EFFECTS OF MICROFINANCE INSTITUTIONS ON THE PRODUCTIVITY AND IMPACT OF MFIS' LOAN ON THE LIVELIHOOD OF OWNERS AND OPERATORS OF MICRO AND SMALL BUSINESS ENTERPRISES IN ETHIOPIA: A CASE OF SOMALI REGION

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Abstract: The main aspect of this study was to present the finding of the MFIs' Productivity of Micro and Small Business Enterprises and Impacts of MFIs' Loan on the Livelihood of Owners and Operators in Ethiopia particularly Somali Region. Primary and secondary data were collected for the study so as to investigate how the productivity and livelihood of owners and operators of MSEs have been affected by the loan of MFIs. Primary and secondary data were collected from MSEs owner and operators and MFI loan officers in Somali Region through a questionnaire using a list of leading questions. A multilinear regression technique of analysis was employed to analyze the data with help of SPSS v 20. The improved living standard of owners and operators of MSEs attributed to the contributions of MFIs such as loan (F=5.432; P-value = 0.0001). The finding of the study also indicates that there was a positive relationship of improved living standard of owners and operators of MSEs with the MFIs' loan in Ethiopia particularly Somali Region (R=0. 349 with the loan of Microfinance Institutions).

Keywords: MFI, MSE, Productivity, Living Standard and Livelihood

1. Introduction

Microfinance has been defined by Robinson (2001) as a financial services relatively small scale for deposit and credit provided to people who herd, farm or fish, run Micro or Small Business Enterprises to produce goods, repaired, recycled or traded and work for daily payment such as wages, provide services, and many more related services in both urban and rural areas. Microfinance Institutions has become a strategy of poverty reduction by proving facilities such microcredit and saving to those who have been excluded from the financial services of commercial financial institutions.

The concept of microfinance has changed the world by providing micro credit as their main instrument to support the poorest and poor people that were not supported by the commercial financial institutions. Many developing countries provided subsidies to organizations that were relatively small and other groups of business by providing public utilities that were free through the government support programs supported by national and international organizations so as to eliminate or reduce poverty (Hoff, K., and Stiglitz, J. E. 1990).

1.1. Statement of the Problem

The techniques that MFIs have been used to advance for the welfare of the poor include none financial services provided mainly for development of the poor are; providing education for the poor entrepreneurs to run their day to day business activities like literacy training and skill training, marketing, bookkeeping, providing health and nutrition facilities (Bennett, 1997 and Ledgerwood, 1999). The main target group of MFIs is the low-income entrepreneurs that are self-employed such as; street vendors, hairdressers, artisans, blacksmith, traders, small farmers and rickshaw (Ledgerwood, 1999).

There is only a little agreement about the definition of the productivity but it is commonly believed that productivity growth is often prized by the business community, politicians and media as an improving solution for the living standards (Gordon, J.et al., 2005). MFI promote the production of MSE by providing financial and none-financial service to be productive by creating job for the poor as a certain empirical evidence confirmed that business enterprises which are relatively small are the major engine for job creation but the sector have also been very diverse which is a problem for the policy-making institutions for the sector (ILO, 2015). There is so many controversial in which MFIs play its role when it comes productivity of MSEs, therefore this is study is all about investigating the effects of MFIs on the productivity along with the impacts of MFIs' loan on the livelihood of owners and operators of MSEs in Ethiopian with particularly to Somali Region.

1.2. Objectives of the Study

The study the following objectives;

To investigate the Effects of MFIs loan on MSEs Productivity

To examine the Impacts of MFI loan on the living standard of MSE owners and operators

2. Review of Literature

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

The emergence of the economic dualism idea in the 1960s in which the rate of unemployment decreased, theories and practices started to pop up with an objective of reducing unemployment through job creation for the people and boosting citizens income for economies characterized by such dual behavior (MoUDH, 2013). In this theoretical explanation of Ministry of Urban development and housing (MoUDH) 2013, the policies and strategies such as industrialization through import substitution and a few decades later export promotion strategies and regional integration were commonly

acknowledged and implemented. These theories and associated policies and strategies have worked in some countries, but in some other countries replication of these theories were found to be recurrently fruitless and no change at all.

After the realization of the MSEs' contribution to the economic growth and development, most governments in less developed and developed countries have been supporting MSEs extensively for growth and development according to the World Bank, UNIDO, the Asian Development Bank and a number of donors have also been supporting MSEs promotion policies (MoUDH, 2013).

It can also be seen as, the only tools that are used to improve the life of the poor and some authors go far as a last resort for the survival of the poor to consider MSEs as they have little interest when it comes to development (Lisa Danials, 2009). Another relevant theory developed in the 1990s is the social capital theory and this theory according to (Thorbeche, 2000) believes the existence of social organizations where members are entitled to have access to resources and benefits based on the rules of the game. Resource allocation among members of a given social cluster and individual decisions are governed by the rules of the game this social capital theory successfully been used by MFIs in channeling and collecting credit to the poor farm and urban households.

According to the governor and chairman of National Bank of Ethiopia (NBE) H.E., Mr. Teklewold Atnafu's note published on NBE the 2015/16 annual report noted that the worst drought that the Ethiopian government registered in 2015/16 was 8.0 percent real GDP growth rate and this was much higher than Sub-Saharan African Countries about 1.4 percent average. The governor further noted that the Ethiopian economic growth was largely based on industry growth, services and agriculture at the rate of 20.6 percent, 8.7 percent and 2.3 percent respectively. The Ethiopian economy has gradually exhibited structural shift, though the agriculture sector still remains the most dominant sector having the largest share in growth domestic products which is about 38.7 percent in 2014/15 and continued to shrink to 36.7 percent in 2015/16 while industry and services are 16.7 percent and 47.3 percent respectively. According to the Ethiopian government's policy, this trend of agriculture led industrialization; developing the sector of manufacturing and improving export-led growth and development in order to sustain double-digit economic growth achieved during the last 15 years (NBE, 2016).

