



**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT**

The Role of Microfinance Services in Promoting the Income of Entrepreneurs: The Case of Woreda 14 Addis Credit and Saving Microfinance

A Thesis Submitted to the School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirements for the Master of Business Administration (MBA) degree

By Solomon Debebe

January, 2019
ADDIS ABABA



**Addis Ababa University
College of Business and Economics
Department of Management**

**Understanding the Dynamics of Microfinance in Promoting
Entrepreneurship: The Case of Woreda 14 Addis Credit and
Saving Microfinance**

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January 2019

Statement of Declaration

I, Solomon Debebe declare that this thesis entitled “Understanding the dynamics of Microfinance in promoting Entrepreneurship: the case of Woreda 14 Addis Credit and Saving Microfinance” is the outcome of my own effort and study and that all relevant literature used for the study have been duly acknowledged. I have produced it independently except for the guidance and suggestion of the thesis Advisor.

To the best of my knowledge, this study has not been submitted for any degree in this University or any other University. It is submitted for the partial fulfillment of the degree of Master of Business Administration (MBA).

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Certification

This is to certify that Solomon Debebe has carried out a thesis on the topic entitled “Understanding the dynamics of Microfinance in Promoting Entrepreneurship: the case of Woreda 14 Addis Credit and Saving Microfinance” in the partial fulfillment of the requirements of the MBA degree in Management complies with the regulations of the university and meets the accepted standards with respect to originality and quality.

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Abstract

This study was undertaken with the objective of identifying the role of Addis Credit and Saving microfinance services in improving the total income of youth entrepreneurs in and around Woreda 14, Bole Sub city, Addis Ababa. The study relied on 315 clients who are actively working with the microfinance. Both quantitative and qualitative data collection strategies were employed in collecting relevant data for the study. The collected quantitative data were analyzed through SPSS statistical package. Likewise, the qualitative data were used to triangulate the data found via the questionnaire.

The result of the study indicated the existence of positive relationship between the dependent variable, increase in total income and the independent variables, i.e., saving, credit, coaching and mentoring and innovative financial products. Compared to each other credit, coaching and mentoring and innovative financial products as major services rendered by the microfinance largely increase the total income of the clients. However, it has been found out that the total income of entrepreneurs is related to the saving amount of clients negatively. Overall, from the findings of the research it is possible to conclude that saving, credit, coaching and mentoring and innovative financial products have significant roles in improving the income of youth entrepreneurs.

Further studies are recommended to explore the general economic, political and social landscapes that triggered to shift in the service of the sector as exhibited in this research. It is also recommended that future studies should show policy makers in the area of microfinance the relevance of examining what is happening on the ground against what is in the policy of establishing micro credit and saving institutions in the country.

Acknowledgments

Many people have contributed and helped me in the writing of this thesis. First, I am grateful to my advisor Dr. Zewdie for his enduring supervisions and unreserved encouragement and support since the draft proposal of the research. His academic criticism and advice in the various stages were important. Then my acknowledgement goes to the many participants in Woreda 14 Addis Saving and Credit Association officers, and the clients of the microfinance in the Woreda for their willingness and support during data collection period.

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Chapter One

Introduction

1.1 Background of the Study

Primarily microfinance was regarded as the provision of a small loan, a microloan that is used by a poor individual to support a small income-generating activity. It was also perceived as a means to help the poor generate an income sufficient to effect an exit from poverty, (Bhuiyan et.al, 2012: p 328-329). Since the early 1980s, microfinance has been very widely promoted as the solution to poverty and eradication of abject poverty. Over the years, therefore, following the 1990s, microfinance was taken as the most favored and most open-handedly backed poverty eradication strategy Bateman and Chang, (2009).

Ethiopia is one of the most populated countries of the world with more than 100 million people with population growth rate 1.8 percent. Two third of the population is living in rural areas. According to SBP (SBP, 2007), working age population (15-59 years) is increasing which was 51% in 1998 and in 2006 it is 57%. Ethiopia is also a country with high population growth with increasing ratio of labor force and huge unemployed youth.

Despite the country's recent reports on successive economic growth, many believe that the main challenges for Ethiopia are sustaining its positive economic growth and accelerating poverty reduction which requires significant progress in job creation as well as improved governance. Hence, this issue necessitates the nation to craft policies and strategies that can empower and employ its citizens especially the youth. Entrepreneurship is believed to positively contribute to a sustainable economic development of a nation and can also be supported via varieties of policy instruments in the area of finance and development.

Among other alternatives, the flourishing of microfinance is aimed at reversing the joblessness that is on the rise as it would create employment opportunities and self-

employment and encourage entrepreneurship. Therefore, it has been argued that a way to breakdown the poverty trap is to boost petty entrepreneurship among the poor, in order to encourage production surpluses (Varghese, 2005). Accordingly, microfinance as the means to increased capital, is the prime source to kick-off the entrepreneurial production process in poor communities (Midgely, 2008).

Many contend that micro-credit has been available to poor communities for centuries and argue that it is not a modern concept (Adams and Raymond, 2008). Moneylenders have existed for a long time in many communities to provide credit at high interest rates. This also draws parallel with the Ethiopian context as many people traditionally reach out traditional money lenders in additions to the traditional social institutions that exist to fill this gap. In particular, in Ethiopia, before the emergence of formal microfinance institutions, cultural institutions were there in providing financial needs of individuals and communities as Al-Bagdadi and Bruntrup (2002:2) argued:

Ethiopia has a strong culture of informal financial systems. Friends and relatives provide the bulk of the informal credits. Many people are member of informal savings and credit associations such as iqqub (a kind of Rotating Credit and Savings Associations), iddir and mehaber. Some MFI try to integrate these associations into their own services.

Owing to the aforementioned reality with regard to the availability of financial access in many communities, the reality of poverty in communities is attached to other factors than access to finance. The combination of social stigma from failed attempts at entrepreneurship, institutional constraints on lending practices, and the inability to recover quickly from setbacks such as natural disasters and personal loss such as the death of a household earner that contribute for poverty trap in communities rather not due to the high interest rates attached to those traditional forms of financing by money lenders in the respective communities (Varghese, 2005).

Therefore, modern microfinance institutions focus on attempts to address the social and political obstacles to entrepreneurship as much as they try to solve the problem of credit availability, adverse selection and moral hazard (Hollis and Sweetman, 1998). In other

words, it is possible to argue that other than access to finance, microfinance institutions give attentions in dealing with issues that impeded the utilization of finance in the development endeavors of communities especially among those who have difficulties accessing finance among the formal financial institutions such as banks (Ibid).

After the success of microfinance experience is heralded in the rural Bangladesh, several developing nations adopted it as one of the strategies to overcome poverty. Ethiopia, as one of the poorest nations has also established several regional microfinances by the government and other microfinances by the civil society.

Following the establishment and operation of these microfinances in Ethiopia, several researchers also reflect the challenges and lessons learnt from those microfinance institutions. Studies that look into the various services rendered by these micro finances with a special focus on how they support entrepreneurs improve their total income seem lacking.

Thus, this research would discover the significance of microfinance institutions in improving the total income of those entrepreneurs in Addis Ababa, Bole sub City Woreda 14. The paper largely focuses on discovering the contributions of the Addis Credit and Saving microfinance services in reversing the huge unemployment problems by vesting strategies that can encourage the income of those clients. A critical insight will be given to finding out the major services rendered by the institution such as saving, credit, coaching and mentoring and innovative financial products

1.2 Rationale of the Study

Among other things, alleviating poverty and creating jobs are at the heart of the socioeconomic development goals. These objectives have become the main targets of many developing and undeveloped countries. After the experience of microfinance in Bangladesh, several countries and institutions suggest microfinance as an effective tool for combating poverty, creating jobs, and improving the wellbeing of the poor. It has also been proven to be an engine to poor empowerment through enabling them to manage

their businesses and make their decision independently and enhance their self-esteem as well as their self-efficacy.

Generally, microfinance is known as a provision of a wide range of financial services such as credit, insurance, savings, deposit and payment services to poor and low-income households who are excluded from conventional financial services for lack of collateral. The underlying logic is that by offering financial services, poor and low-income people will be able to participate in economic market through forming and developing their micro and small enterprises. Consequently, they will be able to improve their livelihoods, manage their businesses and make their decisions independently.

In particular, the policymakers in Ethiopia recognized the importance of microfinance to achieve socioeconomic and millennium development goals. Therefore, they encouraged the establishment of several institutions to deliver financial and nonfinancial services that are needed by a large size of people who live in poverty and underprivileged from access to formal financial services. Regions in Ethiopia established respective microfinance institutions to deliver those financial services as per the current sociopolitical arrangement of the nation. Addis Credit and Saving institution is also created in this arrangement to offer financial services to people living in Addis Ababa.

As a matter of fact, it is quite customary to see huge demand for employment and entrepreneurship opportunities by the youth in Ethiopia. The issue of youth unemployment and joblessness is quite huge in urban areas like Addis Ababa. Needless to mention, to reverse this challenge, the government of Ethiopia advocates the possibilities of offering chances to the youth and women looking for job opportunities. Hence, this study is largely informed by practical experiences of working with youth groups struggling to maintain their business and find employment opportunities. It is evident that most entrepreneurs find identifying a business opportunity and sustaining a venture more challenging than finding financial access. Hence, this research would delve into determining what roles microfinances in particular could play in making beneficiaries successful entrepreneurs with a special focus on the total increase in the income of the entrepreneurs.

1.3 Statement of the Problem

Microfinance has been established as a prominent development tool to combat poverty and more specifically to empower the poor economically and to release their entrepreneurial potential. The sector was not that distinguished before the emergence of microfinance in Bangladesh that expanded very rapidly in the world. From this modest beginning, more than 3,000 microfinance institutions now are believed to operate around the world, with the Microfinance Summit Campaign Report estimating that microfinance institutions serve 128.2 million poor people in developing countries (Reed, 2011).

In terms of research endeavors, compared to other thematic concerns, the role of microfinance institutions in poverty reduction and wellbeing improvement has attracted the attention of several researchers and policymakers' Al-Shami, et. Al (2013). The overall logic behind the several studies around this subject matter held the view that by providing microfinance services, poor will be able to participate in the economic market through forming their small business and will be able to generate income and improve their households, self-esteem and efficacy (Ibid). Despite the popularity and apparent success of microfinance, there is no clear evidence that states the positive impact of microfinance scheme. Microfinance servers refer to financial, nonfinancial and social services while the clients' wellbeing refers to the clients' household, micro and small enterprises performance and empowerment.

Likewise, researchers in Ethiopia explored the relevance of microfinance in bringing sustainable economic development. For instance, Yohannes (2017) explored the effect of capital structure on financial performance of microfinance institutions in Ethiopia. He has found out that microfinance institutions leverage their capital base with higher debt. Abreham (2017) assessed factors affecting loan repayment performance of borrowers. He concluded that while loan utilization for the intended purpose, repayment trend on irregular basis and visit & follow-up on irregular basis negatively influence the repayment performance of borrowers.

Daba (2003) looked into the impact of micro-financing on poverty reduction and reported that if both outreach and sustainability are enhanced the program intervention is judged to have a positive impact as it has created the financial market to the poor. Mulugeta (2015) also explored the contribution of credit and saving institutions in alleviating poverty in Addis Ababa. He discovered that the income and saving levels of the majority of the clients have increased, women's decision making has been improved.

Tiruneh (2011) examines the success factors of micro and small business enterprises in Addis Ababa. He has found out that better education level, prior management, industry experience and planning and record keeping practices contribute for the success of these institutions. Eyerusalem (2014) analyzes the performance of selected microfinance institutions in Ethiopia using a balanced score card (BSC) performance analysis approach which integrate both financial and nonfinancial metrics. Abinet (2015) explored the Relationship between outreach and financial sustainability of Ethiopian microfinance institutions. He has found out that significant positive relationship between breadth of outreach measured as number of active borrowers and gross loan to asset ratio and financial sustainability was evident among microfinance institutions in Ethiopia.

To generalize, previous research endeavors focus on either microfinance or entrepreneurship separately. Scanty efforts are there in showing the relationship between the services of microfinance institutions and the increase in the total income of entrepreneurs. Hence, it is quite possible to argue that previous research overlooked how entrepreneurship and microfinance can work as a combined tool for poverty alleviation and empowerment of poor and unemployed youth who looked for and used the various services rendered by the microfinances.

1.4 Research Questions

Research Question:

- ❖ Does Addis credit and saving microfinance saving service positively contribute for the increase in the total income of the entrepreneurs?
- ❖ What is the effect of Addis credit and saving microfinance lending on improvement of entrepreneurs' income?
- ❖ Does Addis credit and saving microfinance coaching and mentoring service increase income to youth entrepreneurs?
- ❖ Are there any innovative financial products given to youth entrepreneurs that can improve their income by the Addis credit and saving microfinance?

By answering the key questions, this research would contribute to the existing insignificant number of studies on the challenges of entrepreneurs in Ethiopia in general and in Addis Ababa in particular. In order to show the impact of saving, credit, coaching and mentoring and innovative financial products on the income of youth entrepreneurs, the questions led the tools to be employed in the research methods. Questionnaires were designed against those key variables that are clearly defined in here in association with the increase in the total income of entrepreneurs.

