



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MASTERS OF BUSINESS ADMINISTRATION

**Factors Affecting Access to Finance for Small and Medium
Size Enterprises (SMEs) in Nifas-Silk Lafto Sub-city,
Addis Ababa**

BY: Alemayehu Gebreab

ID: SGS/ 0105/ 2012A

Advisor: Ephrem Assefa (PhD)

**A Thesis Submitted to the School of Graduate Studies of St. Mary
University in Partial Fulfillment of the Requirements for the
Master's Degree in Business Administration**

Dec, 2021

Addis Ababa, Ethiopia

ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MASTERS OF BUSINESS ADMINISTRATION

APPROVAL SHEET

**Factors Affecting Access to Finance for Small and Medium
Size Enterprises (SMEs) in Nifas-Silk Lafto Sub-city,
Addis Ababa**

BY: Alemayehu Gebreab
ID: SGS/ 0105/ 2012A

APPROVED BY BOARD OF EXAMINERS

----- Dean, Graduate Studies	----- Signature & Date
----- Advisor	----- Signature & Date
----- External Examiner	----- Signature & Date
----- Internal Examiner	----- Signature & Date

DECLARATION

I, the undersigned, declare that this thesis “Factors Affecting Access to Finance for Small and Medium Size Enterprises (SMEs) in Nifas-Silk Lafto Sub-city, Addis Ababa” is my original work, prepared under the guidance of Ephrem Assefa (Ph.D.). All sources of materials used for this thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or full to any other higher learning institution for the purpose of earning any degree.

Alemayehu Gebreab Haile

Name

St, Mary’s University, Addis Ababa

Signature

Dec. 2021

ENDORSEMENT

This thesis entitled “*Factors Affecting Access to Finance for Small and Medium Size Enterprises (SMEs) in Nifas-Silk Lafto Sub-city, Addis Ababa*” has been submitted to St. Mary’s University, School of Graduate Studies for examination with my approval as a University advisor.

Ephrem Assefa (Ph.D)

Advisor

St, Mary’s University, Addis Ababa



Signature

Dec. 22, 2021

ACKNOWLEDGEMENTS

I would like to take this opportunity to acknowledge the help and encouragement of all who have supported and assisted me during this thesis work. Without their guidance and advice, I would have never been able to accomplish the work of this thesis.

First and foremost, I would like to thank God Almighty for giving me the strength, knowledge, ability and opportunity to undertake this research study and to persevere and complete it satisfactorily. Without His blessings, this achievement would not have been possible.

I would like to thank my advisor Ephrem Assefa (PhD) whose help, suggestions, invaluable guidance and encouragement helped me throughout the dissertation process, this thesis would not have been possible and I would be grateful to the assistance.

I would like to forward my honest appreciation to the representative and senior officers at City Government of Addis Ababa Job Creation and Enterprises Development Bureaus, Nifas-Silk Lafto Sub-city Government Office, the thirteen woredas under the sub-city. My sincere and heartfelt gratitude also goes to the financial sectors and institution representatives and senior officers who are willing to cooperate for the interview and sharing their practice and perception on the financing of SMEs, especially the managers, senior professionals, bankers at Commercial Bank of Ethiopia, Addis International Bank, Dashen Bank, Addis Credit and Saving Institution, Nisir Microfinance Institution and also to the small and medium enterprise (SME) operators located at all woredas of the sub-city who are voluntarily filled the questionnaire, and Without them this paper would not have come to life.

Last but not the least; I would like to thank to my friend and family members Mr. Ephrem Abera, Abebe Worku, Girma G/Ab, and Fikadu Zewde who motivated and helped me morally and financially. I am also greatly indebted to all of the staffs of St. Mary University, and my classmates who helped me in advising, communicating, and delivering all the necessary information.

ABSTRACT

This thesis aims at investigating the factors influencing of access to finance & its availability for Small and Medium Size Enterprises (SMEs) in Nifas-Silk Lafto sub-city, Addis Ababa by using both survey questionnaire & selected interview methods. The study employs mixed methods research approach. The quantitative & qualitative aspect of the study is based on survey of 200 SMEs owner, shareholders & employee/managers collected using Yamane Taro's, 1967 sampling formula & interviewing senior officers from purposively selected five banks & five MFIs employee at the head office level and the districts located in Nifas-Silk Lafto sub-city, Addis Ababa; as well as reviewing relevant documents related to accesses to finance in Ethiopia. The study adopted an explanatory research design. Primary & secondary data source were used. The research was analyzed using simple correlation & regression analysis, ANOVA & Descriptive statistics such as frequency, percentage, table & graph. The data gathered via questionnaire was processed via Statistical Package for Social Sciences (SPSS). The outcome of a study reveal that firm's age, manager's business experience, collateral requirements, firm's business planning & accessibility of information on fund opportunity have a significant relationship with the accesses to finance & its availability which was supported by different scholars who were conducted study on the same topic & sub-topics, on the other hand firm's size in the contrary to the study hypothesis, the result became it had no relationship with SME's access to finance from formal institutions. Furthermore, the result from descriptive statistics confirmed that except firm's size, all factors in this research have impact on the accesses to finance & its availability. It also revealed that SMEs use their own savings & profit as well as "equib" as a major source of finance beside banks & MFIs contribution. Having inadequate collateral, being new/ infant in age of the firm, less experienced manager, weak information access, & poor business plan were discovered as major obstacles to have loan from Banks & MFIs. These findings expected to help both parties SMEs as well as financial source providers in the development of appropriate strategies in filling the gap towards certain mutual benefit on collateral requirement, business planning & strong information access on finance opportunity for SMEs that contributes in growth of the nation as well to the economy.

Keywords: *Small and Medium Size Enterprises, access to finance, Nifas-Silk Lafto*

Contents

CHAPTER I	1
INTRODUCTION	1
1.1 Background of the study	1
1.2 Statement of the problem	3
1.3 Objective of the study	5
1.3.1 General objective of the Study	5
1.3.2 Specific objective of the study	5
1.4 Research Questions	6
1.5 Significance of the study	6
1.6 Scope of the Study.....	6
1.7 Limitation of the study	7
1.8 Definition of key operational terms	7
1.9 Organization of the study.....	8
CHAPTER II	9
LITERATURE REVIEW	9
2.1 Theoretical Literature Review	9
2.1.1 Definition of Small & Medium Size Enterprise (SME)	9
2.1.2 Definition of SMEs in Ethiopia	12
2.2 Access to finance for SMEs	13
2.2.1 Equity Financing	13
2.2.2 Debt Financing	14
2.3 Financial Source Providers for SMEs	14
2.4 Barriers to formal finance: financial institutions perspective	15
2.4.1 High transaction cost	15
2.4.2 Imperfect information	16
2.4.3 High default risk of SMEs.....	16
2.4.4 Limited collateral	16
2.5 Barriers to formal finance: SMEs perspective	17
2.6 Small & Medium Enterprises in Ethiopia	17
2.6.1 Small & Medium Enterprise Development Strategy	18

2.6.2	The Implementation Structure of Strategy	18
2.6.3	The Federal Small & Medium Enterprise Development Agency	18
2.7	Factors Determinie Firm's Access to finance from formal institutions	18
2.8	Relevant Theories & Models in Small & Medium Enterprises (SMEs)	21
2.8.1	The Structuralist Thoery	22
2.8.2	The Classical Theory	22
2.8.3	The Modern Theory	23
2.9	Empirical Review	23
2.10	Conceptual Framework of the study	26
2.11	Research Hypotheses	28
CHAPTER III		32
RESEARCH METHODOLOGY		32
3.1	Research Approach	32
3.2	Research Design.....	32
3.3	Population of the study	33
3.4	Sample Size & Sampling Techniques.....	35
3.5	Data Collection Instrument.....	38
3.6	Data collection procedure, Ethical Issues and Measurment Reliabilty.....	39
3.7	Method of Data Analysis.....	44
CHAPTER IV.....		48
DATA PRESENTATION, ANALYSIS & INTERPRETATION.....		48
4.1	Introduction.....	48
4.2	Response rate.....	49
4.3	Respondents' profile	49
4.3.1	Respondents gender with Occopation status.....	49
4.3.2	Education of SME Managers.....	50
4.3.3	Respondents business activities.....	51
4.3.4	Sources of finanace used by the SMEs.....	52
4.4	Descriptive Statistics for factors Affecting access to finance for SMEs.....	54
4.4.1	Factors affecting Access to finance and its availability.....	54

4.4.1.1 Application & needs for loan and access to credit from formal financial institutions.....	55
4.4.1.2 Influence of collateral requirements on access to finance & its availability.....	56
4.4.1.3 Effect of awareness of funding opportunity on access to finance and its availability.....	57
4.4.1.4 Effect of firm's business plan on access to finance and its availability.....	59
4.4.2 Logistic regression on the determinants of SME's Access to Formal sources of Credit	61
4.4.2.1 Assumptions of Logistic regression.....	61
4.4.2.2 The results of Logistic regression.....	64
4.5 Supply side factors affecting SME's access to finance: Interview Analysis.....	67
4.5.1 Introduction.....	68
4.5.2 Findings derived from the responses of the participants to the questions focusing on Bank & MFIs	69
CHAPTER V.....	76
SUMMARY, CONCLUSION AND RECOMMENDATION.....	76
5.1 Introduction	76
5.2 Summary.....	76
5.3 Conclusion.....	79
5.4 Recommendation.....	81
Reference.....	85
Appendices.....	92

LIST OF TABLES

Table 2.1: Definition of Small & Medium Enterprises with European Union	10
Table 2.2: Definition of Small & Medium Enterprises by World Bank Standard	11
Table 2.3: Distribution of firms by number of employees in different countries.....	12
Table 2.4: Description of Small & Medium Enterprises by the Ethiopian SME Agency	12
Table 3.1: Distribution of SMEs at the sub-city levels from the five sub-sectors	33
Table 3.2: Distribution of SMEs at the woreda levels from the five sub-sectors	34
Table 3.3: Proportionate Sampling Determination at the woreda levels	37
Table 3.4: Reliability results for dependent variable	42
Table 3.5: Reliability results for independent variables	43
Table 4.1: Respondents Gender with Occupation status	49
Table 4.2: Means Interpretations Key	54
Table 4.3: Application for loan and access to credit from formal financial institutions	55
Table 4.4: Result of the Descriptive Statistics for Need and Accessibility of finance	55
Table 4.5: Collateral Requirements	56
Table 4.6: Result of the Descriptive Statistics for Collateral Requirements	56
Table 4.7: Awareness about Funding Opportunity (Availability of Finance).....	57
Table 4.8: Result of the Descriptive Statistics for Awareness about Funding Opportunity..	58
Table 4.9: Firm's business plan	59
Table 4.10: Result of the Descriptive Statistics for Business Plan.....	60
Table 4.11: Result of Logistic Regression Estimation	65

LIST OF FIGURES

Figure 2.1: Conceptual framework of the study	27
Figure 4.1: Education Background of SME Managers.....	51
Figure 4.2: Respondents Business Activities.....	52
Figure 4.3: Source of Finance used by the SMEs.....	53

LIST OF ACRONYMS

ACSI–Amhara Credit and Saving Institutions S.C
ADCSI– Addis Credit and Saving Institution S.C
AVFS – Africa Village Financial Services
AWU– Annual Work Unit
CF – Cumulative Frequency
CSA – Central Statistical Authority
DECSI–Dedebit Credit and Saving Institutions S.C
EU– European Union
FSMEs– Federal Small and Medium Enterprises
GDP –Gross Domestic Product
GFDRE – Government of Federal Democratic Republic of Ethiopia
GTP – Growth and Transformation Plan
IEG –Independent Evaluation Group
IFC– International Finance Corporations
ILO – International Labor Organization
ITC– International Trade Center
JCEDB– Job Creation and Enterprises Development Bureaus (Addis Ababa)
LATF– Local Authority Transfer Fund
MFIs – Microfinance Institutions
MOTI– Ministry of Trade and Industry
MSEDA–Micro and Small Enterprise Development Agency
MSME – Micro, Small and Medium Enterprise
OCSSCO–Oromia Credit and Saving S.C
OECD– Organization for Economic Co-operation and Development
OMO–Omo Microfinance S.C
PASDEP – Plan for Accelerated and Sustainable Development to End Poverty
SBP– Single Business Permit
SEYAMFI–Shashimene Eddir Yelimat Agar Microfinance Institution
SFPI– Specialized Financial & Promotional Institution
SME – Small & Medium Enterprise
SPSS–Statistical Package for Social Science
SSA – US Social Security Administration
U.S.D– United State Dollar
UK– United Kingdom
UNIDO – United Nations Industrial Development Organization
USAID – United State Aid for International Development
WB– World Bank
WTO– World Trade Organization

CHAPTER I

INTRODUCTION

1.1 Background of the study

In South Africa, SMEs contribute not only to the economy, but also, together with co-operatives, towards defeating the scourges of unemployment, poverty and inequality (Small Enterprise Finance Agency (SEFA), 2016). Furthermore, small-scale businesses have been recognized as a feeder to large-scale industries (Fabayo, 2009). SMEs have also become important urban economic activities particularly in providing urban employment, in cities and towns of Ethiopia. In line with the above idea, the Ethiopian government has historically supported the growth of Micro, Small and Medium Enterprises (MSMEs), especially growth-oriented businesses, through various policy interventions. For instance, the government formulated a national Micro and Small Enterprises Development and Promotion Strategy in 1997 (revised in 2011) to create an enabling environment for the sector. Furthermore, SMEs were placed at the heart of the first industrial policy strategy in 2002. Similarly, within the framework of the government's 5 year economic development plans, including PASDEP, GTP I and GTP II, the expansion and development of SMEs has systematically been a key strategic priority (Assefa, et.al. 2014, and p.19-31).

Despite the enormous importance of the SME sector to the national economy with regards to job creation and the alleviation of abject poverty, many of the SMEs are unable to realize their full potential due to the existence of different factors that inhibit their growth and performance. One of the leading factors contributing to the unimpressive growth and performance of the enterprises is limited access to finance (Wolday and Gebrehiwot, 2004). According to a report released by the World Bank (World Bank, 2015), small firms face greater challenges in obtaining formal financing than large firms; they are much more likely to be rejected for loans and are less likely to have external financing due to a lack of collateral and credit history.

There is no universally accepted definition of SMEs because in each economic system every country has its own classification according to their industrial regulation. To define SMEs, some

of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital or turnover, the capital invested and the total balance sheet (asset, liability and capital). According to Small-Scale Enterprise Growth Stages Guideline of Ethiopia (No.004/2011), the labour used; capital assets without working building and the division of sub-sector into service and industry are the main criteria. According to this guideline, SMEs are defined as follows:

- Manufacturing sector for SME uses 5 labor force and 100,000 Br. capital assets.
- Service sector for SME uses 5 labor force and 50,000 Br. capital assets.
- Industry sector for SME uses 6 – 30 labor force and capital assets of between 100,000 and 150,000 Br.

Microfinance Institutions (MFIs) predominantly provide micro credit to micro enterprises while banks provide loan to medium and large enterprises. Small and medium sized enterprises in Ethiopia are currently excluded from the banking sector credit due to their size (too small to be served by banks). Study conducted by (Kefyalew and Jembere, 2016) Microfinance Institutions revealed that SMEs operators do not access adequate loan for business start-up, a long bureaucratic procedure to secure the credit and lack flexibility in loan repayment arrangements in formal lending institutions compared to the informal sources. Moreover, high collateral requirement the interest rate charged by formal institutions is high to credit access. Hence, Micro and Small Enterprise operators are forced to use the informal institutions as a source of finance. While critical problems of the SMEs sector in Addis Ababa include Market-related problems, Institution-related problems and Financial factor (Admasu, 2016).

In spite of the enormous importance of the small and medium size enterprises (SMEs) sector to the national economy with regards to job creation and the alleviation of abject poverty in Ethiopia, the sector is facing financial challenges, which impeded its role in the economy (Gebrehiwot and wolday, 2006). The financing gap to SMEs in Ethiopia can be attributed to both the demand side and supply side. The demand side has to do more on the characteristics of enterprises that limit their ability to fulfill the criteria for bank loans leading to financial limitations. The supply side could be more related to the banking sector reform and the perceived

risks by banks to finance SMEs. To this end, this study was significantly contributing its part as its key to examine constraints on the finance access for SMEs at formal financial sources.

1.2 Statement of the Problem

Access to formal finance is fundamental and still remains a challenge for the growth and survival of SMEs especially in developing countries like Sub-Saharan African countries including Ethiopia (Fjose et al., 2010 and beck & Cull, 2014). The study undertaken by Beck & Cull (2014) in Sub-Saharan African countries to find out what explains access to finance by SMEs in those countries indicates that small enterprises are around 30% and Medium scale enterprise are around 14% less likely to have a formal loan than large firms.

The Small and Medium-sized Enterprise (SME) sector performs a significant roles worldwide (Abor, 2008). The emergence of SMEs sector is recognized widely due to their significant impacts on economic development (Reynolds 1991; Wright et al., 1998; Jackson et al., 1999; Lau & Busenitz, 2001). It has been particularly evident that SMEs have contributed significantly to the economic growth of developed and developing countries. SMEs have a potential contribution socially and economically by contributing noticeably in job creation, revenue generation, innovations; also acts as a catalyst for urban and rural area's growth (Hallberg, 2000; OECD, 2004; Williams, 2006; Fatoki & Asah, 2011).

In Ethiopia, Small and Medium sized Enterprises (SMEs) have a tremendous potential to generate employment for the majority of the urban labor force (GFDRE, 2011). The government revised strategy aims to create an enabling environment for SMEs through putting in place a national strategy framework and coordinated programmes at Federal, Regional, and Local levels. Currently, SMEs obtain direct support from the Ethiopian government.

In the research of Adomako et al. (2015), the factors such as company size, company age, industry, age of director, literacy, working experience and gender can explain the difference in company growth at the influential level of financing literacy on the relationship of financial access and growth of company. Kira and He (2012) argue that the characteristics of the company such as location, industry, size, business information, age, merger and acquisition, and collateral

assets affect access to finance of SMEs. The difficulties faced by SMEs in accessing credit facilities are attributed to their perceived higher risk profile. Lending institutions regard SMEs as riskier enterprises for a number of reasons which include: uncertain competitive environment, inadequate accounting systems, more unpredictable operating environment in the developing and emerging markets, assets not properly registered, delayed payments for the products and services rendered, less equipped in terms of both human and financial resources to withstand economic resources (Van Aardt & Fatoki, 2012 cited in International Journal of Scientific and Research Publications, Volume 4, Issue 12, December 2014).

In developing economics including Sub-Saharan Africa, SMEs are typically more credit constrained than large firms, severely affecting their possibilities to grow (Ayyagari et.al, 2012). As cited in Osano and Languitone (2016), only 5% of the SMEs in Mozambique are financed through banking institutions meaning they use other financing lines for both investment and working capital. Practically many of the SMEs finance their projects through their own funds, family funds, and friend's funds due to a number of difficulties in accessing bank financing. Based on a survey conducted on April 2012 in Kenya, found out those players in this sector are dissatisfied with access to finance especially from major financial institutions in Kenya. In general, young firms which do not have adequate managerial and operation experience and those with inadequate collateral are highly credit constrained.

Dereje (2012) and Feten (2010) are some of the researchers who have carried out studies touching on accesses to finance in SMEs growth and its challenge. Tarfasa, et al. (2016) conducted a research to assess the determinants of growth of micro and small enterprises by using a random sample of 300 enterprises selected from manufacturing, construction, service, trade and urban agriculture in Addis Ababa. Cherkos et.al (2017) studied significant factors in micro and small enterprises performance in Amhara region. Leza, Rajan and Kuma (2016) conducted research with the intention of investigating the key determinants of employment growth among SMEs, based on interview schedule consisting 352 randomly selected enterprises in three administrative towns in Wolaita Zone. Significant number of researchers have identified

access to finance is as one of the main factors that affect success and growth of SMEs in Ethiopia (Admasu, 2012; Brhane, 2010; Gedam, 2010).

Although several have been undertaken that greatly focused on accesses to finance and SMEs, they have not been conclusive and should be updated to show the current situation. This study addresses the following respect. The general constraints of SMEs access to finance, investigating an issue focusing on a general aspect will help to identify the general problem in broader. The other aspect this study tries to identify factors affecting access to finance both from demand side and supply side.

This study investigate the factors influencing access to formal finance by SMEs in Nifas-Silk Lafto sub-city of Addis Ababa both from the demand side and supply side constraints, in order to set some light on how the problem of access to finance should be addressed. Small firms mainly borrow funds through the informal financial market, while larger firms obtain funds from the formal market (Beck et al. 2006 cited in El Said et al. 2013). Improving SMEs' access to finance is significantly important in promoting performance and firm productivity (World Bank, 2015).

1.3 Objectives of the Study

1.3.1 General objective

The general objective of the study is to examine the determining factors that affect access to finance for SMEs in Addis Ababa, the case of Nifas-Silk Lafto Sub-city.

1.3.2 Specific objective

- i. To examine the financing needs and financing options of SMEs in Nifas-Silk Lafto Sub-city, Addis Ababa.
- ii. To identify the key constraints of SMEs access to finance.
- iii. To identify the drivers and obstacles of banks in financing SMEs.
- iv. To examine the extent of banks and MFIs involvement with SME finance.

1.4 Research questions

- i. What are the financing needs and financing options of SMEs in Addis Ababa?
- ii. What are the key constraints of SMEs access to finance?
- iii. What is the extent of Banks and MFIs involvement with SMEs?
- iv. What are the drivers & obstacles of banks in financing SMEs?
- v. What are the sources of capital to SMEs for expansion, diversification, growth and working capital?

1.5 Significance of the Study

Small and Medium size Enterprises (SMEs) are a lifeblood of Ethiopian economy in that they are highly significant in the job creation and the alleviation of abject poverty. The study contribute in many important areas: it is important to understand the challenges facing SMEs in accessing credit facilities in Addis Ababa town. The research also expects to benefit various groups of stakeholders as follows:

For government policy makers, this study will provide useful insights to government policy makers on the need to have SMEs access credit more easily.

For financial institutions, the development of SMEs and their sustenance is paramount to economic development and this study will be of great benefit to financial institutions that are credit averse when it comes to lending money to SMEs.

For potential and existing Investors in SMEs, Other SMEs will find this study very valuable as it will shed light to existing and potential shed light on the various forms of credit that is available to them and how they can benefit from it. This study is also important for other stakeholders like shareholders, employees, etc., as it provides information for suggesting improvement in service delivery of the respective credit facilities providers in Addis Ababa town.

1.6 Scope of the Study

The scope of the study was restricted to examine the determining factors that affect access to finance for SMEs in Addis Ababa, the case of Nifas-Silk Lafto Sub-city, using descriptive and

qualitative research design, and hence, this study was based on quantitative and qualitative evidence on important variables in order to capture their effects of access to finance and challenges in SMEs found in the target area.

This research utilizes cross sectional study that all relevant data was collected at a single point in time & the overall study carried out from July until January 2021. In addition to that, the study was delimited to the access to formal finance on the demand side as well as the supply part of SMEs formally registered under sectors such as manufacturing sector, construction sector, trade, services and urban agriculture.

1.7 Limitation of the study

Because of time and financial constraints, the area coverage of this study was delimited to SMEs found in Nifas-Silk Lafto Sub-city, Addis Ababa. The population for the study majorly limited to one of the sub-city in Addis Ababa this was mainly because of enormous presence of SMEs in the country. The main challenge the researcher encountered in this research was lack of proper documentation of the operating SMEs in Addis Ababa. This research also limited to reach large number of professionals to grant us interview with respondents since the interviews were conducted during the early outbreak of COVID- 19 throughout the world. The study faced a challenge in obtaining in-debth information dueto unwillingness of some respondents to give in-depth information or lack of sincerity as a result of the overburden of senior professionals with their usual business activity.

1.8 Definition of key operational terms

Enterprise: A unit of economic organization, which is engaged in the manufacturing of goods.

Service sector: Sectors including retail trades, transport, hotels and tourism, information technology & maintenance services.

Industrial sector: Sectors including manufacturing, construction and mining.

Manufacturing: A term used to describe textile and garment, leather & leather products, food processing & beverage, metal works & engineering, wood works including furniture, traditional handicrafts and jewelries, agro processing, construction materials production.

Construction: A term used to describe contracting, sub-contracting, cobble stone works, sub-contracting for infrastructure construction.

Mining: A term used to describe local mining works & precious stones.

Trading: A term used to describe wholesale of local products, retail trade of local products, raw material supply.

Enterprise Performance: For the purpose of this research performance can be defined as the firm's ability to create acceptable outcomes and actions (Eniola & Entebang, 2015).

Productivity: An increase on the amount of production SMEs produce.

Credit service: Loan given to SMEs by bank and microfinance institutions.

1.9 Organization of the study

This study was organized in five chapters. Chapter one deals with background of the study, statement of the problem, research objectives, significance of the study, scope of the study, definition of key operational terms and organization of the study. Chapter two focus on the literature reviews in which the theoretical and empirical findings discussed. Chapter three deals with research methodology including the research approach & design, sample size & sampling techniques, data collection instrument & procedure, Ethical issues & measurement reliability of instruments and data analysis parts. The fourth chapter is about data analysis and interpretation in which all the findings are discussed in details; the last & the fifth chapter deal with the summary, conclusion and recommendation of the findings.