Economic growth, poverty reduction and income inequality improvements have seen in Ethiopia in 2015/16 after the country (Ethiopia) widely used the concept of micro and small business enterprises and the income per capita of the population increased from $725 to $794 a year ago and 22 percent of poverty reduction have seen from 38.7 percent a decade earlier. According to the National Bank of Ethiopia (2016), investment to GDP ratio slightly declined to 38.5 percent from 39.4 percent while domestic savings to GDP ratio improved to 22.2 percent compared to the previous year. About 190,587 new MSEs were established in Ethiopia in the year 2015/16 alone according to the National Bank of Ethiopia and these newly established MSEs employed around 1.7 million people. The employment created and the number of establishments during this period decreased by 40.3 percent and 29.8 percent, respectively when compared to the last year (2014/15). On the other hand, the loans received by MSE) from the loan providers are about 5.4 billion and this is 18 percent lower than the loan taken last year (NBE, 2016).

According to the national bank of Ethiopia (NBE, 2016) the construction of the new micro and small business enterprises, credit disbursement and employment were attributed to the exclusion of enterprises that are found rural

areas as the Ethiopian Federal Micro and Small Scale Enterprise Development Agency (FeMSEDA) was divided into two segments, namely Federal Urban Job Creation and Food Security Agency and Federal Small and Medium Manufacturing Industry Development Agency.

Table 2.1: Numbers, Amount of Credit and Jobs Created through MSEs

(Credit in Millions of ETB)

Particulars	2014/15	2015/16	Percentage Change
	A	B	B/A
Total number of MSE's	271,519	190,587	-29.8
Total amount of credit	6,541.88	5,366.55	-18.0
Total number of employment	2,788,667	1,665,517	-40.3

Source: NBE, 2016 cited from FeUJCFSA

The above table number 2.1 clearly shows the number MSEs established, the amount credit offered to these MSEs by the financial institutions and the total number of employment created by the MSEs to the unemployed youth of the country (Ethiopia) which led the country to reduce the rate of unemployment and increase the economy of the country as well during the 2014/15 and 2015/16.

Table 2.2: Numbers, amount of Credit & Job Created through MSE by Region

(Credit in Millions of ETB)

	Total number of MSEs	Total amount of credit	Total number of Employment created	Regional Percentage Share	Total number of MSEs	Total amount of credit	Total number of Employment created
Addis Ababa	8,081	1,009.50	189,866		4.2	18.8	11.4
Oromia	42,775	2,046.40	530,989		22.4	38.1	31.9
SNNPR	12,549	957.1	161,001		6.6	17.8	9.7
Amhara	84,890	938.5	582,508		44.5	17.5	35
Tigrai	37,523	240.7	140,518		19.7	4.5	8.4
Dire Dawa	2,124	59.8	25,125		1.1	1.1	1.5
Harari	372	18.2	8,061		0.2	0.3	0.5
Benishangul Gumus	1,045	1.1	9,413		0.5	0	0.6
Somali	680	85.6	12,533		0.4	1.6	0.8
Gambela	543	4.6	3,726		0.3	0.1	0.2
Afar	5	4.9	1,777		0	0.1	0.1
Total	**190,587**	**5,366.60**	**1,665,517**		**100**	**100**	**100**

Source: NBE, 2016 cited from FeUJCFSA

According to the 2015/16 annual report of NBE the newly established MSEs were distributed in to the all regional states of the country including the two city councils that Addis Ababa and Dire Dawa, And, about 44.5 percent of MSEs that are newly established were found in Amhara Regional State, followed by Oromia with the percent of 22.4, Tigray 19.7 percent, SNNPR 6.6 percent and 4.2 percent for from Addis Ababa In Ethiopia. While the total loan received by the regional MSEs of Ethiopia were 38.1 for Oromia, 18.8 percent Addis Ababa, 17.8 percent SNNPR, 17.5 percent and 4.5 percent to Amhara and Tigray respectively. In addition to that many employments were created by the MSEs that

are found in Ethiopia as summarized with; in Amhara Regional State about 35 percent of the employment was created followed by 31.9 percent from Oromia, 11.4 percent Addis Ababa and 9.7 percent and 8.4 percent from SNNPR and Tigray respectively.

3. Research Methodology

3.1. Introduction

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

3.2. Profile of the Study Area

The Somali Regional State of Ethiopia is the second largest region in Ethiopia after Oromia Region and covers a total area of 350,000 km^2. It's located in the east and southeast of the country and lies between 4 and 11 degrees north latitude and 40 and 48 degrees east longitude. The region has 11 administrative zones consisting of 93 districts and 6 town councils, which is further divided into 1,864 kebeles. These eleven administrative zones are: Fafan, Siti, Nogob, Jerer, Korahey, Warder, Shabele, Afder, Liban, Dawa and Erar and the six administration city councils are; Jigjiga, Dhagehbour, Godey, Kabridaher, Tog-wajale, and Kebribayah. The region shares borders with Somalia to the east and southeast, Kenya to the south and Djibouti to the north. It borders with Afar and Oromia region of Ethiopia to the northwest and west respectively (SoReBoFED, 2014).

