The Role of Microfinance Institutions in the Development of Small and Medium Size Businesses in Ethiopia, A Case Study in Amhara Credit and Saving Institutions

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Abstract
Microfinance is a term used by many in different domains to fight poverty. Poverty is a syndrome that is affecting the developing countries and especially in sub Saharan Africa. The study tries to look at the impact of microfinance the role of microfinance institutions in the development of small and medium size businesses. The primary sources of data are questionnaires and interviews. The population was drawn from the members (clients) of ACSI and the credit unions constituting Small and Medium Size Businesses (SMEs). The study made use of closed and open ended questions. The responses were analyzed using percentage frequency tables. From the information collected, it is realized that ACSI has a positive impact in the development of the members" businesses and provide its members with financial and social intermediation services to help improve their businesses. Securing micro-financing by SMEs is determined by the stage or level of development in which the business is. Businesses that are viewed as growing had it easy to get a loan. But the main criteria used were the ability to pay back and to meet the set requirements to obtain a loan. The main requirement is fixed tangible assets such as land. The study indicated that the poorest of the poor were not included in designing and implementing their policies. The entry requirements are difficult for the poorest to meet thus they do not enjoy the services of ACSI. In this study the poorest are those who are not involved in any income generating activities.
Keywords: ACSI, Ethiopia, Impact, Microfinance, SME Development.

CHAPTER ONE: INTRODUCTION

1.2 BACK GROUND OF THE STUDY

Microfinance is not a new concept. It is dates back in the 19th century when money lenders were informally performing the role of now formal financial institutions. The informal financial institutions constitute; village banks, cooperative credit unions, state owned banks, and social venture capital funds to help the poor. These institutions are those that provide savings and credit services for small and medium size enterprises. They mobilize rural savings and have simple and straight forward procedures that originate from local cultures and are easily understood by the population (Germidis et al., 1991). These funds are to finance the informal sector SMEs in developing countries and it known that these SMEs are more likely to fail (Maloney, 2003). The creation of SMEs generates employment but these enterprises are short live and consequently are bound to die after a short while causing those who gained job positions to lose them and even go poorer than how they were. It is not until recent that microfinance had gained recognition thanks to the noble prize winner Yunus Muhammad of the Grameen Bank. It should be noted that microfinance is not a panacea but it is a main tool that foster development in developing countries. It is known worldwide that the poor cannot borrow from the banks. Banks do not lend to them because they do not have what is required to be granted a loan or to be provided with the bank services. The lack of financial power is a contributing factor to most of the societal problems. These problems emanate from poverty and it is known that with poverty one is bound to suffer so many consequences ranging from lack of good health care system, education, nutrition, Microfinance has proved this bank concept to be wrong. They target the poor who are considered risky but the repayment rate turns to be positive as compared with the regular commercial banks (Zeller and Sharma, 1998).

Researchers have viewed microfinance in different dimensions. Microfinance gives people new opportunities by helping them to get and secure finances so as to equalize the chances and make them responsible for their own future. It broadens the horizons and thus plays both economic and social roles by improving the living conditions of the people (Microfinance Radio Netherlands, 2010). These improvements are in a nutshell to alleviate poverty, and according to this project, it will be seen from the point of the development of small and medium size enterprises SMEs and focusing mostly in the rural areas .The UN millennium goal to alleviate poverty by the year 2015 is far from fetch despite the enormous works that microfinance institutions are doing to contribute in this domain (Hiderink and Kok, 2009). The main challenge facing the poor is to gain financial power to enable them boost their income generating activities (Yunus, 2003).

Currently, the government of Ethiopia has embarked on several attempts aimed at promoting agricultural development in the country. The government embarked on the policy of "Green Revolution", which was aimed at encouraging the development of agriculture in the country and Other efforts included the setting up of agencies like the National Fund for Rural Development (FONADER) and other rural agricultural extension programmes. In spite of all these attempts, much is still needed to boost this sector, which is considered very vital in the economic life wire of the state. A recent development in this sector has been the increasing involvement of NGOs and the microfinance institutions in the process of enhancing the development of SMEs particularly at the rural level. It is important to look at this because even though the government promotes SMEs in the rural areas through different institutions, microfinance institutions are not leaving any stone unturned to make sure that the acute poverty striking the rural population is readdressed. Agriculture and SMEs are the key sectors to the government and of course has a great influence in the socioeconomic development of the country but productivity and development keeps on dropping with a rising population. This research, therefore, seeks to analyze the impact of The Impact of Microfinance Institutions (MFIs) in the Development of Small and Medium Size Businesses (SMEs) in Ethiopia, A case Of ACSI, in order to check whether microfinance is a good strategy for the Development of Small and Medium Size Businesses in case of ACSI.

1.3 STATEMENT OF THE PROBLEM

Ethiopia, Particularly Amhara Region has valuable natural resources for a strong agricultural sector. This resource base should provide a platform for the development of rural SMEs, and contribute to the country's fight against poverty. Business development, however, requires more than natural resources, and it is not clear what challenges and opportunities in development rural SMEs are facing in Ethiopia. What markets are available? Is there sufficient access to technology and labour resources? Do firms have access to financial capital to fund development? This study will investigate the underlying issues rural small firms are facing in their development. Particular attention will be given to the issue of financing firm development, where the major microfinance institution in Ethiopia, ACSI, plays an active role. ACSI has for many years aimed to support SMEs with micro-financing, but it is unclear whether their administrative practices support their efforts or create additional hurdles for rural firms in need of financing for the development of their businesses. The specific questions that shall guide the research in this project are:

- Do clients have access to the financial resources they need for developing their businesses?
- Are microfinance institutions providing funding to developing rural small businesses in Amhara Region in an acceptable way and on reasonable terms?

