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The role of microfinance in funding Small & Medium Enterprises: Harekello Town of Goro Dolla District in Focus, Ethiopia

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Abstract. This study examines the role of the Microfinance on funding of the Small and Medium Enterprises (SMEs) in Gorodola Harakallo town. This study was exploring the role of microfinance institutions on small and medium enterprise as well as the extent to which the small business have benefited from the credits scheme of microfinance institution. The specific objectives of this study were as follows; to determine at what extent role of microfinance lead to increase the volume of gross sales of participants and to understand other factors that affect SME's growth. This study tries to answer two important questions: To what extent does microfinance lead to increase the growth of sale costumer? What are the factors that affect small and medium enterprise growth? The literature review also describes the objectives and function of MFIs, role of microfinance policy, development and policy of SMEs challenges and opportunity and relationship between MFIs and SMEs. With regard to the above objectives in mind, the research is carried out by gathering primary data through questionnaires and interviews with key informants. In addition, secondary sources of data have also been used. Eventually, using a mix of qualitative and quantitative tools, the study found out that SMEs have played positive role in improving income, creation of employment and improving the quality of life of the participants of the enterprises in the study area.

Keywords. Small and Medium Enterprises, Micro finance, Cooperatives, Loan and Credit, Harekello Town

Introduction

1.1 Background of Study

Funds of small and medium enterprise play a great role all over the world in economic, social and political development. Small and Medium Enterprises (SMEs) have played and continue to play significant roles in the growth, development and industrialization of developing countries. Accordingly, most developing countries have formulated and implemented a wide variety of SME development strategies in order to support the growth of the sector, there by transforming economies and generating substantial employment opportunities. This is clearly known small and medium enterprise to contribute significantly to employment creation, income

generation and stimulation of economic growth in both urban and rural areas, as ILO in (1999) explained.

The importance of SMEs to the national economy and increasing government support, many of them remain unable to fulfill their full potential due to limited access to finance. According to a report released by the World Bank (World Bank, 2015), small firms face greater challenges in obtaining formal financing than large firms; they are much more likely to be rejected for loans and are less likely to have external financing due to a lack of collateral and credit history. Microfinance institutions predominantly provide micro credit to micro enterprises while banks service medium and large enterprises. Small and medium enterprises in Ethiopia are currently excluded from the banking sector credit due to their size (too small to be served by banks) and inability to meet excessive collateral requirements. MFIs, on the other hand, have only been able to meet a small proportion of the demand from small and medium sized enterprises for finance due to limited liquidity, restrictive loan ceilings and strict collateral requirements.

According to EEA in (2014) states that in our country microfinance institution in funding small and medium enterprise has vital role in social and economic development in poverty reduction strategy to improve access and efficient provision of saving ,credit and insurance facility in particular can enable the poor to smoothen their consumption, manage their risk ,built their gradual assets and develop their enterprise. SMEs also have great value in Ethiopian socio-economic growth as it requires small capital, promote inter-linkages as it is a base for medium and large scale enterprises, increased domestic saving and investment.

Also they help for balanced in development provision of goods and services which inter-sectoral are better adapted to local needs, access to improve quality of work and working conditions which may contribute to a better quality increased economic participation of disadvantaged and marginalized groups in society, access for training and development of human resources stimulating innovation, entrepreneurship, technology development, research, and eventually alleviation of poverty. Small and medium enterprise mainly in the form of micro credit with exception of cooperative based microfinance institution which dominantly saving based.

According to Chijoriga (2000) point out that MFIs help to promote enterprise culture among SMEs by providing various financial services to SMEs. These services include; advancing loans and provision of credit management training to SMEs and holding their deposits. These services together help to promote Microfinance institution in small and medium enterprises is one of the most efficient instruments to promote economic development and to fight poverty in poorer country. M.S. Robinson asserts that “if it were widely available, institutional commercial microfinance could improve the economic activities and the quality of life of hundreds of millions of people in the developing world”.

According to EEA in (2014) states that small and medium enterprise (SMEs) has been a phenomenal growth in the number and the sizes of employments generated by the sector in the last few years moreover the growing tendency to self employed by many young graduates from different college and university of waiting for employment from public or private sector has been encouraging. Small and Medium Enterprise (SME) sector has emerged as a highly vibrant and dynamic sector of the Ethiopian economy over the last decade. SMEs not only play a crucial role in providing employment opportunities but also contribute enormously to the socio-economic development of the country, notably in their role as catalysts for the transition to an industrial society. SMEs are viewed as seedbeds for the development of medium and large enterprises. SMEs is one the strategic directions to pursued by the governments during the implementation period focusing on promoting the development and competitiveness of micro

and small enterprises. Various business and to promotes the SMEs and generate employment opportunities, SMEs engaged in manufacturing activity have been growing by slower than the growth by large and medium scale manufacturing.

The Small and Medium Enterprises consist of many businesses in the country and in the course of the years, grown to the level of becoming business good and service supplier to very big businesses that involves international and intercontinental conglomerates.

According to Ahmed in (2006) point that SMEs have led to the growth and expansion of businesses output, lead to increasing activities of various businesses more especially in the field of manufacturing.

Finally, Small and Medium Enterprises (SMEs) continue to experience difficulty in obtaining capital, these funding gaps relate to firm size, risk, knowledge and flexible.

1.2 Statement of the problem

Microfinance institution (MFIs) is set up to provide funding for the enterprising poor through cycling of loans and repayments to expect that the small and medium enterprise is increasingly enforce and to grow. Various studies have shown persistence of poverty and the unprecedented level of unemployment that characterized Ethiopia in general and urban areas in particular.

The role of SMEs provides significant contribution to the economy in respect of employment and output in many African countries. But, in Ethiopia case this sector are marginalized and do not get much emphasis. Especially in Harakallo town, like other towns of the country, the number of population is changing radically, but the poverty and unemployment rates are increasing as of its population.

Though poverty and unemployment of the city is high, the researcher wants to conduct this research to solve this problem. In addition to this to tackle these problem have not been given seriously and the various tools of reducing poverty which ultimately improve the socio-economic development of the town are not given proper attention it deserves. SMEs is one of the tools to help improve the socio-economic development yet, practically, there are scanty studies to complement these resulting in knowledge gap regarding the SMEs contributions to the development of socioeconomic and the constraints of the SMEs face to be diversified. Due to these and other many constraints the SMEs development is not diversified as to play roles in the city and hence is vital to study on them.

According to MFIs are cheaper way of source finance to small and medium enterprises very little is known as the actual cost of microfinance clients to access this service except interest rates. There are also other costs related to the process of obtaining information about the services and the whole process of applying for the loan cost of getting transportation to make loan payments, time agent obtaining loans and tracing the debt all are referred as transaction costs.

These includes the problems of numbers SMEs and the sizes of employment performed by different sector in the last year although improvement has been registered during few years the performance of SMEs has 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.

However, the objective of reaching and providing financial resources for these SMEs and the poor is far from being reached.

According to the World Bank's report and International Development Law Organization (IDLO) (2008), This and many more suggest a possible challenge facing the SMEs in their operations.

Generally this study will investigate the role of microfinance services on the growth of SMEs in Gorodola Woreda Harakallo town to investigate the benefits of microfinance loans if they outweigh the costs of incurred by SMEs when service loan liability and the contribution of MFI in Gorodola Woreda on improvement of household welfare of SMEs.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study will be to analyses the contribution of role of microfinance institution in funding small and medium enterprise in Harakallo town.

1.3.2 Specific Objectives

To achieve the specific objective of this study pursued by the following:

1. To determine at what extent accessibility of microfinance lead to increase the growth of sale participant.
2. To examine factors that affects small and medium enterprises growth in Harakallo town.

1.4 Research hypothesis

Consequently, the following hypothesis was postulated;

1. To what extent does microfinance lead to increase the growth of sale costumer?
2. What are the factors that affect small and medium enterprise growth?

1.5 Significant of the study

First this study will help microfinance service and the growth of SMEs. Particularly with focus on their livelihoods for both planner, policy maker in the government agency and NGOs .This will help them come out with substantive possible alternative, intervention which might help to address and challenge which small and medium enterprises faces.

Secondly this study offer empirical evidence on the role of microfinance services on the growth of small and medium enterprise paused for short term and long term interventions specially fight against poverty. Finally both the government and public enterprises are benefited from this study.

1.6 Scope of the Study

This study is delimited in the center of Gorodola Woreda in the Harakallo town is simply analyzing accessibility, connectivity& distance to the most central place. Due to financial and time constraints the scope of the study is limited only to small and medium enterprise in the town.

1.7 Limitation of the Study

This study will be limited because of simply analyzing accessibility connectivity distance to the most central place in study area, demand, and supply, market stability in the study area.

2.1. Literature review

2.1 Introduction

Microfinance is regarded as an effective tool for poverty reduction .World bank has proposed asset of strategies for attacking poverty ;promoting opportunity facilitating empowerment ,and enhancing security (world bank 200).microfinance provides access to financial services that can help to reduce poverty by both promoting opportunity and facilitating

empowerment and used to financial services to for poor and low income clients .David Rodman(2010) defines microfinance is the provision of financial services to low income clients including costumers and the self-employed who traditionally lack access to banking and related services .It refers to institution that specializes in making very small loans to very poor persons in developing countries. Instead of using collateral to assure repayment, these lenders social pressure within the borrowers community includes small loans (microcredit) to poor peoples to helps them engage in productive activities or grow very small business.