3.3. Population of the study

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

3.4. Research methods and design

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

3.5. Sampling Frame

A sampling frame was constructed based on the study area. The list of business enterprises in rural and urban areas that have the access to the services of MFIs in the study area was generated from the MFIs and Somali Regional Micro and

Small Scale Enterprises Development Agency (SoReMSEDA) that are found in the study area. Having in mind those parameters of MFIs and MSEs the final sample size for the study was selected.

3.6. Sampling Techniques and Sample Size

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

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

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

$$Y= \alpha+\beta_{1X}+ \beta_{2X} + \beta_{3X} + \beta_{4X} + \beta_{5X} + \beta_{6X} + \beta_{7X} + \varepsilon$$

Where:

Y = Improved living standard of owners and operators of MSE

X1 = Sex of owner/operators

X2 = Age of business enterprise

X3 = Education level of owner/operators

X4 = Marital status of owners/operators

X5 = Sector of business enterprise

X6 = Loan of MFI

β = the coefficient of independent variables

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

ε = Error term. Also known as residuals

3.8. Variables of the study

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

4. Presentation and Data Analysis

The study presents detail analysis of the impact of the loan on the MSEs productivity and the living standard of owners and operators of MSEs in Ethiopia particularly Somali Region. Based on the study objective, a number of discussions have been made by the study researcher such as; the number of jobs created by the MSEs, change of living standard of the owners and operators of MSEs after the financial services of MFI was summarized in charts and tables. Thus, the study captured the general information that was the key characteristics of the business enterprises and impact of MFI loan on micro and small business enterprises. It also includes:

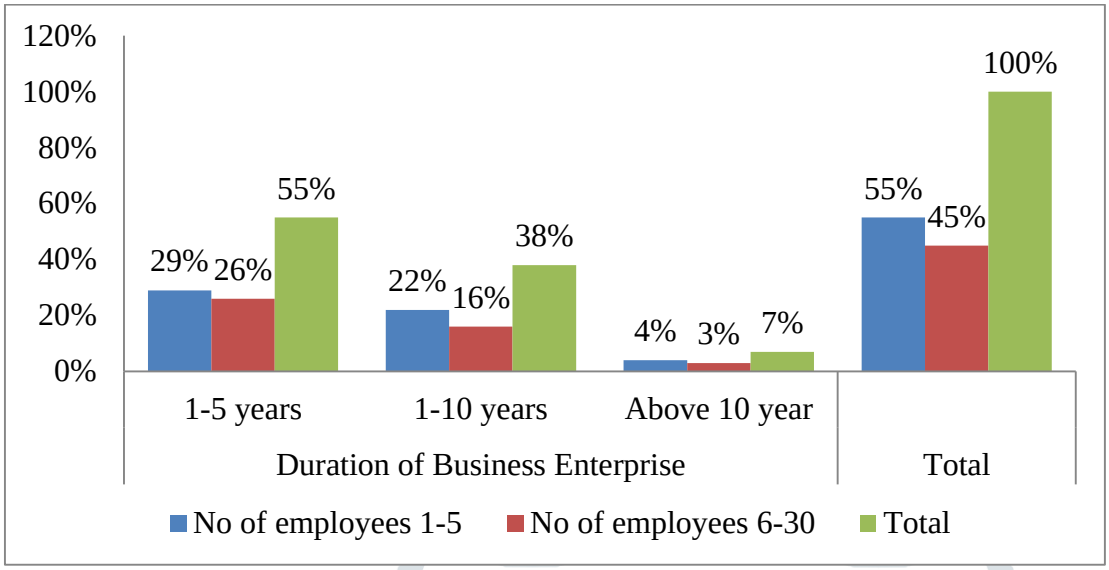
- Employment jobs created and business duration of MSEs
- Benefits of the loan of MFIs for MSEs productivity
- Assets owned by owners and operators of MSE before the loan of MFI
- Asset increment after the loan of Microfinance Institutions
- Source of energy used before and after the loan of MFI by the owners and operators of MSE
- Saving habits after the microcredit service of MFIs

4.1. Impact of MFIs loan on MSEs Productivity

Economic growth, poverty reduction, and income inequality improvements have seen in Ethiopia in the last couple of years particularly the 2015/16 after the country (Ethiopia) widely used the concept of micro and small business enterprises and the income per capita of the population increased from $725 to $794 a year ago and 22 percent of poverty reduction have seen from 38.7 percent a decade earlier. Investment to GDP ratio slightly declined to 38.5 percent from 39.4 percent while domestic savings to GDP ratio improved to 22.2 percent compared to the previous year (NBE, 2016).

According to the NBE (2016) about 190,587 new MSEs were established in Ethiopia in the year 2015/16 alone and these newly established MSEs employed around 1.7 million people. MSE play an important role in terms of creating job opportunity but, employment created and the number of establishments during this period decreased by 40.3 and 29.8 percent, respectively when compared with the 2014/15 year. The study investigated the number of employment jobs created by the micro and small business enterprises based on their classes of enterprise size and business duration but the study covers only the business enterprises that got some sort of financial and non-financial products and services from the MFI for at least one time or more within the last five years that is 2012-2016 as discussed in the following paragraph;

Figure 4.1: Share of employment jobs created by MSEs and business duration



Source: Field survey, 2017

MSEs have created many job opportunities in Ethiopia particularly Somali Region. The study as it can revealed from the above figure 4.1 analyses the number of employment jobs created based on their business duration and found that the highest employment were created by the business enterprises that have been doing business for about 1-5 years with 55 percent of total business enterprises of the total sample in which out of this percentage about 29 percent has 1-5 employees and 26 percent have total employees of 6-30 followed by business enterprises with a business duration of 1-10 years having total employment share of 38 percent in which 22 percent goes to the firms that have an employees of 1-5 and 16 percent goes to the enterprises that created job for about 6-30 employees.