1.4 OBJECTIVES OF THE RESEARCH

This study is intended to investigate the problems and opportunities that small businesses face in their development efforts, with a particular interest in the role that micro-finance institutions may be playing. In addition to gaining a more general understanding of the challenges facing developing rural firms, the study will identify how not for profit organizations(NGOs) are contributing to the development of rural small businesses and why rural small businesses succeed or fail in their efforts to acquire financing for their development. This study is focused on the resource needs of developing small and medium size firms, and how micro-finance may be contributing to the firms' development and thus the sustainable development of rural agricultural infrastructure in Amhara Region of Ethiopia. The specific objectives in this study are:

- To investigate the extent in which ACSI helps its members in developing their small or medium size businesses.
- To find out whether ACSI‟s members feel they have reasonable and fair access of micro-financing.

CHAPTER TWO: REVIEW OF LITERATURE

This chapter focuses on some of the concepts of microfinance and the role they play in the development of SMEs. The concepts chosen are those that are in relation with the area of this thesis. The chapter opens with an overview of microfinance. This shows the various products and services that MFIs have and explain how they are of importance to the development of SMEs, and also the extent to which transaction cost affects the delivery of these products and services. The next centre of attention is SME growth and development. This gives an idea on how firms are considered by financial institutions before they are offered their services. The type of microfinance is of significant importance in getting the services. This is explained and further to look for what determines the capital structure of a business. This will explain why some firms prefer borrow to equity capital and vice versa. The next concern is to investigate how some firms face problems to get loans. Further, the methodology of MFI is presented and moving forward I shall also illustrate and explain what the MF triangle is and how it is achieved. Lastly, I tried to show the theoretical links between microfinance and SME development.

2.1 THE CONCEPT OF MICROFINANCE

Microfinance is defined as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where SMEs do not have access to other sources of financial assistance (Robinson, 1998).

In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999). There are different providers of microfinance (MF) services and some of them are; nongovernmental organisations (NGOs), savings and loans cooperatives, credit unions, government banks, commercial banks or non bank financial institutions. The target group of MFIs are self employed low income entrepreneurs who are; traders, seamstresses, street vendors, small farmers, hairdressers, rickshaw drivers, artisans blacksmith etc (Ledgerwood, 1999).

2.2 SME GROWTH AND DEVELOPMENT

The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organisation whose legal entity or frame work may expand in time with the collection of both physical resources, tangible or resources that are human nature (Penrose, 1995). The term growth in this context can be defined as an increase in size or other objects that can be quantified or a process of changes or improvements (Penrose, 1995). The firm size is the result of firm growth over a period of time and it should be noted that firm growth is a process while firm size is a state (Penrose, 1995). The growth of a firm can be determined by supply of capital, labour and appropriate management and opportunities for investments that are profitable. The determining factor for a firm‟s growth is the availability of resources to the firm (Ghoshal, Halm and Moran, 2002).

Enterprise development services or business development services or nonfinancial services are provided by some MFIs adopting the integrated approach. The services provided by nonfinancial MFI services are; marketing and technology services, business training, production training and subsector analysis and interventions (Ledgerwood, 1999). Enterprise development services can be sorted out into two categories. The first is enterprise formation which is the offering of training to persons to acquire skills in a specific sector such as weaving and as well as persons who want to start up their own business. The second category of enterprise development service rendered to its clients is the enterprise transformation program which is the provision of technical assistance, training and technology in order to enable existing SMEs to advance in terms of production and marketing.

Enterprise development services are not a prerequisite for obtaining financial services and they are not offered free of charge. These charges are subsidized by the government or an external party since to recover the full cost in providing the services will be impossible by the MFI.The enterprise development services may be very meaningful to businesses but the impact and knowledge that is gained cannot be measured since it does not usually involve any quantifiable commodity. It has been observed that there is little or no difference between enterprises that receive credit alone and those that receive both credit packages and integrated enterprise development services (Ledgerwood, 1999).

2.3 TYPES OF MICROENTERPRISES

The type of population to be serve and the activities that the target market is active in and also the level or stage in development of the business to be financed is determined by the MFIs. SMEs differ in the level in which they are and the products and services offered to them by the MFIs are towards meeting the demands of the market. SMEs are financed differently and the financing is determined by whether the firm is in the start-up phase or existing one and also whether it is stable, unstable, or growing. The type of activities that the business is involve in is also determined and this can be; production, commercial or services activities (Ledgerwood, 1999).

2.4 THE SUPPLY OF MICROFINANCE SERVICES TO CLIENTS

The approach taken by an MFI will depend on the degree to which these MFIs will provide each of these services and whether it follows a "minimalist" approach or "integrated" approach. The minimalist approach offers only financial intermediation but they can sometimes offer partial social intermediation services. This approach is based on the fact that there is a single "missing piece" for the growth of enterprises and it is assumed to be the lack of affordable, accessible, short-term credit which the MFIs can offer. The integrated approach takes a more holistic view of the client. This approach creates avenue for a combination or range of financial and social intermediation, enterprise development and social services. MFIs take advantage of its nearness to the clients and based on its objectives, it provides those services that are recognized as most needed or those that have a comparative advantage in providing. The demand and supply of these services will determine the approach that a MFI will choose and also the circumstances in which it is operating (Ledgerwwod, 1999).

2.5 DETERMINANTS OF CAPITAL STRUCTURE BY SMES

SMEs have some important aspects that are considered when taking decisions on their financial structure. A firm's history is a more important factor in determining the capital structure than its characteristics. The cost of debt to equity is compared; the increase in risk and the cost of equity as debt increases is also compared before taking the decision. The advantage of debt by SMEs due to tax reduction is also considered. The costs of capital remain unchanged when there is a deduction in taxes and interest charges. This indicates that using cheaper debt will be favourable to the business than using equity capital due to increase risk (Modigliani and Miller, 1958 and 1963).

Firms would seek a good portion of their capital structure as debt to a certain level so as to take these tax advantages. An over reliance on debt as capital by SMEs will have a negative effect in the business activity in that it will increase the probability of the firm to go bankrupt (Myers, 1984).

