

ROLE OF MICROFINANCE INSTITUTIONS ON DEVELOPING MICRO AND SMALL BUSINESS ENTERPRISES IN ETHIOPIA: A CASE OF SOMALI REGION

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Abstract: The objective of the study was to investigate the role of MFI in developing MSE in Ethiopia with particular to Somali region. Primary and secondary data were collected from MSEs owner and operators and MFI loan officers in Somali Region through a questionnaire using a list of leading questions. A multilinear regression technique of analysis was employed to analyze the data with help of SPSS v 20. The growth and development of MSEs attributed to the contributions of MFIs such as financial and non-financial products and services ($F=4.608$; $P\text{-value} = 0.0001$) the finding of the study further indicate that there was a positive relationship of MSEs growth and development with the services and products and MFIs in Ethiopia particularly Somali Region ($R=0.348$ with MFI loan and training and consultancy).

Index Terms - MFI, MSE, Financial and Non-financial services, Growth and Development

I. INTRODUCTION

This research study aimed to examine the Role of MFIs in developing MSEs in Ethiopia, particularly Somali Region. The study was done by collecting all the necessary data and analyzed to achieve its intended objectives. The main aspect of this study presents the finding of the financial and non-financial product and service contributions of MFIs to the growth and development of MSEs. To investigate how the MSEs growth and development is influenced by the financial and non-financial products and services contributions of MFIs in Ethiopia, both primary and secondary data were collected during the data collection and reached findings.

1.1. Statement of the problem

Over the past two decades, the provision of adequate microfinance service has been believed as a pro-poor promising financing strategy in Ethiopia (Temesgen Keno, 2012). The Ethiopian government has taken a timely steps and practical to provide policies and legal framework services that promote financial intermediation in the country, where the majority of the people face acute shortage of access to financial capital, being engaged in subsistence activities, which is little supported by modern technologies thus, yield very low rate of return on investment. During this period, there were thirty-five MFIs that were initiated but due to the lack of equitable service allocation system, these were unevenly distributed among the regional states of the country. In Somali region of Ethiopia where this study was selected as its setting, there has been an effective microfinance service for the last seven to eight years only regardless of the large unmet demand of the Ethiopian population particularly in Somali Region. Most of the economies over the globe, particularly in the developing countries like Ethiopia MSEs are very important and a key factor for sustainable growth and development. According to Okpara and Wynn (2007), the elaboration of the MSEs are generally regarded as the key factor of the economic growth and development, decrease the unemployment rate through job creation and poverty reduction in developing countries.

The MSEs sector is the bridge to achieve the objectives of the country (MoFED, 2011). The major problem with the growth and development despite many contributions of the Ethiopian MSEs are lack of or shortage of debt and financing equity (Brhane Tadesse, 2014). Significance constraints for the growth of Ethiopian MSEs are the lack of adequate financial resources; hence, for this and many more reasons, MFIs should play their role in order to provide the needed resources for the growth and development of MSEs. This study was designed to investigate the role of MFIs on the developing MSEs in Ethiopia particularly Somali Region and forward more effective approach for the growth and development of MSEs to MFIs and government in order to adopt growth and development-oriented approach of MSEs in Ethiopia. Therefore, this study is the first study that was conducted concerning Role of MFIs in Developing MSEs in Ethiopia with particular to Somali Region.

1.2. Objectives of the study

The objectives of this study include;

To examine the contributions of MFIs on MSEs growth in Ethiopia

To ascertain the effects of non-financial services of MFIs on developing MSEs in Ethiopia

1.3. Significance of the Study

The need of the study from the fact is that there were no studies that had done before in the Somali region of Ethiopia which focused on the Role of MFIs in developing MSEs, the benefit of MFIs' loans to MSEs and to know how the loan provided by MFIs helped the MSEs and their owners and operators as well for growth and development. Therefore, to the researcher's knowledge, it's the first to provide a comprehensive approach to the understanding of the role of MFIs on MSEs growth and intended to fill the gap in this arena in Somali Region of Ethiopia. Generally, this study contributes knowledge in many important areas of financial institutions and MSEs studies. It helps to come out with substantive possible alternative policy interventions which help to address problems and challenges that Ethiopian MSEs face and paves a forward way of development for the government, policymakers, and financial institutions and to the general public at large to understand the different roles of financial institutions on the enterprise's development process.

II. Review of Literature

2.1. Microfinance Institution

MFI is one of the poverty alleviation mechanisms that are widely used and became a diverse and growing industry; according to USAID (2005) thousands of microfinance institutions that provide financial service to millions of MSEs exist, ranging from grassroots self-help groups to commercial banks to millions of microenterprises and low-income households and further noted that the support and services received by MFIs are not only from a donor like agencies, but also from investors that need to invest their excess money, lenders, rating firms, consulting firms, and other specialized business enterprises. MFIs provide financial and none financial products and services in a wide range of MSEs, clients that have a low income, self-employed low earnings working in the informal sectors of business. A sustainable social-economic for a long time, MFIs has been a powerful weapon for the development of economic (Alfred Nuwagaba, 2015). None financial services or social services mainly focus on advancing the reduction of poverty for micro-entrepreneurs that run MSE.

Microfinance is the supply of loans, savings, and other financial services to the poor. The term micro is in reference to small amounts typically involved in practice. These services are small, micro because a person who does not have a lot of money most likely will not need a loan of several thousand of rupees (Mrs. Soma S. and Dr. Anant D., 2013), they further noted that a loan of a few hundred rupees may make a huge difference in their lives, giving them the ability to purchase livestock for a small farm, a sewing machine to help in making accessories and clothes, or supplies for a small store. Lack of access to financial services is one of the major constraints hindering the development of MSEs, and therefore the supply of entrepreneurial activities not just in Ethiopia, but also in the other developing countries. Commercial banks have traditionally concentrated lending large formal enterprises which possess collateral and therefore, contended to be less risky (R., Makore, 2014).

There are a number of financial services that are provided to MSE by MFI and these services include one or any combination of savings, credit, insurance, pension/retirement payment services. Apart from providing financial service to poor and low-income people, microfinance also provides for MSE with the provision of social and business growth and development services, such as providing non-financial services to business enterprises like; business consultancy and training. According to CGAP, microfinance clients have low income and are often self-employed in the informal economy, conditions that together typically deny them access to banks and other formal financial institutions. They commonly run small stores on street stalls, create and sell items they make in their homes and rural areas, microfinance clients may be small-scale farmers and those who process or trade crops and goods. The main characteristics of MFI that differentiate from the other part of financial institutions, like it's being a substitute for formal financial institutions which generally does not require collateral and have simple procedures compared to it and less documentation, easy and flexible repayment schemes, financial assistance of members of group in case of emergency, most deprived segments of population are efficiently targeted, and last but not least, group interaction. According to SEEP (2005) MFI became a different growing industry and many MFIs exist starting from self-help groups to formal banks that provide financial service to many MSEs and low-income households. The service and support received by MFIs are not only from donors, but also from lenders, investors, rating firms, host of other specialized businesses, and network organizations.