Likewise, key qualitative research methods such as key informants, focus group discussions, case studies, semi-structured interview and observations tools were designed taking into consideration of those key questions. Hence, those guiding questions shaped and led the research agenda.

1.6.1 General Objective

The general objective of this research is to explore how microfinance institutions improve the total income of youth entrepreneurs in Addis Ababa.

1.6.2 Specific Objectives

The specific objectives of the research include:

- ❖ To examine the effect of Addis Credit and Saving microfinance saving service on the total income of the youth entrepreneurs in Woreda 14, Addis Ababa.
- ❖ To assess the effect of the microfinance lending services on the total income of youth entrepreneurs.
- ❖ To investigate if Addis credit and saving microfinance institution provide adequate coaching and mentoring to support entrepreneurs?
- ❖ To find out what major innovative financial products, interventions and mechanisms are used to support entrepreneurship?

1.7. Scope of the Study

This research is delimited to uncovering the role of microfinance in fostering entrepreneurship in Addis Ababa and surrounding areas. This study would focus on understanding the role of Addis Credit and Saving institution's endeavors in encouraging entrepreneurship in Woreda 14, Bole Sub city, Addis Ababa. Hence, the major thematic scope of the research agenda are microfinance and entrepreneurship. In particular, the role of saving, credit, coaching and mentoring and innovative financial products in fostering youth entrepreneurship and employment opportunities are the thematic concern of the thesis.

In conducting this research, the thesis relied on the data found from those entrepreneurs who are actively engaged in business activities. Specifically, youth entrepreneurs in Woreda 14, Bole Sub city were the primary focus of this research. Those youth groups between the age of 18 to 35 were the primary focus of the study.

As is known, there are governmental, non-governmental and private credit and saving microfinances in and around Addis Ababa. However, this thesis primarily focused on Woreda 14 Addis Credit and Saving Share Company. Managers, credit officers, coordinators and entrepreneurs were the focal persons in gathering data with regard to the research agenda. Shops, restaurants and other business centers owned by those entrepreneurs were also be the focus of the research.

1.8 Significance of the Study

The link between entrepreneurship and microfinance needs to be studied for a number of reasons. The first reason is that entrepreneurship has been recognized very little both in the literature and in practice despite large number of people engaged in the sector. There are successful entrepreneurs who have created new jobs for themselves and for others and hence have provided the society with alternative solutions to unemployment. Therefore, this research would uncover the link between entrepreneurship and microfinance.

It is argued that microfinances are important for entrepreneurs since they provide a more flexible, less restrictive forms of access to finance. At the same time microfinance is mentioned as one of the primary policy concerns of poverty reduction and alleviation efforts. The micro and small enterprise sector is also described as the natural home of entrepreneurship. Further, few also argue that credit and saving microfinance institutions provide the contexts and opportunities than any other formal financial institutions. This research therefore would show if those arguments are valid by providing comprehensive discussions with those who work with the Addis Credit and Saving S.C.

For entrepreneurs, this research would also indicate how microfinance can provide conducive opportunities and strategies to foster entrepreneurship. Accordingly, a strategy for entrepreneurs development cannot be successful in the absence of adequate knowledge of the increasing role of microfinance and without addressing the different constraints that entrepreneurs face at different stages in their growth and

expansion. This thesis would uncover the different strategies that can support entrepreneurs follow in succeeding with their objectives.

Moreover, as this study intended to explore the conditions of entrepreneurs and the problems encountering them in Addis Ababa, Bole Sub city, the research would add to the few studies on entrepreneurs by critically analyzing the key variables that bear significant impact on entrepreneurs in the city and the obstacles they face to survive. To this effect, efforts were made to gather qualitative information and quantitative data to profile entrepreneurs as regards to the loan size, innovative financial products, the, training, coaching and mentoring.

As raised earlier, this research would also make our insight of the role of microfinance for entrepreneurship and self-employment in and around Addis Ababa better one. Policy makers and other interested ones working in the area of microfinance and entrepreneurship can consult this study to share and revise policies that affect the sector. In addition, this thesis would provide new insight as the previous attempts to discover the role of microfinance in poverty reduction and economic development fail to see from this research's perspective.

1.9 Limitations of the Study

The field study only sets out to explore the individual perspectives of innovative entrepreneurs operating in Addis Ababa, Bole Sub City regarding the effectiveness and usefulness of government led microfinance to promote entrepreneurship in Addis Ababa. Therefore, the study would be limited to Addis Ababa entrepreneurs, and most primary stakeholders were members of Addis Credit and Saving S.C. Thus, this research would limit itself to reporting the views of those entrepreneurs while lacking the role of microfinance that are operated and led by NGOs and other private stakeholders in the area.

Another limitation is the lack of access to primary empirical data concerning the contribution of microfinance and entrepreneurship to the Ethiopian economy. Hence it is

quite challenging to conclude the role of the microfinance institution towards the overall economic development in the nation. The woreda 14, Addis Credit and Saving institution has got no organized data that shows the impact of it has brought on the entrepreneurs with regard to increasing their overall income. This has limited this research from triangulating its results against the study and follow up reports from the microfinance.

The data collection was also a challenging experience in this study. As respondents live quite scattered, it was quite cumbersome to reach out those people living in different villages in Gerji area. Those data collectors who were assigned to the questionnaire had to spend more time than thought.

1.10 Organization of the Paper

The thesis is divided into five major chapters. The first chapter aimed to provide a general overview of the research. Specifically, chapter one provides background, problem statement, research questions, objectives, scope, significance and limitation of the study.

Chapter two presents the literature review. This chapter focuses on the review of empirical and conceptual literature that exist around the concepts of microfinance and entrepreneurship. conceptual framework used for this thesis. It highlights the works of previous researchers in the area of microfinance and entrepreneurship. Towards the end of the chapter the major theoretical framework that shapes and leads the thesis is presented.

Chapter three outlines the methodology employed for this study, and emphasizes the mixed methodology employed in the collection of data from the microfinance institution and its customers. This chapter concisely points out the specific methodologies employed from qualitative and quantitative research designs.

Chapter four presents the findings of the field study. This chapter also provides an analysis and discussion of the findings. Quantitative and Qualitative descriptions of the data collected is presented against the literature and theoretical frameworks. Finally, chapter five includes a conclusion and recommendations for future research.

1.11 Ethical Considerations

The ethical considerations in this research pertain to the field study. The interviews itself were designed not to cause harm to the participants as the research questions do not require the participants to disclose any endangering information. Also, other considerations of protecting the dignity and anonymity was done during the interviews, focus group discussions and observations. At the same time this effort was exerted with the objective of protecting new innovation ideas, intellectual property and the participant's privacy.

1.12 Definition of Terms and Phrases

Clients: those people who work with the Woreda 14 Addis Credit and Saving S.C and receive various services from the institution such as saving, credit, coaching and mentoring etc.

Coaching and mentoring: the process that enable clients to achieve full potentials through the close follow up, supervision and training services rendered by the Addis Credit and Saving S.C to its clients.

Credit: the loan amount that a client obtains based on the trust that payment will be made in the future.

Entrepreneurs: are people who are engaged in business activities and are currently receiving loans and supports from the Addis Credit and Saving S.C

Income: money received especially on a regular basis through investments.

Innovative financial products: Financial products and instruments and technologies that Addis Credit and Saving institution provide to clients.

Youth: are young people between the age of 15-29.

Chapter Two

Review of Related Literature

In this section attempt is done to frame the major research variables and related themes from the perspectives of existing literature and theoretical frameworks. At the outset, the section defines and conceptualizes the key topics of the research, i.e., microfinance and entrepreneurship. Equally important, the section encompasses of theoretical models and frameworks that have to do with both concepts. Empirical literatures that reflect the link between microfinance and entrepreneurship are also presented in this chapter.

2.1 Theoretical Review

To begin with, microfinance is understood as the provision of financial services to clients who usually lack access to formal banking and related services. Thus, microfinance is defined as providing banking access to those who might not have access to formal financial institutions. For some of us it might be confusing to see why some people are left out while others enjoy banking services. In this regard, (Mustafa 2008:14) presents the rationale behind why poor people do not access formal financial institutions as follows:

Poor people are not able to access loans from commercial banks normally because of lack in guarantee and collateral. But there are many other reasons also involved for which commercial banks were not willing to finance poor. These reasons are included that poor have less education, no proper experience and training, high expenses on transactions of small loans and lower rate of profit.

In response to this circumstance, in several nations' microfinance institutions were designed to fill the gap. People in developing nations like Ethiopia should find possible solutions that enable vulnerable and poor access finance. Accordingly, microfinance was designed to bring credit, savings and other essential financial services within the reach of those people who are too poor to be served by regular banks, in most cases because they are unable to offer adequate collateral. During the time microfinance

came into the scene, it was assumed that those people who might have no access to banks and other financial institutions would get chances and be able to survive Yunus (2007). Following, the literature around microfinance described the sector as a viable option to encourage other people with the desire and passion to work on new business opportunities.

Quite recently, it has been mentioned that microfinance serves best to those with entrepreneurial capability and possibility. Eventually the goal of microfinance is to give low income people the opportunity to become autonomous by providing a means of saving money, borrowing money and insurance (Mohan, 2011). Likewise, Addis Credit and Saving institution envisions the provision of financial access to those who might have difficulty accessing loans and other services from other banks in and around Addis Ababa.

2.2 The Evolution of Microfinance

As has been mentioned in many places, before microfinances emerged, individuals used to access finance via several traditional means. The experience on microfinance shaped the perception and practice in the sector ever since it was pioneered in Bangladesh. For instance, over twenty years ago, microfinance simply meant the provision of very small loans (microcredit) to the poor, to help them engage in new productive business activities and/or to grow/expand existing ones, Yunus, (2007).

However, overtime, microfinance has come to embrace a broader range of services such as credit, savings, insurance and money transfers. This was possible as professionals working in the microfinance sector came to understand that the poor, who lacked access to traditional formal financial institutions needed and required a variety of financial products to achieve meaningful improvement in their business activities and livelihoods. Over the years, therefore, microfinance refers to loans, savings opportunities, insurance, money transfers and other financial products targeted at the poor, Samson et.al, (2013).

As microfinance moves along with this new perspective with the various commercialization of the microfinance sector, most discussion now focused around profitability, 'sustainability' and risk minimization. Still others contend that while microfinance at the beginning attempt to reach the vulnerable, the reality on the ground show that the sector reaches the poor but not the vulnerable, Amin, et.al, (2001). We can say that commercialization refers to the movement of microfinance out of the heavily donor dependent arena of subsidized operations into one in which microfinance institutions manage on a business basis as part of the regulated financial system (Christen and Drake, 2002:4). Addis Credit and Saving microfinance is also a government led institution which resembles to move in the new commercialization direction of the country as opposed to what was a dead end in the Dergu regime.

At a global stage, the BancoSol's remarkable success encouraged donors and investors to change their approach towards the sustainability of microfinances than considering them as tools to support the most vulnerable part of the community. Cost control, operational efficiency and commercialism, 'market' or 'businesslike' approaches have all been promoted, and the emphasis is now on providing 'demand-driven' financial services to the poor (Charitonenko, 2003). Hence, from these literatures, we can appreciate that the purpose of microfinance institutions changes slightly in that the target of microfinance used to be the vulnerable while in practice it has become the poor not the vulnerable. At the same time, over time, the microfinance institutions focused on business than providing supports to the vulnerable in the form of humanitarian operations.

In this thesis, too, the dynamics of microfinance service in general and the contribution of Woreda 14 Addis Credit and saving microfinance S.C in unlocking the potential of youth entrepreneurs in Addis Ababa would be sought along with these theoretical dimensions. An insight into who remains at the center of the Addis credit and saving microfinance service would also be examined in order to see if the targeting remains same or the dynamics is also exhibited in the study area.

2.3 Microfinance Models

In the literature, several models exist in expressing the outreach, efficiency and origin of the microfinance sector. Below, attempt is made to discuss the relevant theoretical models that explains microfinance in a general context which in turn would lead and shape the research agenda. Later, this discussion would help the research compare the practice of the Addis Credit and Saving S.C against the distinguished microfinance models as presented below.

2.3.1 Grameen Model

The very famous Grameen Model is coined by the very famous scholar and expert in the area of microfinance, Muhammed Yunus. In the model, the primary unit to whom lending fund is arranged is to a group of five members that organize and apply for loans (Yunus, 2007). In the first round, loan is granted for two members to invest in their business. If these two members become successful to repay amount, then four to six weeks later, next two members are granted for loan.

Hence, the last one member of the group will be eligible for loan if previous two repay loan successfully. Repayment of loan open door for next loan and then go on if all members repay loan successfully. If anyone of group member defaults in repaying the loan, whole group will be disqualified for further loan (Ibid). Hence, in here we can say that rather than financial collateral, social collateral is involved. Each group has its own president and secretary to coordinate all activities among their own group and to communicate and coordinate with other groups.

From this kind of arrangement, the Grameen model brings unique and innovative approach of group lending. As Sengupta, Aubuchon (2008) described group lending have many benefits. First, the group usually organize members who are neighbor to each other, those who can understand each other well and recognize their needs. The

rationale behind this arrangement is to overcome any risk of default in the repayment of loans by loan beneficiaries as the social pressure would make them to do so.