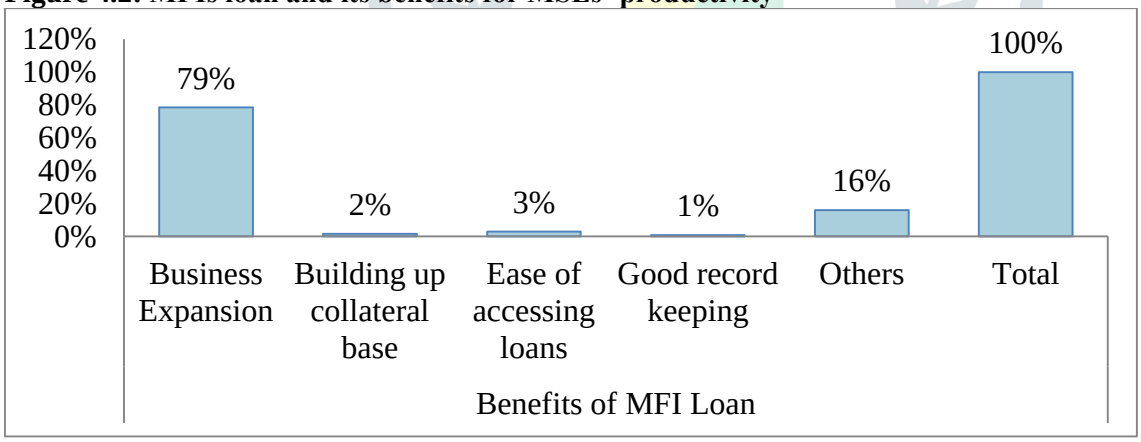
While about 7 percent of the total employment jobs created by MSEs goes to the business enterprises that have been providing service for a period of more than one decade in which 4 percent of this were created jobs for 1-5 employees and the rest 3 percent job were created for more than 5 employees but less than 30. Therefore, as it can be seen from this discussion, most of the employment jobs that were created by the business enterprises have been doing business for about 1-5 years. MSEs that were found in Somali Region of Ethiopia created job opportunities for about 115,813 people and out of this employment about 16,086 were female that used to sit their houses without any tiny financial services from any financial institutions and other institutions.

Study that was done by ILO in 2015 on "small and medium-sized enterprises decent and productive employment creation" shows that small enterprise established less than two years before have created higher job than the medium enterprises with a total number of employees that are fewer than 100 by which it was supported by study carried out by OECD with a similar finding as ILO 2015 cited from OECD. Hence, to analyze the subgroup of MSEs in Ethiopia particularly Somali Region that has the highest total number of employment jobs created is a particular interest for the study and the study found that 55 percent of total number of jobs created by MSEs were created by the business enterprises that have a total number of 1-5 employees which is known as according to the MSE definition by the FeMSEDA in Ethiopia micro business enterprise that were established for the last five years while the other part of the job opportunities were created by the business enterprises having 6-30 employees which are also defined and known as small business enterprise.

The five year (2010/11-2014/2015) developed strategy for the implementation of the growth and transformation plan of Ethiopia, micro and small business enterprises development strategy was implemented by which microfinance institutions are key player of financial support for MSEs which created according to FeMSEDA (2016) a total number of 766,990 MSEs by which they created about 7.02 million job opportunities in which out of this 40.4 percent were women. And based on this the number of MSEs during this period as reported by FeMSEDA created in Somali Region was 0.12 percent out of the total MSEs created in the country and this made the MSEs in Somali Region to create about 0.59 percent of the total jobs created in the country through micro and small business enterprises. However, the study found that the total number of MSE created in Somali Region is much higher than that of FeMSEDA reported for the period of 2010/11-2014/2015 fiscal year by which it's about 0.44 percent of the total MSEs created in the country and their total jobs created by MSEs that are found in Somali Region were 1.6 percent of the total jobs created in the country despite this, the concept of microfinance is new concept to the region and its initiation goes back to 2011.

The main reason of the increment jobs created through MSEs in Somali Region of Ethiopia was the widely used microcredit of microfinance concept for the last seven years as many studies show that if the working environment in which business enterprises works are pleasant their productivity increases which is to mean that where there is a financial resource the productivity of business enterprises may increase as long as the required financial resources are available to business enterprises that are ready for growth and development which will lead to create many opportunities for employment for the un employed and even the employed one but are looking for better job. Hence, the MFIs' loan in the region had been productive enough in terms of the jobs opportunities created through the financial contributions of MFIs to MSEs and saved the lives of many people in Somali Region, Ethiopia that was not served by commercial financial institutions.

Figure 4.2: MFIs loan and its benefits for MSEs' productivity



Source: Field survey, 2017

Figure 4.2 above shows that, the benefits of MFIs for the MSEs in Ethiopia particularly Somali Region. MSE compared to the other business enterprises that are larger by which there is variance in profitability and growth because of financing problems and interest rates that are higher and rationing of credit because of the collateral shortage confronted by MSEs.

