (C) MSEs Growth and Omo micro finance Credit

12. On average the sales volume that your enterprise reported during the last fiscal year sales?

- Increased greatly Increased Stayed the same Decreased decreased greatly.

13. How do you see your business asset after taking loan from Omo microfinance institution?

- Very high Good Medium Low No asset

14. How do you label the pattern of growth of the firms? Please write your answer to the statements below. Kindly use the rating guided as follows: Please tick in the blanks provided as your response.

No	SCALE	Strongly agree	Agree	Natural	Disagree	Strongly disagree
1	Microfinance credit funds increases the profitability of the micro and small enterprise					
2	Microfinance credit contributed increases the number of entrepreneurs who Starting new enterprises.					

3	MSEs increases their productivity through getting fund MFIs which leads enterprise growth					
4	Microfinance provide individual lending to the entrepreneurs of micro and small enterprise					
5	Microfinance is frequently reluctant to support poor people those want to expand their businesses with a loan.					

Section: (D) Training of MSEs and growth of MSEs

15. Do have training of MSEs are improved your financial management skills?

Yes No No Answer

16. Is helping the business management skills gained have increased your sales and profitability?

Yes No

Section: (E) Related of collateral to get loan and challenges to MSEs

17. Does Omo microfinance institution always require collateral before they give you loans?

Yes No No answer

18. What Challenges you face to get loan from Omo Microfinance? Please write your answer to the statements below.

No	factors	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Long process					
2	Collateral requirement					
3	High interest rate					
5	Bureaucracy					
6	Existence of Corruption					

Section: (F) Grace period of loan and growth of MSEs

19. How would you rate the following factors relating to the microfinance service availed by you from the formal source of finance?

No	Factors	Strongly agree	Agree	Neutral	Disagree	Highly Disagree
2	Adequate loan grace period					
3	Easy repayment terms					
4	Adequate starting business time					

Thank you for your cooperation!!!

Appendix-2

For Assumption one: the errors have zero mean ($E(\epsilon) = 0$) or constant variable

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.442	.188		2.354	.021
Mobilization of saving	.530	.121	.547	4.394	.000
Access to credit finance	.194	.065	.262	2.980	.004
Collaterals request	-.112	.058	-.129	-1.929	.048
Training of MSEs	.008	.061	.011	.129	.898
Grace period of loan	-.065	.059	-.081	-1.112	.270

a. Dependent Variable: Micro and Small enterprise growth

For Assumption two: homoscedasticity (variance of the errors is constant ($Var(\mu_t) = \sigma^2 < \infty$))

Heteroskedasticity Test: White

F-statistic	26.81258	Prob. F(20,59)	0.0510
Obs*R-squared	72.07058	Prob. Chi-Square(20)	0.0652
Scaled explained SS	43.27830	Prob. Chi-Square(20)	0.0519

Test Equation:

Dependent Variable: RESID^2

Method: Least Squares

Date: 10/20/18 Time: 15:20

Sample: 1 80

Included observations: 80

Variable	Coefficient	Std. Error	t-Statistic	Prob.
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C	0.228182	0.219473	1.039682	0.3027
MSV^2	-0.729016	0.098713	-7.385187	0.0000
MSV *ACFC	0.371721	0.126180	2.945965	0.0046
MSV *CLTR	-0.011792	0.094912	-0.124243	0.9015
MSV * TMSE	0.587252	0.086009	6.827773	0.0000
MSV *GPL	0.202950	0.106091	1.912975	0.0606
MSV	0.951860	0.251865	3.779244	0.0004
ACFC^2	0.196471	0.045095	4.356839	0.0001
ACFC*TMSE	-0.428934	0.068450	-6.266406	0.0000
ACFC* TMSE	-0.212721	0.050345	-4.225285	0.0001
ACFC*GPL	-0.543492	0.049232	-11.03937	0.0000
ACFC	1.301483	0.186605	6.974529	0.0000
CLTR^2	0.105393	0.037653	2.799032	0.0069
CLTR* TMSE	0.233276	0.068943	3.383617	0.0013
CLTR*GPL	0.127972	0.044756	2.859323	0.0059
CLTR	-0.635140	0.234126	-2.712816	0.0087
TMSE ^2	-0.171390	0.037079	-4.622248	0.0000
TMSE *GPL	0.028812	0.068100	0.423083	0.6738
TMSE	-1.018785	0.344333	-2.958721	0.0044
GPL^2	0.148438	0.033539	4.425900	0.0000
GPL	-0.324189	0.241634	-1.341657	0.1848