According to Ledgerwood (1999), the techniques that MFI use to advance for the welfare of the poor include none financial services provided mainly for development of the poor are; providing education for the poor entrepreneurs to run their day to day business activities like literacy training and skill training, marketing, bookkeeping, providing health and nutrition facilities. MFIs have become a strategy for reduction of poverty, financial services such saving facilities and small loans are provided to the poor and poorest people that were not given the opportunities to have the services of the formal commercial banks. Providing financial access to the poor (men and women) with aim of giving opportunities to get and have a great role in their economics in building income, social empowerment, and bargaining power through entrepreneurship. There have been different models implemented for microfinance credit services. It has been found some of the models for this study out of that lending model of MFIs are Village banking, Grameen model, and Individual model.

There are a number of products and services provided by MFIs in which their main objectives are to serve the community who have not been served by the formal banks because of their inability to provide collateral that is demanded to access the financial services of the formal banks. The MFIs services provided to clients who are below or above the line of poverty can be classified into four different categories in which most of them are financial services without collateral like; Financial Intermediation, Social Intermediation, Enterprises Development Services and Social Services (Ledgerwood, 2009). Most of the poor clients that need to be served by the financial institutions ask for small amount of loan and the financial institutions find it too risky because clients

are either cannot explain themselves why they are needed the loan or illiterates or due to a far distance from the available financial institutions to get access to finance. In developing countries many financial services including commercial banks, MFIs, cooperatives and many more others provide financial services to MSEs and these financial service providers target specific sub-segments of the MSEs landscape having the motives and the capacities as well, while the other larger financial institutions including commercial banks that provide financial services to MSEs tend to focus on the firms which are large and formal business enterprises but, MFI are known to their financial services (Glisovic, Jasmina, and Meritxell Martinez, 2012).

2.1.1. Impact assessment of Microfinance on MSEs Development

Financial markets will be a better work for the poor, and make a better work, firstly it is important to understand what are the things that are taking place in the financial market systems, what are the impacts of the services that are provided, how they are provided, who provided and to whom they are provided, the type of the financial services lacked including the segment of the population, how they lacked the access of the financial services that are demanded and which financial services they would like to use (J., Ledgerwood, 2013). And also described in the book of the New Microfinance Handbook about the services of MFIs, "the impact of the service quality and convenience of the MFIs, dignity, safety and the outcomes of financial services after long period usage can only be understood through assessment" in which the value of increased financial inclusion provide better understanding and the importance of investing again and again. It is the lack of access to financial services for the poor that holds them to be in poverty (Muhamed Y., 2003). It have been argued similarly the main reason that formal banking financial services cannot be given to the poor is lack of collateral as the formal banks need some things that can be converted in to cash at the time the borrower cannot able to pay back the loan that was taken from the formal banks from every person that is expected to have the access of financial services from their financial institutions that commercial financial institutions.

The services of MFIs are in a demand whenever there is unhealthy conditions by the MFIs such as; when there are low levels of production/productivity that require financial assistance, MFIs are one of the most likely available and accessible means of financing to those MSEs even if they are in a situation of less retained earnings and revenue generation still the bigger portion of MSEs' capital belongs to MFIs (Xitian Wang, 2013). According to D. Makina and L. M. Malobola (2004) identified in their study that was aimed to assess microfinance program impact on enterprise finance which found that microfinance program has led business enterprises and economic welfare of household to improve their enterprise development through financial and non-financial programs provided to MSEs because it targets those people who had been historically not served by the commercial banks and disadvantaged. MFIs have been involved in terms of providing financial services to MFIs which focused to eliminate poverty and make the poor to survive economically using many different strategies. A research done in Tanzania that examined the credit roll on the success of small enterprise by J. A. Kuzilwa (2005) show that the enterprises after the access to financial services of MFIs has increased the output of the business enterprises in Tanzania using qualitative case study on a sample of business enterprises that were relatively small and micro that had and gained the financial access of MFI.

2.1.2. Overview of Microfinance Institutions in Ethiopia

The development of MFIs in Ethiopia is a recent phenomenon and known by its fast-growing according to (Ebisa Deribie, al et., 2013) and aggressive drive to achieve a large scale of geographic location, it's mostly owned by the government, an emphasis on rural households, promoting credit and saving products, a strong focus on sustainability. After the Ethiopian government proclamation (No. 40) of MFI was issued in 1996 which paved the way for the establishment of MFIs to provide financial services to the communities who suffered lack of financial service from the formal banks, many MFIs have legally got registered and started delivering services of microfinance like the other countries and mobilize savings by which the NBE was legally empowered to supervise the MFIs' activities (Wolday A., 2000). A progressive transition has seen in Ethiopian MFIs from micro-credit to microfinance and finally to financial inclusion (Wolday A., and Anteneh, 2015). During this period, there were about thirty-five MFIs that were initiated but due to the lack of equitable service allocation system, these were unevenly distributed among the regional states of the country (Temesgen Keno, 2012). In Somali region of Ethiopia where this study was selected as its base setting, there has been an effective microfinance service for the last seven to eight years only regardless of the large unmet demand of the Ethiopian population particularly in Somali Region.

2.2. Micro and Small Business Enterprises

MSE used sometimes in this research study is to mean SME or MSME. The importance and contribution of MSEs in stimulating development hence growth is almost acknowledged particularly in the developing countries like Asia, Latin America, and Africa. Defining MSE has been controversial and difficult and a universal definition of the MSE does not exist given the multitude of different economic, social and geographic differences with the international context of MSE (Bereket Tadesse, 2010). In some countries, MSE is categorized based on the capital invested and in some other countries based on the employment opportunity they provide and there are also some other countries that define MSE based on the number of employees (Glisovic, Jasmina, and Meritxell Martinez, 2012). Because of the potential and size of the sector to alleviate poverty and its national income contribution, the MSEs sector has a large body of related literature and this sector in all over the developing countries are widespread and studies show that on average 22% of the adult population get employed through this sector compared to the formal sector which is 15% (Lisa Daniels, 2009).

Small enterprises are independent business enterprises managed by their owners, and their access to finance is limited from the formal banks which are generally registered business entities, while micro business enterprises are a type of informal business entities defined as business enterprises that have about less than ten employees (Malhotra, 2006). In many countries, especially in

developing countries, MSEs are small informally organized commercial operations owned and operated mostly by the poor. In Ethiopia, the second largest employment generation is MSEs which account for a substantial share of the gross domestic product and total employment contributes significantly to the alleviation of poverty and income creation (FeMSEDA, 2016). They are often the chief economic defense of the most vulnerable households in a high-risk environment, such as civil conflict and natural disasters microenterprise laying the foundation for economic development. According to a research done by the Ethiopian Ministry of Urban Development (MoUDH, 2013), it is often argued that MSEs play a significant role in decreasing the unemployment rate by employment creation opportunities and generating of income for a large population which consequently led the country's economy to growth and development. Reviews of studies in the area confirm that the contributions of MSEs in this regard have long been recognized in all over the globe as cited by MoUDH, (2013) from cf., Liedholm, 2001, ILO, 2003a, Vandenberg, 2004, Mazumdar, 2004, Haftu, et al, 2009. As it has been suggested by the empirical studies conducted in sub-Saharan Africa there are many problems in which sub-African Saharan market works prevents prospective entrepreneurs from joining the MSEs sector, and more importantly, which changes the graduation of MSEs into medium-sized firms.

