



**Addis Ababa University**  
**College of Business and Economics**  
**Department of Master of Business Administration**  
**(Specialization of Financial Services)**

**The Influence of Informal Financial Sectors on the Performance of SME**  
**Case study in Addis Ababa, Addis Ketema and Arada Sub City**

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**December, 2018**  
**ADDIS ABABA, ETHIOPIA**

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**A RESESEARCH PROJECT SUBMITTED TO ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (SPECIALIZATION OF FINANCIAL SERVICES)**

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## *Abstract*

*Formal financial sectors are not encouraging low income peoples in order to access credit, Due to their strong regulation when they lend money .The general objective of this research is to assess the influence of informal finance institutions on the performance of SMEs in Addis Ababa, Addis Ketema and Arada Sub city. The specific objectives were; To examine the influence of “EQQUB”, as a source of finance, on the performance of SMEs; To examine the influence of “TRADE CREDIT”, as a source of finance, on the performance of SMEs; To examine the influence of “USURY”, as source of finance, on the performance of SMEs; To examine the influence of “SELF – HELP GROUP” as source of finance, on the performance of SMEs; To examine the influence “FAMILY AND FRIEND SUPPORT” as source of finance, on the performance of SMEs. The study engaged descriptive research design. The population of the study was 4227 SMEs. A sample size of 200 was selected using random sampling. This study used primary data which was collected through use of a questionnaire. SPSS was used to produce frequencies, descriptive and inferential statistics which was used to derive conclusions and recommendation regarding the population. In particular, correlation and multiple regression analysis were conducted. The study found out that Eqqub, self-help group finance, family and friends finance, trade credit finance and Usury finance sources influence the performance of SMEs. Eqqub, Self-help group finance, family and friends finance and trade credit finance has a positive influence on the performance of SMEs while Usury finance sources have a negative influence on the performance of SMEs. The study recommended that SMEs need to put more emphasis on informal form of finance (Eqqub, self-help group finance, family and friends finance and trade credit finance). Informal finance sources Usury need to be avoided by SMEs if possible since it charges high interests and it terms and conditions are more stringent.*

*Key words – Eqqub finance, self help groups finance, Trade credit finance, family and friends finance, Usury finance*

## **STATEMENT OF CERTIFICATION**

This is to Certify the research report prepared by Dawit Lakew Mekonnen entitled, The influence of Informal Institution on the performance of SME case study in Addis Ababa, Addis Ketema and Arada Sub city, which is submitted in partial fulfillment of the requirements for the degree of Master in Business Administration (Specialization of Financial Service).

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## **DECLARATION**

I, the undersigned, declare that the research report titled “The influence of Informal Institution on the Performance of SME Case study In Addis ketema and Arada Sub city, Addis Ababa” is my original work, prepared under the guidance of Workneh Kassa (PhD). All sources of materials used for the research report have been duly acknowledged.

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Name

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Signature & Date

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## **LIST OF ABBREVIATIONS**

**SME** – Small and Medium Enterprises

**TVET** – Technical and Vocational Educational Training

**MSME**-Micro, small and medium-sized enterprises

**WBG**- World Bank Group

**MFI** – Micro finance institutions

**NBE**- National Bank of Ethiopia

**GTP**- Growth and Transformation Plan

**CBOs**- Community-Based Organizations

**CSO**- Central Statistical Office

**ROSCAS**- Rotating and savings credit associations

**SPSS**- Statistical package for social sciences

**SHG**- Self help Groups

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# CHAPTER ONE

## 1 Introduction

### 1.1 Background of the study

Most countries use SMEs as an engine of the economy growth. According to (Eniola and Ektebang2014) SME have been acknowledged to have an impressive potential for sustainable development. The surplus of the workforce from bigger was able to reinstated back to the employment mainly through the growth of SME.

Most of African countries financial institutions are not encouraging low income peoples in order to access financial services such as insurance and credit. The Initiative for Smallholder Finance recently estimated that local banks meet less than 3 percent of overall demand (A Guide to Working with Informal Financial Institutions, 2014). In the absence of commercial banks, informal community-based organizations, such as village-based savings and credit groups, serve as an important gateway through which rural farming communities can access much-needed capital (A Guide to work with informal financial institutions, 2014).

According to (Lin Justin Yifu,2006) SME financing suffer more series information asymmetric to extent that most SMEs are opaque and can only provide less collateral (Information informal finance and SM E financing). Due to the heavily regulation of formal financial institutions most SMEs don't meet their financial demand from this sectors. So that is the reason why the informal finance emerges in order to foster the economic development. According to (KARACHI, 2002), as in many other developing countries, the high cost of doing business on formal sector drives the SMEs into the informal sector. This is quite often not recognized by the policy-makers. 70% of all micro, small and medium-sized enterprises (MSMEs) emerge in the market have lack of access to credit. While the gap varies considerably region to region, it's particularly wide in Africa and Asia. According to (Fadahunsi, 1997) the high mortality rate of SME is about 85 out of 100 in Africa as a result of lack of access to source of financing and entrepreneurial skill.

Since 2010, Ethiopia shows rapid growth to become one of the developing countries of the world. However the country face different challenges like any African countries regarding with unemployment and mitigation of poverty. SMEs plays dominant role by giving solution for this challenge. Small and medium enterprises development program in Ethiopia meaningfully has been given due attention by the government since

2004/2005 (Mulu, 2008). In addition to this, (Konjit Debela, 2014) SME development program in Ethiopia focuses on benefiting the population group like Unemployed youth & women TVET school graduates, drop outs, existing SMEs such as weavers, street vendors, traditional handicraft operators, People who live on the Street, Etc. Moving informal SMEs into the formal sector can have considerable advantages for the SME by providing sufficient Credit to access improving SMEs' access to finance and finding solutions to unlock sources of capital is crucial to enable this potentially dynamic sector to grow and provide jobs (WBG, 2015).

The Ethiopian government has prepared a private sector development strategy to improve the productivity and modernization of the agricultural sector, and boost the technological sophistication and economic input of the industrial sector. It has also identified the development of micro, small and medium enterprises (MSMEs) as a key industrial policy direction for creating employment opportunities for millions of Ethiopians. However, all this is not sufficient and much more remains to be done to unleash the full potential of SMEs, ( Guang Zhe Chen, WBG country director for Ethiopia).

According to the development strategy of Ethiopia, which is published in 2011, classifies the range of SME based on their capital and labor for both industry and service sectors.

Sr.no	Enterprise level	Sector	Hired labor	Capital
1.	Micro	Industry	≤ 5	\$6000.00 or £4500.00 ≤Birr 100,000.00
		Service	≤ 5	\$3000.00 or £2200.00 or ≤Birr 50,000.00
2.	Small	Industry	6-30	\$90,000.00 or £70,000.00 ≤Birr 1,500,000.00
		Service	6-30	≤Birr 500,000.00

SMEs (small and medium enterprise) is a convenient for segmenting businesses and other organizations that are somewhere between the “small office- home office” (SOHO) size and the larger enterprise. **Small and medium enterprises are strategically important for entrepreneurship development because they curb and increase the competitiveness of the market.** (Negash E and Kumera L, 2016).

In Ethiopia, informal financial sectors like Eqqub, Self-help group, Usury (Arata), family and friend and trade credit etc play a significant role by providing credit to SMEs. In the formal finance, SMEs have less credit opportunity than big firms. In Ethiopia low income peoples get their financial need from Informal institutions. According to their strong regulation formal financial institution required collateral when they lend money. But the SMEs do not have access to take credit due to **lack of minimum requirement like financial statement, book of records, collateral** etc. SMEs face different challenges on their life cycle like **working capital shortage, startup capital, access to market and managerial competency**. Whereas, (Gebrehiwot and Wolday 2006) noted that the challenges are lack of access to credit, insufficient loan size and time delay and collateral.

## 1.2. Statement of the Problem

Apart from increasing per capita income and output, SMEs create employment opportunities, enhance regional economic balance through industrial dispersal and generally promote effective resources utilization considered critical to engineering economic growth (Tagoe, 2005). Most of the time funds do not available by the formal financial sectors to particularly for SME. The complex application procedure for formal financial institutions increases the application cost and discourages SMEs from accessing formal credit, even if they could be satisfied in the formal credit system (Nguyet, 2014).

According to Central Statistical Authority (CSA) in 2003 revealed that 30,000 small and medium enterprises found in Addis Ababa. Where as, the Addis Ababa city administration small and medium enterprise project office in 2009 revealed that 25,399 enterprises found in A.A

According to this, the valuable role in promotion of economic growth, job creation and the mitigation of poverty, research conducted on SMEs in by (Mead & Liedholm 1998) confirmed that on average, **there are more SME closures than expansions due to lack of access to credit. Whereas, informal financial source more helpful for them by providing credit**. Regarding with the Informal and semi-formal financial institutions respond relatively well to the financing needs of SMEs in slums and in the rural areas compared to the formal financial institutions (Kashuliza et al., 1998).

**Even through, many studies have been conducted on the effect and roles of banking institutions and semi- formal institution on SMEs growth. However, as with many developing countries, there is limited research and scholarly studies about the influence of informal sectors on the performance of SMEs in Ethiopia.**

Inefficient credit opportunity from the formal financial sectors in Ethiopia lead the SMEs to rely on informal finance like Eqqub, Self-help group, family Support, friend Support, Trade Credit even if they pay high

interest relatively when it compare with formal one. According to (Michael & Cesare studies, 2006) the interest rates charged by informal and semi-formal sectors are high. Due to the shortage of long term loan SMEs depend on high cost and short term finance.

According to Beck and Demigue Kunt (2006) SME firms still experiences various difficulties to boost developmental growth particularly in financing. In addition the sector is facing financial challenge that impended its role in the economy.

So this research expected to explore the source of funds which SMEs use from informal institution like EQQUB, self help, family and friend support, trade credit and their influence on the on their performance. The following are the research questions of the study.

### **1.3 Research Questions**

- How using Eqqub affect the performance of SMEs?
- How using Trade Credit affect the performance of SMEs?
- How using Self- help affect the performance of SMEs?
- How using family and friend support affect the performance of SMEs?
- How using Usury affect the performance of SMEs?

### **1.4 Objectives of the Study**

#### **1.4.1 General Objective**

The general objective of this research is to assess the influence of informal finance institutions on the performance of SMEs in Addis Ababa, Addis Ketema and Arada Sub city.

#### **1.4.2 Specific Objective**

- To examine the influence of “EQQUB”, as a source of finance, on the performance of SMEs.
- To examine the influence of Trade Credit, as a source of finance, on the performance of SMEs.
- To examine the influence of Usury, as source of finance, on the performance of SMEs.
- To examine the influence of self – help as source of finance, on the performance of SMEs.
- To examine the influence family and friend support as source of finance, on the performance of SMEs.

### **1.5 Significance of the Study**

The objective of this study is to show how SMEs are important to Economic growth in developing countries. And to show how this study is necessary for the various stakeholders like **financial institutions, owners and managers of Small and Medium Enterprises, to government and non- governmental organizations, researchers and academicians.**

This paper help the government to design and implement means to enhance the capability of SMEs by giving credit access to significantly foster the economic growth of the country and it used as future **preference for policy makers in order to draw some guidelines.**

For the formal financial institution it will help to understand the influence of informal financial sources and get an opportunity of **controlling the money which is circulating outside** the formal institution serving SMEs by providing credit facility might increase deposit mobilization.

This study will help the managers of SMEs how to deal with their financial constraints and to indicate other source of finance which give them better possibility to survive and be successful in developing economy. And managers **able to know that the factors that hold back of getting credit and how high interest paid to informal financial source.** This study more helpful to scholars and other researchers who are seek to know more about the impact of informal financial sources on the performance of SMEs.

## **1.6 Scope of the Study**

This research thesis targeted on the influence of informal financial institutions on the performance of SMEs. The researcher conducted SMEs found in both Addis Ketema and Arada sub cities rather than other part of Addis Ababa sub cities and other country segments. this study doesn't explain about other role of informal financial sources. Thus any roles of informal financial sources play in other part of the society rather than SMEs were not addressed in this study. According to this research thesis was not being entirely about informal financial source instead, it only examine the influence of informal financial on the performance of small and medium enterprises.

## **1.7. Limitations of the Study**

One of the challenge on data collection were unable to reach or contact the owners of the business due to their own reasons. In addition to this, most respondents were not willing to respond the financial part of the questionnaire because they perceived wrongly about the objective of the research they thought for tax purpose due to that reason researcher decided to drop the financial part continue on the non financial aspect.

Another limitation of this study were absence of complete and organized information about the enterprise from sub-city make difficulty to get the address of the enterprises to be studied Furthermore, the enterprises are very discrete which makes the study difficult to distribute and collect the questionnaires on the planed periods and Some of SMEs were closed due to different problems.

## **1.8 Organization of the Study**

The study is divided into five sections. Chapter one was the introductory part of the study which contains background of the study, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study, limitation of the study and the last but not the least organization of the study.

Chapter two is exclusively devoted to the review the key concepts of the problem to related literature on impact of informal financial sectors on the performance of small and medium enterprises.

Chapter three Chapter three deals with the methods used to collect and analyze the data. While chapter four presented analysis of findings and discussion of the empirical data. And chapter five present conclusions of the findings, recommendations and annex relevant for the study.

# Chapter Two

## 2. Literature Review

### 2.1 Introduction

The chapter presented the theoretical framework. The theoretical framework captured the various theories that informed the study. The chapter also presented the empirical literature review. In the empirical literature review, the findings were critiqued to establish the knowledge gaps. The chapter based its argument on information retrieved from books, journals, research papers, web articles, conference proceedings and session papers. Conceptual framework showed the relationship between independent and dependent variables

### 2.2. Theoretical review

#### 2.2.1 Small and Medium Enterprise (SME)

SMEs play a significant role in job creation and make important contributions to economic growth in developing and developed economies equally. Creating a dynamic SME sectors highly the economic development agendas of particularly all countries around the world.

However, SMEs are financially more constrained than larger firms in both developed and developing countries. . Beck (2005) suggested that in developing economies including Sub-Saharan Africa, SMEs are typically more credit- constrained than large firms, severely affecting their possibilities to grow. In addition to this(World Bank, 2015)revealed that's mall firms face more challenges in obtaining formal financing than large firms. They are much likely to be rejected for loans, and are less likely to have external financing.