R-squared	0.900882	Mean dependent var	0.104907
Adjusted R-squared	0.867283	S.D. dependent var	0.125073
S.E. of regression	0.045565	Akaike info criterion	-3.118863
Sum squared resid	0.122492	Schwarz criterion	-2.493581
Log likelihood	145.7545	Hannan-Quinn criter.	-2.868169
F-statistic	26.81258	Durbin-Watson stat	2.067962
Prob(F-statistic)	0.000000		

For Assumption three: covariance between the error terms over time is zero (cov (ui, uj) = 0)

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	3.519879	Prob. F(2,72)	0.1527
Obs*R-squared	7.125283	Prob. Chi-Square(2)	0.1255

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 10/20/18 Time: 15:22

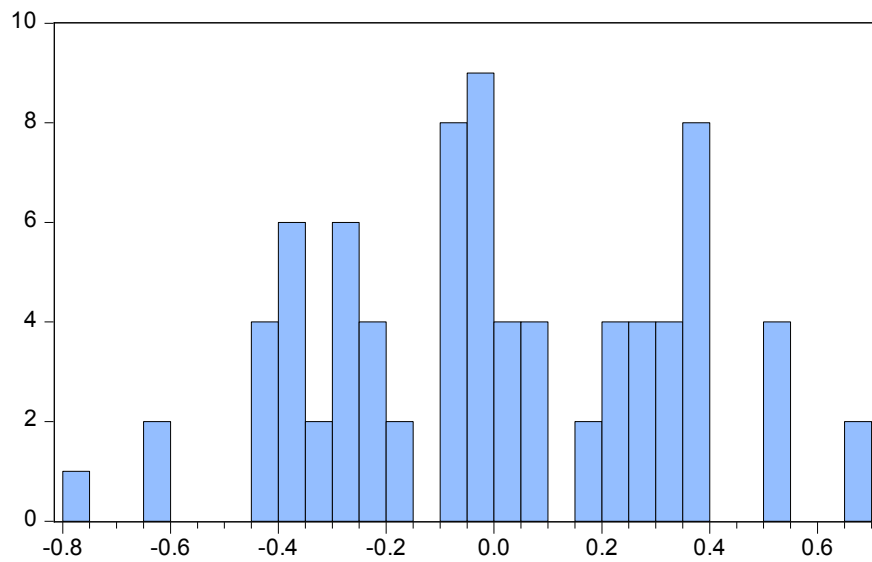
Sample: 1 80

Included observations: 80

Presample missing value lagged residuals set to zero.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.022737	0.184183	0.123450	0.9021
MSV	0.041395	0.119586	0.346154	0.7302
ACFC	-0.008104	0.063952	-0.126719	0.8995
CLTR	0.010582	0.056227	0.188194	0.8513
TMSE	-0.010106	0.061821	-0.163471	0.8706
GPL	-0.044477	0.059421	-0.748514	0.4566
RESID(-1)	0.310727	0.126689	2.452679	0.0166
RESID(-2)	0.020584	0.126390	0.162859	0.8711
R-squared	0.089066	Mean dependent var	4.18E-16	
Adjusted R-squared	0.000503	S.D. dependent var	0.325936	
S.E. of regression	0.325854	Akaike info criterion	0.689908	
Sum squared resid	7.645042	Schwarz criterion	0.928110	
Log likelihood	-19.59631	Hannan-Quinn criter.	0.785410	
F-statistic	1.005680	Durbin-Watson stat	2.011971	
Prob(F-statistic)	0.434570			

For Assumption four: Normality (errors are normally distributed $\mu_t \sim N(0, \sigma^2)$)



Assumption five: Multicollinearity Test

	MSV	ACFC	CLTR	TMSE	GPL
MSV	1.000000	0.673997	0.529725	0.654391	0.605929
ACFC	0.673997	1.000000	0.455261	0.525192	0.551028
CLTR	0.529725	0.455261	1.000000	0.403159	0.127934
TMSE	0.654391	0.525192	0.403159	1.000000	0.397510
GPL	0.605929	0.551028	0.127934	0.397510	1.000000