ADDIS ABABA UNIVERSITY

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The Effect of Microfinance Services on the Performance of Small and Medium Enterprises in Addis Ababa

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Declaration

I, Mulugeta Ayele, hereby declare that the thesis, entitled **the Effect of Microfinance Services on the Performance of SMEs in Addis Ababa,** is my effort/original work, has never been submitted in this and others university, and that all sources of materials used for the study have been duly acknowledged. It is offer for ***Partial Fulfillment of the Requirements for Degree of Master of Business Administration (in Finance)***.

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Statement of Certification

This is to certify that the thesis submitted by Mulugeta Ayele entitled The Effect of Microfinance services on the Performance of Small and Medium Enterprises in Addis Ababa compiles with the regulations of the university and meets the accepted standards with respect to originality and quality.

Approved by:

Internal Examiner: ___ ___ ___ __ ___ ___ Signature _____ Date_____

External Examiner: __ ___ ___ ____ __ ___Signature _____ Date_____

Advisor: Alem Hagos (PhD) Signature _____ Date_____

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Abbreviations

ACSI	Amhara Credit and Saving Institution
ADCSC	Addis Credit and Savings Institution Share Company
DECSI	Dedebit Credit and Savings Institution
ETB	Ethiopia Birr
MFIs	Microfinance institutions
MoUDH	Minister of Urban Development and Housing
MSEs	Micro and Small Enterprises
NGOs	Nongovernmental Organizations
NMB	National Microfinance Bank
OCSSC	Oromia Credit and Savings Share Company
OMFISC	Omo Microfinance Institution Share Company
PEACE	Poverty Eradication and Community Empowerment Microfinance Institutions Share Company
S.C	Share Company
USD	United states Dollar

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Abstract

Microfinance institutions (MFIs) offer a range of services including loans, savings facilities, insurance, transfer payments, and even micro-pensions. The objectives of the research were to examine the effect of microfinance services on the performance of small and medium enterprises in Addis Ababa in selected sub-cities. For the study, the researcher used primary data. Because of the nature of the study, the study used an explanatory research design with a quantitative research method in which data was incorporated with the questionnaire. From the total of 154 target enterprises, 112 enterprises were included in the sample size for the study. The sampling design that was studied is simple random sampling from the target group of small and medium-sized businesses. The study used both descriptive statistical analysis and inferential statistical analysis (using SPSS software version 23). The findings of this research showed that there was a positive and statistically significant effect between microfinance services (loan and training) and the performance of small and medium enterprises. But in terms of saving, there was a negative and significant effect on the performance of small and medium enterprises.

Key words: *small and medium enterprises, Microfinance institutions, performance, Training service, Savings service, Loan service*

CHAPTER ONE: INTRODUCTION

1.1 Chapter Introduction

This chapter contains an overview of justifications regarding the effect of microfinance on the performance of small and medium-sized businesses. It begins with a variety of empirical frameworks that serve as the background of the study and organization followed by the statement of the problem, research questions, objectives (general and specific), hypothesis, the significance of the study, the scope of the study, limitations of the study, and organization of the study.

1.2 Background of the study and Organization

Microfinance is a term used to describe small-scale financial services— primarily credit and savings— provided to people who small business management or micro-enterprises; provide services; Earn money by renting out small parcels of land, automobiles, and drafts; and to other individuals and groups in developing countries. In many countries specially developing counties, microfinance services help low-income people to reduce risk, improve management style, raise productivity, obtain higher returns on investments, increase their incomes, and improve the quality of their lives. About 90 percent of the people in developing countries lack access to financial services from institutions(Robinson, 2002).

According to (United Nations, 2013) report, microfinance in Africa is developing the financial system at all three levels. These are micro (financial service providers), macro (support service providers-for policymakers, regulatory framework, and supervision) and meso (support service providers). MFIs provide scaled-up services including training and auditing at the meso level and there is evidence that some associations are active in coordinating MFI activities. At the macro level, countries are increasingly shifting to a conductive paradigm of market-based policies, while also putting in place regulatory and supervisory outlines.

The primary goal of microfinance institutions is to collect deposits and provide loans to rural and urban entrepreneurs, as well as micro and small-scale rural and urban enterprises. A microfinance institution might do one or more of the following things: -accepting voluntary and compulsory savings, as well as demand and time deposits; providing loans to both rural and urban farmers as well as micro and small-scale rural and urban entrepreneurs; managing funds for micro and small-scale businesses; providing local money transfer services; providing financial leasing services to peasant farmers, micro and small-scale urban and rural entrepreneurs; and engaging in other operations as directed by National Bank instructions from time to time(Gazeta, 2009).

Currently, there are 30 microfinance institutions in Ethiopia. According to Ayele (2015), large microfinance institutions in Ethiopia are characterized by a huge relationship with the government. Some of these are the Amhara Credit and Saving Institution (ACSI), Dedebit Credit and Savings Institution (DECSI), Oromia Credit and Savings Share Company (OCSSC), Addis Credit and Savings Institution (ADCSI), and Omo Microfinance Institution Share Company (OMO).
There are 10 microfinance institutions found in Addis Ababa. From these some microfinance institutions are Addis Credit and Savings Institution ADCSI), Oromia Credit and Savings Share Company (OCSSC), Nisir microfinance S.C., Aggar microfinance, Gasha microfinance, vision fund microfinance Poverty Eradication and Community Empowerment Microfinance Institutions (PEACE), and Rays Microfinance.
From these mentions above, microfinance institutions found in Addis Ababa, only Addis credit and saving institutions support to small and medium enterprises at woreda level by giving different services. For these reasons, my concern was selected Addis Credit and Savings Institution (ADCSI).
Addis Credit and Savings Institution S. C (ADCSI) is a micro-financial institution which operates within the boundaries of the Addis Ababa City Administration. It was established and registered at the National Bank of Ethiopia in January 2000 per proclamations 40/88. It is owned by six

shareholders, namely, Addis Ababa City Administration, Addis Ababa City Women, Youth & Teachers associations' karaalo Akababi Hulegeb peasant's cooperative & one physical person.

ADCSI's goal is to provide credit (in cash or in kind), accept savings, and provide training to encourage young people, women, farms, and others to engage in small-scale production and services.

Addis Credit and Saving institution has a very fast-growing microfinance institution in Addis Ababa and surrounding Addis Ababa in terms of saving, loan portfolio, number of employees, number of clients, and branch.

It was organized into 10 area branches, 115 district sub-branches, and 17 district branches, and micro-and small-scale businesses should be given full assistance in Addis Abeba and the Oromia region surrounding Addis Abeba, including Burayu, Holota, Bishoftu, Dukam, Sebeta, Sendafa, Alemgena, and Sululta.

According to Addis Credit and Saving Institution's 11-year report/profile, loan disbursement in terms of number of clients and amount of loan disbursed reached 543,941 and ETB 17.96 bill, respectively, and saving mobilization reached ETB 10.98 bill. Microfinance institution service is the provision of a diverse range of financial services as well as non-financial services all of which have an impact on the growth of SMEs. Microfinance institutions are contributing to increasing savings, increasing income, re-investment in business; adopt appropriate technology, and increasing productivity as well as product quality to be sustainable in local as well as international market.

1.3 The Statement of the problem

Microfinance institution service is the provision of a diverse range of financial services such as loans, savings, micro insurance, leasing, mortgaging, and money transfer, as well as non-financial services such as advisory, references, training, counseling, social corporate responsibility, business culture and ethics, business customer care, and business location, all of which have an impact on the growth of SMEs (Irene et al., 2015).

According to Honohan & Beck (2007) explored that at most 20 percent of African households have any access to formal finance. Medium-scale enterprises have difficulty to access credit and the other financial services to grow: The major problems are intermediaries have difficulty delivering their products to poor or remote customers, and the difficulty of assessing creditworthiness and enforcing contact.

Microfinance institutions in Ethiopia emerged later than in other African countries. The formal microfinance institution services in Ethiopia were started in 1994/5. The government's proclamation on microfinance institution licensing and supervision aided the expansion of MFIs in both rural and urban areas (Gobezie, 2005).

Several studies have been conducted in African countries on microfinance institution services and small and medium enterprise performance (Amera, 2016; Geoffrey & Emenike, 2018; Isaac Owusu -Dankwa et al., 2014; Omolo, 2015).

Previous studies have shown that a number of factors, internal and external organization factors, influence the performance of small and medium enterprises. It covers entrepreneur qualities, SME characteristics, management, and know-how, goods and services, consumers and markets, business practices and collaboration, resources and finance, strategy, external environment; and internet, lack of passion and drive, lack of background and expertise in the business, capital constraint, and lack of a proper business plan and lack of trust in doing business, poor management, running informal/unregistered businesses, lack of proper record-keeping, inadequate education and training, people factor/lack of needed talent and Improper professional advice and consultation, corruption, competition, government policy, a technological barrier, in access to finances/loan, bureaucratic processes and unfavorable economic factors (Abdissa & Fitwi, 2016; Eltahir, 2018).

Amera (2016) conducted on the influence of microfinance institutions on the development and performance of micro and small enterprises in Addis Ababa. He investigated the level of productivity status of micro and small enterprises before and after got access to finance from microfinance institutions. The productivity status of MSEs after they got access loan (finance) from MFI has increased. He concludes that there is a positive relationship between enterprise development and performance and loan size of microfinance institutions.

According to Geoffrey & Emenike (2018) conducted on microfinance institutions support of small and medium enterprises in Nimule, South Sudan. They established that MFI support (loan provision, savings account provision, and managerial skill provision) has a positive linear relationship with SME growth in Nimule.

Omolo (2015) examined training and development on the performance of small and medium enterprises in Kisumu country, Kenya. He concludes that SMEs with good training and development have higher performance than SMEs with moderate states of training & development. He found that the status of training and development is linked to SMEs' performance; and that the better status of training & development in SMEs, the higher performance of the SMEs.

Isaac Owusu -Dankwa et al., (2014) conducted on the Impact of Money Lending Institutions on Small and Medium Enterprises: A Case Study of Shalom Lending Enterprise in Ghana. They concluded that the majority of the small and medium scale enterprises agreed that loans from money lending institutions helped in the overall improvement of their performance, and have had a positive impact, even though much is still expected from them.

Based on the above by Amera, 2016; Geoffrey & Emenike, 2018; Isaac Owusu -Dankwa et al., 2014; Omolo, 2015 authors studies have investigated different areas(Ghana, Kenya, South Sudan, Addis Ababa) with regard to small and medium enterprises in Africa. The research conducted in literature reviewed varies in years/time of researchers conducted/ and environmental conditions/population growth, population density, income level, education level and saving culture/. There are lack of a proper business plan, lack of trust in doing business, poor management, running informal/unregistered businesses, lack of proper record-keeping, inadequate education and training, people factor/lack of needed talent and Improper professional advice and consultation, corruption, competition, government policy, a technological barrier, in access to finances/loan, bureaucratic processes and unfavorable economic factors. There is no research has been done on the title effect of microfinance institutions' services/loan service, saving service, and training services/ on the performance of small and medium enterprises in Addis Ababa, Ethiopia. This study, which focused on the effects of microfinance institution services on the performance of small and medium businesses in Addis Ababa, was needed to fill the gap.

1.4 Research questions

The following research question served as a guide for the investigation.

1. What are the effects of MFI loan service on the performance of small and medium enterprises in Addis Ababa?
2. What are the effects of MFI saving services on the performance of small and medium enterprises in Addis Ababa?
3. What are the effects of MFI training services on the performance of small and medium enterprises in Addis Ababa?

1.5 Research Objectives

1.5.1 General

The general objective of the study is to find out the effect of microfinance institution services on the performance of small and medium enterprises in Addis Ababa.

1.5.2 Specific

This study was achieved the following specific objectives at the end of the research works.