Schreiner and Colombet (2001) point out microfinance offers to improves access to small deposit and small loans for poor households access to basic financial services such as loans ,saving money transfer services ,and micro insurance to poor households living in urban and rural . .initially MFIs provided microcredit's as their sole financial products firms serving the needs of poor households and micro entrepreneurs.

2.2. Microfinance

Microfinance is a provision broad range of financial services money transfer insurance to poor deposits loan payment services and low income households their micro enterprise microfinance services are provided by three type of source ;

- ❖ Formal institutions such as rural bank and cooperatives
- ❖ Semiformal institution such as NGOs
- ❖ Informal sources such as money lender and shopkeepers

Institutional microfinance is defined to microfinance services provided by both formal and semiformal institution.Although it is not limited to MFIs, they are the major lenders to SMEs throughout the country. Obviously, large scale commercial banks do not extend loans to SMEs due to high transaction costs and inability of SMEs to fulfill the various requirements of big banks.

The number of MFIs increased from 11 in 1998/99 to 31 in 2010/11 depicting slower growth in the face of the mushrooming of SMEs in the country.

Some of the Issue of microfinance institutions is defined as institution whose major business is provision of microfinance services, this services helps families to start and build micro enterprises very small business that are important sources of income and economic vitality in developing country.

As REPOA (2006) states, microfinance does not only cover financial services but also non-financial assistant such as training and business advises. Microfinance institution fill a needed gap within the financial services industry by offering small loans to people unable to access conventional loan services .microfinance institution access to credit can play a pivotal in economic growth ,banks and lending institution provides the services that allow people to save and invest available assets and resource which further supports and strengths economic activity .with in underdeveloped community the of microfinance institution provides the credits access and financial services to develop income earning business . According to MIFOS (2005) microfinance sometimes called " banking for poor "microfinance services can also contribute to the improvement of resource allocation ,promotion market and adoption better technology ,thus microfinance is help to promote economic growth and development ,microfinance can provide an effective way to assist and empower poor women, who make significant proportion of poor and suffer disproportionality from poverty .

According to Rubambey .G in (2001) states that Microfinance can be critical element of poverty reduction strategy improved access and efficient provision saving, credits and insurance facility in particular enable to the poor their consumption manage risk better built asset. Gradually develop microenterprise, enhance income earning capacity and enjoy improved

quality life. The main feature of microfinance institution which are differentiate it from other commercial institutions are such that it is a substantial formal credit generally require no collateral have simple procedures and less documentation easy and flexible scheme financial assistant of members group in case of emergency most deprive segment of populations are efficiency targeted and last but not least is group interaction.

As Jain P.S (2000) states, Microfinance services have triggered a process toward broadening and deepening of rural financial markets and have strengthened the social and human capital of the poor, particularly women, at the household, enterprise, and community level Sustainable delivery of microfinance services on a large scale in some countries has generated positive developments in microfinance policies and practices among all, microfinance service providers, and external funding agencies.

According ADB (2000) point out that Microfinance institutions attempt to overcome these barriers through innovative measures such as group lending and regular savings schemes, as well as the establishment of close links between poor clients and staff of the institutions concerned.

2.3. Demand of microfinance

Rutherford's and S.S. Arora in (1997) states that Poor and low income households who need financial services large and the types of services they need vary across households microenterprises over a time have a large demand for safe convenient deposit services, this reflect the importance of saving for these households and enterprises for variety of reasons .the poor need to save emergencies, investments, consumption, social obligation and education for children and many other purpose. They have the capacity and willingness to save .saving is the important for enterprises and provides them for major source of investment funds. Large demand and service needed across households and microenterprises and over the time have created have scope for commercial financial intermediation .demand deposit service among the poor is confirmed by empirical evidence .example ,number of saving accounts and accounts belongs to poor households.

Omboi and Wangai (2011) found out that the level of income of a small-scale entrepreneur is an important component that determines demand for credit. Demand for credit is shown to be more in households with higher income indicating that these entrepreneurs had better ability of repaying loans extended to them by formal commercial banks or any other formal financial institutions. Due to their ability to generate higher incomes, they had accumulated collaterals to secure loans. What this implies is that wealthier entrepreneurs were more likely to succeed in securing credit from formal financial institutions while the less wealthy individuals probably obtained from the informal sector.

Chiliad in (2003) states that, "labor-intensive and equitable, combined with larger outlays of social expenditures, especially directed towards the poor are a winning combination in the fight against poverty".

2.4 Supply of microfinance

The market structure in the microfinance varies significantly across the country depending on stage of financial development, level of economic development, policy environment and other factors aspect of the supply, particularly about different types suppliers may useful .microfinance services are supplied by informal sources. Their collective outreach, both breadth and depth, is vast in most countries. They supply mainly short-term credit and charge higher interest rates than semiformal and formal sources because of the relatively greater bargaining power enjoyed by the informal suppliers in general, the terms and conditions under

which services are provided do not enable the clients to fully harness economic opportunities. The informal sources operate in highly localized areas.

Therefore, their contribution to financial intermediation and improvement of resource allocation is also limited. For example, informal sources do not allow savings to be collected from more than a small group of individuals well known to one another, and they do not move funds over large distances.

Most informal insurance mechanisms are typically weak, particularly against repeated shocks, and often provide only inadequate protection to poor households. It is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged with the availability of small-scale loans and would introduce them to the small-enterprise sector. This could allow them to be more self-reliant, create employment opportunities, and, not least, engage women in economically productive activities.

2.5 Role of Microfinance Institutions in Rural Developments

Microfinance institutions provide reliable source of finance support and assistance to compare to source for financing .sources operate outside the microfinance industry typically form informal relationship with borrowers and have no real legal or substantial ties with their customers. In Ethiopia microfinance has a very important role to play in development according to proponents of microfinance .UNCDF (2004) states that microfinance plays three key roles in developments; it helps farms households meet basics needs and protects against risks, associated with improvements in household economic welfare and helps to empower women by supporting women's economic participation and so promotes gender equity.

According to Vetrivel, S and Kumarmangalam.S (2010) states that successful microfinance institution operations demonstrate that the poor repay their loan and are willing to pay higher interest rates if they can access credit. The poor also save, and hence, microfinance should provide those saving facilities and some role of microfinance institutions are; Mobilize deposits in order to expand outreach, who basic financial services to people that don't currently have access to capital. Be grounded on market principles, it creates the possibility of future investments

Contribute to solving the problem of inadequate housing and urban services Provide multi-purpose loans for income generation, housing improvements and consumptions support. Conduct research on demand for finance and saving behavior of borrowers to the mix of multipurpose loans. Enhance credits worthiness of the poor and enables them to qualify for long term credits from the formal sectors. Built financial discipline among borrowers and educate them about repayment requirements.

2.6. Definition of SMEs

Micro, Small and Medium Enterprises constitute the major share in terms of number in Ethiopia; there is no Consistently placed definition for the sub sector by different bodies. In 1997, Ethiopia has defined Micro Enterprises as enterprises with a total asset of less than 20,000 Birr (\$1200) and Small Enterprises as Enterprises with a total asset of Birr 500,000 (\$30,000) or less.

In this definition, the only base used is the total asset unlike international organizations to assign the definition with at least some countries and international organizations, the country has revised the definition of Micro and Small Enterprises in 2011. In the new definition, some of the attributes used by other countries and international organizations are addressed. In addition, the definition has segregated sectors as service and manufacturing. However, there is still confusion among different governmental organizations (e.g. Ministry of Trade, Central

Statistics Agency, & Federal Micro and Small Enterprises Development Agency (FeMSEDA) in defining Micro, Small and Medium Enterprises based on number of Employees, total asset and annual sales. As total asset and annual sales are similar in the definition set, taking total asset is chosen due to ease availability of data. Moreover, since it only focus on small and medium Enterprises, the new definition does not put any demarcation between Small and Medium; and Medium and large Enterprises. There is no unique or universally accepted definition of SMEs that can be applied to all the countries of the world (ITC, 2000). The definition of SMEs significantly varies from country to country, depending on factors such as the country's state of economic development, the strength of the industrial and business sectors, the size of SMEs and the particular problems experienced by SMEs.

Even in Ethiopia, two types of working definitions exist, one used by the Ethiopian Ministry of Trade and Industry (MTI) and another by the Ethiopian Central Statistics Authority (CSA). According to the MTI (1997), the definition of SMEs is based on the level of capital investment of the firm, while the CSA categories sectors into different enterprises based on the number of workers employed in the firm and the level of automation of firms.

Small and medium-sized enterprises (SMEs) are a very heterogeneous group. SMEs are found in a wide array of business activities, ranging from the single artisan producing agricultural implements for the village market, the coffee shop at the corner, the internet café in a small town to a small sophisticated engineering or software firm selling in overseas markets and a medium-sized automotive parts manufacturer selling to multinational automakers in the domestic and foreign markets. The owners may or may not be poor; the firms operate in very different markets (urban, rural, local, national, regional and international); embody different levels of skills, capital, sophistication and growth orientation, and may be in the formal or the informal economy.

Statistical definition of SMEs varies by country and is usually based on the number of employees, and value of sales and/or value of assets. Due to its ease of collection, the most commonly used variable is the number of employees.