CHAPTER II

LITERATURE REVIEW

2.1 Theoretical Literature Review

2.1.1 Definition of Small and Medium Enterprise (SME)

Definitions of SMEs often vary by country and are usually based on the number of employees, the annual turnover or the value of assets of enterprises. Typically micro-enterprises are defined as enterprises with up to 10 employees, small enterprise as those that have 10 to 100 employees, and medium-sized enterprises as those with 100 to 250 employees. In general according to the International Labor Office (ILO) Geneva the definition of SME that is used is any enterprise with fewer than 250 employees.

The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO), etc. Small enterprises outnumber large companies by a wide margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sector. The main factors determining whether a company is an SME are: Number of employees and either turnover or balance sheet total.

Since then the heterogeneity of SME definitions has hardly softened. An acute issue in the literature is the terminology used for the category of businesses that do not fall into the field of large enterprises. One part refers to them as small businesses; others use the concept of small and medium enterprises, while some refer to them as micro, small and medium enterprises. Although referring to the same class of business, the definitions differ in the degree of involvement of these businesses in the generic name. However, these concepts can be used interchangeably and can be understood if an author or an institution shows preference for any of them. Differences in SME definition extend in three flanks: definitions by international institutions, definitions by national laws and by industry definitions.

Despite the lack of universality of the definition and the lack of alignment in the criteria, the importance of SMEs definition is inalienable. The definition of small and medium enterprises is

important and useful in many ways such as in the preparation of statistics and the monitoring of the health of the sector over time; in benchmarking against other economies and between regions within an economy; in providing arbitrary thresholds for imposition of tax or other regulations; in determining eligibility for particular forms of public support (UNIDO, OECD, 2004). Small and medium enterprises are named by adjectives indicating size, thus economists tend to divide them into classes according to some quantitative measurable indicators.

The most common criterion to distinguish between large and small businesses is the number of employees (Hatem 2011). One of the first attempts to provide a definition of SMEs is that of the Bolton Report 1971 (Carter and Jones-Evans 2006). This report suggests two approaches to the definition: quantitative approach and qualitative approach.

Academics, policymakers, international institutions and statistical agencies mainly apply quantitative criteria in defining SMEs. European Commission promotes “the criterion of the number of staff as the main criterion, however, introducing a financial criterion is nonetheless a necessary adjunct in order to grasp the real scale and performance of an enterprise and its position compared to its competitors” (European Commission 2003, item 4). European Commission through a guide determines the criteria for defining enterprises: number of employees, annual turnover and annual balance sheet (European Commission 2005). It is determined that meeting the criteria of the number of employees is mandatory, while filling another from the two financial criteria is a choice of the enterprise. The definition of SMEs that came into effect in European Commission from 1 January 2005 is shown in the following table.

Table 2.1: Definition of Small & Medium Enterprises with European Union

Enterprise Category	Headcount Annual Work Unit (AWU)	Annual Turnover	Or	Annual Balance sheet total
Medium-sized	<250	≤€ 50 Million	Or	≤€ 50 Million
Small-sized	<50	≤€ 10 Million	Or	≤€ 10 Million
Micro-sized	<10	≤€ 2 Million	Or	≤€ 2 Million

(Source: European Commission, 2005)

The World Bank uses three quantitative criteria for defining SMEs: number of employees, total assets in U.S. dollars and annual sales in U.S. dollars (IEG 2008). A business must meet the quantitative criteria of number of employees and at least one financial criterion to be categorized as micro, small or medium business.

Table 2.1: Definition of Small & Medium Enterprises by World Bank Standard

Enterprise Indicators	Number of Employees	Total assets	Or	Total annual sales
Medium	> 50; ≤ 300	>\$ 3,000,000; ≤ \$15,000,000	Or	>\$ 3,000,000; ≤ \$ 15,000,000
Small	>10; ≤ 50	>\$ 100,000; ≤ \$3,000,000	Or	>\$ 100,000; ≤ \$ 3,000,000
Micro	< 10	≤ \$ 100,000	Or	≤ \$ 100,000

(Source: Independent Evaluation Group, 2008)

If we compare the two criteria, “approximations” are observed in quantitative criteria of number of employees, with the exception that the World Bank raises the upper threshold for medium-sized businesses to 300 workers.

Inconsistencies are most pronounced in financial criteria. Besides differences in denomination (EUR/USD) which is understandable, financial criteria used are quite different. While the EU uses the criteria of annual turnover and balance sheet total, WB uses the criteria of total assets and total annual sales. Financial criteria of the two institutions have no basis of comparability; moreover there are substantial differences in definition.

World Bank criteria seize more minimalist thresholds than the European Union. While for the EU has a micro business has a turnover of up to two million Euros, for WB it must not exceed annual sales of up to one hundred thousand dollars. EU sets maximum threshold of fifty million Euros to distinguish medium businesses from large ones, while WB sets it to only fifteen million dollars for the two financial criteria. Although being the most common criterion in the definition, the number of employees has many variances indifferent sources of SME statistical reporting. The largest number of sources defines SMEs to have a cut-off range of 0-250 employees

(Ayyagari et al.: 2003). Among all SME definitions, the one most implemented in SME studies is that of the European Union.

Table 2.2: Distribution of firms by number of employees in different countries

Countries	Micro	Small	Medium	SME	Large
EU Countries	1-9	10-49	50-249	1-249	250+
Australia	0-9	10-49	50-199	0-199	200+
Canada	0-9	10-49	50-499	0-499	500+
Japan	4-9	10-49	50-249	1-249	250+
Korea	5-9	10-49	50-199	5-199	200+
Mexico	0-10	11-50	51-250	1-250	251+
Turkey	1-19	20-49	50-249	1-249	250+
United State	1-9	10-99	100-499	1-499	500+

(Source: OECD, 2010)

2.1.2 Definition of SMEs in Ethiopia

According to the new Small & Micro Enterprise Development Strategy of Ethiopia (Published 2011) the working definition of SMEs is based on capital and Labor.

Table 2.3: Description of Small & Medium Enterprises by the Ethiopian SME Agency

No.	Enterprise Level	Sector	Hired Labor	Capital
1.	Micro	Industry	≤5	\$ 6000 or £4400 or < Birr 100,000
		Service	≤5	\$ 3000 or £2200 or < Birr 50,000
2.	Small	Industry	6-30	\$ 9,000 or £6,600 or < Birr 150,000
		Service	6-30	\$ 30,000 or £22,000 or < Birr 500,000

(Source: Federal SMEs)

2.2 Access to finance for SMEs

For SMEs, there are two external financing that are mostly important for financing the businesses. The first is the equity financing which is provided in form of venture capital and available for new small businesses (Deakins, 2008). However, due to lack of equity financing, the small businesses go after debt financing that is mostly provided by the banks and non-banking institutions. Indeed, access of debt financing is very limited especially for SMEs due to the requirements for the provision of debt (Deakins, 2008).

2.2.1 Equity financing

The equity financing method refers to the extent to which the company issues a certain portion of shares of its stock and in return receives money. Depending on how the SMEs raise the equity capital, the debtors have to relinquish a certain portion of the business often 25 to 75 % of the business (Cavas and Haan, 2006). Gomes et al. (2006) pointed out that equity financing is a method for raising funds for any investments. In this context, equities are issued in the form of common stocks which gives a claim to share in the net incomes after expenses and taxes. Equity holders are paid periodically in form of dividends and can be considered as a long-term security as there is no maturity date.

The Cruickshank Commission of UK highlighted that intervention of the government in the past meant to stimulate the provision of debt finances had be misdirected. However, intervention of public policy has to be reoriented away from debt financing, in order to put in place and emphasize initiatives that help to facilitate the provision of equity financing to small businesses. The national government should then support the expansion and establishment of venture capital funds. According to Cruickshank Commission, there are a number of results of the market failure in the provision of SMEs' equity financing. These includes insufficient SME risk capital being available to SME sector, mainly to high growth potential SMEs and illiquid equity market for small firm sectors (Falkena et al., 2001).

2.2.2 Debt financing

Debt financing refers to the case where companies get finance products in a form of loan from lending institutions and give their promise to repay back at a given period of time and interest rate (Cooper and Ejarque, 2003). Furthermore, debt financing is the most common instrument used in the financial market for obtaining funds for investments and to finance new businesses including SMEs. This involves an agreement between the lenders and the borrowers, concerning the fixed interest rate to be paid for the loan in a given period of time. The maturity date of a debt of less than 1 year is considered as a short-term debt and more than a year is considered as the long-term debt (Mahembe, 2011). Debt financing includes, therefore, the secured loans which involve the collateral requirements for securing bank financing. When the SMEs default on the loan commitments, banks usually rely on collateral to recover the money invested in a particular business (Falkena et al, 2001).

In the case of unsecured loans, the lender provides loans taking into account the borrower's reputation. Loans of this kind are usually short term and the rate of interest is often high (Cole, 2003). Most of the lenders are more unlikely to provide unsecured loans to the small businesses unless there was a lot of businesses that were made in the past between the borrower and the lender, otherwise the lender will still insist that the borrower provide collateral for the loans.

2.3 Financial Source Providers for SMEs

As indicated by (Cook and Nixson, 2000), some of the types of formal financial institutions include,

- **Commercial banks:** banks with a full banking license. Majority state-owned banks are included in this category when they perform a broad set of retail banking functions.
- **Cooperatives:** institutions with a mutual ownership structure, including credit unions.
- **Specialized state financial institutions:** specialized financial institutions fully owned by the state or extensions of the government whose main purpose is to lend in support of economic development or to provide savings, payment, and deposit services to the public.

This group includes postal banks, government savings banks, small and medium-size enterprise lending facilities, agricultural banks, and development banks.

- **Microfinance Institutions:** financial institutions whose primary business model is to lend to and possibly take deposits from the poor.

2.4 Barriers to formal finance: financial institution perspective

What drives the difference in access to finance between small, medium, and large firms? Risk management policies and practices of banks are meant to prevent default and ensure loan repayment. A prudent lender will prefer not to extend loans, even at higher interest rates, if it is unsure of the real costs, the risks or the expected return. Risk and return are positively related: the higher the risk (of lending to a SME, for example), the higher the return that will be demanded by the lender. There is a point, however, where the risk is so high (the probability of repayment so low), that no target return justifies the loan (Mishkin & Eakins, 2006; and ITC 2009). According to ITC report (2009), many financial institutions are reluctant to look SMEs as a preferred borrower and a few reasons for unwillingness to lend for those enterprises are high transaction costs, imperfect information, high default risk of SMEs, and limited collateral.

2.4.1 High transaction cost

Mainly transaction costs are costs incurred to assess credit, process and monitor loans. Transaction costs are directly related to profitability. The higher the cost of processing a transaction, the lower is the return. The totality of costs, including transaction costs, incurred by banks drives a wedge between the funding cost (deposit rates) and the lending rate banks charge borrowers. The higher these transaction costs, the higher will be the cost of borrowing for businesses. In turn, the higher will be the probability that some set of borrowers will face restrictions on access to funding. The competition for capital within financial services firms contributes to the cost profit- access dynamic that is so challenging for SMEs (ITC, 2009 Mishkin & Eakins, 2006; and Howells & Bain, 2007).

SME loans are high-cost lending transactions because they are typically small, compared to loans to big firms. Compounding the problem, SME loans are often more time consuming to assess,

monitor and manage. Many bankers perceive that small businesses require much more advisory support – handholding – than mid-market or large corporate clients (ITC, 2009).

2.4.2 Imperfect information

The lack of public information and credit histories, particularly in countries where credit bureaus do not exist, adds to the difficulty banks have distinguishing SMEs with really good potential from those that only appear so. As a result, banks tend to either reject SMEs with good prospects or put all SMEs in the same lot, charging high interest rates to all, thereby discouraging the good ones (ITC, 2009).

2.4.3 High default risk of SMEs

Bank outreach to SMEs is also constrained by default risk. Banks generally do not lend to whoever would be willing to pay higher interest rates because doing so would attract riskier borrowers with higher default probability. One way for banks to circumvent the asymmetric information problem is to screen out borrowers through non-interest rate devices such requiring collateral or demonstrated capability based on audited financial information (Mishkin & Eakins, 2006; Howells & Bain, 2007; and ITC, 2009).

2.4.4 Limited collateral

Collateral – security in the form of assets – is a way for banks to recover money in the event of default. Without adequate collateral, banks have limited or no ways to protect their loaned assets. SMEs' lack of collateral is another dissuasive factor for financial institutions. Even if collateral is available, in countries where there is no reliable registry for mortgages, liens and other encumbrances, the quality of the collateral may not be what it seems because it might have already been pledged for other loans. Legal systems in countries where it is difficult for banks to enforce rights to collateral also contribute to bank caution in SME lending (ITC, 2009; Mishkin & Eakins, 2006; and Howells & Bain, 2007).

2.5 Barriers to formal finance: SMEs perspective

In the previous section, difficulties raised in providing financing from the financial institution perspective as; small loans are more costly to monitor and administer, SMEs are diverse and more opaque than large firms, thus their risk profile is less favorable, and with limited collateral, their ability to offset higher levels of risk with security for the bank is very limited. In addition to these challenges, SMEs, by their own actions, can compound the problem.

SMEs often fail to address the concerns of lenders; their behaviors' can inadvertently reinforce those concerns and perpetuate restricted access to financing. For instance the study by Brhane, (2014) presents inadequate loan size, high interest rate, poor bookkeeping system, information gap about finance, tendency of group collateral requirements, fear of business failure, short term duration, failure to disburse loan timely, and inconvenient loan as discouraging factors for access to finance by SMEs.

2.6 Small and Medium Enterprises in Ethiopia

Based on the report obtained from National Bank of Ethiopia from 2008/09 to 2014/15, it is revealed that the number of newly established SMEs, employments generated and the loans granted to these enterprises have increased from time to time except reduction recorded in 2010/11. The new SMEs establishment has grown from 73,775 in 2008/09 to 271,519. The employment creation data also reveals that 530,417 people have got job from 73,775 established enterprises in 2008/09 and 2.8 million are employed from 271,519 enterprises established in 2014/15.

Regarding disbursement of loan, the government has done a good job as 271,519 SMEs have got a total loan of 6.5 billion Birr in 2014/15. After the year, the new enterprise establishment has slightly increased till it reached 77,415 in 2012/13. But after this year forward, the establishment increased at an alarming rate and reached to 271,519 in 2014/15. Though the government has focused on establishment of new enterprises, those enterprises could not transform to the next level as the consolidation strategy was deemed leaved out with less focus.

2.6.1 Small and Medium Enterprise Development Strategy

Enterprise promotion efforts in Ethiopia have traditionally focused on urban based and SMEs. In the 1960s and early 1970s, a department within the Ministry of Industry and Tourism was responsible for coordinating promotion activities which basically consisted of providing training on business management (United Nations, 2002:101-103).

2.6.2 The Implementation Structure of the Strategy

The two most important institutions that are directly involved in the promotion of SMEs are MOTI and the newly established MSED. The latter is envisaged to operate the federal and regional level of government (MOTI, 1997:8-27).

2.6.3 The Federal Small and Medium Enterprises Development Agency

To further ensure the proper institutional coordination for SME support functions, the government created the new Federal SMEs in 1998. In addressing above objectives, SMEs is expected to provide support to the Regional SMEs.

The SME has been established as an autonomous government institution having its own legal identity and run by a board of management which includes representatives of the private sector. Private sector participation in the management of enterprise promotion agency is a new approach in Ethiopia. The SMEs is directly accountable to the MOTI. In 2000, the regional governments also provided for the establishment of FSMEs to provide extension services to SMEs at the regional, zonal and woreda level. The MOTI through FSMEs provides institutional support.

2.7 Factors Determine Firm's Access to finance from Formal institutions

This study specifically tries to prove the finding of different researchers on their respective study areas located all over the worlds with the context of the target study areas of Nifas-Silk Lafto sub-city, Addis Ababa. Previous studies conducted in different study area supports a positive relationship/ strong associations between factors endogenous to SMEs, such as firm's and owner's characteristics (size, age, economic activities, legal status, etc.) and their accessibility to external financing and loan repayment capacity.

The study entails various research methods which are useful in order to explain the relationship between dependent and independent variables. This study examine in detail about the influence of explanatory variable on the access to formal finance from the supply side as well as the demand side analysis.

i. Firm's characteristic (Age & Size of Small & Medium Enterprises)

➤ **Age of SMEs**

According to Martin and Daniel (2013), firm age was found to play a role in firms' access to finance. More specifically, firms that are older were found to have more access to finance. The older and established firms have higher accessibility to bank loans in comparison to younger and new firms. The theory of information asymmetry induces the pecking order theory/POT financing behavior particularly in new SMEs. Younger firms are associated with high information opacity and loan repayment uncertainty rendering him risky. These factors make it more difficult for younger firms to access external financing. Due to inadequate tangible assets and a financial record in the market, the smaller firms within the SME sector offered fewer loans by the banks. Hence, there is a positive relationship between the firm age and loan accessibility whereby, older firms characterized by a higher proportion of debt in their capital structure, in comparison with younger or new firms, (Caneghem & Campenhout, 2012).

➤ **Size of SMEs**

Studying firms financing and capital structure using a sample consisted of 292 Australian firms, Cassar (2004) concluded that the "larger" small firms are, the more they rely on long-term debt and external financing, including bank loans. This is consistent with Storey (1994) who found that in the case of SMEs, the owner-manager's personal savings are more important as a source of funds during the start-up stage than outside finance such as loans and overdrafts from banks. From another angle, the extent to which firm size can impact the availability of finance to the firm was measured by Petersen and Rajan (1994). They argued that as firms grow, they develop a greater ability to enlarge the circle of banks from which they can borrow. They then provided evidence that firms dealing with multiple banks and credit institutions are nearly twice as large as those with only one bank.

ii. Collateral requirements

Collateral Requirements, Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003). The security assets should be used to recover the principal in case of default. SMEs in particular provide security in form of properties (houses, the businesses, the car, and anything that could actually bring back the principal) in case of default on loans (Garrett, 2009). Security for loans must actually be capable of being sold under the normal conditions of the market, at a fair market value and also with reasonable promptness. However, in most banks & MFIs, in order to finance SMEs and to accept loan proposals, the collateral must be 100 % or more, equal to the amount of credit extension or finance product (Mullei and Bokea, 2000).

It is evident that most SMEs are denied and discriminated by the lenders in providing financing. This is because of high risk and for not having adequate resources to provide as collateral (Kihimbo et al. 2012).

iii. Inadequate flow of information

The flow of information in the financial market is crucial for both SMEs and financial providers (Falkena et al. 2001). In order for SMEs to identify potential supplier of financial services, they require enough information. The financial institutions require information to enable them to evaluate the potential risks associated with the SMEs that apply for bank financing and also to access the location where the same SMEs will be operating and its market segments (Othieno, 2010). Information is concerned with awareness of financing opportunities by SMEs. This infers that availability of information is essential in creating awareness of fund opportunities to both the financial source providers and the SMEs.

iv. Feasibility of firm's Business Plan

Business planning, A business plan is a formal document that submitted by entrepreneurs to a bank or any other financial institution in order to gain a financial support. A business plan is a detailed study of an organization's activities. It indicates the organization's previous state of conditions, its current status and future objectives that it aims to achieve (Ward, 1987; Philip,

1999). Romano et al. (2001) stated that business planning consists of three variables; namely a business plan, a formal strategic long-term plan, and a formal management structure.

Lack of business planning will invariably lead to information opacity. This situation may hinder the firm's accessibility to external finance (Fabowale et al., 1994; Berger & Udell, 1998; Rozali et al., 2006; Nguyen & Ramachandran, 2006). Regular and accurate financial reports and statements which portray the overall business performance including its ability to repay the loan and prepare good financial forecasts (Coleman & Carsky, 1999) can significantly minimize the opacity of information.

v. Experience of the firm's manager

Firm's manager/ owner experience is a great concern for SMEs to access finance from the formal financial institutions, along with education, experience is an indication of the firm's human capital. Business experience is simply the number of years that an owner-manager has been managing or owning a business. Previous business experience was found to have a positive (though not always significant) impact on the willingness of SMEs' owner-managers to seek external funding (Sena, Scott and Roper, 2012). Zhang (2008) found that owner managers who run businesses for long are more likely to choose formal financing. Cole (1998) concluded that the experience of SMEs' owner-managers enhances the availability of bank credit.

Moreover, Wu, Song and Zeng (2008) postulated that owner-managers with a greater level of business experience have higher probability to take advantage of bank financing. Likewise, Scherr, Sugrue and Ward (1993) concluded that SMEs' owner manager's experience may increase bank loans availability.

2.8 Relevant Theories & Models in Small & Medium Enterprises (SMEs)

Theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions. The theoretical framework is the structure that can hold or support a theory of a research study. Here are some of the assumptions which can hold or support a theory of a research which is gathered from different books. Prior to empirical the section reviews three theories which show credit

access can be influenced by several factors has been evaluated. The Structuralist Theory deals with the promotion of the change of countries ideology from traditional (Banks) ways of financing the SMEs to more advanced sectors who can nearly provide finance for these sectors, The Classical & the Modern theory states that there is a positive correlation between the poverty and importance of SMEs in developing economies. The theories emphasizes that the government of developing countries not to neglect these sectors in assisting to fill their operational and management gaps.

2.8.1 The Structuralist Theory

One of the prescriptions of the structuralist paradigm was that countries change their institutional structures. The structuralist theory argues that, traditional structures are not effective enough to provide financial and non-financial services to SMEs. That is, traditional structures such as banks are not able to provide sufficient financial support to SMEs, due to their lack of collateral. In the structuralist paradigm, development has to include the expansion of new technology and methods of production in order to eliminate the gap between the most advanced sectors of the economy and those that lag behind (Contreras, 2004). The goal is to have an economy where the total output, is divided equally among all of the country's economic sectors. Structuralists state that the government has a role to play in developing their people. For instance, the government has to assist the neglected sectors in accessing loans from financial institutions (Mago & Toro, 2013).

2.8.2 The Classical Theory

States that poverty and the importance of SMEs development correlate positively. In the course of rapid economic development, the economic share of SMEs declined; while those of large and medium enterprises dominate the economy. In other words, the higher the proportion of people living in poverty, the more will be the contribution of SMEs in reducing poverty. This theory however, is criticized for neglecting the economic growth of SMEs through networking and clustering, agglomeration. It only focused on the relationship between levels of income and the growth of SMEs. Because of these short coming of the theory, the modern view was developed in 1980s.

2.8.3 The Modern Theory

The theory postulates that the major reason for the emergence of the notion of flexible specialization was the long debate of how to interpret the new global pattern of production caused by globalization forces and industrial restructuring. Global production had transformed from mass to individual production system and flexible specialization is the result of this debate. Hence, according to Tambunan (2006) the modern theory has three characteristics:

- ✓ **Flexible and Specialization** - firms in the community form part of a bounded community which outsiders are largely excluded.
- ✓ **High level of competitive innovation** -there is a continuous pressure on firms in the community to promote innovation in order to keep an edge of their competitors, and
- ✓ **High level of cooperation** -there is a limited competition among firms in the community over wages and working conditions encouraging greater cooperation among them.

In general, according to Tambunan (2006), the flexible specialization on SMEs states those SMEs grow faster than large enterprises with the process and are important source of invention, efficiency and innovation. They are also capable of standing the competition with large enterprises. Hence, in the courses of development, the economic share of SMEs increases or in other words, SMEs contribute a lot for poverty alleviation; while, it declines in the classical theories.

2.9 Empirical Review

Due to the sensitive and competitive nature of the banking sector, where obtaining information on lending practices may break business confidentiality, supply side studies especially on bank finance compared to studies into other forms of SMEs finance are relatively rare (Deakins et al. 2008). Since banks are not able to control all actions of borrowers due to imperfect and costly information, they formulate the terms of the loan contracts in such a way as to reduce the risks associated with borrowing. In the absence of sufficient financial information especially in developing countries like Africa where there are no credit bureaus, banks generally rely on high

collateral values, which according to bank reduces the risks associated with the problems of adverse selection and moral hazards resulting from imperfect information (Nott, 2003).

According to this argument, it is clear that banks try to mitigate the lending risks through a capital gearing approach instead of focusing on the future income potential of SMEs. Therefore, collateral has become essential prerequisite to access bank loans (Africa Practice, 2005). Another way in which banks react to the market imperfection is by reducing the maturity of their outstanding loans.

Shorter loans allow banks to monitor more frequently the firms' performance and, if necessary, vary the terms of the contracts before losses have accumulated (Hernández-cánovas and Koëter Kant, 2008). Consequently bank financing to SMEs in Africa is less significant and more of short term than other developing countries (Martinez Peria, 2009). Small and Medium Enterprises in Africa are less likely to take loans from financial institutions than in any other developing regions; but many of firm and country level covariates explaining access to finance remain the same inside and outside Africa (Beck and Cull, 2014). Bank loans devoted to SMEs in Africa average only 5.4 percent while in other developing countries it amounted around 13.1 percent. And bank lending to such enterprises are costly compared to other developing countries. Fees charged on SME loans in Africa are almost twice as high as in other developing economies (Martinez Peria, 2009).