Myers (1977) determines the capital structure of SMEs. The pecking order theory (POT) was used to explain why firms will choose a particular capital structure than the other. The POT stipulates that SMEs average debt ratio will vary from industry to industry because these industries have varied asset risks, asset type and the requirements for external capital (Myers, 1984). Firms in one industry will have certain aspects that are common to most than to firms in a different industry (Harris and Raviv, 1991). The decisions are made taking into consideration information asymmetry, agency theory, and the signaling theory. The signaling theory describes signs and the effectiveness or how a venture will progress in an uncertain environment (Busenitz et al., 2005). The main idea behind this theory is that there is an information signal that alerts the stakeholders of what is happening in the business (Deeds et al., 1997). The success of a business in the future is determined by the availability of information to the firm. The stakeholders of a business require signals to find the way of the asymmetry of information between what is known and what is unknown (Janney and Folta, 2003). The outsiders get to know about a particular venture based on the signals it sends out. These signals need to be favourable because it is from it that potential investors will be informed and thus show the intention to invest in the venture. The cost of equity will be high when poor signals are noticed by outsiders and this will restrain potential investors (Busenitz et al., 2005). Firms get access to venture capital when they have a good goodwill (Prasad, Bruton and Vozikis, 2000, p168). Good signals to the outsiders of a firm can be described as equal to due diligence with reduced time and input (Harvey and Lusch, 1995).

New businesses have problems in getting a favourable position in the market. Their existence is determined by their size and age. If it continues to exist, it means it is capable of maintaining its size or it is expanding. This of course goes with time and when they continue to exist, it means resources are acquired or unlimited (Freeman, 1982). This process of gaining stability and to survive makes the firm to gain legitimacy and thus can be trusted as a successful business since it emits positive signals (Singh, Tucker and House, 1986). Firms with unlimited resources at the infancy stage are easy to go bankrupt and die in this early stage (Aldrich and Auster, 1986; Carroll and Delacroix, 1982; Freeman, Carroll and Hannan, 1983; Romanelli, 1989; Singh, Tucker and House, 1986; and Stinchcomb, 1965). Firms that are young and small are incapable of getting the available resources for the proper functioning of its business activities and they are always associated with external organisations in a vertical manner for support (Stinchcomb, 1965).

The integration of the young firm with a well established one gains ground for available resources such as funding and legitimacy (Hannan and Freeman, 1984; Singh et al., 1986). Businesses employing this approach to gain legitimacy are at risk since they are not independent.

The other activities will have an influence in the outcome of the other. Its competitors along with others get to know the inner dependent firm which the competitor will use it as its strength. They get to know the weaknesses of the opposing firm but at the same time they will enjoy the benefit of transaction cost. The reduction of costs is due to the fact that they integrate with others to realise their objectives. This is done by gaining the inside of the quality of work, production and ideas within its top level.

It is realised that there is no target equity mix and this is due to the fact that they exist two different kinds of equity. The two are at extremes meaning one at the top and the other at the bottom of the pecking order. These differences are caused by the costs of information asymmetry. External sources of funding have more moral hazard problems and consequently the demand for own or internal finances are of paramount to the firm (Myers, 1984). This moral hazard is explained by the fact that SMEs are very close entities; that is owned and or controlled by one person or few people (Watson and Wilson, 2002). POT emphasises; Ang (1991) on the use of owned capital rather than outside capital by SMEs and also explain why SMEs are denied or has a hindering factor in seeking for external sources of finance. World Bank (2000) reiterates the fact that SMEs are more likely to be denied new loans for their businesses than larger firms when in need. They consider SMEs to lack the skills to manage risk and the high transaction costs in lending to them compared to the amount that is borrowed (Hallberg, 1994).

SME lack managerial skills, resources and experience to motivate the potential investors to invest on them. They view them as high risk business concerns and some well to do SMEs may be hindered critical financing (Kanichiro and Lacktorin, 2000). SMEs and providers of debt and equity need to have a cordial relationship to avoid the problem of information asymmetry and conflicts of interests. All SMEs require financing to grow and the source may be internal or external. The external sources constitute loans, equity infusions, subsidies, or government grants. The internal source is income generated from cash flows that are reinvested. Many SMEs are self –financing by friends and family members at the beginning stage of development but when it gets to a later stage in development, external financing become necessary. Banks find it hard to grant loans to SMEs until when they find it have a stable growth. More so they need to have a track record of their activities, sufficient collateral or adequate guarantees. Businesses that are viable and have good market positions during periods of recession will have difficulties in obtaining bank financing.

Credit availability to SMEs depends on the financial structures in place, legal systems, and the information environment. SMEs in countries with more effective legal system have less financing obstacles since the laws protect property rights and their enforcement are implemented to financial transactions (Beck et al., 2005) .

2.6 PROBLEMS FACED BY SMES TO ACQUIRE CAPITAL FROM FORMAL FINANCIAL INSTITUTIONS

Formal financial institutions have failed to provide credit to the poor and most of whom are found in developing countries and to be more specific in the rural areas. The reasons given by Von Pischke (1991: 143-168) is that their policies are not meant to favour the poor. The poor are mostly illiterate and banks lack those skills to target these rural customers. In these areas, the population density is very low causing high transaction cost by the financial institutions since they need to move for long distances and also takes time to meet the customers (Devereux et al 1990:11). SMEs in developing countries are considered to be too unstable by banks to invest in. Due to this instability, the banks consider SMEs to have high risk and the costs these banks suffer to monitor the activities of the SMEs are high. Hossain (1998), Bhattacharya, et al. (2000) and Sia (2003) identify that formal financial institutions (banks) are reluctant to lend to SMEs since investing in SME activities is considered by banks to be very risky. They find it risky in the sense that if invested in, and in an event of unfavourable business conditions, they have low financial power, assets, and easily go bankrupt (Sia, 2003). The cost of borrowing from banks is very high and this prevents SMEs to borrow from this institution but these costs to borrow are sometimes subsidised by the government (Meagher, 1998).