SME definitions can be broadly categorized into two, "economic" and "statistical" definitions. Under the economic definition, a firm is regarded as small if it meets the following three criteria:

(1) It has a relatively small share of their market place; (2) it is managed by owners, or part owners, in a personalized way and not through the medium of a formalized management structure; and (3) it is independent in that it is not part of a larger enterprise. The "statistical" definition, on the other hand, is used in three main areas: (1) quantifying the size of the small firm sector and its contribution to GDP, employment and exports; (2) comparing the extent to which the small firm sector's economic contribution has changed over time; and (3) in a cross country comparison of the small firms' economic contribution. These definitions, however, have a number of weaknesses. For example, the economic definition, which states that a small business is? Managed by its owners or part owners in a personalized way and not through the medium of a formal management structure, is incompatible with its statistical definition of a small manufacturing firm which might have up to 200 employees.

According to UNIDO, the definition of SMEs is a significant issue for policy development and Implementation and depends primarily on the purpose of the classification. For the purposes of policy development, UNIDO generally advises countries to take into account the quantitative and qualitative.

According to Kessy & Urio (2006) states that SME can be defined as productive activities either to produce or distribute goods and services, mostly under taken in the informal sectors. Micro enterprise is one with fewer than 5 employers, small enterprise with 5-49

employees, a medium enterprise with 50-100 employees and large enterprise more than 100 enterprise.

Lewis (1955) argued that the driving force behind SME development is excess labor supply, which cannot be absorbed in the public sector or large private enterprises and is forced into SMEs in spite of poor pay and low productivity. The SME sector develops in response to the growth in unemployment, functioning as a place of last resort for people who are unable to find employment in the formal sector. Various theoretical models have been developed which describe the growth of SMEs. According to the National MSE development Strategy and the Development Bank of Ethiopia SMEs are defined by number of employees and net worth. It is also important to note that; the Government of Ethiopia identified growth-oriented SMEs based on their potential for job creation, poverty reduction, local raw material utilization and ease of transformation to medium and large scale businesses in a short period of time. Accordingly, SMEs engaged in manufacturing (metal, leather, textile, wood work, agro processing), construction (contractors and construction material producers), urban agriculture (dairy, cattle fattening, poultry, beekeeping and animal food production), trade (wholesale and retail) and services (hotel, tourism, solid waste collection, etc.) are considered as growth-oriented SMEs.

According to Ethiopian Economic Association in (2014) argued that Small & medium enterprises are described as natural home of entrepreneurship. Most big business in Ethiopia has started as SMEs and has grown to their maturity over a long period by cumulating capital and business management Experiences. SME is sector is considered very important in many economies because they provide job, pay taxes, and are innovative and very instrumental in country participant in the global market.

URT in (2003) stated that, "SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services". As Beck and Kunt (2004) also stated that SMEs activity and economic growth are important because of relatively large share of the SME sector in most developing nation and the substantial international resource from source like world bank group ,that is channeled into the SME sector of this nations .Economic development is a process of economic transaction involving the structural transformation of an economy through industrialization rising ,GNP, and income per head .Economic growth on the other hand contribute to the prosperity of the economy and is durable because it enable the economy to consume and contribute to the more goods and service by increasing in the labor force ,efficient use of input to expand output and technology progressiveness.

The need to manage challenges faced by SMEs in access of finance has now become even more vital amid the increasing forces of globalization and liberalization of business across the world. Likewise, the financial institutions have to observe rigid rules following international standards and the latest economic meltdown that have left majority of the banks with huge nonperforming loan books in the developed world. The financiers will have valuable information and insight on to how they can plan, if at all they are willing to continue financing SMEs .Most SMEs in the country lack the capacity in terms of qualified personnel to manage their activity.

The SMEs play an important role in different developing countries Economy. From MFIs and mainstream commercial banks, the majority of SMEs, particularly at start-ups, are still severely constrained. Financial constraint remains a major challenge facing SMEs (Wanjohi & Mugure, 2008). Thus, they are forced to often rely on limited household savings (self-raised financing), remittances or even donations from charitable organizations as well as sometimes on informal finance, which are known to charge high interest rates (Schell, 1996).

2.7 Source of Finance for SMEs

World bank's financing and know how have helped millions of SMEs to gain access to financial services to manage risks services temporary cash flow constraints, and to grow thus creating jobs and raising incomes. The world bank helps more than 60 countries provides an enabling environments for SMEs with active portfolio of us\$3.2billion for SMEs supports through 38 actives lending projects, with many more SMEs benefiting through WB supported financial institution

According to Adjei in (2010) states critical thought in selecting the source of financing in business is to clout equilibrium between equity and debt to ensure the funding structure suits the business. Finance exists in small and medium enterprises refer to some kind of wealth used to create more wealth for the business. Finance exists in a form of cash. There are always been the tradition of people saving and/or taking small loans from individuals and groups within the context of self-help to start businesses. With regards to sources of finance available to SMEs. These include the following: 1. Existing shareholders and directors funds (owner financing) 2.Overdraft financing 3.Trade credit 4. Equity finance 5. Business angel finance 6. Venture capital 7.Factoring and invoice discounting 8.Hire purchase and leasing 9. Medium to longer term loans 10. Micro Finance Institutions (MFIs)

2.8 Development of SMEs

Ethiopian Government has tried to create an environment that supports entrepreneurship since 1991; Micro, Small and Medium Enterprise (MSMEs) are still at their infancy stage regarding their Economic Contribution. However, the government has strolled a long distance to support Micro and Small Enterprises as it is always call for. Despite the efforts made to support Micro and Small Enterprises, transition from Micro to Small and then to Medium Enterprises is rarely happening which makes the onlooker to vacillate the success of the Micro and Small Enterprises (MSEs) development strategy. Efforts of the government to support MSEs in Ethiopia is revealed indifferent documents like Industrial policy, Micro and Small Enterprises Development strategy, and the Growth and Transformation Plans (GTP I & II).The Growth and Transformation Plans (GTP I & II) seek to transform the economy toward an industrialized economy and to increase per capita income of its citizens by 2025

As Ethiopian economic association reports (2014) ,on Ethiopian economy the promotion of SMEs is one of the strategic directions pursued by the government during the GTP implementation period (2010/11-2014/15), focusing on promoting the development and competitiveness of SMEs. The various business and public development programs have been used to promote the development of SMEs and generate employment opportunities. Of SMEs, the small scale and cottage manufacturing industries has grown, on average, by 4.8 per-cents during the first three GTP implementation years which is lower than the average growth (6.0 percent) registered during preceding plan (PASDEP) period despite heavy promotion activities. Moreover, SMEs engaged in manufacturing activities have been growing by rate slower than the growth by large and medium scale manufacturing industries over the last years.

The World Bank board of executive director approved international development association (IDA) to support the growth and development of SMEs in Ethiopia .The Government of Ethiopia five year development plan emphasize the key role of SMEs for the economy and identify to support to SMEs as a key industrial policy direction for creating employment opportunity.

A recent World Bank study on SMEs finance in Ethiopia finds that financing constraints of Ethiopia SMEs are one of obstacle to job creation and growth. Both demand and supply side survey clearly indicate the existence of a missing middle phenomena where by small enterprise

are more credit constraints than either micro or medium /large enterprises. These projects will address challenge by providing financial and technical resources to SMEs and intermediates in Ethiopia states that Francesco strobe the world team leader of projects.

World Bank's international development association (IDA) established in 1960 helps the world poorest countries by providing grants and low to zero interest loans for projects and program that boost economic growth, reduce poverty, and improve poor people's lives. IDA is of the largest sources of assistances for world's 77 poorest countries, 39 of are in Africa. Resource from IDA brings positives changes to the 1.3 billion peoples, who lives in IDA countries. since 1960, IDA has supported developments work in 112 countries annual commitments haves averages about \$19billion over the last three years ,with about 50 percent going to Africa.

According to Burns in (1996) states that Small business businesses are all over the country and even one cannot recall the time their establishment came into being. They have diversified the country's monetary base and provided it with occasion of responding to a diversity of market conditions. The contribution of SMEs has created jobs and hence reduced the rate of unemployment in the country. These businesses are typically accepted in the world especially in developing country to reduce unemployment and create job. Burns also support this idea by saying; "people apparently fall in line with small business enterprises". Burns continued „the small number of entrepreneurs who started up small firms, made them grow and perhaps became millionaires in the processes. The earliest form of business entity in the world is the small business enterprise. According to Barrow (1993), the first known writings about small and medium enterprises suggest that more economies are fed with products and provision of services through small business enterprises.

Ahmed (2006) explains that (SMEs) to now seem the sub-sectors of the industrial sector which plays crucial roles in economic development. This suggests that Small and Medium Enterprises are very crucial in shaping the growth agenda of countries. Small and Medium Enterprises (SMEs) as academically known over the years have had a great influence on the lives of individuals of the world's economy particularly, developing economies like African country. Initially they have added to increasing production, giving out value-added activities in the industrialized sector, providing jobs avenues in the services sector and helping to expand countries export item Most of the productive poor and unemployed are engaged in self-employment in order to better their living and that of their families, this action subsequently has made Entrepreneurship a fast and better reducing the of unemployment. Again unemployment in the country is on the decline due to the fact that the youth are driven into establishing their own business.

2.9 Developments and Policy of SMEs in Ethiopia

Ethiopia has long history in the artisan activity which is part of the current MSMEs and the development of modern artisan manufacturing enterprises took place mainly in the post WW II period. One of the measures taken to enhance the operation of MSMEs is the issuance of the licensing and supervision of micro financing institutions proclamation in 1996 (Proclamation No. 40/1996).

The principal aim of this proclamation is to enable MSEs have access to credit facilities, counseling services and income generating projects through micro-finance institutions.

By building the capacity of MSMEs, this legislation provides opportunities and security for the informal sector operators through enhancing legality and formalization.