Second, if anyone of group member will not present in group meeting, leader or another member can pay its installment. We can say that there is a kind of mutual understanding between all members. Third, the potential to create social pressures among members of society with social bindings with them remain the critical factor in loan repayment efforts. If one member of group will not pay even one installment, social pressure will be levied from all eight groups on this member. Ultimately the person who takes the loan will try to pay installments. This leads to the reduction of risk for the microfinance institution.

2.3.2 Progressive Lending-Banco Sol Model

As has been discussed above, the Grameen model of microfinance emphasized on lending to villagers and keep loan lending in smaller amounts. The other core concept of the Grameen model is the formation of groups. These groups are eligible to take loan with no option of loans arranged for individuals.

Nevertheless, the idea of progressive lending-Banco Sol Model (Agion&Morduch, 2005, pp.119) introduced to lend loan to individuals with group lending. Amount of loan will increase after completion of every repayment schedule. But other characteristics of Grameen model (Group lending) are included in this method, like targeting to poor, women, group formation, and public payment. Likewise, in this research, attention is paid to uncover which model is being implemented by the Addis Credit and Saving institution (Ibid).

While looking into the details of the progressive lending model, it is not a surprise to acknowledge that it is an extension of group lending (Grameen Model) while at the same time now many microfinance institutions are adopting this approach. In this model of “Progressive lending”, microlenders are flexible about collateral and lend loan to

group with individuals also. This method is very helpful in areas with low population densities or highly diverse population where group forming is not so easy due to different ratio of safe and risky borrowers (Ibid).

Looking in to the history of the second model, it has been learnt that the Progressive Lending-Banco Sol Model is adopted by Banco Sol in Bolivia. In the past, in Bolivia, there was different situation when populist regime left government and there was high ratio of unemployment in urban areas. To come to fulfill the need of time, Banco Sol started operations in microfinance with progressive lending. Therefore, we can say that microfinance approaches are evolved due to different political, ideological and social conditions. According to Weiss Montgomery (2004, pp.3)

“Microfinance in Latin America developed under quite different conditions. In Bolivia, a collapsing populist regime led to widespread unemployment. Banco Sol, a pioneering microfinance institution in the region, developed to address the problem of urban unemployment and provide credit to the cash-strapped informal sector. The notion of commercial profitability was embraced relatively early in this approach.”

In this research, attempt is made to see to which of these two prominent models does the Addis Credit and Saving microfinance service fit in light of the various services it provides. A case by case analysis and comparison of those models against the Addis Credit and Saving Microfinance is done with the intension of understanding the dynamics of the microfinance sector in the wider perspective.

2.4 Empirical Literature Review

In this section of the paper, attempt is done to present the overall literature review that have presented the empirical finding of the practice of microfinance activities with a special focus on microfinance and employment opportunities. The existing literature in the area of microfinance indicate that researchers and practitioners were interested to understand why microfinances worked or didn't (Nair, 2001; Brau and Woller, 2004).

The typical structure of a microloan, typically a few dollars to less than two hundred dollars involves the creation of a loan committee composed of trusted members (usually elders) of a village or community, Yunus (2007). The loan committee then makes loans to groups of four or five borrowers which are known to each other (some program prohibits relatives from belonging to the same borrowing group) who then decide among themselves who will get the first tranche of loans. These 'solidarity groups' meet weekly to discuss their businesses, problems, and family issues, all of which impact the ability of the member to repay on time.

Groups receive advice from program officers, who often act as family counselors, social workers, emergency first responders, and financial advisors (Chavan and Ramakumar, 2002; Hassan, 2002). Such extreme relationship management practices are designed to build trust, compound social capital, and strengthen network ties among the borrowers and the micro finance institution or microfinance institutions. In the early days of the Grameen Bank, founded by Dr. Mohammed Yunus in Bangladesh, for example, bank officers found it difficult to give out loans because of suspicion among villagers, and experienced push back from the village moneylenders that viewed the Bank as competition. Bank officers resorted to social work to first build trust before disseminating their loan program (Hassan, 2002).

2.6 Entrepreneurship

Across several disciplines, entrepreneurship is one of the most widely used term in business, management, economics and other related fields. One of the key observable facts is that entrepreneurship has different meaning for different people, some use it in the meaning of innovation, some use for creativity, risk taking, leadership, and profit maximization from business point of view. Others from social context consider it as startup of business, new production methods while many others see it from other different significances. This research aligns with the definition of entrepreneurship with startup of new business and self-employment.

Among the various schools of thought, entrepreneurship is perceived in different ways. Davidsson, (2004) describes that entrepreneurship is rich phenomenon which makes it a resourceful field. While defining entrepreneurship, we consider some school of thoughts that have major role to define this field. Entrepreneurship, under the flag of Schumpeter school of thought (Swedburg, 2000), is about innovation in organizational process, thinking up new combination, entrepreneurial behavior and motivation of entrepreneurs.

While according to Gartner (Thornton,1999), entrepreneurship is about creation of new organization or new startup, creating values and entrepreneur mean owner-manager. In Krizner's view (Swedburg, 2000), entrepreneurship is searching opportunities and exploiting them, so it reflects towards the alertness capability of entrepreneur towards profit opportunities.

This study conceptualizes entrepreneurship as an endeavor to create one's own business based on the demand in the community. To put it in other words, an entrepreneur is a person who understands the gaps and challenges in his/her community and identify the resources available to venture a business. Specifically, the concept of entrepreneurship is described by the increase in total income of the client working with the Addis Credit and Saving microfinance as this is found quite suitable to measure in terms of numbers than making the concept a categorical variable.

2.7 Theoretical Frameworks on Entrepreneurship

As has been argued above, in understanding and conceptualizing entrepreneurship, there are several schools of thoughts. Among those, in this section, attempt is done to present the two schools of thoughts in details that would be employed in conceptualizing and analyzing the entrepreneurship in the thesis, too. In particular, these theoretical frameworks are Schumpeter's theory of entrepreneurship and Austrian theory of entrepreneurial discovery.

2.7.1 Schumpeter Theory of Entrepreneur

Schumpeter's theory of Entrepreneur has evolved while contributing knowledge in theory of economic development by the German economist, Joseph Schumpeter. According to Schumpeter (Swedburg, 2000), the concept of entrepreneurship is linked with the concept of innovation which has to do with the effort of combining materials and forces, which are under reach, with different method or with new combination to produce a new innovative product. By this definition, it is important to consider that Schumpeter emphasized on innovation rather invention while conceptualizing entrepreneurship.

Further, according to Mondal (p.6),

“Schumpeter's model works through the transformation of production function. A production function is the technological relationship between inputs and outputs.” Further to elaborate innovation and resulted products, in following there are five forms: (1) the introduction of new good for users or new quality of good (2) the introduction of new method of production-handling production system in new way (3) the opening of new market-where company do not entered before, even existing or new market (4) the conquest of a new source of supply of raw material (5) the carrying out of the new organization of any industry, like the creation of monopoly organization. These all steps indicated a kind of innovation by combining sources, materials and function and producing a new product or service.

Other major contribution of Schumpeter theory also discusses motivation of the entrepreneur. First, it discusses the desire and will of entrepreneur to establish an organization where entrepreneur can work independently and enjoy power. Second, that the entrepreneur will become successful in his/her business. Success has to do with the effect of commitment by working on one's own business and idea. And third is joy and satisfaction on reaching his/her goals (Swedburg, 2000).

In addition to what Schumpeter argues as stated above, others such as Gartner, and McDaniel (Mondal, p.5) explain that when we think about entrepreneurship, there are many factors attached with it like economic, personal and sociological variables and their combination. Personal characteristics are also attached as entrepreneurial

behavior. These personal characteristics include the need of achievement, risk taking propensity, locus of control, beliefs about wealth and material gain and business growth.

Overall, from this theoretical framework, it is possible to draw lessons on how entrepreneurship grows and what real attributes are required. However, it is hardly possible to see the linkage with financial institutions such as microfinance as this research is attempting to do.

2.7.2 Theory of Entrepreneurial Discovery-Austrian perspective

Another theoretical perspective that scholars coined in leading research agenda in the area of entrepreneurship is the Austrian Theory of Entrepreneurship. The Austrian theory of entrepreneurship (Swedburg, 2000) asserts that entrepreneur anticipating market and need of customers exactly and correctly, produce more cheaply than competitors and earn profit. Entrepreneur makes it useful for customers and hence as it will be more useful, entrepreneur can earn more. This idea is directly indicating to earning profit while anticipating market and customer needs in advance. By this theory, it is shown that successful entrepreneur will be that who can earn more profit. In other words, profit is the driving force in shaping and encouraging entrepreneurs.

Entrepreneurial discovery emerged in Austrian economics by evolving two elements. One, market is a center that acts as entrepreneurially driven process and other is knowledge which can increase by market interaction (Kirzner, 1997). Austrian entrepreneurial discovery theory relies on concepts focusing on the role of discovery and rivalry competition. From this discussion, we can perceive that Austrian approach emphasizes entrepreneurship with economic activity and market process.

To summarize, both theories have similar and different aspects on entrepreneurship. Different authors have different approaches on entrepreneurship; this may be due to their research, the environment in which they are working in, the previous research and literature available. Innovation, risk taking, and creativity are almost essential components of both theories.

Schumpeter's theory mainly emphasizes on innovation, emphasizing to redefine and regroup resources to produce new product or service. And innovation always has risk with itself. By producing new product, accessing new market, adopting new production system, all lead to risk. However, in case of Austrian theory of Entrepreneurship, anticipating market and customer need is somewhat that needs an innovative idea and it also leads to risk.

To present a comparison account of these two theoretical approaches on entrepreneurship, Boettke, Coyne (p.5), argues,

“As compared to Schumpeter's characterization of the market process as creative destruction, Krizner emphasized that markets tend continually ...towards equilibrium, as consequence of continually-stimulated entrepreneurial discoveries”. So, Schumpeter emphasize on creative destruction while Austrian approach argue towards market knowledge which priory unknown.

As has been mentioned elsewhere in this thesis, entrepreneurship is the process of designing, launching and running a new business, which is often initially a small business and enjoy self-employment. Entrepreneurship has been described as the "capacity and willingness to develop, organize and manage a business venture along with any of its risks in order to make a profit". While definitions of entrepreneurship typically focus on the launching and running of businesses due to the high risks involved in launching a start-up, a significant proportion of businesses have to close due to lack of funding, bad business decisions, an economic crisis, lack of market demand – or a combination of all of these.

As is known, individuals emerge as entrepreneurs for various motives and reasons. Among those several reasons, some entrepreneurs act for personal freedom, independence, or to create something new (Allen, 2011; Williams, 1983). Most entrepreneurs desire to be their own boss due to the frustration they experience working for others or from an intrinsic personal desire to own or run a venture (Barringer and

Ireland, 2009). Whereas, other reason individuals become entrepreneurs is to pursue their own interests, ideas or for the sheer joy of creation (Shane, 1993; Shumpeter, 1934). To finalize, it is possible to summarize that people become entrepreneurs because they want to be in control of their own future, want greater wealth, have a zeal for novelty and are drawn to the unknown (Barringer and Ireland, 2009).

2.8 Financing Entrepreneurs

Historically, entrepreneurs face many problems when seeking funding for their start-ups. New ventures commonly rely on angel investing, family or friends, venture capitalists and banks to provide the necessary capital for their businesses. As a trend, communities did have their own traditional institutions to offset the financial demands of entrepreneurs. In this regard, it is also argued that Ethiopians have traditional social institution that enable them access finance while in need.

According to research, entrepreneurs who perform better require capital for expansion purposes, for investment reasons, to increase cash flow or to off-set cash flow difficulties in their business (Barringer and Ireland, 2009). New business struggle to raise capital because they are inexperienced, unknown and untested (Mantell, 2009; Barringer and Ireland, 2009). This is especially true for the young entrepreneur with little business knowledge, experience and collateral. In a developing nation like Ethiopia, it becomes extremely difficult for emerging entrepreneurs to secure bank loans or obtain capital from Angels or Venture Capital (VC) due to their lack of experience (Mantell, 2009). These alternative methods of funding are limited or non-existent.

In the past, even if an entrepreneur wanted to create a business, the necessary resources were either unavailable or difficult to find. Historically, it was near impossible for several entrepreneurs to obtain loans for their ventures, thus many failed to succeed or relied heavily on personal savings, friends and family to finance them. This is simply because there were no other alternatives for funding. Research shows that entrepreneurship and small and micro enterprise development is crucial and a prime mover of a nation's economy. Small and micro enterprises provide the largest number

of jobs in all economies; therefore, as Ethiopia becomes more entrepreneurial friendly it stands to prosper as an economy.

2.9. The link between Microfinance and Entrepreneurship

As has been mentioned above, at the outset, the concern of microfinance was providing access to those who otherwise could not be included in the formal finance sector. In short, it was assumed that microfinance was a weapon to eradicate poverty by providing access to financial services to those who cannot provide collateral to secure loans from financial institutions. Whenever microfinance is discussed in light of entrepreneurship, it is presented with a challenge as several researchers assume that the small amount of funds given to entrepreneurs fail to leverage the dream and intentions of entrepreneurs.