Most SMEs rely for financing their business either on internal financing or external financing. Whether an SME is a startup stage or already an established business the internal financing sources are depending on the retained or undistributed profits from the business obtained in previous years and fresh capital injections by the owner(s) or shareholders of the SME and family support. Whereas, external financing be provided by financial institutions, suppliers and other types of creditors. If the entrepreneurs/owners do not already have a track record as successful business people, Starting-up a business from scratch with external financing is rarely a real possibility for an SME, especially for SMEs.

Therefore, the vast majority of business start-ups rely on internal financing. The customers of SMEs (and of other types of firms) can also provide external financing by paying in advance to receiving the goods and/or services produced by the SME. The most challenging part that frontier the capacity of most Small and

Medium Enterprises (SMEs) around the world to get sufficient external financing to support their fruitful activities.

Many creditors use different criteria in order to assess the creditworthiness of their borrowers by assuring financial capacity or ability to repay their debt and willingness to repay the loan. In addition to this, Due to the problem of information asymmetries not all necessary information to assess creditworthiness of borrowers is available to lenders. Besides, collecting information that is not easily accessible is overly costly. These situations are normally worsen in the case of SMEs, and are often a reason of the rejection of loans and other forms of external financing to them. Addition to this, SMEs need financing for the purpose of either financing the production cycle once it has been established. Or Financing capital expenditures to expand the current business, to create new ones, or simply for maintenance purposes. Due to the following of increment of urbanization the importance of SMEs is also growing. According to study in Sub Saharan African, given the rapid rural-urban migration and deficiency to absorb this migration, SMEs have become important urban economic activities particularly in providing urban employment. In similar fashion, in cities and towns of Ethiopia, SMEs and the informal sector are the predominant income generating activities and thus they have a significant contribution to local economic development and used as the basic means of survival (Gebregizabher and Demeke, 2004).

When most of the time the size of the firms is smaller the restriction on credit which is required greater. According to (Fredu Nega & Edris Hussein, 2016) **the access to finance is significantly influenced by the age of the firm**, firm's previous engagement with banks, experience of the manager and whether firms are managed by the owner (owner-manager) or not. The engagement of banks and MFIs in financing SME in Ethiopia is limited. In addition with, **The major obstacles underlined by banks and MFIs to their engagement with SMEs are factors such as poor financial records of SMEs, lack of adequate collateral, SMEs poor management of risks, and informalities of SMES are**. In general, firms who do not have adequate operational and managerial experience and those do not have enough collateral are faces highly on credit constrained

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). Due to the sensitive and competitive nature of the banking sector, where obtaining information from banks how was their lending practices may break business confidentiality especially on bank finance compared to studies into other forms of SMEs finance are relatively rare (Deakins, 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. According to this, 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 (AfricaPractice, 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 (Hernandez-ConovasG. and Koeter\_kant,J., 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).

In addition with that, young ventures at start-up levels may not have the level of expertise and success history required. According to Klapper (2010) young firms (less than four years) rely more on internal financing than bank financing. Similarly, (Woldie, 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, 2009). Therefore, reducing this financing gap in low-income countries should raise the incentive to create SMEs and consequently improve economic growth and increase job creation. In addition, improving SMEs' access to finance is significantly important in promoting performance and firm productivity (World Bank, 2015).

In Ethiopia, 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. According to this, the degree which is given by the government to this strategy regarding with the reduction of poverty, job creation and improvement of the life style of the society was not enough. One of the leading factors contributing to the unimpressive growth and performance of the enterprises is limited access to finance (Wolday and Gebrehiot, 2004).

According to NBEs report (NBE, 2011) the five-year Growth and Transformation Plan (GTP) of Ethiopia envisages creating a total of three million micro and small scale enterprises at the end of the plan period. The EEA Research Brief noted that a total of seventy thousand five hundred (70500) new MSEs were established in 2011/12 employing eight hundred six thousand three hundred (806300) people across the country. However, The performance is below the target set in GTP Since 2004/2005 the government of Ethiopia has been given due attention like other priorities agendas in a country. Due to that reason the national strategy was implemented by Federal SMEs Development Agency organized only at national level. Because of this, it was very difficult to make the strategy practical specially in delivering business development service for SME operators. Thus, by considering the critical role of the sector and the constrained faced by SME operator's government of Ethiopia establish SMEs coordinating bodies at regional level decide to establish SMEs coordinating body at regional level. Currently the government amends SMEs strategy with the objective of that the sector play alleviating poverty & reducing unemployment, to help out the sector to play its pivotal role as a base to medium and large scale industry. Since our country has limited capital resource the government supports to SMEs depending up on the importance of the sector in the economy. According to (Konjit Debela, 2014) noted that growth oriented sectors are selected for Maximum government support and the rest non selected sectors will get Minimum government support.

Different packages of government support are provided as an incentive to SMEs to strengthen their capacity. The types of support by the government can be categorized as maximum and minimum support.

**Maximum support** is a support for growth oriented SMEs sectors that can include support in terms of working premises with least lease price, product display center with least leasing price, technical and business management training, counseling service, loan provision, access to technology, and related supports provided by the government to SMEs.

**Minimum support** is a support in terms of loan provision, exhibition, trade fair organization, technical and business management, technical and business management training, and counseling service.

The size of support to SMEs (either maximum or minimum) depends upon the growth stage of the enterprises. That is, enterprises in the higher stage want large support to be successful in their business activity.

In Ethiopia financial sectors are classified in to three. These are formal, semiformal and informal institutions. The formal financial system is a regulated sector which comprises of financial institutions such as banks, insurance companies and microfinance institutions. The saving and credit cooperative are considered as semi-formal financial institutions, which are not regulated and supervised by National Bank of Ethiopia (NBE). The

informal financial sector in the country consists of unregistered traditional institutions such as Eqqub (Rotating Savings and Credit Associations), Idir (Death Benefit Association) and money lenders (usury).

### **2.2.2 Informal Finance**

The great bulk of the Ethiopian population makes little or no use of the formal savings and lending institutions. The minimum scale of operation and the cost of lending and recovering are small because there is freedom of entry and exit and there are free from control of national bank of Ethiopia. Minimum requirement spent for information gathering while trust and first-hand knowledge of a participant are important. In both rural and urban areas it is common that neighboring family households organize themselves and develop their own institutions, popularly known as Community-Based Organizations (CBOs). The nature of the CBOs highly varies from social, religious and financial concerns, but are all aimed to address the needs of the people. In most communities, membership in traditional community associations such as Iddirs, Eqqubs and mehabers are very common.

According to (Manu Harriet Bonso, 2015) Informal Financial System covers a range of activities known as Susu, including individual savings collectors, rotating savings and credit associations, and savings and credit “clubs” 18 run by an operator. According to Micro Ned (2007), the outreach of the informal financial sector is high; more than two thirds of the population have access to an informal finance provider, whether it is from money lenders, friends/relatives, or from one of the three popular systems (Iddirs, Eqqubs and Mehabers) of informal finance.

According to Micro Ned (2011), the informal finance has been popular due to three main reasons are: First, it has more often than not been the only form of service delivery available. Second, loan processing is quick and not too many questions are being asked about the application of the borrowed sum. Third, in the case of Iddir and Eqqub, loans are provided in the context of social intermediation and self-organization. The capacity of these traditional systems, however, is limited (Ibid). The Eqqub which is the most common informal finance or traditional institutions are discussed in detail in the following subheadings.

#### **2.2.2.1 Eqqubs**

The Eqqub has perhaps evolve over centuries out of ancient customary institutions (e.g. community-level labor exchange arrangements), although some writers (e.g. (Pankhrust, R.and Endreas Eshee, 1958)and (Comhaire, 1966)attempted to trace its origins to the period of the Italian occupation, 1936-41. Moreover, it is possible that the Eqqub pre-dates the emergence of the modern banking system in the country. Some literatures supports that Modern banking system has taken a conceptual framework from the existence of Eqqub. Eqqub have developed in different countries in the ancient traditional institutions.

Eqqub's have played a significant role especially for the informal sector in Ethiopia. An Eqqub is a traditional saving and credit association (Rotating Saving and Credit Association), of which its purpose is basically to pool the savings of their member's in accordance with the rules established by the group. Members usually deposit contributions on a weekly or monthly basis, and lots are drawn by turns so that the one who wins the chance gets the total sum. This process continues on a regular basis until the last member receives his/her share or what she/he has been saving through the months and the whole process starts again. To (Mauri, 1987)it belongs to the type of traditional financial institutions which are included under savings associations. Still others (Baker, 1986)describe the **Eqqub as a saving club combining a bank and lottery**. These descriptions suggest that the Eqqub is a savings association where each member agrees to pay periodically a small sum into a common pool so that each, in rotation, can receive one large sum. All savings and loan associations with a rotating fund 'have savings as a core feature', according to (Miracle, 1980, p. 1) (Levine, 1972) Levine (1972) Described it as a form of saving association in which weekly or monthly payments of a fixed sum are exchanged for the privilege of receiving a large sum at some point in the life of the group Intermediation. The basic economic logic of Eqqub can be approached in two ways: The traditional approach and new approach. The traditional approach treats Eqqub as a financial intermediation which have similar Rotation Saving and Credit Associations (ROSCAs). Whereas, the new approach consider Eqqub as the logic of collective action. According to the traditional approach, financial transaction is carried out totally between the borrower and the lender. With the exception of the last recipient, all others borrow from each other for a different period of time with zero interest rate. Whereas, the new approach deals about participants switch at the same point in the round from apposition of net saver to a position of net debtor, except the first person who is a net debtor throughout the round.

The intimate integration between the financial services offered by the Eqqub and the strengthening of the ties of solidarity and friendship in the group; the forced savings of a contractual nature; The provision of credit services particularly suited to the needs of the participants and The flexibility and adaptability of the Eqqub to various situations and needs; the low risk of default; the low or practically non-existent costs of administration and transactions; the absence of minimum investment threshold; the probable tendency to gamble on the part of the members and the consequent attraction which the lottery holds for them; the secrecy which, surrounds Eqqub and the member's involvement in it.

### **1. Big traders**

It is believed that most of the big traders' Eqqubs are located in the market centre of Addis Ababa, the Merkato area. The lives of such types of Eqqubs are quite long; they have a low degree of mortality. All members may not know each other; it is enough for a newcomer to be known by five or six participants who

provide information regarding his credit-worthiness and also act as guarantors for him. Compared with other types of Eqqub, the big traders' Eqqubs are relatively institutionalized, complex and well-organized in terms of their procedures and lives. They operate on the basis of elaborate written by-laws.

## **2. Small traders**

A small traders' Eqqub is set up by people engaged in small-scale business. This type of Eqqub is common among people working in the informal sector. Membership is also open to salary and wage-earners. The kitty is of a small size. Unlike the big traders' Eqqub, membership is often limited to people living in a neighborhood.

## **3. The Eqqub in rural areas**

The Eqqub is not limited to urban areas; it is also common in the rural areas though perhaps practiced to a lesser degree. A national rural household survey by the Ethiopian Central Statistical Office (ECSO) shows that the annual contribution to Eqqub per household is bin 18.9. The per capita annual contribution's bin 3.75. The proportion of the annual household income allocated to the Eqqub is 0.96%. On the other hand, the proportion of bank deposit in the annual household income is reported to be 2.04%.

The informal sector in Ethiopia has evolved, through trial and error and without government assistance, into a set of complex and well-organized financial institutions capable of developing self-adjusting mechanisms in the face of changing circumstances. The resilience and apparent expansion of the informal sector, however, should perhaps not be ascribed to the growth in the economy but rather to the ever-growing economic and social difficulties prevailing in the country.

### **2.2.2.2 Money lender(Usury)**

Until the ending of twentieth century the only source of loan was Usury. In different literatures define Usury as Money Lenders, Shylock, and in Ethiopia mostly known by the name "Arata". Usury condemned by the church, Forbidden by the state and frowned upon by society, the money lender kept their financial deal with the borrowers secretly. The spread of money lenders cripple the financial economy of the country. According to Mauri stated that in towns, reduced lending by the financial institutions has created a potential for the development of informal lending because even persons who in the past were familiar with bank credit now turn to money-lenders to replace bank loans.

Prior to 1974, money lenders were often rich landowners. Today, following the nationalization of land, landlords have disappeared as a social class, and their roles as money lenders are being replaced by rich traders. The financial operations of money lenders are simple, cost-effective and flexible compared to those of

the banking system. Interest rates, which are never stated in the agreement made with the borrower, are influenced by the extent of personal relations, degree of risk involved, availability of funds in the community, length of the maturity period and extent of competition from the formal financial market to (Mauri, 1987). There is no adequate information on the size of the interest rate. According to a survey undertaken some years back, it range from a minimum of 24% to a maximum of 900% per year to (Mauri, 1987). The bank's lending interest rate varied from 4.5% to 9.5% per year depending upon the type of project and borrower (whether co-operative, state enterprise or individuals).

### 2.2.2.3 Trade credit

Trade credit is loans which have both timing and value to the exchange of goods and payment made on specific period of time. According to (Main and Smith, 1992) definition Trade credit is an arrangement between a buyer and seller by which the **seller allows delayed payment for its products, instead of cash payment**. In addition to this, Creditors allow to their customers to delay the payment for specific time period. With in that period the debtor obliged to pay.

There have been many different explanations proposed for trade credit. The financial motive (Emery, 1984)(Main and Smith, 1992); (Schwartz, 1974) argues that firms able to obtain funds at a low cost will offer trade credit to firms facing higher financing costs. (Emery, 1984) sees trade credit as a more profitable short-term investment than marketable securities. The operational motive e.g. (Emery, 1987) stresses the role of trade credit in smoothing demand and reducing cash uncertainty in the payments (Ferris, 1981). And, according to the commercial motive, trade credit improves product marketability (Nadiri, 1969) by making it easier for firms to sell. Trade credit can also be used to maximize profit through price discrimination (Brennan MJ, Maksimovic V and Zechner, 1988). Finally, according to the product quality motive (e.g. (Smith, 1987), firms extend trade credit to guarantee product quality, by alleviating information asymmetry between buyers and sellers.