1. To assess the effects of MF loan service on the performance of small and medium enterprises in Addis Ababa.
2. To determine how MF saving service affects the performance of small and medium enterprises in Addis Ababa.
3. To examine the effects of MF training service on the performance of small and medium enterprises in Addis Ababa.

1.6 Hypothesis

The research hypotheses were based on the following argument/empirical evidences:

H1: Microfinance loan has a positive relationship with performance of Small and Medium Enterprises/SMEs.

A microfinance loan represents the quantity of money that clients of microfinance receive as a credit within a required term before the repayment period. The clients may be poor, low-income earners or SMEs, households, or entrepreneurs.

According to certain studies, microfinance loans and SMEs' performance have a considerable beneficial relationship in a different country. Some of them are, for instants, Wanambisi & Bwisa (2013) researched on Effects of Microfinance Lending on Business Performance: A Survey of Micro and Small Enterprises in Kitale Municipality, Kenya. He stated that there is a strong positive association between the size of the loan and the increase in income/sales of the MSE.

Amera (2016) conducted on the influence of microfinance institutions on the development and performance of micro and small enterprises in Addis Ababa. He examined on the productivity of micro and small enterprises before and after they received funding from microfinance institutions. Productivity more depends on the efficiency and effectiveness of the firm. The productivity status of MSEs after they got access loan (finance) from MFI looks increased.

Christopher, (2010) conducted on the title Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria. He concludes that there is a positive contribution of MFI loans towards promoting SME market share, production efficiencies, and competitiveness. A positive and significant relationship has been established between MFI loans and SME performance. Because of the evidence presented above, the above hypothesis is supported.

H2: Microfinance training has a positive effect on the performance of Small and Medium Enterprises/SMEs.

Training can assist SMEs in problem-solving, potentially lowering expenses and increasing profitability, as well as improving awareness of relevant legislation and operational efficiency. Staff turnover was expected to be lower in companies that invested in employee training and conducted regular performance appraisals (Jones et al., 2013).

Some empirical studies conducted on training services and performance of SMEs in different countries indicated that training offered by microfinance increases the performance of SMEs. For example, Haider et al., (2017)conducted on the title microfinance and performance of micro and small enterprises; Does training has an impact in Pakistan. They discussed that with the help of proper training helps the MSEs in meeting the changing needs of the businesses and increases their chances of survival and growth in the increasing competition.

Omolo (2015) examined training and development on the performance of small and medium enterprises in Kisumu country, Kenya. He concludes that SMEs with good training and development have higher performance than SMEs with moderate states of training & development.

H3: Microfinance savings have a positive effect on the performance of Small and Medium Enterprises/SMEs.

Appropriately designed voluntary micro-savings services delivered by microfinance institutions at the local level are much in demand. In developing countries, micro-savings services are a much-underestimated tool in the poverty alleviation toolbox. Savings services are often more important than credit. The value of voluntary savings services can be best explained by poor savers themselves (Robinson, 2003).

Empirical studies have found that saving service given by microfinance institution increases the performance of SMEs in some country, especially in a developing country. For instance, Omondi & Jagongo (2018)

conducted on Microfinance services and financial performance of small and medium enterprises of Youth SMEs in Kisumu county, Kenya. The study concluded that the selected microfinance service included savings mobilization, which significantly influenced the financial performance of SMEs in Kisumu County, Kenya. Wakaba, (2014) examined on Effects of Microfinance Institutions' Products on Financial Performance of Small and Medium Enterprises; A Case of Machakos Town, Kenyan, found that Micro Savings played a significant role in determining the financial performance of SMEs in Machakos town.

1.7 Significance of the study

This study was increase the body of knowledge on the effect of microfinance institutions on the performance of Small and Medium Enterprises in Addis Ababa city administration and Ethiopia as a whole. It will be great importance to Government for policy implement, organization to know factors that affect the performance (productivity) of SMEs and other researchers and academicians who can find it useful in providing information (empirical evidence) on the small and medium enterprises.

1.8 Scope of the study

Addis Ababa is one of the cities of diplomacy and has 10 sub-cities, namely Arada, Kirkos, Gulale, Lideta, Nifas Silk Lafto, Akaki kality, Addis Ketama, Bole, kolfe keraniyo, and Yaka sub-cities. These sub-cities have differed in terms of population, area coverage.

There are 10 microfinance institutions found in Addis Ababa. Addis Credit and Savings Institution Share Company (ADCSI), Oromia Credit and Savings Share Company (OCSSC), Nisir Microfinance Share Company, Aggar Microfinance Share Company, Gasha Microfinance Share Company, Vision Fund Microfinance Share Company, Poverty Eradication and Community Empowerment Microfinance Institutions Share Company (PEACE), and Rays Microfinance Share Company are among these microfinance institutions. Because of the broad nature of this area of study and MFI structured at woreda

level the research study focused on small and medium enterprises and Addis credit and saving institution S.C supports SMEs in Addis Ababa.

Because of this, to investigate the effect of microfinance services on the performance of small and medium enterprises, the study focused on microfinance institutions Addis credit and saving located in Addis Ababa city administration Kirkos and Kolfe keraniyo sub-cities. The selections of the two sub-cities are based on distribution of enterprises, location from the center and availability of land for enterprises.

Limitation of the study

Microfinance institutions are micro level finance that supports small income level people found in all sub-cities and wereda level. These services are wider than banks. Because of these reason the researcher limed to the two subcities.

At the time of conducting the research study, there were time and cost constraints, a data shortage, respondents who were unable to fill out questionnaires correctly, and a financial shortage.

1.9 Organization of the study

The study was divided into four chapters, chapter one the introduction part which contains a background of the study and organization, statement of the problem, research questions, research objective (general and specific), hypothesis, the significance of the study, scope and limitation of the study, and organization of the research paper. In chapter two discussed related literature reviews, theoretical and empirical of microfinance institution included. Chapter three research methodologies and design cover research approach, research design and methods, data source, target population, sampling and sampling techniques, data analysis and interpretation method, the validity of the test, and ethical considerations, and chapter four was try to report the results and discussion. The findings and conclusions were summarized in the final chapter, along with recommendations, a look ahead, and suggestions for future research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The study was to review the theoretical and empirical literature on the effect of microfinance services on the performance of the small and medium enterprises in Addis Ababa selected sub-cities. Section 2.2 discussed the theoretical literature, which discusses the meaning of microfinance institution, the main features of microfinance, the role of microfinance institutions for small and medium enterprises, performance measurement, challenges of the microfinance institution, meaning of small and medium enterprises (SMEs), Small and Medium Enterprises Contribution to Economic Development and Growth, Small and Medium Enterprises Contribution to Economic Development and Growth, Small and Medium Enterprises Contribution to Economic Development and Growth, Small and Medium Enterprises Contribution to Economic Development.

2.2 Theoretical literature

2.2.1 Definition of Microfinance institution

Microfinance institutions (MFIs) offer a range of services including loans, savings facilities, insurance, transfer payments, and even micro-pensions.

Microfinance institutions have been characterized as a tool for reducing poverty by increasing employment prospects in the small and medium enterprise (SME) sector and providing small, loan to the weaker sections of society for their immediate business and social requirements (Vasu, 2016).

Microfinance institution services – these offer a wide range of financial (loans, savings, micro-insurance, leasing, mortgaging, and money transfer) and non-financial (advice, references, training, counseling, social corporate responsibility, business culture and ethics, business customer care, and business location) services and products that influence the growth of SMEs (Irene et al., 2015).

Microfinance activities include the following: - Small loans, usually for working capital; Appraisal of borrowers and investments in a non-formal setting Collateral substitutes, such as collective guarantees or mandatory savings, are examples of collateral substitutes, Repayment performance determines access to repeat and larger loans, Loan disbursement and monitoring that is more efficient, Products that provide safe and secure savings. Some MFIs offer business development services like skills training and marketing, as well as social services like literacy training and health care. MFIs include NGOs, savings and loan cooperatives, credit unions, government banks, commercial banks, and non-bank financial institutions. Microfinance clients are primarily low-income, self-employed entrepreneurs in both urban and rural settings (Ledgerwood, 1998).

2.2.2 The main features of microfinance

The borrower is typically from a low-income family. Microfinance loans are usually for a small amount, referred to as micro loans, have a short repayment period, do not require collateral, and are repaid at a higher frequency (Honohan & Beck, 2007).

Microfinance as a discipline has resulted in the creation of financial products and services that have enabled low-income persons to become banks intermediary clients. Microfinance products have the following characteristics: small loans and savings, short loan durations (typically up to a year), payment schedules with frequent installments (frequent deposits), installments made up of both principle and interest, which amortize over time, higher interest rates on credit (higher than commercial bank rates, but lower than loan rates), and higher interest rates on credit (higher than commercial bank rates, but lower than loan rates), Easy access to the microfinance intermediary saves the client time and money, and allows the intermediary to have a deeper understanding of the clients' financial and social situations. The application procedures are easy, and the processing times are minimal (between the completion of the application and the disbursement of the loan), the clients who pay on time

become eligible for repeat loans with higher amounts, no collateral is required, contrary to formal banking practices. Microfinance intermediaries utilize an alternate way to assess clients' repayment capability, which is based on the stream of cash flows created by the activities for which loans are obtained (Mohammad, 2007).

According to Gobezie (2005) Ethiopian official microfinance began in 1994/5. The government's licensing and supervision of microfinance institutions proclamation, in particular, aided the expansion of microfinance institutions (MFIs) in both rural and urban regions by allowing them to lawfully accept deposits from the general public, draw and accept drafts, and handle funds for microfinance institutions.

2.2.3 Role of microfinance institution for small and medium enterprises

Microfinance institutions' major goal is to collect deposits and provide loans to rural and urban entrepreneurs, as well as micro and small-scale rural and urban enterprises. Accepting both voluntary and compulsory savings as well as demand and time deposits; giving loans to rural and urban farmers as well as micro and small-scale rural and urban entrepreneurs; administering money for micro and small-scale enterprises are some of the activities that a micro-financing institution may engage in; providing local money transfer services; offering financial leasing services to peasant farmers, micro and small-scale urban and rural entrepreneurs; and engaging in other operations as directed by National Bank directives from time to time. (Gazeta, 2009)

Microfinance institution services include loans, savings, micro insurance, leasing, mortgaging, and money transfer, as well as non-financial services such as advising, references, training, counseling, social corporate responsibility, company culture and ethics, business customer care, and company location, all of which have an impact on the growth of SMEs (Irene et al., 2015).

Microfinance institutions are contributing to increasing savings, increasing income, re-investment in business; adopt appropriate technology, and

increasing productivity as well as product quality to be sustainable in local as well as international market. In most developing countries Productivity is critical for the long-term competitiveness and profitability and survival of SMEs.

MFIs need to ensure the proper use of loans for the purposes intended that facilitate small and medium enterprises' business productivity.

In terms of access to finance, the issue of SME productivity is important because low levels of productivity result in lower cash flows. (Caribbean Development Bank, 2016).

2.2.4 Performance measurement

The term "performance" refers to the evaluation of predetermined or conventional indicators of effectiveness and efficiency. A small business's performance is defined as its ability to create jobs and wealth through business startup survival and sustainability (Irene et al., 2015).

Performance measurement is defined as a structured system and a process of gathering, monitoring, and assessing information about an organization's activities. Checking position, communicating position, confirming priorities, and Compelling progress are all roles of performance measurement. (Wu, 2009).

MSEs Performance can be measured in monetary terms for instance profits, cost-effectiveness, revenue, savings, and value of assets held. It can also be measured quantitatively in terms of stock levels, units of sales, number of employees, percentage of market share, and quantity of stock held(Chole, 2017).

Measuring performance is a multi-dimensional concept in the world. Effectiveness and efficiency are the two fundamental dimensions of performance; "Effectiveness refers to the extent to which stakeholder requirements are met, while efficiency is a measure of how economically the firm's resources are utilized when providing a given level of stakeholder satisfaction"(Wu, 2009).