The application process for a loan is long and difficult for SMEs to meet up with the demands (Hossain, 1998).The collateral demanded by banks for a loan is based on fixed assets and which are very high in other to hinder these businesses to acquire loans. They cannot afford these collaterals which include; estates, and other fixed assets valued usually at 200% of the loan (Meagher, 1998). The major setback that prevents SMEs to get funding from external sources is the problem of information asymmetry. That is the magnitude of the deviation of the correct information that is needed by the lending institution (Bakker, Udell, & Klapper, 2004). Banks use cash flows and profitability to measure or to assess the worthiness of a business. This is a very expensive and, not a good method to measure the credit strength of rural SME. Production and distribution in the rural areas is influenced by social factors that are often neglected by enterprises in developing countries (Otero et al ,1994). Agriculture dominates rural activities in developing countries and is dependent on the weather conditions for its output. An enterprise in this sector is considered risky because its outcome is undetermined

CHAPTER THREE: METHODOLOGY

3.1. RESEARCH METHODS AND RESEARCH APPROACH

Saunders *et al*. (2009) define research as something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge. There are two important phrases in this definition which are: „systematic way‟, which suggests that research is based on logical relationships and not just belief (Ghauri and Gronhaug, 2005) and , to find out things‟, which suggests there are multiplicities of possible purposes for your research. These may include describing, explaining, criticizing and analyzing (Ghauri and Gronhaug, 2005). Yin (2009) identified three different categories of research purposes; explanatory, descriptive and exploratory.

Explanatory research establishes causal relationship between variables, it study problems and situations with the main purpose of explaining relationships between variables (Saunders et al, 2003).

Descriptive research portrays and accurate profile events or situation (Robinson, 2002:59). Descriptive research also is known as statistical research which describes data and characteristics about a phenomenon being studied. Although the data description is factual, accurate and systematic, the research cannot describe what caused a situation. Thus it cannot be used to show a causal relationship where one variable affects another. From the above mention points, descriptive research is more of a qualitative research.

Description in business and management research has a clear place. However, it should be thought of as a means to an end rather than an end itself (Saunders et al., 2009). This means that if your research utilizes description it is likely to be a precursor to explanation. Such studies are known as descripto- explanatory studies (Saunders et al., 2009). Exploratory research provides valuable means of finding out what is happening, seeking a new insight, asking questions, accessing a phenomenon in a new way (Saunders et al., 2003). It is useful when you want to clarify your understanding of a particular problem, when you are not sure of the precise nature of the problem that you are looking at.

Based on the description of all the three research categories mention above, this study is based mainly on descriptive study since the study is focus on an accurate event trying to answer what, where, how, who and when questions through the use of different sources, information and already existing theories. Looking at the given situation of our research, the approach that we are going to used is the descriptive approach based on the case study of MFIs (ACSI) in the development of SMEs in Amhara Region, Ethiopia.

The two main types of research approaches used in social sciences are: quantitative and qualitative research approaches. There is no one best approach to study management research rather the approach that is the most effective for resolution of a given problem depends on a large number of factors such as nature of the problem etc (Gill & Johnson, 2006).

Quantitative research approach refers to the systematic empirical investigation of phenomena and quantitative properties and their relationships. That is to say, it emphasizes on collection of numerical data, which is a deductive approach (Bryman &Bell, 2003). This deductive approach develops theories, hypotheses and designs a research strategy to test the hypotheses (Saunders et al., 2003) .Quantitative research approach provides a relation between empirical observation and mathematical expression of quantitative relationships. Quantitative method is based on already decided and well-structured questions, whereby all the respondents will be asked the same questions. Open questions are used to give the respondent the flexibility to answer from different perspectives. Qualitative research approach refers to all non-numeric data or data that have not been quantified and can be a product of all research strategies (Saunders et al, 2009). It can range from a short list of responses to open-ended questions in an online questionnaire to more complex data such as transcripts of in-depth interviews or entire policy documents. (Saunders et al, 2009). This method emphasizes on inductive approach (Saunders et al, 2003). The researcher collects data and develops theory from data analysis (Saunders et al, 2003).Also, qualitative and quantitative methods can be used in the same study. They can bring together the depth and the width into a research. With the set objectives, and to understand the chosen subject, the study will lay emphasis on the qualitative research method, though the study induced some level of quantitative approach realized through interviews with some representatives.

3.2. RESEARCH DESIGN AND SAMPLING TECHNIQUE

A case study design is used in the study. This method of research is one of the many ways of carrying out social science research. Others include experiments, histories, surveys, and the analysis of archival information (Yin 2003). Each of these methods has its own advantages and disadvantages, depending on the type of research questions, the control than an investigator has over actual behavioral events, and the focus on the contemporary as opposed to historical phenomena. Case study is good when we asked “how” and “why” questions, when investigators have little control over events, and when they focus on a contemporary real life events. In brief, the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events such as individual life cycles, organizational and managerial processes, neighbourhood change, international relations, and the maturation of industries (Yin 2003).

3.3 METHODS OF DATA COLLECTION AND ANALYSIS

Evidence for case studies may come from six sources: documents, archival records, interviews, direct observation, participant-observation and physical artifacts (Yin, 2003). It should be noted that no single source has an advantage over all the others. In fact, all the sources are highly complementary, and a good case will therefore incorporate as many sources as possible (Yin, 2003).

Definition of case study: The essence of a case study, the central tendency among all types of case study, is that it tries to illustrate a decision or set of decisions: why they were taken, how they were implemented, and with what result (Schramm, 1971,emphasis added, Yin 2003,p.12). Bryman and Bell, (2003) said that case study is mostly associated to qualitative research method use to study organization. Thus, case study is the best research strategy to be used in writing this thesis since it investigates a real-life phenomena, and gives answers to what extent of the impact of microfinance in the development of SMEs in Amhara Region. This is done by using a qualitative approach.