The demand side studies suggest that, whilst overall the majority of SMEs appear not to have difficulties obtaining external finance, there is evidence to indicate that a number of groups and sectors do face distinct challenges in accessing finance (Deakins et al., 2008). Some related studies are conducted by different researchers in different countries. The aim of this study was focused on analyses factors influencing access to formal finance and its availability for Small and Medium Enterprise. A recent World Bank study on SMEs estimated the number of SMEs in Ethiopia to be 800,000 up until 2016; found that financing was a key constraint to job creation and growth. According to Wanjohi & Mugure (2008), lack of access to credit facilities is almost universally indicated as key problem for small and micro enterprises. In most cases, even where credit is available mainly through banks, the entrepreneurs may lack freedom of choice because

the banks' lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the bank.

Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends and relatives. Lack of access to long-term credit for micro, small and medium enterprise forces them to rely on high cost short term finance. A study conducted by Jane Anne Wangui, et.al (2014), study revealed that the key challenges hindering micro and small enterprises in Kangemi-Harambee Market in Nairobi City Kenya from accessing credit facilities to be high cost of repayment, strict collateral requirements, unwillingness of people to act as guarantors, high credit facilities' processing fees and short repayment period. Similarly Gabriel (2011), in his study conducted Westland division, Kenya finds that the size and age of the firm, financial characteristics and the business skills that the entrepreneur has; were found to have an influence in accessing funds.

Furthermore, a study by Fetene (2010) shows that Ethiopian small business is lagging behind every other sector. Their growth is sluggish, marketability of their product is limited because of quality, competition, lack of market (deficient in place to market their product), the access that they have for input was limited and expensive input price and their access as well as use of finance is extremely limited. He also added that only limited number of small business had practice of accessing external loan. In the past twelve months only 41% of the total small business on which the research was conducted had accessed credit and of these businesses 48% indicated the credit has increased and 37% mentioned the debt to asset has decreased.

With similar issues the study conducted by Mulugeta (2011), the critical problems of SMEs has recognized and classified in to market-related problems, which are caused by poor market linkage and poor promotional efforts; institution-related problems including bureaucratic bottlenecks, weak institutional capacity, lack of awareness, failure to abide policies, regulations, rules, directives, absence of training to executives, and poor monitoring and follow-up; operator-related shortcomings like developing a dependency tradition, extravagant and wasting behavior, and lack of vision and commitment from the side of the operators; SME-related challenges including lack of selling place, weak accounting and record keeping, lack of experience sharing,

and lack of cooperation within and among the SMEs and finally society-related problems such as its distorted attitude about the operators themselves and their products.

According to the study conducted by Brehanu and Mesfin (2015), Micro and small enterprise in Dilla town has inadequacy of finance when starting and operating the projects. The formal financial institutions have not been able to meet the credit needs of the SMEs because SMEs are not able to fulfill the requirements such as business plan, governance systems, collateral and other accountability issues which are related to business risk management. As cited in Hagos, Yared Haftay (2012), Eshetu and Mammo (2009, 15) states that, “commercial banks are reluctant to lend small amount of money to small business because the cost of administering the loan exceed the benefit accrued to them.” This shows that banks are not inclined to develop an innovative and systematic approach that minimizes risk and administrative cost to serve the sector.

On the other study conducted by Selamawit, et.al (2014), concludes that the major source of startup finance and also working capital is own savings. The major source of credit for startup on the other hand is family and friends followed by microfinance and “equib”. The findings of Mulu (2007) also indicate that banks and MFIs do not seem to support SMEs Expansion. Due to this 85% of the respondents have never received credit from these formal sources. The availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks appear more appealing for SMEs. Hence, firms with Better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster.

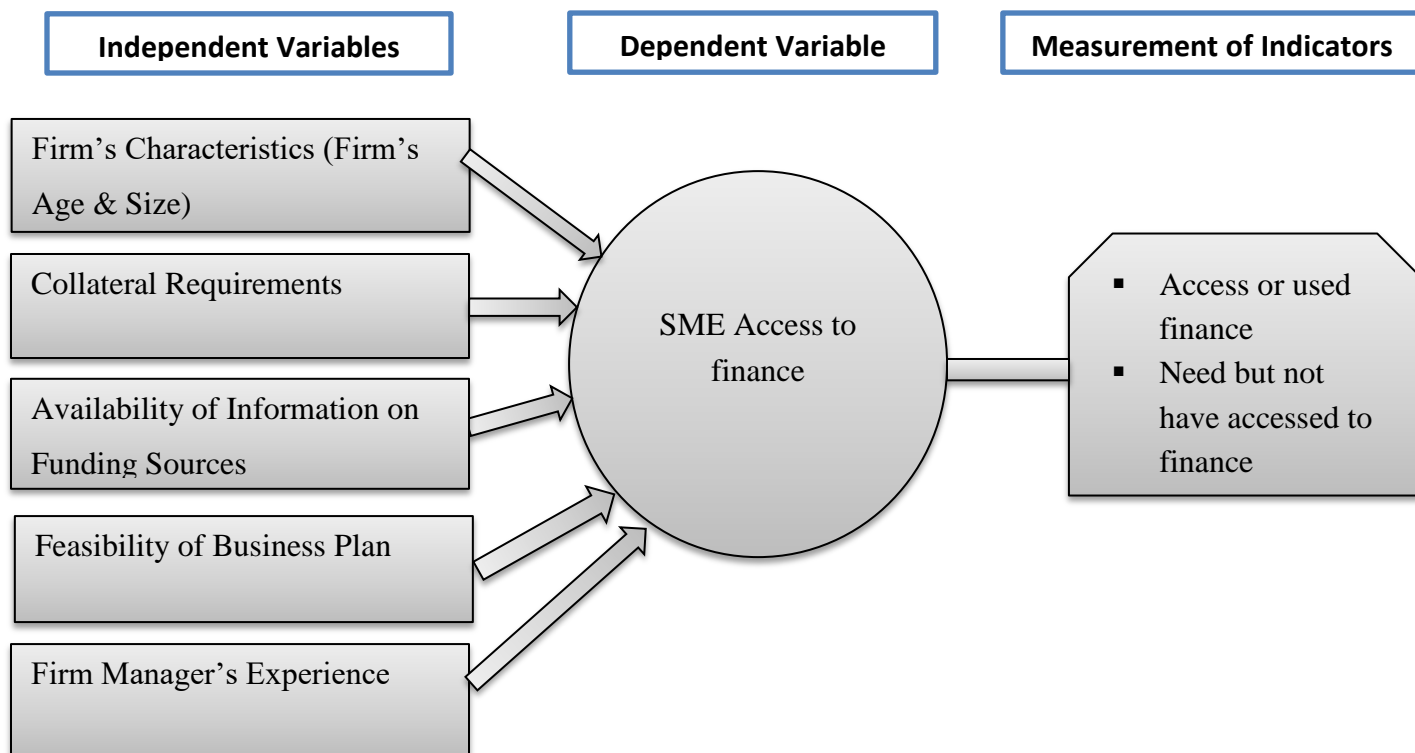
2.10 Conceptual framework of the study

Conceptual framework is used to make conceptual distinctions and organize ideas. In fact, it can be defined as a way ideas are organized to achieve a research project’s purpose. The conceptual framework of this study shows the major determinants of access to finance in Small & Medium Enterprises (SMEs). It was built on the extensive literature review has integrated the factors causing SMEs financing access from the perspectives of both SMEs and the financial institution.

Determining variables classified into Independent and Dependent variables. Summarizing the results from numerous studies Personal characteristics of owner manager and firm characteristics relate with credit provider significantly determine access to formal finance for Small and Medium Sized Enterprises.

Owner-manager personal characteristics include age, and business; and firm characteristics include firm’s age & size, owning assets for collateral, firm’s preparation & use of business plan and firm’s easy access to information on fund opportunities. To align the conceptual framework with the research objectives, the framework shows owner-manager characteristics and firm characteristics as another independent variable and access to finance as a dependent variable. The relationship of independent and dependent variables can be expressed and shown in the figure below:

Figure 2.1: Conceptual framework of the study



2.11 Research Hypotheses

The research hypotheses were constructed from other studies which have been conducted in different aspects on SMEs to attain the objective of this study. The main aim of the following hypotheses is to tackle objective of this research and to fill an existing financing gap on SMEs. Based on an extensive literature review and an effort to identify determinants of access to finance in Small & Medium Enterprises (SMEs), the following hypotheses have been developed.

Hypothesis 1: Age of the firm's has a positive effect on the firm's access to finance.

Young ventures at start-up levels may not have the level of expertise and success history required. Klapper et al. (2010) found that young firms (less than four years) rely more on internal financing than bank financing. Similarly, Woldie, et al. (2012) in Tanzania observed that firms at start-ups and less than five years depended more on informal financing sources. Using data from African countries, Beck and Cull (2014) showed that older firms are more likely to have a formal loan than their younger counterparts. It is generally expensive and difficult for new firms to acquire bank financing, mainly due to the information asymmetry problem and high collateral requirements (Ngoc et al. 2009). According to Martin and Daniel (2013), firm age was found to play a role in firms' access to finance.

Firms' sources of finance change over time. For instance, a firm may start as a family owned business, by using its internal financing sources such as personal savings and family finance. Subsequently, it will then grow to obtain funds from its suppliers. When it has well established a good business track record, developed accounting systems and established a legal identity, it may be able to obtain loans from banks. Therefore, it is worth investigating the firm age.

Hypothesis 2: Size of the firm's has a positive effect on the access to finance.

Firm size is one of the most important variables in literature related to access to credit. This was true for both developed as well as developing countries. Numerous studies have discussed that small and medium-sized enterprises are financially more constrained than large firms (Carpenter and Petersen, 2002). Firstly, the small firms are faced with information opacity such as inability

to provide financial information. When the firm is small, most of the time it is owned and operated by the entrepreneur himself and there is no such legal requirement to regularly report financial information and many firms do not maintain audited financial accounts. Second, smaller firms have fewer assets to offer as collateral. In order to reduce the anticipated risk and moral hazard associated with lending, the banks use collateral as one of the instrument. Berger and Udell (1998) found smaller and younger firms are more likely to face higher cost of financing and at the same time they are required to offer collateral. Thirdly, there is high risk involved because small firms have high failure rate compared to large firms. For example, Schiffer and Weder (2001) sampled firms across a number of countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender. Thus, in general, large and small firms do not have equal opportunities in accessing external sources of finance. So while the presence of both large and small firms is important for market competition and, hence, for economic growth, in order to ensure industrial dynamics, firms must have access to financial markets. Furthermore, Cassar (2004) found a positive correlation between the size and banks' willingness to provide credits.

Hypothesis 3: Collateral requirement of the firm's has a positive effect on the accessibility to finance.

Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003). The security assets should be used to recover the principal in case of default. SMEs in particular provide security in form of properties (houses, the businesses, the car, and anything that could actually bring back the principal) in case of default on loans (Garrett, 2009). Security for loans must actually be capable of being sold under the normal conditions of the market, at a fair market value and also with reasonable promptness. However, in most banks & MFIs, in order to finance SMEs and to accept loan proposals, the collateral must be 100% or more, equal to the amount of credit extension or finance product (Mullei and Bokea, 2000).

Hypothesis 4: Information on finance opportunity has a positive effect on the firm's access to finance.

The flow of information in the financial market is crucial for both SMEs and financial providers (Falkena et al. 2001). In order for SMEs to identify potential supplier of financial services, they require enough information. The financial institutions require information to enable them to evaluate the potential risks associated with the SMEs that apply for bank financing and also to access the location where the same SMEs will be operating and its market segments (Othieno, 2010). Information is concerned with awareness of financing opportunities by SMEs. This infers that availability of information is essential in creating awareness of fund opportunities to both the financial source providers and the SMEs.

In addition, information asymmetry is that relevant information is not available and known to all players in the financial market (Agostino, 2008). Information asymmetries are actually concerned with the two players in the financial market. In this case, the borrowers know more about their business cases and the bankers may not know more about it on one hand.

Hypothesis 5: There is a positive relationship between firm's business planning and access to finance.

A business plan is a formal document that submitted by entrepreneurs to a bank or any other financial institution in order to gain a financial support. A business plan is a detailed study of an organization's activities. It indicates the organization's previous state of conditions, its current status and future objectives that it aims to achieve (Ward, 1987; Philip, 1999). Lack of business planning will invariably lead to information opacity. This situation may hinder the firm's accessibility to external finance (Fabowale et al., 1994; Berger & Udell, 1998; Rozali et al., 2006; Nguyen & Ramachandran, 2006). Therefore, a positive relationship should exist between business planning and external funds in the Small & Medium Enterprises.

Hypothesis 6: There is a positive relationship between experience of the firm's manager and accessibility to finance.

Age and experience of firm's manager, the entrepreneurs'/ Managers' behavior have profound consequences on how the business is run. Schmitz (1982) highlighted that the small scale producers in developing countries fail to expand primarily because they lack managerial ability. For this reason, entrepreneur related factors take a priority position in all credit assessments by the borrowers. Kumar and Fransico (2005), found a strong education effect in explaining access to financial services in Brazil. In a study conducted on UK SMEs, Irwin and Scott (2009) observed that graduates entrepreneurs had the least difficulties in raising finance from banks. There is a positive and significant relationship between experience of the firm's manager and access to finance from formal financial institutions.

CHAPTER III

RESEARCH METHODOLOGY

This chapter deals with the research methodology. It entails the various research methods available and the particular one used in this study. The chapter explains the type & sources of research data, procedures for data collection and methods employed for data analyze, moreover it explains ethical issues and measurement reliability parts of the study.

3.1 Research Approach

According to Creswell (2003), there are three identified categories of research approaches; qualitative, quantitative and mixed approach. Qualitative and quantitative approaches should not be viewed as rigid, distinct categories, polar opposites, or dichotomies. Instead, they represent different ends on a continuum (Newman & Benz, 1998). A study tends to be more qualitative than quantitative or vice versa. Mixed methods research resides in the middle of this continuum because it incorporates elements of both qualitative and quantitative approaches.

This research carried out by investigating the factors influencing of access to formal finance and its availability for Small and Medium Size Enterprises (SMEs) in Nifas-Silk Lafto sub-city, Addis Ababa. In order to attain the objective of the study and answer the research questions, both quantitative and qualitative (Mixed) research approach was used. This would be done mainly to strengthen the finding of the study through triangulating the results to be obtained using both approaches.

3.2 Research Design

The choice of research design depends on objectives that the researchers want to achieve (Admas et al., 2007). Since this study was designed to examine the relationships between factors and intermediation that affecting the financial access to the SMEs, a logical reasoning either deductive or inductive is required. Deductive reasoning starts from laws or principles and generalizes to particular instance whereas inductive reasoning starts from observed data and develops a generalization from facts to theory.

The research design used in this study is explanatory which is useful in order to explain the relationship between dependent and independent variables. Therefore, being explanatory helps the study to give details about the influence of explanatory variable on the access to formal finance from the supply side as well as the demand side analysis. This research utilizes cross sectional study in the sense that all relevant data was collected at a single point in time. The reason for preferring a cross sectional study is due to the vast nature of the study and limitation of time.

3.3 Population of the study

The population of the study comprises mainly of two groups. The first were those SMEs that are currently functioning across the study area. The second group of the population includes those financial institutions that directly or indirectly have an effect on the access of finance for SMEs. This is depicted in the table below; as can be seen on Table 3.1, the total number of SMEs enterprises registered in the study area since 2021. According to the City Government of Addis Ababa Job Creation & Enterprise Development Bureau there is 36,353 SME's working on Manufacturing, Construction, Trade, Service & Urban agriculture at Addis Ababa region. The population of interest for this survey was SMEs, 5,055 in number spread all over the 13 woredas of Nifas-Silk Lafto Sub-city. The two table below shows distribution of sample SMEs at sub-city and woreda levels.

Table 3.1: Distribution of SMEs at the sub-city level from the five sub-sectors

No.	Name of sub-cities	No. of SMEs by the five sectors					
		Manufacturing	Construction	Trade	Service	Urban Agriculture	Total Sum
1.	Yeka	1,088	1,787	1,256	701	216	5,048
2.	Nifas-Silk Lafto	1,452	1,527	1,082	781	213	5,055
3.	Lideta	387	371	547	324	39	1,668
4.	Kolfie	1,943	851	934	525	234	4,487
5.	Kirkos	671	573	1,034	932	80	3,290
6.	Gulale	1,517	1,016	1,098	442	85	4,158
7.	Bole	930	1,327	630	411	126	3,424
8.	Akaki-Kaliti	855	950	443	428	155	2,831

9.	Addis-Ketema	895	421	369	322	19	2,026
10.	Arada	766	702	2,098	773	27	4,366
Total		10,504	9,525	9,491	5,639	1,194	36,353

(Source: JCEDB, 2021)

Table 3.2: Distribution of SMEs at the woreda levels from the five sub-sectors

No.	Name of woredas	No. of SMEs by the five sectors					
		Manufacturing	Construction	Trade	Service	Urban Agriculture	Total sum
1.	Lebu	62	215	135	61	10	483
2.	Jemo	123	69	62	51	12	317
3.	Woreda – 02	103	151	123	91	24	492
4.	Woreda – 03	53	100	51	51	5	260
5.	Woreda – 04	46	20	26	15	2	109
6.	Woreda – 05	195	103	116	75	9	498
7.	Woreda – 06	207	147	92	70	13	529
8.	Woreda – 07	53	41	13	29	5	141
9.	Woreda – 08	54	173	111	63	22	423
10.	Woreda – 09	60	150	103	99	46	458
11.	Woreda – 10	136	87	67	64	11	365
12.	Woreda – 11	117	141	136	92	29	515
13.	Woreda – 12	243	130	47	20	25	465
Total		1452	1527	1082	781	213	5055

(Source: JCEDB, 2021)

There are a total of seventeen commercial and one development bank in Ethiopia. Two of the commercial banks are state owned and the remaining 16 are private banks. All of these banks are domestic banks, for the National Bank Proclamation no. 592/2008 prohibits foreign nationals and banks to operate in the banking business. Accordingly, only five banks was included in the sample out of which one is state owned bank, commercial bank of Ethiopia and the rest four; Awash International Bank, Dashen Bank, Addis International bank, and Zemen banks are private owned banks.

Besides banks, Microfinance Institutions (MFIs) are instrumental in providing financial service (both lending and deposits services) particularly to micro, small and medium enterprises in Ethiopia reaching out to more than three million five hundred thousand (3,500,000) customers.

Currently, there are 35 MFIs serving millions of people in the lower income throughout the country. However, the market is dominated by few MFIs. According to the National Bank of Ethiopia annual report, the five largest MFIs, namely Amhara Credit and Saving Institutions S.C (ACSI), Dedebit Credit and Saving Institutions S.C (DECSI), Oromia Credit and Saving S.C (OCSSCO), Omo Microfinance S.C. (Omo) and Addis Credit and Saving Institution (ADCSI) having 694,993; 503,000; 396,648; 327,888; and 156,148 active borrowers, respectively, which is 28%, 21%, 16%, 13%, & 6% of the total borrower of 35 MFIs (Source: MFI Transparency Transparent Pricing Initiative 2011). .

3.4 Sample Size & Sampling Techniques

Data collection for both the supply and demand side was administered on selected samples. From the supply side data was collected from both the banks and microfinance institutions (MFIs). For the sample selection, banks and MFIs that operate in the market for five years or more will be chosen. In addition to the years of service for MFIs, those MFIs who have large number of borrower (service branches) in the study area Nifas-Silk Lafto sub-city, Addis Ababa get priority while chosen for the study. Non-probability/ Judgment sampling technique is employed so as to choose banks and MFIs who have a long period of experience in the market as well as those who are newly joining the market (minimum experience is 5 years and above). Judgmental/ purposive sampling techniques was used in case where the specialty of an authority can select a more repetitive sample that can bring more accurate results than by using other probability sampling techniques.

Five banks was included in the sample out of which one is state owned bank, commercial bank of Ethiopia and the rest four; Awash International Bank, Dashen Bank, Addis International bank, and Zemen banks are private owned banks. From the above four private owned banks two of them namely Awash International and Dashen banks includes in the sample since they have a long time experience in the banking market.

For the sample, three of the largest five MFIs namely, Amhara Credit and Saving Institutions S.C (ACSI), Oromia Credit and Saving S.C (OCSSCO), and Addis Credit and Saving Institution

(ADCSI) having 694,993; 396,648; and 156,148 active borrowers, respectively were selected from the biggest in their borrower number and market share. In addition to these two other MFIs namely Wisdom and Nisir MFIs having 53,981 and 6,753 active borrowers were selected for this study as to have a lower size of borrower.

According to the City Government of Addis Ababa Job Creation & Enterprise Development Bureau there is 36,353 SME's working on Manufacturing, Construction, Trade, Service & Urban agriculture in Addis Ababa. The researcher uses SMEs their capital category between birr 100,000 and 1 million and working on the five sectors chooses based on the definition given for SMEs. In the research population of 200 SMEs from the five sectors of enterprise working in the study area of Nifas-Silk Lafto Sub-city of Addis Ababa was selected.

The total sample size was collected using (Yamane Taro's, 1967: 886) sampling formula.

$$n = \frac{N}{[1+N(e^2)]}$$

Assumption:

- 95% confidence level
- P = .5 Where
- N is the Population size = 5,055
- e = $\pm 7\%$ is the level of Precision

$$n = \frac{5,055}{[1+5,055 (0.07)^2]}$$

- n = The sample size is 196.2 \approx 200

Non-probability/ Judgment sampling technique is employed so as to choose sub-city who have a large number of SMEs as well as a variety of SMEs in which all the selected fives subsectors are found. Nifas-Silk Lafto sub-city was selected out of the 10 sub-cities found in Addis Ababa, the reasons for the purposefully taking one of the 10 sub-cities in Addis Ababa is all the SMEs who are running the same sector have similar organizational structure, number of employees, starting capital, service delivery, management style, infrastructures, supervision, etc. This means that any

of the SMEs working in the same subsectors can represent each other in respective of their location for operation.

The total sample size was distributed to each of the 13 woredas proportionate to number of SMEs found in the woredas found in the selected Nifas-Silk Lafto sub-city. Once the sample for each woreda is determined, following the regulation of national classification, the sectors in each woreda was classified into 5 industrial classes-manufacturing, construction, trade, service and urban agriculture. The sample size for each woreda was proportionately distributed to each industrial class based on the number of establishments in each class. Table below shows proportionate distribution of the sample SME's at each woredas.

Table 3.3: Proportionate Sampling Determination at the woreda levels

No.	List of woredas	Number of SMEs	Proportion of sample
1.	Lebu	483	$\frac{200}{5,055} \times 483 = 19$
2.	Jemo	317	$\frac{200}{5,055} \times 317 = 13$
3.	Woreda – 02	492	$\frac{200}{5,055} \times 492 = 20$
4.	Woreda – 03	260	$\frac{200}{5,055} \times 260 = 10$
5.	Woreda – 04	109	$\frac{200}{5,055} \times 109 = 4$
6.	Woreda – 05	498	$\frac{200}{5,055} \times 498 = 20$
7.	Woreda – 06	529	$\frac{200}{5,055} \times 529 = 21$
8.	Woreda – 07	141	$\frac{200}{5,055} \times 141 = 6$
9.	Woreda – 08	423	$\frac{200}{5,055} \times 423 = 17$
10.	Woreda – 09	458	$\frac{200}{5,055} \times 458 = 18$
11.	Woreda – 10	365	$\frac{200}{5,055} \times 365 = 14$
12.	Woreda – 11	515	$\frac{200}{5,055} \times 515 = 20$
13.	Woreda – 12	465	$\frac{200}{5,055} \times 465 = 18$
	Total	5055	= 200

(Source: Own survey, 2021)

➤ **Selection of sample Woredas at the selected Sub-city**

Due to the limited number of the woredas found in each sub-city and for the reason of that all the selected five subsectors are not found together in each of the 13 woredas of the sub-city, this study prefer to include all the woredas found in the selected Nifas-Silk Lafto sub-city.

➤ **Research Unity of Analysis**

The unit of analysis is the major entity and important ideas that analyzed in the study. In this particular study we are going to compare the individual SMEs access to finance based on different measurement, the unit of analysis for this study is an individual firms (SMEs).

3.5 Data Collection Instrument

i. Data Type & Sources

In order to achieve the research objectives, both primary and secondary data were collected through questionnaires and specifically questionnaires were designed and distributed to SMEs engaged in different economic activates (manufacturing, construction, trade, service and urban agriculture), the questioner distribute for those enterprises includes both open and close ended questions.

Primary Data: Data collection through questionnaires was distributed & the prepared interview was conducted to respondents that involve Business operators, Managers, Department Managers and Senior Officers working on loan processing, from the SMEs Operators, Bank, & MFI sides.

Secondary Data: It was gathered from varies secondary sources i.e., Periodic government body's publications, report of development partners, relevant publications different documents, records and reports of the industry, regulatory organ reports, from web site, books, brochures, annual reports and magazines, articles, journals and previous studies was analyzed.

ii. Data Collection Instrument

➤ Questionnaire

The success of any questionnaire survey and the accuracy of data collected largely depend on the careful design of the questionnaire's contents, structure and form of response (Akintoye et al.,

2000). It should adequately capture all the information need to address the research objectives (Dunn & Huss, 2004). The questionnaire was used because they are straight forward and less time consuming for both the researcher and the participants (Owens, 2002). The questionnaire includes both close-ended and open-ended questions. In addition a structured questionnaire was adopted from researches studied on similar topics (Abdulaziz Abdulsaleh, 2015 & Nguyen Hoang Tin, 2019, “Constraints on SMEs access for finance from formal financial institutions”) as a whole.