The Ethiopian government adopted Agricultural Development Led Industrialization (ADLI) and private sector development strategy in 1995. An element of these strategies was

focused on MSMEs development: Federal Micro and Small-Scale Enterprises Strategy (FMSMEs) and Regional Micro Small & medium Enterprises Strategies (RMSMEs) were formulated in 1997. Federal Micro, Small & medium Enterprises Development Agency (FMSEDA) and Regional Micro ,Small &medium Enterprises Development Agencies (RMSEDA) were established by the Council of Ministers of Ethiopia Regulation No.33/1998, and supportive financial sector reforms were made. Among the principal objectives of the FMSMEs and RMSMEs is exploitation of local raw material, creation of productive job opportunities, adoption of new and appropriate technologies,

GTP (Growth and Transformation Plan), which is the successor of PASDEP and the current development strategy of Ethiopia (2010 -2015), has also given a priority to MSMEs development. The GTP has put the MSMEs development as one of the seven identified growth pillars of the country. The MSMEs to be a development pillar, they have to be formal to get the necessary support. The excursion made in the MSE strategy of Ethiopia in brief reveals the vastness of the role MSEs in the entire economy has been immense. Some studies in these areas rightly point out that MSEs have been on the forefront in employment creations, poverty reductions, proliferations of entrepreneurships and thus economic development concurrently (CSA, 1997; MoTI, 1997)

The release of the White Paper shows recognition of the SME sector's importance to the overall economy by the government (MTI, 1997). In the White Paper, almost all major challenges faced by the SMEs sector have been articulated fairly well. The same paper acknowledges the role that should be played by the SME sector along with what needs to be done by the national government in terms of finance, technology, information, institutional support, facilitation of exports, attraction of foreign direct investment, marketing local products in the international market, the provision of skills-based training to SMEs, (MTI,1997).

According to different the author, the policy on SMEs is based on inadequate information on the diversity, size, role and the main constraints of the sector. In addition to this, there is discrepancy between policy and practice with regard to the implementation of the White Paper has argued that the level of commitment made by the national government towards supporting SMEs in terms of tangible measures such as access to finance, skills development.

According to NBE (2010-2011), annual reports although microfinance not limited to MFIs, they are the major lenders to SMEs throughout the country. Obviously, large scale commercial banks do not extend loans to SMEs due to high transaction costs and inability of SMEs to fulfill the various requirements of big banks. The number of MFIs increased from 11 in 1998/99 to 31 in 2010/11 depicting slower growth in the face of the mushrooming of SMEs in the country. Some of the MFIs are growing to big banks thereby mobilizing huge deposits and extending larger loans to the bulk of SME

2.10 Role SMEs in Economic Developments

Private sector is expected to play a key role in Ethiopian's journey to become a middle income country in the next decade .however Ethiopian firms faces significant financial constraints ,because financial institution do not accommodate their needs a new world bank group study found WBG(2015).report SMEs finance in Ethiopia addressing the missing middle change reveals that without adequate support from financial institution, small and medium business are not able to grow or create more job opportunities. Firms in Ethiopia are much more likely to be fully credit constraints than firms elsewhere in the world, this gives origins to the so-called missing middle phenomenon whereby small enterprise are more credit than either micro or medium large enterprise as states world bank group senior financial economist .

Micro small and medium enterprise development hold a strategic place within Ethiopia's Industrial Development Strategy. All the more so as MSMEs are the key instruments of job creation in urban centers, with job creation is the centerpiece of the country's development plan. The role of MSMEs as the principal job creators is not only promoted in low income countries like Ethiopia, but also in high income countries including the United States of America. Accordingly, because MSMEs play a vital role in employment creation, stimulating and strengthening SMEs development should be one of Ethiopia's top development priorities. The micro, small and medium enterprises sectors have also unquestionable importance for women.

According to World Bank (2007), most women are not found engaged in outdoor employment opportunities in Ethiopia. They are deprived from higher decision-making positions, equality of inheritances, decent works and other economic activities in developing countries in general and in Ethiopia in particular.

As a result, since SMEs are started with low financial capital and credit and have the capacity to absorb huge low-level income populations, they can help women to have easy access to employment and be the owner of the enterprises.

ILO (2002) explained that SMEs have a significant contribution in creating employment opportunities for the poor in urban areas. Currently international thinking is also with a view that acknowledges SMEs as a tool to fight poverty and unemployment to manage risk in the long run.

This approach to fight poverty reduction through small enterprise development is based on the promotion of the four elements of work, namely, productive, remunerative employment; rights at work; social dialogue; and social security. This strategy focuses on the needs of poor people who are part of the micro and small enterprise economy, as owner/operators and workers, as their dependents, as the unemployed who may benefit from job creation, and as customers.

Other authors suggested that the ILO's existing idea for poverty reduction through SMEs must emphasize the fact that enterprises make a positive contribution to poverty reduction when they provide employment, adequate levels of job quality, and low-cost goods and services used by the poor; entrepreneurship, combined with productivity increase, is a key ingredient for poverty reduction through enterprise development; and motivate enterprises, competitive markets and a fair globalization can make a significant impact on poverty reduction.

According to different author microfinance institution has a vital role and development on the SMEs;

- ❖ To improve the quality of life of the poor by providing access to financial and support services.

- ❖ To be viable financial institution developing sustainable communities.

- ❖ To mobilize resources in order to provides financial and support services to poor, particularly women, for viable productive income generation enterprises enabling them to reduce their poverty.

- ❖ Learn and evaluate what people to moves out of poverty faster.

- ❖ To create opportunities for self-employment for the underprivileged.

- ❖ To train rural poor people in simple skills and enable them to utilizes the available resource and contribute to employment and income generation in rural areas.

2.11 Analyzing Challenges and Opportunities of Ethiopian SMEs

According to Ethiopia ministry of urban development and housing (MoUDH) there are various challenges faced by SMEs, they includes financial related, issue related production ,markets ,industrial services ,and human resources and poor management.

According to a report released by the World Bank (World Bank, 2015) small firms face greater challenges in obtaining formal financing than large firms; they are much more likely to be rejected for loans and are less likely to have external financing due to a lack of collateral and credit history.

Financial related challenges such as; the limited capacity of MFIs' disbursement and of SMEs to repay loans has constrained expansion of outreach services efficiency and effectiveness. The supply of credit is well below that demanded by SMEs because the lending capacity of most of the MFIs was small. The mobilization of savings in most MFIs suffers from inadequate focus and limited capacity. Critical issues identified in MSEs were: a poor repayment culture, their inappropriate use of credit and lack of experience in using credit to improve competitiveness. In addition, the limited efforts exerted by ULGs to achieve better repayment rates further complicated the problem, like lack of a system for upfront identification, and assessment of credit worthy borrowers, and lack of capacity to engage in awareness creation, training.

Issues Related to Production, Marketing and Cluster Development. Site selection for MSE production and sales facilities built by some were not guided by urban plans. Many were built using poor building designs on sites that lacked title deed, many did not have access to basic infrastructure and services (water and electricity), had inadequate provision of land and built structures were not designed to industry specific requirements .

Moreover, the growing tendency to be self employed by many young university graduates instead of waiting for employment from public or private sector has been encouraging. Although improvements have been registered during the last few years, the performance of SMEs has fallen short of expectations due to various challenges. These include, problems related to finance, access to market and low competitiveness, business information, working premises, poor acquisition of technical skills and managerial expertise, appropriate technology, and access to quality infrastructure.

2.12 Linkage between Microfinance and SMEs

The main form of linkage that the SMEs were found to have is membership to business groupings. In such groupings, the members make regular contributions to a common fund. The contributions are either used as security to obtain loan from MFIs or to lend to group members on a 'merry-go-round' basis. People join groups to make contacts that may not be of immediate benefits but which may become useful later, through either formal or informal networks (McCormick et al 2003). The main form of interaction that the SMEs belonged to were found to be business groupings or associations.

According to Adongo and Stork (2005), financial services provided by microfinance institutions will enable low-income households engaged in pre-entrepreneurial activities and micro-enterprises to increase their livelihoods. To them, microfinance provides benefits to low-income households through various channels.

For instance, the funds transfer facilities provided by microfinance institutions enable low income households to make payments at low costs.

These facilities are expected to reduce the inconvenience of having to travel long distances to effect transaction Chijoriga and Cassimon in (1999) explain Microfinance and its impact go beyond just business loans. The poor use financial services not only for business

investment in the microenterprises but also to invest in health and education, to manage household emergencies and to meet the variety of other cash needs that they encounter and the development of the business sector as a means of achieving high standards and reducing market failure.

Microfinance has consistently proven to be one of the most effective strategies in the Growth of SME in developing countries. Today, microfinance institutions around the world reach a little more than million people, thus most citizens earn their livings through self-employment, creating and operating their own tiny enterprises and. Without financial services to fuel their productivity, the poor can never grow their micro enterprises into businesses that help them escape poverty Therefore by providing very poor families with small loans to invest in their micro enterprises, they become able to rescue themselves from poverty. They use these loans to start, establish, sustain, or expand very small, self-sustaining businesses.

According to WB (2000) cited in Asian Development Bank Institute (2010) the condition of poverty has been interpreted conventionally as a lack of access by poor households to the assets necessary for a higher standard of income or welfare, whether assets are thought of as human access to education, natural (access to land), physical (access to infrastructure), social (access to networks of obligations) or financial (access to credit).

Research methodology

3.0 Introduction

This chapter focus on the researcher in carrying out the research methodology used to study, it also discusses the methods researchers used to collect the data for study. Deals about the research design, sample size, sampling techniques, data collection tools, data analysis and presentation.