The emerging MFIs revolution managed to provide small loan and deposit services to a large low-income people by competing with commercial financial institutions, conveniently located and secure (Robinson, 2001). Hence, MFIs in

Ethiopia have done a lot of revolution for the growing economic for the country through providing financial and none-financial products and services to MSEs for this reason the study looked for what benefits does the loan of MFIs have for MSEs and found that from the sample population of 242 about 79 percent of the total MSEs have benefited from the loan of MSEs by expanding their business, 2 percent of MSEs from the total sample size have also benefited the MFIs loan by using the loan of MFIsto build collateral base by which commercial financial institutions do not provide loan for the MSEs that does not have any collateral but possible to have a loan from them once MSEs got collateral by which it was supported by the statement of Justin Pritchard (2017) collateral increases the probability of getting loan from any financial institutions (Justin Pritchard, 2017). 3 percent of MSEs benefited the loan borrowed from MFI in accessing loan for ease, 1 percent and 16 percent benefited the loan of MFI by which their recording their day to day activity has got improved such as hiring a qualifies employees and another benefit respectively.

Therefore, the study as the analyses above conclude supported by the OECD study on promoting small and medium enterprises for development, that the loan provided by MFIs in Ethiopia have a great impact for the productivity of MSEs that are found in Somali Region of Ethiopia in many dimension such expansion of business, job opportunities creation, building collateral base and many more for the MSEs such as MSE enabling legal environment for administrative and regulatory, institutions support for MSEs structure, access to finance for MSEs, appropriate skill availability and infrastructure support (OECD, 2004).

4.2. Impacts of MFI loan on the living standard of MSE owners and operators

In this section, the study discusses impacts of the financial services of MFI particularly their loan on the living standard of the owners and operators of MSEs in Ethiopia with particular to Somali Region of Ethiopia. The study investigated the role of MFIs in developing MSEs considering many other aspects such; performance of microfinance, effects of financial and none-financial products and services of microfinance, financial problems of microfinance, impacts of microfinance loan on the productivity including its impact on the living standard of owners and operators of MSEs.

The objectives of the research study were to assess how the microfinance loan helped the poor for better living standard improvement giving more emphasis on assets use to have before the loan of microfinance, additional assets after the loan of microfinance, sources of energy use to have for cooking before the loan of microfinance and after, number children use to send for education to school before the loan of microfinance and after, and living standard improvement brought by the financial and none-financial products and services of MFIs. Doing this made the research study more important, particularly when answering and achieving the raised questions and objectives of the research.

MFIs are one of the poverty alleviation mechanisms that are widely used and became a diverse and growing industry; according to USAID (2005) thousands of MFIs that provide financial service to millions of micro and small business enterprises exist, ranging from grassroots self-help groups to commercial banks to millions of microenterprises and low-income households.

The policies and objectives of MFIs in Ethiopia are to make available and accessible financial services to a large number of actively productive Ethiopian populations which use to have no access to formal financial services that could empower them the contribution of the country's economic development. It's related to a group of financial service innovations under the term microfinance, according to microfinance it is a micro savings, money transfer and micro

insurance (Islam, Mohd. Najmul, 2013). The services of MFI are small, micro because a person who does not have a lot of money most likely will not need a loan of several thousand of rupees and a loan of a few hundred rupees may make a huge difference in their lives, giving them the ability to purchase livestock for a small farm, a sewing machine to help in making accessories and clothes, or supplies for a small store (Mrs. Soma S. and Dr. Anant D., 2013).

Table 4.1: Assets owned by owners & operators of MSE before the loan of MFI

		Asset owned before the loan of MFI				**Total**
		House	Furniture	TV	Other	
Have you ever get a loan from MFI?	Yes	146	29	7	60	**242**
	No	0	0	0	0	
Total		**150**	**29**	**7**	**56**	**242**

Source: Field survey, 2017

Table 1.1 discusses about the availability of MFI loan to the MSE owners and operators and assets use to have before the loan of microfinance by the owners and operators of micro and small business enterprises. From the total sample population of the study about 242 owners and operators of micro and small business enterprises had got loan from MFIs in Ethiopia, particularly Somali MFI in Somali Region of Ethiopia.

In addition to the loan of microfinance, the study investigated what type of asset that the owners and operators of micro and small business enterprises in Somali Region use to have before they got loan from the micro financing institution in Ethiopia particularly Somali Region and found that about 146 owners and operators of MSE use to have house for living in which some of them use to rent so as to generate income from their house to cover their cost of living, 29 owners and operators of MSE use to have furniture that were used to support their living style, 7 MSE owners and operators use to have TV and about 60 owners and operators use to have other type of assets. Hence, most of the respondents use to have houses by which some of them used for a different purposes followed by owners and operators that use to have other types of asset.

Microcredit of MFIs is a powerful tool that is widely used for the development of lives of millions of poor people and reduces poverty throughout the world (Jonathan Morduch, Barbara Haley, 2002). One of the problem issues in all over the global is poverty even the developed countries face. The bellow table 1.2 summarizes how the loan of MFIs had played a great role in terms of asset increment for the owners and operators of MSEs

Table 4.2: Asset increment after the loan of Microfinance Institution

		If yes, what is that asset?					**Total**
		House	Furniture	Land	TV and Radio	Other	
Are there additional assets added to your asset after the loan?	Yes	44	12	41	4	36	**137**
Total		**44**	**12**	**41**	**4**	**36**	**137**
		If no, can you please specify the reason?					**Total**

		Bankruptcy	Preferred to expand business	Preferred to use for day-to-day consumption	No additional income from business	
	No	3	78	5	19	**105**
Total		**3**	**78**	**5**	**19**	**105**

Source: Field survey, 2017

As it can be revealed from the above table 4.2, the study investigated the asset increment of the owners and operators of micro and small business enterprises in Somali Region of Ethiopia after the financial services particularly loan of Ethiopian micro-financing institutions. This study was carried on a sample population size of 250 that have the service of microfinance institutions for one time or more within the last five years that is 2012-2016 and show that the asset of about 137 MSE owners and operators has been increased after the financial services (loan) of microfinance institution by which about 44 owners and operators, 12 owners and operators, 41 owners and operators, 4 owners and operators, and 36 owners and operators of MSE had owned a house, furniture, land, TV and radio and other types of assets after they got loan so as to generate income and have their own asset out of that borrowed loan respectively. Hence, majority of the owners and operators that got loan from the MFIs built houses followed by those who owned land for future building and something else other building.