There are three dimensions in the performance measure of a small and medium business. These are sustainability (natural dimension, a social dimension, and economical dimension), liquidity, and productivity (sales growth, profit margin, on-time delivery to commitment, capital productivity, and labor productivity, sales per dollar of capital).

In this research study, the SMEs performance measurement dimensions/indicators that used was productivity (sales growth, profit margin, on-time delivery to commitment, capital productivity, and labor productivity, sales per dollar of capital).

The relationship between the quantity of output and the quantity of input utilized to achieve said output is known as productivity. It is a metric for determining how effective and efficient SMEs are at producing output with the resources they have.

2.2.5 Challenge Micro Finance Institution (MFI)

Microfinance institutions operate primarily in underdeveloped financial markets. Because of this, there is a challenge faced. According to United Nations (2013), a lack of infrastructure or mobility, as well as dealing with clients who have insufficient collateral, insufficient legal status, an inability to deal with the complexities of dealing with traditional financial institutions, and a high level of transaction costs, are all factors. Africa's financial development is still limited by four major obstacles. These include a lack of scale, the informality of much of African enterprise, governance challenges, and the frequency of systemic shocks (Haber, 2008).

According to Honohan & Beck (2007) explored that at most 20 percent of African households have any access to formal finance. Even medium scale enterprises have difficulty accessing credit and the other financial services they need to grow: The major problems are intermediaries have difficulty delivering their products to poor or remote customers, and the difficulty of assessing creditworthiness and enforcing contact.

2.2.6 Small and Medium Enterprises (SMEs) definition

There is no universal definition for SME since the definition depends on who is defining it and where it is being defined. In Canada, for example, a SME is defined as an enterprise with fewer than 500 people, whereas a small company has fewer than 100. SMEs, on the other hand, are defined as companies with less than 500 employees, according to the World Bank (Ackah & Vuvor, 2010).
According to Sarfati, (2013) SME definitions vary by country and are typically based on the number of employees, annual turnover, or enterprise value. Micro-enterprises are typically classified as businesses with fewer than ten employees, small businesses with fewer than ten employees, and medium-sized businesses with more than ten employees. According to (Federal Democratic Republic of Ethiopia, 2016) in Ethiopia, the definition of micro-enterprises are enterprises employing up to five persons including the enterprise owners and family members, with total assets of not more than ETB 100,000 (USD 4,630).

2.2.7 Small and medium enterprise contribution to economic development and growth

Economic development is a process of economic transition that involves the structural transformation of an economy through industrialization, increasing GDP and per capita income (Ackah & Vuvor, 2010).

The small business sector is considered as a key driver in stimulating economic development by: creating jobs and a more fair income distribution; activating competition; exploiting specialized markets; increasing productivity and technological advancement; and combining all of these strategies (Tekele, 2020).
Small and medium-sized enterprises (SMEs) constitute the backbone of the global private sector and government, particularly in developing countries. The private sector, which employs 50-60% of the world's workforce, accounts for over 90% of all businesses (Dr Hobohm, 2001).

SMEs highly contribute to the amount of credit and job creation. According to the National Bank of Ethiopia, Annual report 2017-2018(Vinet & Zhedanov, 2011), stated that the total amounts of credit are 8,633.7 (in millions of birr) and the total number of employments created are 187,945. From the above, Addis Ababa city is a great contribution to credit and job creation, for instant, the amount of credit in percentage 21.5, and the number of employments created are 3.5%.

In general, SMEs in Ethiopia play an important role in economic development and growth by providing employment opportunities, opening up new business opportunities, and enhancing entrepreneurship.

2.2.8 Factors that affect the performance of SME

The business environment factors are both within and outside of an organization, and they influence the organization's continued and successful existence. The internal environment factors that affect the business environment are largely controllable by the business. Management aptitude and skills, insufficient financial understanding, a lack of business management training, and technology capabilities are just a few of the issues that face a company's internal environment. The external environment is made up of economic variables and markets such as crime and corruption, labor, infrastructure, and laws (Sitharam & Hoque, 2016).

The internal factors limiting small firm growth are the characteristics and attitude of the entrepreneur and the firm as a whole. Some of the internal factories are lack of ambition and desire, lack of business background and expertise, money constraints, lack of a suitable business plan/vision, theft/cheating and lack of trust in doing business, bad management, conducting informal/unregistered firms, lack of good record-keeping, inadequate education and training. Small-business growth is constrained by external constraints. It also has an impact on the small firm's decisions, regulations, and policies, and the small firm has no influence over the decisions made as a result. Corruption, competition, government policy, technology hurdles, financial/loan availability, bureaucratic processes, and

negative economic considerations are some of these causes (Abdissa & Fitwi, 2016a).

Factors that affect the business success of SMEs are entrepreneur characteristics, characteristics of SME, management and know-how, products and services, customers and markets, the way of doing business and cooperation, resources and finance, Strategy, external environment; and internet (Eltahir, 2018).

2.2.8.1 Access to MFI Loan services

Loans are structured based on client demand, the provider's capabilities, and risk management requirements (to ensure repayment). The main components of a loan are loan size, loan term, loan repayment terms, lending methodology, collateral or security, and pricing.

Loans are usually designed to be repaid in periodic (often equal) installments over the loan term or at the end as a lump sum, ideally matched to the borrowers' cash flows. The frequency of loan payments depends on the needs of the client and the ability of the provider to ensure repayment and manage liquidity (Joanna L., Julie E., and Candace N. 2013).

Obtaining startup capital is the most difficult challenge that many entrepreneurs face. Even if a business is up and running, acquiring enough money to keep it going is a challenge, particularly in developing countries.

The MSE's owner can use credit to fund some or all of the costs of capital equipment, expansion, or renovation. The majority of MSEs that were able to obtain sufficient capital from microfinance institutions boosted their sales and profit (Wanambisi and Bwisa, 2013).

Financial constraints, such as a lack of investment capital, a shortage of loans, and an inefficient financial market, are the most significant roadblocks to doing business, and most MSEs are high-risk ventures with high administrative costs and a lack of experience dealing with financial institutions (Meresa, 2018).

Access to capital is critical for SMEs to improve their competitiveness since they must invest in new technology, skills, and innovation. However, insufficient financing is just as problematic as a shortage of funds, and small businesses are unable to expand, modernize, or satisfy urgent consumer demands as a result of a lack of funds (Kinyua, 2014).

2.2.8.2 Access to Training services

Training is defined as an organized activity aimed at communicating information and/or instruction to improve the recipient's performance or to help him or her attains a required level of knowledge or skill. The goal is to improve performance, capacity, productivity, and consistency. Improvements in a SME's employee/performance, employer's capacity, productivity, and consistency can lead to sustainability, business growth and advancement, reduced supervision and costs, higher quality of services and goods, and the elimination of employee deficiencies, among other things (Rabie et al., 2016).

Training can assist SMEs in problem-solving, potentially lowering costs and increasing profitability, as well as improving operational efficiency and awareness of relevant legislation. Staff turnover was likely to be lower in businesses that invested in employee training and conducted regular performance appraisals (Jones et al., 2013).

Training and education are the most popular and influential methods, and they have a major positive impact on the performance of SMEs. Training has a significant impact on behavioral change because it alters how people perceive opportunities, threats, and challenges. It is critical to understand how SMEs' performance is influenced by the business training of their owners. Training and learning from others enhances the motivation level of entrepreneurs.

The availability to train is a very important criterion in forecasting the growth of an SME and its level of productivity. SMEs who train their employees frequently tend to have higher productivity and better employee satisfaction(Wang, 2013).

They cannot afford to hire specialists in the fields of planning, finance, and administration due to a lack of managerial abilities, which causes problems in production due to a lack of coordination of the production process and an inability to troubleshoot faults on machinery and/or equipment, and they cannot afford to hire professionals in the domains of planning, finance, and administration (Meresa, 2018).

2.2.8.3 Access to Savings services

Throughout the world, the cultures and economies especially in developing countries, the economically active poor save in multiple forms and for a variety of purposes. Appropriately designed voluntary micro-savings services delivered by financial institutions at the local level are much in demand because they permit poor people to store permanent, seasonal, or temporary excess liquidity safely for future use and to increase income through returns on savings. Savings services are often more important than credit. The value of voluntary savings services can be best explained by poor savers themselves (Robinson, 2003).

Saving in cash at home or with neighbors or friends is the most liquid and accessible form of savings but also the most vulnerable to pressure for unintended or unnecessary expenditures and at the most risk of theft. To avoid such risk, many choose to save in kind—storing a value in grain, animals, or jewelry—or through savings clubs or deposit collectors found in the local community (Joanna L., Julie E., and Candace N. 2013).

2.2.8.4 Lack of Adequate Market

Marketing knowledge is important for the promotion, growth, and development of small-Scale enterprises. In this regard, the Ethiopian government has formulated MSE‟s strategies to ease marketing challenges by creating inter-linkage mechanisms with other institutions, providing training on marketing, developing export support programs and marketing information centers(Meresa, 2018).

One major marketing problem facing small business enterprises is a lack of understanding and application of marketing concepts. They lack the knowledge and skills of basic marketing ingredients- marketing research, market segmentation, and marketing planning and control(Tom et al., 2015).

2.2.8.5 Inadequacy of Infrastructure Facilities

The availability of infrastructure determines the success and failure of small and medium enterprises. In developing countries, unfavorable roads, power interruption, shortage of water, and inaccessible telecommunications are the major challenges and without these productions of small and medium enterprises can not function.

Critical infrastructure to support small and medium enterprises includes proper road networks, sufficient electricity supply, efficient waste disposal, and good water supply (Torkinlampi, 2017).

Operating with available infrastructure facilities has a higher probability of long-lasting existence and growth as compared to without adequate infrastructures; and electric power interruption and inadequate water supply in Ethiopia was highly affected the growth of the business (Meresa, 2018).

Poor road conditions, inaccessibility to land, workspace, electricity, and utilities are all examples of infrastructure issues. The lack of adequate physical infrastructure is a major contributor to low levels of investment and poor performance among small and micro businesses (Kinyua, 2014).

2.2.8.6 Technology

The primary reason small businesses continue to face growth challenges in developing countries is the lack of technological capabilities. Small businesses are difficult to neither compete, nor grow by their lack of technological implementation.

The literature will discuss both the internal and external environment factors that affect the performance of small and medium enterprises, which include, namely: access to finance/microfinance loans, inadequate training/ a lack of business management training, and saving.

2.3 Empirical review

2.3.1 Microfinance Loan service and the performance of SMEs

Microfinance loan represents the quantity of money that clients of microfinance banks receive as a credit within a required term before the repayment period. The clients may be poor, low-income earners or SMEs, households, or entrepreneurs. Microfinance clients benefit from loan availability in a variety of ways, including the start-up of businesses, future investment, business diversification, job development, household settlements, and income production (Sani, 2016).

Amera (2016) conducted on the impact of microfinance institutions in Addis Ababa on the development and performance of micro and small businesses He looked on the productivity of micro and small businesses before and after they received funding from microfinance institutions. Productivity is highly dependent on a company's efficiency and capacity. The level of productivity status of MSEs before having access to finance (loan) from MFIs was medium. The productivity status of MSEs after they got access loan (finance) from MFI looks increased. In general, positive relation was built between enterprise development and performance and loan size of the microfinance institution.

Nyamwihula (2017) examined the effects of microfinance loans on the performance of small and medium enterprises (SME) in Tanzia: A case of NMB in London: SMEs in Dares Salaam. The finding showed that most of the respondents feel that the loan obtained from the National Microfinance Bank (NMB) helps SMEs operationally & socially performance. He conducted after using NMB loans for a long time, small and medium businesses have seen considerable gains in their average monthly gross profit.