3.1 Research Design

Research design is the systematic arrangement of data collection from members of given population through questionnaires and interview and involves sampling. The function of research design is to provides plan how important data can be stored with small expenditure of time effort and money This study of gathering data through both quantitative and qualitative with descriptive research design, and put something both quantitative and qualitative approaches to capture larger data for purpose of deep analysis and understanding contribution of SMEs in the reduction unemployment

3.2 Source of Data

In order to collect real data used to both primary and secondary source of data are major focus of the researcher. To achieve the objective of this study, the primary source data a way to collected through questionnaires and interview .Secondary sources of data gathered from different officials statistical source .The main tools of data collection was questionnaires.

3.3 Sampling size

This refers to the number of population to be selected from the universe to constitute sample. The size of sample should neither be excessive neither large nor too small. With regard to this study Harakallo town consist of over fifty(50) respondent in the town .The sample of 50 respondents was selected from a participant of located in the town and business owners that are working on different activity in the town ,such as metal work, shopping, wood working and tailor . On the basis of this study a sample size of fifty (50) respondents in SMEs where employs for the study and the researcher believe that fifty respondents in SMEs were achieve the objective of the study the town has respondent that were counted by the researchers during

phase of testing .the same were confirmed with records at business formed a sample of the respondent for this researcher.

3.4 Sampling technique

3.4.1 Cluster sampling technique

The researcher was used cluster and purposive sampling technique to select the respondent. Cluster sampling technique involves the selection of entire group from list of group. Cluster sampling means the total population is divided into a number of relatively small subdivisions which themselves are clusters of small units.

In other way cluster sampling is if the total population of interest happens to be a big one, a convenient way in which a sample can be taken is to divide the area into a number of smaller non-overlapping areas and then to randomly select a number of these smaller areas (usually called clusters), with the ultimate sample consisting of all (or samples of) units in these small areas or clusters.

3.5 Data collection tools

In order to collect the data needed, the researcher used questionnaire, and interview for collecting primary data and secondary data are gathered from different sources, such as books, journals, internet source and other publication

3.5.1 Questionnaires

Questionnaire is a data collection method, which contain a series of Questions, which will be filled by the respondent/participants themselves without any direct oral explanation/interpretation from the investigator .The researcher used this method to collect primary data from respondents. They were at first pre-tested by a small number of respondents and then after they distributed to clients of these micro-credit programs for collecting the data needed. Questionnaires are used to collect information from respondent. Questionnaires were developed to obtain survey data that allows an understanding of the impact of micro financing services on the growth of small and medium enterprises.

3.5.2 Interview

The interview method of collecting data involves presentation of oral verbal stimuli and replay in terms of oral verbal response. This method can be used through personal (face-to-face) interviews and if possible through telephone interviews. The researcher used this tool to supplement the questionnaire method of data collection to obtain the qualitative data. The interview was arranged to allow respondents to freely provide their views related to the problem that was being investigated. The interview some of the questions and topics were predetermined. Other questions were expected to arise during the interview and thus the method appeared to be informal and conversational, but carefully controlled and structured.

3.6 Data Analysis and presentation

Both primary and secondary source of data are analyzed using both qualitative and quantitative methods. Data for this study were presented and analyzed by using descriptive statistics such as frequency, tabulation, percentage and pie chart. Statistical Package for Social Sciences (SPSS) computer software for storage, processing and analysis of data so as to obtain answers to the research questions. The process involves summarizing and categories the data to temporary manageable length, identify, analyze, and asses it.

Descriptive statistics was used to describe the basic features of the data in the study; they provided simple summaries about the sample and measures and the researcher used

frequency, percentages and pie chart which provided useful summary of security returns when performing analytical analysis and after analysis the data was then presented in tables, cross tabulation charts and graphs.

Inferences were drawn from the results obtained. It is also from this point that the researcher looked for meaning within the data and often related findings to previous studies to see if these support existing research.

4. Data analysis and presentation

4.1 Introduction

This chapter presents the results of analysis the data collected during the study. In this context the chapter analyzed data collected through different data collection methods and tools are discussed and analyzed carefully in order to show assess the role of microfinance in funding small and medium enterprise growth in the study area. The study provides description of the socio-economic and demographic characteristics of the respondents namely age, sex, and education level. As the researcher indicated in the methodology in the preceding chapters, primarily the questionnaires were prepared for 50 respondents who have been involved in role of microfinance in funding small and medium enterprise. However, the questionnaires could be filled and are found useful for the study. The information gathered through interviews is also used to complement the data collected through Questionnaires.

4.2 General characteristics of the Respondents

In this part the study provides the details of age, gender, marital status and level of education, capital start up and member of the enterprise, and also what motivated them to engage in this enterprise and their former jobs and incomes before getting into SMEs activities are discussed and presented which is relevant for the current livelihood of the respondents.

4.2.1 Age of Respondents

Age is an important factor which can influence economic activities to be performed by the respondents' individual. In this case, age indicates the capability of an individual to produce economic material wealth for human kind consumption. The research findings shows that minimum age of respondents was 20 years old and maximum age was above 31 years old. This result suggests that a large number of respondents were in their economically active age. With regard to the age composition of the respondents, 22(44%) of respondents are found in 21-25 age categories while 25(50%) of the respondents were found in the range of 26-30 age group and above 31 years constituted 3(6%) respondents. The majority of the respondents found in the age range of 21-25 years and 26-30, the remaining of respondents were found in the age range of above 30 years. In other words, the finding of this research indicates that the SMEs accommodate the most active and productive age group of people as shown in table 1 below.

The results also show that SMEs in the study area are creating a fertile ground mostly for the youth and adults by providing employment opportunities.

Table 1: age of respondent

Age	frequency	Percent	Valid percent	Cumulative percent
15-20	0	---	---	---
21-25	22	44%	44%	44
26-30	25	50%	50%	94
Above	3	6%	6%	100

4.2.2. Gender of the respondents

The characteristics of the respondents according to sex showed that 54% males among the SMEs members and 46% were to be female. These results imply that male were dominant in MFIs involved in this study. This situation attributed by the policy of these MFI for empowering women economically, however, most of women engaging on SME get loan from these Micro finances by forming groups .This makes micro credit institutions to build up capacities for income generation activities among the micro entrepreneurs to provide sustainable sources of livelihood to SMEs members. These results shown in table2

Table 2: Gender of the respondents

Gender	Frequency	Percent	Cumulative percent
Male	29	54	54
Female	21	48	100
Total	50	100	

4.2.3 Marital status of the respondents

The respondents were to indicate their marital status .the question was meant to give status of the business owner who runs the SMEs in Harakallo town. It was also important to indicate the marital status of respondent in this town. The result was shown on the table 3 below.

Table 3: marital status of respondents

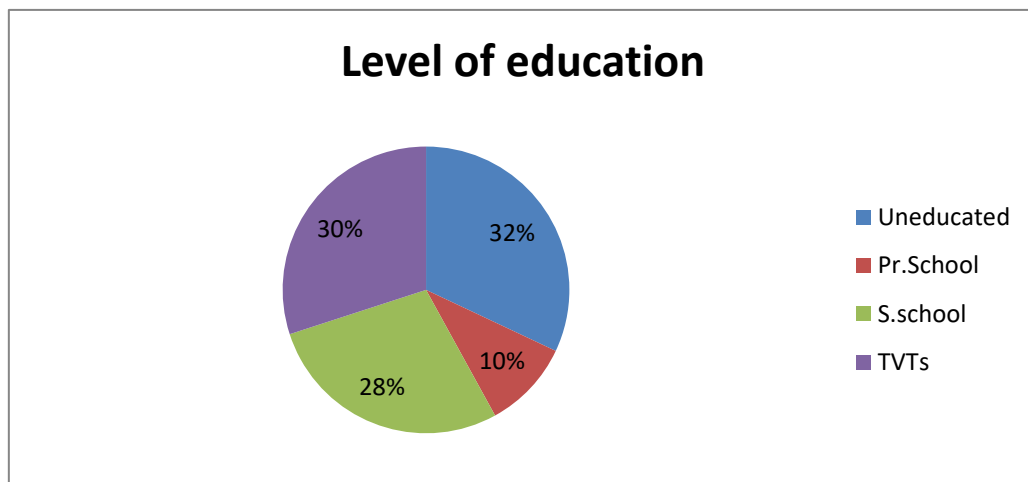
Marital status	frequency	Percent	Valid percent	Cumulative percent
Single	12	24		24
Married	31	62		86
Divorced	6	12		98
Separate	1	2		100
Total	50			

As indicated above, the majority of the respondent were married (62%), followed by single 24%, divorced 12% and separated 2%. This shows that majority of respondent are married and this attributed to the social status of most of the people successfully SMEs have been in existence for sometimes which mean that most of the owners have attained the age of the marriage.

4.2.4 Level of Education of Respondents

Education is essential or crucial for the growth and productivity of enterprises. Level of education is important in that it helps researcher to determine the expertise and specialization most of the owners and business managers in this area. This response would also help the researcher determine how they understand the environment in which they operate the enterprise and many study is favorable to associate respondent a higher level of human capital with good business performance and growth through enhanced productivity. The result is shown below chart 1

Chart 1: level of education
26



As shows in the above chart 32% of respondent were uneducated 30% of respondent was TVTs college graduate 28% of respondent was secondary school and 10% of respondent was primary school education. This confirms that the respondents have attained their education which encouraging, since in most of the small business have associated with less educated but the research shows the fact most SMEs are seeking self-employment and becoming their own business.