Since incorporating as many sources as possible is highly complementary (Yin, 2003) therefore triangulation will be good for researchers to combine primary and secondary information in a single case study to ensure that the data they had is telling what they think the data is telling them (Saunders et al, 2003). Data is to test the validity and to provide answers to the research questions. Data was collected through primary and secondary means. The primary sources include questionnaires, which rely on observation, interviews and records of information of interest. Questionnaires were administered to randomly selected credit unions and small businesses owner. For secondary data, this was taken from articles, textbooks and already prepared materials from libraries, from Small and Medium Size Enterprises, as well as website of ACSI. Going to the part of analyzing the data, the researcher uses SPSS soft wear to do the analysis.

CHAPTER FOUR: DATA PRESENTATION AND ANALYSIS

Since, this study is focused on the impact of microfinance institutions in the development of SMEs business in Amhara Region, and ACSI used as a cased study, this section is to show how the presentation of data and analyzing it. There are two sets of questionnaires for both the credit unions and the members who own small businesses. The questionnaires that went out to the SMEs was made up of 20 questions of which a total of 30 questionnaires was distributed in Bahir Dar, Gondar and Estie of the Region of which only a total of 26 were answered . The other set that was design for credit unions were made up of 12 questions was distributed to 10 credit unions and were all answered. So in general, the study had a total of 40 questionnaires that was sent out to both credit unions and SMEs.

4.1 DATA PRESENTATION OF MEMBERS

Table 1: Questionnaires administered to members (owners of SMEs)

Area	Sex		Respondents selected	Actual response	Percentage (%)
	Male	Female			
Bahir Dar	6	4	11	10	91
Gondar	5	6	13	11	85
Estie	3	2	6	5	83
Total	14	12	3 0	26	87

Source: Survey data (2012)

The questionnaires were distributed at random to the members of ACSI in three areas of the region. A total of 30 questionnaires were distributed according to the following divisions; Bahir Dar 11, Gondar 13 and Estie 6. All the questionnaires sent out were not answered. The actual response was 10 for Bahir Dar and constituted 6 males and 4 females. The total response rate was 91%. In Gondar, a total of 13 questionnaires were distributed. The number of males who responded was 5 and female 6 making a total of 11. The total response rate is 85%. In Estie, a total of 6 questionnaires were distributed. The number of males who responded was 3 and female 2 making a total of 5. The total response rate is 83%. The geographical nature of the region accounted for the way the questionnaires were distributed and the history of ACSI also taken into consideration.

4.2 CURRENT DEVELOPMENT OF BUSINESS

Table 2: Current development of business

Variables	Measuring Group	Frequency	Percentage (%)
Current development of business	Newly started	5	19.2
	Young but established	6	23.1
	Growing	10	38.5
	Mature but needs renewal	5	19.2
	Total	26	100

Source*:* Survey data (2012)

This question tries to look at how established are the businesses. As table 2 indicated, from the questionnaires sent to the members (owners of Small businesses) that, 5 firm was just newly started, 6 firms was young but established, 10 firms were in their growing stage and finally 5 firms were mature but needs renewal.

4.3 TYPES OF BUSINESS ACTIVITIES AND GENDER OF LOAN RECIPIENTS

Table 3: Cross-tabulation of gender by type of business

Variables	Measuring Group	Frequency	Percentage (%)
Farming	Male	4	26.9%
	Female	3	
Trading	Male	5	30.7%
	Female	3	
Artisan	Male	2	15.5
	Female	2	
Other	Male	5	26.9
	Female	2	
	Total	26	100

Source*:* Survey data (2012)

Looking at the table above which shows a cross tabulation of sex and business type, we can noticed that 26.9% of the members are farmers whereby 3 are females and 4 male. 30.7% are traders with 3 being females and 5 men. With respect to artisan, a total of 4 people are in the artisan sector, 2 being male and the other is a female making a percentage of 15.5. A total of 26.9% are doing other trade with 5 being men and only 2 female.

4.4 SHARE OF BORROWED EQUITY CAPITAL AT BUSINESS START UP

Table 4: Share of borrowed capital to start business of the clients (borrowed capital)

Percentage proportion (borrowed capital)	Frequency	Percent
0	5	19.3
30	3	11.5
40	4	15.4
50	3	11.5
60	3	11.5
75	4	15.4
100	4	15.4
Total	26	100

Source*:* Survey data (2012)

The percentage frequency table shows that 19.3% of the small businesses owners start their business exclusively with their own money. Looking at it critically, 15.4% says their start up capital is completely borrowed from Amhara Credit and saving institutions. 11.5% of business owners indicates that their borrowed capitals are in the following percentages ,30% is borrowed from Amhara Credit and saving institutions while 70% is own capital and 60% is borrowed from Amhara Credit and saving institutions while 40% is own capital respectively. 15.4 % of business owners indicates that their borrowed capitals are in the following manner 40% is borrowed Amhara Credit and saving institutions while 60% is own capital, and 75% is borrowed from Amhara Credit and saving institutions while 25% is own capital.