➤ **Personal Interview**

The information gathered through this method was expected to triangulate and complement the information collected through other methods. The data is gathered by interviewing concerned managers from Banks and Microfinance Institutions who have better knowledge and experience in the subject matter. Face-to-face interview was held about the various issues related to the financial access and similar issues in order to identify the true nature of the problem. A total of thirty individuals from Banks & MFIs was planned to be interviewed.

3.6 Data collection procedure, Ethical Issues and Measurement Reliability

i. Data Collection Procedures

For the primary data the researcher take a responsibility to collect and obtain the relevant information at the target respondents. Secondary data sources were also carefully study and relevant information was extracted. Under this research the entire 13 woredas found in Nifas-Silk Lafto sub-city was addressed. For this purpose the researcher was go through in the selection of the entire woredas found in Nifas-Silk Lafto sub-city administration. Together with the sub-city manger the researcher allocate the sample size according to the proportional number of SMEs in each woredas of the selected sub-city.

ii. Ethical considerations

All the research participants included in this study was appropriately informed about the purpose of the research and their willingness and consent was secured before the commencement of distributing questionnaire and asking interview questions. Regarding the right to privacy of the

respondents, the study maintained the confidentiality of the identity of each participant. In all cases, names are kept confidential thus collective names like ‘respondents’ was used.

iii. Validity and Reliability of the data collection instruments

Saunders et al. (2012) suggest that validity is the extent to which a particular measure is free from systematic and random error. Validity is the test of whether a study truly measures that which it was intended or how true the research results are (Joppe, 2000). Mostly, researchers measure the validity of their work by asking number of questions and look for the answers in the work of other researchers. Three types of validity exist namely: internal, content and criterion-related validity. Internal validity aims to “measure what the researcher intends to measure” (Saunders et al. 2009), content validity focuses on the relationship between the measuring device and coverage of questions. Criterion-related validity looks at the ability of future predictions, if the research can be valuable in the future.

In this study several attempts are made to ensure validity of instruments: Firstly, various references are used to support the theoretical study of the thesis. In designing the questionnaire, care to be taken to include important questions that helps to obtain relevant information on the subject matter. This aims to improve the response rate of the questionnaires. The questions are well arranged, the language used in the questionnaire is easy to understand. The in-depth was conducted in a manner that does not restrict the respondents but permits them to express themselves freely and willingly. Using mixed method in this study improved the inherent weaknesses in the individual methods and improves their strengths thereby increasing the validity of this study.

Reliability is referred to as the ability of an item, apparatus, and idea etc. to perform consistently its intended or expected function. It refers to the level of accuracy of the data. “The extents to which measurements are repeatable when different individuals perform the measurements, on different occasions, under different conditions, with supposedly alternative instruments which measure the same thing” (Drost, 2011).

A pilot study was conducted to refine the methodology and test instrument such as a questionnaire before administering the final phase. Questionnaires were tested on potential respondents to make the data collecting instruments objective, relevant, suitable to the problem and reliable as recommended. Besides, proper detection by an advisor was also taken to ensure validity of the instruments.

Cronbach's alpha is used to test the internal consistency of measurements that describe the consistency of a specific sample of respondents across a set of variables. Helms, Henze, Sass & Mifsud, (2006), state that it can help to estimate the reliability of participants' responses to the measurements. Saunders et al., (2012) highlight that internal consistency correlates responses to each other. Thus a Cronbach's alpha internal consistency measure of above 0.7 indicates that the questions were measuring a particular concept reliably. It is the consistency with which a measuring instrument yields a certain result when the entity being measured has not changed that is the extent to which the measure is free from random error (Creswell, 2014).

Definition and Measurement of variables:

This section presents definition and measurement of variables considered for this study. Wherever possible, items used for the constructs were adapted from prior research in order to ensure the content validity of the scale used (Hezronet, al, 2016). Average score for ever factor of each perception construct and used for further analysis.

Dependent variable

Measures of access fall into two broad categories, those based on the providers' information, such as banks and other service providers, and those based on users' information – individuals, households or firms (Beck et al., 2009).

The dependent variable for the logit analysis is of dichotomous nature it is dummy representing small SMEs access to finance (Babaj ide, 2011). Y=1 for situation where SMEs accessed finance and Y=0 for situations where SMEs did not access finance from formal finance sources. This variable measured on a five-point scale. There are two Key questions addressed in the

questionnaire part under this factor and the average responses to the questions were used (May 2018, Ayalneh Menberu).

Factors like “all ways of financing are availability in our country”, “all ways of financing/ prevailing ways of financing are accessible to all” were loaded & the Cronbach’s Alpha for access to finance became 0.829.

Table 3.4: Reliability results for dependent variable

No.	Variables	Cronbach’s Alpha	Number of items
1.	Access to finance	0.829	Two

(Source: Pham Cong Do www.ajbm.com Cronbach’s Alpha test results from survey data, 2017)

Independent variables

Factors like collateral requirement, information on fund opportunity and business planning that are preventing SMEs from accessing credit were measured using a five-point Likert scale. Likert-type or frequency scales use fixed choice response formats and are designed to measure attitudes or opinions (Bowling, 1997). For the purposes of analysis and interpretation, the following scale measurement was used regarding mean scores (MSs), a number from 1 to 5 that represents extent of agreement, where 1= Strongly disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly agree.

Collateral Requirements, Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003). Regards to Collateral requirement as a variable all factor were loaded on. Reliability of the scale (Cronbatch’s alpha value) is 0.7319.

Adequate Information flows, the flow of information in the financial market is crucial for both SMEs and financial providers (Falkena et al. 2001). In order for SMEs to identify potential supplier of financial services, they require enough information. For the variable awareness of financing opportunity all factors were loaded and their Cronbach's Alpha is 0.7453.

Business planning, A business plan is a formal document that submitted by entrepreneurs to a bank or any other financial institution in order to gain a financial support. A business plan may be either short term or long term. In addition, business plan can be a growth plan or a startup plan. It indicates the organization's previous state of conditions, its current status and future objectives that it aims to achieve (Ward, 1987; Philip, 1999). For the variable business planning of firm's six factors were loaded and their Cronbach's Alpha is 0.835.

Table 3.5: Reliability results for independent variables

No.	Variables	Cronbach's Alpha	Number of items
1.	Collateral Requirements	0.7319	Three
2.	Adequate Information on Funding Opportunity	0.7453	Four
3.	Firm's Business Planning	0.835	Six

(Source: Osano and Languitone, 2016)

Age of the enterprise measured in number of years in which the SME has been operating. Older SMEs are more likely to access credit from formal financial institutions than younger ones.

Employment size of SMEs in terms of number of employees including family members, SMEs with larger employment size are more likely to access credit from formal financial institutions than SMEs with smaller employment size.

The years of work/ experience in the business are help to measure the managers/ entrepreneurs experiences for particular professions. Manager's experience in managerial position and the owner-manager variables have entered with positive signs and are statistically significant. The more experienced a manager of a firm, the better the probability to have access to credit.

The independent variables; firm's age is a continuous variable & coded as 1 if it is below 2year, 2 if it is 2-5 year, 3 if it is 6-10 year, 4 if it is more than 10 year. In the same manner firm's size is also a continuous variable & coded as 1 if it has 1-10 employees, 2 if it has 11-50 employees, 3 if it has 51-150 employees, 4 if it has 151-300 employees. Moreover the managerial experience

is a continuous variable & coded as 1 if it is below 1 year, 2 if it is 1-3 years, 3 if it is 4- 6 years, 4 if it is 7-10 years, and 5 if it is 10 & above.

3.7 Method of Data Analysis

Following the data collection phase, the data gathered via questionnaire was processed via Statistical Package for Social Sciences (SPSS). And the rest quantitative data were analyzed using descriptive statistics such as frequency distribution, percentage, table and graph. Moreover, a binary logistic model which is best fits the analysis for determinant of access to formal finance was employed.

Qualitative data obtained through interviews was analyzed through qualitative analysis method which involves some essential steps: the first step is raw data management, in which the process of preparing and organizing raw data in to meaningful units of analysis conducted. The next step is reducing data into themes to make meaning of that data. The third step is Data interpretation, it means data that have similar meaning are coded in several cycles and interpret themes to answer research questions. Finally the qualitative data was analyzed and represented (making sense of the data for others), (Ellen & Marcus, 2003).

The cause and effect relationship of firm's age, firm's size, and firm manager's experience on access to finance was analyzed using simple correlation & regression analysis, and ANOVA respectively.

Factors like access to finance, collateral requirement, availability of information on funding opportunity, and firm's business plan that are preventing SMEs from accessing credit were measured using a 5-point Likert scale. Likert-type or frequency scales use fixed choice response formats and are designed to measure attitudes or opinions (Bowling, 1997). For the purposes of analysis and interpretation, the following scale measurement was used regarding mean scores (MSs), a number from 1 to 5 that represents extent of agreement, where 1= Strongly disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= Strongly agree.

Specification of the Logit Model

The logit model is extremely flexible and widely used function, and leads itself to meaningful interpretations when the dependent variable is dichotomous outcome. It is a powerful tool in its ability to estimate the individual effects of the continuous or categorical variables on the qualitative dichotomous dependent variable (Wright, 1995).

Logistic regression model was used to determine factors that influence access to finance by SMEs from formal financial institutions. Logistic regression is useful for this kind of a situation where prediction of the presence or absence of an outcome based on values of a set of predictor variables is needed. This model is similar to a linear regression model but it is suited to models where the dependent variable is dichotomous.

According to Gujarati, (2004), the cumulative logistic probability distribution model for this study is econometrically specified as follows:

The dichotomous response variable $Y = 0$ or 1 with $Y=1$ denotes the occurrence of the event of benefit while $Y=0$ denotes otherwise.

The dummy variables, also known as indicators and bound variables, characterize dichotomous responses. In this study, since only two options are available, namely “access to finance” or “no access to finance” a binary model was set up to define. $Y=1$ for situation where SMEs accessed finance and $Y=0$ for situations where SMEs did not access finance from either formal sources.

The logistic regression in this study can therefore be specified as:

$$Y_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + U_i$$

X_1 denotes size of the firm,

X_2 denotes age of the firm,

X_3 denotes collateral requirements of firm,

X_4 denotes adequate information flow of the firm,

X_5 denotes business plan of the firm,

X_6 denotes experience of firm's manager,

U_i is the discrepancy term.

The model is specified as follows:

$$Z_i = \beta_0 + \sum_{j=1}^n \beta_j X_{ji} + U_i$$

Where Z_i is the dependent variable with a value of 1 when firm i benefits from banking facilities and 0 otherwise. X_{ji} are a vector of explanatory variables which include age of the firm, size of the firm (small or medium), firm's business plan, experience of firm's manager, collateral requirement of the firm, and information flow of the firm. And finally U_i is the discrepancy term.

In line with the existing literature, we expect that larger, older firms and with experienced managers are more likely to report that they have benefited or had benefited a loan. In this regard, medium enterprises are likely to have more access to finance than small enterprises. The firm-level characteristics also include a dummy variable indicating whether the principal owner of the enterprise is older, which we expect to have a positive coefficient based on the literature (Demirguc-Kunt et al. 2013).

We also include dummy variables describing each firm's required collateral owns. SMEs frequently have difficulty getting loans approved. Enterprise owners believe that banks are too focused on collateral; Bankers agree that the absence of usual collateral is an issue. Collateral Requirements, The security assets should be used to recover the principal in case of default. In most banks & MFIs, in order to finance SMEs & to accept loan proposals, the collateral must be 100 % or more, equal to the amount of credit extension or the product (Mullei & Bokea, 2000).

The flow of information in the financial market is crucial for both SMEs and financial providers (Falkena et al. 2001). In order for SMEs to identify potential supplier of financial services, they require enough information. Information is concerned with awareness of financing opportunities by SMEs.

In the same manner a business plan is a formal document that submitted by entrepreneurs to a bank or any other financial institution in order to gain a financial support. Lack of business planning will invariably lead to information opacity. This situation may hinder the firm's accessibility to external finance (Fabowale et al., 1994; Berger & Udell, 1998; Rozali et al., 2006; Nguyen & Ramachandran, 2006).

CHAPTER IV

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter deals with presentations, discussions and interpretations of the data collected through questionnaire analysis, interview conducted, and findings of the study as set out in the research methodology. The study targeted 200 SMEs in Nifas-Silk Lafto sub-city, Addis Ababa. Interview conducted with managers, department managers, deputy managers and senior officers working on loan processing from the selected five banks & five MFIs.

The section presents the results and analysis of data collected via questionnaire, interview and document analysis. This was presented in way that wants to see from the demand side and from the supplier or finance providers like in this case Banks and MFIs; in the first subsection the survey result presented and in the second subsection the quantitative data result presented. The qualitative data found from different document analysis, semi-structured questioners for SMEs and interview with senior managements of financial institutions (Banks and MFIs). Present the summary of model fit assumption, and the output of binary logistic regression method which focuses more on level of influence of each explanatory variable on the predicted variable.

Descriptive statistics such as frequency, percentage, mean, standard deviation were used to analyze the data. Regression analysis was used to test the effect of the independent variables on the dependent variable under study in relation to the objectives of the study. The data was processed using statistical package for social sciences (SPSS) and the analysis is given below. The section also provides descriptive analysis of the major source of initial and startup finance and difference between SMEs who had access to credit (Access) and SMEs which did not have access to credit (No access) with respect to explanatory variable which were hypothesized to affect SMEs' access to credit from formal financial institutions.

Respondent firms were distributed within five major economic sectors: manufacturing, construction, trade, service, and urban agriculture. Under these categories there are a number of activities undertaken; textile, metal work, wood work, food processing, construction building,

small restaurants, bakery, small trade, retails, stationary, poultry, beekeeping, fattening, etc. respectively.

4.2 Response rate

Out of the 200 questionnaires distributed, only 110 were completed and retrieved successfully and from the collected questionnaires 90 were rejected as not completed and unreturned, or were not suitable for use in this study. Based on usable responses only, the response rate was 55%. This response rate was accepted, according to Kothari (2004) and Mugenda, (2003) argument that for generalization of findings to the whole population the least acceptable response rate should be 50% response rate is adequate. The interview conducted with the selected five MFI & bank managers, senior credit officers and other concerned staffs which are working in the study district Nifas-Silk Lafto.

4.3 Respondents' Profile

4.3.1 Respondents Gender with Occupation status

Table 4.1 demonstrated that out of the total respondents 32.73% were female the rest are male owner/managers, employee/manager or shareholder of the SMEs. Over the entire researcher observed that the line share of the respondent is owners and employee managers. This indicates that both were pretty good represented in the sample size of this research. As it can observe from the demonstration, 49.1% of the SME administered by owners which contributes 16.36% and 32.73% female's owner and male manager, respectively which indicates females are also participant in the SMEs as owner which is encouraging with the aspect of empowering female entrepreneurs'.

Table 4.1: Respondents Gender with Occupation status

		Occupation status			Total
		Owner Manager	Employee Manager	Shareholder	
Female	Count	18	12	6	36
	% within the occupation status	33.33%	36.36%	26.09%	32.73%

Gender	Male	% of total	16.36%	10.91%	5.45%	32.73%
		Count	36	21	17	74
		% within the occupation status	66.67%	63.64%	73.91%	67.27%
		% of total	32.73%	19.09%	15.45%	67.27%
Total		Count	54	33	23	110
		% within the occupation status	100%	100%	100%	100%
		% of total	49.09%	30%	20.91%	100%

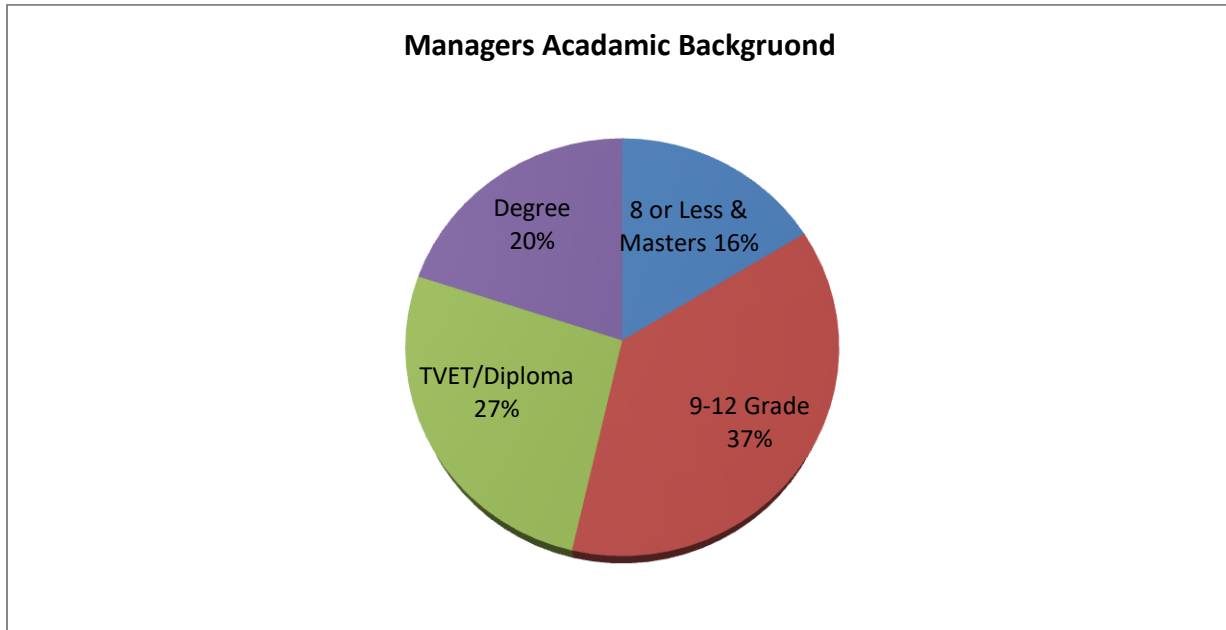
(Source: survey result & own computation, Oct. 2021)

4.3.2 Education of SME Managers

In this question respondents were asked about their educational background. As in the figure below the highest frequency was for education levels of high school graduated (9-12) with 37.27%. Owner, employee and shareholder managers with professional diplomas and degree accounted for 26.36% and 20% of the sample, respectively. None of the sample respondents categorized under the illiterate group and finally, only 11.8% and 4.55% of respondents accounted under education levels of junior school (below grade 8) and Masters Holders respectively and make them the least frequent category.

It is interesting to note that respondents with high school, diploma and first university degree were highly represented in this study. In addition, by looking at the Appendix IV, managers in services, construction and manufacturing tend to be more educated with the highest percentage of higher academic institutions. There were medium number of managers in other sectors educated to diploma and higher degree levels, none of the managers had been categorized under illiteracy.

Figure 4.1: Education Background of SME Managers

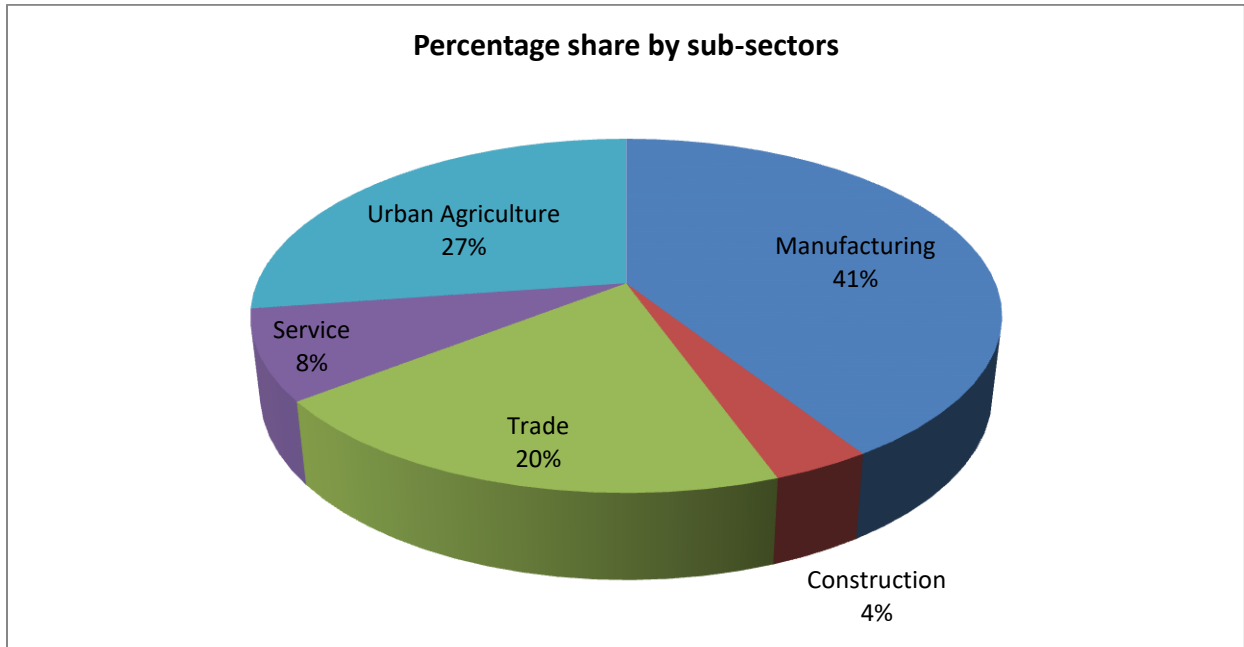


(Source: survey result & own computation, Oct. 2021)

4.3.3 Respondents Business Activities

The type of businesses on which the research was conducted were consisting of five sectors, namely Manufacturing (Metal work industry, wood work industry, molding, soap and detergent, machineries and others), Construction (Contractors, construction input producers, etc.), Trade (Small trailers for local & foreign products), Service sectors and the Agricultural sectors involving urban poultry, bee keeping, etc. From the survey result, 40.9% are engaged in manufacturing sector and followed by the agricultural and trade sectors which accounted 27.3% and 20%, respectively. The service and construction sectors accounted for a small share which has 8.2% and 3.6% of total sample respondent each. This shows that most of SMEs engaged in manufacturing, agriculture and trade activities which were pretty good represented in the sample size of this study.

Figure 4.2: Respondents Business Activities

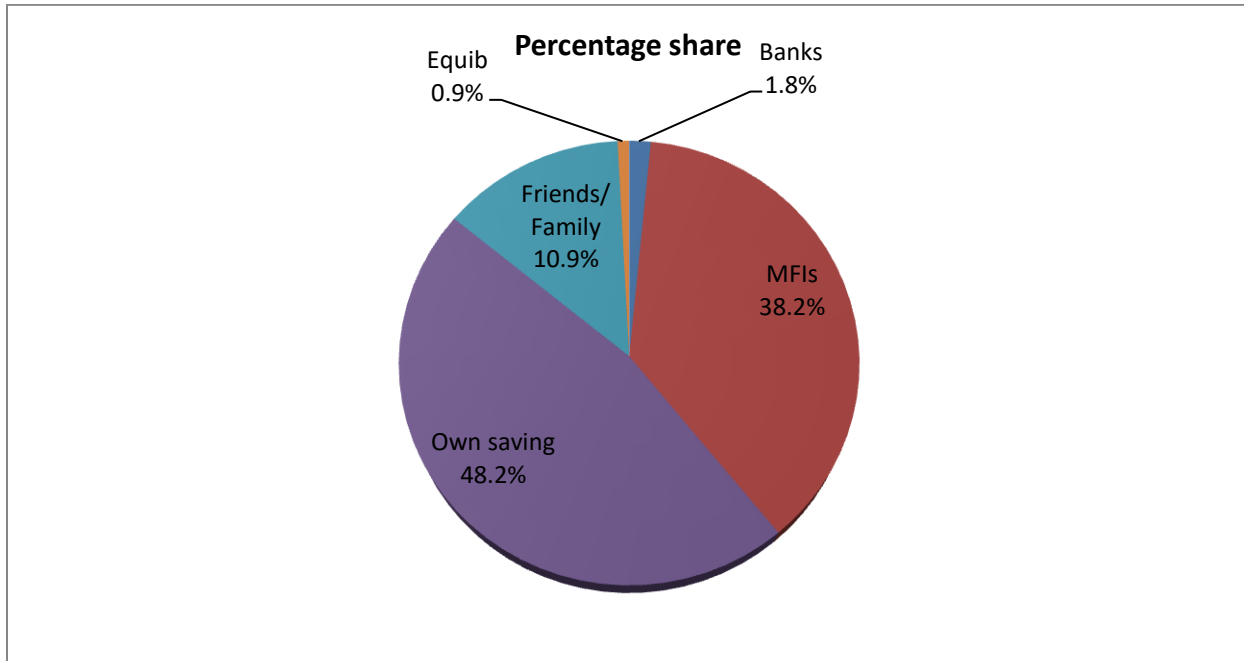


(Source: survey result & own computation, Oct. 2021)

4.3.4 Source of Finance used by the SMEs

One of the objectives of this study was identifying the source of initial and working capital finance for SMEs in Nifas-Silk Lafto sub-city. Availability of finance influences the viability and success of SMEs since it determines the capacity of an enterprise in choice of technology, access to markets, and access to essential resources, etc. Yet, securing capital for business start-up or business operation is one of the major obstacles of every entrepreneur, particularly those in the SME sector (Solomon, 2009). As indicated in Figure 4.3, the major source of working capital is again from own savings representing 53 (48.2%) of the source of working capital finance for sample SMEs that were surveyed. The highest percentage of working capital finance from informal financial institutions was represented by friends and family 12 (10.9%) followed by “equib” 1 (0.9%). Formal financial institutions represented by microfinance and banks were sources of working capital finance for 42 (38.2%) and 2 (1.8%) of sample SMEs surveyed.