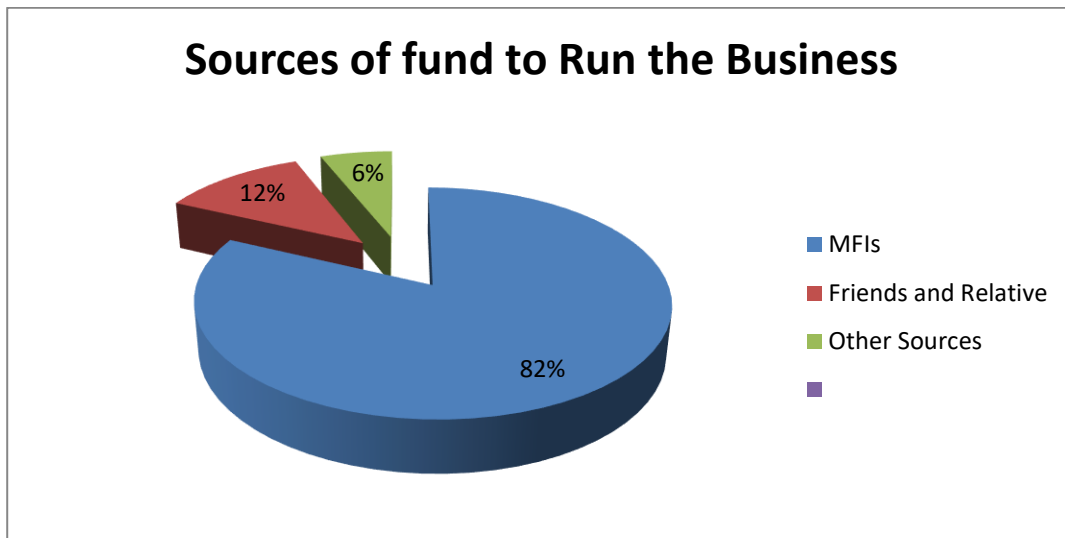
4.2.5. Source of capital to start the business

Business capital is seen as important and challenge as a start-up businesses in the developing world including Ethiopia although their policies encourages development of entrepreneurship because most jobs are reported to be created by small and medium-enterprises. As researcher realizes that Oromia credit and saving association (OCSI) is one of the only source funds to start business in our area of study. OCSI is one of the micro finance institution established as tools on poverty reduction for purpose of providing services like loan, saving money, money transfer and microfinance services to poor. This was through personal savings; loan admitted that their businesses were established by funds from spouse and relatives. This shows that most people set up their businesses from their own funds through personal savings which were either saved in banks or through some collectors.

4.2.6 Sources of fund to run the business

The researcher required to examine that role of the microfinance accessibility on funding the SMEs growth. However, the respondents were asked to state whether they have ever borrowed funds to finance their business from any financial institution. The question was intended to establish how most of the SMEs finance their operation and expansion as they

outgrow the owner’s capital and whether they consider MFIs, friends and relative, other source of fund as a way of sourcing funds to run the business. Though it is well known that most of the SMEs have bank accounts the researcher wanted to establish if the SMEs borrow from the MFIs, relatives and other sources since it gives indication on whether they obtain the loan applied for, or not and their opinion on the process. The results are as shown in figure2 below.



The study indicate that majority of the 41(82%) respondents to run business source for funds from micro finance institutions. On the other hand, 6(12%) of the respondents in SMEs source of fund from friends and relatives and only 3(6%) respondent do they get funds from other sources to finance their business operations. The results from the questionnaire shows that most of the SMEs prefer to source finance from OCSI despite the conditions imposed, this is because they are able rapport and confidence with the OCSIs since they can be able to get finance in future once they establish strong relationship. The other reason is because the SMEs trust banks more than other sources of finance due to their reliability.

4.2.7 Year to Start Business

The results show that majority of respondent in this study had engaged in small and medium enterprises were in 2008/16. Another respondents engaging on this small business were in 2009/17 and remaining were 2010/18 tend to run their own business starting in 2010/18.The. It is estimated that the life period of surviving for small business is at least one to three years and afterward, these types of small business start quickly toward. The result shown in the table 4 below

Table 4: year to start business

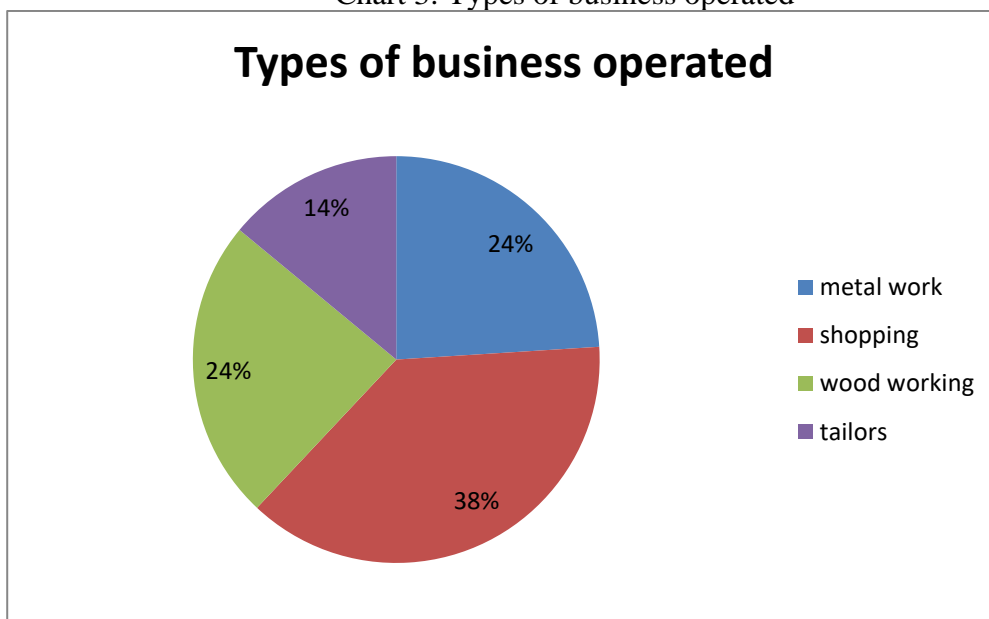
	Frequency	percent	Cumulative percent
In 2008/2016	39	78	78
In 2009/2017	10	20	98
In 2010/2018	1	2	100
Total	50	100	

As result indicated in the above table majority of the respondent in this study had start business in 2008/2016(78%). Another respondent engage in this enterprise in the 2009/17(20%) year and remaining respondent start in the year of 2010/18(2%).

4.2.8. Type of business operated by Respondents

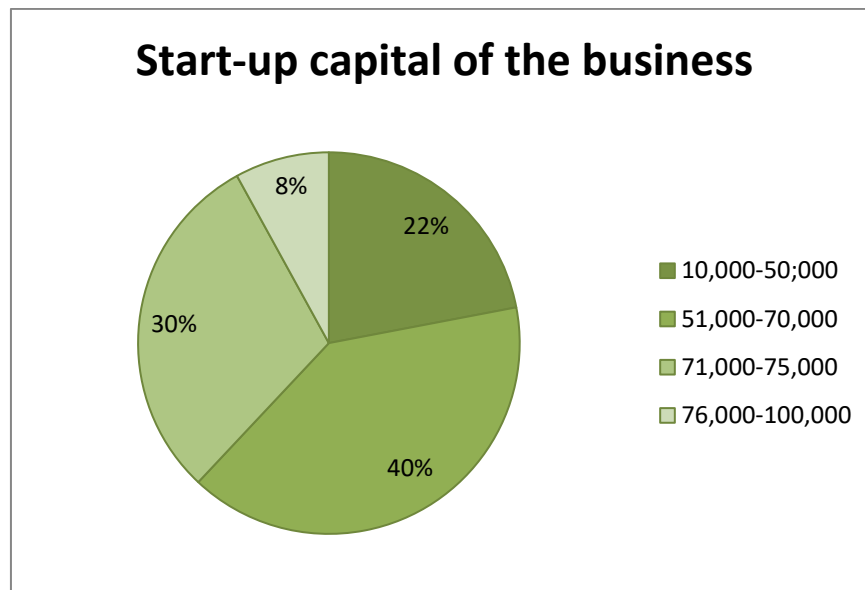
This study wanted to understand the types of business that are operated by the respondents in order to get better income to support their family, and then a question was posed to collect information on the matter. The business that is clearly defined based on the distribution of respondents with respect to their types of economic activities they are engaged in. That type of business operated in our area is metal work the number of respondent engaged in metal work are 12(24%), shopping are 19(38%), wood working is 12(24%) and tailor are 7(14%). The result are shown in the chart 2 below

Chart 3: Types of business operated



4.2.9 Start- up Capital of the business

This study indicated that, respondents the start-up capital business in Small and medium enterprise was between 10,000 -50,000, 51,000-70,000, 71,000-75,000 and 76,000-100,000. The respondents were further required to indicate the approximate startup capital of their capital were between ETB 51,000-70,000 was 40% ,ETB 71,000-75,000 was 30% The most usual source of finance came from MFIs, friends and relative, other source. More see the result start-up capital the result shown below chart 4.



The finding shows that in the above chart, the majority of respondent to startup capital of their business is between 51,000-70,000 total number of respondent 20(40%), proceeding to 71,000-75,000 and 10,000 -50,000 and total number of respondents 15(30%) and 11(22%) respectively. With regard to this the research findings shows that minimum startup capital of respondents was 76,000-100,000 that is only 4(8%) respondent.