There are two different perspectives about trade credit. First, the account receivable perspective, when firms offer trade credits to their buyers. Secondly, the account payable perspective, when firms can acquire trade credit from their suppliers as well.

Trade credit plays a vital role in firm financing policy. For the consumer, it is a basis of financing through accounts payable, whereas for the supplier, trade credit is an asset in accounts receivable. In addition to this,

trade credit is mostly important in the case of SMEs, since trade debtors are the main asset on most of their firms' balance sheets. Today, in rapid growing environment the demand of accessing credit finance from formal sectors is challenging for most of the SMEs.

In addition to this, Most of the time when firms especially SMEs take the trade credit as an alternative options while they face credit crunch. According to ((Taketa, K. and G.F. Udell, 2007),(Udell, 2009) One type of lending might substitute for another type of lending; and, one type of lender might substitute for another type of lender. One of the non-financial institutions that are important financiers for SMEs, first and foremost are their business suppliers through the provision of trade credit, i.e. supplying the merchandise/services in advance to requiring the associated payment. It consists usually of an open line of credit and is normally unsecured. The settlement period varies commonly depending on the type and size of the firms involved, although rarely does it extend to more than a few (2-3) months.

**Meltzer (1960) states that a main function of trade credit is to alleviate customers' from financial frictions, thus facilitating increased sales and market share growth (Nadiri, 1969) In addition to this resolving financing frictions, trade credit can increase sales by alleviating informational asymmetry between suppliers and buyers in terms of product quality (Long et al., 1993, (Smith J. , 1987). However, the term trade credit has a negative condition which might cause default risk or late payment, which damage firm profitability.**

Schwartz (1974) has developed the financial motive for the use of trade credit. He suggests that when credit is tight, financially strong firms will increasingly propose more trade credit to keep their relations with smaller customers, who are "rationed" from direct credit market participation. The creditor firm acts as a financial intermediary to customers with limited access to capital markets, financing their customers' growth. Some of the obstacles to SME financing are associated precisely to their own nature as smaller companies. This includes factors such as lack of critical economic size, and the somewhat informal and generally less sophisticated management of SMEs.

In the first case, relatively small average loan volumes may not warrant the costs of targeted credit risk analyses that are required in the absence of more standardized and comprehensive credit data. The second factor, from the perspective of lenders most SMEs lack the understanding of developing a logical and acceptable business plan to support their credit/loan application, and if a loan is granted they often fail to provide robust updates or progress reports on the unfolding of the business plan.

Figure 2.1 Main challenges faced by Creditors in connection with SMEs



The country background shows that the country has been experiencing strong economic growth during the study period. In sector wise, the service sector has driven recent growth and yet the economy remains heavily depend on agriculture. Indeed, the rapid growth over the years has helped in reducing the incidence of poverty in the country. The country's financial sector also seems to be flourishing only recently. Despite the improvement in the last couples of years, Ethiopian banking remains in its low status. Though the emergence of microfinance is a recent phenomenon in Ethiopia, surprisingly the industry has undergone tremendous growth and development in a very short period of time. However, the demand for microfinance is far from being met by the existing MFIs. Consequently, the informal sources of finance have been remaining as the main sources for many of the poor countries.

#### **2.2.2.4 Family and friend support**

Informal finance is often believed to be expensive and in limited supply. But most informal investors – family and friends – offer funds cheaply; and yet, borrowers seem to prefer formal finance. The social preferences

make family finance cheap but also create shadow costs that nonetheless discourage its use: Committing family funds to a risky investment crowds out familial transfers in low-consumption states, and undermines limited liability. The very characteristics that generate intra-family insurance thus render family finance a poor source of risk capital. This is relevant to the limited success of group-based microfinance in generating entrepreneurial growth, and to the emergence of social lending intermediaries and crowd funding.

While accurate for informal money lending, this account is at odds with some common aspects of financing from family and friends (hereafter, family finance), which constitutes the bulk of informal finance. First of all, family finance is cheap. Many of the informal investors in the GEM survey willingly accept low or negative returns (Bygrave (2004): 17) and family loans among the poor are frequently interest-free (Collins et al. (2010): Chapter 2). As the Wall Street Journal (2012) writes, “budding entrepreneurs” often turn to the “Bank of Mom or Dad” for a “dream-come true interest rate.” If family finance suffers fewer contracting problems and is cheaper than formal finance, one would expect it to be first choice: borrowers should prefer and exhaust it.

In a recent paper, Karlan et al. (2009) embed such sanctions in a social network model where social ties serve as social collateral and show how the network structure influences transactions. To create a trade-off, existing theories on the choice between formal and informal finance additionally assume that informal financiers have a higher cost of capital because of monitoring costs, risk aversion, or illiquidity. While the above models are able to describe many aspect of informal finance, they cannot explain the negative prices common in family finance that borrowers may opt for formal finance even when they could obtain family finance at a lower required rate of return, or formal intermediation between relatives or friends.

In general, the existing literature has focused only on the advantages of social ties, that is, how social ties facilitate financing but not on the possible downsides of social incentives. For example, Ghatak and Guinnane (1999: 221) write in their survey that “the literature on group lending shies away from discussing the possible negative implications of peer pressure.” In contrast, our altruism-based theory stresses the negative consequences of social relations in financial transactions and the advantages of formal contracts and arm’s-length relationships.

#### **2.2.2.5 SELF HELP GROUP (SHG)**

A self-help group (SHG) is collection peoples who have a common goal, desire and gathered in order to start up their business without getting external financial sources. These groups are peoples who have low income and weak financial capability combine their fund, knowledge and experience together in order to be strong. In addition to this Robb and Robinson stated that Owner funding has been found to be primarily in the form of equity, whereby the owner invests personal savings in to the firm(Robb, A. M. and D. T. Robinson, 2010).

According to (Ahmadi, 2016) Self help groups are groups who have common interest and have an agreement to support each other and share profit and loss. The basic priority of SHG is to find ways to improve their living conditions, if it is possible to grow together.

According to Gebre Yntiso report show that Self Help Group approach introduced to Ethiopia from India in 2002 (Yntiso, 2015). SHG may be formal and informal. When it is formal there is rule and regulations that all members governed. Whereas, In Ethiopia SHGs have no legal personality because of the lack of regulatory framework this restricted them to access bank loans(Yntiso, 2015). Members contribute similar amount of money on regular basis until they believe that it is enough to start up their business.

The members have uniform economic status and living conditions, they meet together with out any external enforcement contribute small fixed amount of money for few months in order to make one finance and this helps them to satisfy their need (Self-help group (finance)). The uniformity of their economics status make them strengthen their relationship cooperate without control.

The individuals face common challenges in order to start up their own business due to lack of finance. So they gather together in order to solve their problem mutually by contributing equal amount of funds.

### **2.3. Empirical Review**

This section included closely related studies that other scholars have previously undertaken on effect of source of finance on business performance.

#### **2.3.1 Formal versus Informal Finance**

Poor people either obtain informal credit or borrow from both financial sectors and informal sectors at the same time. (Degryse & Ongena , 2014) Conducted a study on Informal or formal financing or combination of the two with evidence on the co-funding of Chinese firms. Using unique survey data, the study found that informal finance is associated with higher sales growth for small firms and lower sales growth for large firms. The study identifies a complementary effect between informal and formal finance for the sales growth of small firms, but not for large firms. Informal finance offers informational and monitoring advantages, while formal finance offers relatively inexpensive funds. Co-funding, i.e. the simultaneous use of formal and informal finance, is the optimal choice for small firms.

(Fridell, 2007), Explored the roles of informal, formal and semi-formal micro credit in Jordan credit. The study found that accessibility and low application costs are the key advantages of informal credit, while these are often perceived to be disadvantages of formal credit. Informal finance was found to be very flexible since the dominant source of informal credit seems to be family, friends, neighbors, it may not be so surprising that

most informal loans were interest free and that many do not agree that interest rates are higher for informal lending in general. The informal financial sector was also seen to be disadvantaged by credit ceilings, while the formal sector had reliable funds available. The study concluded that the key method of enhancing credit access to business and individuals and hence reduce the financial exclusion was by encouraging development of informal financial sector. The reduced costs and flexibility was found to enhance credit access which in turn led to increased business performance.

(Atieno, 2001) Found that credit rationing is significantly higher in the formal financial markets as compared to the informal and semiformal financial sectors in Kenya. She found that the concern with the loan repayment among formal lenders determines the amount credit a borrower gets while in the informal financial sector, the main determinant is their limited resource base. She concluded that lending terms imposed by the formal financial sector ( emphasizing collateral security) ration a large number of borrowers out of the credit market leaving only a few who can afford the required collateral. On the other hand, some of the borrowers do not get what they want from the informal sector due to the limited resource base creating a credit gap in the rural markets in Kenya.

### **2.3.2 Informal Finance and Performance**

Fadiga & Fadiga-stewart (200) conducted a study on collective action and informal financial institutions: An empirical analysis of rotating and savings credit associations (ROSCAS) in Senegal. This study models cooperation among members as well as the financial performance and sustainability of associations using data collected from field research conducted in Dakar, Senegal in 2001. The results show that factors such as homogeneity of individuals within an association, how long the association has existed, how defaults are covered, and rules such residency requirements, individual contributions, and rotation order are to various degree critical to the financial performance and sustainability of ROSCAs and to the fostering of cooperation among members of these associations. Ostrom (1999) argued that ROSCAs have been able to avoid many of the high transaction costs associated with formal financial institutions. For example, ROSCAs through various monitoring and sanctioning mechanisms can minimize the costs of screening new borrowers by capitalizing on local information about individuals past behavior. In addition, reputations and the self-selection of members help these institutions reduce adverse selection and moral hazard problems. High rates of interaction, proximity and effective mechanisms such as first, second, and third-party enforcement make it easier for mutual monitoring among members to occur and helps ensure that the benefits of cooperating minimize the temptation to default. Social capital such as shared norms, networks of relationships, and trust are important factors that explain how these institutions have been able to remain sustainable. With respect to

the impact of group size on collective action, a critical mass of individuals and how associations affect social capital requires further investigation to offer solid conclusions.

### **2.3.3 Access to Finance and Performance**

Evidence from the existing empirical literature on the effect of access to finance on informal lending among the poor, and near poor, is mixed. (Khandor, 2000) Found that while enhanced access to formal finance reduces the incidence of borrowing from informal sources. On the other hand, Sinha and Matin (1998) found that microfinance member household does not reduce borrowing from informal credit sources. More recently, (Mallick, 2012) and (Berg, 2013) addressed the issue using village level moneylender' interest rates and found that that moneylender interest rates increase with higher formal finance coverage. (Berg, 2013) also use separate household level survey datasets. Their results suggest that households that borrowed from Microfinance institutions borrow less from informal sources following participation in microfinance.

Kinyau (2014) identified the factors affecting the performance of SMEs in Nakuru Town of Kenya. The research employed a survey research design and employed a stratified random sampling. In his study, he found that performance of SMEs was influenced by finance, management skills, macro environment, and infrastructure. The finding of the study indicates that access to finance had the potential to positively affect performance of SMEs. Similar studies by (Nabintu, 2013) found that performance of SMEs was influenced by access to access to finance among other factors such as technological input in the payment system, and availability of management experience. The finding of the study indicates that there is a positive correlation or relationship between financial performance of SMEs and access to finance.

Parker and Torres (2004) found that a shortage of working capital was cited as the primary reason for 25 percent of the Kenyan microenterprises that terminated operations. Informal finance remains the most important source of finance throughout the business cycle. The survey conducted by Daniels, Mead and Musinga (2005) found that almost 95 percent of the interviewed entrepreneurs used family savings as the primary source of working capital.

## **2.4 Research Gaps**

Various studies that have been carried out globally on the effect of financial accessibility on the financial performance of SMEs show conflicting results. Limited access to finance has been identified as the key constraint globally (Minniti, 2009). (Cressy, 2006) And (Ollofson, 2006) in their study concluded that the growth and financial performance finance of firms was more constrained by managerial and psychological factors than it was by the availability of external finance (Cressy, 2006). On the other hand, Schiffer and

Weder (2001) in their paper on firm growth and business environment identified constraints on access to finance as the main factor hindering growth of firms.

## 2.5 Conceptual Framework

After a deep discussion about the theoretical and empirical review of the influence of informal financial institution on the performance of small medium enterprises it is right to provide diagrammatic presentation that links those dependent variables with the independent one. As the result of this conceptual framework for this study is outlined by the following figure 2.1



Figure 2.2 This diagram show the relationship between variables (Own literature review).

# CHAPTER 3

## 3 Research Methodology

### 3.1. Introduction

Methodology is the process or the technique used to collect, analyze and test information or data for the purpose of making decision. The aim of this paper is to assess the influence of informal financial sectors on the performance of SMEs that are legally registered and operating in Addis Ketema and Arada sub-city based on sample study. Hence, this chapter of the study contains a review of the research method used and explanation about the reason for choosing the methodology applied for this particular study. Specifically, the chapter has discussed the research design, the population of the study from which sample was taken, the sample size, the data type and data source and the data collection and analysis procedure.

### 3.2. Research Design

This study has adopted an explanatory survey research design, and assessed the influence of informal financial sectors on the performance of SMEs in Addis Ababa, Addis Ketema and Arada sub-city and identified the correlation relation and dependency between informal financial sectors and the financial performance of SMEs in Addis Ketema and Arada Sub-city and inferential statistical method used to make conclusion. In addition, this explanatory study has assessed a sample at one specific point in time.

### 3.3. Population of the Study

According to Kombo and Tromp (2009) population is a group of individuals, objects or items from which samples will be taken for measurement or it is an entire group of persons, or elements that have at least one thing in common. In this research the subjects of the study were SMEs that are legally registered and operating in Addis Ababa, Addis Ketema and Arada sub-city at the onset of this study. Accordingly, the numbers of legally registered and operating SMEs in Addis Ababa city Administrative small and medium enterprises. **The study targeted to take sample from all the 1675 and 2552 registered SMEs in Addis ketema and Arada sub city respectively the total number of population in this two sub cities were 4227.**

### 3.4. Sample Size

Sample size is the subject of the study, which was selected from the entire population. And it is believed that truly represents the population and has small sampling error. Whereas, a good sample should be truly representative of the population, result in a small sampling error, viable, economical, and systematic, whose results can be applied to a universe with a reasonable level of confidence (Kothari, 2004). Because of the large size of the population the researcher used stratified sampling method. Hence, the population is too large it is a waste of resources like cost, time and Accuracy. While the sample is too small there is lack of reliability on the result.