Figure 4.3: Source of Finance used by the SMEs



(Source: survey result & own computation, Oct. 2021)

Most firms financed their business from own savings, MFI and friends/family. Few firms have also financed their business from “equib” and banks. This implies the major source of finance for SMEs are microfinance institutions, own saving, and friends/family due to many of the small firms do not have collateral that can provide for banks and also they do not meet the requirements that are set by banks. In short the major source of finance for SMEs in Nifas-Silk Lafto sub-city was from informal and from formal financial institution mainly microfinance institutions. The number of firm that financed their business from their own saving and friend/family had a huge percentage. This implies that informal financial institutions are greatly contributing for the development of SMEs and creating of employment opportunities. This indicates that beyond startup, informal financial institutions are also serving as important sources of working capital finance. This also confirms the assertion by Admasu (2012) that formal financial institutions in Ethiopia have not been able to meet the credit needs of the SMEs.

4.4 Descriptive Statistics for factors affecting access to formal finance for SMEs

4.4.1 Factors affecting access to finance and its availability

The descriptive result showed major factors affecting accesses to finance and its availability. This section discusses the responses of the respondents regarding the factor as open ended questions to reflect their ideas and concern for. On the SMEs side, the question raised for the respondents is what is the most pressing problem your firm is facing currently? Majority of the respondent respond many factors related to the issue raised. The key informants from the SMEs owner indicate that high shortage of working capitals, shortage of inputs for their production, lack of fitting the collateral requirements to access finance, working space limitation (not having adequate space for their production), rules and regulations of the government, inadequate follow up and support from concerned government offices, lack of information on fund sources, long procedure of loan process at financial institutions, etc. were mentioned as major challenges affecting their operation currently.

The study sought to know the extent to which various factors influenced access to formal finance and its availability for small and medium enterprises in Nifas-Silk Lafto sub-city of Addis Ababa. The extent to which the factors influenced access to finance and its availability was measured on a five point Likert scale to measure perception of constructs ranging from strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). The key for interpreting the means recorded is as shown in Table 4.2;

Table 4.2: Means Interpretations Key

Range	Extent of Influence
1.00 –1.80	Strongly agree
1.81 – 2.60	Agree
2.61 – 3.40	Neutral
3.41 – 4.20	Disagree
4.21 – 5.00	Strongly disagree

(A general formula for 5-point Likert scale, developed by Psychologist Rensis Likert, in 1932)

To determine the minimum and the maximum length of the 5-point Likert type scale, the range is calculated ($5-1=4$) then divided by five as it is the greatest value of the scale. Scale mid-point of the arithmetic mean of the constructs is equal to 2.6, as the agreement Likert measurement scales (strongly disagree, disagree, neutral, agree, strongly agree) was used in this study.

4.4.1.1 Application and needs for loan and access to credit from formal financial institutions

The first question SMEs respondent asked to put their general thoughts on the question whether all the ways of financing are available in our country? And are all ways of financing or prevailing ways of financing are accessible to all?

Table 4.3: Application for loan and access to credit from formal financial institutions

		All ways of financing are available in our country				All ways of financing/ prevailing ways of financing are accessible to all			
		f	%	Valid %	CF %	f	%	Valid %	CF %
Valid	SA	2	1.8	1.8	1.8	5	4.5	4.5	4.5
	A	5	4.5	4.5	6.3	4	3.6	3.6	8.1
	N	2	1.8	1.8	8.1	1	.9	.9	9
	D	30	27.3	27.3	35.4	30	27.3	27.3	36.3
	SD	71	64.6	64.6	100	70	63.7	63.7	100
	Total	110	100	100		110	100	100	

(Source: survey result & own computation, Oct. 2021)

Result of the Descriptive Statistics:

Table 4.4: Result of the Descriptive Statistics for Need and Accessibility of finance

Factors under consideration	N	Minimum	Maximum	Mean	Std. Deviation
All ways of financing are available in our country	110	1.00	5.00	4.4818	.88548
All ways of financing/ prevailing ways of financing are accessible to all	110	1.00	5.00	4.4182	1.01712
Valid N (list wise)	110				

(Source: survey result & own computation, Oct. 2021)

According to the question that all ways of financing are available in our country, the response show a level of strongly disagrees having (M= 4.4, SD= 0.88), while for the question, all ways of financing/ prevailing ways of financing are accessible to all replied with strongly disagreed by also having (M= 4.4, SD= 1.01). As interpretation under table 4.2 above Mean of smaple (M= 4.4), shows that respondents cumulatively strongly disagreed for the two questions regarding application and needs for loan and access to credit from formal financial institutions. This indicate that all ways of financing listed on the questionnaire is not available in our country, and also its accessibility is not for all, therefore we should work on the ways of finance which are not currently available.

4.4.1.2 Influence of collateral requirements on accesses to finance and its availability

Table 4.5: Collateral Requirements

		Not having types of collateral required				Collateral is a mandatory requirement in accessing finance				SMEs very worried about collateral in accessing finance			
		f	%	Valid %	CF %	F	%	Valid %	CF %	f	%	Valid %	CF %
Valid	SA	45	40.9	40.9	40.9	58	52.7	52.7	52.7	63	57.3	57.3	57.3
	A	39	35.5	35.5	76.4	25	22.7	22.7	75.4	28	25.5	25.5	82.8
	N	10	9.1	9.1	85.5	10	9.1	9.1	84.5	8	7.3	7.3	90.1
	D	6	5.4	5.4	90.9	12	10.9	10.9	95.4	7	6.3	6.3	96.4
	SD	10	9.1	9.1	100	5	4.6	4.6	100	4	3.6	3.6	100
	Total		110	100	100		110	100	100		110	100	100

(Source: survey result & own computation, Oct. 2021)

Result of the Descriptive Statistics:

Table 4.6: Result of the Descriptive Statistics for Collateral Requirements

Factors under consideration	N	Minimum	Maximum	Mean	Std. Deviation
Not having Types of collateral required	110	1.00	5.00	2.0636	1.24353
Collateral is a mandatory requirement in accessing finance	110	1.00	5.00	1.9182	1.21256

SMEs very worried about collateral in accessing finance	110	1.00	5.00	1.7364	1.08092
Valid N (list wise)	110				

(Source: survey result & own computation, Oct. 2021)

According to table 4.6, access to finance and its availability influenced by ‘not having type of collateral required’ (M= 2.1, SD= 1.2) followed by ‘collateral as a mandatory requirement in accessing the finance’ (M= 1.9, SD= 1.2) and ‘SMEs very worried about collateral’ (M= 1.7, SD= 1.1). Overall, collateral requirements influenced access to credit facilities a level agreed with (M= 1.9, SD= 1.17). From the mean interpretation under table 4.2 above Mean of sample (M= 1.9), shows that respondents cumulatively agreed for the three questions regarding collateral requirements influenced access to credit facilities.

This implies that access to finance was highly limited by not having a kind of collateral required, collateral was mandatory, and also SMEs were very worried about collateral and in general collateral was highly limited to access finance at formal financial institutions. It is obvious that most SMEs are denied and discriminated by the lenders in provision of financing because of high risk and for not having adequate resources to provide as collateral. Furthermore, in descriptive question raised the key informants support this result. Most of them were saying that lack of adequate collateral was considered as a significant barrier that affected them to access finance. It is advisable for the financial institutions to think other means of reaching increasing demands of SMEs for both startup finance and also working capitals. These findings are in line with those of (Gitman, 2003), (Garrett, 2009), (Mullei and Bokea, 2000), (Selamawit et.al, 2014), (Fetene, 2010).

4.4.1.3 Effect of awareness of funding opportunity on accesses to finance & its availability

Table 4.7: Awareness about Funding Opportunity (Availability of Finance)

Availability of information on who is offering credit facilities				Performance of Commercial Banks and Microfinance’s				There is an Accessible ways of financing for SME				Past experience in obtaining loan finance successfully			
f	%	Valid %	CF %	f	%	Valid %	CF %	f	%	Valid %	CF %	f	%	Valid %	CF %

Valid	SA	11	10	10	10	25	22.7	22.7	22.7	2	1.8	1.8	1.8	26	23.6	23.6	23.6
	A	15	13.6	13.6	23.6	54	49.1	49.1	71.8	6	5.5	5.5	7.3	44	40	40	63.6
	N	7	6.4	6.4	30	4	3.6	3.6	75.4	4	3.6	3.6	10.9	2	1.8	1.8	65.4
	D	20	18.2	18.2	48.2	15	13.7	13.7	89.1	54	49.1	49.1	60	19	17.3	17.3	82.7
	SD	57	51.8	51.8	100	12	10.9	10.9	100	44	40	40	100	19	17.3	17.3	100
	Total	110	100	100		110	100	100		110	100	100		110	100	100	

(Source: survey result & own computation, Oct. 2021)

Result of the Descriptive Statistics:

Table 4.8: Result of the Descriptive Statistics for Awareness about Funding Opportunity

Factors under consideration	N	Minimum	Maximum	Mean	Std. Deviation
Availability of information on who is offering credit facilities	110	1.00	5.00	3.8818	1.42540
Performance of Commercial Banks and Microfinances	110	1.00	5.00	2.4091	1.28002
There is an Accessible ways of financing for SME	110	1.00	5.00	4.2000	.88618
Past experience in obtaining loan finance successfully	110	1.00	5.00	2.6455	1.45000
Valid N (list wise)	110				

(Source: survey result & own computation, Oct. 2021)

Based on the result shown in table 4.8, as far as awareness about funding opportunity is concerned, there is an accessible ways of financing for SME (M= 4.2, SD= 0.89) followed by the response category that respondents have information on who is offering credit facilities (M= 3.8, SD= 1.4) and this is followed by factors include past experience in obtaining loan (M= 2.6, SD= 1.4) and the performance of Commercial Banks and Microfinance's (M= 2.4, SD= 1.2). Aggregately, all factor together have an influence in access to finance and its availability with a level of neutral (M= 3.25, SD= 1.2). From the mean interpretation under table 4.2 above Mean of sample (M= 3.2), shows that respondents cumulatively neutral for the four questions regarding firm's awareness of funding opportunity on accesses to finance & its availability. The flow of information in the financial market is crucial for both SMEs and financial providers (Falkena et al., 2001). This also supported by the information gathered from Banks and MFIs by describing

that most of the SMEs who has an information to access loan and applied there request 62% has reply there request either on full or partial amount. This infers that availability of information is essential in creating awareness of fund opportunities to both the financial source providers and the SMEs. Financial institutions should have to reach their clients with appropriate & updated information on different financial opportunities available for borrowres. Similarly SME's should make their system closly attened fund opportunities at financial provoders. These results are support of the findings of the study conducted by (J. and McMahon, 2000; Beck et al. 2008; and Ayalneh Menberu, 2018).

4.4.1.4 Effect of firm's business plan on access to finance and its availability

Table 4.9: Firm's business plan

		Our enterprise have a specific business plan implemented officially				Our enterprise look at financial resources when planning				Our enterprise consider the strength and weakness when planning			
		f	%	Valid %	CF %	F	%	Valid %	CF %	f	%	Valid %	CF %
Valid	SA	45	40.9	40.9	40.9	36	32.7	32.7	32.7	30	27.3	27.3	27.3
	A	31	28.2	28.2	69.1	43	39.1	39.1	71.8	52	47.2	47.2	74.5
	N	10	9.1	9.1	78.2	11	10	10	81.8	11	10	10	84.5
	D	13	11.8	11.8	90	8	7.3	7.3	89.1	9	8.2	8.2	92.7
	SD	11	10	10	100	12	10.9	10.9	100	8	7.3	7.3	100
	Total	110	100	100		110	100	100		110	100	100	
		Our enterprise find out the customers' demand when planning				Our enterprise set out the future business goals				Our enterprise have a budget for spending and pricing when planning			
		f	%	Valid %	CF %	F	%	Valid %	CF %	f	%	Valid %	CF %
Valid	SA	36	32.7	32.7	32.7	39	35.5	35.5	35.5	32	29.1	29.1	29.1
	A	43	39.1	39.1	71.8	50	45.4	45.4	80.9	37	33.6	33.6	62.7
	N	12	10.9	10.9	82.7	10	9.1	9.1	90	13	11.8	11.8	74.5
	D	7	6.4	6.4	89.1	7	6.4	6.4	96.4	16	14.6	14.6	89.1
	SD	12	10.9	10.9	100	4	3.6	3.6	100	12	10.9	10.9	100
	Total	110	100	100		110	100	100		110	100	100	

(Source: survey result & own computation, Oct. 2021)

Result of the Descriptive Statistics:

Table 4.10: Result of the Descriptive Statistics for Business Plan

Factors under consideration	N	Minimum	Maximum	Mean	Std. Deviation
Our enterprise have a specific business plan implemented officially	110	1.00	5.00	2.2182	1.35715
Our enterprise look at financial resources when planning	110	1.00	5.00	2.2455	1.28639
Our enterprise consider the strength and weakness when planning	110	1.00	5.00	2.2091	1.15015
Our enterprise find out the customers' demand when planning	110	1.00	5.00	2.2364	1.27738
Our enterprise set out the future business goals	110	1.00	5.00	1.9727	1.01781
Our enterprise have a budget for spending and pricing when planning	110	1.00	5.00	2.4455	1.33812
Valid N (list wise)	110				

(Source: survey result & own computation, Oct. 2021)

Based on the result shown in table 4.10, all the six factors in the preparation of firm business plan in the order of their magnitude are enterprise have a budget for spending and pricing when planning (M= 2.4, SD= 1.3), enterprise look at financial resources when planning (M= 2.2, SD= 1.2), enterprise consider the strength and weakness when planning (M= 2.2, SD= 1.1), enterprise find out the customers' demand when planning (M= 2.2, SD= 1.2), enterprise have a specific business plan implemented officially (M= 2.2, SD= 1.3), and our enterprise set out the future business goals (M= 1.9, SD= 1.01). Aggregately all factor together have an influence in access to finance and its availability with a level of agree (M= 2.1, SD= 1.1). From the mean interpretation under table 4.2 above Mean of sample (M= 2.1), shows that respondents cumulatively agreed for the six questions regarding firm's preparation & usage of business plan for access to finance and its availability.

Enterprise business plan is critical for both SMEs and financial providers. It indicates the organization's previous state of conditions, its current status and future objectives that it aims to

achieve (Ward, 1987; Philip, 1999). This also supported by the preparation of business plan which incorporates all the necessary components and the strategies for implementation. Information gathered from Banks and MFIs by describing that most of the SMEs who has a well prepared and implemented business plan apply for loan were accessed or got reply for their request 69% has reply there request either on full or partial amount. SMEs should have to prepare & used a business plan holding both the operation plan & strategic direction for implimentaion. SME's who have strong business plan benefited both for evaluating thier step of growth as well as to gain different financial aids from developmental institutions. These results are also support of the findings of the study conducted by (Romano et al., 2001), (Fabowale et al., 1994; Berger & Udell, 1998; Rozali et al., 2006; Nguyen & Ramachandran, 2006).

4.4.2 Logistic regression on the determinants of SMEs' Access to Formal Sources of Credit

4.4.2.1 Assumption of Logistic regression

Logistic regression is a method that we can use to fit a regression model when the response variable is binary.

Before fitting a model to dataset, logistic regression makes the following assumptions:

1. Assumption 1: The Response Variable is Binary

Logistic regression assumes that the response variable only takes on two possible outcomes. Some examples include:

- ✓ Yes or No
- ✓ Male or Female
- ✓ Pass or Fail
- ✓ Drafted or Not Drafted
- ✓ Malignant or Benign, etc.

This assumption can be checked by counting how many unique outcomes occur in the response variable. If there are more than two possible outcomes, you will need to perform ordinal regression instead.

2. Assumption 2: The Observations are Independent

Logistic regression assumes that the observations in dataset are independent of each other. That is, the observations should not come from repeated measurements of the same individual or be related to each other in any way. To check this assumption is to create a plot of residuals against time (i.e. the order of the observations) and observe whether or not there is a random pattern. If there is not a random pattern, then this assumption may be violated.

3. Assumption 3: There is no Multi-collinearity among Explanatory Variables

Logistic regression assumes that there is no severe multi-collinearity among the explanatory variables. Multi-collinearity occurs when two or more explanatory variables are highly correlated to each other, such that they do not provide unique or independent information in the regression model. If the degree of correlation is high enough between variables, it can cause problems when fitting and interpreting the model. The most common way to detect multi-collinearity is by using the variance inflation factor (VIF), which measures the correlation and strength of correlation between the predictor variables in a regression model.

4. Assumption 4: There are No Extreme Outliers

Logistic regression assumes that there are no extreme outliers or influential observations in the dataset. The most common way to test for extreme outliers and influential observations in a dataset is to calculate Cook's distance for each observation. If there are indeed outliers, you can choose to (1) remove them, (2) replace them with a value like the mean or median, or (3) simply keep them in the model but make a note about this when reporting the regression results.

5. Assumption 5: There is Linear Relationship between Explanatory Variables and the Logit of the Response Variable

Logistic regression assumes that there exists a linear relationship between each explanatory variable and the logit of the response variable. Recall that the logit is defined as:

Logit (p) = $\log \left(\frac{p}{1-p} \right)$ where p is the probability of a positive outcome. The easiest way to see if this assumption is met is to use a Box-Tidwell test.

6. Assumption 6: The Sample Size is Sufficiently Large

Logistic regression assumes that the sample size of the dataset is large enough to draw valid conclusions from the fitted logistic regression model. As a rule of thumb, you should have a minimum of 10 cases with the least frequent outcome for each explanatory variable. For example, if you have 3 explanatory variables and the expected probability of the least frequent outcome is 0.20, then you should have a sample size of at least $(10 \times 3) / 0.20 = 150$.

Multi-collinearity diagnosis

Multi-collinearity

In regression it occurs when independent variables in the regression model are more highly correlated with each other than with the dependent variable. When the independent variables in our model are highly correlated with one another, they are basically measuring the same thing. In other words, when two variables are highly correlated, they both convey essentially the same information. If the purpose of our research is only to predict the dependent variable from a set of independent variables, multi-collinearity does not adversely affect the regression equation. The predictions in our regression will still be accurate, and the overall R^2 will give us an indication of how well the independent variables in our model predict the dependent variable. But if, as is the usual case, our goal is to understand the predictive power of each independent variable, multi-collinearity can be a problem.

From the two common methods of detecting multi-collinearity by running the regression analysis, we can access on SPSS computed multi-collinearity analysis. This can be computed to statistics called Tolerance Values and Variance Inflation Factor (VIF) for each independent variable. In this case Multi-collinearity exists when: (Tolerance is below .10, and the average VIF is larger than 2.5).

Prior to running the logistic regression model, both the continuous and discrete explanatory variables were checked for the existence of multi-collinearity problem. The problem arises when at least one of the independent variables is a linear combination of the others. The existence of multi-collinearity might cause the estimated regression coefficients to have the wrong signs and smaller t-ratios that might lead to wrong conclusions. The technique of Variance Inflation Factor (VIF) was employed to detect the problem of multi-collinearity among the continuous variables.

According to Gujarati (2004), VIF can be defined as: $VIF(X_i) = \frac{1}{1 - R_i^2}$

Where, R_i^2 is the square of multiple correlation coefficients that results when one explanatory variable (X_i) is regressed against all other explanatory variables, the larger the value of VIF (X_i) the more “troublesome” or collinear the variable X_i is, as a rule of thumb, if the VIF of a variable exceeds 10, there is a multi-collinearity problem, In this study, there is no value greater than 10 (Appendix IV) and therefore no multi-collinearity problem.

4.4.2.2 The results of Logistic regression

The binary logit model was used to identify the major determinants of SMEs’ access to formal sources of finance. In the logit model analysis, the study emphasize on considering the combined effect of variables between SMEs’ that are formal credit users and non-users in the study area. The emphasis therefore, is on analyzing the variables together. By considering the variables simultaneously, it was able to incorporate important information about their relationship.

Logistic regression assumes that $P(Y=1)$ is the probability of the event occurring. The dependent variable was therefore coded accordingly. The result of the binary regression variable i.e. the probability of being $P(Y=1)$. The variables that were found to be significant at 5% or less have been indicated with (*) and (**).

Firm's age (compare two age categories; <2 year and 2-5 years), Managerial experiences (compare three experience categories; <1 year, 1-3 years, and 4-6 years), Firm's size/Employee number (compare four size categories; <10 employee, 11-50 employee, 51-150 employee and 151-300 employee). Below is a summary of the results of the logistic regression model.

Table 4.11: Result of Logistic Regression Estimation

Variables	Coefficient	Wald statistics	Significance level	Odds ratio
Firm's age				
< 2years				
2-5 years	1.540	11.818	0.01**	1.500
Managerial experiences				
<1 year		4.219		
1-3 years	2.848	14.509	0.02*	17.250
4-6 years	0.932	12.939	0.01**	2.538
Firm's size/ Employee size				
1-10 employee		0.275	0.965	
11-50 employee	0.405	0.81	0.777	1.500
51-150 employee	0.693	0.175	0.676	2.000
151-300 employee	0.000	0.000	1.000	1.000

(Source: survey result & own computation, Oct. 2021)

Interpretation of the Result of Hypothesis testing

1. Age of SMEs and its effect on access to finance

Regarding the age of business with respect to access to finance, most of the sampled SMEs were in the age groups of 1-5 years, only a few were 5 years and above. As a result for this analysis the comparison made between SMEs their age groups of 2 years and less with that of SMEs with the age groups of 2-5 years, the reason for making comparisons between the two groups, was the

sample size for the rest two groups which are age groups of 5-7 years and 10 years and above were very small & insignificant to compare with the first two groups.

The variable age of firm has a positive and statistically significant relationship with SMEs' access to credit from formal financial institutions at 5% level of significance. Therefore the hypothesis that "Firm's age positively affects SMEs' access to finance" is accepted. This result is consistent with a study by Klapper et al. (2010), Woldie, et al. (2012), Beck and Cull (2014).

Young ventures at start-up levels may not have the level of expertise and success history required, young firms (less than two years) rely more on internal financing than bank and MFI financing. It is generally firm age was found to play a role in firms' access to finance.

2. Size of SMEs and its effect on access to finance

Firm size is one of the most important variables in literature related to access to credit. Numerous studies have discussed that small and medium-sized enterprises are financially more constrained than large firms (Carpenter and Petersen, 2002).

When the firm is small, most of the time it is owned and operated by the entrepreneur himself and there is no such legal requirement to regularly report financial information and many firms do not maintain audited financial accounts. Berger and Udell (1998) found smaller and younger firms are more likely to face higher cost of financing and at the same time they are required to offer collateral.

The logical result of the study in contrary to the above argument the size of firm was not significant at 5% level of significance to determine firms' access to finance from formal financial institutions, the major reason was that the SMEs involved in the survey were small in size and majority of them have an employee size under 20, out of the sample SMEs 90% of them have an employee size below 10 and only 10% of them have an employee 10 and more. The sizes of employee at each sample SMEs made the logistic analysis not effective and unable to support the arguments that firm size is the major determinant for SMEs access to finance.

3. Manager's business experience and its effect on access to finance

According to the survey result participants were also asked about their cumulative working experience in relation to SMEs. The years of experience were classified into; a year and less, 1-3 years, 4-6 years, 7-10 years and more than 10 years of experience.

Most of the sample SME managers from the survey were in the experience range between 1-7 years, this is because most of the managers in the sample SMEs were the owner managers and their experience started from the establishments of the SMEs. Managers having experiences of 7-10 years and above were few in numbers and it is not relevant to compare these ranges of experience with an experience range of 1-5 years.

The analysis made among the managers who have an experience 1 year and less, 1-3 years, and 4-6 years. Assuming all other factors remain constant, the variable manager's business experience has a positive and statistically significant effect on SME's access to credit from formal financial institutions at 5% level of significance. Taking manager's experience of >6 years as a reference, the result indicates that managers having an experience between the years of 4-6 are 2.538 times less likely to access credit from formal financial institutions than those with age of >6. Therefore, the hypothesis that "SMEs run by experienced operators tend to have more access to finance than those run by younger/less experienced ones" is accepted. This result is consistent with previous study of Schmitz (1982), Kumar and Fransico (2005), Irwin and Scott (2009). Prior scholars (such as Sena, Scott and Roper, 2012) argue that, as the numbers of years in experience increases, the chances to secure credit increases as well. A scholar argue that, as the managers years of experience increases, it is the indication for the firms human capital as well as the ability to prepare and maintain financial records increases and hence increases chances to secure credit.

4.5 Supply side factors affecting SME's access to finance: Interview Analysis

In presenting the findings, this section proceeds as follows, Section 4.5.1 present an introduction, provides a brief background of the case study, Section 4.5.2 the findings derived from the

responses of the participants to the questions focusing on Bank and MFIs experience and practices in financing SMEs are discussed.