4.2.10 Respondent's occupation before operator of this enterprises

The main objective of this Enterprise is to creating job opportunities by increasing the income level of respondent who participate in small and medium enterprises.

Table 5: respondent's occupation before operator of enterprise.

Respondents occupation before operator of enterprises	frequency	percentage	Cumulative percentages
Daily labor	14	28	28
unemployment	15	30	58
working for private	12	24	72
business owner	9	18	100
working for unpaid	50	100	
family business			
total			

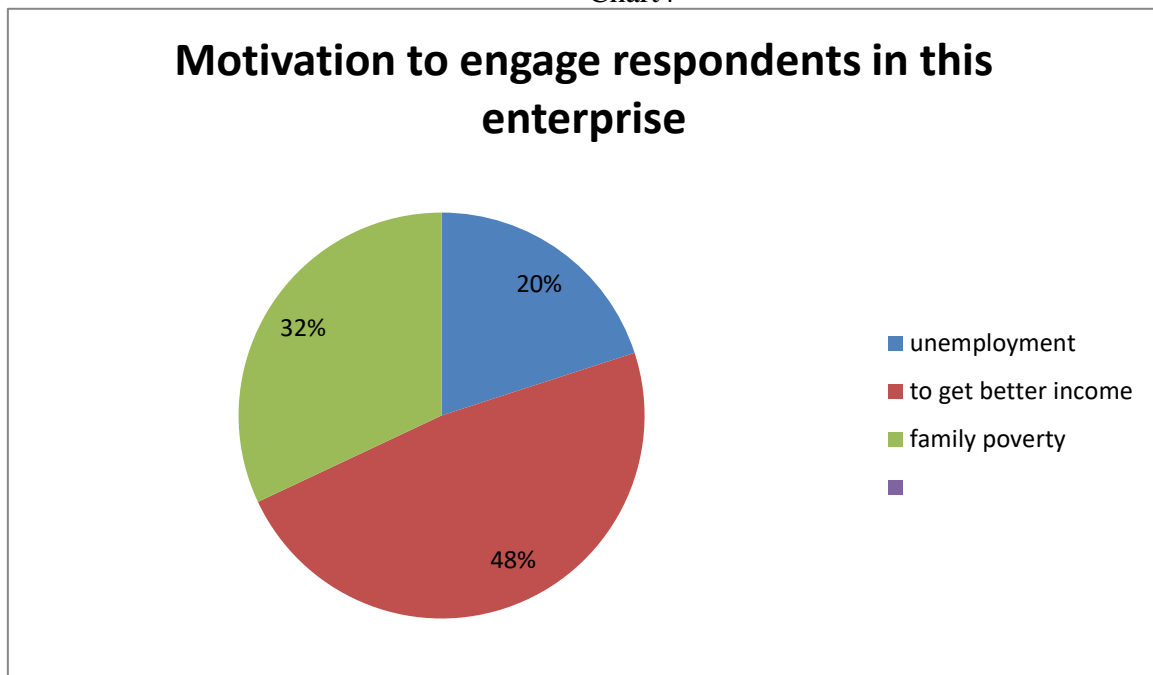
The survey result shows in table above out of 50 respondent 14 (28%) of respondents in the enterprises were daily labor before joining to their enterprises. Similarly, 15(30%) and 12(24%) Of respondents were unemployment and working for private business owner respectively. Around 9(18%) of respondents were working in unpaid family business activities. In general, the figure indicate that SMEs are important instruments to absorb the unemployed labor force, and for those who are complete or unable to complete their educations either in high schools or colleges/Universities and also for those who have not permanent jobs like daily laborer. Hence, MSEs can primarily benefit poor who are unemployed and can bring

development through improving their income and then adjusting income distribution in economy.

4.2.11. Motivation to engage respondents in this enterprise in this study, researcher attempt has been made to get some information which may throw some light on the reasons as to why people get into their respective business activities. The majority of the operators got into their current business activities because they were unemployed, 10(20%) of the respondents were engaged in their current business activities. Unemployment is, thus, found to be the major factor underlying the motivation to engage in small and medium enterprises in the study area.

Furthermore, 24(48%) and 16(32%) of respondents engaged in this sector to get better income and due to family poverty respectively. The majority of the respondent was the reason to engage in this enterprise is to get better income and family poverty. Other respondent was the reason to join to this enterprise was unemployment. More the result is given in the chart5 below.

Chart4



4.3 Respondent’s revenue or productivity earned

In order to see the role of SMEs in changing the income of respondent is very essential to assess income of the respondents before getting loan facilities and after loan facilities. As result shown below, the condition of respondents’ before & after getting loan facilities.

Table6: Respondent before loan facilities

Before loan facilities	Frequency	percentage	Cumulative percentage
Little	27	54	54
Moderate	20	40	94
High	3	6	100
Total	50	100	

Table7: respondents after loan facilities

Respondent after loan facilities	frequency	percentage	
Little	5	10	
Moderate	25	50	
High	20	40	
total	50	100	

4.3.2 Income of respondent before getting loan

Respondents were required to indicate average income of their business before getting loan. 34% of the respondents indicated that they made of income between 401-700 in month, 22% of them income made between 701-1000, 18% of them did not have income and remaining 14% and 12% of them made income of months were less than 400 and greater than 1000 respectively. As researcher finding the result, in order to see the contribution of SMEs changing the income of the respondents, is very essential to assess income of the respondents before getting loan.

Table8: income of respondent before getting loan

Income of respondents before getting loan	frequency	percentage	Cumulative percent
Less than 400birr(<400)	7	14	14
401-700birr	17	34	48
701-1000 birr	11	22	70
Greater than 1000birr	6	12	82
Did not have income	9	18	100
Total	50	100	

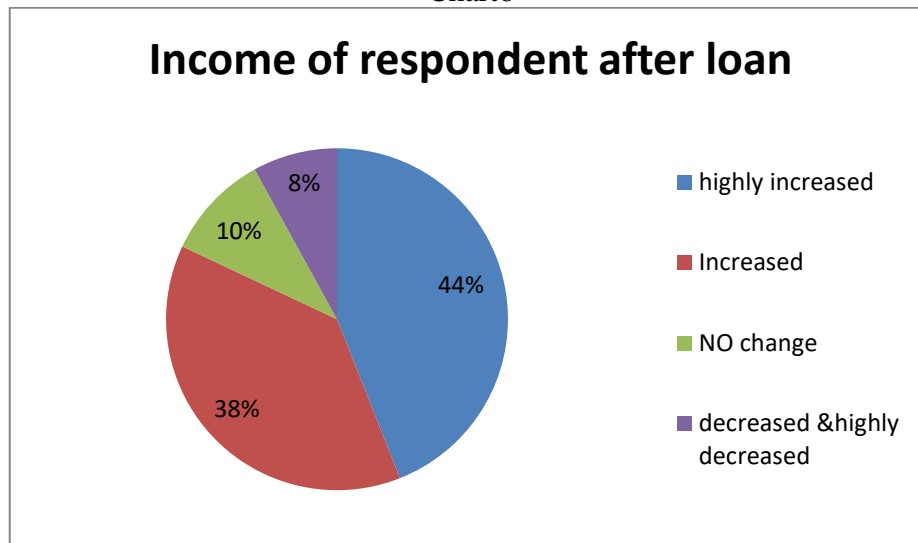
As observed from above table, about 17(34%) and 11(22%) of the respondents was earn Monthly income within the range of birr 401 - 700 and birr 701-1000 respectively.

Whereas 7(14%) of respondents reported that their monthly income was less than 400 birr and 6(12%) of respondent was earn above Birr 900. The remaining 9(18%) of respondents had no Income at all since they were students and unemployed.

4.3.3 Income of Respondent after loan

This study indicated that out of 50 respondents, 22(44%) of respondents informed that their monthly income after joining SMEs has highly increased, and 19(38%) of respondents informed that their monthly income after joining SMEs has increased. On other ways, 5 of respondents reported that their monthly income still remained the same (not change) after joining SMEs as it was before. The remaining of respondents reported that their monthly income has decreased and 4 of them also said their income is highly decreased. This result is shown in chart5 below

Chart6



4.3.3.1. Reason for Income of Respondent decrease after loan.

This study shows that the Respondent's monthly income has decreased or highly decreased as they mentioned the following reasons for the failure in their average income. Out of the total respondents, replied that this happened due to their personal problem, like they did not take the SMEs seriously as the basic means of their life's, was the factor for the decreasing of their income of respondents informed the reason as lack of resources and Because of low income respectively. The remaining of the respondents explained that loss of capital brought adverse effect on their monthly income.

4.3.3.2 Reasons for income of respondents increase after loan

As indicated in the gather information, why their monthly income had increased for those who said their monthly income has increased or highly increased. According to this research, it is found that because of getting loan joining to enterprises, average monthly incomes of respondents increased. In this study out of the total respondents whose income had increased or highly increased, more percentage of them reported that the reason for their income increase was due to income from small business /enterprises and only others that they have extra income than SMEs.

4.3.3.3. Gross sale volume per month

To determine the extent of accessibility of microfinance on increasing the volume of gross sales of participants, the study findings shows that accessibility of microfinance has positive influence on volume of gross sales of SME's participant. Similarly, respondents were required to indicate their annual profit contributed from micro credit in the last financing year. In this study the researcher find that 40%of them indicated 12-16 of their annual profit was contribute by use of loan. Another 36% of them indicated that above 16of their annual profit was contributed by use of Microcredit in their business. The finding is shown below tables 4.8.