**According to the random sampling size determination table of Naresh, (2005) the researcher use in order to identified the appropriate sample size.** The total population of Addis Ketema and Arada sub city SMEs fallen in range between 3,200 – 10,000 so that the researcher decided to use the medium numbers of SMEs (200) to be included in the research.

Sample Size Determination

Population Size	Sample Size		
	Low	Medium	High
51-90	5	13	20
91-150	8	20	32
151-280	13	32	50
281-500	20	50	80
501- 1,200	32	80	125
1,201 -3,200	50	125	200
3,201- 10,000	80	200	315
10,001 - 35000	125	315	500
35,001 - 55,000	200	500	800

Source: Naresh (2005)

The SMEs that are legally registered and operating in Addis Ketema and Arada sub-city found in this population. **These SMEs were categorized in heterogeneous groups like Manufacturing, construction, service, trade, and urban agriculture. So the researcher believed to apply stratified random sampling techniques.** In stratified sampling the population is classified into several stratum that are similar by themselves rather than the total population and then in order to make up a sample we choose an items from each stratum. A sample drawn randomly fair from each stratum no members have a chance to select more than one.

### 3.5. Data type and data sources

Both primary and secondary data were used to conduct this study. **The primary data that the researcher used were five likert-scale questionnaire based which was distributed for the randomly selected targeted groups of the sample.** The researcher used secondary data as supplemental of the primary data and the secondary data that the researcher used were from varies sources like books, journals, web, publications, manuals, reports. The questionnaire was designed to include seven parts. The first part contains questions designed to get the relevant demographic information of the respondents. The second part attempted to establish questions in relation to the influence of Eqqub as a financial source on the performance of SMEs. The Third part contains semi structured questionnaires designed to obtain information concerning the influence of trade credit finance sources on the performance of SMEs. The fourth part of the semi structured questionnaire consisted of questions organized to obtain data in relation to Usury (Arata) as a finance sources and operational performance of SMEs in Addis Ketema and Arada sub-city. The fifth part of the semi structured questionnaire consisted of questions organized to obtain data in relation to self help group as a finance source and operational performance of SMEs in Addis Ketema and Arada sub city. The sixth part of the semi structured questionnaire consisted questions organized to obtain data in relation to friend and family support as a finance source and operational performance of SMEs in Addis Ketema and Arada sub city and the final part of the semi structured questionnaire consisted questions organized to obtain data in relation to non financial performance of SMEs in Addis Ketema and Arada sub city.

### Operationalization of the variables used in the study

Variable	Definition	Measurement
EQUIB	An Eqqub is a traditional saving and credit association of which its purpose is basically to pool the savings of their member's in accordance with the rules established by the group	Five point Likert scale (strongly disagree = 1, disagree = 2, neutral =3, agree = 4 and strongly agree = 5)

SELF HELP GROUP	A self-help group (SHG) is collection of peoples who have a common goal, desire and gathered in order to start up their business without getting external financial sources.	Five point Likert scale (strongly disagree = 1, disagree = 2, neutral =3, agree = 4 and strongly agree = 5)
Friend and family support	Financing money from family and friends with minimum or zero interest it used for expand the existing business or used as start up	Five point Likert scale (strongly disagree = 1, disagree = 2, neutral =3, agree = 4 and strongly agree = 5)
Usury	The practice of lending money with interest but the interest rate is higher than any other financial sources and that illegally enrich the lenders.	Five point Likert scale (strongly disagree = 1, disagree = 2, neutral =3, agree = 4 and strongly agree = 5)
Trade credit	Trade credit is an arrangement between a buyer and seller by which the seller allows delayed payment for its products, instead of cash payment	Five point Likert scale (strongly disagree = 1, disagree = 2, neutral =3, agree = 4 and strongly agree = 5)
Performance	achievement of task and stage of a business financially for specified period of time	Five point Likert scale (strongly disagree = 1, disagree = 2, neutral =3, agree = 4 and strongly agree = 5)

### 3.6. Instruments

**Primary data source conducted on cross-sectional survey with semi-structured questionnaires, which administered by distributing to sample of SMEs located in Addis Ketema and Arada sub city. A**

questionnaire is a pre-formulated written set of questions to which the respondents record the answers usually within closely described alternatives.

The researcher has used to scale respondents responses by using likert scale. For this study a Likert scale of five alternatives was used to obtain data or measure the level of agreement concerning the influence of informal financial sources on the performance of SMEs in Addis Ababa, Addis Ketema and Arada sub-city.

The questionnaires were prepared in English and translated to Amharic before they were distributed to the respondents. Likert scale is interval scales that specifically, for this research used five anchors of strongly disagree = 1, disagree = 2, neutral =3, agree = 4 and strongly agree = 5. The questionnaires have four parts: The first part of the questionnaire was about the demographic characteristics information of respondents. The

second section designed to measure the influence of Eqqub on the performance of small and medium enterprises in Addis Ketema and Arada sub city. The third part of the questioner was about the influence of usury on the performance of SMEs in Addis Ketema and Arada sub-city and The fourth part of the questioner was about the influence of Trade Credit on the performance of SMEs in Addis Ketema and Arada sub city and the Fifth part of the questioner was about the influence of Self help groups on the performance of SMEs in Addis Ketema and Aradad sub city and the sixth part of questioner was about the influence of family and friends support on the performance of SMEs in Addis ketema and Arada sub city and the last part of the questioner was about non financial performance of SMEs .

### **3.7. Data analysis procedure**

Data analysis is a practice in which raw data is ordered and organized so that useful information can be extracted from it (Gall, M.D., Gall, J.P., & Borg, W.R., 2007).

After the data is collected using primary data sources (questionnaire) and secondary data sources, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keying into statistical package for social sciences (SPSS) computer software for analysis. SPSS was used to produce descriptive and inferential statistics and which was used to drive conclusions and summarization regarding the population. In this research report descriptive statistics is applied using 2 frequencies, mean scores and inferential statistics which is correlation and regression analysis.

# Chapter 4

## 4. Data Analysis and Discussion

### 4.1 Introduction

This chapter outlines the data analysis and interpretations of the results. And it consists of the analysis and interpretation of three major parts. The first part deals with respondent's demographic profile has presented, analyzed and interpreted. The second part deals with descriptive presentation about the influence of informal finance on the performance of SME. The responses have been analyzed by using mean and standard deviation. The third and the last part include results of inferential statistics such as correlation, regression.

Data was collected from the legally registered and operating Small and Medium Enterprises of Addis Ketema and Arada Sub city in Addis Ababa town and analyzed to assess and identify the influence of informal financial sectors on the performance of SMEs on this two Sub cities. Hence, the results of analysis are presented using descriptive, correlation and regression analysis.

### 4.2 Response Rate

The study administered a total of 200 (100%) questionnaires were distributed and 189 (94.5%) questionnaires were filled completely and returned, and of which seven questionnaires were not appropriately filled and four questionnaires were not returned . So, the analysis was made based on 189 successfully responded questionnaires and done in line with the research questions and objectives.

**Table 4.1 Response Rate**

Response rate	Items response rate	
	No	Percent (%)
Sample size	200	100%
Collected	196	98%
Appropriately filled	189	94.5%

Source: Own Survey, 2018

### 4.3 Demographic characteristics of respondent

This research has enclosed the main demographic characteristics of respondents such as gender, age in year, level of education, job position, years of services, the type business and business ownership type and the detailed discussions were presented respectively below in the table 1.2.

**Table 4.2 Demographic characteristics of respondent**

<b>Variables</b>		<b>Frequency</b>	<b>Percentage</b>
Gender	Male	109	<b>57.67%</b>
	Female	80	42.33%
<b>Total</b>		189	100%
Age in year	From 21-30	106	<b>56.08%</b>
	From 31-40	49	25.93%
	From 41-50	34	17.99%
<b>Total</b>		189	100%
Level Education	Certificate	26	<b>13.76%</b>
	Diploma	52	27.51%
	Degree	38	20.11%
	Masters and Above	6	3.17%
	Others	67	<b>35.45%</b>
<b>Total</b>		189	100%
Job Position	Manager	62	<b>32.8%</b>
	Owner/Manager	31	16.4%
	Sales person	17	9%
	Finance Head	3	1.58%
	others	76	<b>40.21%</b>
<b>Total</b>		189	100%
Service year	Less than a year	27	14.1%
	1-5 years	115	<b>60.2%</b>
	6-10 years	23	12%
	11-20 years	6	3.1%
	20 and Above	16	8.4%
<b>Total</b>		187	97.8%
Types of Business	Manufacturing	35	18.52%
	Trade	96	<b>50.79%</b>

	Service	58	<b>30.69%</b>
<b>Total</b>		189	100%
Company's ownership type	Sole proprietorship	86	<b>45.5%</b>
	Share company	58	30.69%
	Private limited company	14	7.41%
	others	31	16.4%
<b>Total</b>		189	100%

Source: Own survey data, 2018

According to table 4.2 the result revealed that out of the total respondents **57.67%** were male and the remaining 42.33% were female. This means from the total 189 respondents 109 respondents were male and 80 were female. Therefore, based on the result of findings from table 4.2 **the research comprised of both sexes in relatively near proportion**. Similarly, as depicted by the table 4.2, the majorities (56.08%) of the respondents were an age group of 21-30 years old followed by age group of 31-40 years accounted for 25.93%. The remaining 17.99% were 41-50 years old. Hence the table above implies that **the majority of the respondents 82.01% youngest and potentially productive age groups**.

According to respondent educational level, the above figure showed that the majorities (35.45%) of the respondents were responded on the category of 'others,' 27.51% of the respondent was Diploma holders, 20.11% of the respondents were Degree holders, 13.76% of the respondents were Certificate holders. the remaining 3.17% of the respondents were MA holders. **This indicates that most of the respondents included in the sample were not certified or not completed their career level**. In addition to this finding implied that enterprise owners included in this sample study were **not in a position to hire professionals with higher educational status**.

Regarding to the respondents job position, the highest number of the respondents were enterprise managers that accounts 62(32.8) %, and 76 (40.21%) of the respondents were different job position holders other than enterprise managers, owners and sales officers. The rest of the respondents were 31(16.4%) and 17 (9%) were enterprise owner and sales officers respectively. This implies that the majority of the **respondents were managerial position holders so that the researcher is able to have a good feedback from the distributed questionnaires** and those who responded to the category of "others" were those who possessed job position other than the mentioned ones.

As per the results of respondents from **table 4.2** above the number of respondents who were with experience of 1-5 years and account 115(60.2%) of the total respondents. This implied that the respondents included in

the sample were experienced and meant to provide feedback to the capacity of the researcher. And 27( 14.1%) of the respondent were with the experience less than a year and 23(12.%) and of the respondents were with experience or service years from 6-10 years and the rest 16(8.4%) and 6(3.1%) respondents were with a service year 20 and Above and 11-20 respectively. **This result indicates that the majorities of the company's has joined this business in a few years back.**

According to the major types of activities which company's stands for, 96 (50.79%) of the total company's were operate trade and **58(30.69%) of the total company's were Service providing enterprises** and the remaining 35(18.52%) companies were operating in manufacturing. This implies in Addis ketema sub-city and Arada Sub city most of the Small and medium enterprises were operating in service providing and trade businesses.

Based on findings as shown in table 4.2 as to the business ownership type SMEs in Addis Ketema sub-city and Arada sub city, 86(45.5%) of the SMEs were engaged in Sole proprietorship, **58(30.69%) of the SMEs were established and working as share company business ownership type** and the remaining SMEs 31(16.4%) and 14(7.41%) established and operating private limited companies and others respectively.

Regarding the year of service being in the operation, Majorities of the respondent 115(60.2%) have been in the operation from1–5 years, 27(14.1%) have been in the operation for less than a year and 23(12%) have been in the operation from 6-10 years and the remaining 16(8.4%) and 6(3.1%) have been in the operation 20 and Above years and 11 – 20 years respectively. This implies the majorities of the respondent have minimum experience.

## **4.4 Descriptive Statistics**

One of the main objectives of this research was to examine the influence of informal financial sources Eqqub, Arata, Trade Credit, Family and Friend support and Self help Group on the performance SME in Addis Ketema and Arada Sub city. To meet this objective the researcher were distribute questionnaire to some selective respondent based on Likert five point scales. Regarding, the findings are presented using descriptive statistics i.e. mean for central tendency.

### **4.4.1 Descriptive Statistics for Informal financial source Eqqub**

The respondents were asked to indicate whether the influence of informal finance affect the performance of SMEs in Addis Ketema and Arada sub city or not and the reflection of the respondents towards this issue presented in the table 4.3 below.

**Table 4.3 Descriptive Statistics for Informal financial source Eqqub**

No.	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	Mean
		F	%	F	%	F	%	F	%	F	%		
1	From your point of view , your agreement level with respect to the benefit of informal financial sources	8	4.2	22	11.5	9	4.7	86	45.0	60	31.4	185	3.91
2	From your point of view what is your level of agreement about individuals who are taking equbb as better alternative source of financial need	15	7.9	8	4.2	15	7.9	58	30.4	93	48.7	189	4.09
3	For all professionals and people engaged in other business activities the use of equbb is a better saving option.	1	.05	48	25.1	30	15.7	74	38.7	36	18.8	189	3.51
4	Most of the time SMEs uses eqqub as best alternative	9	4.7	42	22.0	19	9.9	74	38.7	45	23.6	189	3.55
5	In your perception how much do you agree with those parties who take eqqub as best alternative rather than using formal financial source	25	13.1	61	31.9	42	22.0	42	22.0	19	9.9	189	2.84
6	Do you prefer using eqqub is better option among other financial source because it doesn't request collateral pledge			55	28.8	11	5.8	60	31.4	63	33.0	189	3.69
7	Do you prefer eqqub because of the credit process of formal financial sources take long period of time	30	15.7	43	22.5	14	7.3	54	28.3	46	24.1	187	3.23
8	In your perception do you prefer eqqub Because of the			45	23.6	30	15.7	64	33.5	49	25.7	188	3.62

	high interest rate paid at formal financial sources												
9	do you believe using eqqub as start up capital is better than using formal financial sources	7	3.7	78	40.8	25	13.1	76	39.8	1	.5	187	2.93
10	Do you believe most people's are more strictly committed to pay their eqqub money rather than paying their loan repayment which they get from formal finance source	25	13.1	18	9.4	17	8.9	56	29.3	71	37.2	187	3.7
11	In your perception not getting credit opportunity from formal financial sectors makes you More limited your business in order to not expand	10	5.2	46	24.1	17	8.9	62	32.5	52	27.2	187	3.53
12	In your perception that the reason why you did not get credit from the financial sources is because of your financial recording system is weak	36	18.8	42	22.0	25	13.1	46	24.1	38	19.9	187	3.04
13	Do you believe you can get better credit information from financial sources	36	18.8	42	22.0	25	13.1	46	24.1	38	19.9	187	2.88

Source: Own Survey, 2018, F=Frequency, P=Percent

Based the results of the respondents for those questions particularly related to Eqqub as shown in **table 4.3** almost all respondents have indicated that they agree with the use of Eqqub has an influence or integration with the performance of SMEs. As per the results from **table 4.3** concerning the influence of Eqqub on the performance of SME, 93 (48.7%) of the respondent were strongly agreed that Eqqub is better alternative financial source and 58(30.4%) score agree response with a Mean value of 4.09 this result indicate that most of the respondents has been using Eqqub in order to finance their business.