In line with the introduction of MSE, it is important to the promotion and development strategy of the country (United Nations, 2002). Ethiopia has focused on generating and improving self-employment through MSE development. MSE has been defined in Ethiopia as the following paragraph; **Micro-Enterprise:** A microenterprise in the industrial sector (construction, mining, and manufacturing) is defined according to the FeMSEDA (2016); a business enterprise with a paid-up capital of not more than ETB 100,000 (USD 5,000) and operates including the owner up to five employees. Likewise, microenterprise in the service sector like; hotel, transport, ICT, maintenance, and tourism is the enterprise having a total asset not more than ETB 50,000 (about USD 2,500) and it operates up to five employees including the owner of the enterprise. **Small Enterprise:** Small service enterprises in the service sector is one with the paid-up capital of not exceeding ETB 500,000 and operates with up to 6 to 30 employees. Moreover, in Ethiopia, when a business enterprise has a paid-up capital of not more than ETB 1.5 million and its engaged manpower is 6 to 30 employees is well known as a small enterprise.

The Ethiopian MSEs have three main different significances according to FeMSEDA (2016). Firstly, economic significance, MSEs maintain fair distribution of income, create broad job opportunity, create rural and urban economic linkage, serve as a milestone for industrial development, require low start-up capital, create broad base for industrial development, use simple technology and local raw material and play role in import substitute and export activities. Secondly, social significance, MSE help people to exercise their right and duties in the social organization, develop conductive working culture and environment, create an active social relationship and develop active social participation. The third significance of MSEs is a political enterprise, it ensures good governance, political and social stability, ensure sustainable development and play important role in poverty alleviation and economic growth.

2.2.1. Challenges of Micro and Small Business Enterprises

There are various problems faced by MSEs in Ethiopia such as; institutional economic and structural in nature such as lack of working premises, problems related to marketing, lack of capital, lack of qualified manpower and shortage of raw material supply are some of the most pressing problems till today that MSEs face though, Many Ethiopian youths have been driven in to a various sector of MSEs economic as a strategy for survival. MSEs in Ethiopia is one of the most social economic development mechanism that has been recognized as a tool for sustainable income and employment creation and undoubtedly believed by many researchers as it's the second largest employment opportunity generation for the poor people after the agriculture sector (Mohammed A., 2014). A research study carried out by Ethiopian Economics Association identified challenges of SMEs in Ethiopia noted that the SMEs has revealed there has been a phenomenal growth in the number of SMEs and the size of employment generated by the sector in the last few years (EEA, 2015). Moreover, the growing tendency to be self-employed by many young university graduates instead of waiting for employment from the public or private sector has been encouraging.

During the last few years, although improvements have been registered, the performance of SMEs has fallen short of expectations due to a number of challenges. These include problems related to finance, access to market and low competitiveness, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure (EEA, 2015). Policies of MSEs recognizes that business enterprises face many unique problems that are problems with their growth and development and these problems include heavy costs of compliance as a result of their size, the other problems of the Ethiopian MSE include insufficient working premises and limited access to financial services and development business services, such as services related to entrepreneurship, training, technology, and information are undeveloped and not available in an accessible manner for the MSEs and these problems cause the operators of MSE sector to have low knowledge about the sector.

Financial needs of MSEs are specific contexts and diverse because generalizing the market studies result has its own risks but there are some patterns regarding MSEs that seem emerging. In business life cycle, MSE firms from most of the developing countries depends on informal sources of fund in their first stage and have basic needs such as the basic concept of accounting like, how to manage cash flow from the different stakeholders, short-term loans basic at the bank account (Glisovic, Jasmina, and Meritxell Martinez 2012). According to a worldwide survey done by Schiffer and Weder (2001) clearly shown that MSE finds difficulty in accessing financial services than the larger firms and ranked the entire obstacle that MSEs usually face when doing business and access to finance has become the highest obstacle (problem) they face. In addition to the above mentioned challenges study carried in Ethiopia by MoUDH summarized the number of challenges that MSEs face during their development

of policies and strategy for MSEs in Ethiopia and found that; financial related challenges such as limited capacity of MFI to provide financial required by MSEs, issue related to production, marketing and cluster development, challenges related to the extension services of firm, issue related with human development, challenges related with the development of technology and transfer, market and marketing and one-stop service shop problem.

2.2.2. MSEs Growth and Development in Ethiopia

In Ethiopia transformation and broad-based growth have seen in different developmental plan and the quality of jobs and unemployment level remain a concern of the country through the promotion of MSEs and making this sector one of the engines of economic growth and to reduce the unemployment problem (Solomon T., et al., 2016). A team of researchers in Ethiopia studied the factors that determine the growth of MSEs in context with the country and provided determinants of firm performance in Ethiopia based on microeconomic evidence in which the main objective of their study was to identify the growth and investment innovation determinants of Ethiopian MSEs and found that there are a number of important factors that affect the growth and development of MSEs in which some of them are; the environment of the business, environment of working, characteristics of MSEs, top managers of MSEs and arrangement of the business enterprise or institution including the marital status of the owners of the MSEs.

In Ethiopia, according to FeMSEDA, (2016), the growth stages of the Ethiopian MSE is classified into three and these are: **Start-up stage**, it refers to business entity incorporated with people that are interested in MSEs establishing and those completed the profession/skill from various organizations either legally established as an association or private. Business entities under the legal framework of the government begin production and services that will be provided to their clients. **Growth stage** is the stage that enterprises are said to be the stage of growth after the start-up, become competent in productivity, quality, and prices, and starts using a system of book-keeping for their financial information and followed by **Maturity stage** which is said to be the stage that enterprises profitable by investing further to fulfil the definitions given to the sector with the support of the financial institutions and other developmental organizations.

As AEMFI (2009) clearly specified on their Occasional Paper No.24, on Financial Needs of MSEs operation in Ethiopia, recently growing attention has been obtained by the MSE sector from the privately owned and government through close involvement to enhance in effort of MSE contribution to the economy which led the government to place policy guidelines generally and strategies specifically which facilitate MSEs sector development. Government incorporated various policy and strategies for MSE such as: Plan for Accelerated and Sustained Development to End Poverty (PASDEP), which considers MSEs sector as a sector for factor of development from the private sector perspective, The Industrial Development Strategy, in which private sector is recognized as an important for implementation strategy factor, considers MSEs for future industrialization springboards, The National Urban Development Policy which place emphasis as means of job creating and urban administration on MSEs to involve project for development such as construction of roads and housings.

2.2.3. Support Institutions of MSEs

MSE sector has been recognized as a sector of development, the entrusted institutional structure provides support through the establishment. Federal Micro and Small Enterprises Development Agency for the overall MSE development strategy are responsible at the federal level in Ethiopia and Regional Micro and Small Enterprise Development Agency are also responsible for the developmental strategy that is taking place in each and every place within the region. But according to AEMFI (2009) recently to promote and develop MSE sector, it has been delegated to the Regional Bureaus of Trade and Industry in every region that the country consist even in some city such as Addis Ababa the MSEs structure goes down to the suburb administrative and in each district of every region. Information on the existing MSE development strategy to revise for cope up with changing conditions is available. With the support provided by the Ethiopian government new MSEs are established which are more in number to produce a product by the local community and replace the incoming product from foreign countries, produce foreign currency, job opportunities are broadly created for the citizens and industry fertile grounds are created. In addition, the existing business enterprises transfer from one another till they got/reach the level of medium, build entrepreneurship, technical development skill and capacity of enterprises, counseling, and training about business management to the operators and owners of MSEs were provided for promotion. To have a sustainable solution for the problems related to the access to finance, required machines for the MSEs operation including sales support and promises were made to the enterprises and this support from the government and other NGOs lead to the country to create temporary and permanent job opportunities for its citizen (FeMSEDA, 2016)