Table 9: Gross sale volume per month

Annual profit (%)	frequency	Percentage
0-5	5	10
6-11	7	14

12-16	20	40
Above 16	18	36
Total	50	100

4.4. The Role of SMEs in the Operators and members of the Enterprises

Respondent were further required indicate whether the availability of microcredit had role to play in the growth level of SMEs. In this study, the role of SMEs in changing the economic conditions and improving the quality of life of the respondents is discussed. Whether they could fulfill their basic needs and other demands by comparing their status before and after joining in enterprises. Because improvement in relation to living situation could be used as an indicator of SMEs role in this study.

4.4.1 The Role of SMEs in Improving the Living Conditions of Operators and Members of the Enterprises

This study attempts to explain the role of SMEs on improving the living conditions of the respondents. In this part, the influences of income from enterprises on the living conditions of Operators and members of the enterprises are assessed based on the actual data collected from the collected data survey enterprises.

4.4.1.1 Respondent is sufficient to support the living condition

The respondents were also asked if their income from the enterprises is sufficient to cover their family expenses. According, survey indicating that it is not sufficient to cover their Costs, while other respondents their income is sufficient. In addition, they were asked whether the job improves their living conditions of the respondent's replied that it has improved due to their employment in the enterprises while the rest of responded that there is no such improvements. In general, it was investigated that most of them were responding that their living conditions has improved while their income is sufficient to cover their family expenses or demands

4.4.1.2 Respondent saving habits

It is known that saving is the most useful instruments of any business activity. It enables the participants to invest in the future and acquire appropriate income. It also solves the problems occur in one's business or to solve individual problems. Hence, respondents were asked whether they are saving or not. As a result, 47(94%) of the respondents found that they are saving their extra income, however, 3(6%) are not. This indicates that most Manager/Operators and members of the SMEs sector have been developing the habit of saving even if their enterprises are too young to be profitable enough for accumulation of extra capital. On the other hand, only 3(6%) of Managers/Operators and members of the enterprises are not saving

4.4.1.3 Respondents' Source of money of saving.

Respondents were required to ask the sources of their saving as it indicated in study.28(56%) out of 50 respondents are saving from the income gained from small business their engaged such as wood working, shopping, metal work &tailors. While only 9(18%) respondents are saved by borrowing from lenders like MFIs (OCSA). Those who saved from the income of their relatives are only 13(26%). Hence, this fact also indicates that the potentials enterprises in increasing the income of individuals working in the enterprises and their

contributions for reduction of poverty, unemployment's and to get better income in the study areas

4.4.1.4 Respondents' were saving

Regarding to their saving places, respondents were ask to where to save their money. According to this study indicates 41(82%) of respondents was save their money in micro finance institutions(commercial Banks of Ethiopia, oromia credit and saving association).while other 5(10%) respondents was found saving at traditional methods like home and only 4(8%)respondents was saving in iqub .Generally, it is possible to conclude that many of the respondents are saving in micro finance institutions which show that MFIs are working closely with SMEs sector and most are not saving in the traditional methods like at homes and Iqub.

4.4.1.5 Respondents for what purpose to use save?

According to these study respondents was made to know the reasons why the respondents were saving. As a result in indicate from this study, 17(34%) of respondents' were saving to undertake their own business or transfer to the other sectors of SMEs, 13(26%) for safety purposes and 8(16%) for the purpose of getting interest similarly, 4(8%) of the respondents were saving to buy basic household items and 5(10%) for ceremonial purpose. On the other hand, the least 3(6%) of respondents was saving for loan repayment. Generally, it is possible to conclude that the highest proportion of the saving indicates that the respondents are wants to undertake their own business or transfer to the other sectors of SMEs. It aims to improve the culture of saving of the operators and enables them to transfer to the other sectors of the economy such as manufacturing, construction, textile and others. This is, on the other hand, the indication of the improvement of their income and shows the potentials of SMEs to reduce their poverty

4.5 Summary of Chapter Four

The researcher identified that most of the respondents are evaluate that relationship between microfinance and small and medium enterprise in Harakallo town.64%of the business were considered small and while the remaining 36% of them medium relative representation of the two categories of business. The finding of this research indicate that: Access of loan significantly led to increase income level of respondents. 36(72%) of respondents were of the opinion that their businesses are improved in terms of their gross sale volume as results of microcredit's. as indicates that, their income volumes had highly increased of them identified as between 12-16% of their annual profit was contributed by use of microcredit. Another 18(36%) of them indicated that over 16%of their annual profits by use of loan (microcredit) in their business. The access and utilization of microfinance by Small and medium enterprises leads to increases profitability due to increase working capital. The respondents required to indicate that their total asset increased as results of using credits to some extent and that microcredit influenced growth of SMEs.

The data analysis in this chapter used descriptive analysis in terms of frequency and descriptive as well as regression analysis. The study findings reveal that all three specific objectives were captured under the field data gathered by a researcher. The two research hypothesis were tested at level of significance, one research hypothesis out of two was revealed that null hypothesis has statistically significant; which are Consequently, the following hypothesis was postulated; 1. To what extent does microfinance lead to increase the growth of sale costumer? While the rest research hypothesis tested and the study findings reveal that the null hypothesis was not statistically significant. 2. What are the factors that affect small and

medium enterprise growth? Significantly that experience on SME activities improves SME's growth.

All finding of this study are in line with this study, it can be concluded that access and utilization of microcredit has positive effects on growth of in SMEs Goro Dola Woreda in Harakallo town.

Conclusion and Recommendation

This research tried to evaluate the role microfinance on funding small and medium enterprises in study area. This part also describes conclusions and recommendations of the study with the designed research objectives and analysis made. It presents the proposed future studies that would widen the knowledge base of role of microfinance on funding small and medium enterprises in Harakallo town. The conclusions that have been made here under are based on the research findings obtained from the field data. Consequently, the opinions suggested were compared with the previous results done by other academicians/intellectuals and key informants. With this respect, the chapter concentrates on conclusions, policy implications and finally, proposes the area for further studies.

Conclusion

The research focused on 'The role of microfinance in funding small and medium enterprises in Gorodola Woreda Harakallo town. Small and medium in harakallo need access of funding for their business to flourish on sustainable basis. Although SMEs promote the development of an economy and it has been given adequate recognition that correspond with intensity of its contribution . For this end, the study examines relevant literatures and conducted sample survey to base the analysis and the conclusions of the thesis. This study findings show that MFIs played its role of on funds for the SME, the total number of 50 respondents some of them SMEs involved in this study achieved to secure loan only from one MFIs in the study area which was Oromia credits and saving institution(OCSI)branches in Harakallo town. These MFIs provided different amount of loans to the SMEs with the minimum amount of ETB 10, 000 and the maximum amount of ETB 100,000 during this period of the study. It also aimed to investigate the Role of microfinance services on funding of SMEs in Harakallo Town. With 93% confidence level, SMEs role in improving the socio-economic condition of the participants since they create employment opportunity that enable them to generate their income which in turn leads to access for better income distributions and increase their capacity to expand on their facilities.

On the other hand, SMEs have improved savings of the respondents' through increasing the operator's income and furthermore they can also save part of their income. In general, SMEs are contributing a lot in Unemployment reduction by increasing the income of individuals. Even though SMEs are contributing a lot for Unemployment, they are facing multidimensional Problems both at start up and operational levels. Considering the main problems of the enterprises in different sectors this research reveals that, shortage of startup capital, lack of Working capital, Lack of raw material. lack working of experience, lack of support from Government and non-government organization, lack of access for training were among the major constraints for participants' of SMEs.

In general, the findings of this research indicate that the SMEs have great roles in improving the Participants' economic condition though there are different constraints which hinder the performance of SMEs in the study area.

Recommendations

With due regard to the ever increasing desire to have growth in the SMEs enterprise in our country Ethiopia, there is need to invest in proper microfinance strategies so as to meet these expectations. Availability of loan for SMEs both at the start up levels and during operations is very important for achieving the objectives of enterprises in reduction of unemployment. Hence, the government and nongovernmental bodies should support SMEs both at the start up levels and during their operations for easy accessing of credit facilities. This therefore calls for embracing proper microfinance services strategies which are acceptable, accessible, ethically sound, have a positive perceived impact, relevant, appropriate, innovative, efficient, sustainable and replicable. The management of lending institutions should ensure that they sensitize the owners of SMEs and their management on best financial management practices. This will go a long way in helping them to account for every use of loan, account for the amount of cash lost through other activities such as emergencies. Lending institutions should also advise borrowers on how to appraise their projects for viability so that they can deliver and avoid misappropriations to execute projects they were not meant for. This will go a long way helping the business owners realize the objectives of the business and the credit to yield high returns. Banks should expand the payment period of loan asset, make sure of the collective group based on disbursement strategies, as minimize the rate of default in payment. Microfinance instn should try to find long term capital from pension and insurance company and help to minimize their lending and also help them distribute their interest payment through longer period. They should also ensure that the lending procedure is clear and precise and timely to encourage SMEs to take up the loans. Flexible repayment periods should be facilitated by management of lending institutions. The owners and management of SMEs should always monitor their credit usage to avoid misappropriation. This should start even before accessing the credit by prior planning for the budget and sticking to that budget. In the event of misappropriation they should replace the amount used for other purposes on time so as to stick to purpose of the loan. Banks should also have a follow up programmed to make sure clients have put the loan in the stated purpose.

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