4.5 AGE OF BUSINESS AND STAGES OF DEVELOPMENT

Table 5: Cross tabulation of age of business by stages of development

Variables	Measuring Group	Years in Business				Total
		0-1	1-5	5-10	10 and above	
Current development of business	Newly started	4	0	0	0	4
	Young but established	0	4	0	0	4
	Growing	0	3	4	2	9
	Mature but needs renewal	0	3	4	2	9
	Total	4	10	8	4	26
	Percentage (%)	15.4	38.5	30.8	15.4	100

Source*:* Survey data (2012)

The above table is a cross tabulation between duration of business and the stage of development. The table shows that 15.4% of members ACSI say their businesses are between 0-1 years old and are newly started. Those who say their business are between 1-5 years old totaled 38.5% and amongst them, 15.4% are young but established, 11.5% are growing, and the rest 11.5% say they are matured but needs renewal. A total of 8 businesses with a total percentage of 30.8% say they are between 5 and 10 years old. 15.4% of them are still growing meanwhile 15.4% say it is matured but needs renewal. Businesses of 10 years and above are 4 and a percentage of 7.7 is at the mature stage but needs renewal and the remaining 7.7% are in the growing stage. To summarize the above table, it can be said that businesses of 0-1 year is 15.4%, 1-5 years old 38.5%, 5-10 years old 30.8 %and 10 and above years 15.4%. The above percentages represent total percentages of the whole sample businesses.

4.6 ASSESSING CRITERIA USED BY ACSI TO GIVE OUT LOANS

The frequency distribution table depicts that 37.5% of members of ACSI who own businesses say to obtain a loan is easy. Those who said it is not easy represented 62.5%.

Table 6: Criteria to get a loan

Variables	Frequency	Percent
Have 1/3 of loan in the account and additional collateral	14	53.8
Fixed assets as security	7	26.9
Repayment capacity and additional collateral	5	19.3
Total	26	100

Source*:* Survey data (2012)

Looking at the first column of this frequency distribution table, it is noticed that the criteria in given out loans is based on various types of securities .It is seen that 53.8% of the small business owners say that you must have at least 30% of the amount you want to borrow in your account. Also, 26.9% says you must present collateral of land certificate or valid documents of property ownership. Another 19.3% say that your previous loans records are looked to see if you were doing your regular payments and your current business status to see if you have the repayment ability.

4.7 PROBLEMS ENCOUNTERED IN PAYING BACK LOANS

Table 7: Cross tabulation of gender by problems encounter by paying loans

Variables	Measuring Group	Yes	No	Total
Problems paying back	Male	9	7	16
	Female	8	2	10
	Total	17	9	26
	Percentage (%)	65.4	34.6.	100

Source*:* Survey data (2012)

A cross tabulation is made between sex of those who applied and had loans and whether they experienced problem in paying back the loan. The table shows that, a total of 10 female applied and their loan application was granted. Amongst the women, 80% complained of having had difficulties in paying back the loan and 20% did not face any problem. Males had a total of 17 who actually received loans and invested in their businesses. 41.1% of them say they do not have problems in paying back money that is borrowed but 52.9% did complain of having difficulties to meet up with the payments as arranged. In total, the level of repayment is 34.6% as against 65.4% for difficult repayments. In general, 9 members had no problem in paying back their loans and the remaining 17 had problems in paying back their loans.

4.8 HOW MEMBERS PAY BACK LOANS

Table 8: How loan was paid by clients

Variables	Frequency	Percent
Installment payment	10	38.4
Collateral exchange for loan	11	42.4
No problem to pay back	5	19.2
Total	26	100

Source*:* Survey data (2012)

The table above shows that some members actually experience problems in paying back their loans. 38.4% had to pay in installments, 42.4% had to exchange the collateral for the loan and 19.2% did not have any problems to pay back.

4.9 HOW ACSI HELPS ITS MEMBERS

From the responses we have, which was answered by the credit unions, it clearly shows that, the credit unions are totally affirmative that ACSI helps them in developing their businesses.

Table 9: How do you help clients of the institution?

Variables	Frequency	Percent
Set business plans and regular control of business	4	40
Provide the necessary skills and counseling	2	20
Give loans to all levels of business and educate them	3	30
Reschedule loans and counseling them in different aspects	1	10
Total	10	100

Source*:* Survey data (2012)

Respondents were asked if they actually help their members and in what way. The various credit unions gave different responses but the percentage distribution of the responses stands at; 40% said ACSI helps them in setting up their business plans and control their business activities and also make sure that they are provided with the necessary skills needed to move ahead regarding their business. 20% also said that the credit union counsels them and equip them with the business skills to better manage their business.

A percentage of 30% represented the fact that loans are given to all levels of businesses rather than to specific levels and thus educate them on how to proceed in the business practice. The remaining 10% says they reschedule loans so that the customer will be able to pay with out any difficulty.

4.10 DOES ACSI HAVE SPECIAL PRODUCTS DESIGN FOR SMES?

When this question was asked, all the credit unions gave a yes, meaning they do have special services for SMEs. In relation to objectives for these products and services the following table provides full information.

Table 10: Cross tabulation between regions and objectives of products and services

Variables	Frequency	Percent
Provides loans, savings, and insurance services and low interest rate on borrowing for business development	2	20
Improve living conditions and alleviate poverty	4	40
Educating on business development and empower the poor	1	10
Profitability of both the credit union and members and improve society welfare	3	30
Total	10	100

Source*:* Survey data (2012)

The objectives of the credit unions are given and presented in a tabular form and are represented by the number of credit unions agreeing to it. In Bahir Dar (20%), 2 credit union had as objective to provide loans, savings and insurance services and low interest rate on borrowing for business development. (40%) ,4 credit unions distributed as follows; 2 Bahir Dar, 1 from Gondar and 1 from Estie have as objective to improve the living condition of its members and to alleviate poverty as per the millennium development goals. In Gondar 1 credit union, (10%) as main objective to educate the members in the development of their businesses and to empower the poor.1 from Bahir Dar and 2 Gondar, (30%) say their objective is to make the credit unions and the members to both be profitable from their actions.