Non-financial services provided to MSEs are referred to as a service which its main objective is for business development purpose (Business Development Services/BDS). BDS is defined in context with this study; it is non-financial products and services offered at a different stage to entrepreneurs for their business development but, these products and services are aimed for business advice or skill transfer for business development (UNDP, 2015). The Ethiopian MSEs needs of business development services are summarized below according to Fantahun M., (2004): Market access services, input supply services, technology and product development services, infrastructure related and information services, training and technical services, policy and advocacy and Access to finance services. The GDP of the majority of the world economy for employment generation and growth depends on MSMS, the economic foundation of the majority of the country are formed by these business enterprises, given the importance of these enterprises at various levels of government strategic business enterprise development program that are focused on the financial access of MSEs and provision of business development services (Tegegne G., 2017). Proposed value adding

innervations and assistance for Policymakers to support MSE sector as a part of development strategy for poverty reduction and economic growth is provided by the international funding agencies. Hence, enough support offered for MSEs to a wide range but based on the strategic plan for MSEs development, the support offered to MSEs commonly feature for specific types of support in many MSEs development programs and categorized into two broad general which is; financial and non-financial types of support. BDS is also used or known as non-financial support such as; training, business counseling, and marketing. But there are authors that do not prefer the training support provided to MSE not to include the development support given to the business enterprises (Goldmark L., 1996).

2.2.4. MSEs and Economic Growth

Most of the world's economies rely on MSME for their GDP growth and employment generation (Tegegne Gebre-Egziabher, 2016). These enterprises form the foundation of their economies, MSEs are well known for their role play in the socio-economic development of a given country because MSEs reduces the unemployment rate, hence enabling citizens to enjoy a better standard of living because of its being small sector in size and its national income contribution and also its poverty alleviation potential as well (Lisa Danial., 2009). There is also a debate regarding on the contributions of MSEs sector to the growth of the economy as some authors argue on the sector as a great significant part for the growth of the economic and some other authors, however, believe the sector as the only means of survival that contribute to the national economy a little as L. Daneals (2009) cited on Pyke and sengenberger, (1992).

The emergence of the economic dualism idea in the 1960s in Ethiopia by which the rate of unemployment decreased, theories and practices started to pop up with an objective of reducing unemployment through job creation for the people and boosting citizens income for economies characterized by such dual behavior (MoUDH, 2013). In this theoretical explanation the policies and strategies such as industrialization through import substitution and a few decades later export promotion strategies and regional integration were commonly acknowledged and implemented. These theories and associated policies and strategies have worked in some countries, but in some other countries replication of these theories were found to be recurrently fruitless and no change at all. After the realization of the MSEs' contribution to the economic growth and development, most governments in less developed and developed countries have been supporting MSEs extensively for growth and development according to the World Bank, UNIDO, the Asian Development Bank and a number of donors have also been supporting in terms of promotion policies (MoUDH, 2013). It can also be seen as, the only tools that are used to improve the life of the poor and some authors go far as a last resort for the survival of the poor to consider MSEs as they have little interest when it comes to development (Lisa Danial, 2009).

Another relevant theory developed in the 1990s is the social capital theory and this theory according to (Thorbeche, 2000) believes the existence of social organizations where members are entitled to have access to resources and benefits based on the rules of the game. Resource allocation among members of a given social cluster and individual decisions are governed by the rules of the game this social capital theory successfully been used by microfinance institutions in channeling and collecting credit to the poor farm and urban households. According to the governor and chairman of National Bank of Ethiopia note published on NBE, the 2015/16 annual report noted that the worst drought that the Ethiopian government registered in 2015/16 was 8.0% real GDP growth rate and this was much higher than Sub-Saharan African Countries about 1.4% average. The governor further noted that the Ethiopian economic growth was largely based on industry growth, services, and agriculture at the rate of 20.6%, 8.7% and 2.3% respectively.

The Ethiopian economy has gradually exhibited structural shift, though the agriculture sector still remains the most dominant sector having the largest share in growth domestic products which is about 38.7% in 2014/15 and continued to shrink to 36.7% in 2015/16 while industry and services are 16.7% and 47.3% respectively. According to the Ethiopian government's policy, this trend of agriculture led industrialization; developing the sector of manufacturing and improving export-led growth and development in order to sustain double-digit economic growth achieved during the last 15 years (NBE, 2016). Economic growth, poverty reduction, and income inequality improvements have seen in Ethiopia in 2015/16 after the country widely used the concept of MFI and the income per capita of the population increased from \$725 to \$794 a year ago and 22% of poverty reduction has seen from 38.7% a decade earlier. According to the NBE (2016), investment to GDP ratio slightly declined to 38.5% from 39.4% while domestic savings to GDP ratio improved to 22.2% compared to the previous year.

About 190,587 new MSEs were established in Ethiopia in the year 2015/16 alone according to the National Bank of Ethiopia and these newly established MSEs employed around 1.7 million people. The employment created and the number of establishments during this period decreased by 40.3 percent and 29.8 percent, respectively when compared to the last year (2014/15). On the other hand, the loans received by Micro and Small Business Enterprises (MSEs) from the loan providers are about 5.4 billion and this is 18 percent lower than the loan taken last year (NBE, 2016). According to the NBE (2016) the construction of the new MSE, credit disbursement and employment were attributed to the exclusion of enterprises that are found rural areas as the Ethiopian Federal MSE Development Agency was divided into two segments, namely Federal Urban Job Creation and Food Security Agency and Federal Small and Medium Manufacturing Industry Development Agency.

2.2.5. Meaning of business enterprise growth

Business enterprises growth has been defined as a process of development of a business entity to big enterprises from the small and strong form a weak business. According to Huiyuan Mao (2009) growth theory of business growth not only includes the

process of growth but the stage generation of growing the periodic process of the stage out of nothing, that is the process of the cycle that goes round and round. However, it is an adjustment process that is complex of which it is a simple different extension. The growth process of business enterprises takes various process and stage by which each process and stage is different from the other stage having required resources for balanced development from a balance that is unbalanced for higher balance. Therefore; enterprises growth's meaning is a developmental process by which business enterprises keep the balanced tendencies and growth stability of their total level of performance and includes; total volume of output, sales, and increment of an asset that keeps the realization of total performance enhancement largely and spanning quality level of development.

A well-established, grown and developed MSE create huge employment opportunities and as a result, this will reduce poverty through employment. Ethiopia has launched various bold initiatives and development policies and plans to spur economic growth (Berihu A, Abebaw Z, and Biruk T. 2014); they further noted that the Ethiopian government has three major development plans that have been executed so far, the last one being the on-going Growth and Transformation Plan. The common and overarching objective of these development plans has been to ensure broad-based economic growth. This is so because according to their point of view a broad-based economic growth is the main route to poverty reduction through employment creations. The Ethiopian government prioritized the economic growth and development of MSEs, decreasing the unemployment rate and an industrial economy building. To this end, in 1997, the Ethiopian government designed a national MSEs development and promotion strategy which facilitates and pave a ground for the growth and development of the MSEs sector (Berihu A, Abebaw Z, and Biruk T. 2014).