Regarding the benefit of informal financial sources, 86 (45%) of the respondent agree on the benefit of informal financial sources and 60(31.4%) score strongly agree response with the mean value of 3.91 this result indicate that most of the informal financial sectors benefited from eqqub.

Regarding to their commitment to pay Eqqub duty than their commitment for loan repayment, 71(37.2) of the respondent strongly agree and 56 (29.3%) respondent score agree with the mean of 3.7. This implied that the majority of the respondents were agreed that they have more commitment to pay for their Eqqub duty than loan repayment.

Concerning the collateral pledge, 63(33%) of the respondent strongly agreed and 60 (31.4%) were score agreed with the mean value of 3.69 this indicate that most SMEs prefer to use eqqub because it doesn't request collateral pledge. According to the interest rate most SMEs prefer Eqqub Because of the high interest rate attached and paid at formal financial sources. 64(33.5%) of the respondent agreed and 49(25.7) of the respondent strongly agree with the mean value of 3.62 which is the interest rate attached to loans from formal financial sources was not fair. This implied that they used interest free informal financial sources like Eqqub to finance their business operations.

Concerning to the lack of credit opportunity from formal financial sources, from table 4.3 the mean value of 3.53 the result indicated that 62(32.5) of the respondent were agreed and 52(27.2%) of the respondent were strongly agree. This implied that, on average the majority of the respondents were agreed that lack of credit access from formal financial sources was a limiting factor for them for the expansion of their business.

As to the weakness and strength of financial records of the respondents on **table 4.3** showed that the responses were averaged to **3.04**. From this it was drawn that the majority 46(24.1%)of respondents were moderately agreed and 38(19.9%) of the respondents were strongly agreed that their financial recording systems were poor and did not show their financial position properly so as to apply for loan provisions from formal financial institutes.

Generally, the Mean of mean score of respondents as to their agreement level of the influence of informal financial sources on the performance of SMEs in Addis Ketema and Arada Sub-city were **3.42** and which referred that respondents were agreed the use of informal financial source (Eqqub) important for SMEs business operators in Addis Ababa, Addis Ketema and Arada sub city.

#### **4.4.1.1 Correlation Analysis**

The research conducted using **bivariate correlation** between informal finance source - Eqqub and performance. The results revealed that there was a positive and a significant association between informal finance source - Eqqub and performance ( $r=0.484$ ,  $p=0.000$ )

**Table 4.4 correlation between informal finance source - Eqqub and performance**

Total Eqqub		Total Performance	
Total Eqqub	Pearson Correlation	1	0.484
	Sig. (2-tailed)		0.000
	N	188	187
Total Performance	Pearson Correlation	0.484	1
	Sig. (2-tailed)	0.000	
	N	187	188

#### 4.4.2 Descriptive Statistics for Informal financial source Arata (Usury)

The degree to which the respondents agreement for the given statements concerning the influence of informal finance – Arata for the performance of SMEs in AddisKetema Sub city is presented in the table 4.5 using mean and standard deviation.

**Table 4.5 Descriptive Statistics for Informal financial source Arata (Usury)**

No.	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	Mean
		F	%	F	%	F	%	F	%	F	%		
1	What is your perception about peoples who are taking Usury (Arata) as best option rather than other financial source	78	40.8	88	46.1	17	8.9	2	1.0	2	1.0	187	1.80
2	Do you advice peoples to take usury in every aspect of work discipline is better advantage	97	50.8	64	33.5	24	12.6			2	1.0	187	1.64
3	Most of the time SMEs uses usury(Arata) as best alternative	78	40.8	44	23.0	55	28.8	7	3.7	3	1.6	187	2.0
4	In your perception how much do you agree with	52	27.8	81	42.0	40	20.0	14	7.3			187	2.09

	those parties who take usury (Arata) as best alternative rather than using formal financial source		2		4		9						
5	Do you prefer usury (Arata) because of the credit process of formal financial sources take long period of time	41	21.5	67	35.1	19	9.9	31	16.2	29	15.2	187	2.68
6	Do you believe the interest rate of usury (Arata) is high rather than other financial credit sources	3	1.6	2	1.0	13	6.8	66	34.6	105	55.0	189	4.42
7	Do you believe using usury (Arata) as startup capital is better than using other formal financial sources	62	32.5	95	49.7	28	14.7	2	1.0			187	1.84
8	Do you believe peoples those who are uses usury (Arata) are more successful in their business rather than others	75	39.3	68	35.6	17	8.9	27	14.1			187	1.98
9	Do you believe most peoples are more strictly committed to pay their usury (Arata) money rather than paying their loan repayment which they get from other finance source	36	18.8	27	14.1	28	14.7	53	27.7	43	22.5	187	3.21
10	Do you believe in case if you default to pay the usury debt you might obliged to pay from your personal property	3	1.6	11	5.8	10	5.2	74	38.7	88	46.1	186	4.25
11	Do you agree with those peoples who believes	3	1.6	2	1.0	4	2.1	92	48.2	86	45.	187	4.37

finishing your usury (arata) debt takes longer period of time due to the interest rate of usury (Arata) is too high											0		
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Regarding the influence of Arata on the performance of SME, 66(34.6%) of the respondent were moderately agreed and 105(55%) of the respondent strongly disagreed than the interest rate of Usury (Arata) is higher than other financial credit sources with the mean value of 4.42, According to the repayment of debit with mean value of 4.37 from the total respondent 92(48.2%) were moderately agreed and 86(45.0%) were strongly agreed that finishing Arata debt take longer period of time.

According to default payment Usury debt 88(46.1%) of the total respondent were strongly agreed and 74(38.7%) were scored agreed response, this indicate default of Usury debt might obliged the pay the debt from their personal property. SMEs more committed to pay their Arata money rather than other debt with the mean value of 3.21 from the total respondent 53(27.7%) were Agreed and 43(22.5%) were strongly agreed that SMEs more strictly committed to pay their debt rather than other formal financial credit sources.

Regarding taking Arata as best option rather than other financial source, 88(46.1%) of the respondent were disagreed and 78(40.8) scored strongly Disagreed that Usury is not best option with Mean value of 1.80, Usury is considered as best alternative with mean value 2.09, 52(27.2%) of the respondent were strongly disagree and 81(42.4%) of the respondent disagreed that Usury not considered as best alternative than other financial sources, use Usury in every aspect of work discipline is better advantage with the mean value of 1.64, 97(50.8%) of the respondent were strongly disagree and 64(33.5%) of the respondent were respond disagree.

better to use Arata as startup capital the Mean value of 1.84 from the total respondent 95(49.7%) were disagreed and 62(32.5%) were strongly disagreed. This indicates that Usury Negatively influence the performance of SMEs (Table 4.5).

#### 4.4.2.1 Correlation Analysis

The research conducted using bivariate correlation between informal finance source - Arata and performance. The results revealed that there was a Negative and a significant association between informal finance source - Arata and performance ( $r=-0.626$ ,  $p=.000$ ).

**Table 4.6 Correlation between informal finance source -Arata and performance**

		Total Performance	Total Arata
Total Performance	Pearson Correlation	1	-0.626
	Sig. (2-tailed)		0.000
	N	188	188
Total Arata	Pearson Correlation	-0.626	1
	Sig. (2-tailed)	0.000	
	N	188	189

#### 4.4.3 Descriptive Statistics for Informal financial source Trade credit

The degree to which the respondents agreement for the given statements concerning the influence of informal finance – Trade credit for the performance of SMEs in Addis Ketema and Arada Sub city is presented in the table 4.7 using mean and standard deviation.

**Table 4.7 Descriptive Statistics for Informal financial source Trade credit**

No.	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	Mean
		F	%	F	%	F	%	F	%	F	%		
1	What is your perception about peoples who are taking trade credit as best option rather than other financial source	27	14.1	40	20.9	46	24.1	46	24.1	28	14.7	187	3.04
2	Do you believe using Trade Credit as startup capital is better than using formal financial sources	4	2.1	45	23.6	27	14.1	65	34.0	46	24.1	187	3.56
3	Do you agree with those peoples who are uses Trade Credit are more profitable in their business rather than others	29	15.2	29	15.2	8	4.2	55	28.8	66	34.6	187	3.53
4	Do you believe most peoples are more strictly committed to pay their Trade Credit money rather	34	17.8	38	19.9	17	8.9	48	25.1	50	26.2	187	3.22

	than paying their loan repayment which they get from other finance source.												
5	Do you prefer Trade Credit because of the credit process of other financial sources take long period of time	23	12.0	57	29.8	5	2.6	76	39.8	26	13.6	187	3.13
6	Do you believe the interest rate of Trade Credit is high rather than other financial credit sources	33	17.3	76	39.8	23	12.0	53	27.7			185	2.52
7	Do you believe in order to get trade credit from the suppliers the previous good trade relationship is the basic thing	27	14.1	43	22.5	15	7.9	46	24.1	56	29.3	187	3.33
8	Do you believe if you get mass supplies due to trade credit the tax which is levy will be high	6	3.1	64	33.5	19	9.9	36	18.8	63	33.0	188	3.46
9	Do you believe that you can get trade credit if you pay your previous debt properly	29	15.2	36	18.8	2	1.0	50	26.2	68	35.6	185	3.5
10	Do you think that the only reason you can get trade credit is when you know the distributor closely or by any other benefits.	11	5.8	38	19.9	33	17.3	61	31.9	44	23.0	187	3.48

Regarding the influence of Trade credit on the performance of SME, 65(34.0%) of the respondent agreed and 46(24.1%) were scored strongly agreed that trade credit is better option start up business with the mean value of 3.56. Whereas, about the profitability of peoples in the business 66(34.6%) of the respondent strongly agreed and 55(28.8%) were respond agree with the mean value of 3.53 this indicate that trade credit make peoples profitable in their business.

According to the payment of previous debit 68(35.6%) of the respondent strongly agreed and 50(26.2%) were scored agreed by the mean value of 3.5 it implies that if you have good credit history with creditor you can get additional credit. Get trade credit is when you know the distributor closely or by any other benefits

61(31.9%) of the total respondent respond agreed and 44(23.0%) were strongly Agreed with the mean value of 3.48, About the Tax levy on the SMEs by the 3.46 mean value from the total respondent 63(33.0%) were respond strongly agreed and 36(18.8) were scored agreed, this implies when peoples received mass supplies due to trade credit the tax which is levy will be high.

SMEs more committed to pay their trade credit debt rather than other debt with the mean value of 3.22 from the total respondent 50(26.2) were strongly Agreed and 48(25.1%) of the total respondent were agreed that SMEs more strictly committed to pay their debt which they get through trade credit.

Generally, the mean values for the responses ranges from 3.56 to 2.52 and the overall average Mean score become 3.277 which shows that the influence of informal financial source- Trade credit statements. This indicates that trade credit positively influence the performance of SMEs.

#### 4.4.3.1 Correlation Analysis

The research conducted using bivariate correlation between informal finance source – Trade Credit and performance. The results revealed that there was a positive and a significant association between informal finance source – Trade Credit and performance ( $r=0.371$ ,  $p=0.000$ )

**Table 4.8**Correlation between informal finance source – Trade Credit and performance

		Total Performance	Total Trade Credit
Total Performance	Pearson Correlation	1	0.371
	Sig. (2-tailed)		.000
	N	188	187
Total Trade Credit	Pearson Correlation	0.371	1
	Sig. (2-tailed)	0.000	
	N	187	188

#### 4.4.4 Descriptive Statistics for Informal financial source family and friend support

The degree to which the respondents agreement for the given statements concerning the influence of informal finance – family and friend support for the performance of SMEs in Addis Ketema and Arada Sub city is presented in the table 4.8 using mean and standard deviation.