4.5.1 Introduction

The previous chapter reported the findings pertaining to the demand side of bank and MFIs financing for SMEs in Nifas-Silk Lafto sub-city represented by the population of SMEs in Addis Ababa city. As it has been previously mentioned in this thesis five Banks and MFIs working within the sub-city has been chosen to represent the supply side of bank and MFIs financing for SMEs in Addis Ababa. Accordingly, the study included one state owned bank, commercial bank of Ethiopia and four private owned banks namely; Awash International Bank, Dashen Bank, Addis International Bank, and Zemen Banks. From the above four private owned banks Zemen Bank was a private bank operating on a big size portfolio which is served by the large investment groups, beside this due to the circular passed from the governor of Awash International Bank S.C, all the concerned managers & officers both at the district and head office did not allowed to facilitated the conduction of an interview based on the formal letter delivered from the university. The rest three banks gave adequate information based on the given interview questions.

From the MFIs side, out of the selected five MFIs working at Addis Ababa two of them namely, Amhara Credit & Saving Institutions S.C (ACSI) and Oromia Credit & Saving S.C (OCSSCO) did not have operation areas serving SMEs sectors at the study target areas, on the other hand Wisdom MFI (private owned) recently started operation with two branches at the study area & they were not ready to conduct the interview. As a result, the study limited to collect adequate information's from the two MFIs highly engaged in credit and saving service for SMEs in the selected Nifas-Silk Lafto sub-city. For the purpose of this research interview conducted based on the prepared eleven semi-structured interview questions with senior bankers and loan officers at bank and MFIs in order to explore their experiences, opinions, and perceptions on issues relating to bank and MFIs financing for SMEs in the selected district. Therefore, this chapter discusses the supply side perspective of bank and MFIs financing for SMEs in Nifas-Silk Lafto sub-city, Addis Ababa. The findings are based mainly on the interpretations, discussions, and observations

made by the candidate during the interviews. Wherever applicable, narrative quotations are used to illustrate the arguments and the findings.

The data gathered was transcribed, translated, collated, classified, summarized, and analyzed into meaningful categories to achieve the aim of the research questions being addressed. The main issues that were covered and investigated in the interviews were related to the following areas:

- Whether bank and MFIs have SMEs customers,
- The procedure of accessing finance by SMEs at bank and MFIs,
- The demand and supply of finance between these two business sectors,
- The repayment status of SMEs and the overall support and follow up on the finance from bank and MFIs perspective,
- Drivers & obstacles on the access to finance for SMEs from the banks and MFIs side, and
- Professional suggestion and recommendation to solve challenges facing SMEs on the access of finance.

The main reason for using interviewing was its ability to uncover the interviewees' subjective side and experience relating to their dealing with SMEs and the role of the bank & MFIs in financing these entities. The open & a few closed-ended questions was the main tool used in the interviews. The questions concern general aspects of bank & MFIs financing for SMEs in the selected district context. Each category contained a number of related questions. Therefore, the sections in this chapter aim to pursue the bankers' & MFI loan officer perceptions on these subjects.

4.5.2 Findings derived from the responses of the participants to the questions focusing on Bank & MFIs

➤ Drivers and Obstacles of Serving SMEs

The questions here were designed to gather information about the factors that drive Bank and MFI's increasing focus on SMEs. It starts with discussing drivers that foster this involvement followed by the obstacles to the bank and MFI's involvement with this segment as identified by the interviewees. One can say the involvement with SMEs is more or less similar for all bank and

MFIs. To understand its interest in SMEs, participants were asked to indicate the main drivers behind Bank and MFI's involvement in the SME market. The perceived profitability of SME sector was a major driver cited. According to the bank and MFI officers the sector has potential high profits for the bank and MFIs.

The major problem in addressing the loan demand of SMEs were the requirement banks asked and strictly methods followed to be fulfilled by the SMEs before the application of credit at banks. On the other hand SMEs often fail to address the concerns of lenders; their behaviors' can inadvertently reinforce those concerns and perpetuate restricted access to financing. Such limitation includes: inadequate loan size, poor bookkeeping system, information gap about finance, fear of business failure, short term duration, failure to disburse loan timely, and inconvenient loan as discouraging factors for finance providers to serve SMEs.

➤ **SMEs customers at bank and MFIs**

Both of the response collected from bankers and loan officers showed that there are a lot of SME customers gets service in the credit and saving aspects, as directed from the central regulatory authority the major source of finance for SMEs are MFIs, finance from bank to SMEs is available where the MFIs does not reach to addressed all the demand of SMEs. The response from the bankers at the commercial bank of Ethiopia indicated that banks mainly focused on providing credit for MFIs by allocating the percentage share to be disbursed for SME customers in addition to the credit services delivered through the commercial bank for other investment and business activities. And MFIs credit officer also assured that in addition to own saving from customers, funds from different partner banks like commercial bank of Ethiopia, development bank of Ethiopia, Dashen bank, etc. are their main sources of finance whether they are used for loan to SMEs or other credit services.

On the other hand private owned banks like Dashen bank, Addis International bank, etc. serve the SMEs directly through allocating and delivering finance used as a credit for SMEs. All the surveyed banks including commercial bank of Ethiopia and MFIs have long period customers of SMEs operating on different sectors of businesses.

➤ **The procedure in accessing finance by SMEs at bank and MFIs**

It has been suggested that several criteria are considered by loan officers when assessing loan applications especially from SMEs. There is no doubt that understanding such criteria used by bankers and loan officers in their assessment of SMEs loan propositions and applications can provide crucial insights to SME borrowers when applying for loans from bank and MFIs. To capture the perceptions of the bankers and loan officers at Bank and MFIs on such criteria when assessing SMEs loan applications this section of the interviews had focused on gathering information on the eligibility criteria which considered when making decisions on accepting finance applications from SME clients. Major criteria's asked by the loan officer includes,

▪ **The Profitability of the Business**

In general, under normal circumstances, bank and MFIs grant loans to a profitable or potentially viable business. In this respect, SMEs is no exception. The findings of the current study reveal that the profitability of the project for which the fund is being sought seems to be a top factor. Profitability here means that the granted loan must generate profit for the bank and MFIs.

▪ **Business Plan**

It is acknowledged in the literature that business plan is strategically important in bridging the gap of information asymmetry problems in SME lending. In the same vein, in the current study, the provision of a business plan seems to be among the top lending criteria identified during the interviews with the bankers and loan officers. The majority of the interviewee argued for the significance of a good business plan supporting the loan application in the evaluating process of that particular application.

▪ **The Provision of Collateral**

Findings from the interviews reveal that in assessing SMEs loan applications the existence of collateral is vitally important. There was an agreement between the interviewees in their views that collateral security is central for considering SMEs' loan applications. It was indicated that the provision of collateral is a requirement by the bank and MFIs' credit policy. Moreover, it was inferred by the interviewer during the discussions with the participants that if no collateral can be provided then the probability of rejecting the loan application is very high. Normally, collateral

requirements by Banks are in the form of physical fixed assets, especially house, land, machinery, and equipment. However, according to some loan officers at MFIs, in some cases personal guarantees/commitments are also accepted (group collateral and personal guarantee that has a constant income like monthly salaries could be accepted in loan application).

➤ **The demand and supply of finance between these two business sectors**

According to the response from the interviewees, there is a large demand on finance from the SMEs sides operating on different business sectors, the major problem in addressing the loan demand of SMEs were the requirement banks asked and strictly methods followed to be fulfilled by the SMEs before the application of credit at banks, these issue may be slightly smooth at MFIs since the regulatory party enforced the MFIs to look after different options and approaches to reach SMEs demand for credits. As indicated on the demand sides of the surveyed questionnaire, finance was one of the major problem and obstacles for SMEs to well run their business objective, collateral issue was a key to access finance both at bank and MFIs.

➤ **The repayment status of SMEs and the overall support & follow up on the finance from bank &MFIs perspective**

With regard to the repayment status and the overall support & follow up on SMEs finance, the interview result showed us banks repaid almost all the credit available for SMEs within the time schedule agreed up on, very small amount of credit become unpaid by SMEs according to their agreements. Respondents stated that all the credit by the banks available for SMEs were based on the criteria sated to be eligible in financing SMEs.

On the other hand responses collected from MFIs side have two figures, according to the respondents at Addis Credit and Saving Institution which is one of the largest MFI operating in almost all parts of Addis Ababa and the major sources of finance for SMEs indicated that there is a gap in the repayment process of SMEs' credit and the last few years report on SMEs' repayment of credit shows that almost half of SMEs received the loan fails to repay their loan according to the agreement signed between the two parties. According to the interviewees, the main reason for SMEs to fail on repaying their credit on time is their establishment and weak follow up system from the establisher organ in the government sides (Addis Ababa city

government job creation and enterprise development bureau). Some of the SMEs were not adequately fulfill the criteria to be formed as a SMEs, others were changed their objectives and operating on different business out of their domain, SME's weak fund management and financial records, lack of ownership for their property, weak marketing channels, lack of enough skilled man power were mentioned from MFI officers made them to be weak in repaying their credit based on the agreed time frame. These leads to made obstacle SMEs' in getting additional credit from MFIs, according to the respondents at ADCSI, there is no enough communication system between different government offices working on the sectors, especially between Addis Credit and Saving Institution who are providing the larger share of SMEs loan and that of the SMEs establisher at Addis Ababa, (City Government Job creation and Enterprise Development Bureau).

➤ **Other related issues raised on the interview includes**

▪ **Credit Decision Making and Approval**

Credit decision-making at Bank and MFIs with respect to loans to SME clients, the decision of Bank and MFIs to grant loans to SMEs is based on the formation of opinion by loan officers on the potential borrower and his/her loan application. This opinion formation, in turn, is based on the evaluation of the applicant's creditworthiness and the prospects of the business. It starts with the customer approaching the branch with the application which must not be in conflict with the bank and MFIs' lending policies and guidelines. Generally speaking, the application from the customer should contain: The purpose of the loan requested, the amount of the loan requested, mode of repayment, source of repayment, proposed security, etc.

▪ **Reasons for Rejection of SME applications**

After discussing the criteria used by Bank and MFIs in assessing loan applications from SME clients the interviews had proceeded to discuss the main reasons for declining SMEs' loan applications. It is noteworthy here that in terms of practice even though that the final decision to grant loans to SMEs is made at the district and sometimes at the head office level the bankers and loan officer at Bank and MFIs branch level have some authority to reject applications from SME clients at earlier stage. The main aim of the question asked was to identify what factors that

causes the applications from SME applicants to be rejected. Specifically, the bankers and loan officers were asked to identify the most frequent reasons for SME proposals being rejected.

The interviewed bankers and loan officers made frequent reference to collateral-related reasons as common factors that the financing proposals from SME clients are rejected. Respondents mentioned that the bank and MFIs expects collateral security from loan applicants to secure the requested loans. Subsequently, the failure of the applicants to provide or prepare a suitable security for financing simply means that their loan applications to be declined.

Another factor mentioned by the respondents which frequently leads to the rejection of the application of financing was the type of the business activity itself. It was emphasized that the bank and MFIs is not keen to finance certain businesses or industries because of high risk involved with them.

Poor indication of the capacity of the potential borrower is another common factor for rejecting SMEs loan applications, poor financial records, firms business plan, poor administration of firms were among the factors lead to the rejection of loan applied by the SMEs.

▪ **Credit Products Offered to SMEs**

Accordingly, information about the types of financial products Bank and MFIs offers to its SME clients were sought through discussions with the bankers and loan officers as well as from reviewing some relevant bank documents. Some of the credit products offered include:

- ✓ **Term loans:** these loans are used to acquire fixed assets (immovable properties i.e. land and buildings, as well as commercial vehicles). Such loans can be short term (within 18 months), medium term (up to 3 years) and long term (more than 3 years up to 10 years).
- ✓ **Working capital loans:** this type is used for the ongoing cash needs of the business. Both short-term loans and medium-term loans can be categorized as working capital loans as well.
- ✓ **Industrial hire-purchase:** this type is very common and is sought by SMEs to acquire capital assets such as equipment and machineries. In this type the asset is purchased by

the bank & MFIs and hired to SMEs with the ownership being retained by the bank until the loan is repaid via predetermined periodic repayments.

- ✓ **Overdrafts:** used by account holders usually to meet urgent working capital needs i.e. payment of salaries, purchases, utilities etc. this type is also considered as a source of short-term funding.
- ✓ **Fund from partners:** some funds obtain from different internal and external sources which are targeting SMEs to recover their short and long term financial demands; this kind of loan may be different from others in their interest and repayment systems.
 - **Professional suggestion and recommendation to solve challenges facing SMEs on the access of finance.**

Contrary to the conventional perception that banks are not interested in serving SMEs, the results of this chapter show that Bank does engage largely in serving this sector in addition to the MFIs who are mainly focused on financing SMEs. This interest is mainly driven by the business objective of profit pursuing since this segment is perceived as profitable with promising prospects. In terms of the hurdles, however, some issues typically characterizing SMEs such as moral hazard, lacking of collateral, and asymmetry of information were mentioned. In addition, two other issues which are particularly distinctive for the setting of this study; economic and political instability and centralization of the bank were also cited among the obstacles.

The financial products offered by bank to serve SMEs are in the form of term loans (short, medium and long), loans for working capital purposes, industrial hire purchase, and overdrafts. Moreover, MFIs working much on the sectors by upgrading their approach and policy framework to closely serving the sectors, beside these respondents suggested that the establisher and follow up unit of the government body should take the responsibility in making the business unit more formal and easy for communication, for instance some of the simple factors mentioned by the interviewees that lead the SMEs loan application to be rejected were lack of proper financial records, ownership right for their short and long term properties, adequate work place and working situation, lack of value chain among the involved actors to access both the market opportunity and to address their input needs, lack of close communication between different responsible government officials.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter deals with the summary, conclusions and recommendations. For transparency purpose, the summary from Major Findings and the conclusions are based on the research objectives of the study. Recommendations are made to government bodies, to operators of SMEs, to finance providers and suggestion for other researchers.

5.2 Summary

The purpose of the study is to assess factors affecting Access to Finance for Small and Medium Size Enterprises (SMEs) in Nifas-Silk Lafto Sub-city, Addis Ababa. The research was guided by the following objectives: To examine the financing needs and financing options of SMEs in Nifas-Silk Lafto Sub-city, Addis Ababa, to identify the key drivers SME bank financing, to identify the key constraints of SMEs access to finance, and to examine the extent of banks and MFIs involvement with SME finance.

The research design used in this study was explanatory in which cross sectional survey design has been adopted. Following the data collection phase, the data gathered via questionnaire was inputted & processed via Statistical Package for Social Sciences (SPSS). And the rest quantitative data was analyzed using descriptive statistics such as frequency, percentage, table and graph. Moreover, a binary logistic model which is best fits the analysis for determinant of access to formal finance was employed. Qualitative data obtained through interviews was analyzed through qualitative analysis method which involves some essential steps.

The cause and effect relationship of firm's age, firm's size, and firm manager's experience on access to finance will be analyzed using simple correlation and regression analysis, & ANOVA respectively. Factors like access to finance; collateral requirement, availability of information on funding opportunity, and firm's business plan that are preventing SMEs from accessing credit were measured using a 5-point Likert scale.

According to the City Government of Addis Ababa Job Creation & Enterprise Development Bureau there is 36,353 SME's working on Manufacturing, Construction, Trade, Service & Urban agriculture at Addis Ababa region. The population of interest for this survey was SMEs, 5,055 in number spread all over the 13 woredas of Nifas-Silk Lafto Sub-city. The total sample size (200) was collected using (Yamane Taro's, 1967: 886) sampling formula. Data was analyzed using descriptive statistics and Statistical Package of Social Sciences (SPSS).

The study was focused on firm's age, firm's size, manager's experience, collateral requirement, accessibility of information on fund opportunity, and firm's business planning their effect on access to finance from formal financial institutions.

Survey result on the respondent's profile indicated that out of the total respondents 32.73% were female the rest are male owner/managers, employee/manager or shareholder of the SMEs. As it can be observed from the demonstration, 49.1% of the SME administered by owners which contributes 16.36% and 32.73% female's owner and male manager, respectively which indicates females are also participant in the SMEs as owner which is encouraging with the aspect of empowering female entrepreneurs'.

On the other hand as figured on the discussion regarding the educational background, the highest frequency was for education levels of high school graduated (9-12) with 37.27%. Owner, employee & shareholder managers with professional diplomas and degree accounted for 26.36% and 20% of the sample, respectively. None of the sample respondents categorized under the illiterate group and finally, only 11.8 and 4.55% of respondents accounted under education levels of junior school (below grade 8) and Masters Holders respectively and make them the least frequent category.

The type of businesses on which the research was conducted were consisting of five sectors, namely manufacturing, construction, trade, service and the urban agricultural. From the survey result, 40.9% are engaged in manufacturing sector and followed by the agricultural and trade sectors which accounted 27.3% and 20%, respectively. The service and construction sectors accounted for a small share which has 8.2% and 3.6% of total sample respondent each. This

shows that most of SMEs engaged in manufacturing, agriculture and trade activities which were pretty good represented in the sample size of this study.

Descriptive statistics result indicates that, the findings on firm's age and access to credit, the results of the binary logistics model indicated that young and infant SMEs under the age of 2 and less are 1.50 times less likely to access credit from formal financial institutions than those between the ages of 2-5 years. Results on the employee sizes of SME towards access for credit were found that there was no significant effect on their opportunity to obtain loan from formal financial institutions. On the other hand SME's that have well experienced managers can easily be accessed to finance from formal financial institutions, SME operators or managers with high business experience (4-6 years) were 2.54 times more likely to access credit from formal financial institutions than those who has 3 and less years.

The findings on collateral requirement & access to credit, three factors considered in the measurement & the result revealed that respondents overall agreed by the mean & standard deviation of (M= 1.9, SD= 1.17). This implies that in general collateral was highly limited to access finance at formal financial institutions.

Information access on fund opportunity and access to credit, four factors considered in the measurement and the result revealed that respondents aggregate neutral by the mean and standard deviation of (M= 3.25, SD= 1.2). The flow of information in the financial market is crucial for both SMEs and financial providers.

In addition, respondent also overall agreed on credit has a positive effect on business planning and access to credit at formal financial institutions. Six factors considered in the measurement and resulted that respondents aggregated agreed by the mean and standard of deviation of (M= 2.1, SD= 1.1).

Under the supply side factors affecting SME's access to finance (Interview Analysis), the study conducted interview with the participants to the questions focusing on Bank & MFIs experience and practices in financing SMEs are discussed. Specifically, the interview deals with the responses given from the respondents for raised questions including whether bank & MFIs have

SMEs customers, the procedure of accessing finance by SMEs at bank & MFIs, etc. According to the result of interview, both of the responses collected from bankers & loan officers showed that there are a lot of SME customers gets service in the credit & saving aspects, as directed from the central regulatory authority the major source of finance for SMEs are MFIs, finance from bank to SMEs is available where the MFIs does not reach to addressed all the demand of SMEs. It has been suggested that several criteria are considered by loan officers when assessing loan applications especially from SMEs. To capture the perceptions of the bankers and loan officers at Bank & MFIs on such criteria when assessing SMEs loan applications, Major criteria's asked by the loan officer includes, the profitability of the business, business plan, the provision of collateral and Other criterion's required for SMEs in applying for credit at bank and MFIs includes; the purpose of the loan, type of business they are going to run, the applicant's credit history, business experience, etc. was major considerations. On the other hand the response for the question asked on the major reasons for rejection of SME applications refers to collateral-related reasons as common factors that the financing proposals from SME clients are rejected. Another factor mentioned by the respondents which frequently leads to the rejection of the application of financing was the type of the business activity itself.

5.3 Conclusion

This study has discussed demand and supply side research specifically conducted with SMEs, banks & selected MFIs on SMEs access to finance. The research started by first identifying the demand side problem of access to finance & then goes on to investigate the supply side focusing on banks' & MFIs' engagement with SME financing. To explore the demand side determinants of SMEs access to finance, detail questions on firms' access to finance were asked. The questionnaire was administered on 200 SMEs drawn from one of the sub-city (Nifas-Silk Lafto) in Addis Ababa. Both descriptive & econometric techniques were used to analyze the data. The demand side findings and analysis revealed that access to finance is significantly influenced by the age of the firm, size of the firm, experience of the manager, collateral requirements, access to information on fund opportunity and the firm's business plan.

Respondent firms were distributed within five major economic sectors: manufacturing, construction, trade, service, and urban agriculture. Similarly on the supply side, private and state owned banks and MFIs were included in the survey. A separate interview questionnaire was prepared for the financial institutions.

Access to finance is one of the key obstacles of SMEs not only when starting the business project but also when operating. Identifying the major determinants of access to finance is therefore quite crucial. The results of the binary logistics model indicate that SMEs their age were 2-5 years are 1.500 times more likely to access credit from formal financial institutions than that age group of 2 years and less. The probability of access to credit from formal financial institutions also increased as the level of manager's business experience increased, an experience of >6 years taking as a reference, the result indicated that managers having an experience between the years of 4-6 are 2.538 times less likely to access credit from formal financial institutions than those with age of >6. As contrary to different scholars finding, the study resulted on SMEs employment size has no significant effect on SMEs access to credit from formal financial institutions when comparing different employment sizes of SMEs.

According to the survey access to finance and its availability influenced by limited access to information on who is offering credit facilities and where are the major sources of different funds, having an aggregate all factor together have an influence in access to finance and its availability with a level of neutral ($M= 3.25$, $SD= 1.2$). The flow of information in the financial market is crucial for both SMEs and financial providers (Falkena et al., 2001).

Another major determinant for denied SMEs access to finance at banks & MFIs were firm's not having type of collateral required with an aggregate level of agree having ($M= 1.9$, $SD= 1.17$). This implies that access to finance was highly limited by strict collateral requirements. It is obvious that most SMEs are denied & discriminated by the lenders in provision of financing because of high risk and for not having adequate resources to provide as collateral.

Taking the findings, the study concludes that the major source of startup finance and also working capital is own savings. The major source of credit for startup on the other hand is family

& friends followed by MFI and “equib”. The major source of credit for working capital is also informal financial institutions. Age of the firm, manager business experience, firm’s access to information on fund opportunity, collateral requirements, and firm’s business plan had statistically significant effects on access to credit from formal financial institutions. In contrast, as a result of the small size of employee in the targeting sample SMEs, employee size had no significant effect on SMEs’ access to credit from formal financial institutions.

On the other hand the finding from the supply side, in our case MFI & banks shows that the major financial products offered by Bank & MFIs to serve SMEs are in the form of term loans (short, medium & long), loans for working capital purposes, industrial hire purchase, and overdrafts. Moreover the respondents argued that for factors that lead the SMEs loan application to be rejected were lack of proper financial records, lack of adequate collateral, ownership right for their properties, SMEs poor management of risks and informalities of SMEs are the major obstacles to their engagement with SMEs. Another important issue to note is that MFIs are more engaged with financing SMEs than banks. Out of those who had access to finance from formal institutions, more than 39% had their access from MFIs. Only close to 2% had their finance from banks of sample SMEs surveyed.

5.4 Recommendation

In spite of the enormous importance of the small and medium enterprises (SMEs) sector to the Ethiopian economy with regards to job creation and the alleviation of abject poverty, the sector is facing financial challenges, which impeded its role in the economy. There are various factors that affect access to finance of SMEs. Recognizing their heterogeneity and devising policies and support programs to alleviate these problems is quite important. Appropriate understanding of these factors is therefore important in order to solve financial needs of SMEs and help them prosper and achieve their objectives in creating employment and alleviating poverty. It will also help the government and nongovernmental organizations to formulate policies and strategies that work towards meeting the financial needs of SMEs. On the basis of the findings and conclusions reached, the following recommendations have been forwarded.

From the Government agencies perspectives (Agencies administrating the SMEs)

- Age of the firm has a significant effect on SME access to credit. It is therefore important to encourage young SME operating business to participate in credit market and compensate their lack of experience with pertinent training and by follow up of proper implementing different working policy and strategies.
- Manager's business experience has enormous effect on access to credit from formal financial institutions. Concerned bodies of both the government and non-governmental institutions should work to create awareness and facilitate the provision of additional training for those with lower experience level (i.e. start-up entrepreneurs with little period business knowledge).
- It is important to facilitate & work to-gather with different stakeholders in-order to relax and looking over different approach and strategy on which other relevant collateral type should be considered for SMEs in acquiring credit from formal financial institution, there are different promising ideas generated from the regulatory organ, National bank of Ethiopia to enforce the financial institutions to allocate a certain amount of finance per year for SMEs & to relax their requirements in closely financing SMEs. City Government of Addis Ababa Job creation & Enterprise Development Bureau, Nifas-Silk Lafto sub-city & Woredas SME development agency should therefore work in this regard.
- On the other hand, City Government of Addis Ababa Job creation & Enterprise Development Bureau, Nifas-Silk Lafto sub-city and the respective woredas in the sub-city should also focused on the growth and development of SMEs, this is because growth in number of employees is one of the indicators of SMEs growth and in order to grow SMEs should have adequate access to finance. Even though the current policy of the government emphasizes the support provided to manufacturing and construction access to credit is still limited for these sectors. Considering the potential for large employment opportunities within these sectors, proper implementation of current policies and alleviating pitfalls in provision of finance to these should be thoroughly considered.
- Beside these most of the interviewees at the financial institutions and also the manager's at SMEs highly stressed on the issues regarding the control and follow up of all the

activities of the SMEs starting from the establishment up to the final steps of the sectors, and mainly reflected an ideas that there is no enough control on the establishment as well as the development of the sectors to the next steps, this may open the ways for different challenges currently the sectors facing in.

