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**ASSESSMENT OF POLICIES AND PRACTICES OF DOING BUSINESS IN
ETHIOPIA**

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Acronyms and Abbreviations

CBE	Commercial Bank of Ethiopia
DBE	Development Bank of Ethiopia
EIC	Ethiopian Insurance Company
FF&CBA	Family, friends, and close business associates
GDP	Gross Domestic Product
IFAC	International Federation of Accountants
IFC	International Finance Corporation
ILO	International Labor Organization
LAF	Loan Approval Format
MoA	Memorandum of Association
MOFED	Ministry of Finance and Economy Development
MoT	Ministry of Trade
MSE	Micro and Small Enterprises
NBE	National Bank of Ethiopia
OECD	Organization for Economic Cooperation and Development
PSSA	Pension and Social Security Authority
SME	Small and Medium Size Enterprises
SMED	Small and Medium Enterprise Development
SEDF	South Asia Enterprise Development Facilities
TIN	Tax Identification Number
US	United States
VC	Venture Capitalists
WTO	World Trade Organization

Abstract

This research aims to investigate policies and practices of doing business in Ethiopia with a special emphasizes on policies and practices of business start-ups and access to credit facility. For the purpose of this study, the population that the researcher identified to conduct this research were the small and medium sized enterprises in Addis Ababa. As the complete coverage of the population is not possible, a subset of the population was selected. To conduct this study a descriptive survey method was employed and purposive sampling method were employed and for that reason judgmental sampling technique was identified to be more appropriate and preferable for this study. Furthermore, the data were collected through closed and open ended questionnaires, interviews and document review. Thus, questionnaires were analyzed using descriptive methods which mainly focused on data presentation and analysis using frequencies and percentiles with the help of tables and figures. The information gleaned through questionnaire from a sample of 50 small and medium sized enterprise owners and face-to-face interviews were conducted with high officials from Ministry of Trade and National Bank of Ethiopia.

To this end, the major findings were the role of Small and Medium sized enterprises; in policymaking process, in ameliorating the business start-up registrations and also in ameliorating the credit facility to the ease of doing business is very low in our country. There exists also a less transparent system of credit facility and it was identified that there has been few reforms done so far.

Thus in light of the major problems the following recommendations were forwarded, policy initiatives could produce a better result if problems are conducted or policies are initiated from bottom –up approach or from the general public instead of top-down approach by Ministry department or the incumbent party. The policies or the reforms done could be more successful if it relies up on creating a single interface: the one-stop shop and utilizing information and communication technologies and the policies and procedures of the institutions like Commercial Banks providing credit service to the SMEs is dependent up on its flexibility. From this point of view, the challenges shall be minimized by enhancing the quality of access to credit and other risk management products.

Chapter I

Introduction

1.1 Background of the study

For the past ten years, the Ethiopian economy continued to expand at a rapid pace, registering a growth rate of 8.5 percent. Agriculture, industry, and services grew by 4.9 percent, 13.6 percent, and 11.1 percent, respectively. However, given the relative size of each sector, expansion of the services and agricultural sectors explain most of this growth (57 and 26 percent, respectively), while the contribution of industry was relatively modest (16.7 percent) (World Bank, 2013).

The relative slowdown in economic activity compared to previous years is mainly explained by the decline in economic activity among trading partners, including the EU, China and neighboring countries. International prices for coffee, Ethiopia's biggest traditional export crop, declined by about a third. Only gold prices remained high and stable in the first half of the fiscal year, though prices have dropped recently. As a result, the positive growth impulse from net exports in the two previous years converted into a drag on growth in 2011/12 (Ibid).

In Ethiopia there is relatively low financial intermediation in comparison to the other economy. Financial intermediation is a driving force for economic development, but Ethiopia is falling behind its peers in this area. In 2011, credit to the private sector in Ethiopia was equivalent to about 14 percent of GDP compared to the regional average of 23 percent of GDP. Moreover, while the worldwide trend has been an increase in private sector credit, Ethiopia has experienced a decline of about 5 percentage points since 2004. An expansion in credit to the private sector enables firms to invest in productive capacity thereby laying the foundation for a sustainable growth path (Foster and Morella, 2011).

Ethiopia's banking system is dominated by government-owned commercial banks in which there are about 1,000 government owned banks and there are also 900 private commercial banks in Ethiopia. This makes of Ethiopia an exception within Sub-Saharan Africa and across the developing world, where banking systems have greater impact on private and foreign participation. As of December 2012, public banks represented over 70 percent of total banking sector assets and provided 77 percent of total loans to the economy, with the remaining 23 percent being divided among the 15 private banks. By comparing the 15 months before and after April 2011, the percentage of new loans from public banks to the private sector has been reduced by half, from 21 percent to 10 percent (World Bank, 2013).