4.11 ASSESSING THE LEVEL OF AWARENESS OF MEMBERS BY ACSI

Table 11: Cross tabulation between regions and level of awareness

How can you assess the level of awareness?	Frequency	Percent
High	2	20
Fair	4	40
Average	3	30
Below average	1	10
Total	10	100

Source*:* Survey data (2012)

The three areas that the study focused on as seen on the table above are Bahir Dar, Gondar and Estie of Amhara region. The level of awareness of the products and services offered by ACSI to its members vary from area to area. The awareness is rated by the credit unions and ranges from high to below average. 2(20%) credit unions have high level of awareness and among which is 1 from Bahir Dar and 1 from Gondar. 1(1`0%) of the credit unions say the level of awareness is below average. Those who say they have a fair level of awareness are 4(4%) and 2 of them is from Gondar and the other from Estie. 3 (30%) credit union says it has an average level of awareness and this is from Bahir Dar.

4.12 PERFORMANCE BASED ON PRIMARY TARGET

Table 12: How would you evaluate performance of the institution?

How would you evaluate performance?	Frequency	Percent
High	2	20
Fair	5	50
Average	3	30
Total	10	100

Source*:* Survey data (2012)

Based on the products and services rendered to the members, the credit unions are asked how they can evaluate the performance of their products and services in terms of, number of customers, amount of loan, interest rate, rate of repayment etc. 20% of the credit unions say the performance is high and 50 said it is fair. The remaining 30% said the performance of the institution is average.

4.13INNOVATIONS GOING ON

Table 13: What innovations are you doing?

What innovations are you doing?	Frequency	Percent
Initiate daily savings, provide express credit and computerization	5	50
Educating members on the products and services offered	3	30
Computerization and educate staff	2	20
Total	10	100

Source*:* Survey data (2012)

This question has varied responses but they are summarized into three categories. 50% of the total credit union that were administered questionnaire says they initiate daily savings, provide express credit and computerization. 30% says that the innovation they are doing is in the form of educating members on the products and services, and 20% are innovating in the form of educating staff and computerizing their system.

CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATION

5. DISCUSSION

In this part of the paper, each of the specific objectives of the study is compared with theory. A conclusion will then be drawn whether there are any discrepancies or the findings are in line with theory and then try to find out why these inconsistency and suggest possible solutions. The main focuses of the investigation were:

- ✓ To investigate how ACSI tries to help its members in developing their small or medium size businesses.
- ✓ To find out whether ACSI‟s members feel they have reasonable and fair access to microfinancing.

5.1 ACSI, ITS MEMBERS AND THE DEVELOPMENT OF THEIR BUSINESSES

ACSI in its mission statement has as priority to improve the welfare of its members by promoting them to become financially strong. This microfinance institution is a semi formal financial institution providing banking services to the poor. They do not cater for the poorest. The criteria set up are difficult for the poorest to meet and hence they cannot be a member and cannot benefit from ACSI‟s intermediation services. They give out loans to boost the economic sector and also train members how to judiciously use the money granted to them so as to repay back without any difficulty. According to Ledgerwood (1999), some MFIs provide financial and social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management. Based on the information collected, we can say here that, this study realized the similarity of the empirical study and theory

They have services and products that members or inhabitants of rural localities never use to have. The services that were only meant for the rich can now be enjoyed by the poor though not the poorest, who were unable to finance their economic activities previously due to lack of access to commercial banks. Making a comparative analysis, both the members and the credit unions confirmed that the ACSI is helping them in most of their business activities. When a business is flourishing, it means the living standards of the family concern will be better and also the expansion and consequently job opportunities will come up. The increase in membership indicates that there is a positive impact in ACSI‟s activities. They have rated the level of awareness of their products and services to members as high. They notice this by the influx of new members and that the number increases at an increasing rate. Here some of the staffs are deployed to the various localities to sensitize on the availability and need for small businesses to contact them for the services they offer and that it will help them. They also go around mobilising their members to save and this is done from business to business.

We can also say that agriculture stands as the dominant activity that every household is involve in and that contributes most in the GDP. For ACSI to go to the rural areas to meet the needs of the people means it is in line in developing their activities. It should be noted that most women farmers cultivate at a subsistence level, and little or none of their produce is taken to the market. The credit unions provide them with the necessary assistance needed to better develop their farm in the name of providing them with loans, and save for them. In a nutshell, Bennett (1994), and Ledgerwood (1999) admits that the goal of MFIs is to meet the demands of the primary sector.

5.2 THE REQUIREMENTS FOR RURAL SMES TO SECURE MICRO-FINANCING

The micro-finance providers in the rural areas are the informal providers. The rural inhabitants do not find it easy to acquire a loan. Though their requirements are not easy to be met, it is easier than the requirements needed by a commercial bank. Loans that are within savings are not a problem to get but when it goes beyond the savings it become a problem. Other members can stand as a security for a loan for someone who does not have the needed security. The security must be a trust worthy person and of course a faithful and high savings member. What it takes to get a loan is difficult to provide by the customers or members at a particular business level or of a particular business type. ACSI only accept fixed immovable assets and preferably land since it can be owned in this context. More so, the borrower must be investigated and found that he/she has the capacity to repay. This is done by an expert counseling the member and providing skills needed to proceed. According to the field study, it is noticed that ACSI has strict requirements for loans out of savings and this is because they do not target the very poor.

When a business is in its early stage, it requires at least a certain sum of money in its account for the MFI to consider the application for a loan. When the enterprise cannot provide the required equity capital, they are bound to provide household belongings as collateral for the loan. Thus MFIs also employ some kind of financial and psychological measurements and when they find out that the prospective borrowers meet the needs, it is then that the loan can be granted. It is generally said that people care more on things that they have worked for or items that they own. This and other reasons explain why MFIs deem it necessary for borrowers to have minimal equity contribution before applying for a loan. The source of the minimal equity capital is known by the MFIs because the client may be at high risk of non respecting the terms of repayment had it been the funds were borrowed from somewhere (Ledgerwood,1999).