Financial professionals at bank, MFIs and SME managers advised that the government with their different development partners take the initiation and responsibilities to improve the currently SMEs facing challenges, including; lack of appropriate follow up and control, lack of ownership right for their property, enough working and marketing places, lack of enough skill manpower to handle financial records, etc.

From MFI, Bank and other financial institutions perspectives

- Addis Credit and Saving Institution who are the dominant supplier of finance for SMEs should revise and evaluate all the strategies and policies currently implemented to address financial demand of enterprises, this is because the result of interview indicated that there is a big challenge in proper collection of disbursed loan according the agreement made between the lender & the borrowers. In fact the study revealed that there were different promising starting activities both in the revision of the existing lending policies and strategies working on enterprise finance and evaluating past experiences to identify the major bottlenecks on the sectors. Other MFIs like Nisir microfinance who are closely serving the sectors should increase their outreach from the currently limited less than ten branches in Addis Ababa, and not more than two branches in the study district, moreover it is better to work in collaboration with different non-governmental organization who have an interest to work on the capacity building for the participants in the small enterprise businesses.
- Different state and private owed banks like commercial bank of Ethiopia, Dashen bank, Addis International bank, etc. are serving the SMEs access to finance at different district and their respective branches, beside their huge effort made in addressing an increasing demand of SMEs access to finance, collateral issue were a central which makes barrier for SMEs access to finance in a better and satisfactory means. With this regard Bankers at

Dashen bank, Commercial bank of Ethiopia and Addis International bank reported on the interview that enterprise development finances were their major concern and they were done a lot on the sectors, moreover the financial outreach on addressing the sectors increasing from year to years, the respondents indicated that they are planning to implement a new direction on which the authority organ the National bank of Ethiopia passing a circular to the financial institution to look on emphasis the enterprise development sectors.

From SME perspectives

- There are a lot of efforts done by different stakeholders who are working on the SMEs sectors, different scholars who are conducting research on the sectors at Ethiopian (Addis Ababa) levels identified that there was a great potential in the sectors and a lot of efforts made to improve the sectors to contribute its share in the alleviation of poverty and to support the economic growths. But still the sector demanded for finance & other technical supports from the stakeholders especially from finance providers like banks & MFIs.

From the demonstrated SMEs a large number of them stand at promising levels with their different internal and external problems. During the discussion most of SME manager's raised issues that they did not have any formal organization formed by the members who are fighting for their rights. The markets were not allowed them to compete with the currently increasing price of production materials and labours. Therefore it is important that all the concerned parties should play their role in solving the problem & support SMEs to establish a formal representative organ at the government/ private levels.

Reference

- Admasu A.** 2012. Factors Affecting the Performance of Micro and Small Enterprises in Arada and Lideta Sub-Cities, Addis Ababa. A Thesis submitted to the school of graduate studies of Addis Ababa University in partial fulfillment of the requirements for the Master of Business Administration degree Addis Ababa University, Ethiopia.
- Africa Practice,2005.** Access to finance: Profiles of African SMEs. Working paper prepared for Jetro London. Online, available at:
- Ayyagari, M., Beck, T., & Demirguc-Kunt, A. (2003).** Small and Medium Enterprises across the Globe : A New Database (Vol. 3127). Washington D.C. World Bank.
- Beck, T.,Cull, R. 2014.** Small- and medium- sized enterprise finance in Africa. World Bank Policy Research Working Paper 7018.
- Beck, T., Demirgüç –Kunt, A., Maksimovic, V., 2008.** Financing patterns around the world: Are small firms different? *Journal of Financial Economics* 89: 467-487.
- Beck, T., Demirguc-Kunt, A., Laeven, L., Maksimovic, V., 2006.** The Determinants of Financing Obstacles. *Journal of International Money and Finance* 25: 932–52.
- Berger A.Nand Udell G.F. 1998).** The economics of small business finance: The role of private equity and debt markets in the finance growth cycle. *Journal of Banking and Finance.* 22(6-8): 613-73.
- Brehanu Borji (Prof.)and Mesfin Gashu, 2015.** Factors Affecting Access to Finance With Reference To Micro and Small Enterprise in Dilla Town, Ethiopia.
- Brhane, T. (2014).** Access to Finance for MSEs in Debre Markos Town. *Global Journal of Current Research,* 12, 36-46.
- Carter, S., & Jones-Evans, D. (2006).** Enterprise and small business: Principles, practice and policy. Pearson Education.
- Caneghem, TV & Campenhout, GV. 2012.** “Quantity and quality of information and SME financial structure.” *Small Business Economics,* 39(2): 341-358.
- Carpnter, Robert E., and Bruce C. Petersen, 2002.** “Is the Growth of Small Firms Constrained by Internal Finance?” *The Review of Economics and Statistics,* MIT Press, 4(2): 298-309.
- Cassar, G.2004.** The Financing of Business Start-Ups. *Journal of Business Venturing,* 19(2), 261-283.

- Collis, J., & Hussey, R. (2003).** Business Research: A Practical Guide for Undergraduate and Postgraduate Students (2nd ed.): Hampshire: Palgrave Macmillan.
- Cole, R. A. (1998).** The Importance of Relationships to the Availability of Credit. *Journal of Banking & Finance*, 22(6), 959-977.
- Coleman, S., & Cohn, R. (2000).** Small Firms' Use of Financial Leverage: Evidence from the 1993 National Survey of Small Business Finances. *Journal of Business and Entrepreneurship*, 12(3), 81-98
- Cook, P. and Nixon, F. (2000).** Finance and Small and Medium Enterprise Development. University of Manchester: School of Economic Studies, Institute for Development Policy and Management.
- Cooper, D. R., & Schindler, P. S. (2003).** Business Research Methods (7th ed.). McGraw Hill International.
- Creswell, J., 2003,** Research design: Qualitative, quantitative, and mixed methods approach.
- Creswell J. W. 2009.** Research Design: Qualitative, Quantitative, and Mixed Methods Approaches. 3rd edition. Landon. Sega publications.
- Creswell, J.W. (2014).** Research design: qualitative, quantitative, and mixed methods approaches. 4th ed. V. Knight et al., eds., Washington D.C.: SAGE Publications. Available:
- Deakins, D., North, D., Baldock, R., Whittam, G. 2008.** SMEs' access to finance: Is there still a debt finance gap? Institute for Small Business & Entrepreneurship. Online, available at:
- Demirguc-Kunt, A., Love, I., Maksimovic, V., 2006.** Business environment and the incorporation decision. *Journal of Banking and Finance*, 30: 2967-93.
- Dunne, P., and A. Hughes (1994),** "Age, size, growth and survival: UK companies in the 1980s" *The Journal of Industrial Economics*, 42, 115– 140.
- Ellen Taylor-Powell and Marcus Renner (2003).** Analyzing Qualitative Data. University of Wisconsin-Extension.

European Commission. (2005). The new SME definition. Official Journal of the European Union (October), pp.1–52. Available at:

Falkena, H., Abedian, I., von Blottnitz, M., Coovadia, C., Davel, G., Madungandaba, J., Masilela, E., & Rees, S. 2001. SMEs access to finance in South Africa - a supply side regulatory review. Pretoria, South Africa: Policy Board for Financial Services and Regulation.

Federal Democratic Republic of Ethiopia 2011/12, Annual Progress Report.

Federal Micro and Small Enterprises Development Agency Establishment council of Ministers (2011: 5766). Federal Negarit Gazeta of the federal democratic Republic of Ethiopia. Regulation No. 201/2011, Addis Ababa.

FEMSEDA, 2015. MSED Sector Statistical Bulletin_N0.2_2010/11-2013/14.

Fetene Zerihun. 2010. Access to Finance and Its Challenge for Small Business Enterprises: Case of Addis Ababa City, A Master’s thesis, AAU, Addis Ababa Ethiopia.

Garrett, J. F. (2009). Bank and their customers. New York: Dobbs Ferry: Oceana Publications.

Gitman, L. J. (2003). The principles of managerial finance. 7th ed. New York, New York: Pearson Education Inc.

Government of Federal Democratic Republic of Ethiopia(GFDRE). 2011. MSEs development, support scheme and implementation strategies. Addis Abba, Ethiopia.

Gujarati, D. N.2004. Basic Econometrics.4th edition. McGraw-Hill Book Company. New York.

Hagos, Yared Haftay,2012. Small and Medium Enterprise in Ethiopia: The Challenges and Prospects.

Hernandez-Canovas G., Koeter_kant, J., 2008. Debt Maturity and Relationship Lending: An analysis of European SMEs. Online, available at:
http://staff.feweb.vu.nl/jkoeter/default_files/FinalMarch2000.pdf (Accessed on 11 Nov. 2021).

<http://webcache.googleusercontent.com/search?q=cache:RTznEIVI9eMJ:www.isbe.org.uk/content/assets/BP08-DavidDeakins.pdf+&cd=1&hl=en&ct=clnk>, (accessed on 05 Nov. 2021). <http://www.africappractice.com/uploads/JETRO.pdf> (Accessed on 10 Nov. 2021).

Irwin, D., & Scott, J. M. 2010. Barriers Faced by SMEs in Raising Bank Finance. *International Journal of Entrepreneurial Behaviour and Research*, 16(3), 245-259.

ITC.(2009). How to Access Trade Finance.A Guide for Exporting SMEs. Geneva: International Trade Center.

Kihimbo, B. W., Ayako, B. A., & Omoka, K. W. (2012). Collateral Requirements for Financing of Small and Medium Enterprises (SMEs) in Kakamega Municipality, Kenya. *International Journal of Current Research*, 4(6), 21-26.

Klapper, L., Laeven, L., Rajan, R., 2010. Entry regulation as a barrier to entrepreneurship. *Journal of Financial Economics*, 82(3): 591-623.

Kumar, A.,Francisco, M., 2005. Enterprise size, financing patterns and credit constraints in Brazil: Analysis of data from the Investment Climate Assessment Survey. World Bank working paper no. 49.

Mago, S., & Toro, B. (2013). South African government’s support to small, medium microenterprise (SMMEs): the case of King William’s Town area. *Journal of economics*, 4(1), 19-28.

Mahembe E.2011. Literature review on small and medium enterprises’ access to credit and support in South Africa.National Credit Regulator (NCR).Compiled by Underhill Corporate Solutions (UCS).

Martin M. Musamali and Daniel K. T. 2013. Does Firm Profile Influence Financial Access among Small and Medium Enterprises in Kenya? *Asian Economic and Financial Review*, 2013, 3(6):714-723.

Martinez Peria, M.S.,2009. Bank Financing to SMEs: What are Africa’s Specialties? *Private Sector Development Proparco’s Magazine*.

MOTI (1997). Micro and Small Enterprise Development strategy, The Federal Democratic Republic of Ethiopia Ministry of Trade and Industry: Addis Ababa.

- Mullei, A., &Bokea, A. 2000.** Micro and small enterprises in Kenya: agenda for improving the policy environment. Nairobi: I.C.E.G.
- National Bank of Ethiopia (NBE),2011.** Annual Report 2010-11. Addis Ababa, Ethiopia.
- National Bank of Ethiopia** Internal report, 2016, unpublished.
- Nguyen, N., & Luu, N. (2013).** Determinants of Financing Pattern and Access to Formal/Informal Credit: The Case of SMEs in Viet Nam. *Journal of Management Research*, 5, 240-259.
- Nguyen, L.T. How Do Credit Constraints Impact Innovation?** Ph.D. Thesis, Department of Accounting, Finance and Economics, Griffith University, Mount Gravatt, Australia, 2018.
- Ngoc, T., Le, T.,Nguyen, T., 2009.** The impact of networking on bank financing: The case of small and medium enterprises in Vietnam. *Entrepreneurship Theory and Practice*, 33(4): 867-887.
- Nieman, G.hough, J. and Nieuwenhuizen. C. 2008.** *Entrepreneurship South Africa* perspective. Addis Ababa: Kuraz publishing enterprise.
- Nott, L., 2003.** The role of information in lending: The cost of privacy. Congressional Research Report, the Library of Congress, May.
- OECD (Organization for Economic Co-operation and Development)(2004):** SME and entrepreneurship outlook, Paris.
- Petersen, M. A., & Rajan, R. G. (1994).** The Benefits of Lending Relationships: Evidence from Small Business Data. *Journal of finance*, 49(1), 3-37.
- Romano, C. A., Tanewski, G. A., & Smyrnios, K. X. (2001).** Capital Structure Decision Making: A Model for Family Business. *Journal of Business Venturing*, 16(3), 285-310.
- Rozali, M.B., Taib, H.M., Latif, F.A. and Salim, M. (2006),** “Small firms’ demand for finance in Malaysia”, Proceedings of International Conference on Business and Information (BAI), Singapore, July 12-14.

- Scherr, F. C., Sugrue, T. F., & Ward, J. B. (1993).** Financing the Small Firm Start-up: Determinants of Debt Use. *The Journal of Entrepreneurial Finance*, 3(1), 17-36.
- Schiffer, M., and B. Weder (2001).** Firm size and the business environment: worldwide survey results. Discussions Paper, No. 43, International Finance Corporation. Washington, D.C.
- Schmitz, H., 1982.** Growth constraints on small scale manufacturing in developing countries: A critical review. *World Development*, Vol. 10: 429-450.
- Selamawit. 2014.** Determinants of Access to finance of Small and Micro Enterprises: Case of Assela town. MSc Thesis Development Economics. Mekele University, July, 2014.
- Sena, V., Scott, J., & Roper, S. (2012).** Gender, Borrowing Patterns and Self Employment: Some Evidence for England. *Small Business Economics*, 38(4), 467-480.
- Storey, D. J. 1994.** Understanding the Small Business Sector. Thomson Learning Emea.
- Tambunan, Tulus (2006).** Development of Small and Medium Enterprises in Indonesia from the Asia-Pacific Perspective: A Literature Review and Case Study of Indonesia, Jakarta, and University of Trisatki, Indonesia. Working Paper No. 42 pp.111-160.
- United Nations (2002).** Investment and Innovation Policy Review Ethiopia. United Nations Conference on Trade and Development, New York and Geneva, United Nations
- United Nations Development Programme (UNDP) (2001)** ‘Financing for Development’ International Conference on Financing for the development, Facilitators Working Paper: http://www.UN.org/esq/ffd/0501pc_facilitators.htm.
- Wangui, A. J.;Njeru, A.&Ibrahim, O.(2014)** Challenges Facing Micro and Small Enterprises in Accessing Credit Facilities in Kangemi Harambee Market in Nairobi City County, Kenya. *International Journal of Scientific and Research Publications*, 4(1), 2250–3153. Retrieved from www.ijsrp.org
- Wanjohi, A., & Mugure, A. (2008).** Factor Affecting the Growth of MSEs in Rural Areas of Kenya: A Case of ICT Firms in Kiserian Township, Kajiado District of Kenya.
- Warde, I. (2000).** The Revitalization of Islamic Profit-and-loss Sharing. Paper presented at the Harvard University Forum on Islamic Finance.

Woldie, A., Mwita, J.I., and Saidimu, J., 2012. Challenges of microfinance accessibility by SMEs in Tanzania. *Thunderbird International Business Review*, July-August, 54(4).

World Bank, 2015. SME Finance in Ethiopia: Addressing the Missing Middle Challenge (English). Washington, DC: World Bank Group.

Wright, R. E., 1995. Logistic Regression: Reading and understanding Multivariate Statistics. American Psychological Association, Washington DC.

Wu, J., Song, J., & Zeng, C. (2008). An Empirical Evidence of Small Business Financing in China. *Management Research News*, 31(12), 959-975.

Zhang, G. (2008). The Choice of Formal or Informal Finance: Evidence from Chengdu, China. *China Economic Review*, 19(4), 659-678.

Appendix I: Survey Questionnaire for SMEs in Amharic version

ቅድስተ-ማሪያም ዩኒቨርሲቲ

የቢዝነስና ኢኮኖሚክስ ፋኩልቲ

ቢዝነስ አድምንስትሬሽን ትምህርት ክፍል

የተከበሩ የጥናቱ ተሳታፊ: የዚህ ጥናት ርዕስ **“FACTORS AFFECTING ACCESS TO FINANCE FOR SMALL AND MEDIUM SIZE ENTERPRISES (SMEs) IN NIFAS-SILK LAFTO SUB-CITY, ADDIS ABABA”** ነው።

ይህ ጥናት የሚከናወነው በቅድስተ-ማሪያም ዩኒቨርሲቲ በቢዝነስ አድምንስትሬሽን የድህረ ምረቃ ትምህርት ክፍል መመረቂያ ውጤት ለማሟላት ነው። የጥናቱ ዋና ዓላማ በአዲስ አበባ ከተማ አስተዳደር በንፋስ ስልክ ላፍቶክፍለከተማ ውስጥ የሚገኙ የአነስተኛና መካከለኛ ድርጅት /ተቋማት/ (**አመድ**) የብድር (የገንዘብ) ምንጭ እጥረት መንስህዎች የጥናት መጠይቅ ነው።

በዚህ መጠይቅ ላይ መሳተፍ ሙሉ በሙሉ በፈቃደኝነት ላይ የተመሠረተ ነው። መጠይቁ የተሳታፊውን ማንነት ሳይለይ ይመዘግብና ጥብቅ በሆነ ሚስጥርነት ይጠብቃል። የያዘውን ተሳታፊ መልሶች በአጥኝው ጽሁፍ ላይ የመላሹ ማንነት ተገልጾ አይቀመጥም።

ይህን ዓላማ ለማሳካት ለሰዎችሁት ውድ ጊዜና ጉልበት ትልቅ አድናቆት የምንሰጠው ሲሆን፤ የምትሰጡት ምላሽ ለጥናቱ ግብ እጅግ አስፈላጊ በመሆኑ፣ ለሁሉም ጥያቄዎች አጥጋቢ ምላሽ ለመስጠት 15 ደቂቃ የሚሆን ጊዜ ለዚህ ጉዳይ እንድታውሉ ስጠይቅ በታላቅ አክብሮት ነው።

ለበለጠ ማብራሪያ እባክዎን አጥኝውን በሚቀጥለው አድራሻ ያግኙት፡

ስልክ: +251-911 03 42 81

ኢሜይል: alemayehugebreab8@gmail.com

የአነስተኛና መካከለኛ ድርጅት/ ተቋማት (አመድ) የጥናት መጠይቅ

ክፍል 1 - አጠቃላይ የመላሹ መረጃ

1. ፆታ: ሴት ወንድ
2. የስራ ሁኔታ: ተቀጣሪ/ ስራ አስኪያጅ ባለ ሀብት/ ስራ አስኪያጅ ባለ አክሲዮን
3. የትምህርት ደረጃዎትን ግለፅ?
 - ሀ. የቀለም ትምህርት ያልወሰደ
 - ለ. ከ 8ተኛ ክፍል በታች
 - ሐ. ከ 9 – 12ተኛ
 - መ. ቴክኒክና ሞያ ሰልጣኝ/ ዲፕሎማ
 - ሠ. ዲግሪ
 - ረ. ማስተርስና ከዚያ በላይ
4. ስንት ዓመት የአስተዳደርነት (የማናጅመንት) ስራ ልምድ አለዎት?
 - ሀ. ከ 1 ዓመት በታች
 - ለ. ከ 1 – 3 ዓመት (< 3 ዓመት)
 - ሐ. ከ 4 – 6 ዓመት (< 6 ዓመት)
 - መ. ከ 7 – 10 ዓመት (< 10 ዓመት)
 - ሠ. 10 ዓመት እና ከዚያ በላይ
5. የድርጅትዎ የስራ ሐላፊ ማን ነው?
 - ሀ. የድርጅቱ ባለቤት
 - ለ. ተቀጣሪ የስራ ሐላፊ/ ደሞዝተኛ የስራ ሐላፊ
 - ሐ. ሌላ ሰው ይግለፁ

ክፍል 2 - አጠቃላይ የስራው/ የንግዱ መረጃ

1. የድርጅትዎ ዋና እንቅስቃሴ ምንድን ነው?
 - ፋብሪካ (ጨርቃጨርቅ፣ የቤት ጌጣጌጥ ማምረቻ፣ የእንጨት ምርቶች ማምረቻ፣ ወዘተ)
 - ግንባታ (ኮንስትራክሽን)
 - ንግድ ስራ

- አገልግሎት ሰጪ
- የከተማ ግብርና
- ማዕድን ፍለጋ.....
- ጅምላና ችግር ግጥም
- የጋራ ቤት ልማት (ኪራይ) (ሪልስቴት)
- ሆቴልና ቱሪዝም
- ሌሎች አገልግሎቶች

2. በአሁኑ ሰዓት በአማካይ በድርጅቱ ውስጥ ምን ያህል ቋሚና ጊዜያዊ ሰራተኞች አሉ? (በሁሉም አካባቢ/ በቅርንጫፍ ፅ/ ቤት ጨምሮ)

- ከ 1 - 10 ሰራተኞች
- ከ 11 - 50 ሰራተኞች
- ከ 51 - 150 ሰራተኞች
- ከ 151 - 300 ሰራተኞች

3. በአሁኑ ሰዓት የድርጅቱ የሀብት መጠን (Capital) ምን ያህል ደርሷል?

- ከብር 500,000 በታች
- ከብር 500,001 - 1,000,000
- ከብር 1,000,001 - 5,000,000
- ከብር 5,000,001 - 10,000,000
- ከብር 10,000,001 - 100,000,000

4. ድርጅቱ በዚህ የስራ ዘርፍ ላይ ለምን ያህል ጊዜ ቆይቷል?

- ከ 2 ዓመት በታች.....
- ከ 2 - 5 ዓመት
- ከ 6 - 10 ዓመት
- ከ 10 ዓመት በላይ

5. የድርጅቱ መነሻ ካፒታል ምንጭ ከየት ነው? (ከ 1 በላይ መልስ መስጠት ይችላሉ)

- U. ከባንክ ለ. ከቁጠባና ብድር ተቋም ሐ. ከገንዘብ አበዳሪዎች መ. ከራስ ቁጠባ
 ሠ. ከጓደኛ/ ቤተሰብ ረ. ከዕቁብ ሰ. ሌላ

6. ድርጅቱ የስራ ማስኪያጃ ምንጭ ከየት ነው? (ከ 1 በላይ መልስ መስጠት ይችላሉ)

ሀ. ከባንክ ለ. ከቁጠባና ብድር ተቋም ሐ. ከገንዘብ አበዳሪዎች መ. ከራስ ቁጠባ
ሠ. ከጓደኛ/ቤተሰብ ረ. ከዕቁብ ሰ. ሌላ

7. ድርጅቱ በዓመት ለምን ያህል ጊዜ ብድር ከዕጋዊ አበዳሪ ተቋም ያገኛል?

ሀ. በዓመት አንድ ጊዜ ለ. በዓመት ሁለት ጊዜ ሐ. በዓመት ሦስት ጊዜ መ. ምንም ብድር አልተበደረም ሠ. ሌላ

8. ባለፉት 3 ዓመታት ውስጥ ድርጅቱ ለዕጋዊ አበዳሪ ተቋም የብድር ጥያቄ አመልክቷል?

ሀ. አዎ ለ. አላመለከተም

9. ለተ.ቁ. 8 መልስዎ አዎ ከሆነ ለየትኛው ተቋም ነው ያመለከተው?

ሀ. ለባንክ ለ. ለቁጠባና ብድር ተቋም ሐ. ለሁለቱም መ. ሌላ

10. ባለፉት 3 ዓመታት ውስጥ ድርጅቱ ከዕጋዊ አበዳሪ ተቋም ብድር ተቀብሏል?

ሀ. አዎ ለ. አልተቀበለም

11. ለተ.ቁ. 10 መልስዎ አዎ ከሆነ ቀጣዮቹን ጥያቄዎች ይመልሱ.

i. ከየትኛው ድርጅት ነው የተቀበሉት?

ሀ. ከባንክ ለ. ከቁጠባና ብድር ተቋም ሐ. ከሁለቱም መ. ሌላ

ii. በዓመት/ በ 2 ዓመት ውስጥ የተቀበሉትን የብድር መጠን ይግለጹ?

iii. በዓመት የተቀበሉት የብድር ወለድ መጠን ይግለጹ? (በየብድር ዓይነቱ መግለፅ ይችላሉ)

iv. የብድሩን ዓላማ ይግለጹ?

v. የብድሩን የቆይታ ጊዜ ይግለጹ?

ሀ. ለስድስት ወር ለ. ለአንድ ዓመት ሐ. ለሁለት ዓመት መ. ሌላ

12. ዕጋዊ አበዳሪ ተቋማት የብድር ጥያቄዎችን ውድቅ አድርገውበት ያውቃሉ?

ሀ. አዎ ለ. አልተደረገም

13. ለተ.ቁ. 12 መልስዎ አዎ ከሆነ የትኛው ድርጅት ነው የብድር ጥያቄዎችን ውድቅ ያደረገው?