Kibe & Kemei (2011) conducted the relationship between microfinance service and financial performance of MFIs in Nandi District, Nairobi, Kenya. The study established that 85% of the businesses had utilized microfinance services. 65% of the businesses, who had loans from MFI, were helped by the loans to increase their market share. He discovered that microfinance services (loans)

have a positive effect on the performance of SMEs. MFI loans have a beneficial impact on SMEs' market share, manufacturing efficiency, and competitiveness, according to the study.

Christopher (2010) studied on Impact of microfinance on small and medium-sized enterprises in Nigeria. He concludes that a positive and significant relationship has been established between FMIs loans and SMEs performance, promoting SMEs market share, production efficiencies, and competitiveness.

Omondi & Jagongo (2018) conducted on Microfinance services and financial performance of small and medium enterprises of Youth SMEs in Kisumu County, Kenya. The study concluded that the chosen microfinance service, which included credit, had a significant impact on the financial performance of SMEs in Kisumu County, Kenya. One unit increase in access to credit by SMEs led to a 0.855 increase in the financial performance of the SMEs.

Isaac Owusu -Dankwa et al., (2014) conducted on the Impact of Money Lending Institutions on Small and Medium Enterprises: A Case Study of Shalom Lending Enterprise in Ghana. They concluded that the majority of the small and medium scale enterprises agreed that loans from money lending institutions helped in the overall improvement of their performance, and have had a positive impact, even though much is still expected from them.

Kibe & Kemei, (2011) studied on THE FINANCIAL PERFORMANCE OF SMES IN NANDI DISTRICT. The study confirmed that the positive contributions of MFIs loans towards promoting SMEs market share, production efficiencies and competitiveness.

A study titled Effects of Microfinance Lending on Business Performance: A Survey of Micro and Small Enterprises in Kitale Municipality, Kenya, by Wanambisi & Bwisa, (2013) discovered that the majority of MSEs 44 (88%) that accessed the loans reported an increase in sales and income and were able to repay the loan and interest.

Mukoma Kalui & Omwansa, (2015) examined on Effects of Microfinance Institutions' Products on Financial Performance of Small and Medium Enterprises; A Case of Machakos Town, Kenyan, to determine the effects of micro Credit on financial performance of SMEs. The results showed that Microcredit had a crucial influence in determining SMEs' financial performance. They also discovered a good association between microcredit and financial performance, as well as a positive consistent link between the two.

Christopher, (2010) conducted on the title Impact of Microfinance on Small and Medium-Sized Enterprises in Nigeria. He concludes that there is positive contribution of MFIs loans towards promoting SMEs market share, production efficiencies and competitiveness. Positive and significant relationship has been established between MFIs loans and SMEs performance.

According to Wakaba, (2014) on the title of the effect of microfinance services on the financial performance of small and medium enterprises in embu county, kenya, found that There is a strong positive relationship between the micro-credit and the financial performance of the SMEs. Access to credit therefore increases SMEs risk-bearing abilities; improve risk-copying strategies and enables consumption smoothing overtime.

According to Geoffrey & Emenike (2018) conducted on microfinance institutions support and growth of small and medium enterprises in Nimule, South Sudan. The finding of the study said that there is significant positive relationship between loan provision by MFIs and SMEs growth.

Machingambi, (2014) examined the Impact of Microfinance on Small and Medium Enterprises in Zimbabwe: The Case for Masvingo Town. This research study discovered that 73.44% of respondents agreed that MFIs (accessing MFI loans) have a positive effect on promoting SMEs by increasing product quality, quantity, and range, increasing branch network, and increasing market share.

Makorere, (2014) conducted research titled the role of microfinance in promoting small and medium enterprises (SMEs) in Tanzania: empirical evidence from SMEs holders who received microcredit from financial institutions in Morogoro, Tanzania. He demonstrated that microfinance institutions increased the business profits, employment, outlets, and sales volume of small and medium enterprises in Morogoro, Tanzania, in a statistically significant way.

2.3.2 Microfinance Saving service and the performance of SMEs

Savings are the sum of money that SMEs deposited to microfinance banks based on the agreement between the bank and their client. clients normally in a group of 5 members or more in terms of social network among the members in order to prevent defaults on repayment of the loan. This situation normally occurs as a result of a lack of guarantee in form of tangible assets as collateral in the system of receiving a loan from microfinance (Sani, 2016).

According to Geoffrey & Emenike (2018) conducted on microfinance institutions support and growth of small and medium enterprises in Nimule, South Sudan. They established that MFIs support (loan provision, savings account provision, and managerial skill provision) have a positive linear relationship with SMEs growth in Nimule. Similarly, results indicated that loan provision, savings account provision & management skills provision have a positive and significant effect on SME's growth in Nimule.

Omondi & Jagongo (2018) conducted on Microfinance services and financial performance of small and medium enterprises of Youth SMEs in Kisumu county, Kenya. The study concluded that the selected microfinance service included savings mobilization, which significantly influenced the financial performance of SMEs in Kisumu County, Kenya. A unit increase in savings mobilization led to a 0.886 increase in the financial performance of the enterprises.

Wakaba, (2014) examined on Effects of Microfinance Institutions' Products on Financial Performance of Small and Medium Enterprises; A Case of Machakos Town, Kenyan, found that Micro Savings played a significant role in determining financial performance of SMEs in Machakos town. They also conclude that a positive relationship between micro Credit and financial performance and a positive consistent correlation between micro Credit and financial performance.

Titus Leseyio, (2014) did the study on the effect of microfinance services on financial performance of small and medium enterprises in Narok county. He concludes that a unit increase in SMEs savings leads to 0.208 increases in the performance of SMEs. An increase in SMEs savings strengthens loan uptake capacity of the borrower therefore SMEs growth in performance.

2.3.3 Microfinance training service and the performance of SMEs

Irene et al., (2015) studied the effect of microfinance services on the performance of small and medium enterprises in Kenya. The findings indicated that Micro-entrepreneurs were generally satisfied with their access to financing, savings mobilization, and micro-enterprise investment training. The degree of microfinance provision and microenterprise performance were shown to be highly correlated, with MF having a major impact on microenterprise performance.

Haider et al., (2017)conducted on the title microfinance and performance of micro and small enterprises;Does training has an impact in Pakistan. They discussed that All growth indicators have demonstrated significant disparities between MSEs owned by owners who have received training and those who have not. MSEs whose owners were trained saw statistically significant increases in sales, revenue, assets, number of staff, and meeting house hold expenses compared to MSEs whose owners had never been instructed.

Omolo (2015) examined training and development on the performance of small and medium enterprises in Kisumu country, Kenya. He concludes that SMEs with good training and development have higher performance than SMEs with

moderate states of training & development. The performance of SMEs is associated with the status of training & development; and that the better status of training & development in SMEs, the higher performance of the SMEs.

Rabie et al., (2016) connected training & development in SMEs; South Africa's key to survival and success. The study examined that the current stance of training & development initiatives in SME business is encouraging with the majority of the respondents receiving formal business training. In an SME, improvement in an employee/employer's performance; capacity; productivity & consistency can translate into sustainability, business growth, and progress, reduction in supervision and cost; improved quality of service & products, and elimination of employee weaknesses. In addition, they discovered that, in contrast to previous studies, SME owners are committed to maximizing the benefits of training in their business by putting in place a variety of practices to encourage and enforce skills.

Omondi & Jagongo (2018) conducted on Microfinance services and financial performance of small and medium enterprises of Youth SMEs in Kisumu county, Kenya. According to the findings, the microfinance program that incorporated financial skills training had a significant impact on the financial performance of SMEs in Kisumu County, Kenya. A one-unit increase in financial skills training resulted in a 0.965 improvement in small and medium-sized business performance.

The study was conducted by Mutuma (2019) on Microfinance services and financial performance of SMEs in Meru Town, Kenya. They found that savings services including minimum savings, interest rates, and mobile banking savings greatly impacted the financial performance of the SMEs. Savings programs had a significant impact on SMEs' financial success, with a p-value of 0.026. Entrepreneurial training in areas such as basic business management, financial management/bookkeeping, customer service, business risk management, and capital investment decision was indicated by the SMEs.

On entrepreneur training, a p-value of 0.015 indicated a significant effect on SME's financial performance.

According to Omolo (2015) studied on Training and Development on Performance of Small and Medium Enterprises in Kisumu County, Kenya. He concludes that training and development guarantee that the identified competency needs are constructed through a systematic and focused approach, and development ensures that individuals are provided with chances to enhance their competencies that enable them to accomplish professional and personal career aspirations within the study's findings.

Mukoma Kalui & Omwansa, (2015) examined on Effects of Microfinance Institutions' Products on Financial Performance of Small and Medium Enterprises; A Case of Machakos Town, Kenyan, to determine the effects of Training on financial performance of SMEs. The findings revealed that SMEs' financial performance was heavily influenced by their training. SME financial performance and MFI training have a favorable link, and MFI training and SMEs financial performance have a positive and favorable relationship.

2.4 Literature summary and Research gap

From the literature review, by Amera, 2016; Geoffrey & Emenike, 2018; Isaac Owusu -Dankwa et al., 2014; Omolo, 2015 researchers agreed that there is a link between microfinance services and the success of small and medium-sized businesses. There are a number of gaps of research conducted ranging from environmental condition/population growth, population density, and income level, education level and saving culture/ to years of conducted as well as the nature of the organization studied. Despite the study's importance, it was conducted in other countries with different geographical characteristics, political and socio-cultural values than Ethiopia.

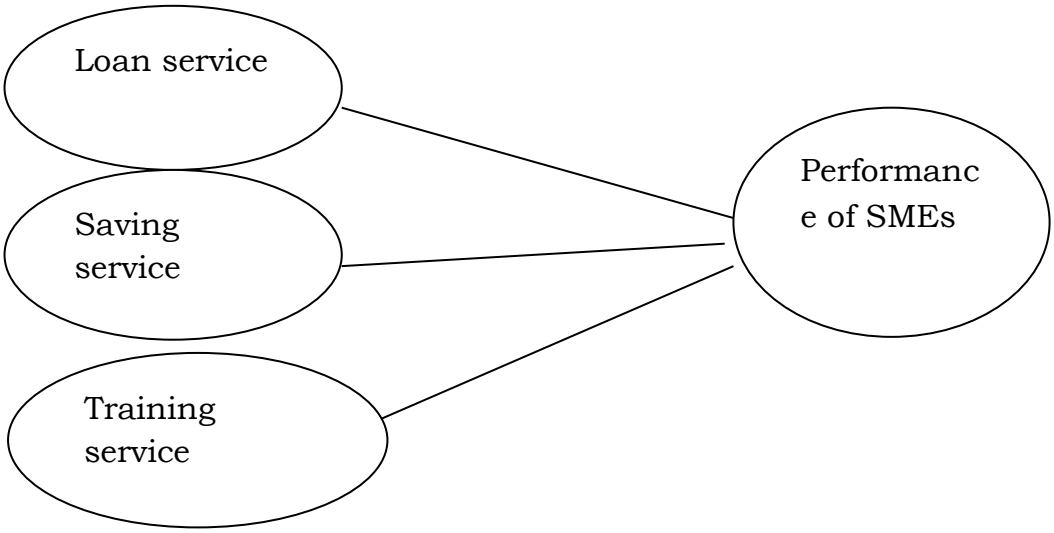
2.5 Conceptual Framework

This shows the directional flow of the research. The link between the independent and dependent variables is also shown.

A variable that is controlled by the researcher, nature, or situation is known as an independent variable. A dependent variable is an observed or measured variable that is influenced or altered by an independent variable.

Loan service, saving service, and training service are the independent variables in this study. These factors were thought to have an impact on the performance of a small business. The independent variable is the variable the experimenter manipulates or changes, and is assumed to have a direct effect on the dependent variable.