2.2.6. Theories of Growth and Development Stages of MSE

Many researchers for many years studied the growth and development of business enterprises, but the events in which most of the enterprises remain the same more or less while many researchers recommended that each and every business enterprises have to start its business as an enterprise, face many challenges for growth and crisis, and become finally mature and decline (Gupta, Priya et al., 2013). Growth and Development of MSEs move for at least five stages of growth and development, each and every stage of this growth stage has something which makes it different from the other characteristics of the stage and every stage during the transition from one stage to another for change require a definite change. Many research studies tried to distinguish the process of growth stage in which most of them used the Greiner growth model, the five phases of growth later sixth phase that has been described by Larry Greiner in his growth model called Greiner in which every phase of the stage ends with after short crisis (Mulder, P., 2013). They firstly assume that a business starts its operation and grows through the development stage. There are many growth theories of business enterprise such as Davis and Gibb (1990) growth theories classification indicated in Nogare, LD (2006: p41-74) in to four: organizational development approaches, business management approaches and in response to the consistency needed market-led approaches personality dominated approaches, organizational development approaches and ground realities relevancy of business researcher relevancy. But, the theory elaborated by Mulder, P., (2013) of the Greiner Growth Model theory seems to be more relevant to the argument of MSEs.

2.3. Working model generation for MFIs contribution on growth and development of MSEs

There are a number of empiricall and theoreticall literatures that extensively investigated how the financial and non-financial services of MFI products and services influence the growth and development of MSEs. Paul M., Mairuri (2014) has been identified how the non-financial products and services of MFI such as; training, BDS, and advisory and consultancy services affect the growth and of MSE. In addition to this, Ledgerwood (1999) identified MFIs uses a number of techniques to advance the welfare of the poor entrepreneur to run their business enterprises like providing literacy training, skill training, marketing, and bookkeeping. Generally, the literature survey of this study leads the researcher to formulate the below-depicted model to study MFI contributions on the growth and development of MFI by which it was partially developed from the literature for this study.

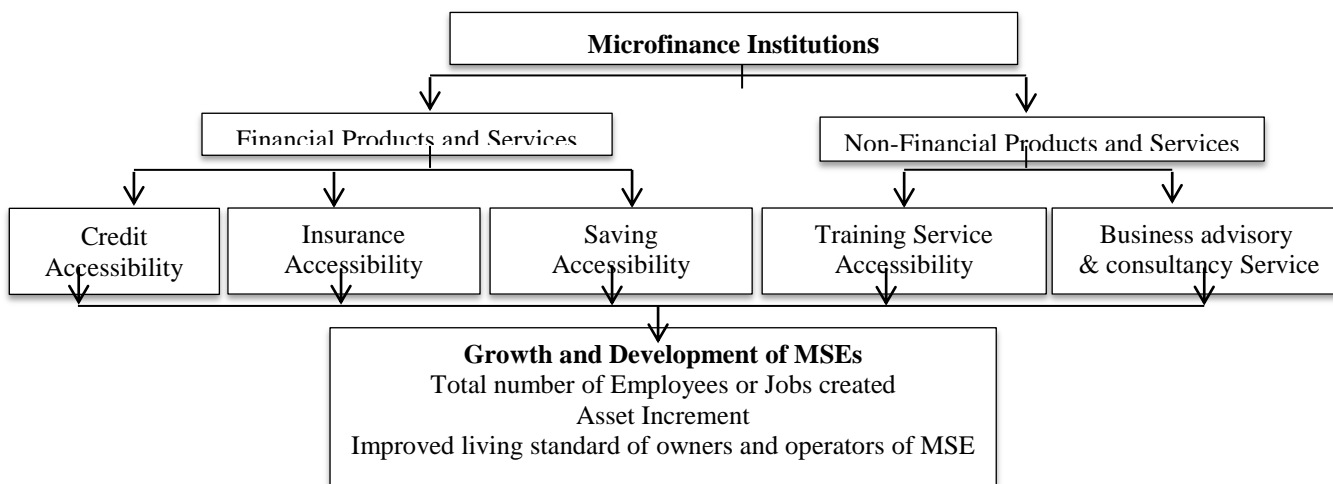


Figure 2.1: Working model to study MFI contributions on MSE growth and development

III. METHODOLOGY

3.1. Introduction

Research methodology is a course of action which defines the tools to be used when conducting a research study. Various methods, techniques, and procedures of data collection and method of data analysis were employed to collect and analyze the data for this study to reach the final conclusion on how microfinance helps the growth and development of MSE. It also discussed the population, sample frame, sample size and sampling techniques that were used during the research study.

3.2. Profile of the Study Area

The Somali Regional State of Ethiopia is the second largest region in Ethiopia after Oromia Region and covers a total area of 350,000 km². It's located in the east and southeast of the country and lies between 4 and 11 degrees north latitude and 40 and 48 degrees east longitude. The region has 11 administrative zones consisting of 93 districts and 6 town councils, which is further divided into 1,864 kebeles. These eleven administrative zones are: Fafan, Siti, Nogob, Jerer, Korahey, Warder, Shabele, Afder, Liban, Dawa and Erar and the six administration city councils are; Jigjiga, Dhagehbour, Godey, Kabridaher, Tog-wajale, and Kebribayah. The region shares borders with Somalia to the east and southeast, Kenya to the south and Djibouti to the north. It borders with Afar and Oromia region of Ethiopia to the northwest and west respectively (SoReBoFED, 2014).

3.3. Population of the study

The population of the study covered in this research study was the entire MSEs owners and operators including MFIs in Somali Region of Ethiopia. To analyze the data at enterprise level, a focus had given to the owners and operators of MSEs which have the access of MFI services to check whether their business enterprises, their living standard had got changed after the financial and none financial products and services of MFIs. This population had been given a priority due to the needy of the population living in the Somali Region of Ethiopia.

3.4. Research methods and design

A mixed-method strategy was used for this research study in which both qualitative and quantitative method was used. More than one method of approach can be used when a mixed method strategy is used in a data collection and analyses in a given research study (Romano, 1989). Multiple-method research design was used for this research study. This approach increases the reliability of the research study. A combination of primary survey-based data with secondary data from both MFIs and MSEs were designed for the study.

3.5. Sampling Frame

A sampling frame was constructed based on the study area. The list of business enterprises in rural and urban areas that have the access to the services of MFIs in the study area was generated from the MFIs and Somali Regional Micro and Small Scale Enterprises Development Agency (SoReMSEDA) that are found in the study area. Having in mind those parameters of MFIs and MSEs the final sample size for the study was selected.

3.6. Sampling Techniques and Sample Size

The study required a data from a different area because it identifies aggregate study group and forms different clusters for this reason the researchers identified for the study required multi-stage random sampling technique and adopted for the study. It was impossible to collect data from the whole target population due to financial and time constraints but efforts were made to collect data from the entire population by selecting reasonable sample from the whole Region by selecting five zones in which a total of 350 questionnaires were distributed to both MFIs and MSEs owners and operators that operate in Somali Region. About 100 questionnaires were handed to MFIs operators while in this region there were 3,420 MSEs that were registered and out of this number of registered MSEs, only 1,155 MSEs got the services of MFIs and the researchers randomly selected 250 MSEs.