5.3 DETERMINING IF GENDER OR SIZE OF OPERATION PLAY A ROLE IN GRANTING OF A LOAN

The level or stage of development of a business is seen to have a positive effect in getting a loan. It is illustrated in table 2 above that most of the businesses are not yet established, they are still in the growing stage which indicates 62.5%. This further tells us that most of the business owners are in the process of gaining greater shares of the market. ACSI sees these businesses as promising since they are growing and less probability of not succeeding. When this is realised and confirmed by the MFI, they try to help them by providing them with financial and social services. The business will experience an increase in profit and this is independent of gender.

5.4 GENDER AND ACQUISITION OF LOAN

Women empowerment is at the lamp light of every financial scheme. It is believed that women are the foundation of every society. This holds in the African context where a woman is the sole person who caters for the family. Providing a woman with this financial services will empower her financially, socially and other wise (Mayoux, 2008). Women are better borrowers than the men. This proclamation is made by the International Food Policy Research Institute (IPFRI), 1997. They went further to say that women follow the schedule or meet the date lines to repay their loans. Based on the results, it is noticed that more small business owners were male. In our traditional context, women do not inherit property and it is only few of them who can acquire land. ACSI rely on a land (title) certificate as the basic document needed for them to have full collateral to grant a loan. The questionnaires were distributed at random and not taken into cognisance gender aspect before distributing. Defaulters are mostly men and it is believed that they have extra activities apart from the sole intended one meant for the loan. Gender issues have no role to play in deciding whether ACSI should distinguish between loan applicants or not. Their concern is to who meets the requirements for a loan. Theoretically, women have high savings and repayment rates than men (Ledgerwood, 1999). The notion that women are favoured does not apply to ACSI and this is contrary to the appeal for those who advocate for the empowerment of women.

5.5 THE EFFECT OF BUSINESS SIZE IN SECURING FINANCING FOR GROWTH

Securing finance in the form of loans by SMEs is determined not only by the size of business operation but also of the type of business and the worth of it. ACSI does not only grant these aspiring businesses loans but also provide them with some training. These trainings are meant to feed the entrepreneur with the necessary business skills to better run the venture. The determining factor for a firm's growth is the availability of resources to the firm (Ghoshal, Halm and Moran, 2002).

Early stage businesses are not easily granted with loans. They represent a less significant percentage from the field data gotten. Most of them do not or find it difficult to meet the requirements for a loan.

They cannot secure the necessary resources and has a possibility to die in this early stage. The granting of loans is much easier to large firms that small ones (Gary and Guy, 2003). MFIs consider client's ability to repay debt and assess the minimal sum they can contribute as equity before offering a loan. Existing firms are considered to have a history that can be judge by the MFIs before granting a loan.

A bad history means loan denial and a good history means the loan will be granted. A start up business does not have this history and MFIs do not rely on them because of not facing the problem of information asymmetry. This is in confirmation with Ledgerwood (1999) that MFIs prefer to provide products and services to meet the needs of growing businesses since they are considered more reliable and less risky.

In general, microfinance institutions are important in that they fill the gaps that exist between commercial banks and wealthy clients. They are to meet the needs of those who are considered not fit to use the bank's services and most especially the poorest. There is a mad rush of customers to the credit unions to enjoy their services which the banks do not offer. These services include; low interest rates, not so strict collateral, generally an encouraging banking conditions. Since more well to do people are rushing to become members, this has made the credit unions stricter in its liquidity criteria that has made it not easy for the poorest to meet up.

5.6 CONCLUSION

Microfinance institutions are an asset to the developing and transition countries. The services they provide are tailored to meet the needs and aspirations of the local inhabitants and emphases are towards the poor. The products and services put forth to the members are not by itself a solution to the numerous problems affecting the poor. These problems range from business skills, lack of financial intermediation services, and the lack of markets, technology etc. This financial intermediation services will only provide a plat-form for those who are considered not fit to meet the obligations of the banks to be a client. SMEs are very much affected by these constraints and these MFIs are towards bridging the gap between formal and informal financial services. These institutions with ACSI and its network being a typical example, provides a focal point that makes its members financially comfortable but with their hard work and commitment. It should be noted that microfinance does not serve or solve all the problems of the poor but it serves as a means of helping them to boost their economic activities or augmenting their status.

According to Hulme et al (1996), microfinance schemes often are of paramount importance when the targeted problem is in its initial stage and not when it has emanated. Microfinance is only a portion of what is needed to boost an enterprise activity in the rural areas and who are incapable of getting the necessary assistance from a commercial bank.

It develops new markets, increases income, creates and accumulates assets and promotes a culture of entrepreneurship. Besides infrastructural development, ACSI needs information from the poor micro entrepreneur about market trends and skills so as to create a favourable financial environment for them.

ACSI has as mission statement to sustain and develop a secure and law abiding network of cooperatives credit unions that offer efficient development of their members and communities. It is noticed that MFIs has as main target the poor and the poorest. ACSI and its network can be considered as targeting the poor but not the poorest. The requirements needed by the credit unions to become a member are not easy to be met by these poorest individuals. The amount demanded to own a share is high for these poorest. The products and services and also the convenience of the microfinance institutions are noted to be one of the driving forces behind its success. Despite the high interest rate charged sometimes, their products and services are still demanded but at times they are subsidized by the government or NGOs. The main underlying factor here is that commercial banks do not serve poor clients with small loans located in the rural areas.

5.7 RECOMMENDATION

The membership fee for new applicants should be reduced so as to incorporate the very poor into the system. This will enable them get access to the products and services that those just below or just above the poverty line enjoy.

The mode of repayment should be revised so that the poorest can borrow without collateral. This should be done in a way that will increase the frequency of repayments and this is known to reduce the risk of non payments. Evidence from Bangladesh by Armendariz and Morduch (2005) suggest that MFIs with high repayment rates have low moral hazard problems.

Group-based lending should be encouraged. This will serve as a means to increase its depth since some poor men and women can not have access to these products and services. But with the formation of a group, members of that group may apply for the services and members in the group act as guarantors for the others.

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