Independent variables **dependent variable**



Source: own

CHAPTER THREE: RESEARCH METHODOLOGY AND DESIGN

3.1 Chapter Introduction

The methodology is the general research strategy that outlines the way in which research is to be undertaken and identifies the methods to be used in it. The general definition of research methodology is the specific procedures or techniques used to identify, select, process, and analyze information about a topic. This chapter covered the research approach, research design and methods, data source, target population, sampling and sampling techniques, data analysis and interpretation method, the validity of the test, ethical considerations, work plan/time budget, and cost budget.

3.2 Research Approach

There are three approaches or methods of conducting research, namely qualitative method, quantitative method, and mixed-method.

Based on the preceding approach, the research study focused on a quantitative method using descriptive data. Quantitative methods emphasize objective measurements and the statistical, mathematical, or numerical analysis of data collected through polls, questionnaires, and surveys, or by manipulating pre-existing statistical data using computational techniques. The quantitative approach is a procedure for obtaining information using numerical data and consists of descriptive, correlation, experimental, and causal-comparative.

3.3 Research Design and Method

The research design constitutes a master plan for the collection, measurement, and analysis of the needed information. The study used an explanatory research design in which data was incorporated with the questionnaire in the study.

Explanatory research is conducted with the aim to study the problem in greater depth and understand the phenomenon efficiently.

Explanatory research allows the researcher to become familiar with the topic to be examined and to design theories to test them

The explanatory research was used to evaluate the impact of microfinance institution services on the performance of small and medium-sized businesses.

3.4 Data Source

In this study, the researcher's used both primary and secondary data sources. The primary data source was limited to structured questionnaires and it was collected from the sample population of the study. Manuals, annual reports, websites, bulletins, and research papers were used as secondary sources of information used for study.

3.5 Target population

The target population is large populations from the sample population are selected. The target population of the researcher's study was considered small and medium enterprises that are direct beneficiaries of microfinance loan, saving, and training services from microfinance institutions found in Addis Ababa city administration.

In the researcher's study, the target population was 154 numbers of small and medium enterprises found in Kirkos sub-city, which is found in the center of the city, and Kolfe keraniyo sub-city, which is far from the center of the city.

3.6 Sampling and sampling techniques

The research study used a basic simple random technique from the target population of small and medium sized businesses in the Addis Ababa city administration. Simple random sampling is known as chance sampling or probability sampling where each and every item in the population has an equal chance of inclusion in the sample and each one of the possible samples has the same probability of being selected (Kothari, 2004).

In this study, the researcher has taken a sample size to collect data through questionnaires by using the following formula:

Assumptions: 95% confidence level, and e = ±5%

$$n = \frac{N}{1+N(e)^2} = \frac{154}{1+154(0.05)^2} = \underline{\underline{112}}$$

Where n= the sample size, N= the study population size, e= the level of precision (sampling error), 1= the probability of the event occurring.

These 112 sample sizes were selected from total of 154 target population of small and medium enterprises found in Addis Ababa.

Therefore, 112 research respondents were selected from leather products (10), metal work products (15), textile (including different sewing) (22), wood and wood item products (52), and food and food item products(13) subsector of manufacturing used as a sample for the study.

3.7 Data Analysis and Interpret Method

The measurement of SMEs' productivity is based on researcher assessment. The survey SMEs were asked respondents to score level of productivity on a scale of zero to ten. A score of 0 means the least productive while a score of 10 means the most productive. Each SME was asked to measure its level of productivity before and after taken services on microfinance institution.

Operationalization of the variables

Variable	Indicator	measurement	QN
• **MFI loans services**	• Progressive lending • Short term loans	• Ease access to MFI loans service • Duration taken to processe small loans to solve problems	1
➢ **MFI saving services**	➢ Small regular deposits ➢ No fee is charged for the service	➢ Access to MFI saving service ➢ Number of deposits in a month ➢ Transaction/ ledger fee	2
✓ **MFI training services**	✓ Pre loan training & post loan business management training	✓ Recording of expenses & receipts	3
○ **SME performance**	**Productivity =output/input**		
	○ Sales Growth	○ The potential of the company to grow	
	○ Profit Margin	○ After deducting all costs, the percentage of sales left to the organization	
	○ On-time Delivery to Commitment	○ The number of deliveries that meet the customers' deadlines	
	○ Capital Productivity	○ Efficiency and effectiveness of fixed assets in the generation of Value Add	
	○ Labor Productivity	○ Efficiency and effectiveness of employees in generating Value Add	

For this purpose of the study, a questionnaire data collection tool was used. To make it easier for the respondents, the questionnaires were written in English and translated into Amharic. To check the clarity of the questionnaire, reliability and validity tests were conducted before the distribution of the questionnaires.

For analysis, transformation of the processed data to look for patterns and relationships among data groups by using descriptive statistics analysis (mean, standard deviation, percentage, variance and chart) and inferential analysis (correlation and regression) were taken for analysis. The Statistical Package for Social Science (SPSS) version 23 was used to analyze the data obtained from primary sources.

In the research study, the researcher used Pearson's Product Moment Correlation Coefficient - Pearson's r. According to Chee & Queen, (2018) Pearson's r is a measure of the linear relationship between two interval or ratio variables, and can have a value between -1 and 1. Pearson's r has the advantage of being a simple way to evaluate the relationship between two variables, such as whether they share variance or not. If there is a positive or negative link, as well as the degree to which they are related. In this study, Pearson's Product Moment Correlation Coefficient - Pearson's r was used to determine the following relationship:

- The relationship between microfinance loan service and the performance of small and medium enterprises in Addis Ababa.
- The relationship between microfinance training service and the performance of small and medium enterprises in Addis Ababa.
- The relationship between microfinance saving service and the performance of small and medium enterprises in Addis Ababa.

Regression analysis is a statistical approach that can be used to evaluate the hypothesis that one or more variables are interdependent. In this research study, multiple regression analysis was used.

After collecting the data, the data was analyzed through quantitative descriptive statistical tools such as percentage, variance, standard deviation,

and frequency using a static package software system (SPSS) computer version23.

Model Development and Specification

Regression analysis is a statistical method for analyzing and modeling the relationship between two or more variables (DOUGLAS C. MONTGOMERY, ELIZABETH A. PECK, 2012).

Model specification is the process of determining which independent variables to include and exclude from a regression equation.

The need for model selection often begins when a researcher wants to mathematically define the relationship between independent variables and the dependent variable.

In this study, the regression equation indicates the relationship between the dependent variable (performance of small and medium enterprises) and the independent variables (loan service, saving service, and training service).

The researcher's developed a model and its specifications are outlined below;

$$yi = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mathcal{E}$$

Where: Y is the response or dependent variable performance of SMEs, X_1= loan service, X_2= saving service, X_3= training service. β_0 is the intercept term, β_1, β_2, and β_3 are the coefficients associated with each independent variable.

Reliability Test

Reliability is the degree to which a research instrument produces consistent outcomes or data after repeated trials (Noela J. K., 2016). The researcher used Cronbach's alpha (also called Coefficient alpha) to establish the internal consistency of the quantitative items in the questionnaire.

According to (Hinton et al., 2004), Cronbach's Alpha value ranges from 0 (unreliable test) to 1 (reliable test). An Alpha score above 0.75 is generally taken to indicate a scale of high reliability, 0.5 to 0.75 is generally accepted as indicating a moderately reliable scale, and below 0.5 generally indicates a scale of low reliability. Cronbach's alpha for this study is 0.846. This shows that the

Cronbach's alpha lies above 0.75 category, indicating that the survey instrument was generally accepted in terms of internal consistency.

Validity Test

Internal Validity: Questionnaires were tested using a pilot study. A pilot study is a smaller version of a larger/main study that is conducted to see if all of the research's components will work well together (Doody & Doody, 2015). For the pilot test, the researcher sent 12 questionnaires to the selected respondents in order to ensure the internal validity of the study. The questions were checked against a set of questions used in similar research that was undertaken previously.

Face Validity: Validity is the degree to which the findings accurately map the phenomenon in question. The researcher used other professionals, research colleagues, and other experts to examine the questionnaires to ensure facial validity and the contents. Based on their comments and suggestions, the researcher used them to revise the questionnaires before preparing the final instrument.

3.8 Ethical Considerations

Ethical considerations are the most important part of the researcher. In this study, the researchers ensured that research participants' dignities were respected, that research data was kept confidential, and that research participants' privacy was protected. In addition to this, the researcher respected the anonymity of the participant's identities. Before collecting the data, respondents were informed about the purpose of the study and the way the results would be used. The researcher respected the rules and regulations of the university.

CHAPTER FOUR: Data Presentation, Analysis and Interpretation

4.1 Introduction

This chapter contains data presentation, analysis and interpretation. Data collected through questionnaires, information collected, from owners of the businesses of small and medium enterprises were analyzed both in descriptive and inferential analysis based on the research objective. The 112 questionnaires were prepared and distributed to small and medium enterprises found in two sub-cities. From a total of 112 questionnaires distributed to small and medium enterprise respondents, only 110 questionnaires were collected, of which 2 were incomplete information for study.

4.2 Demographic Characteristics of the Respondents

Demographic characteristics of the respondents to this study consist of gender, age, education level, marital status, and position held in small and medium enterprises.

Table 1. *Gender, Age and Education level in small and medium enterprises*

		Frequency	Percent
Gender	Male	78	70.9
	Female	32	29.1
	Total	110	100.0
Age	21-30 years	28	25.5
	31-40 years	60	54.5
	Above 40 years	22	20.0
	Total	110	100.0
Education level	Illiterate	2	1.8
	Grade 1-8	19	17.3
	Grade 9-10	28	25.5
	preparatory	15	13.6
	technical and vocational	12	10.9
	diploma	21	19.1
	degree	13	11.8
	Total	110	100.0

Source: Own survey result, 2021

As the table above shows, the gender composition from the findings of this study was 71% male and 29% female. This percentage indicates that more men than women participated in the research study. In age distribution, the majority of them usually 54.5% are under the age of 31-40 years, followed by 21-30 years, which accounted for 25.5%. The remaining 20% are above 40 years. Based on this finding, it can be concluded that the age range of 31-40 years was more thoroughly covered in the research study.

Concerning the level of education, 1.8% of the total 112 sample sizes were illiterate, 17.3% were elementary level, 39.1% (43) were high school level, 10.9% technical and vocational, 19.1% diploma, and 11.8% degree level. This indicated that in the research study, the majority of the participants (80.8%) had a level of education above elementary school.

Table 2 *Marital status of participants, Position held in the business and Experiences in small and medium enterprises worked*

		Frequency	Percent
Marital status of participant	Single	18	16.4
	Married	86	78.2
	Divorced	3	2.7
	Widowed	3	2.7
	Total	**110**	**100.0**
Position held in the business	Manager	91	82.7
	Accountant	5	4.5
	Employee	14	12.7
	Total	**110**	**100.0**
Experiences	less than 1 year	2	1.8
	1-3 years	18	16.4
	3-5 years	35	31.8
	above 5 years	55	50.0
	Total	**110**	**100.0**
Location of the respondent	kirkos wereda 4	17	15.5
	kirkos wereda 5	18	16.4
	kirkos wereda 11	9	8.2
	kolfe keranio wereda 10	5	4.5
	kolfe keranio wereda 11	55	50.0
	kolfe keranio wereda 12	6	5.5
	Total	110	100.0

Source: Own survey result, 2021

The marital status of the respondents indicated that the majority of respondents were married (78.2%), 16.4% single, 2.7% divorced, and 2.7% windowed.

In terms of positions held in the enterprises, the majority of the research respondents (91 (82.7%) were at the manager level, followed by 14 (12.7%) and 5 (4.5%) accountants. This implies that in research study most respondents were owners and directly involved in giving information.