3.7. Source of data, method of data collection and techniques of data analysis

Primary and secondary data were collected using a checklist of leading questions from national bank of Ethiopia and Association of Ethiopian MFI, MFIs, federal MSEs development agency, regional MSE development agency and Somali Region Bureau of finance and economic development (SoReBoFED) operating in Ethiopia in general and Somali Region in particular including various research papers, articles and journals, government and many international and local NGOs. The data of this research has been collected using many methods of data collection such as; Observation, structured questionnaire and interview, and documentation. After the required data for the study has been completed, it was described in the form of graphs, pie charts, and tables using descriptive statistics to analysis and summarized the aspects of MFI and MSE. In addition to this, inferential analytical techniques were used for the analysis of the collected data. Basically the inferential analytical techniques that were employed are Multiple Linear Regression, and correlation analysis. Analyzes of the data was done with the help of SPSS v. 20 to find descriptive and inferential statistics, including frequencies and percentages because it has inbuilt formulas which can also be used to generate charts, correlation, tabulated reports and many more techniques of analysis. The analytical model of regression was used for the study and it represents the independent variables and the dependent variables measured by using various questions asked was shown as follows;

$$Y = \alpha + \beta_{1X} + \beta_{2X} + \beta_{3X} + \beta_{4X} + \beta_{5X} + \beta_{6X} + \beta_{7X} + \epsilon \quad (1)$$

Where: Y = Growth and development level of MSEs

X1 = Sex of owners and operators of MSEs

X2 = Age of business enterprise

X3 = Education level of owner/operators

X4 = Marital status of owners/operators

X5 = Industry Sector of business enterprise

X6 = Training service of MFI

X7 = Microcredit of MFI

β = Coefficient of independent variables

α = Intercept that is the value of Y when all other variables take the value of zero

ϵ = Error term. Also known as residuals

3.8. Variables of the study

The study has three independent variables that were further divided into different categories consisting of owners' and operators' characteristic variables, firm characteristics variables and microfinance financial and non-financial product and service variables measured by its accessibility and adaptability of these products and services. The owners' characteristic variables were variables such as the age, level of education, marital status, and gender. The firm characteristic variables were the duration of the business enterprise, industry sector, and a number of business enterprise employees while MFIs characteristic variables were the financial and non-financial services of MFIs.

IV. PRESENTATION AND ANALYSIS OF DATA

4.1. Profile of the Respondents

Table 4.1: Profile of the respondents

Sex of the Respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	100	41.3	41.3	41.3
	Female	142	58.7	58.7	100.0
	Total	242	100.0	100.0	
Age of the Respondents					
Valid	18-25	43	17.8	17.8	17.8
	26-35	143	59.1	59.1	76.9
	36-49	53	21.9	21.9	98.8
	50-70	3	1.2	1.2	100.0
	Total	242	100.0	100.0	
Education Level of the Respondents					
Valid	Grade 1-8	63	26.0	26.0	26.0
	Grade 9-12	57	23.6	23.6	49.6
	Diploma	82	33.9	33.9	83.5
	First Degree	37	15.3	15.3	98.8
	Second Degree	3	1.2	1.2	100.0
	Total	242	100.0	100.0	
Marriage Status of the Respondents					
Valid	Married	152	62.8	62.8	62.8
	Unmarried	76	31.4	31.4	94.2
	Divorced	14	5.8	5.8	100.0
	Total	242	100.0	100.0	

As it can be revealed from the table 4.1, it provides information regarding the socio-economic profile of the respondents; about 58.7% of the total respondents were female, while about 41.3% of the total respondents were male. Therefore, the study found that majority of the respondents for this study was female. It further tells that majority of the clients of the MFIs in Ethiopia, particularly that benefited from the MFIs were female. The analysis of the study also goes for the age of the respondents to have brief information about their age and found that 17.8%, 59.1%, 21.9%, and 1.2% of the total respondents were in between; 18-25, 26-35, 36-49, and 50-70 respectively. Therefore the study revealed that the age of the majority of the respondents was in between 26-35 that is about 59.1% followed by 21.9% of the age in between 36-49. This age shows that the respondents are in the age of working as defined by OECD (2018) that working age of the population is the age in between 15-64.

In addition to the sex and age of the respondents, the study found out when the education level of the respondents were looked because it has a great effect on the source of capital specially in the first start-up of business (Masakure, 2008) and found 33.9%, 26%, 23.6%, 15.3%, and 1.2% of the total respondents have education level of diploma, grade 1-8, grade 1-12, first degree, and second degree respectively. Therefore the education levels of the majority of the respondents had diploma level of education followed by grade 1-8. The study looked the marital status of the respondents and found that 62.8%, 31.4% and 5.8% of the total respondents were married, single and separated respectively. Therefore, the observed marital status of the majority of the respondents was married followed by a single.

Table 4.2: Characteristics of Business Respondents
Duration and occupational distribution of enterprise

		Freq	Percent	Valid Percent	Cumulative Percent
Age of the Business Enterprises	1-5 years	133	55.0	55.0	55.0
	1-10 years	93	38.4	38.4	93.4
	Above 10 years	16	6.6	6.6	100.0
	Total	242	100	100	
Business Enterprise sector	Agriculture	44	18.2	18.2	18.2
	Service	50	20.7	20.7	38.8
	Trade	77	31.8	31.8	70.7
	Construction	31	12.8	12.8	83.5
	Manufacturing	40	16.5	16.5	100.0
	Total	242	100	100	
Start-up capital and its source					
Start-up capital of business enterprises	1,000-50,000	105	43.4	43.4	43.4
	50,001-100,000	79	32.6	32.6	76.0
	100,001-500,000	58	24.0	24.0	100.0
	Total	242	100	100	
Source of business enterprise start-up capital	Own Saving	177	73.1	73.1	73.1
	MFI	61	25.2	25.2	98.3
	Borrowed Capital	4	1.7	1.7	100
	Total	242	100	100	
Size of employees and development level of the business enterprises					
The current development of your business	Newly started	33	13.6	13.6	13.6
	Young, but with established production and customers	77	31.8	31.8	45.5
	Growing	87	36.0	36.0	81.4
	Well established, with steady production and customers	23	9.5	9.5	90.9
	Mature, but in need of renewal	22	9.1	9.1	100.0
	Total	242	100	100	

Table 4.2 shows that 55%, 38.4%, and 6.6% of the total business respondents have been doing their business for about 1-5 years, 1-10 years, and above 10 years. Therefore, the majority of the business respondents were doing their business 1-5 years since their business inception followed 1-10 years of business service. Based on this concept the majority of the business respondents have the near about same age with the exception of the others. It was observed that MFIs existence in this region is the main causes for the establishment of many of these MSEs as the first MFIs establishment date goes back to 2011 in the Somali Region. In addition to this, the study also investigated the type or sector of the business enterprises and found 18.2%, 20.7%, 31.8%, 12.8%, and 16.5% of the total enterprises were; agriculture, service, trade, construction, and manufacturing type of business respectively. Hence the business sector of the majority of the enterprises was a trade kind of business enterprise followed by services type of business enterprise. As it can be seen from table 4.2 regarding the start-up capital of the business respondents, the start-up capital of the majority of the business respondents were in between ETB 1,000-50,000 followed by ETB 50,001-100,000. Hence, based on the initial start-up capital of these business enterprises, the study found about 76% of the enterprises fall under the microenterprise while about 24% fall under the small enterprise. However, based on the Ethiopian context analyses that the researcher have conducted about the determination of the business enterprises in terms of their capital, the majority of the business respondent fall under micro enterprises.