From experience, it may be possible to suggest that microenterprises are naturally short lived, since the opportunities themselves may be inaccessible. For example, the provision of satellite communication services to a village by an entrepreneur is an opportunity until the arrival of widespread cell phone infrastructure (Bayes, 2001). Therefore, large scale empirical research on the impact of the social network dynamics of borrowing groups on the incidence of serial entrepreneurship by members of the group may represent a theoretically richer direction.

2. 9.1 Microfinance Services to Entrepreneurs

Microfinance provides many types of services to its customers. The services are financial (microcredit, micro-insurance, money transfer, savings) and non-financial services (training, technical assistance, counseling, education, health...). The above microfinance services are directed to entrepreneurs who want either to create entrepreneurial ventures or who want to expand and develop their microbusinesses. The creation of a microenterprise is identified in this study to the implementation of a business opportunity by creating a microbusiness organization.

Microfinance institutions assist two types of micro-entrepreneurs that are potential microentrepreneurs (creation) and existing microentrepreneurs(expansion). Microfinance institutions assist potential microentrepreneurs by providing financing and training to enable them to start a business activity. This assistance to potential microentrepreneurs is directed mostly to poor. This is because poor are the first target of microfinance. The objective in targeting the poor is to start their own business activity enabling them to increase their revenues and to reduce their level of poverty (Ledgerwood, 1998).

Moreover, microfinance institutions provide additional services to existing microentrepreneurs. The assistance to existing microentrepreneurs is done in financing the working capital of microenterprises, in financing the acquisition of fixed assets and in providing them saving facilities to secure their funds and to self-finance their development.

Other financial services offer to existing microentrepreneurs are money transfer using mobile banking to facilitate their transfers and other financial operations, microinsurance to insure their business operations and the unexpected that affect the smooth functioning of the business like the sickness or the death of the microentrepreneur.

The microfinance institutions offer also non-financial services to existing microentrepreneurs enabling them to expand and develop their activities, their skills and to empower them. The non-financial services supply to existing microentrepreneurs are managerial training, technical assistance, analysis of the sector of activity (Ledgerwood, 1998).

2.10 Conceptual Framework

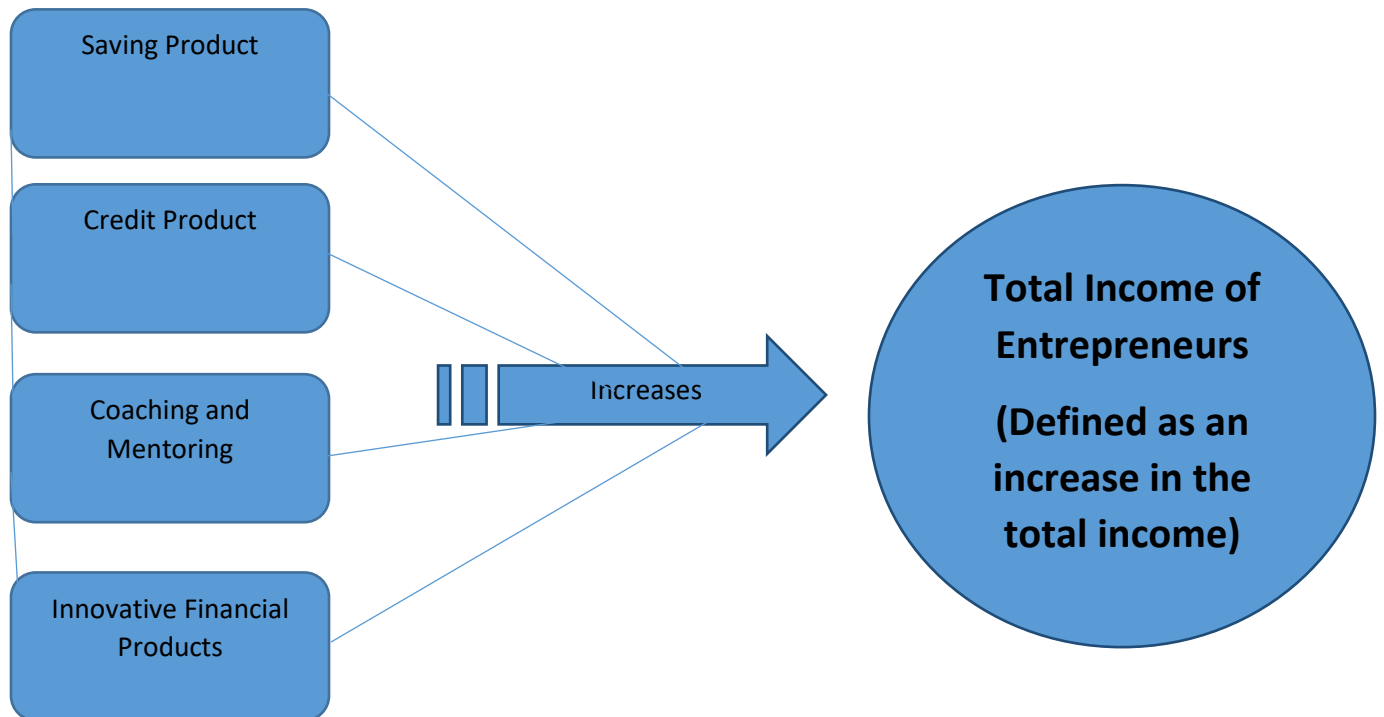


Figure 1. Theoretical Model on the relationship between Microfinance Services and increase in total income of Entrepreneurs

(Source: Based on Grameen Model, Yunus (2007) and author's own construct based on literature review and previous empirical works)

Chapter Three

Research Methodology

3.1 Introduction

This chapter articulates criteria for determining the appropriate methodology used in the study to uncover answers to the key research questions. In particular, the section describes the research design adopted, target population, procedures conducted, sampling and sampling procedures employed. Further, this section presents the various specific techniques employed in the study from both quantitative and qualitative methodologies.

3.2 Research Design

The study was meant to establish the dynamics of MFI innovation in influencing entrepreneurs in Addis Ababa. A special focus is given to the increase in the total income of those entrepreneurs owing to the various services and products they have secured from the Addis Credit and saving microfinance in Woreda 14, Bole area, Addis Ababa. A survey design was used since the researcher intended to research on all kinds of innovative approaches designed to support entrepreneurs in and around Woreda 14, Bole Sub City, Addis Ababa. A detailed study is sought to be conducted on Woreda 14 Addis Microfinance branch of the Bole Sub City.

The research is considered mixed as it utilizes qualitative and quantitative data in collecting the subject under investigation. From qualitative research methods, focus group discussions, key informants, case study and semi-structured interviews were used to triangulate the data found through the questionnaires. An organized structured questionnaire was used to collect the quantitative data that was presented and analyzed via the SPSS software.

3.3 Target Population

The population of interest in the study was entrepreneurs who were supported by the Addis Credit and Saving microfinance institution. Those entrepreneurs are the ones who had the chance to work with the mentioned microfinance. Shop owners and youth entrepreneurs who are working with the Woreda 14 Addis Credit and Saving Share Company were the primary subjects of the research. Specifically, those shop owners and self-employed citizens working and living in the areas of Anbesa Garaj, Unity University, Mebrat Hail areas in Gerji area are the target population.

3.4 Sample Design

3.4.1 Sampling and Sampling Procedure

A mix of purposive sampling and systematic random sampling was used to identify the target respondents in the study area. First the study area was selected purposively based on the suitability for data collection and logistics. The survey was conducted in Woreda 14, Bole Sub City by establishing a sampling frame from which a sample of villages and households are selected for interview. To do so first, the list of all micro finance beneficiaries was collected from the Woreda 14 Addis Credit and Saving Microfinance. Since simple random sampling was not feasible and cost effective in this particular case the list of respondents gathered was used to select 315 interviewees applying systematic random sampling with the following steps

- i. First the sampling interval (SI) was calculated by dividing the total number of to the target respondents sample size that is n .
- ii. Then random number between 0 and the SI was taken from random number table to identify the first respondent to be interviewed
- iii. The SI was added on the number of target respondent that is selected on step II to select the second respondent to be interviewed and
- iv. The SI was added on the number of target beneficiary that was selected second to find the third respondent to be interviewed and this process continued until the n^{th} target respondent was identified.

3.4.2 Determining the sample size

The sample size was determined by Cochran's (Bartlett et al 2001) formula that is suitable for the data under study.

Thus, the sample size was calculated using the following formula:

$$n = \frac{z^2(p)(q)}{D^2}$$

Where n= sample size

z= significance criterion at 5% error term for 2-tail tests

p = estimate of variance or maximum proportion

q = (1-p)

d = acceptable margin of error

At acceptable margin of error (d) of 5% (95% CI), maximum proportion estimate (p) at 0.5 and q (1-p) of 0.5, and z value of 1.96 at 5% acceptable margin of error, the sample size is calculated to be 384.

$$n = \frac{(1.96)^2(0.5)(0.5)}{(0.05)^2} = 384$$

Correcting for finite population with the following formula

$$new\ n = \frac{n}{1 + \frac{n-1}{pop}}$$

Where pop is population size which is 1125. The final sample size was estimated at 287.

Including some non-response rate as nearly 10%, 315 target beneficiaries were interviewed for this research.

3.5 Data Collection

The researcher used both primary and secondary data to answer the research questions on the role of saving, credit, coaching and mentoring and innovative financial products that have been introduced in the Addis Credit and Saving Microfinance and how these products improved the entrepreneurial spirit or the total income of borrowers. Secondary data is data which already exists in the record. The researcher thus found this data relevant for the research at hand, for example the researcher made use of the Addis Ababa Micro Finance compiled and uncompiled reports.

Moreover, in attending to the research objectives, the researcher used several strategies in two fieldwork periods as situations allowed. The first-round data collection was carried between January–February 2018. In this period, the researcher was able to identify contacts, key informants, and get permission by presenting support letter from the University to the head office of the microfinance.

The second data collection season lasted for about a month and half between May – June 2018 which has helped improve gaps and missing data. During this time, the researcher tried to expand on the data collected in the previous period and collect data on several issues relating to the subject under discussion. The major strategies employed as tools of the data collocation include various techniques as described below.

3.5.1 In-Depth Interview

The researcher used in-depth interview with seven key informants as one of the strategies in collecting data. Four of them were male while the remaining three were females. On average, the key informants were interviewed twice a week ranging for two to three hours. The discussions with the informants were carried out in their working areas.

Regarding interviewing other people, the researcher also used other places like shops, the Woreda MFI office, and where cobble stone works were going on and, in the

community, at large in discussing some issues with regard to infrastructure and service provision. This strategy supported the researcher in collecting appropriate information as it paved me to adjust my questions to different contexts.

1.5.2 Case Studies

The researcher used case studies, especially regarding cases where people classify as successful and failed entrepreneurs to study their background thereby assessing their special adjustment strategies and personal commitment. Hence it enabled the researcher to enrich the data gathered in other ways. In the data presentation, case studies are used to supplement the significance of the independent variables by presenting specific experiences shared by respondents.

3.5.3 Observation

Structured observations were applied in the process of data collection. Majority of the Woreda 14 Addis Credit and saving microfinance borrowers are found around Gerji and Mebrat Hail areas. Most of them have small shops around this area. Hence, in addition to the interviews and discussions held with them, observation was also employed as additional strategy to understand the motivation, commitment and passion those entrepreneurs bring to their business. In doing so, the researcher set out to the field after preparing an observation checklist (see annexed).

3.5.4 Focus Group Discussion

Focus group discussion was carried out as one the tools in the collection of relevant data. About four focus group discussions was carried out. The first group discussion was conducted among eight microfinance clients who work closely around Unity University in the Woreda. The second focus group discussion was carried out with another six group of clients found around the Anbesa Garaj area. The other two focus group discussions were carried out with the clients of the microfinance institution around the Gerji Mebrat Haile area in the woreda. These focus group discussions were led by the guiding questions designed for this purpose and are appended along with this paper.

3.6 Data Analysis

Data analysis is the process of categorizing, manipulating and summarizing data to obtain answers for the research questions. As has been mentioned above, in this thesis both qualitative and quantitative methods of analysis were used. The data was further organized in a manner that both quantitative and qualitative descriptions are done. Specifically, quantitative data presented and analyzed through use of pie-charts, tables and bar graphs. SPSS software was also used in the analysis of the quantitative data. The researcher carried out multiple regression models using SPSS while analyzing the relationship between the various variables stated in the research.