In addition to those whom their asset had been increased after the loan of MFIs, the study also goes to investigate why the asset had not been increased for the respondents who responded "No" when asked "Are there additional assets added to your assets after the loan?" and found that 3 owners and operators, 78 owners and operators, 5 owners and operators, and 19 owners and operators said their business enterprises had got bankruptcy, preferred to expand their business, preferred to use for day-to-day consumption and there was no additional income from the business enterprises respectively. Therefore, the main cause for the owners and operators of MSEs by which their asset had not been increased as the majority responded was because of their preference to expand their business enterprises rather than going to have additional asset followed by owners and operators by which their business enterprises had not have additional income so as to increase their asset for their own and business enterprises also.

Over all the financial services such as providing loan are essential for the poor people because it helps to run their own saving for improvement of their living standard and have a large sum of enough money to satisfy their need and wide range of personal consumptions, businesses, asset building, and social needs, effective financial services provided to the poor helps the reduction of the poverty even to its elimination (Imran M, D. Hulme and S. Rutherford, 2002). This have identified by this research study in which majority of the sample population of the owners and operators of MSEs obtained loan from MFI had played a vital role by increasing their asset for better living standard.

Table 4.2: Source of energy used before & after the loan of MFI by the owners & operators of MSE

What kind of energy source did you used for cooking before MFI loan?					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Charcoal	215	88.8	88.8	88.8
	Kerosene	13	5.4	5.4	94.2
	Other	14	5.8	5.8	100.0
	Total	**242**	**100.0**	**100.0**	
Did you shifted your energy source for cooking after the loan?					

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	91	37.6	37.6	37.6
	No	151	62.4	62.4	100.0
	Total	**242**	**100.0**	**100.0**	
If your energy source has been shifted, to what you shifted					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Electric	53	58.2	58.2	58.2
	Biogas	22	24.2	24.2	82.4
	Other	16	17.6	17.6	100.0
	Total	**91**	**100.0**	**100.0**	

Source: Field survey, 2017

The study investigated how the loan of microfinance has changed the living standard of the owners and operators of MSEs in Ethiopia with particular to Somali Region in terms of sources of energy used for cooking after and before the loan of MFIs. The study found that as it can be seen from the above table 4.3 about 215 owners and operators, 13 owners and operators and 14 owners and operators of micro and small business enterprises used to use charcoal, kerosene and other sources of energy for cooking their daily meal before they got a loan from the MFIs respectively in Ethiopia particularly Somali Region. In addition to this, the study investigated whether the energy source of owners and operators of MSEs that has been used

has got changed after the loan of MFIs. The study found that about 91 owners and operators of MSEs that represent 37.6 percent of the total owners and operators had changed their energy source after they got loan to run their business enterprise from MFIs so as to improve their living standard.

The study investigated also from the owner and operators who had shifted their energy source after the loan of MFI and found that 58.2 percent, 24.2 percent and 16.6 percent of the owners and operators that had shifted their energy source after they got loan and run their business enterprises in to electric, biogas and other energy source for their cooking and related activities for the purpose of living style. Hence, based on this the financial service such as microcredit of microfinance has been effective and have powerful impact for the improvement of the living standard of the owners and operators of MSEs like many other tools used for the development of the poorest and this study has been supported by Jonathan Morduch and Barbara Haley' microfinance on reduction of poverty effect analysis or the power to end poverty done in 2002 at Canada

Table 4.3: Saving habit after the microcredit service of MFI

		If you have a saving habit, which saving mechanism do you use?				**Total**
		Iqub/Edir	Banks	Home Box	MFI	
Do you have saving habit?	Yes	82	92	3	63	**240**
	No	1	0	0	1	**2**
Total		**63**	**92**	**3**	**64**	**242**

Source: Field survey, 2017

In Ethiopia, there are a number of saving mechanisms that are widely used for better living standard improvements because of their being highly demanded within the poorest for their vital role player in terms of fulfilling functions of

insurance and protecting against the seasonal cash flow. Moreover, according to Jonathan Morduch and Barbara Haley (2002), financial disciplines reinforces building-up deposits for customers that can yield as a result a collateral and used as source of funding by MFIs.

Among this financial institutions and the most relevant socio economic that have been existed in Ethiopia and created by Ethiopians particularly the informal institutions are Iqub and Idir by which it have been defined each separately as; Iqub is an association that provide fund which rotates largely for its members to improve their living standard established by small group of people, while Idir has been established as an association among the neighbors to rise fund for which it can used during the emergencies such as death established by small group of people (Ayele Bekerie, 2003).

Table 4.4 analysis that whether the owners and operators have a saving habit or not and found that about 240 MSE owners and operators had a saving habit after they got the micro credit financial service of MFIs in Somali Region of Ethiopia but the mechanism they used varies from one another. About 82 owners and operators, 92 owners and operators, 3 owners and operators, and 63 owners and operators of MSEs uses; Iqub/Idir[1], Banks, Home and MFIs mechanism respectively for saving. Hence, most of the owners and operators of MSEs had used banks for saving followed by iqub and idir.