In line with the above discussion, the study analyzed the development level of the business enterprises and found that about 13.6%, 31.8%, 36%, 9.5% and 9.1% of the total business respondents of the study were newly started, Young, but with established production and customers, Growing, Well established, with steady production and customers, and Mature, but in need of renewal business enterprises. Hence, as it can be seen from the discussion regarding with the current development of the business enterprises, the majority of the businesses' current level of development were business enterprises that were in the process or the stage of growth followed by business enterprises that were young, but with established production and customers. In Ethiopia, about 190,587 new MSEs were established in Ethiopia in the year 2015/16 alone according to the National Bank of Ethiopia and these newly established MSEs employed around 1.7 million people (NBE 2016).

4.2. Financial Service Contributions of MFI on the Growth of MSE in Ethiopia

The study was investigated based on a survey conducted to achieve the objectives of the study. To handle this 250 respondents were randomly selected as a sample for the study from the population that have the access to the financial and non-financial services and products of MFIs in Ethiopia for at least a period of five years from 2016 in Somali Region of Ethiopia but the

copies of questionnaires returned to the researcher was 242 only. In developing countries, unevenly distribution of wealth is a common problem by which the follow of capital to micro or small from medium or large enterprises is not available at all levels, to ensure that there are a number of institutions to assist resources to reach the hands of the poor and poorest and created programs related to microcredit. The aim of this program was to help the poor or MSEs to get the access to finance and employment opportunities that consequently lead to income generation of the poor and the poorest (ICDF, 2002).

Table 4.3: Distribution of loan to MSEs and its usage pattern among respondents

Have you ever applied for a loan (borrowed capital) to finance your business?		Loan usage pattern among respondents		Total
		To start a business	To expand existing business	
Valid	Yes	91	147	238
	No	2	0	2
Total		93	147	240
		If it is borrowed. Where?		Total
		MFI	Banks	
Valid		235	1	236
Total		235	1	236

Table 4.3 above shows us MSEs loan and its purpose in which out of the total respondents about 238 business respondents from a total of 240 got a loan from the MFIs in Ethiopia. But, their objective of getting a loan was different from one another. 91 business respondents got a loan from the MFIs to start a new business in which they need to use as initial start-up capital for their business enterprises while about 147 got a loan from MFIs for expansion of their existing business enterprises. Therefore, it was deducted from the discussion the majority of the business respondents which is about 238 business got a loan from the MFIs in Ethiopian particularly Somali Region. In addition to the loan borrowed and its purpose, the business respondents have been asked where they borrowed the loan for their business enterprise establishment and expansion as well to be clear with the MFIs services contribute in terms of finance to the growth and development of MSEs in Ethiopia. A total number of 236 business respondents from the total sample of 242 business respondents in which about 235 got a loan from the MFIs in Ethiopia and only 1 business enterprises respondents got a loan from Banks. Hence, as it can be seen from the above discussion MFIs in Ethiopia have a great contribution in terms of financial access to the MSEs with the objective of poverty elimination through employment creation and income generating for the poor and poorest through business enterprises.

4.3. Non-Financial Service Contributions of MFI on Growth and Development of MSE in Ethiopia

To achieve the objectives of the study, the study sought to analyze the number of business enterprises received non-financial services of MFIs operating in Somali Region of Ethiopia.

Table 4.5: Availability and objectives of MFIs' products designed for MSE

Does MFI have special products and services designed for MSE?		Freq	%	Valid %	Cumulative %
Valid	Yes	75	100	100	100
Objectives of these products and services					
Valid	To enable MSEs to mobilize funds	1	1.3	1.3	1.3
	Business expansion, Encourage saving culture, Enable MSEs Mobilize funds & Use as collateral for accessing future loan	74	98.7	98.7	100
	Total	75	100	100	

Table 4.5 shows us MFIs have a special product designed for the growth and development of MSEs such as loan scheme, training, and education. About 75 questionnaires filled and returned back to the researcher out of 100 that were distributed to MFIs in Somali Region of Ethiopia so as to know whether there were products designed for MSEs growth and development regardless of their nature of the products such financial or non-financial products by the MFIs in the region. 100% of the respondents replied that there are products that were designed for growth and development of MSEs. In addition to the above being said, the study further investigated the intended objective of these products by the MFIs and about 98.7% of the respondents replied that the objective of these products designed for MSEs was; business expansion, encourage saving culture, Enable MSEs to mobiles funds and uses as collateral for future loan from the financial institutions while only 1.3% of the respondents said that MFIs products are only intended for enabling MSEs to mobilize funds. Therefore, as it can be seen there are products designed for the growth and development of MSEs.

4.4. Regression and correlation analysis

According to statistics solution (2018), MLR is the most common form of linear regression analysis. So, the determinants of MSE growth and development relationship with financial and non-financial service contributions of MFI, a multilinear regression model was employed so as to know and establish relative effects of financial and non-financial contribution of MFI on the MSE growth and development in Ethiopia with particular to Somali Region because it made easier the adjustment of independent variables as MLR allows controlling explicitly many other factors that can simultaneously affect it. The proposed dependent variable for this study was the growth and development level of business enterprises and financial products and service

particularly microcredit while non-financial products and service such as training and consultancy service of MFI were the independents.

The study sought to investigate the relationship and strength of the variables (independent and dependent variables) using correlation. In addition to this, analysis of variance (ANOVA) and determination coefficient have been produced by the model used for the study to know that the significance mean difference between the variables that are independent and dependent variables and ANOVA was conducted at 95% of confidence level.

Table4.6. Regression Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.348 ^a	.121	.095	1.055
a. Predictors: (Constant), MFI Microcredit, Marriage Status of the Respondents, Industry sector of enterprise, Sex of the Respondents, Training service of MFIs, Age of the Respondents, Education Level of the Respondents				

As it can be revealed from the above summary of the regression model table 4.6 summary of multiple linear regression model and its overall fit statistics which has been used to analyse and establish a relationship between the variables used for the study including age of the owners and operators and business, sex and education level of the respondents, and business sector. The study using the above-mentioned model got a correlation value of 0.348. This value shows us the relationship that existed between the growth and development of MSEs with the factors that affect which is mean the independent variables in Ethiopia particularly Somali Region is a positive relationship which means, there is a linear dependence of growth and development of MSEs to the financial and non-financial products and services of MFIs though it's not highly correlated because of the correlation value obtained which is not close to 1. With an adjusted R-square value of 0.121 which is to mean that the financial and non-financial products and services of MFI as the model explains, there is about 12.1% of variation of the growth and development business enterprises but are highly influenced by another factor that has not been explained in the model.

On the other side, this can be explained, the growth and development of MSEs that operate in Ethiopia particularly Somali region were not highly dependent on the financial and non-financial product and service contributions of Ethiopian MFIs particularly Somali MFI for their business establishment and expansion as well. Hence, as it can be seen from the above correlation value, it can be concluded that the financial and non-financial products and services of the Ethiopian MFI, particularly Somali MFI, have a small contribution on the growth and development of MSE in Ethiopia particularly Somali Region though it was not that much contribution as expected.