The aim of regression analysis is to summarize data as well as to quantify the relationship among variables. The researcher used multiple regression equation to explain the relationship between the independent and dependent variables. In this study the independent variables are saving, borrowing, coaching and mentoring and innovative financial products while the dependent variable is increase in total income which is conceptualized as improvement in the spirit of entrepreneurship among the entrepreneurs.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon_i$$

The variables in the formula above represent the following:

Y = Entrepreneurship (measured by number of active entrepreneurs/clients of the selected MFI)

B₀ = constant term

B₁, β₂, β₃ = Beta coefficients

X₁ = Loan product innovations (measured by number of new loan products innovations introduced by selected MFIs annually for the last four years)

X₂ = Savings product innovations (measured by number of new savings products innovations introduced by selected MFIs annually for the last four years)

X₃ = Coaching and mentoring supports (measured by number of branches opened by selected MFIs)

ε_i = error term

Chapter Four

Findings and Discussions

This study has attempted to uncover the link between the key services provided by the Addis Ababa microfinance institution and the entrepreneurial spirit exhibited by the young borrowers. In presenting the findings of the research, attempt is done to classify the presentation and discussion of the result against the four major thematic concerns of the paper. Moreover, both the finding and the discussion contain the data found via qualitative and quantitative methods. Wherever possible, attempt is made to complement the data gathered in one of the two methods via the data found in the other method.

This chapter concisely presents the study into four sections. Under the first section, diagnostic tests are presented. These tests are aimed at proving the quality of data found via the questionnaire. Under the second section, results of the descriptive statistics of dependent and independent variables are presented. The presentation of these variables is thought to give vivid picture regarding the key variables under discussion. Under the third and fourth sections, summary of multiple regression results and correlation matrix are presented. Accordingly, the findings of the study are discussed in view of theoretical frameworks and available empirical works.

4.1. Regression Diagnostic tests

Brooks (2008) argued that diagnostic tests play crucial roles to check the OLS estimators and the hypothesis tests regarding the coefficient estimates. If OLS estimators exhibit those desirable properties of Classical Linear Regression Model (CLRM) assumptions, they would be refereed as (BLUE) i.e., Best Linear Unbiased Estimators. Therefore, in this study diagnostic tests were performed to check and ensure whether the assumptions of the CLRM are violated or not in the model. Thus,

the following section presents the various tests conducted to check on if those assumptions were satisfied.

Test for Heteroscedasticity

To test for the presence of heteroscedasticity, the popular white test was employed. This test involves testing the null hypothesis that the variance of the errors is constant (homoscedasticity) or no heteroscedasticity versus the alternative that the errors do not have a constant variance.

H_a = The error has constant variance;

H_b = the error has no constant variance

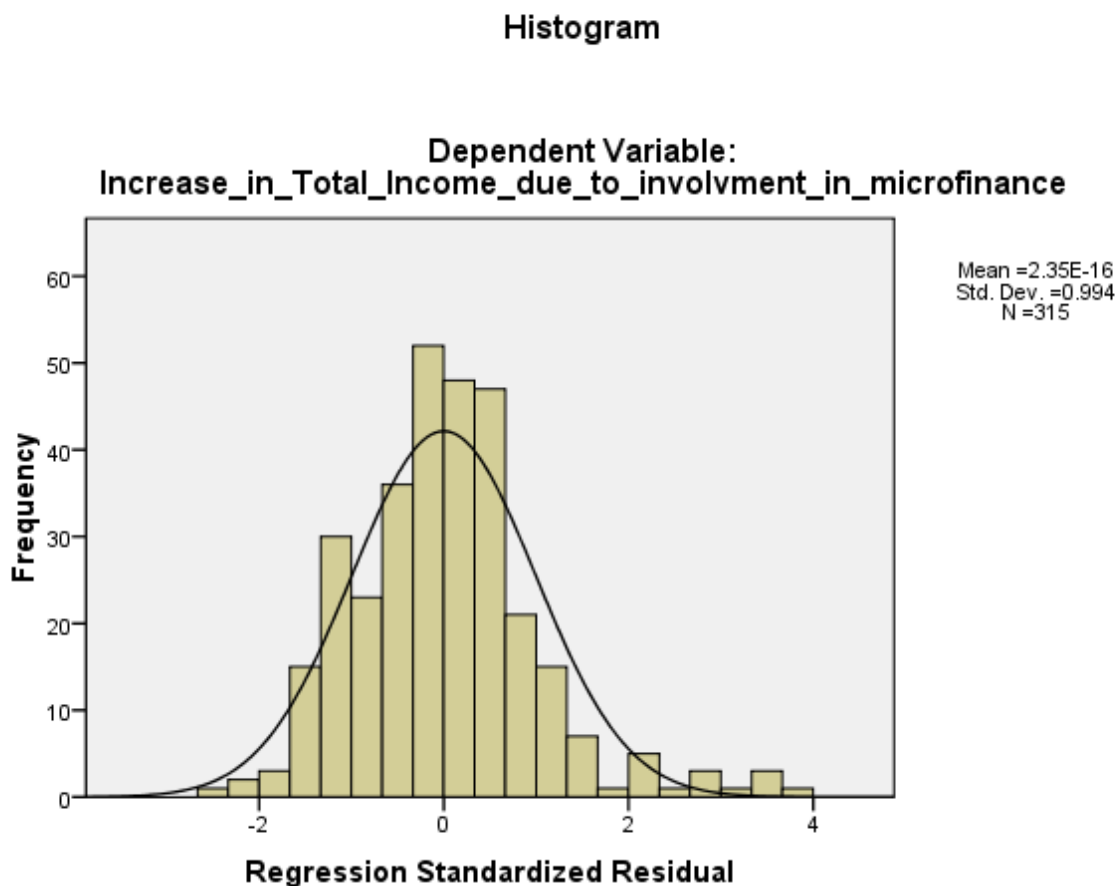
In this study, the test statistics give the same conclusion that there is no evidence for the presence of heteroscedasticity. Therefore, the alternative hypothesis was rejected in favor of the null hypothesis. Therefore, in this study the error terms are constant (homoskedastic) overtime.

Normality test (the disturbances are normally distributed)

One of the most commonly applied tests for normality is the Bera--Jarque (hereafter BJ) test. BJ uses the property of a normally distributed random variable that the entire distribution is characterized by the first two moments, (i.e. the mean and the variance). The standardized third and fourth moments of a distribution are known as its skewness and kurtosis. Skewness measures the extent to which a distribution is not symmetric about its mean value and kurtosis measures how far the tails of the distribution are.

A normal distribution is not skewed and is defined to have a coefficient of kurtosis of 3. It is possible to define a coefficient of excesskurtosis, equal to the coefficient of kurtosis minus 3; a normal distribution will thus have a coefficient of excess kurtosis of zero. If the residuals are normally distributed, the histogram should be bell-shaped, and the BJ

statistic would not be significant at 5%. This means that the p value given at the bottom of the normality test screen should be bigger than 0.05 to not reject the null of normality at the 5% level.



The p - value of the corresponding BJ test is 0.16 which is insignificant at 5% level. Therefore, the conclusion is there is no or little evidence of non-normality. Thus, the alternative hypothesis is rejected in favor of the null hypothesis that is the errors are normally distributed.

Test of Autocorrelation (Serial Correlation)

The notion of autocorrelation defines that there is no serial correlation or autocorrelation

among the disturbances u_i entering the population regression function (Gujarati D.N, 2008). The covariance between the error terms over time (or cross-sectional, for that type of data) is zero. In other words, it is assumed that the errors are uncorrelated with one another. If the errors are not uncorrelated with one another, it would be stated that they are auto-correlated, or they are serially correlated.

A test for this assumption is therefore required which is tested by the DW (Durbin-Watson) test in this study. The DW test is a test for a relationship between an error and its immediately previous value. Therefore, to conduct the DW test, the hypothesis is stated as follows. H_0 : No Autocorrelation ($\rho = 0$), H_a : Autocorrelation ($\rho \neq 0$). As a rule of thumb if the DW test approaches 2, then it is an indication for no autocorrelation. But if the value of the test is zero, then it is an indication for the existence of perfect positive autocorrelation.

On the other hand, if the value of the DW test equals 4, that means there is perfect negative autocorrelation (Brooks, 2008). In this study, the DW test statistic stands at 1.74. This indicates that the model does not correspond with autocorrelation since the Durbin-Watson value is close to 2. Therefore, it can be concluded that in this research there is no or little evidence of a relationship between successive residuals and can be concluded that and we fail to reject the null hypothesis of no autocorrelation.

Multicollinearity test

This test is made to check whether the independent variables are correlated or not. If the correlation coefficient is minimum it is considered as a sign of indication that among the independent variables there is no problem of multicollinearity. Moreover, Kennedy (2008) stated that multicollinearity problem exists when the correlation coefficient among the variables are greater than 0.80.

Correlations

		Total saving deposit	Total loan amount	Number of Coaching and Mentoring	Number of Innovative Financial Products
Total saving deposit	Pearson Correlation	1	.341**	.475**	.655**
	Sig. (2-tailed)		.000	.000	.000
	N	315	315	315	315
Total loan amount from the microfinance institution	Pearson Correlation	.341**	1	.421**	.521**
	Sig. (2-tailed)	.000		.000	.000
	N	315	315	315	315
The number of Coaching and mentoring	Pearson Correlation	.475**	.421**	1	.648**
	Sig. (2-tailed)	.000	.000		.000
	N	315	315	315	315
Number of Innovative financial products	Pearson Correlation	.355**	.521**	.448**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	315	315	315	315

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

From the table above, correlations among explanatory variables are below the threshold. As shown in correlation table, the higher correlation is between total saving deposit in the microfinance institution and number of innovative financial products is (0.655) and the number of training given by the microfinance to the entrepreneurs and number of innovative financial products (0.648), which is even below the threshold. The rest of the correlation coefficients were low indicating the absence of multi-co linearity in this study; making the regression analysis more reliable.

Further, the collinearity statistics coefficients table below indicate that the problem of multicollinearity doesn't exist. If the VIF (Variance inflation factor) is below 3, it is possible to conclude that there exists no multicollinearity problem among the variables.

Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
1	Total saving deposit	.493	2.028
	Total loan amount	.726	1.378
	The number Coaching and Mentoring	.379	2.638
	Number of innovative financial products	.354	2.824

a. Dependent Variable: Increase in Total Income due to involvement in microfinance

4.2. Descriptive Statistics of Variables

This part of the study presents the demographic characteristics of respondents and descriptive statistics of both the dependent and independent variables. For clarity purpose, the results of the independent variables are presented at the beginning and the results of the dependent variable is presented later. Quantitative descriptions of those variables are supplemented by qualitative descriptions with the intension of making the descriptions more vivid.

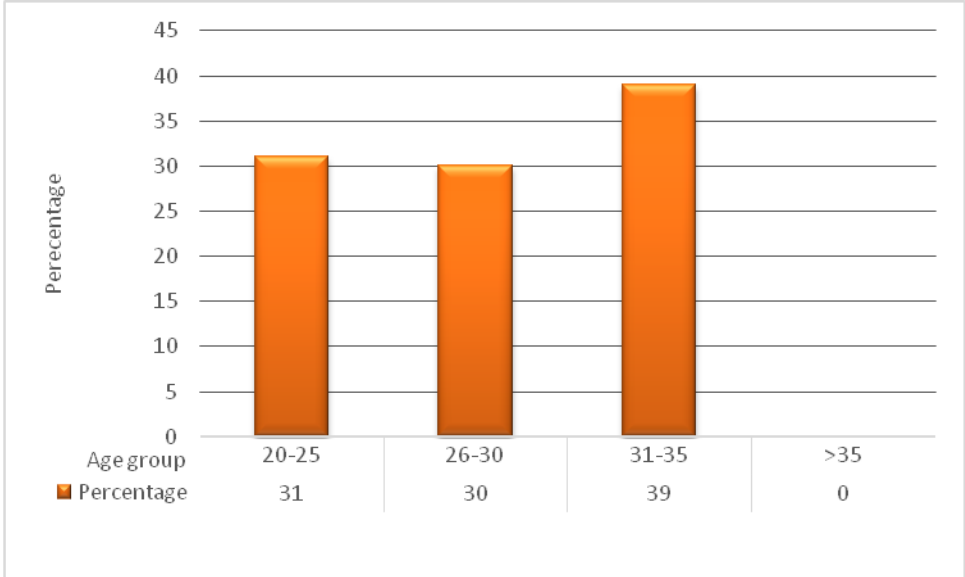
Key descriptive data results include but not limited to mean, median, maximum and minimum value, standard deviation and number of observations; therefore, these descriptions are also presented in the paper. In the explanation, comparison and analysis of those descriptive data and additional explanation is provided via the data collected qualitative methods. Case studies, observation, key-informants, focus group discussions, semi-structured interview results are used in triangulating the data found via the questionnaire and interview methods. The combination of these two methods give better explanations and descriptions of the study variables which made the study comprehensive.

In the presentation of these variables, tables, pie charts, bar graphs are used to present the results of descriptive statistics of both the dependent and independent variables included in the analysis of the relationship between saving, lending, mentoring and coaching and innovative financial products as independent variables and increase in total income as dependent variable. Making the presentation of the demographic characteristics of the respondents by using the graphical diagrams has made the descriptions of the data convenient. Whereas, the data for the dependent and independent variable is done by using tables and verbal descriptions.

4.3 Demographic Characteristics

Descriptions of the demographic characteristics of the research respondents shade light in giving contextual picture of who those people are and what specific characters define them in terms of age, gender, education, marital status and other characteristics to mention just a few attributes. Doing so would also give the opportunity to comprehend the findings of the study if it is possible to generalize to those other people in similar conditions elsewhere. Accordingly, below is the age, gender and education characteristics of the respondents.