ሀ. ባንክ

ለ. ቁጠባና ብድር ተቋም

ሐ. ሁለቱም

መ. ሌላ

14. ለተ.ቁ. 12 መልስዎ አዎ ከሆነ ለምንድን ነው የብድር ጥያቄዎ ውድቅ የሆነው? (ከ 1 በላይ መልስ መስጠት ይችላሉ)

ሀ. በቂ ያልሆነ የብድር ዋስትና

ለ. የብድር መጠን

ሐ. የተበዳሪዎች የሂሳብ አያያዝ ድክመት

መ. የተበዳሪዎች የብድር አመላለስ ችግር

ሠ. የተበዳሪ ድርጅት ዕድሜ (ጀማሪ ድርጅት በመሆኑ)

ረ. የተበዳሪ ድርጅቶች ስራ አስኪያጅ የልምድ ማነስ (ጀማሪ የስራ አስኪያጅ)

ሰ. የድርጅቱ የመስሪያ አካባቢ ሳቢ አለመሆን (ርቀት)

ሸ. የድርጅቶች የንግድ ዕቅድ (Business plan) አዋጪነት

ቀ. ለአነስተኛና መካከለኛ ተቋም የተመደበ የተለየ ብድር የለም በሚል

በ. ከዚህ ቀደም አነስተኛና መካከለኛ ተቋማት ብድር ወስደው አልመለሱም በሚል

ተ. ለሁሉም የአነስተኛና መካከለኛ ተቋማት ዘርፍ ተመሳሳይ መጠን ያለው ብርመመደብ

ቸ. ሌላ

15. የድርጅትዎን የሂሳብ አያያዝ እንዴት ይገልጹታል?

ሀ. ምንም ዓይነት የሂሳብ አያያዝ ዘዴ አይከተልም

ለ. መጠነኛ የሚባል የሂሳብ አያያዝ ዘዴ ይከተላል

ሐ. ሥርዓት ያለው የሂሳብ አያያዝ ዘዴ ይከተላል

16. ድርጅቱ በ2012 ዓ.ም. በአማካይ ለምን ያህል ጊዜ ብድር ከዕጋዊ አበዳሪ ተቋም አግኝቷል?

ሀ. አንድ ጊዜ ለ. ሁለት ጊዜ ሐ. ሦስት ጊዜ መ. ከሦስት ጊዜ በላይ ሠ. ምንም ብድር አላገኘም ረ. ሌላ

17. በንግድ ስራዎ አካባቢ በቂ የሆኑ ዕጋዊ አበዳሪ ተቋማት አሉ?

ሀ. አዎ ለ. የሉም

18. ለተ.ቁ. 17 መልስዎ አዎ ከሆነ የትኞቹ እንደሆኑ ጥቀሱ?

ሀ. ባንክ ለ. ቁጠባና ብድር ተቋም ሐ. ሁለቱም መ. ሌላ

19. የአነስተኛና መካከለኛ ተቋማት የስራ እንቅስቃሴን እንዴት ይገልጹታል?

ሀ. በጣም ጥሩ ነው ለ. ጥሩ ነው ሐ. የሚስብ አይደለም መ. ሌላ

20. ድርጅታችሁ በይፋ የተለየ የንግድ ዕቅድ (Business plan) ተግባራዊ ያደርጋል?

ሀ. አዎ ለ. የለውም

21. በንግድ ዕቅድ (Business plan) አዘገጃጀት ዙሪያ ስልጠና አግኝተው ያውቃሉ?

ሀ. አዎ ለ. አላገኘውም

22. ለተ.ቁ. 21 መልስዎ አዎ ከሆነ ስልጠና ያዘጋጀውን ጥቀሱ?

ሀ. የመንግስት ድርጅቶች ለ. መንግስታዊ ያልሆኑ ድርጅቶች ሐ. በግል ከራስ ወጪ/ ክፍያ መ. ሌላ

23. ለአነስተኛና መካከለኛ የንግድ ስራ እንቅፋት ከሆኑ ምክንያቶች ውስጥ ዋነኞቹን በቅደም ተከተል ጥቀስ?

24. አሁን ያለውን የአነስተኛና መካከለኛ ተቋማት የብድር አቅርቦት ችግር በምን መልኩ መፍታት እንደሚቻል የግል አስተያየትዎን/ ስሜትዎን ያጋሩን?

ክፍል ሦስት:

የዕርገን ስምምነት በቀረቡት ዓረፍተ ነገሮች መሠረት ከታች ከተጠቀሱት አማራጮች ውስጥ በመምረጥ ይግለጹ። አማራጮቹ ከ 1 - 5 የቀረቡ ሲሆን 1 = በጣም አልስማማም (በአ), 2 = አልስማማም (አ), 3 = ገለልተኛ አድሎዋዊነት የሌለው (ገ), 4 = እስማማለሁ (እ) እና 5 = በጣም እስማማለሁ (በእ).

➤ ጥገኛ ምክንያቶች መለኪያ (Measurements of dependent variables)

ከብድር አቅርቦት ጋር በተያያዘ የድርጅትም የስራ አቅምን ከሚጎዱት መካከል	በአ	አ	ገ	እ	በእ
የብድር ወይም የፋይናንስ አቅርቦትና ምንጮች					
1. አሁን በሀገራችን ሁሉንም ዓይነት የገንዘብ ፍላጎት አማራጮች ወይም የአቅርቦት ምንጮች ማግኘት ይቻላል					
2. አሁን እየተሰራባቸው ያሉት የገንዘብ ፍላጎት አማራጭ ምንጮች ወይም አቅርቦት ለሁሉም በእኩል መልኩ ተደራሽ ናቸው					

➤ ኢ-ጥገኛ ምክንያቶች መለኪያ (Measurements of independent variables)

	በአ	አ	ገ	እ	በእ
የመበደሪያ ዋስትና (Collateral Requirements)					
1. የምንጠየቀው የዋስትና ዓይነት በእጃችን አለመኖር ብድር የማግኘት ሂደትን/ ዕድልን ያስተጓጎላል					
2. ዋስትና (Collateral) ብድር ለማግኘት አስገዳጅ አማራጭ ነው					
3. የዋስትና ጉዳይ ለአነስተኛና መካከለኛ ተቋማት የብድር ምንጭ ዋነኛና አሳሳቢ ነው					
ስለብድር ወይም ለፋይናንስ አቅርቦት ምቹ ሁኔታ/ ዕድል ያለን መረጃ					
1. የብድር ዓይነትና የትኛው የአበዳሪ ተቋም እንደሚያቀርብ በቂ መረጃ አለ					

(ይገኛል)					
2. ለብድር ሰጪዎች የአበዳሪ ድርጅት ወቅታዊ አቋም (Performance) ብድር ለማግኘት ይረዳል					
3. ለአነስተኛና መካከለኛ ተቋማት የፋይናንስ ምንጭ መገኛ ምቹና በቂ መንገዶች አሉ					
4. ከዚህ በፊት ያለን የብድር ልምድ ብድር ለማግኘት ምቹ ሁኔታ ይፈጥራል					
የድርጅት የንግድ ዕቅድ (Business Plan) መረጃ					
1. ድርጅታችን በይፋ የተለየ የንግድ ዕቅድ ተግባራዊ ያደርጋል					
2. የድርጅታችን የንግድ ዕቅድ የፋይናንስ አቅምን ያገናኛል ነው					
3. የድርጅታችን የንግድ ዕቅድ የድርጅቱን ጠንካራና ደካማ ጎን ያገናኛል ነው					
4. የድርጅታችን የንግድ ዕቅድ የደንበኞችን ፍላጎት ያገናኛል ነው					
5. ድርጅታችን የወደፊት የንግድን ዓላማ ለይቶ ያስቀምጣል					
6. ድርጅታችን የንግድ ዕቅድ ለማቀድ ለወጪና ለክፍያ የሚውል በጀት ይበጅታል					

Appendix I: Survey Questionnaire for SMEs in English version

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

MASTERS OF BUSINESS ADMINISTRATION

Dear respondents,

This study is conducted in partial fulfillment of Masters of Business Administration in St. Mary's University. The study is aimed to explore the factor affecting access to finance for SMEs at selected woreds from the entire sub-cities in Addis Ababa. To this end, questionnaire is used to gather pertinent data from respondents. The information you provide is anonymous and strictly confidential – you need not disclose your identity.

The information will be used only for the study and will not be given to any other organization, government department or person. I realize your time is valuable and appreciate your concern & contribution for SMEs effort toward growths. Your responses are vital to the outcome of the study and hence you are kindly requested to spare 15 minutes to objectively answer all questions. Thank you in advance for your indispensable cooperation to spare your time and energy to complete this questionnaire.

Telephone: +251 911 03 42 81

Email: alemayehugebreab8@gmail.com

Addis Ababa, Ethiopia

Questionnaire for SMEs

Part I Personal information for respondents

1. Gender: Male Female
2. Occupation: Employee/ Manager Owner/ Manager Share holder
3. What is your academic background?
 - A. Illiterate
 - B. Grade 8 and less
 - C. Grade 9 to 12 completed
 - D. TVET/ Diploma
 - E. BA/ BSC
 - F. MA/ MSC and above
4. How many years of managerial experience do you have?
 - A. Less than 1 year
 - B. 1 – 3 year (< 3 years)
 - C. 4 – 6 year (< 6 years)
 - D. 7 – 10 year (< 10 years)
 - E. 10 years and above
5. Who is the manager of your business?
 - A. The owner
 - B. Employed manager/ Salary manager
 - C. Someone else

Part II General Information on the business

1. What is the main activity of your company?
 - Manufacturing textile, home decorates wood products factory, etc.)
 - Construction
 - Trade
 - Service
 - Urban Agriculture
 - Mining.....
 - Wholesale or retail trade.....
 - Real estate.....
 - Hotel and tourism.....
 - Other services _____
2. How many employees does your company currently employ (both full and part time employees) at all locations or branches of your firm?
 - From 1 employee to 10 employees

- From 11 employee to 50 employees
 - From 51 employees to 150 employees.....
 - From 151 employees to 300 employees
3. Where your business capital does falls currently?
- Less than birr 500,000
 - Between 500,001 to 1,000,000
 - Between 1,000,001 to 5,000,000
 - Between 5,000,001 to 10,000,000
 - Between 10,000,001 to 100,000,000.....
4. For how long does the business exist in the market? (Duration of business existence)
- Less than 2 years
 - Between 2 and 5 years
 - Between 6 and 10 years
 - More than 10 years
5. What is the major source of your initial finance? (Multiple answers is possible)
- A. Banks B. MFIs C. Money lenders D. Own savings E. Friends/ Family F. "Equib" G. Others
6. What is your major source of working capital? (Multiple answers is possible)
- A. Banks B. MFIs C. Money lenders D. Own savings E. Friends/ Family F. "Equib" G. Others
7. How many times do you get loan from formal institutions per annum?
- A. One time per year B. Two time per year C. Three time per year D. Not received any type of loan E. Other
8. Did you apply for loan from formal financial institutions within the last 3 years?
- A. Yes B. No
9. If answer for Qu. number 8 is yes, which formal financial institution did you apply to?
- A. Banks B. MFIs C. For both D. Other
10. Did you receive any loans from formal financial institutions within the last 3 years?
- A. Yes B. No
11. If answer for Qu. number 10 is yes please fill out the following questions.
- i. From where did you receive the loan?
 - A. Banks B. MFIs C. From both D. Others
 - ii. Specify the value of loan received per year/ two year?

 - iii. Specify the value of interest on loan received per year/ per person?

 - iv. Specify the purpose of the loan?

- v. Specify the loan duration?
 A. For six month B. For one year C. For two years D. Others
12. Did you experience loan rejection by financial institutions?
 A. Yes B. No
13. If answer for Qu. number 12 is yes, then which financial institutions reject to provide you loan?
 A. Banks B. MIFs C. Both D. Others
14. If answer for Qu. number 12 is yes, then why did the formal institutions reject your loan application? (Multiple answers is possible)
 A. Lack of collateral
 B. Loan size
 C. Lack of sound financial statement
 D. Poor repayment history
 E. Age of the firm
 F. Experience of manager's
 G. Location of the business
 H. Poor firm's business plan
 I. Due to no finance/ credit type identified & allocated for the SMEs
 J. Pervious poor repayment records of some SMEs
 K. As a result of limited credit allocation and lack of understanding in considering all SMEs required uniform loan size
 L. Others
15. What do you say about your accounting system?
 A. Do not maintain any records
 B. keep minimum records
 C. keep formal accounts
16. On average how many times you have been getting access to bank credit in the year 2020?
 A. One time
 B. Two times
 C. Three times
 D. More than three times
 E. Not received any credit
 F. Other
17. Is/ Are there enough financial institutions around your operation area?
 A. Yes B. No
18. If answer for Qu. number 17 is yes, Specify lenders type?
 A. Banks
 B. MFIs

- C. Both
 - D. Others
19. How do you describe the business situation for SMEs?
- A. Very good
 - B. Good
 - C. Not attractive
 - D. Other
20. Your enterprise does have a specific business plan implemented officially?
- A. Yes
 - B. No
21. Do you have had a training opportunity on the preparation of business plan?
- A. Yes
 - B. No
22. If answer for Qu. number 21 is yes, who prepare the training opportunity?
- A. Government sectors
 - B. Non-Governmental organizations
 - C. Self-training through own budget
 - D. Others
23. List the major challenges in conducting business through SMEs?
24. What are your suggestions/ feeling to improve the existing challenge for SMEs in access finance from formal institutions?
-

Part –III Accessibility and Availability Perception

Indicate your level of agreement on the following statements by ticking the appropriate number using the key given below. Circle a number from 1 to 5 that represents your extent of agreement, where 1=Strongly Disagree (SD), 2=Disagree (D), 3=Neutral (N), 4=Agree (A) and 5= Strongly Agree (SA).

Table 4.12: Means Interpretations Key

Range	Extent of Influence
1.00 –1.80	Strongly agree
1.81 – 2.60	Agree
2.61 – 3.40	Neutral
3.41 – 4.20	Disagree

4.21 – 5.00	Strongly disagree
-------------	-------------------

(A general formula for 5-point Likert scale, developed by Psychologist Rensis Likert, in 1932)

To determine the minimum and the maximum length of the 5-point Likert type scale, the range is calculated (5-1=4) then divided by five as it is the greatest value of the scale. Scale mid-point of the arithmetic mean of the constructs is equal to 2.6, as the agreement Likert measurement scales (strongly disagree, disagree, neutral, agree, strongly agree) was used in this study.

➤ **Measurement for Dependent variables**

In the access to finance your firm ability affected by	SD	D	N	A	SA
Access to finance and its availability (Dependent variable)					
1. All ways of financing are available in our country					
2. All ways of financing/ prevailing ways of financing are accessible to all					

➤ **Measurement for Independent variables**

	SD	D	N	A	SA
Collateral requirements					
1. Not having Types of collateral required makes difficult to access finance					
2. Collateral is a mandatory requirement in accessing finance					
3. SMEs very worried about collateral in accessing finance					
Adequate flow of information on the financing opportunity					
1. There is available of information on who is offering credit facilities					
2. Performance of Commercial Banks and Microfinances					
3. There is an accessible of ways of financing for SME					
4. Past experience in obtaining loan finance successfully					
Firm's business planning					
1. Our enterprise have a specific business plan implemented officially					
2. Our enterprise look at financial resources when planning					
3. Our enterprise consider the strength and weakness when planning					

4. Our enterprise find out the customers' demand when planning					
5. Our enterprise set out the future business goals					
6. Our enterprise have a budget for spending and pricing when planning					

Appendix II: Interview Questions for Banks & MFIs professionals (In Amharic and English Version)

የቃለ መጠይቅ ጥያቄዎች (Interview Questions)

1. አነስተኛና መካከለኛ ድርጅቶች/ ተቋማት (አነስተኛና መካከለኛ ተቋማት) ተበዳሪ አለዎት?

ሀ. አዎ ለ. የሉም
2. ምን ያህል አነስተኛና መካከለኛ ተቋማት በዓመት ለብድር ያመለክታሉ? (በአማካይ ብዛታቸውን ይግለጹ)
3. ለብድር ካመለከቱት አነስተኛና መካከለኛ ተቋማት ውስጥ ለምን ያህሉ ተቋማት ብድር ይፈቀዳል? (በአማካይ ብዛታቸውን ይግለጹ)
4. ተበዳሪው (አነስተኛና መካከለኛ ተቋማት) ካመለከቱት የብድር መጠን ውስጥ ምን ያህሉ ይፈቀድላቸዋል? (በአማካይ መጠኑን ይግለጹ)
5. የተበዳሪዎች የብድር ጥያቄ ውድቅ እንዲሆን የሚያደርጉ መንስኤዎችን ግለጹ? (ከ 1 በላይ መልስ መስጠት ይችላሉ)

ሀ. የዋስትና እጦት
 ለ. የብድር መጠን ማነስ
 ሐ. በቂ ደረጃ ላይ የሂሳብ አያያዝ ችግር
 መ. ደካማ የብድር አመላለስ ሂደት
 ሠ. የተበዳሪ ድርጅቶች ዕድሜ (ጀማሪ ድርጅቶች መሆናቸው)
 ረ. የተበዳሪ ድርጅት ስራ አስኪያጆች የስራ ልምድ ማነስ (ጀማሪ የስራ አስኪያጅ)
 ሰ. የድርጅቶች የንግድ ስፍራ ሳቢ አለመሆኑ
 ሸ. የድርጅቶች የንግድ ዕቅድ (Business Plan) አዋጫነት
 ቀ. ሌላ
6. በተቋማችሁ ለአነስተኛና መካከለኛ ተቋማት የተለየ የብድር ዓይነት አለ?

ሀ. አዎ ለ. የለም
7. ለተ.ቁ. 6 መልስዎ አዎ ከሆነ፤ ምን የተለየ የብድር ዓይነት አለ፤ ይግለጹ? (ከ 1 በላይ መልስ መስጠት ይችላሉ)

ሀ. የራስ ገንዘብ ምንጭ (የድርጅቱ ቁጠባና ትርፍ)
 ለ. ድጋሚ (ከህዝባዊ ድርጅቶች ሊሆን ይችላል).....

- ሐ. ተንቀሳቃሽ የባንክ ብድር.....
 - መ. የባንክ ብድር (ከተንቀሳቃሽ ብድር ውጭ ያሉትን)
 - ሠ. የዱቤ ሽያጭ ከአቅራቢዎች.....
 - ረ. የዱቤ ዕቃ ግዥ
 - ሰ. ከቤተሰብ/ ከወዳጅ ዘመድ፣ የአባልነት ወይም ተመሳሳይ ከሆኑ የፋይናንስ መሳሪያዎች (Instruments).....
 - ሸ. አክሲዮን በመሸጥ ወይም ሌሎች ገንዘብ ያላቸውን ባለድርሻ በማድረግ.....
 - ቀ. ሌሎች ካሉ ግለፅ.....
8. ብድር ከተበደሩ አነስተኛና መካከለኛ ተቋማት ውስጥ ስንቶቹ በስርዓት በተስማሙት የጊዜ ገደብ ውስጥ ብድሩን ከፍለው አጠናቀዋል? (በአማካይ ብዛታቸውን ይግለፁ)
9. ብድር በተቀመጠው (በብድር ስምምነቱ) የጊዜ ገደብ ውስጥ ከፍለው የማያጠናቅቁበት ወንጀል ምክንያት ምንድን ነው? (ከ 1 በላይ መልስ መስጠት ይችላሉ)
- ሀ. የልምድ ማነስ
 - ለ. በቂ ያልሆነ የሂሳብ አያያዝ ችግር
 - ሐ. ደካማ አስተዳደር
 - መ. የንግድ ስራው ዓይነት
 - ሠ. ለንግድ ምቹ ያልሆነ የስራ ስፍራ
 - ረ. ንግዳቸው የተቀዘቀዘ መሆኑ
 - ሰ. የንግድ ዕቅድ (Business Plan) አዋጪ አለመሆን
 - ሸ. ሌላ
10. ቀጥሎ ከተዘረዘሩት የንግድ ዓይነቶች (Business sectors) ውስጥ ብድር በመመለስ ችሎታቸው ከከፍተኛ እስከ ዝቅተኛ ደረጃቸውን ይጥቀሱ?
- ፋብሪካ (ማኑፋክቸሪንግ).....
 - የእንፃ መሳሪያ አቅራቢ
 - ንግድ ስራ (trade)
 - የአገልግሎት ዘርፍ
 - የከተማ ግብርና.....
 - ሌላ
11. አሁን ያለውን የአነስተኛና መካከለኛ ተቋማት የብድር አቅርቦት ችግር በምን መልኩ መፍታት እንደሚቻል የግል አስተያየትዎን/ ስሜትዎን ያጋሩን?

Interview questions

1. Do you have a creditor SMEs in your financial institution?
A. Yes B. No
2. How many SMEs apply for loan per year in number? (Describe an average number)
3. How many of the applied SMEs get approval for the loan? (Describe an average number)
4. How much of the requested loan amount for SMEs get approval? (Describe an average amount)
5. What is the major reason to reject the SMEs loan request? (Multiple response is possible)
 - A. Lack of collateral
 - B. Loan size
 - C. Lack of sound financial statement
 - D. Poor repayment history
 - E. Age of the firm
 - F. Experience of manager's
 - G. Location
 - H. Poor firm's business plan
 - I. Others
6. Are there any loan product type only specified for SMEs?
A. Yes B. No
7. If answer for Qu. number 6 is yes, what kind of special loan product for the SMEs, Specify? (Multiple response is possible)
 - A. Internal funds
 - B. Grants or subsidized bank loan (Involving Support from Public Sources)
 - C. Bank overdraft, credit line or credit cards overdraft
 - D. Bank Loan (excluding overdraft).....
 - E. Trade credit
 - F. Leasing or hire-purchase or factoring
 - G. Subordinated loans, participation loans or similar financing instruments
 - H. Equity issuance or external equity investors
 - I. Other
8. How many of the SMEs which received loan repay according to the agreement? (Describe an average number)
9. What are the main reasons, why SMEs fail to repay their loan as per the agreement? (Multiple response is possible)
 - A. Lack of experience
 - B. Poor financial system of SMEs
 - C. Lack of skilled management

- D. Business sector
- E. Business location
- F. Slow of their business
- G. Poor firm's business plan
- H. Other

10. Please rank the following sectors from the most to the least in terms of their ability to repay loan?

- A. Manufacturing
- B. Construction
- C. Trade
- D. Service
- E. Urban Agriculture
- F. Others

11. What are your suggestions/ feeling to improve the existing challenge for SMEs in access finance from formal institutions? _____

Appdix III: Instrumental Design for a five point Likert scale to measure perception of constructs

Table 4.13: Means Interpretations Key

Range	Extent of Influence
1.00 – 1.80	Strongly agree
1.81 – 2.60	Agree
2.61 – 3.40	Neutral
3.41 – 4.20	Disagree
4.21 – 5.00	Strongly disagree

(A general formula for 5-point Likert scale, developed by Psychologist Rensis Likert, in 1932)

To determine the minimum and the maximum length of the 5-point Likert type scale, the range is calculated $(5-1=4)$ then divided by five as it is the greatest value of the scale. Scale mid-point of the arithmetic mean of the constructs is equal to 2.6, as the agreement Likert measurement scales (strongly disagree, disagree, neutral, agree, strongly agree) was used in this study.

➤ **Measurement for Dependent variables**

In the access to finance your firm ability affected by	SD	D	N	A	SA
Access to finance and its availability (Dependent variable)					
3. All ways of financing are available in our country					
4. All ways of financing/ prevailing ways of financing are accessible to all					

➤ **Measurement for Independent variables**

	SD	D	N	A	SA
Collateral requirements					
4. Not having Types of collateral required makes difficult to access finance					
5. Collateral is a mandatory requirement in accessing finance					
6. SMEs very worried about collateral in accessing finance					

Adequate flow of information on the financing opportunity					
5. There is available of information on who is offering credit facilities					
6. Performance of Commercial Banks and Microfinances					
7. There is an accessible of ways of financing for SME					
8. Past experience in obtaining loan finance successfully					
Firm's business planning					
7. Our enterprise have a specific business plan implemented officially					
8. Our enterprise look at financial resources when planning					
9. Our enterprise consider the strength and weakness when planning					
10. Our enterprise find out the customers' demand when planning					
11. Our enterprise set out the future business goals					
12. Our enterprise have a budget for spending and pricing when planning					

Appendix IV: Total Variance Explained and Multi-coliniarity

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
FAG	.225	.101	.211	2.238	.027	1.000	1.000
MEX	.173	.057	.281	3.037	.003	1.000	1.000
FS	-.034	.118	-.028	-.289	.773	1.000	1.000

(Owen computation on SPSS, Dependent variables access to finance)

ANOVA Results

Factors	Model	Sum of Square	Df	Mean Square	f	Sig.
Firm's age affecting access to finance	Regression	1.171	1	1.171	5.011	.027
	Residual	25.229	108	.234		
	Total	26.400	109			
Manager's experience affecting access to finance	Model	Sum of Square	Df	Mean Square	f	Sig.
	Regression	2.077	1	2.077	9.224	.003
	Residual	24.323	108	.225		
Firm's size affecting access to finance	Model	Sum of Square	Df	Mean Square	f	Sig.
	Regression	.020	1	.020	.083	.773
	Residual	26.380	108	.244		
	Total	26.400	109			

(Owen computation on SPSS, Dependent variables access to finance)

Appendix V: Education of SME Managers across sectors

Sectors	Level of Education					Total	% share of High school, Diploma, Degree, & Masters
	Grade 8 & below	Grade 9-12	TVET/ Diploma	Degree	Masters & above		
Manufacturing	5	17	15	6	2	45	89
Construction	-	1	1	1	1	4	100
Trade	3	6	8	5	-	22	86
Service	-	3	1	3	2	9	100
Urban Agriculture	5	13	5	7	-	30	83
Total	13	40	30	22	5	110	

(Source: survey result & own computation, Dec. 2021)