4.3. Inferential Impact Analysis of MFIs Loan

Field survey based on the impact of MFI loan on the living standard of the owners and operators of MSE has been carried out in Somali Region of Ethiopia. A questionnaire was distributed to the owners and operators of MSEs in Somali Region of Ethiopia using standard questions based on the variables that have impact on the living standard of owners and operators of MSEs as; loan of the MFIs in Ethiopia particularly Somali Region. The objective of the sample that was selected for this study was to cover all the owners and operators of business enterprise that has the access of MFIs regardless of financial and non-financial products and services considering owners and operators that had the access of MFIs for at least one time or more within a period of five consecutive years that is 2012-2016. The data collection process would not have been possible without the support of Somali Regional Micro and Small Enterprises Developing Agency (SoReMSEDA) and enumerators of the data for the study. About 250 questionnaires were distributed to the owners and operators of MSEs but out of this only 242 were successfully filled and returned back to the researcher

4.3.1. Correlation Analysis between the independent and dependent Variables

The study used correlation analysis to study the strength or the type of relationship existed between the variables of the study. Pearson R statistics was used to calculate the correlation value of the study that is in between +1 to -1 in which the significance of it was tested at 95% confidence level in which p value of < 0.05 was indicated a correlation that is statistically significant.

[1] Traditional financial associations in Ethiopia

Table 4.5: Loan of MFIs impact and Living standard

		Loan of Microfinance	Living Standard Improvement
Loan of Microfinance	Pearson Correlation	1	.329**
	Sig. (2-tailed)		.000
	N	242	242
Improved Living Standard	Pearson Correlation	.329**	1
	Sig. (2-tailed)	.000	
	N	242	242

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

Source: Author computation from the sample, 2017

Table 4.5 above summarizes correlation result between the loan of MFI and the living standard of owners and operators of MSEs in Ethiopia with particular to Somali Region. Based on the correlation result indicated, it presents the relationship the study identified between the variables of the study which is; loan of MFIs with their relationship of the improved living standard of the owners and operators of MSEs. According to Prof. Alfred N., (2015) a correlation value of +1 reflects a strong relationship while -1 reflects week relationship. As it can be seen from the above table 7.5 results, indicates that at 95 percent of confidence level of loan of MFIs had Pearson correlation value of 0.329 with the improved living standard of owners and operators of MSE. Hence, the calculated R value using SPSS v 20 is in between +1 and -1 which indicate a positive relationship between the loan of MFI and the improved living standard of the owners and operators of MSE.

Therefore, the finding of the study regarding the relationship between the variables of the study conclude that the loan of MFI in Ethiopia particularly Somali Region has a positive relationship with the improved living standard of owners and operators of MSEs in Ethiopia. This further indicates that the more financial service particularly loan service is provided the more living standard of the poor particularly owners and operators of MSEs improves because this support will make to the establish or expand business enterprise as a result their saving will increase which will lead them to have a good and improved living standard.

4.3.3. Regression analysis

Multilinear regression model has been used to know and establish the impact of the loan of microfinance on the living standard of owners and operators of MSEs in Ethiopia particularly Somali Region. This made easier the adjustment of independent variable because it allows controlling clearly many other factors that can simultaneously affect it. The proposed dependent variable for this objective was the improved living standard of owners and operators of MSE while the loan of MFIs was the independent variable. The model used for this specific part of the study's objective is discussed as shown below:

$Y= \alpha+\beta_{1X}+ \beta_{2X} + \beta_{3X} + \beta_{4X} + \beta_{5X} + \beta_{6X} + \varepsilon$

Where:

Y = Improved living standard of owners and operators of MSE

X1 = Sex of owner/operators

X2 = Age of business enterprise

X3 = Education level of owner/operators

X4 = Marital status of owners/operators

X5 = Sector of business enterprise

X6 = Loan of MFI

β = the coefficient of independent variables

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

ε = Error term. Also known as residuals

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

Table 4.6: Summary of Regression Model

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.349[a]	.122	.099	.905

a. Predictors: (Constant), Loan of MFI, Marriage Status of the Respondents, Industry sector of your enterprise, Sex of the Respondents, Age of the Respondents, Education Level of the Respondents

Source: Author computation from the sample, 2017

As it can be revealed from the above summary of the regression model table 4.6 that shows us a summary of multiple linear regression model and its overall fit statistics which has been used to analyse and establish a relationship between the variables used for the study. The study using the regresion model got a correlation value of 0. 349. This value shows us the relationship that existed between the improved living standard of owners and operators of MSEs with the factors that affect that the independent variables in Ethiopia particularly Somali Region is a positive relationship which means, there is a linear dependence of the improved living standard of owners and operators of MSEs to the loan of MFIs though it's not highly correlated because of the correlation value obtained which is not close to 1. With an adjusted R-square value of 0.122 which is to mean that the financial services of MFI particularly the loan of MFIs as the model explains, there is about 12.2 percent of variation of the growth and development business enterprises but are highly influenced by another factor that has not been explained in the model.

The finding of the study regarding the impact of the loan of MFIs on living standard has been supported by the study done by IMS Weerasinghe, HH Dedunu (2017) in which the finding of their study indicate that loan of MFIs on the living standard of the poor has a positive impact. Therefore, this can be explained that the financial service of MFIs particularly loan service does not had high impact on the improved living standard of owners and operators of MSEs in Ethiopia particularly Somali region. Hence, as it can be seen from the above correlation value, it can be concluded that the loan of MFIs had a little impact on the improved living standard of the owners and operators of MSEs in Somali Region of Ethiopia but, it was not that much as expected.