Fig 1: Age of Respondents



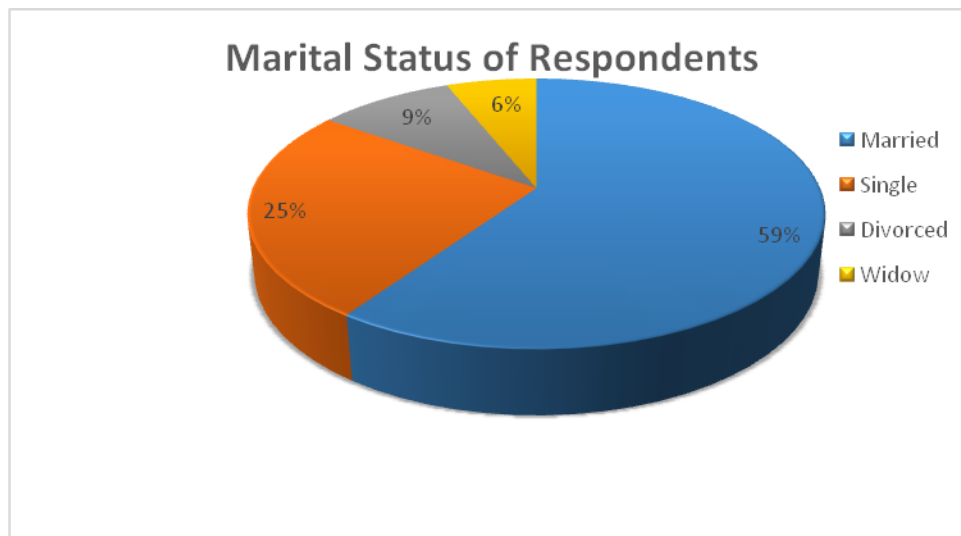
As stated elsewhere, this study largely focuses on the entrepreneurship skills of the youth population. Likewise, as can be seen from the above bar graph, of the total 315 respondents, those who are between 31 to 35 years of age constitute about 38 %. Whereas, the remaining respondents are between 26-30 (30%) and 20-25 (32%) years of age. In general, it is possible to conclude that almost all of the respondents are in their youth age. The mean value for age is 28.4.

Fig 2: Sex of Respondents

Sex of Respondents		
Category	Frequency	Percent
Female	155	49
Male	160	51

As can be seen from the table close to 51% of the total respondents are male while the remaining 49% are females. Therefore, it is possible to argue that the study attempted to have the participation of both genders equally. However, among the total population of the Addis Credit and Saving S.C, 60% of the clients are reported to be the females. In this research, despite several efforts to maintain perfect gender balance, it was possible to involve about 49% women which can be stated as almost close to being half of the study participants are females while the remaining are males. Hence, there is a balanced view in the presentation of the findings of the research findings among both genders.

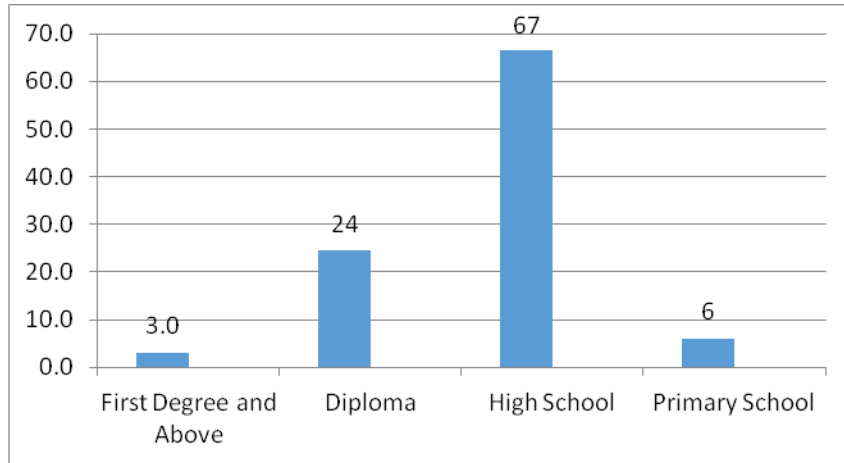
Fig 3: **Marital Status of Respondents**



Regarding the marital status of the respondents, among the 315 respondents, about 59% are married while 25% are single. The remaining respondents are divorced (10%) and widowers (6%). Hence, it is possible to conclude that the majority of the study participants are married while a significant portion is unmarried. It is also possible to suggest that one's marital status has got not significant role in hindering one's commitment to take part in entrepreneurial efforts. Though not the interest of this research, it can be learnt from this data that one's status with regard to marriage plays less or no significant role in accessing financial services at the microfinance institution. This also draws parallel with the focus group discussion and in-depth interview results as participants were asked if this has presented any significant impact on their activity as a client of the microfinance institution.

Educational Status of Respondents

Fig 4: Education Status of Respondents



As can be seen in the above graph, from the total of 315 respondents, about 67% of them were high school graduates. While the remaining respondents, i.e. 24%, 6% and 3% were diploma, primary school and first-degree graduates, respectively. In summary, most of the respondents, i.e., about 91% of the total were high school and diploma graduates as compared to the other respondents (9%) altogether. The results of the qualitative data regarding the impact of client's access for credit and other services at the microfinance suggest that it plays no or less impact. In other words, the microfinance institution does not disregard or prefer any of those clients based on their education status but on their financial needs and proposals.

4.4 Descriptive Statistics of the Dependent and Independent Variables

The dependent variables in this thesis include saving, credit, coaching and training, and innovative financial products. The independent variable, however, is the increase in total income of individuals. In this section, these independent and dependent variables will be described based on the quantitative information gathered via the questionnaire and the information gathered via the qualitative methodologies. For clarity purpose, at the outset, the definition of the variable is presented followed by the quantitative description in the middle and qualitative information towards the end of the variable description.

As has been stated in the methodology section of the paper, in-depth interview was used with seven key informants as one of the strategies in collecting data. Three of them were male while the remaining four were females. On average, the informants were interviewed two to three times a week ranging for one to two hours. The discussions with the informants were carried out in their working areas.

Regarding interviewing other people, other places like shops, the Woreda MFI office, and where cobble stone works were going on and, in the community were used at large in discussing some issues with regard to infrastructure and service provision. This strategy supported the researcher in collecting appropriate information as it paved the researcher to adjust questions to different contexts. Hence, in the description of the study variables, wherever relevant and appropriate, the results of the qualitative methodology made to supplement the quantitative descriptions of the variables.

4.4.1 Saving

Saving is the amount of saving deposit that Addis Credit and Microfinance beneficiaries deposit at the institution. Saving is one of the products of microfinances rendered to clients. In this regard, Bhuiyan, et.al, (2012:329) argued that saving is one of the products of microfinances that is being described as one of the independent variables in this thesis in the following manner: “Microfinance as the provision of a wide range of financial services like saving accounts, loans, payment services and insurances for people with no regular access to financial services through traditional financial institutions”.

Ideally, people are encouraged to save regularly based on what they can afford. They are encouraged to save weekly or monthly depending on their income. The study participants declared that the minimum amount of saving they do vary from small amount of hundred Ethiopian birr to some thousands.

Descriptive Statistics

Table 1: Summary of Saving

	N	Minimum	Maximum
Total_saving_depos it_in_the_microfinan ce_institution	315	400.00	110,000.00
Valid N (listwise)	315		

As can be seen from the above table, the minimum amount of saving deposit that depositors made at the microfinance institution is about 400 Ethiopian birr. While, the maximum amount of saving respondents have made at the microfinance is about 110,000 Ethiopian birr. From this data, it is possible to see how far depositors vary in the capacity of saving at the microfinance which in turn would affect their ability to apply and take credits for the purpose of their business or consumption

The qualitative data on saving as well depict similar variations as some of the key informants say they have very small amount of saving at the microfinance while others express a relatively huge amount of saving. This draws parallel with the explanation of Mohan (2011) regarding the goal of microfinance is to give low income people the opportunity to become autonomous by providing a means of saving money, borrowing money and insurance.

In addition to what is mentioned above, while explaining the reasons on the level of variations in their saving, key informants explained that most beneficiaries save at the micro finance to show the institution that they can afford to pay back the loans they would be receiving. They mention that they think they don't get the amount of loan they wish if their saving is inadequate.

In fact, the assumptions held by the microfinance's customers draw parallel with the explanations provided from the loan officers at the Addis Credit and saving institution. The officers at the microfinance also confirm this by explaining that one of the key objectives of the institution is improving customers' saving habit.

In addition to key informants, the data found via case study depict the following:

Case1:

Alemnesh is 28 years old woman. She has two daughters. She is raising her kids alone. She came to Addis Credit and Saving institution three years ago. She heard about the company from a neighbor who also benefited by working with the company. Before three years, Alemnesh had no saving and she used to depend on daily subsistence to feed and send her children to school. Now, she has more than 5,000 ETB in her account and works on Guilit, a small market place where she sells vegetables in a village and earn better to support her life.

Case 2

Abera is an electric shop owner at Gerji Mebrat-Haile, Addis Ababa. He has been working with the Addis Credit and Saving for the last four years. At the start he had ideas of working but not sufficient finance to support his business idea. He tried to approach individuals and members of his family to start his business. In the middle of his efforts, he heard about the Addis Credit and Saving institution from friends. They recommended him to go for credit at the Addis Credit and Saving Share Company. Immediately, he approached and started to get service at the institution. Now, he has more than 100,000.00ETB at his account in the microfinance. He also feels happy about their service. He now owns a shop that was a dream to him just before four years.

In the semi-structured interview, a question was asked to participants if there was a chance to get any innovative saving product, they were attracted to owing to a special saving package designed to encourage them. Key informants disclosed that there are no attractive packages designed targeting them. They feel that the kind of saving they use is almost similar with other financial institutions' saving products like the commercial banks.

In general, from the description of the variable 'Saving' both quantitatively and qualitatively, one can understand that the amount of saving at the microfinance by the customers vary greatly. In particular, the description of saving via qualitative methods depict why respondents have this much difference in their saving capacity and assumptions. We can also learn from the case studies that respondents have clarity of reasons as to why they save in the company.

4.4.2. Credit

Credit refers to the loan amount given at the Microfinance based on the application and request of the Addis credit and saving microfinance customers. A key informant at the institution mentioned that the company has provided a total of 12, 000,000.00 ETB in the last fiscal year 2017/18. Further the informant mentioned that the institution had no debt write-off in the last fiscal year. Creditors are expected to pay back the loan with 10% interest rate, 2% service charge, 1% insurance. While comparing this with other loan arrangements with the banks, it seems that microfinance beneficiaries are better off as the former charge about 17% and more interest rates.

In addition, those who took loans are expected to pay at least a minimum of six month's interest rates and other charges. If an individual wants to settle earlier than this period, the institution will penalize the loan taker about 5% and may write a bad recommendation. A special form of loan is also being managed by the institution for the youth as proposed by the government to take joblessness and the political unrest the country is in for the last three years in a row. The arrangements for the youth fund loan that is being facilitated by the institution include 8% interest rate, 1% service charge, 1% insurance fee, and a 3% penalty should the loan beneficiary quit the arrangement in advance of the settlement time. What is peculiar to this financial product is the possibility of the youth in getting the loans without the need for collateral.

Table 2: Credit

Descriptive Statistics

	N	Minimum	Maximum	Sum	Mean
Total_loan_amount_from_the_microfinance_institution	315	2000.00	180,000.00	1.49E7	4.7400E4
Valid N (listwise)	315				

As can be seen from the table above, of those 315 the majority have secured somewhat average size of loans that may not be easily achieved at other financial institutions. A significant number of loan applicants also secured a loan size as high as 180,000.00 ETB. The minimum amount of credit those respondents took is 2, 000.00 Ethiopian birr while the maximum is close to 300,000.00 Ethiopian birr.

In general, the loan dedicated to customers is arranged in various forms. If applicants want, they can apply for personal, group, enterprise or women’s credit types. Those who applied for any of those credits would enter to an agreement of paying 10% interest, 2% service charge, and 1% insurance fees. It is compulsory to pay those fees for a period of six months despite earlier or later return period. Regarding innovative credit products, the institution mentions the aforementioned ones as suitable and convenient innovative credit products for potential entrepreneurs. Likewise, beneficiaries acknowledge that the Microfinance is by far a better option. Key informants acknowledge that had it not been for the Addis Credit and Saving Microfinance, it could have been quite unthinkable to get access to finance for various purposes they use.

Regarding who is supposed to be the real customer of microfinance credit services, the officers at the company expressed the shift of focus from what is known as the un-bankable to those who can provide any form of collateral. At the beginning, credit applicants could apply up to 700 Ethiopian birr without any collateral as a loan request. However, as repayment of loan became quite a daunting experience for the Woreda 14, Addis Credit and Saving S.C, customers who are able to provide collateral are given preferences and by the time those who would be interested to apply for the relatively smaller amount of loans as low as 700 Ethiopian birr are no more coming to the

microfinance as they are not encouraged as it used to be in the past. This goes against the basic principles of microfinance as Yunus (2007) mentioned.