Respondent working experience in small and medium enterprises in two subcities is less than one year (2.8%), one to three years (18.4%), three to five years (31.8%), and more than five years (50%). The response indicated that 81.8% had high levels of experience in the area of enterprises. It shows that low turnover in enterprises.

The research was conducted in two sub-cities. The above table shows that 60% (66) respondents are located in Kolfe keraniyo sub-city and 40% (44) respondents are Kirkos sub-city. This indicated that the majority of enterprises are found in Kolfe keraniyo sub-city.

4.3 Descriptive statistics

4.3.1 Frequency of use of microfinance institution services

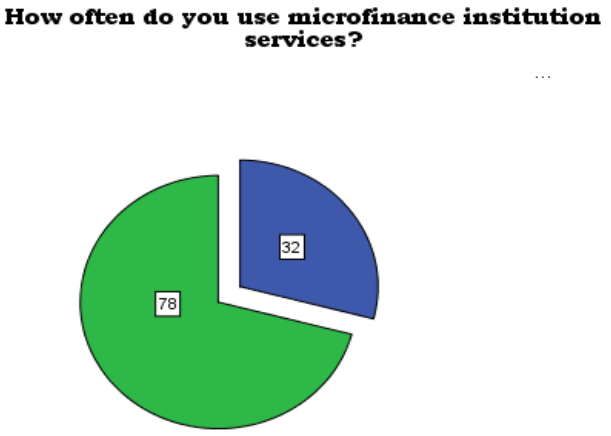


Figure 1. Use of microfinance institution service

From figure 1, it observed that 70.9% (78) of SMEs used microfinance services occasionally. 29.1% (32) of SMEs used microfinance services regularly. Large numbers of small and medium enterprises found in the two sub-cities used microfinance services occasionally. Because of the bureaucracy of MFI, during research, many medium enterprises found in the sub-cities used microfinance services occasionally.

4.3.2 Major source of start-up capital for small and medium enterprises

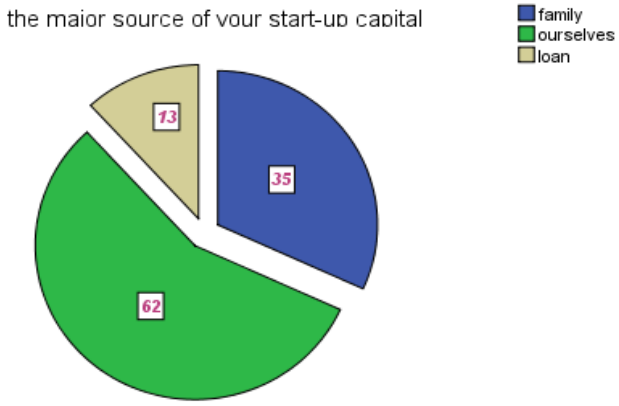


Figure 2 major source of start-up capital

As shown in figure 2 above, the sample enterprises were start-up capital in three sources of small and medium enterprises (loan, family and ourselves). The majority of them are obtained from ourselves 62, (56.4%) followed from family 35 (32%) and from loan 13 (11.6%). According to the above figure, the number of enterprises that obtained services from microfinance institutions was low prior to starting/grouping enterprises. But after forming enterprises, the frequency of microfinance services has increased.

4.3.3 Kind of training were taken for enterprises by microfinance institution

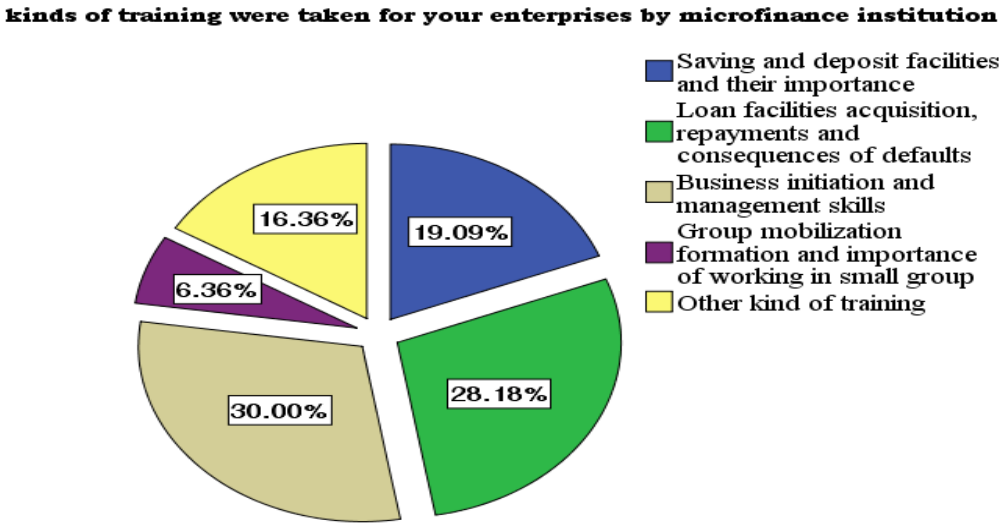


Figure 3. Kind of training were taken for enterprises by microfinance institution

According to figure 4.3, 30.0% (33) of SMEs members received training in business initiation and management skill training, followed 28.18% (31) of SMEs were taken on loan facilities acquisition, repayments and consequences of defaults, 19.09% (21) of SMEs were taken on saving and deposit facilities and their importance, 16.36% (18) of SMEs were taken on other kinds of training related to their business, and 6.36% (7) of SMEs were taken on formation and importance of working in small group. A sizable proportion, 77.3% (85) of small and medium-sized business members were given training on skills, loans, and saving. These kinds of training are important for research study analysis.

4.3.4 Effects of microfinance loans on financial performance of SMEs

Table 3. *Effects of microfinance loans on financial performance of SMEs*

Question	Response	Frequency	Percent	mean	Std. deviation
Loan obtained increased profit	strongly disagree	0	0	3.89	0.828
	Disagree	0	0		
	note sure	44	40		
	Agree	34	30.9		
	strongly agree	32	29.1		
	Total	**110**	**100.0**		
Loan obtained helped to increase income-generating activities	strongly disagree	0	0	3.77	0.738
	Disagree	0	0		
	note sure	45	40.9		
	Agree	45	40.9		
	strongly agree	20	18.2		
	Total	**110**	**100.0**		
Loan obtained helped Business growth	strongly disagree	0	0	3.87	0.743
	Disagree	2	1.8		
	note sure	32	29.1		
	Agree	54	49.1		
	strongly agree	22	20.0		
	Total	**110**	**100.0**		
Loan obtained increased sales	strongly disagree	0	0	3.80	0.714
	Disagree	2	1.8		
	note sure	35	31.8		
	Agree	56	50.9		
	strongly agree	17	15.5		
	Total	**110**	**100.0**		
Loan employed causes the creation of employment in SMEs	strongly disagree	0	0	3.93	0.714
	Disagree	0	0		
	note sure	34	30.9		
	Agree	50	45.5		
	strongly agree	26	23.6		
	Total	**110**	**100.0**		
Loan obtained helps in starting a new business	strongly disagree	0	0	3.77	0.699
	Disagree	3	2.7		
	note sure	33	30		
	Agree	60	54.5		
	strongly agree	14	12.7		
	Total	**110**	**100.0**		
After employing loans helps in expanding the existing business	strongly disagree	1	0.9	3.77	0.820
	Disagree	2	1.8		
	note sure	40	36.4		
	Agree	45	40.9		
	strongly agree	22	20		
	Total	**110**	**100.0**		
The profit obtained after employing loan helps in the acquisition of assets	strongly disagree	1	0.9	3.82	0.792
	Disagree	2	1.8		
	note sure	34	30.9		
	Agree	52	47.3		
	strongly agree	21	19.1		

Source: Own survey result, 2021

The mean scores and standard deviations clearly show respondents' agreement on the variables.

From the above table, loans employed cause the creation of employment in SMEs with the greatest effect on financial performance with the greatest mean weight of 3.93 with a standard deviation of 0.714, followed by loans obtained from microfinance increased profit with mean scores of 3.89 with a standard deviation of 0.828. It was also discovered that microfinance loans aided business growth and had an effect on financial performance with a mean score of 3.87. loans obtained help to increase income-generating activities , loan obtained helps in starting a new business, and after employing loans helped in expanding the existing business had the lowest mean score (3.77), indicating that it was utilized by a small number of people at the time of the study.

4.3.5 Effects of microfinance training on performance of SMEs

A series of questions were posed to respondents in order to assess the impact of microfinance training on the performance of small and medium-sized businesses. These questioners were analyzed based on mean and standard deviation as follow:

Table 4. *Effects of microfinance training on performance of SMEs*

Question	Response	Frequency	Percent	mean	Std. deviation
Training taken by Microfinance has given new skills and techniques to manage our businesses	strongly disagree	0	0	3.69	0.832
	disagree	12	10.9		
	note sure	24	21.8		
	Agree	60	54.5		
	strongly agree	14	12.7		
	Total	**110**	**100.0**		
Training taken by Microfinance has helped your business to adopt appropriate technology and inputs	strongly disagree	0	0	3.59	0.782
	disagree	9	8.2		
	note sure	38	34.5		
	Agree	52	47.3		
	strongly agree	11	10		
	Total	**110**	**100.0**		
Training taken by Microfinance has helped your business to register their businesses activities/transaction	strongly disagree	0	0	3.66	0.870
	disagree	12	10.9		
	note sure	30	27.3		
	Agree	51	46.4		
	strongly agree	17	15.5		
	Total	**110**	**100.0**		

By received training from microfinance, there is an increase in the productivity of your business	strongly disagree	1	0.9	3.78	0.913
	disagree	9	8.2		
	note sure	27	24.5		
	Agree	49	44.5		
	strongly agree	24	21.8		
	Total	**110**	**100.0**		
Due to given training from microfinance efficiency and effectiveness of work operations was increased	strongly disagree	0	0	3.61	0.825
	disagree	13	11.8		
	note sure	28	25.5		
	Agree	58	52.7		
	strongly agree	11	10		
	Total	**110**	**100.0**		
The frequency of training offered by the MFIs affect the financial performance of the business	strongly disagree	0	0	3.77	0.895
	disagree	10	9.1		
	note sure	29	26.4		
	Agree	47	42.7		
	strongly agree	24	21.8		
	Total	**110**	**100.0**		
Training on the proper use of the loans by the MFIs affects the financial performance of the business	strongly disagree	0	0	3.74	0.809
	disagree	10	9.1		
	note sure	24	21.8		
	Agree	61	55.5		
	strongly agree	15	13.6		
	Total	**110**	**100.0**		

Source: Own survey result, 2021

According to the mean score obtained in table 4, receiving training from microfinance has a significant impact on the performance of SMEs, with a mean score of 3.78 and a standard deviation of 0.913. Followed this the frequencies in which MFIs provide training has an impact on the business's financial performance with the mean 3.77 and the least effect of training taken by Microfinance has helped your business to adopt appropriate technology and inputs the mean 3.59, and the rest training taken by Microfinance has given new skills and techniques to manage their businesses, training taken by Microfinance has helped your business to register their businesses activities/transaction, due to given training from microfinance efficiency and effectiveness of work operations was increased, and training on the proper use of the loans by the MFIs affects the financial performance of the business with mean score 3.69, 3.66, 3.61, 3.74 respectively were medium effects on performance of SMEs at the time of surveyed.