No.	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	Mean
		F	%	F	%	F	%	F	%	F	%		
1	Do you agree with peoples who believe Most of the time SMEs uses Family and Friend support as best alternative					9	4.7	35	18.51	145	76.72	189	4.7
2	Do you prefer Family and Friend support because of the credit process of other financial sources take long period of time					9	4.7	38	19.9	142	74.3	189	4.7
3	Do you prefer Family and Friend support because the interest rate is paid high in other financial sources			1	0.5	56	29.3	75	39.3	57	29.8	189	3.99
4	Do you believe most peoples are more strictly committed to pay their family and friend debt rather than paying their loan repayment which they get from other finance	68	35.6	51	26.7	29	15.2	22	11.5	19	9.9	189	2.33
5	Do you believe in case if you default to pay the family and friend debt you may not obliged to pay from your personal property			3	1.6	28	14.7	37	19.4	121	63.4	189	4.46
6	Do you agree with those people who believes that the money collect from family and friends					19	9.9	43	22.5	127	66.5	189	4.57

	have longer repayment period than other financial sectors											
7	Do you agree about loan which is collect from family and friend not request collateral				127	66.5	43	22.5			170	3.25
8	Do you agree most of the time you can get credit from family and friends without formal contractual agreement			57	30.16	66	31.75	72	38.1		189	3.05

Regarding the influence of family and friend support on the performance of SME, 142(74.3) of the respondent strongly agreed and 38(19.9%) were scored agreed by the mean value of 4.7 it implies that family and friend support is preferable because the credit process do not take longer period of time. Whereas, about best alternative to SMEs, 145(76.72%) of the total respondent strongly agreed and 35(18.51%) response were agreed that family and friend supportive to them by the mean value of 4.7. According to the durability of loan 127(66.5%) of the respondent were strongly agreed and 43(22.5%) responses were agreed that money which is borrowed from family and friends have longer repayment period than other financial sectors by the mean value of 4.57

Regarding to collateral issue 127(66.5%) of the respondent moderately response and 43(22.5%) of responses were agreed that loan from family and friends do not request collateral by the mean value of 3.25

Whereas, about credit default payment 121(63.4%) of the respondent strongly agreed and 37(19.4%) were responses agreed that default payment of family and friend debt may not be obliged to pay from their personal property by the mean value of 4.46

According to the interest rate payment in other financial sources 75(39.3%) of the respondents agreed and 57(29.8%) of the responses agreed that SMEs more preferred to take loan from family and friend by the mean value 3.99

Generally, the mean values for the responses ranges from 2.33 to 4.7 and the overall average Mean score become 3.88 which shows that the influence of informal financial source- family and friend support statements. This indicates that trade credit positively influence the performance of SMEs.

### 4.4.3.1 Correlation Analysis

The research conducted using bivariate correlation between informal finance source – family and friend support with performance. The results revealed that there was a positive and a significant association between informal finance source – family and friend support and performance ( $r=0.193$ ,  $p=0.008$ ).

**Table 4.9** Correlation between informal finance source – family and friend support and performance

		Total Performance	Total family and friend support
Total Performance	Pearson Correlation	1	0.193
	Sig. (2-tailed)		0.008
	N	188	188
Total family and friend support	Pearson Correlation	0.193	1
	Sig. (2-tailed)	0.008	
	N	188	189

### 4.4.4 Descriptive Statistics for Informal financial source Self Help Group (SHG)

The degree to which the respondents agreement for the given statements concerning the influence of informal finance – self Help Group for the performance of SMEs in Addis Ketema and Arada Sub city is presented in the table 4.10 using mean and standard deviation.

**Table 4.10** Descriptive Statistics for Informal financial source Self Help Group (SHG)

No.	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	Mean
		F	%	F	%	F	%	F	%	F	%		
1	Do you agree with peoples who believe Most of the time SMEs uses Self Help Groups as best alternative					99	51.80			90	47.1	189	3.95

2	Do you believe that members' contribution is necessary for the development of the enterprise				45	23.6	47	24.6	97	50.8	189	4.28
3	Do you agree that Members' contribution benefited us rather than other financial sources because of not collateral request						38	19.9	151	79.1	189	4.80
4	Do you agree that contributions collected from members based on their free willingness				112	58.6	64	33.5			176	3.36
5	SHG contribution helps members to give concentration on their jobs				9	4.7	38	19.9	142	74.3	189	4.70
6	Do you agree that SHG play great role in order to start your business				9	4.7	48	25.4	132	69.8	189	4.70
7	Do you agree that SHG play great role in order to expand existing business				19	9.9	43	22.5	127	66.5	189	4.57
8	Do you agree that SHGs' contribution have great benefit in order to expand the existing business rather than having credit from other financial sources		36	18.8	112	58.6	26	13.6			174	2.94

Regarding the influence of self help group on the performance of SME, 151(79.1%) of the respondent strongly agreed and 38(19.9%) were scored agreed by the mean value of 4.8 it implies that self help group finance more benefited the SMEs members than other financial sources

Whereas, about to start up business, 132(69.84%) of the total respondent strongly agreed and 48(25.46%) response were agreed that self help groups play a great role to start business by the mean value of 4.7

According to expanding existing business 127(66.5%) of the respondent were strongly agreed and 43(22.5%) responses were agreed that helpful to enlarge the existing business by the mean value of 4.57

Regarding to collateral issue 127(66.5%) of the respondent moderately response and 43(22.5%) of responses were agreed that loan from family and friends do not request collateral by the mean value of 3.25

Generally, the mean values for the responses ranges from 2.94 to 4.8 and the overall average Mean score become 3.87 which shows that the influence of informal financial source- Self Help group statements. This indicates that trade credit positively influence the performance of SMEs.

#### 4.4.3.1 Correlation Analysis

The research conducted using bivariate correlation between informal finance source – Self Help Group with performance.

**Table 4.11** Correlation between informal finance source – Self Help Group and performance

		Total Performance	Total Self Help Group
Total Performance	Pearson Correlation	1	0.223
	Sig. (2-tailed)		.002
	N	188	188
Total Self Help Group	Pearson Correlation	0.223	1
	Sig. (2-tailed)	.002	
	N	188	189

#### 4.4.4 Descriptive Statistics for informal financial source - Success

The degree to which the respondents agreement for the given statements concerning the success of informal finance to SMEs in Addis Ketema and Arada Sub city is presented in the table 4.12 using mean.

No.	Description	Strongly Disagree		Disagree		Neutral		Agree		Strongly Agree		Total	Mean
		F	%	F	%	F	%	F	%	F	%		
1	In your perception using informal financial sources makes you successful in your business operation	18	9.4	64	33.5	42	22.0	52	27.2	10	5.2	186	2.85
2	In your perception using informal financial sources makes you to employed many employees	28	14.7	51	26.7	28	14.7	44	23.0	34	17.8	185	3.03
3	In your perception using informal financial sources makes you to satisfy you customers	35	18.3	52	27.2	35	18.3	42	22.0	21	11.0	185	2.79
	In your perception using informal financial sources help you to fulfill your basic needs	19	9.9	78	40.8	32	16.8	48	25.1	8	4.2	185	2.72

According to the results of respondents from table 4.9 the contribution of informal financial sectors for the success of business operations 64(33.5%) of the respondent disagreed, 52(27.2%) of the respondent agreed and 42(22.0%) response moderate by the mean value of 2.85 has been obtained this indicates that the use of informal financial sectors as a financial source has a moderate influence on the operational performance of SMEs that are registered and working in Addis Ababa, Addis Ketema and Arada Sub-city. informal finance help you to fulfill your basic need 78(40.8%) of respondent were disagree, 32(16.8%) of respondent were moderate response and 48(25.1%) respond agreed by the mean value of 2.72 , informal finance makes you to satisfy you customer 52(27.2%) of the respondent disagreed, 35(18.3%) of the respondent moderate and 42(22%) were response agreed by the mean value of 2.79

Generally, the mean values for the responses ranges from 2.72 to 3.03 and the overall average Mean score become 2.86 which shows that informal financial source have moderately agreed statements. This indicates that informal financial sources moderately influence the performance of SMEs.

#### 4.5 Informal financial sources on the performance of SMEs regression result

The result indicated in table 4.13 show the fitness model summary try to explain the regression model. Eqqub, Usury, trade Credit, family and friend support and Self Help Groups were found to be satisfactory via in explaining the performance variable. **This is maintained by R squared of 54.5%. this implies that Eqqub, Usury, Trade Credit, Family and Friends support and Self Help Group are explain 54.5% of the deviation in the dependent variable which is performance.** All this means that the model which the researcher applied was satisfactory.

**Table 4.13 Regression Fitness Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.738a	0.545	0.532	0.33757	1.767

a. Predictors: (Constant), SHG, Usury, Family, Trade credit ,Eqqub

b. Dependent Variable: Performance

The output of a regression on Informal financial sources on the performance of SMEs is shown in the table 4.14 below.

**Table 4.14 Regression of Coefficients**

Model	Un standardized Coefficients	Standardized Coefficients	t	Sig.	
					B
1 (Constant)	0.283	0.098	2.885	0.004	
Eqqub	0.202	0.068	0.193	2.988	0.003
Usury	-0.505	0.052	-0.510	-9.639	0.000
Trade credit	0.184	0.074	0.155	2.488	0.014
Family and friend support	0.209	0.066	0.164	3.181	0.002
Self Help Group	0.197	0.054	0.187	3.645	0.000

The OLS regression results indicates that Eqqub positively influence the performance of SMEs. That is positively influence the performance of SMEs at Beta value of (0.202). This indicate that when informal financial source – Eqqub increased by 1% performance will increased by (20.2%) Therefore informal financial source- Eqqub is significant at a significant level of 5 percent. Coefficient of the variable is positive implies that the variable has a positive effect on the performance of SMEs.

The result also disclosed that informal financial source-Usury has a negative and significant influence on the performance of SMEs. The result indicates that informal financial source-Usury negatively influence the performance of SMEs at Beta value of (-0.505). This indicate that when informal financial source- Usury increased by 1% performance will decreased by (50.5%). Therefore informal financial source-Usury is significant at a 5 percent significance level. The fact that the coefficient of the variable is Negative implies that the variable has a negative effect on the performance of SMEs.

Similarly the OLS regression result shows that the Beta value of an independent variable informal financial source-Trade Credit has a positive and significant influence on the performance of SMEs. The result indicates that informal financial source-Trade Credit positively influences the performance of SMEs at Beta value of (0.184). This indicate that when informal financial source – Trade credit increased by 1% performance will increased by (18.4%). This suggests that informal financial source-Trade Credit is statistically significant determinant for the performance SMEs at 5 percent significant level. The fact that the coefficient of the variable is positive implies that the variable has a positive effect on the performance of SMEs.

Regarding with the OLS regression result shows that the Beta value of an independent variable informal financial source- Family and friend support has a positive and significant influence on the performance of SMEs. The result indicates that informal financial source-Family and friend support positively influences the performance of SMEs at Beta value of (0.209),this indicate that when informal financial source -family and friend support increased by 1% performance will increased by (20.9%). This suggests that informal financial source-Family and friend support is statistically significant determinant for the performance SMEs at 5 percent significant level. The fact that the coefficient of the variable is positive means that the variable has a positive effect on the performance of SMEs.

Regarding with the OLS regression result shows that the Beta value of an independent variable informal financial source- Self help group has a positive and significant influence on the performance of SMEs. The result indicates that informal financial source-Self help group positively influences the performance of SMEs at Beta value of (0.197). This indicate that when informal financial source – self help group increased by 1% performance will increased by (19.7%) This suggests that informal financial source-Self help group is statistically significant determinant for the performance SMEs at 5 percent significant level. The fact that the

coefficient of the variable is positive means that the variable has a positive effect on the performance of SMEs.

The specific model was ;

**Performance=0.283+0.202Eqqub-0.505Usury+0.184Trade credit+0.209family and friend support+0.197self help groups**

## CHAPTER 5

### 5. Conclusion and Recommendations

#### 5.1. Conclusion

The main objective of this research was to show the influence of informal finance on the performance of small and medium enterprise in Addis Ketema and Arada sub city, Addis Ababa.

This research paper began with an explanation of the role and benefits of small and medium enterprises in particular. For the development of SMEs access to finance is a crucial element. Thus their sustainable growth depend on financial institutions. However, the formal financial institutions not able to give this resources or credits due to many reasons. This research paper reviewed different literatures on theoretical and empirical evidence of the influence of informal financial sectors particularly on the performance of SMEs. The review highlighted overall informal financial sectors meanings and definitions particularly Eqqub, Usury, Trade Credit, Family and Friend support and Self Help Groups, play great role in the development of SMEs.

The General and specific objectives were set for this research. To conduct this study the researcher were used primary data in order to get the relevant information for the study. A total of 200 Questionnaires were distributed to respondents and out of which 189 (94.5%) were filled and returned back and the rest eleven were missed.

In this literature the main influence of informal finance were discussed in detail. After a wide literature review, the research were carried on SPSS software (24 version) program were used for data analysis purpose. According to the findings which discussed in the previous chapter, it is possible to summarize that informal financial sources like **Eqqub and Trade Credit are highly used as best alternative financial sources**. Whereas, SMEs have **low interest on Usury**. These findings assure that both Eqqub and Trade credit are positively influence the performance of SMEs. Whereas, Usury have negatively influence the performance of SMEs. Based on the findings regarding the degree of relationship between Eqqub and Trade Credit with the performance of SME. Yet, the total degree of relationship between Eqqub and Trade credit with performance is stronger than usury with performance. This research was supported by Multiple regression analysis that informal financial sources like Eqqub and trade credit have more demand than Arata on the fulfillment of financial need for the SMEs.

With regard that SMEs literatures revealed that's small firms face more challenges in obtaining formal financing than large firms. They are much likely to be rejected for loans, and are less likely to have external financing.

In respect of formal financial sectors literature revealed that Due to the problem of information asymmetries not all necessary information to assess creditworthiness of borrowers is available to lenders. Besides, collecting information that is not easily accessible is overly costly.

## 5.2 Recommendations

The recommendations part discussed about giving possible suggestion as per the above conclusion.

- Banks should revise their credit policies and procedure which particularly to help SMEs in order to take credit. And reduce the duration of the credit process which it takes longer period of time. And also provide other means of guarantees instead of requesting collateral. This helps the banks to collect and control the money which circulates outside the formal institution.
- For government should design and implement how to increase the number of SMEs by providing sound working areas because they are strategically important for entrepreneurship development and SMEs play great role by reducing unemployment and foster economy development of the country.
- Regarding to Usury (Arata) the government restrict citizens from using Usury. However, there are peoples who are engaging in this money lenders business. Arata cripple the financial economy of the country. And also the interest rate is high when it compared with other financial sources. Arata obliged SMEs to pay their debt from their personal properties in case they default to pay. So the researcher recommends SMEs not to use Arata in order to fulfill their financial need.
- Trade creditors should encourage small and medium enterprises by giving credit of supply in order to stayed in business.
- The limitation of the research leads further enrichment by other scholars for the future studies by including other different variables which influence the performance of SMEs other sub cities which do not cover by the researcher.
- **35.45%** of the respondents were first and secondary school completed and certificate holders. It indicates that there is an impact on handling of their financial records. The researcher recommended that if the skill and experience of this respondent were supported by education and professionalism, they are able to manage their business efficiently and effectively and also their business might shows fast development and success.