As Yunus (2007) argued the target of the microfinances in the past was those considered vulnerable and this finding shows that the majority of the clients are those who can afford and thus we may not consider them as vulnerable, but poor. Over the years, therefore, microfinance refers to loans, savings opportunities, insurance, money transfers and other financial products targeted at the poor, but not at the vulnerable, Samson et.al, (2013) Hence, we can generalize that the ideal targets of the microfinance were supposed to be those would not be bankable. In the reality this is not happening at the institution.

The loan arrangement designed at the Addis credit and saving S.C prove quite different from what was famous in the Grameen model in that the loan committee was described as the one who is responsible to make loans to groups of four or five borrowers which are known to each other (some program prohibit relatives from belonging to the same borrowing group) who then decide among themselves who will get the first tranche of loans as Yunus (2007) argued. These close groups meet weekly to discuss their businesses, problems, and family issues, all of which impact the ability of the member to repay on time.

Regarding the size of the credit offered from microfinance and the impact it has on the livelihood of the borrowers, critics suggest opposite from what Yunus (2007: 56) argues in the following way:

Critics often say that microcredit does not contribute significantly to economic development. Are they correct? I think the answer depends on how you define "economic development." Is it measured by income per capita? Consumption per capita? Or anything per capita?

However, for Yunus, the credit for clients would significantly contribute and he said, (Ibid: 56) "Microcredit turns on the economic engines among the rejected population of society. Once a large number of these tiny engines start working, the stage is set for big things."

The finding of this research as exhibited in the quantitative and qualitative methodologies also align with the premise of Yunus. The results of the focus group discussions, key informants and semi-structured interview reveal that clients who took credits from the microfinance improved their overall total income.

4.4.3 Coaching and Mentoring

Coaching and Mentoring refers to the number of coaching and monitoring services rendered by the Addis Credit and Saving institution officers. Loan applicants receive trainings on key financial concepts such as spending, budget, saving and paying loans to just mention the few. The loan officers in the institution also follow up those who took loans and try to provide advice whenever necessary.

Loan beneficiaries get phone calls every month just five days before they should deposit their down payments. Data gathered in qualitative methodologies reveal that the phone calls are aimed at preventing customers from fines and unwanted expenses. The Addis credit and saving S.C loan officers are given this task. As the loan officers have the lists and contact details of the creditors, they directly give calls so that loan takers can prepare themselves to pay their monthly amounts on time.

The coaching and mentoring are also done in regular manner from monthly to every other week depending on the needs of the beneficiary. Before an applicant is granted a loan, he or she must attend a training that is designed by the institution. Hence, for clients a minimum of four to twelve sessions are given in a year. Majority of the clients attend six to twelve sessions while the other remaining half attend various coaching and mentoring sessions below six times in a year.

In the literature or microfinance, it is argued that groups receive advice from program officers, who often act as family counselors, social workers, emergency first responders, and financial advisors (Chavan and Ramakumar, 2002; Hassan, 2002). Such extreme relationship management practices are designed to build trust, compound social capital, and strengthen network ties among the borrowers and the micro finance institution or

microfinance institutions. However, regarding coaching and mentoring, Addis Credit and Saving Microfinance assures that beneficiaries attend training about their rights and obligations with regard to the kind of loan they would take from its employees.

Lengrand & Associés (2009) explain microcredit as a product of microfinance that does not nurture highly innovative businesses, but as something that can be considered as an entrepreneurial activity capable of creating value-added businesses that can have a role on job creation as well as in lessening of social exclusion, positively affecting economic development.

4.4.4 Financial innovative products

The Addis credit and saving S.C designed various innovative financial products to meet the demands of the customers. Key innovative financial products of the Addis Credit and Saving microfinance S.C include various credit products known as personal, group, enterprise, women, global HIV funds. These products are assumed to benefit the various targets in many ways. In this regard, (Nugroho & Miles 2009: 22) argued “...microfinance can help enable companies to innovate by freeing up resources: enabling them to create additional value by reducing the transaction costs of access to financial services.”

Personal loans are designed to provide financial solutions to individuals with the intension of consumer loans for personal reasons. Customers may apply for loans for the purpose of furnishing their houses or use to cover any of their consumption desires. These types of loans might have not been possible had it not been to the Addis Credit and saving institution for the majority of the respondents as respondents report in the data found via the semi-structured interview and key informants discussions. Based on the total amount of the loan request by customers, the type of collateral may be decided by the microfinance.

Group loans are designed to groups with business plans that can be implemented in collaboration with peer groups. Group members themselves may serve as collaterals in conditions where the group cannot present other forms of collaterals.

Enterprise loans are designed to enterprises that are growing. As per the direction and policy initiatives of the government loans are arranged to encourage customers who would like to work in the area of manufacturing than other sectors. This proves the alignment of the microfinance to the preferred sectors believed to drive the Ethiopian economy to a better level.

Women loans are designed to encourage women. This loan is planned to empower the women in owning resources that make them productive citizens. Hence, specific arrangements are made in place to encourage the women apply for this type of loan and use for consumption, business or any other forms.

Global HIV fund is a credit product designed for those people who are living with HIV/AIDS. As the name indicate this type of credit arrangement is designed to those people living with HIV/AIDS so that they can have access to their medicine, other consumption goods and/or startup business that may improve their livelihood.

In general, so far Addis Credit and Saving institution claims that it has got some five to four financial products that would benefit communities. It is also supported by key strategies that would make the youth, disabled and women key beneficiaries. In the upcoming fiscal year, the share company plans to diversify some financial products by working with other stakeholders. Likewise, the expectation and the hope of customers is to use financial products from the microfinance and have chances of depositing and taking out money from their accounts via core banking and other applications as other proper banks do.

To generalize, the institution lacks other innovative financial products that attract youth entrepreneurs. Strategies and products that exist currently are products for the youth,

disabled persons and women. Other than those mentioned above, it is impossible to find out a single financial product that attempts to encourage those entrepreneurs other than a relatively easy financial access compared to the complex formats that one has to go through to acquire loans from other formal financial institutions such as banks. At present, the company plans to bring core banking products in the long run. Core banking is quite familiar in the formal banks in the country.

4.4.5 Increase in total Income

Increase in total income refers to progress made in the earnings of those people who are working with the Addis Credit and Saving S.C. Increase in total income is taken in this thesis as a dependent variable that may be influenced by independent variables, i.e., saving, loan, coaching and mentoring and innovative financial products.

As can be seen from the table below, the minimum amount of income that respondents declared to have is about 8, 000.00 ETB in one fiscal year. Whereas the maximum income of respondents in one fiscal year amounts as high as XXX. Hence, we can note here that the overall income between those who earn less, average and maximum varies with a significant amount. This also possible to explain the underlying caused for those variation by asking critical questions with regard to key dependent variables.

Descriptive Statistics

	N	Minimum	Maximum	Sum	Mean
Increase_in_Total_Income_due_to_involvement_in_microfinance	315	8000.00	3.20E5	4.70E7	1.4935E5
Valid N (listwise)	315				

4.5 Multiple Regression Results

As was mentioned in the methodology section of the research, the model attempts to find out the relationship between the dependent variable, increase in total income and the independent variables i.e. saving, credit, coaching and mentoring and financial innovative products. The model presented below is designed to show the kind of relationship these dependent and independent variables could have. More importantly, the model is designed to see what kind of effect do the dependent variables have on the independent variable. The model, thus crafts coefficients that would show the direction and magnitude of the relationships of the stated variables. Likewise, the error terms that may not be explained in the kind of relationships via the model is considered.

$$ITIN = \alpha + \beta_1 (SAV) + \beta_2 (CRE) + \beta_3 (CAM) + \beta_4 (FIN) + \varepsilon$$

Where:

ITIN: Increase in total income

SAV: Saving

CRE: Credit

CAM: Coaching and mentoring

FIN: Financial innovative products

ε =error term

Model Summary

Model	R	R Square	Adjusted R Square
1	.894 ^a	.799	.796

a. Predictors: (Constant), Number of Innovative financial products, Total loan amount from the microfinance institution, total saving deposit in the microfinance institution, the number of Training given by the MFI to the Entrepreneurs

According to the result of the multiple regression, it is possible to conclude that the 79.6% percent of the total variance in 'increase in total income' is explained by the model. As we can see from the above table, the value of the adjusted R square (79.6%) tells us that the model does a great job in predicting link between increase in income and the practice of participating in saving, credit, coaching and mentoring and innovative financial products.

Likewise, it is essential to mention that 20.4% of the variability of increase in income is explained by other factors that this research has not looked at. It is recommended that other researchers could delve into this question and find out other factors that bear significant impact on increase in total income among micro credit and saving organization beneficiaries, in particular Addis credit and saving microfinance S.C.

Correlation and multiple regression analyses were conducted to examine the relationship between the dependent variable, 'increase in total income' and other independent variables, i.e., saving, credit, coaching and mentoring and innovative financial products. As presented above and elsewhere in the paper, it has been proved that there is statistically significant relation among the dependent and independent variables. The dependent variable that is increase in total income is positively influenced by the dependent variables.

Chapter Five

Summary of Findings, Conclusion and Recommendations

5.1 Summary of Findings

As has been presented in chapter four, the key components of the study under investigation were saving, credit, coaching and mentoring and innovative financial products. Correspondingly, saving as one of the key services rendered by the microfinance has been found out playing a significant role in increasing the total income of the youth entrepreneurs. The minimum amount of saving deposit that depositors made at the microfinance institution is about 400 Ethiopian birr while, the maximum amount of saving respondents have made at the microfinance is about 110,000 Ethiopian birr. Therefore, it is possible to summarize that depositors have varying capacity of saving at the microfinance which in turn would affect their ability to apply and take credits for the purpose of their business or consumption.

Regarding the second major service rendered at the microfinance, i.e., credit, the majority of the youth clients have secured somewhat average size of loans that may not be easily achieved at other financial institutions. The minimum amount of credit those respondents took is 2, 000.00 Ethiopian birr while the maximum is close to 300,000.00 Ethiopian birr. The loan dedicated to customers is arranged in various forms i.e., personal, group, enterprise or women's credit types. Those who applied for any of those credits would enter to an agreement of paying 10% interest, 2% service charge, and 1% insurance fees. It is compulsory to pay those fees for a period of six months despite earlier or later return period. Overall, credit as a major service rendered played significant role in improving the total income of the entrepreneurs.

Regarding coaching and mentoring, Addis Credit and Saving Microfinance assures that beneficiaries attend training about their rights and obligations with regard to the kind of loan they would take from its employees. Coaching and mentoring as one of the key services rendered by the microfinance institution, clients got the chance to get updates

and several advices on how they can better manage their relationship with the institution and better repay their loans in time without penalties and fines. This reality has helped the youth entrepreneurs improve their total income.

Key innovative financial products of the Addis Credit and Saving microfinance S.C include various credit products known as personal, group, enterprise, women, global HIV funds. These products benefited the various targets in many ways. These products contributed for the total income increase among the clients.

5.2 Conclusion

From the study, it has been found out that the increase in the total income of entrepreneurs is attributed to the various services that the Addis Credit and Saving institution provides. The institution's saving, credit, coaching and mentoring and innovative financial products which are the focus of this research significantly contributed to the increase in the total income of the entrepreneurs under study.

In particular, the Addis Credit and Saving Microfinance has reached out several youth with various financial needs. The institution has been evolving in shaping the various financial services they render in the woreda. Specifically, Addis Credit and Saving Microfinance loan provision was supported by coaching and mentoring and innovative financial products. These products have significantly contributed to the increment of clients' income. The Woreda 14 Addis Credit and Microfinance beneficiary youth have improved their total income.

Viewed from the famous models of microfinance i.e., Grameen and Banco-Solo, the Addis Credit and Saving microfinance seems to stick to none of these models. It rather combines approaches that deemed to be contextually relevant for the institution. It operates in rendering both group and individual loans. Hence, it is difficult to theorize the Addis Credit and Saving microfinance sticks to one of the two famous microfinance models strictly.

The data collected both in the qualitative and quantitative methods prove that the theoretical framework designed to lead this research prove correct in that the total income increase owing to the saving, credit, coaching and mentoring and innovative financial products services of the microfinance. In other words, the findings of this research align with the thought (Robalo:2) “microcredit... can in fact be considered as an entrepreneurial activity capable of creating value-added businesses that can have a role on job creation as well as in lessening of social exclusion, positively affecting economic development.

Overall, we can generalize that the Addis Credit and Saving microfinance improves the total income of the youth entrepreneurs while at the same time the institutions shifts from its core services and targets as time progresses. The microfinance combines features of the Grameen and the Banco-Solo Progressive Lending models and it is impossible to say that either of the models is the key guiding principle and practice. While providing services to the youth entrepreneurs, the microfinance lacks clarity on how entrepreneurs emerge compared to the theoretical models used to lead this research

5.2 Recommendations

The Addis Credit and Saving microfinance combines both the Grameen and Banko-Solo models in its ways of operations, further studies are recommended to sort out the merits and demerits of combining these approaches in the design and rendering of services in the institution to get a better perspective of which model fits better to the contribution of increase in income among clients.