4.3.6 Effects of microfinance savings on financial performance of SMEs

Table 5 *Effects of microfinance savings on financial performance of SMEs*

Question	Response	Frequency	Percent	mean	Std. deviation
Microfinance services have helped your business to increase savings and have reinvested in your business	strongly disagree	0	0	3.77	0.974
	Disagree	14	12.7		
	note sure	25	22.7		
	Agree	43	39.1		
	strongly agree	28	25.5		
	Total	**110**	**100.0**		
Due to increasing saving culture, Your business has helped diversify income sources	strongly disagree	0	0	3.68	0.888
	Disagree	14	12.7		
	note sure	24	21.8		
	Agree	55	50.0		
	strongly agree	17	15.5		
	Total	**110**	**100.0**		
Due to increasing saving Your business members has helped in building a modern family house (better education, health care, and shelter)	strongly disagree	0	0	3.53	0.925
	Disagree	14	12.7		
	note sure	33	30		
	Agree	54	49.1		
	strongly agree	9	8.2		
	Total	**110**	**100.0**		
After employing saving assisted to increase the ability to pay medical expenses and help in joining health insurance services for the members of SME	strongly disagree	0	0	3.74	0.925
	Disagree	13	11.8		
	note sure	26	23.6		
	Agree	48	43.6		
	strongly agree	23	20.9		
	Total	**110**	**100.0**		

Source: Own survey result, 2021

From the above table, microfinance services that assisted enterprises in increasing savings and reinvested in the business had a greater impact on the performance of SMEs, with a mean score of 3.77. Due to increasing saving, business members have helped in building a modern family house (better education, health care, and shelter) had a small mean weight of 3.53.

4.4 Inferential analysis

4.4.1 Correlation analysis

In the research study, Pearson's Product Moment Correlation Coefficient (Pearson's r) was employed by the researcher.

According to Chee & Queen, (2018) Pearson's r is a measure of the linear relationship between two interval or ratio variables, and can have a value between -1 and 1. Pearson's r has the advantage of being a simple way to analyze the relationship between two variables, including whether they share variance, whether the relationship is positive or negative, and the degree to which they correlate. Pearson's Product Moment Correlation Coefficient - Pearson's r was used to find the following relationship in this study:

- The relationship between microfinance loan service and the performance of small and medium enterprises in Addis Ababa.
- The relationship between microfinance training service and the performance of small and medium enterprises in Addis Ababa.
- The relationship between microfinance saving service and the performance of small and medium enterprises in Addis Ababa.

Table 6. *Pearson Correlation Matrix*

		Performance of SMEs	Microfinance loan	Microfinance training	Microfinance saving
Performance of SMEs	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	110			
Microfinance loan	Pearson Correlation	.616**	1		
	Sig. (2-tailed)	.000			
	N	110	110		
Microfinance training	Pearson Correlation	.613**	.897**	1	
	Sig. (2-tailed)	.000	.000		
	N	110	110	110	
Microfinance saving	Pearson Correlation	.502**	.916**	.857**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	110	110	110	110

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

Source: Field Survey, 2021

In the above table, the three factors which are microfinance loan services, training services and saving services that affect the performances of small and medium enterprises for 110 sample size in kirkos and kolfekeraniyo sub-cities, Addis Ababa showed different correlation coefficients. There is a strong positive correlation between microfinance loan services and financial performance of SMEs (r=0.616**, p<0.01, 2-tailed) followed by microfinance training services (r=0.613**, p<0.01, 2-tailed), and then microfinance saving services (r=0.502**, p<0.01), which are statistically significant at 99% confidence level. This implies that SMEs with microfinance loan and training services performed considerably better.

4.4.2 Regression Analysis of microfinance services and SMEs performance

The classical linear regression model is the standard procedure for analyzing dependencies between variables that are measured on a metric scale (Thompson, 2002).

Table 7. *Model summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.657[a]	.432	.416	.29941

a. Predictors: (Constant), microfinance loan, microfinance training, microfinance saving

Source: Field Survey, 2021

Table 7 provides The R, R 2, adjusted R 2, and standard errors of the estimate are all indicators of how well a regression model fits the data. The "R" column represents the value of R, the multiple correlation coefficients. R can be considered to be one measure of the quality of the prediction of the dependent variable; in this case, the performance of small and medium enterprises. A value of 0.657 indicates the level of prediction.

The "R Square" column represents the R^2 value; this is the degree of variance in the dependent variable that the independent factors can explain. With an R2

value of 0.432, our independent variables explained 43.2% of the variability in our dependent variable, the performance of small and medium-sized businesses.

R^2 is not an absolute indicator of goodness of fit. It is just a relative measure of explained variance relative to total variance in the dependent variable (Hubbard, 1997; Mayer, 1975; Thompson, 2002). Some authors, particularly in social science, largely reject the usage of the coefficient of determination (Hubbard, 1997; Thompson, 2002). The best value for R^2 depends on what the researcher measured. This study is based on participants' perceptions which were collected through a survey (questionnaire). R^2 value of more than 25% can be respectable and good to fit (Hubbard, 1997; Thompson, 2002). The regression result shows indicators of performance of SMEs using the variables identified in the model. According to Table 7, the overall contribution of loan service, training service, and saving service support to the performance of SMEs was 43.2% (0.432).

Table 8. *Coefficients of performance of small and medium enterprises*

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.281	.729		-.385	.701
	Loan	1.552	.486	.693	3.193	.002
	Training	.805	.346	.393	2.326	.022
	Saving	-.803	.318	-.469	-2.523	.013

a. Dependent Variable: *performance of SMEs*

Source: Field Survey, 2021

Unstandardized coefficients indicate that how much the dependent variable *varies* with an independent variable. A high beta value and small p-value (<0.05) shows that the predictor variable has made a spastically significant contribution to the model. Table 8 shows that microfinance loans and training services had a 95% significant impact on the performance of small and medium-sized businesses.

Standardized coefficients are called beta weights. The beta weight measures how much the outcome variable increases (in standard deviations) when the predictor variable is increased by one standard deviation assuming other variables in the model are held constant. In this research, loan service (0.693) and training service (0.393) were the highest contributed predictors to explain the performance of SMEs.

From table 8, the value of β observed microfinance loan service 0.693, microfinance training service 0.393, and saving service -0.469. The study's goal is to determine which of the variables (microfinance loan service, microfinance training service, and saving service) had the greatest influence/prediction on the dependent variable (performance of small and medium enterprises).. This information can be investigated through Standardized coefficient Beta in table 8. In this study, the highest Beta value was 0.693 for microfinance loan service and next microfinance training service (β= 0.393). According to these findings, the microfinance loan service made the greatest contribution to explaining the dependent variable of SMEs' performance.

Statistical significance of the independent variables

The statistical significance of each independent variable determines whether the unstandardized (or standardized) coefficients in the population are equal to 0 (zero) (i.e. for each of the coefficients, H0: $\beta = 0$ versus Ha: $\beta \neq 0$ is conducted). If $p < 0.05$, the coefficients are statistically significantly different to 0 (zero). All independent variable coefficients tests in the researcher's study revealed that microfinance loan service p (0.002) 0.05, training service p (0.022) 0.05, and saving service p (0.013) 0.05) were statistically significant less than 0.05.

Estimated model coefficients

The general form of the equation to predict performance of SMEs from loan service, training service and saving service, was:

Performance of SMEs = -0.281+1.552(loan service) + 0.805(training service) – 0.803(saving service)

All the explanatory variables are significant at 5% level of significance in explaining the variation in performance of small and medium enterprises. Constant -0.281, was the predicted value for the dependent variable, performance of SMEs, if all independent variables, loan service = 0, training service = 0 and saving service = 0.

The regression result indicates that holding other factors constant, a unit increase in microfinance loan services leads to 1.271 increase in the performance of SMEs; a unit increase in MF training services leads to 0.524 increase in the performance of SMEs; a unit increase in MF saving services leads to -1.084 decrease in the performance of SMEs.

Hypothesis Testing Using Multiple Regressions

Correlation analysis is the simplest way to identify the relationship between dependent and independent variables in research studies, but does not evaluate the effect of the two variables. In regression analysis, it is most common to assess the effect of independent variables (microfinance loan service, training service and saving service) on the dependent variable (performance of small and medium enterprises). Each hypothesis was tested based on standardized coefficients beta and p-value (the hypothesis rejected or not rejected).

Hypothesis 1: *Microfinance loans have a positive relationship with the performance of Small and Medium Enterprises/SMEs.*

From table 8 observed that there is a positive and significant effect between microfinance loan services and financial performance of SMEs with the beta value (β =0.693**, $p<0.05$) at 95% confidence level. The beta value (0.693) indicated that a one-unit increase in microfinance loan service there will be 69.3% increase small and medium performance. Therefore, the researcher accepts the hypothesis.

Previous research on the relationship between microfinance loan services and small and medium enterprise performance has been conducted by Amera (2016), Nyamwihula (2017), Kibe & Kemei (2011), Christopher (2010), Isaac Owusu -Dankwa et al., (2014), Wanambisi & Bwisa, (2013), Mukoma Kalui &

Omwansa, (2015), Wakaba, (2014), Geoffrey & Emenike (2018), Machingambi, (2014),and Makorere, (2014) in different countries researched.

Hypothesis 2*: Microfinance training has a positive effect on the performance of Small and Medium Enterprises/SMEs.*

The result of multi regression found table 4.9 the value of beta (0.393, $p<0.05$) at 95% significant level indicated that there was a positive and significant effect between microfinance training service and the performance of small and medium enterprises. The beta value (0.393) indicated that a one-unit increase in microfinance training service there will be 39.3% increase in small and medium performance. Therefore, the researcher accepts the hypothesis. This hypothesis was confirmed by different researchers (Irene et al., (2015), Haider et al., (2017), Omolo (2015), Omondi & Jagongo (2018), Omolo (2015), and Mukoma Kalui & Omwansa, (2015) in different countries.

Hypothesis 3*: Microfinance savings have a positive effect on the performance of Small and Medium Enterprises/SMEs.*

According to the regression results in table 8, the value of beta (-0.469, p 0.05) at the 95% significant level indicated that there was a negative and significant effect between microfinance saving services and the performance of small and medium enterprises. This result supported by Ihugba et al. (2013) examined the impact of microfinance on poverty reduction in Imo State Nigeria. It also supported to the predication of Economics theory of savings which argues that saving is a function of the level of income. The beta value (-0.469) indicated that a one-unit increase in microfinance training service there will be 46.9% decrease in small and medium performance. Therefore, the researcher rejects the hypothesis.

CHAPTER-FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This is the final chapter of study. It includes a summary of findings, conclusion, and recommendations based on the findings of the study. In the conclusion section of the study; the researcher tried to show the implications and the findings of the study.

5.2 Summary of Findings and Discussion

The overall research goal was to determine the impact of microfinance institution services on small and medium-sized business performance in Addis Ababa, Ethiopia. The study's specific objectives were to analyses the effects of loan services on small and medium enterprise performance, to evaluate how saving services affect small and medium firm performance, and to investigate the impact of training services on small and medium firm performance in Addis Ababa. From data collected and analyzed, small and medium enterprises response was given service from microfinance institutions in various forms.

In this research study, the researcher used the Pearson correlation analysis method and the results showed that dependent variable (performance of small and medium enterprises and all independent variables (microfinance loan service, training service and saving service) were positive and significant relationships.

The results of regression analysis indicated those microfinance loan service and training service had positive and statistically significant effects with beta value (β =0.693**, $p<0.05$) and beta value (β =0.693**, $p<0.05$) respectively. Whereas the findings of microfinance saving service was statistically significant, but the coefficient was negative value (β=-0.469, $p<0.05$), which is against hypothesis (H3). This finding was not accepted. Based on this finding, the Addis Ababa administration's microfinance loan service was the most

effective independent variable on the performance of small and medium enterprises.

5.3 Conclusion of the study

Microfinance institution services include the provision of financial services (loans, savings, micro insurance, leasing, mortgaging, and money transfer) as well as non-financial services (advice, references, training, counseling, social corporate responsibility, business culture and ethics, business customer care, and business location), all of which have an impact on the growth of SMEs.

The objective of this study is to find out the effect of microfinance institution services on the performance of small and medium enterprises in Addis Ababa.