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# Appendices

## Appendix 1 - SMEs survey instrument (English version)

**Addis Ababa University**  
**College of Business and Economics**  
**Department of Master of business Administration**  
**(Specialization of Financial Service)**

This questionnaire is designed to gather data for a research paper with a title of “Influence of informal finance on the performance of SMEs case study in Addis Ababa, Addis Ketema sub city wereda 08”. The purpose of the requirements for the degree of master of business administration (specialization of financial service) at Addis Ababa University. Your highly esteemed responses for the questions are extremely important for successful completion of my thesis.

The information you provide will be used only for academic purposes and confidentially treated. Thank you in advance for your cooperation!

For further information you can Contact Dawit Lakew through the following Address

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E-mail- [dvdlakew@gmail.com](mailto:dvdlakew@gmail.com)

### Part 1 Demographic characteristics

Mark the best alternative among the given boxes which is suitable to you

1. Gender

A. Male

B. Female

2. Your Age

A. From 14-20

B. From 21-30

C. From 31-40

D. From 41-50

E. 51 and Above

3. What is your level of education

A. Certificate

B. Diploma

C. Degree

D. Masters and above

E. Other \_\_\_\_\_

4. What is Your position in the company

A. Manager

B. Owner/Manager

C. Sales person

D. Finance Head

E. Other \_\_\_\_\_

5. For How long have you been served in the company

A. Less than a year

B. 1-5

C. 5-10

D. 11-20

E. More than 20 years

6. Types of business that the company running

A. Manufacturing

B. Trade

C. Agriculture

D. Service

E. Construction

F. Other

7. Company's ownership type

A. Sole proprietorship

B. Share company

C. Private limited company

D. Other

8. How long has the business been in this operation

- A. Less than a year
- B. 1-5 years
- C. 6-10 years
- D. 10-15 years
- E. More than 10 years

9. The average number of permanent employees of the company in 2009 budget year.

- A. 1-10
- B. 11-20
- C. 21-30
- D. 31-50
- E. 51-100

10. On average How do you evaluate the market competition in the past three years ?

- A. No competition
- B. Moderate competition
- C. Tough competition
- D. Very tough competition
- E. Neutral

11. In 2009 E.C fiscal year average sales of the your company was

- A. Birr 10,000 or less
- B. Birr 10,001 – 50,000
- C. Birr 50,001 – 100,000
- D. Birr 100,001 - 1,000,000
- E. Birr 1,000,001 or more

12. The average amount of sales from export trade of your company as compared with the total sales or percentage in the 2009 E.C fiscal year

- A. 1-10%
- B. 11-20%
- C. 21-50%
- D. 50 % Above
- E. No / Undetermined

## Part 2 - Informal Finance Source – “Eqqub”

Sr. no		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	From your point of view , your agreement level with respect to the benefit of informal financial sources					
2	From your point of view what is your level of agreement about individuals who are taking Eqqub as better alternative source of financial need					
3	For all professionals and people engaged in other business activities the use of Eqqub is a better saving option.					
4	Most of the time SMEs uses Eqqub as best alternative					
5	In your perception how much do you agree with those parties who take Eqqub as best alternative rather than using formal financial source					
6	Do you prefer using Eqqub is better option among other financial source because it doesn't request collateral pledge					
7	Do you prefer Eqqub because of the credit process of formal financial sources take long period of time					

8	In your perception do you prefer Eqqub Because of the high interest rate paid at formal financial sources					
9	do you believe using Eqqub as startup capital is better than using formal financial sources					
10	Do you believe peoples those who are uses Eqqub are more successful in their business rather than others					
11	Do you believe most people are more strictly committed to pay their Eqqub money rather than paying their loan repayment which they get from formal finance source					
12	In your perception not getting credit opportunity from formal financial sectors makes you More limited your business in order to not expand					
13	Do you believe you can get better credit information from financial sources					
14	In your perception that the reason why you did not get credit from the financial sources is because of your financial recording system is weak					

### Part 3 - Informal Financial Source Usury (Arata)

Sr. No.		Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
15	What is your perception about peoples who are taking Usury (Arata) as best option rather than other financial source					
16	Do you advice peoples to take usury in every aspect of work discipline is better advantage					
17	Most of the time SMEs uses usury(Arata) as best alternative					
18	In your perception how much do you agree with those parties who take usury (Arata) as best alternative rather than using formal financial source					
19	Do you prefer usury (Arata) because of the credit process of formal financial sources take long period of time					
20	Do you believe the interest rate of usury (Arata) is high rather than other financial credit sources					
21	do you believe using usury (Arata) as startup capital is better than using other formal financial sources					
22	Do you believe peoples those who are uses usury(Arata) are more					

	successful in their business rather than others					
23	Do you believe most people are more strictly committed to pay their usury (Arata) money rather than paying their loan repayment which they get from other finance source					
24	Do you believe in case if you default to pay the usury debt you might obliged to pay from your personal property					
25	Do you agree with those peoples who believes finishing your usury (Arata) debt takes longer period of time due to the interest rate of usury (Arata) is too high					

### Part 3 - Informal Financial Source – Trade Credit

Sr. No.		Strongly disagree	Disagree	Neutral	Agree	Strongly agree
26	What is your perception about peoples who are taking trade credit as best option rather than other financial source					
27	Do you believe using Trade Credit as startup capital is better than using formal financial sources					
28	Do you agree with those peoples who are uses Trade Credit are more profitable in their business rather than others					
29	Do you believe most people are more strictly committed to pay their Trade Credit money rather than paying their loan repayment which they get from other finance source					
30	Do you prefer Trade Credit because of the credit process of other financial sources take long period of time					
31	Do you believe the interest rate of Trade Credit is high rather than other financial credit sources					
32	Do you believe in order to get trade credit from the suppliers the previous good trade relationship is					

	the basic thing					
33	Do you believe if you get mass supplies due to trade credit the tax which is levy will be high					
34	Do you believe that you can get trade credit if you pay your previous debt properly					
35	Do you think that the only reason you can get trade credit is when you know the distributor closely or by any other benefits.					

## Part 4- Informal Finance Source- Family and Friend Support

Sr. No		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
36	Do you agree with people who believe Most of the time SMEs uses Family and Friend support as best alternative					
37	Do you prefer Family and Friend support because of the credit process of other financial sources take long period of time					
38	Do you prefer Family and Friend support because the interest rate is paid high in other financial sources					
39	Do you believe most people are more strictly committed to pay their family and friend debt rather					

	than paying their loan repayment which they get from other finance source					
40	Do you believe in case if you default to pay the family and friend debt you might obliged to pay from your personal property					
41	Do you agree with those people who believes that the money collect from family and friends have longer repayment period than other financial sectors					
42	Do you agree about loan which is collect from family and friend not request collateral					
43	Do you agree most of the time you can get credit from family and friends without formal contractual agreement					

## Part 5- Informal financial source- Self Help Group

Sr. No		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
44	Do you agree with people who believe Most of the time SMEs uses Self Help Groups as best alternative					
45	Do you believe that members					

	contribution is necessary for the development of the enterprise					
46	Do you agree that Members contribution benefited us rather than other financial sources because of not collateral request					
47	Do you agree that contributions collected from members based on their free willingness/					
48	SHG contribution helps members to give concentration on their jobs					
49	Do you agree that SHG play great role in order to start your business					
50	Do you agree that SHG play great role in order to expand existing business					
51	Do you agree that SHGs contribution have great benefit in order to expand the existing business rather than having credit from other financial sources					

## Part 4 - Informal Financial Source – Success

Sr. No		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
52	In your perception using informal financial sources makes you successful in your business					

	operation					
53	In your perception using informal financial sources makes you to employed many employees					
54	In your perception using informal financial sources makes you to satisfy you customers					
55	In your perception using informal financial sources help you to fulfill your basic needs					

**Appendix 2 - SMEs survey instrument (Amharic version)**

**አዲስ አበባ ዩንቨርሲቲ**

**የቢዝነስና ኢኮኖሚክስ ፋኩልቲ**

**የቢዝነስና አስተዳደር “MBA Financial Service ትምህርት ክፍል**

**የተከበሩ የጥናቱ ተሳታፊ**

**የዚህጥናት ርዕስ “The Influence of Informal Institutions On The Performance Of SME”**

**ነው። አጥኝው ዳዊት ላቀው ሲባል በአሁኑ ጊዜ በአዲስ አበባ ዩንቨርሲቲ ውስጥ የቢዝነስና አስተዳደር “MBA Financial Service ትምህርት ክፍል የድህረ ምረቃ ተማሪ ነው።**

**የጥናቱ ዋና አላማ ኢ-መደመኛ ተቋማት በጥቃቅንና አነስተኛ ድርጅቶች በስራቸው ላይ የሚፈጥረውን ተፅዕኖ ለማሳየት ሲሆን ይህንን ለማድረግ መረጃ በዕጣ ከተመረጡ በአዲስ ከተማ ክፍለ ከተማ የሚገኙ ጥቃቅንና አነስተኛ ድርጅቶች ላይ በፊት ለፊት የጥያቄና መልስ መጠይቅ በመበተንና በመሰብሰብ ይሆናል።**

**በዚህ መጠይቅ ላይ መሳተፍ ሙሉ በሙሉ በፈቃደኝነት ላይ የተመሰረተ ነው። መጠይቁ የተሳታፊውን ማንነት ሳይለይ ይመዘግብና ጥብቅ በሆነ ሚስጥርነት ይጠብቃል ። የእያንዳንዱ ተሳታፊ መልሶች በአጥኝው ጽሁፍ ላይ የመላሹ ማንነት ተገልጾ አየቀመጥም።**

**ለተጨማሪ መረጃ ዳዊት ላቀውን በሚከተለው አድራሻ ማግኘት ይችላሉ**

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**ክፍል አንድ፣ የርስዎ የድርጅቱ ጠቅላላ ሁኔታ**

ከተቀመጡት ምርጫዎች ውስጥ መልሶንበምልክት ያሳዩ

1 ጾታ

A. ወንድ  B. ሴት

2. ዕድሜ

A. ከ14 - 20

B. ከ21- 30

C. ከ31 - 40

D. ከ41 - 50

E. ከ51 እና ከዚያ በላይ

3 የርስዎ የትምህርት ደረጃ

A. ሰርተክፌት

B. ዲፕሎማ

C. ዲግሪ

D. ማስተርስና ከዚያ በላይ

E. ሌሎች -----

4 በድርጅቱ ውስጥ ያለዎት የስራ ድርሻ

A. ስራ አስኪያጅ

B. ባለሀብት/ስራ አስኪያጅ

C. የሽያጭ ሰራተኛ

D. የሳብሀላፊ

E. ሌሎች-----

5 በዚህ የስራ ክፍል ላይ ለምን ያህል ጊዜ አገልግለዋል

A. ከአንድ አመት በታች

- B. ከ1-5
- C. ከ6-10
- D. ከ11-20
- E. ከ20 ዓመት በላይ

6 የድርጅቱ ዋና የስራ እንቅስቃሴ ምንድን ነው

- A. ማምረት
- B. ንግድ
- C. እርሻ
- D. አገልግሎት
- E. ግንባታ
- F. ሌሎች-----

7 የድርጅቱ የባለቤትነት ሁኔታ

- A. በአንድ ግለሰብ ባለቤትነት የተያዘ
- B. ከአንድ በላይ ባለሀብቶች የተያዘ(ሽርክና)
- C. ሀላፊነቱ የተወሰነ የግል ማህበር(PLC)
- D. ሌሎች -----

8.በ ድርጅትዎ በዚህ የስራ ዘርፍ ላይ ለምን ያህል ጊዜ ቆይቷል

- A. ከአንድ አመት በታች
- B. ከ1-5 ዓመት
- C. ከ6-10 ዓመት
- D. ከ10-15 ዓመት
- E. ከ15 ዓመት በላይ

9 በ 2009 የበጀት ዓመት በአማካይ በድርጅትዎ ውስጥ ምን ያህል ቋሚና ጊዜያዊ ሰራተኞች ነበሩት

- A. 1-10
- B. 11-20

- C. 21-30
- D. 31-50
- E. 51-100

10 በአማካይ ላለፉት ሶስት ዓመታት የገበያ ውድድር ምን ይመስላል

- A. ፋክክር የለም
- B. ጠንካራ ፋክክር
- C. በጣም ጠንካራ ፋክክር
- D. መልስየለኝም

11. በ 2009 የበጀት ዓመት በአማካይ ድርጅትዎ ምን ያህል ሽያጭ ነበረው

- A. ብር 10,000 ወይም በታች
- B. ብር 10,001-50,000
- C. ብር 50,001-100,000
- D. ብር 100,001-1,000,000
- E. ብር 1,000,000 ወይም በላይ

12. በ 2009 የበጀት ዓመት በአማካይ ድርጅቱ ወደ ውጪ ሀገር የሸጣቸው/የላካቸው/ ከአጠቃላይ ሽያጭጋር ሲነጻጸር ወይም በመቶኛ ሲሰላ ምን ያህል ይሆናል

- A. 1%-10%
- B. 11%-20%
- C. 21%-50%
- D. ከ50% በላይ
- E. የለም/አይታወቅም

**የ ኢ-መደበኛ የገንዘብ ምንጭ- ዕቁብ**

ተ.ቁ		በጣም አልሰማም	አልሰማም	መልስ የለኝም	እሰማለሁ	በጣም እሰማለሁ
1	በእርስዎ እይታ የ ኢ-መደበኛ የቁጠባ ዘዴዎች ጠቀሜታ ላይ ምን ያህል ይሰማሉ					