Table 4.7: Summary of Model and ANOVA Test

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	26.718	6	4.453	5.432	.000[b]
	Residual	192.641	235	.820		
	Total	219.360	241			

a. Dependent Variable: Improved living standard of owners and operators
b. Predictors: (Constant), Loan of MFI, Marriage Status of the Respondents, Industry sector of your enterprise, Sex of the Respondents, Age of the Respondents, Education Level of the Respondents

Source: Author computation from the sample, 2017

As it can be revealed from the ANOVA statistics in the above table 4.7, after the data collected was processed, it was obtained that a P value of 0.00 and this value is less than the significance level which is 0.05 this indicates the variables of the study is statistically significant. The model also had an F ratio of 5.432 which is significant at 0.05 level of significant. Over all the model result shows, the model is statistically significant and useful to predict at significant level of 0.05. Therefore, this result indicates that the variable of loan of the MFIs is statistically significant for improved living standard of owners and operators of MSEs in Ethiopia particularly Somali Region.

4.3.4. Hypotheses Test

The study used regression model to draw inferences about the sample population, t test was also used because t test is one of the inferential types of statistics that is used to discover the significance difference of a group of two mean (Del Siegle, 2002). It has been assumed dependent variable perfectly fits the normal distribution and used to prove the hypothesis using the sample results obtained. Besides this, the key idea of t test was to specify the probability level of willing to accept the null hypothesis or not. Therefore, this study calculated for about two type of relation that needs to be tested using ANOVA.

For the hypothesis test of this study, the decision rule made was based on the observed P value in which if it's less than alpha with the confidence level of 5 percent, null hypothesis of the study will be accepted which will lead the study to reject the alternative hypothesis that were formulated for the study vice versa. Hypothesis test was done at a significance level of 0.05. The result of regression model that was presented for the improved living standard of owners and operators of MSEs shows the impact of the loan service of MFIs contributions on the improved living standard of MSEs owners and operators as follows:

Improved living standard of owners and operators of MSE = $\alpha+\beta_{1X}$(Sex of owners/operators) + β_{2X}(Duration of enterprises) + β_{3X}(Education level) + β_{4X}(Marital Status) + β_{5X}(Business sector) + β_{6X}(Loan of MFI) + ε

Where: β = the coefficient of independent variables.

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

ε = Error term also known as residuals

Table 4.8: Regression output using improved living standard of owners and operators of MSE

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.203	.129		9.358	.000
	Loan of MFI	.476	.088	.329	5.403	.000

a. Dependent Variable: Improved living standard

R Square 0.108

Adjusted R Square 0.105

Source: Author computation from the sample, 2017

One of the specific objective of this study to achieve its main objective was to investigate the impact of the loan of the MFIs on the living standard of owners and operators of MSE in Ethiopia particularly Somali Region. For this purpose hypothesis was formulated and tested as discussed in the following paragraphs;

H_0. MFIs' loans have a positive outcome on the livelihood of MSEs' owners and operators in Ethiopia

H_1. MFIs' loans do not have a positive outcome on the livelihood of MSEs' owners and operators in Ethiopia

As it can be revealed from the above coefficient table 4.8, there is a significant relationship with the improved living standard of owners and operators of MSEs with a P-value of 0.000 at a 95 percent of confidence level. Therefore, these results lead the study to accept the null hypothesis which is the loan of MFIs have a positive outcome on the livelihood of owners and operators of the MSEs in Ethiopia.

5. CONCLUSION

The presented discussion in this chapter was wainly for analyzing the impact of MFIs loan on MSEs productiveity in terms of number of jobs created and the livelihood improvement of owners and operators of MSEs in Ethiopia with particular to Somali Region. The study captured the general information that was the key characteristics of the business enterprises, living conditions of owners and operators of MSEs and impact of the loan of MFIs. The study found that most of jobs created in Ethiopia particularly Somali Region were created by the business enterprises that have been in operation for the last five year from 2016 which it have been believed that the motives of this business enterprises which decreased the unemployment rate of Somali region in particular and Ethiopia in general was the widely used concept of the micro financial institutions in Ethiopia though its new to the region by its foundation goes back to 2011.

The study found that the loan provided by MFIs in Ethiopia have a great impact for the productivity of MSEs that are found in Somali Region of Ethiopia in many dimension such expansion of business, job opportunities creation, building collateral base and many more for the MSEs such as MSE enabling legal environment for administrative and regulatory, institutions support for MSEs structure, access to finance for MSEs, appropriate skill availability and infrastructure support.

Over all the financial services such as loans are essential which helps the owners and operators saving for improvement of their living standard and have a large sum of enough money to satisfy their need and wide range of personal consumptions, businesses, asset building, and social needs, effective financial services provided to the poor helps the

reduction of the poverty even to its elimination. This study has that majority of the sample population of the owners and operators of MSEs obtained loan from MFI had played a vital role by increasing their asset for better living standard. The financial services such as microcredit of microfinance has been effective and have powerful impact for the improvement of the living standard of the owners and operators of MSEs like many other tools used for the development of the poorest.

The study further indicates that the more financial service particularly loan service is provided the more living standard of the poor particularly owners and operators of MSes improves because this support will make to the establish or expand business enterprise as a result their saving will increase which will lead them to have a good and improved living standard.

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