For this study, many empirical studies identified various variables as influential factors in the performance of small and medium-sized businesses. Based on the realistic context of Addis Ababa the researcher selected three variables, namely: microfinance loan service, training service and saving service as independent variables and performance of small and medium enterprises as a dependent variable. The analysis was conducted using cross sectional data with statistical package social science (SPSS) version 23.

Based on this software, the correlation result indicated that there is a strong positive correlation between microfinance loan services and financial performance of SMEs ($r=0.616^{**}$, $p<0.01$, 2-tailed) followed by microfinance training services ($r=0.613^{**}$, $p<0.01$, 2-tailed), and then microfinance saving services ($r=0.502^{**}$, $p<0.01$), which are statistically significant at 99% confidence level. This implies that SMEs with microfinance loan and training services performed considerably better.

The regression results revealed a positive and significant relationship between microfinance loan services and financial performance of SMEs with the beta value (=0.693 * *, P< 0.05), as well as a positive and significant impact between microfinance training services and performance of small and medium enterprises with the beta value (0.393, p< 0.05). But in variable microfinance saving service and the performance of small and medium enterprises was

negative and had a significant impact with beta value (-0.469, $p<0.05$) at a 95% significant level. From regression results observed that microfinance loan services the most factor variable as compere to the others variable. The regression result indicates that holding other factors constant, a unit increase in microfinance loan services leads to 1.271 increase in the performance of SMEs; a unit increase in MF training services leads to 0.524 increase in the performance of SMEs; a unit increase in MF saving services leads to -1.084 decrease in the performance of SMEs. These are to achieve the objectives of study.

5.4 Recommendations

Based on research findings, the researcher came up with the following recommendations:

- Government should support and evaluate frequently MFIs to enhance training of small and medium enterprises
- The MFIs should train the borrowers on entrepreneurial skills, saving and deposit facility so as to enhance their competence.
- The MFIs should consider the performance of the business before allocating money to the business owners.
- MFIs should be made available and accessible to the community at large to contribute greatly to SMEs financial performance.
- Microfinance institutions should always provide SME's with professional advice. This will help them how to manage and use loans to increase their performance.
- The microfinance institutions should motivate small and medium enterprises to increase their saving culture. According to the research, many medium-sized businesses discovered that the sub-city was not saved by microfinance institutions. This is come up shortage of cash on MFI. Government must be solving this problem in short time.
- At the woreda level, the offices of microfinance institutions and micro, small, and medium enterprises do not have an action plan for supporting

enterprises. Proper follow up based on an action plan is important for the growth of enterprises.

- Seminars and workshops should be organized by the microfinance institutions to educate SMEs on their policies, preconditions of loans and saving.
- Large numbers of small and medium enterprises use microfinance services occasionally. This is because of the bureaucracy of microfinance institutions. MFI services should be solve this problem

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Appendix

1. **Questionnaire**

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
MBA PROGRAM

A Survey on The Effect of Microfinance services on the Performance of Small and Medium Enterprises in Addis Ababa

Section one: Introduction

Dear Respondents

I am Mulugeta Ayele a post-graduate student of Master of Business Administration (MBA) at Addis Ababa University College of Business and Economics, and I am researching the title of the effect of microfinance services on the performance of small and medium enterprises in Addis Ababa in the case of kirkos and kolfekeraniyo sub-cities.

The object of this research study is to find out the relationship between microfinance services and small and medium enterprises.

The information that you share will be kept strictly confidential and will only be used for research purposes.

As instruction, your name will not be mentioned anywhere and on the following questionnaires writing in brief answer or ticking (√) in the space provided as applicable.

Name of Institution..... Date.....

Thank you in advance for your cooperation and time in gathering any information.

Mulugeta Ayele

MBA student

Section two: Demographic information

1) Gender: **a.** Male [ ] **b.** Female [ ]
2) Age: **a.** below 20 year [**]** **b.** 21-30 year [ ] **c.** 31-40 year [ ]
   d. above 40 years [ ]
3) Academic Background: **a.** Illiterate [ ] **b.** grade 1-8 [ ] **c.** grade 9-10[ ] **d.** preparatory [ ] **e.** technical and vocational [ ]
   f. Diploma [ ] **g.** Degree [ ]
4) Marital Status: **a.** Single [ ] **b.** Married [ ] **c.** Divorced [ ]
   d. Widowed [ ]
5) Location of your business:
   Kirkos: **a.** wereda 4 [ ] **b.** wereda 5 [ ] **c.** wereda 11 [ ]
   kolfekeraniyo: **a**. wereda 10 [ ] **b.** wereda 11 [ ] **c.** wereda 12 [ ]
6) Position held in the business: **a.** Manager [ ] **b.** Accountant [ ]
   c. Employee [ ]
7) How long you have been worked in your enterprise: **a.** Less than 1 year [ ]
   b. 1-3 years [ ] **c.** 3-5 Years [ ] **d.** above 5 years [ ]
8) What was your occupation before you starting a business?
   a. Student [ ] **b.** Unemployed [ ] **c.** Civil Servant [ ]
   d. NGO or Private Worker [ ]

Section three: Factor Affecting the Performance of Small and Medium Enterprises

The major factors affecting the performance of small and medium enterprises are loan service, saving services and training services of microfinance institutions.

Please indicate the degree to which these factors affect the performance of your business enterprise. After you read each factor, evaluate them about your business and then put a tick mark (√) or write a brief on the provide spaces under the choices below.

9. How often do you use microfinance institution services?

   a. Regularly [ ] **b.** Occasionally [ ] **c.** Never [ ]

10. What was the major source of your start-up capital?

   a. Family [ ] **b.** Ourselves [ ] **c.** Loan [ ]

Small and medium enterprises performance

11. **Before** microfinance institution engaged, what was your average annual sales level?

   a) Less than Birr. 100,000 [ ] **b**) Between Birr.100, 000 and 300,000[ ]

   c) Between Birr. 300,001 and 500,000 [ ]

   d) Between Birr 500,001 and 700,000 [ ] **e**) Above Birr. 700,001[ ]

12. **After a** microfinance institution engaged, what is your average annual sales level?

   a) Less than Birr. 100,000 [ ] **b**) Between Birr.100, 000 and 300,000 [ ]

   c) Between Birr. 300,001 and 500,000 [ ]

   d) Between Birr 500,001 and 700,000 [ ] **e**) Above Birr. 700,001 [ ]

13. What is your yearly net income?

   a) Less than Birr. 50,000 [ ] **b**) Between Birr. 50, 001 and 100,000 [ ]

   c) Between Birr. 100,001 and 150,000 [ ]

   d) Between Birr 150,001 and 200,000 [ ] **e**) Above Birr. 200,001 [ ]

14. What is your yearly Revenue?

   a) Less than Birr. 50,000 [ ] **b**) Between Birr. 50, 001 and 100,000 [ ]

   c) Between Birr. 100,001 and 150,000 [ ]

   d) Between Birr 150,001 and 200,000 [ ] **e**) Above Birr. 200,001 [ ]

15. What is your yearly number of deliveries on time?

   a) Less than 15 [ ] **b**) Between 15 and 30 [ ] **c**) Between 31 and 45 [ ]

   d) Between 46 and 60 [ ] **e**) Above 60[ ]

16. What is your yearly total number of deliveries?

a) Less than 30 [ ] **b**) Between 31 and 60 [ ] **c**) Between 61 and 90 [ ]

d) Between 91 and 120 [ ] **e**) Above 120[ ]

17. How does your enterprise's increased efficiency and effectiveness of fixed assets in the generation of value add?

a) Employees training on Value add [ ] **b**) By changing shape of raw material in different design [ ] **c**) By searching market/demand [ ] **d**) Other ……. [ ]

18. How to used employees effectively and efficiency in generating value add (Labor Productivity)?

a) By giving training for employees on machine [ ] **b**) Salary increments [ ]

c) COC evaluation and other evaluation methods

d) By giving bones and other support [ ] **e**) other…… [ ]

19. How to used fixed asset effectively and efficiency in generating of sale?

a) By using new technology [ ] **b**) Timely maintaining machines [ ]

c) Giving training for employees on machine [ ]

d) By searching market/demand [ ] **e**) Other…… [ ]

PART A: MICROFINANCE LOAN SERVICES

20. How many times have you taken a loan from microfinance for business purpose?

a. Never taken any [ ] **b.** once in a year [ ] **c.** twice in a year [ ] **d.** More than two time in a year [ ]

Fill the table below on your opinion regarding the services you get from micro finance institution (MFI). (Tick (√) in the appropriate box)

No.	**Questionnaire statements**	**Strongly agree(5)**	**Agree (4)**	**Not sure(3)**	**Disagree (2)**	**Strongly disagree(1)**
	Loan					
a.	Loan obtained increased profit					
b.	Loan obtained helped to increase income-generating activities					
c.	Loan obtained helped Business growth					
d.	Loan obtained increased sales					
e.	Loan employed causes the creation of employment in SMEs					
f.	Loan obtained helps in starting a new business					
g.	After employing loans helps in expanding the existing business					
h.	The profit obtained after employing loan helps in the acquisition of assets					

PART B: MICROFINANCE TRAINING SERVICES

21. What kind of training was taken for your enterprises by microfinance institution?

a) Saving and deposit facilities and their importance
b) Loan facilities acquisition, repayments and consequences of defaults
c) Business initiation and management skills
d) Group mobilization formation and importance of working in small group
e) Other……

22. How would you rate the training services offered by MFIs and the performance of your firm?

a) Very poor [ ] **b)** Poor [ ] **c)** Good [ ] **d)** Very good [ ]

23. How often do you get training from microfinance institutions, on how to use their services such as savings and loans to improve your business?

a) Never been trained [ ] **b)** Only when I approach them to take a loan [ ]
c) They call for regular training programs [ ] **d)** they visit me at the business site[]

Fill the table below with your opinion regarding the services you get from micro finance institution (MFI). (Tick (√) in the appropriate box)

No.	**Questionnaire statements**	**Strongly agree(5)**	**Agree (4)**	**Not sure(3)**	**Disagree (2)**	**Strongly disagree(1)**
	Training					
a.	Training taken by Microfinance has given new skills and techniques to manage their businesses					
b.	Training taken by Microfinance has helped your business to *adopt* appropriate technology and inputs.					
c.	Training taken by Microfinance has helped your business to register their businesses activities/transaction					
d.	By received training from microfinance, there is an increase in the productivity of your business					
e.	Due to given training from microfinance efficiency and effectiveness of work operations was increased					
f.	The frequency of training offered by the MFIs affect the financial performance of the business					
g.	Training on the proper use of the loans by the MFIs affects the financial performance of the business					

PART C: MICROFINANCE SAVINGS SERVICES

24. What motivates your saving?

a. Repay a loan [ ] **b.** to start business [ ]

c. To grow/expand business [ ] **d.** to take a loan [ ]

25. How much savings have you made from the last one year?

a. Never [ ] **b.** Once [ ] **c.** Twice [ ] **d.** More than twice [ ]

Fill the table below on your opinion regarding the services you get from micro finance institution (MFI). (Tick (√) in the appropriate box)

No.	**Questionnaire statements**	**Strongly agree(5)**	**Agree (4)**	**Not sure(3)**	**Disagree (2)**	**Strongly disagree(1)**
	Saving					
a.	Microfinance services have helped your business to increase savings and have reinvested in your business					
b.	Due to increasing saving culture, Your business has helped diversify income sources					
c.	Due to increasing saving Your business members has helped in building a modern family house (better education, health care, and shelter)					
d.	After employing saving assisted to increase the ability to pay medical expenses and help in joining health insurance services for the members of SME					

26. Outline the challenges you face on the following

i) Saving with MFIs.....

.....

ii) Accessing loans from MFIs

.....

.....

iii) MFIs Training

.....

.....

If you have any comments, suggestions and recommendations for microfinance institution services, please mention them.

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