2	እቁብን እንደ ተሻለ የቁጠባ አማራጭ አድርገው ከሚጠቀሙ ሰዎች ጋር የርስዎ አመለካከት ምን ያህል ይስማማል					
3	በሁሉም የሙያና ስራ ዘርፍ የተሰማራ ሰው እቁብን እንደተሻለ የቁጠባ ዘዴ አድርጎ ቢጠቀም ምን ያህል ይስማማሉ					
4	በአብዛኛው በጥቃቅንና አነስተኛ ደረጃ የሚገኙ ድርጅቶች እቁብን እንደተሻለ የቁጠባ ዘዴ ይጠቀማሉ					
5	በእርስዎ እይታ ከባንክ እና ከብድርና ቁጠባ ተሰማት ከሚገኝ የገንዘብ ብድር ይልቅ እቁብን የተሻለ አማራጭ አድርገው ከሚወስዱ አካላት ጋር ምን ያህል ይስማማሉ					
6	ከባንክ እና የብድርና ቁጠባ ተሰማት የሚገኝ የገንዘብ ብድር የሚገኝ ጉብረት ዋስትና ማስያዣ ስለሚጠይቅ እቁብን እንደተሻለ የገንዘብ ምንጭ መጠቀምን ይስማማዎታል					
7	የባንክ እና የብድርና ቁጠባ ተሰማት የብድር ሂደት ረዥም ጊዜ ስለሚወስድ እቁብን የተሻለ የቁጠባና የገንዘብ ማግኛ አማራጭ ነው ብለው ከሚያስቡ ሰዎች ጋር ምን ያህል ይስማማሉ					
8	ከባንክና ከብድርና ቁጠባ ተሰማት የሚገኝ የብድር ገንዘብ ወለዱ ተመጣጣኝ ባለመሆኑ እቁብን እንደተሻለ የቁጠባና የገንዘብ ማግኛ አማራጭ መጠቀምን ምን ያህል ይስማማዎታል					
9	አንድ ሰው የንግድ ስራ ለመጀመር እቁብን መጠቀም ከባንክ እና ከብድርናቁጠባ ተሰማት ከሚገኝ የገንዘብ ብድር የተሻለ አማራጭ ነው ብለው ይስማማሉ					
10	በርስዎ እይታ ከባንክ እና ብድርና ቁጠባ ተሰማት ከሚገኝ የገንዘብ ብድር ይልቅ እቁብን እንደተሻለ አማራጭ የሚጠቀሙ አካላት የተሻለና ስኬታማ የንግድ እንቅስቃሴ አላቸው ብለው ይስማማሉ					
11	በርስዎ እይታ ሰዎች ከባንክ ወይም ብድርና ቁጠባ ተሰማት የሚያገኙትን ገንዘብ ከመመለስ ይልቅ የእቁብ ገንዘብ ለመክፈል ያላቸው ተነሳሽነት የተሻለ ነው ብለው ይስማማሉ					
12	በርስዎ እይታ ከባንክ እና ብድርና ቁጠባ ተሰማት የመበደር እድል ባለማግኘትዎ የንግድ ስራዎን ማስፋፋት ላይ ተፅዕኖ አሳድሮልብለው ይስማማሉ					

13	የባንክ እና የብድርና ቁጠባ ተሰማት የብድር መረጃ ግልፅነት በተሻለ ሁኔታ አገኛለሁ ብለው ይስማማሉ					
14	የሂሳብ አያያዜ ደካማ በመሆኑ ከባንክ ወይም ከብድር ቁጠባ ተሰማት ብድር እንዳላነኝ ከልክሎኛል ብለው ያስባሉ					

**የ ኢ-መደበኛ የገንዘብ ምንጭ- አራጣ**

ተ.ቁ		በጣም አልስማማም	አልስማማም	መልስ የለኝም	እስማማለው	በጣም እስማማለው
15	አራጣን እንደ ተሻለ የቁጠባ አማራጭ አድርገው ከሚጠቀሙ ሰዎች ጋር የእርሶ አመለካት ምን ያህል ይስማማል					
16	በሁሉም የሙያና የስራ ዘርፍ የተሰማራ ሰው አራጣን እንደተሻለ የብድር ዘዴ ቢጠቀም ምን ያህል ይስማማሉ					
17	በአብዛኛው በጥቃቅን እና አነስተኛ ደረጃ የሚገኙ ድርጅቶች አራጣን እንደተሻለ የብድር አማራጭ ዘዴ አድርገው ይጠቀማሉ					
18	በእርስዎ እይታ ከባንክ እና ከብድርና ቁጠባ ተሰማት ከሚገኝ የገንዘብ ብድር ይልቅ አራጣን እንደ ተሻለ አማራጭ አድርገው ከሚወስዱ አካላት ጋር ምን ያህል ይስማማሉ					
19	ከባንክ እና ብድርና ቁጠባ ተሰማት የብድር ሂደት ረጅም ጊዜ ስለሚወስድ አራጣ የተሻለ ገንዘብ የማግኛ አማራጭ ነው ብለው ያስባሉ					
20	አራጣ ከብድርናቁጠባ ተሰማት እና ከባንክ ከሚገኝ የብድር ገንዘብ ወለድ ይልቅ ከፍተኛ ነው ብለው ያስባሉ					
21	አንድ ሰው የንግድ ስራን ለመጀመር አራጣን ቢጠቀም ከባንክ እና ብድርና ቁጠባ ተሰማት ከሚገኝ የገንዘብ ብድር በተሻለ አማራጭ አለው ብለው ይስማማሉ					
22	በእርስዎ እይታ ከባንክ እና ከብድርና ቁጠባ ተሰማት ከሚገኝ የገንዘብ ብድር ይልቅ አራጣን እንደተሻለ አማራጭ የሚጠቀሙ አካላት በተሻለ የስኬታማ የንግድ እንቅስቃሴ አላቸው ብለው የስማማሉ					
23	በእርሶ እይታ ከባንክ እና ከብድርና ቁጠባ ተሰማት የሚያገኙትን የገንዘብ ከመመለስ ይልቅ የአራጣ ገንዘብን ለመክፈል ያላቸው					

	ተነሳሽነት የተሻለ ነው ብለው ከሚያስቡ አካላት ጋር ምን ያህል ይስማማሉ					
24	በእርሶ እይታ ከአራጣ የተበደሩትን ገንዘብ መክፈል ባይችሉ ከእርሶ ድርጅት አልፎ ለግል ንብረት ላይም ታሳቢ ተደርጎ የመክፈል ግዴታ ውስጥ የሚገቡ ይመስሉታል					
25	በእርሶ እይታ የአራጣ ገንዘብ ወለድ ከፍተኛ በመሆኑ ብድሩን ከፍሎ ለመጨረስ ረጅም ጊዜ ይወስዳል ብለው ከሚያስቡ ሰዎች ጋር ይስማማሉ					

**የ ኢ-መደበኛ የገንዘብ ምንጭ- የዱቤ ግዢ**

ተ.ቁ		በጣም አልስማማም	አልስማማም	መልስ የለኝም	እስማማለሁ	በጣም እስማማለሁ
26	በእርሶ እይታ የዱቤ ግዢን እንደተሻለየንገድ አማራጭ አድርገው ከሚወስዱ ሰዎች ጋር ምን ያህል ይስማማሉ					
27	አንድ ሰው የንግድ ስራን ለመጀመር የዱቤ ግዢን መጠቀም ከባንክና ብድር ተሰማት ከሚገኝ የገንዘብ ብድር የተሻለ አማራጭ ነው ብለው ይስማማሉ					
28	በእርሶ እይታ ከባንክ እና ብድር ና ቁጠባ ተሰማት ይልቅ የዱቤ ግዢን መጠቀም በንግድ እንቅስቃሴያቸው ላይ ትርፋማ አድርጎናል ከሚሉ አካላት ጋር ይስማማሉ					
29	በእርሶ እይታ ከባንክ እና ብድር ቁጠባ ተሰማት ያገኙትን ገንዘብ ከመመለስ ይልቅ በዱቤ ግዢ ያመጡትን ገንዘብ ለመመለስ ተነሳሽነቱ ይበልጥ የተሻለ ነው ብለው ይስማማሉ					
30	ከባንክ እና ከብድር ቁጠባ ተሰማት የብድር ሂደት ረጅም ጊዜ ስለሚወስድ የዱቤ ግዢ የተሻለ የገንዘብ ማግኛ አማራጭ ነው ብለው ያስባሉ					
31	የዱቤ ግዢ ከባንክ እና ከብድር ቁጠባ ተሰማት የሚገኝ የብድር ገንዘብ ወለድ ይልቅ ከፍተኛ ነው ብለው ያስባሉ					
32	የዱቤ ግዢን ለማግኘት የድርጅቱ የቀድሞ የንግድ እንቅስቃሴ መሰረት ነው ብለው ከሚሉ ሰዎች ጋር ይስማማሉ					

33	ብዛት ያላቸው ዕቃዎችን በዱቤ ግጥር ባስገባ የገቢ ግብር አስባስቡ ላይ የምክፍለውን የግብር መጠን ይጨምርብኛል ብለው ያስባሉ				
34	የዱቤ አገልግሎት የማገኘው ክፍያዬን ማለትም ዕዳዬን በጊዜውና በአግባቡ ስክፍል ብቻ ነው ብለው ያስባሉ				
35	የዱቤ አገልግሎት ለማግኘት እከፋፋዬን ድርጅት በቅርበት ወይም በሌላ ልዩ ጥቅም ሳውቀው ብቻ ነው ብለው ያስባሉ				

**የ ኢ-መደበኛ የገንዘብ ምንጭ- የጓደኛ እና የቤተሰብ አገዛ**

ተ.ቁ		በጣም አልሰማም	አልሰማም	መልስ የለኝም	እሰማለሁ	በጣም እሰማለሁ
36	ው በጥቃቅን እና አነስተኛ ደረጃ የሚገኙ የጓደኛ እና የቤተሰብ አገዛን እንደ ተሻለ አማራጭ ዘዴ አድርገው ይጠቀማሉ።					
37	ከባንክ እና ከብድርና ቁጠባ ተቋማት የብድር ሒደት ረጅም ጊዜ ስለሚወስድ የጓደኛ እና የቤተሰብ አገዛ የተሻለ የገንዘብ ማግኛ አማራጭ ነው ብለው ያስባሉ።					
38	ከባንክ እና ከብድር ተቋማት የሚገኙ የብድር ወለድ ከፍተኛ በመሆኑ የቤተሰብ እና የጓደኛ አገዛ አማራጭ ያለው ነው ብለው ያስባሉ።					
39	በእርሶ እይታ ከባንክ እና ከብድር ተቋማት የሚያገኙትን ገንዘብ ከመመለስ ይልቅ ከጓደኛ እና ከቤተሰብ የተገኙን ገንዘብ ለመክፈል ያላቸው ተነሳሽነቱ የተሻለ ነው ብለው ይስማማሉ።					
40	በእርሶ እይታ ከጓደኛ ወይም ከቤተሰብ የሚገኝ ገንዘብ መክፈል ባይችሉ የግል ንብረት ላይ ታሳቢ ተደርጎ የመክፈል ግዴታ ውስጥ የሚገኙ ይመስሉታል።					
41	በእርሶ እይታ ከጓደኛ ወይም ከቤተሰብ የሚገኝ ገንዘብ ከባንክ እና ከብድር ተቋማት በሚገኝ ገንዘብ ይልቅ የመክፈያ ጊዜው ይረዝማል ብለው ያስባሉ።					
42	በእርሶ እይታ ከባንክ እና ከብድር ተቋማት ይልቅ ከጓደኛ ወይም ከቤተሰብ የምናገኘው ብድር መያዣ አይጠይቅም ይላሉ።					
43	በእርሶ እይታ ከባንክ እና ከብድር ተቋማት የምናገኘው ብድር ይልቅ ከቤተሰብ ወይም ከጓደኛ የምናገኘው ብድር ያለምንም ህጋዊ					

ውል ስንዋዋል መውሰድ እንችላለን ብለው ያምናሉ።					
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### ኢ-መደበኛ የገንዘብ ምንጭ - የአባላት መዋጮ

ተ.ቁ		በጣም አልሰማም	አልሰማምም	መልስ የለኝም	እሰማለሁ	በጣም እሰማለሁ
44	አብዛኛው በጥቃቅን እና አነስተኛ ደረጃ የሚገኙ ድርጅቶች የአባላትን መዋጮን በተሻለ መልኩ ይጠቅማሉ ብለው ያስባሉ።					
45	የአባላት መዋጮ ለድርጅቱ እድገት ወሳኝ ነው ብለው ያምናሉ።					
46	በእርሶ እይታ ከባንክ እና ከብድር ተቋማት ከምናገኘው ገንዘብ ይልቅ የአባላት መዋጮ ምንም ዓይነት መያዣ ባለመጠየቁ ጠቅሞናል ብለው ያምናሉ።					
47	ለአንድ ስራ መሳካት ለአባላት የሚደረግ መዋጮ ጉልህ ሚና አለው ብለው ያስባሉ።  ከአባላት መዋጮ የሚገኘው ገንዘብ በፍቃደኝነት በአባላቱ ተነሳሽነት የሚሰበሰብ ነው ብለው ያምናሉ።					
48	ከአባላት መዋጮ መሰብሰብ አባላቱ ለስራቸው ትኩረት እንዲያደርጉ ይረዳል።					
49	አንድ ስራ ለመጀመር የአባላት መዋጮ ትልቅ አስተዋፅኦ አለው ብለው ያምናሉ።					
50	ቀደም የነበረን ስራ ለማሳደግ እና ለማስፋፋት የአባላት መዋጮ ትልቅ ሚና አለው ብለው ያምናሉ።					
51	ቀደም የነበረን ስራ ለማሳደግ እና ለማስፋፋት የአባላት መዋጮ ከባንክ እና ከብድር ተቋማት ከሚገኝ ገንዘብ ይልቅ ጠቃሚ ነው ብለው ያምናሉ።					

### የ ኢ-መደበኛ የገንዘብ ምንጭ- ስኬት

ተ.ቁ		በጣም አልሰማም	አልሰማምም	መልስ የለኝም	እሰማለሁ	በጣም እሰማለሁ
52	በእርሶ እይታ ኢ-መደበኛ የቁጠባ ዘዴዎች በመጠቀሜ በንግዴ ላይ ትርፋማ እንድሆን አድርጎልኛል ብለው ያስባሉ					

53	በእርሶ እይታ ኢ-መደበኛ የቁጠባ ዘዴ በመጠቀሜ ብዙ ሰራተኞችን ቀጥሬ እንዳስተዳድር እድርጎኛል ብለው ያስባሉ					
54	በእርሶ እይታ ኢ-መደበኛ የቁጠባ ዘዴ በመጠቀሜ በደንበኞቹን ላይ እርካታን መፍጠር ችያለሁ ብለው ያስባሉ					
55	በእርሶ እይታ ኢ-መደበኛ የቁጠባ ዘዴ በመጠቀሜ መሰረታዊ ፍላጎቶቹን ማሟላት ችያለው ብለው ያስባሉ					