Modernizing the various products and services of the institution should be the focus of the microfinance as some of the systems in place indicated that they are even backward compared to other financial institution such as banks. At the same time, the microfinance should revise its products and strategies to reach out clients against what

the other formal financial institutions are providing and assure that the vulnerable are clearly targeted and it is not a duplication.

Further studies that show the link between the increase in total income and various services rendered by the microfinance should be made. As well, studies exploring the impact of hosting new financial products and policies to reach a group of community are appreciated. Researchers should show policy makers in the area of microfinance the relevance of examining what is happening on the ground against what is in the policy of establishing micro credit and saving institutions in the country.

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Appendix - I

Guiding questions for Key Informants

1. What collateral are asked for borrowers?
2. Is the credit given for individuals or groups?
3. What are the strategies to assure repayment of loans?
4. Do borrowers get larger amount of loan if they pay full of the first loan?
5. Who are the entrepreneurs?
6. Why do you think entrepreneurs emerge in our context?
7. Are borrowers effective in using the money for the cause?

Appendix-II

Guiding questions for Focus Group Discussion

1. What are the major services you get at the Addis Credit and Saving microfinance S.C?
2. Have you ever taken any loan from the microfinance?
3. Do you have a saving account at the microfinance?
4. Did you have any chance to attend any training or advice from the microfinance?
5. What financial products do you use at the microfinance?
6. Does your income increase due to the services you get from the institution?

6. የንግድ ጠቅላላ የዋጋ ተመን (ለምሳሌ ያህል, ሁሉም ቋሚ ንብረቶች እዳዎች)? በአማካይ በሺዎች የኢትዮጵያ ብር (00,000 / =)	A. 10,000.00 ብር	B. 20,000.00 ብር	C. 30,000.00 ብር B.	D. 40,000.00 ብር C.
	E. 50,000.00 ብር D.	F. 60,000.00 ብር		
III. ከአነስተኛ ብድርና ቁጠባ ብድር አገልግሎት ማግኘት				
7. የወሰዱት ብድር ምን ያህል ነው?	A. 5,000.00	B. 10,000.00	C. 20,000.00	30,000.00
8. ብድርዎን እንዲያገኙ የተጠየቁት መስፈርት ምን ምን ናቸው?	A. ማስያዣ	B. የገንዘብ ብሔራዊ ብአያያዝ	C. አጠቃላይ ንብረት	D. ኦዲት የተደረገ የሂሳብ መዝገብ
	D. ቤተሰብ፣ ጓደኛና ማህበራዊት ስስር	E. ጉብወይን ምጥቅም	F. የንግድ ዕቅድና ሎች	G. ሌላ ግለፅ (Specify) _____
9. ብድር ለመመለስ ችግር አለብዎት?	A. አዎ	B. አይ		
10. አዎ ከሆነ, ችግሩ ምን ፈጠረ?	A. አጭር ጊዜ	B. ወደ ሌላ ለመተየዘ ረሂሳብ	C. ከፍተኛ ወለድ	D. ሌላ ግለፅ _____
11. የብድር የመክፈያ ወጪው ምን ያህል ነበር?	A. 1 ዓመት	B. 2 ዓመት	C. 3 ዓመት	D. ሌላ ግለፅ (Specify) _____
12. በብድር ውስጥ ወለዱ ምን ያህል ነው?	A. 9%	B. 15%	C. 20%	D. 30%
	E. ከ 40% በላይ			
13. ከኦዲት አበባ ከአነስተኛ ብድርና ቁጠባ ኩባንያ መበደር ዓላማ ምን ነበር?	A. የንግድ ሥራ ማስፋፋት / ማስፋፋት	B. ኦዲት / የጀማሪ ካፒታል ለመጀመር	C. ፈጠራ ያለው የንግድ ሥራ ፈጣሪነት	D. ሌላ ግለፅ (Specify) _____
14. ከብድር እንቅስቃሴ ያገባችሁት ምን ያህል ነው? ይጠቀስ	A. ዕቅድ በተያዘለት ሥራ ላይ	B. በሌሎች ሥራ	C. ለግልጥቅም	D. ሌላ ግለፅ (Specify) _____
15. የሚፈለገው የንግድ ዓላማ ላይ ከሰሩ ብድር ንካዋሉ በመቶ ምን ያህል ነው?	A. 25%	B. 50%	C. 75%	D. 100%
16. ንግድዎን እና የሥራ ፈጠራ ለሆነው እና ለምዶችዎን ለማሳደግ እና የንግድ ስራዎች እንዲስፋፋ ረድቷል?	A. አዎ	B. አይ		
17. እናንተ በወሰዳችሁት ብድር ውጤታማ እና ትርፋማ ናችሁ?	A. አዎ	B. አይ		

18.ትርፋማ ከሆናችሁ በዓመት በሺዎች ብር በኢትዮጵያ ብር (000,000 / =) የገቢያሰንጠረዥ ያገኘዎትትርፍ ምን ያህል ይሆናል?	A. አጠቃላይ ዋጋው ከ 10000 ሚ. በታች	B. 20,000	C. 30,000	D. 40,000
	E. 50000	F. ሌላ ካለ (ይገለፅ)-----		
19. ለንግድ ሥራ ያዩ ብድር አስተዋጽኦ ምን ያህል ነው?	A. ካፒታልና ሌሎችን በረቶች መጨመር	B. ደንበኞችን ማብዛት እና ቅርንጫፎችን ማስፋት	C. በአዲሱ የንግድ ድርጅት ውስጥ ተካቷል	D. የኑሮ ጥራት ማሻሻል
20. ከአዲስ አበባ አስተዳደር ብድርና ቁጠባ ኮባንያ ጋር ላችሁ ግንኙነት ምን ያህል ነው?	A. በጣም ጥሩ	B. ጥሩ	C. አማካይ	D. ዝቅተኛ
21. ከአዲስ አበባ ብድር እና ቁጠባ ተቋም ለእርስዎ እና እንደ እርስዎ ላሉ ደንበኞች ማሰልጠን ድጋፍ ይሰጣል? ከሰጠ በኋላ ስንት ጊዜ?	A. 1	B. 2	C. 3	D. 4 E. ሌላ----
IV. የአቅም ግንባታ ስልጠና እና ክትትል ድጋፍ				
21. ከአዲስ አበባ ብድርና ቁጠባ ተቋም ለእርስዎ እና እንደ እርስዎ ላሉ ደንበኞች ቻቸው ማሰልጠንና እና ስልጠና ድጋፍ ይሰጣል?	A. አዎ	B. አይ		
22. በተቋሙ ለደንበኞች በየአመቱ ውስጥ ምን ያህል ክትትል ድጋፍ ይደረጋል/ ይካሄዳል?	A. በወር አንድ ጊዜ	B. በሩብ ዓመት	C. በግማሽ ዓመት	D. በየዓመቱ
	E. ሌላ ግለፅ (Specify) _____			
23. ምን ዓይነት የአቅም ግንባታ ሥራዎችን ያካሂዳሉ?	A. ስልጠና	B. በግለሰባዊ	C. ስብሰባ እና አውደ ጥናት	D. ምንም
24. ለሥራ ፈጣሪዎች የንግድ ስራ ክህሎት ማሰልጠን አስፈላጊነት ስለው ስለው ያስባሉ?	A. አዎ	B. አይ		
V. የኢንተርኔትና አዲስ ሃሳብ ፈጠራዎች				
25. በአዲስ አበባ ብድርና ቁጠባ ተቋም ወቅት የብድር አሰራር አዳድስ ገቢያና በተለያዩ ቦታዎች እንደ ከፍተኛ አድርጎናል?	A. በጣም አልሰማም	B. አልሰማም	C. / አሰማምለው	D. በጣም አሰማምለው
26. ከአዲስ አበባ ብድርና ቁጠባ ተቋም ያላይ የክህሎት ድጋፍ ግዳቶችን በተሻለ መንገድ ዘለቁ ታዲያዎችን ለው መንገድ እንደ ከፍተኛ አሰራር ነው?	A. በጣም አልሰማም	B. አልሰማም	C. አሰማምለው	D. በጣም አሰማምለው
27. ከአዲስ አበባ ብድርና ቁጠባ ጋር መስራታችን እና አዲስ የገቢያና የንግድ ስልቶችን እንደ ከፍተኛ ማሰልጠን ስለሆነ ለው ስለሆነ ነው::	A. በጣም አልሰማም	B. አልሰማም	C. አሰማምለው	D. በጣም አሰማምለው

<p>28. ከአዲስ አበባ ብድርና ቁጠባ ጋር መስራታችንና የነሱ የተለያዩ የሙያ ላይ ድጋፍ ጠንካራ የሚያስፈልገን ሁኔታ እንደሌለም ድናተው ዳዳሪ እንዲንሆን አስችሎናል</p>	<p>A. በጣም አልሰማም</p>	<p>B. አልሰማም</p>	<p>C. አሰማለሁ</p>	<p>D. በጣም አሰማለሁ</p>

ላሳዩት ውድገዜ አመሰግናችኋለሁ!

Appendix-IV: Questionnaire (English Version)

Addis Ababa University
Master of Business Administration Addis Ababa University
Master of Business Administration

INTERVIEW GUIDE AND CHECKLIST FOR MFI and ENTERPRENUERSHIP

Name of respondent.....Gender..... Contact.....

Dear Participant

This project is entitled “**Understanding the Dynamics of Microfinance in Fostering Entrepreneurship: the case of Addis Ababa Microfinance**” The investigator is Solomon Debebe who is currently an MBA (Management) student at the Addis Ababa University.

The aim of this project is to investigate the relationship between microfinance and entrepreneurship in Ethiopia, particularly in Addis Ababa city. To supplement the data obtained from key informants and Addis Ababa microfinance institutions by means of face-to-face interviews, the investigator seeks to gather relevant information from randomly selected entrepreneurs of Bole Sub City of Addis Ababa using questionnaire. Participation in this project is completely voluntary.

Survey results will be recorded anonymously, and strict confidentiality will be maintained. Individual responses will not be identified in the investigator’s MBA thesis. Should you have further information, please contact Solomon Debebe by the following address:

Tel.: +251911124985 : E mail: solethn@gmail.com

I: Demographic information				
2. Age group	a. 21-25	b. 26-30	c. 31-35	d. 36-40
3. Gender	a. Male	b. Female		
3. Level of education	a. Degree and above	b. Diploma	c. High School	e. Primary
II: Organizational Capacity				
4. For how many years did your business work	a.1 year	b.2 years	c. 3 years	d. 4 years
5 What is your main source of income?	a. retail	b. shop	c. cafeteria	d. other _____
6.toal value of your asset ?	a.10, 000ETB	b. 20,000 ETB	c. 30,000	d. 40,000 ETB

	e.50,000 ETB	f. 60,000ETB		
III. Credit Service				
7.How much money did you take as a loan?	a.5,000 ETB	b. 10,000 ETB	c. 20,000 ETB	d. 30,000 ETB
8.what was the requirements for you to get granted the loan	a.collateral	b.company's book keeping	c. total asset	d. family and friends
9.did you encounter challenge to get the loan?	a. yes	b. no		
10. If yes, why-----	a. short term	b. previous years burden	c. high loan interest	
11. Time to replay loan	a. 1 year	b. 2 years	c. 3 years	d. other _____
12. Amount of interest rate on the loan	a. 9%	b. 15%	c. 20%	d. 30%
13. What was the goal of you taking the loan?	a. business expansion	b. business start-up	c. innovation	d. other _____
14. For what purpose did you use the loan?	a. for the planned business	b. other activity	c. personal	d. other _____
15. what portion of the loan was used on the planned business?	a. 25%	b. 50%	c. 75%	d. 100%
16. Did the loan support you expand your business?	a. yes	b. no		
17. Do you think you are successful for taking the loan?	a. yes	b. no		
18. What was the total income you have got if you were profitable?	a. less than 1o thousand	b. 20,000	c. 30,000	d. 40,000
	e. 50,000	Other _____		
19. What was the role of the credit for the business you are running?	a. increase in total capital	b. increase in customer	c. established new business	d. improvement in livelihood

		base and branches		
20. How do you describe your relation with Addis Credit and Saving Microfinance S.C?	a. very good	b. good	c. average	d. not good
21. Did you get any training from the MFI? How many times a year?	a. once	b. twice	c. three times	d. 4 times
III: Coaching and Mentoring				
22. How frequent does the MFI offer coaching and mentoring to you?	a. once a month	b. quarterly	c. biannual	d. yearly
23. What types of training package does the MFI offer?	a. training	b. individual consultation	c. workshop	d. nothing
24. Do you think it is relevant to offer coaching and mentoring ?	a. yes	b. no		
IV: Entrepreneurship and Innovative Ideas				
25. The service rendered at the Microfinance helped us open businesses in several places	a. strongly disagree	b. disagree	c. agree	d. strongly agree
26. The trainings, coaching and mentoring services provided us chances to expand our business	a. strongly disagree	b. disagree	c. agree	d. strongly agree
27. Because we work closely with the MFI we have improved strategies in our work	a. strongly disagree	b. disagree	c. agree	d. strongly agree
28. The various training and support we receive from the Addis Credit and Saving MF improved our competitive abilities.	a. strongly disagree	b. disagree	c. agree	d. strongly agree