Table 4.7: Summary of Model and ANOVA Test

ANOVA ^a						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	35.876	7	5.125	4.608	.0001 ^b
	Residual	260.256	234	1.112		
	Total	296.132	241			
a. Dependent Variable: Growth and Development level of business enterprise						
b. Predictors: (Constant), MFI Microcredit, Marriage Status of the Respondents, Industry sector of enterprise, Sex of the Respondents, Training service of MFIs, Age of the Respondents, Education Level of the Respondents						

As it can be revealed from the ANOVA statistics in the above table 4.7, after the data collected was processed, it was obtained that a P value of 0.0001 and this value is less than the significance level which is 0.05 this indicates the result of the study is statistically significant. The model had F ratio of 4.608 which is significant at 0.05 level of significant. Overall the result of the model shows us the model is statistically significant and useful to predict at a significant level of 0.05. Hence, this result indicates the variable of financial and non-financial products and services of MFIs (microcredit and training and consultancy of MFI) are statistically significant for growth and development of business enterprises prediction.

4.5. Hypotheses Test

The study used a regression model to draw inferences about the sample population, a t-test was also used because t-test is one of the inferential types of statistics that are used to discover the significance difference of a group of two means (Del Siegle, 2002). It has been assumed dependent variable perfectly fits the normal distribution and used to prove the hypothesis using the sample results obtained. Besides this, the key idea of t-test was to specify the probability level of willing to accept the null hypothesis or not. Therefore, this study calculated for about two type of relationship that needs to be tested using ANOVA. For the test hypothesis of this study, the decision rule made was based on the observed P value in which if it's less than alpha with the confidence level of 0.05, null hypothesis of the study will be accepted which will lead to reject the alternative hypothesis vice versa. A hypothesis test was done at a significance level of 0.05. The result of a regression model that was presented for growth and development level of MSE shows the effects of MFI products and services contributions on the growth and development of MSE as follows:

Growth and development level of business enterprise = $\alpha + \beta_{1X}(\text{Sex of owners/operators}) + \beta_{2X}(\text{Duration of enterprises}) + \beta_{3X}(\text{Education level}) + \beta_{4X}(\text{Marital Status}) + \beta_{5X}(\text{Business sector}) + \beta_{6X}(\text{Training and consultancy of MFI}) + \beta_{7X}(\text{Microcredit of MFI}) + \varepsilon$

Where: β = the coefficient of independent variables.

α = Intercept value of Y when all other variables take the value of zero

ε = Error term. Also known as residuals

Table 4.8: Regression output using growth and development level of business enterprise

Model		Coefficients ^a			t	Sig.
		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta		
1	(Constant)	3.410	.255		13.384	.0001
	Microcredit products of MFI	-.241	.109	-.143	-2.213	.028
	Training and consultancy services of MFI	-.130	.055	-.152	-2.354	.019
a. Dependent Variable: The current development of your business R Square 0.188 Adjusted R Square 0.027						

To achieve the objectives of the study hypothesis were formulated and tested as discussed as follows;

H₀₁. Financial services of MFIs have significant effects on the growth of MSEs

H₁₁. Financial services of MFIs have no significant effects on the growth of MSEs

As it can be revealed from the above coefficient table 4.8, there is a significant relationship of financial services of MFIs with the growth and development level of MSEs with a P-value of 0.028 at a 95% of confidence level. Therefore, these results lead the study to accept the null hypothesis while it rejects the alternative hypothesis which is MFIs financial services have no significant effects on the growth and development of MSEs in Ethiopia particularly Somali Region.

H₀₂. Non-financial services of MFIs enhance the performance of MSEs for growth and development

H₁₂. Non-financial services of MFIs do not enhance the performance of MSEs for growth and development

Besides the first hypothesis, the above coefficient table 4.8 also indicates that there is a significant relationship of non-financial services of MFIs with the growth and development level of MSE having a P-value of 0.019 at a 95% of confidence level. Hence, these results lead the study to accept the null hypothesis formulated for the study which makes the study to reject the alternative hypothesis which is Non-financial services provided by MFIs does not enhance the performance of MSEs for growth and development in Ethiopia particularly Somali Region. In Ethiopia due to the transaction and other related cost conventional banks are only visible to business enterprises that are relatively medium and large but could not able to reach a large number of MSEs (Wolday A. and Gebrehiwot 2005). A survey study done by Haftu B., et al., (2009) has been confirmed that about 25% of MSEs have the access to banks while the rest that about 75% of MSEs in Ethiopia have a relationship with the MFIs in Ethiopia. In addition to this confirmation, this study has been confirmed that MSEs that are operated in Ethiopia, particularly Somali Region, has a relationship with the Ethiopian MFIs particularly Somali MFI.

In Ethiopia, there are many MSEs that were successful and managed to grow to small and medium business enterprise from micro enterprises (Woday A., Tasse W., 2017). But, in addition to above factors that help the growth and development of MSE in Ethiopia particularly Somali Region, there are other institution that provide support to the MSEs such as government and non-governmental organizations because increasing financial service access of credit and saving to the microenterprise has become for many donors and government priority though on a global scale the fund of government and donor cannot possibly finance microcredit (M.S. Robinson, 2001) as confirmed by Somali MFI when a survey of this study was conducted asking whether there were other factors that seriously involved in the growth and development of MSEs in which about 100 % of MFIs respondents replied "Yes". FeMSEDA and ReMSEDA provide non-financial service support to the MSEs such as developing machineries and prototypes for the operators of MSEs.

Table 4.9: MFI service contribution evaluation

How do you evaluate the MFIs' service contribution in your business?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very High	81	33.5	33.5	33.5
	High	125	51.7	51.7	85.1
	Fair	30	12.4	12.4	97.5
	Low	5	2.1	2.1	99.6
	Poor	1	.4	.4	100.0
	Total	242	100.0	100.0	

As it can be seen from table 4.9, the study investigated how the service contribution of MFI that is found in the study area was evaluated by the business enterprises respondents. 81 of business enterprises evaluated the MFIs service contribution to their business as “very high”. 125 of business respondents evaluated as “High”, 30 business respondents, 5 business respondents, and 1 respondent of the total business respondents as “Fair, Low, and Poor.” respectively. Hence, MFI in Somali Region were evaluated based of the financial and non-financial product and service contributions to their clients (MSEs clients) and was evaluated as “High” by the majority of the business enterprises respondents of the study.

V. CONCLUSION

The discussed the effects of financial and non-financial product and service contributions of MFIs on the growth and development of business enterprise in Ethiopia particularly Somali Region. A comprehensive exploration was offered on the factors that have an effect or influence the growth and development of MSE. The study firstly identified these factors as two different factor namely financial services such as microcredit and non-financial services such as training and business consultancy. On the MSEs side in which the study was sought to investigate their growth and development effects by the MFIs product and service for growth and development, a detail information regarding MSEs such as firm characteristics, age, nature of business, sex of the owners and operators were collected from the owners and operators of MSEs in Ethiopia. For the growth and development of MSE, a massive program was implemented in which it has been designed by the government of Ethiopia in which out of these program accesses to financial service for poor and poorest of MSEs was among the program in which it was highlighted in Ethiopia MSE Development strategy. The study sought to investigate the role of MFI in developing MSE in Ethiopia particularly Somali Region. MSEs got different products and services from the Ethiopia MFIs that were found in the study area that was Somali MFI in the year of 2012 to 2016. During this period the study found that the financial and non-financial service of MFIs had effect in terms of their products and services contribution on the growth and development of MSE. It has also been proved that financial and non-financial products and services of MFI positively related to the growth and development of MSE in the country particularly Somali Region.

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