Policies that promote public investment in Ethiopia, meanwhile, also affect other policy objectives. Thus, the current policy mix makes it difficult for private investment, private consumption, and

exports to flourish. As per World Bank's Economic Report of (2013), the analysis suggests that private sector-led activities appear to be constrained by the policy choices favoring public investment. This is illustrated by the very low levels of private investment, slow private consumption growth, and declining export growth observed in recent years. So further research and investigation will help to see the situation in depth, fill knowledge gaps and provide policy makers with adequate and reliable suggestions to improve the MTI and NBE performance in the study areas in particular and Small and Medium Sized Enterprises.

Therefore, in this research i.e. assessment of policies and practices of Doing Business in Ethiopia. The author of this study investigates on how easy or difficult it is for an entrepreneur to open and run a small to medium-size business when complying with relevant regulations. It measures and tracks changes in policies and procedures affecting the main areas in the life cycle of a business: starting a business and getting credit.

Thus, this research makes a thorough analysis in an officially required or commonly done in practice by an entrepreneur to start-up and formally operate in Small and Medium Sized business. It shows how independent variables (policies and procedures on business start-up and access to credit facility) are related to the dependent variable (ease of doing business) in Ethiopia.

1.2 Statement of the Problem

A fundamental premise of doing business is that economic activity requires good rules—rules that establish and clarify a good access to finance and a better business start-ups. Emphasizing the policies and practices of doing business shall give a good implication to an entrepreneur. In addition, the objective of policies, regulations and practices designed to be efficient, accessible to all and simple in their implementation.

Furthermore, doing business or Investment in any productive sector is very much essential for the growth of economy. The ease of Doing Business based on indicator like access to finance and business start-ups or the necessary steps and procedures in order to get registered and start a new business in Ethiopian context sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Thus, business start-up and getting a credit are the main indicators to the ease of doing business in developing countries like Ethiopia, since it is very crucial indicators in that an entrepreneur can start a new business on benefiting the advantages of these two indicators.

Thus, a number of countries seem to have of late realized the advantages of streamlining their company registration systems and that simple company registration has a competitive advantage, both in attracting foreign businesses and in encouraging their own entrepreneurs to do business at home. The question is, where Ethiopia's position currently is and what is the trend in ameliorating the practice of business start-up? In researching so, what valuable lessons should Ethiopia learn from those countries that have streamlined their company registration systems shall be the theme of this research.

Despite the fact that, In Ethiopia where access to credit is found to be not good enough to satisfy the need of entrepreneurs as per the report by World Bank (2013), the government is frequently calling up on entrepreneurs to the economy in order to benefit with the existence of good opportunity to do business in Ethiopia. In addition to this, as an entrepreneur, one can make an arrangement on his/her finance to start up a Small or Medium Sized business, either from private or government owned Commercial banks. For that matter, in Ethiopia nearly a total of 1,846 branches of government and private commercial banks. The question is are these banks financing to the SME owners and are there a right policy to facilitate the ease of doing business to the SMEs? Thus, these initiates the author of this study to further investigate what has been done by the government

so far in order to attract more entrepreneurs and in order to ease the ups and downs of access to credit.

A report from World Bank from 2004 to 2014 does not measure the full range of factors, policies and institutions that affect the quality of SME in an economy or its national competitiveness. Moreover, researches by Ephrem (2010), Fetene(2010) and Konjit (2011) investigates into the complexities of the attempts of the Government of Ethiopia to control banking business by applying strict regulatory intervention and its impact on the participation of FDI, the credit access to Small enterprises and a special emphasis to women to small enterprises consecutively. Thus, this research delineates the policies and practices of doing business by small and medium sized enterprises in which this is not covered by the above studies.

On top of that, this research investigates more importantly the policies and practices to the business start-up and to the credit facility and these are among the most important factors for an entrepreneur to start-up a new Small or Medium Sized Businesses and these are more representable to all SMEs in Ethiopian context.

The author of this study has represented these policies and procedures of business start-ups and access to credit as an independent variables and these variables are studied whether they have a relationship to facilitate the ease of doing business in Ethiopia or not, in which case the ease of doing business is represented as a dependent variable. The reason why the author of this study has intended to carry out this research, is because it is a very crucial issue to the government and also to other necessary bodies to undertake corrective action if the underlying causes are clearly identified

1.3 Research Questions

This research attempts to answer the following basic questions:

- ✓ How do small and medium size enterprises access to credit information and facility regarding doing business?
- ✓ What is the status of Ethiopia's access to finance policies and procedures to small and medium sized enterprises in doing Business?
- ✓ What is the status of Ethiopia's business start-up policies and procedures and its contribution to the ease of doing Business?
- ✓ How do small and medium size enterprises access to business start-up?

- ✓ What are the reforms done so far regarding to the issuance of credit to small and medium size business and also to business start-ups?

1.4 Objectives of the study

1.4.1 General Objective

The general objective of this research study is to assess *policies and practices of doing business in Ethiopia* and it recommends possible policy implication to it.

1.4.2 Specific Objectives

- To assess the quality of business start-ups policies and procedures in the ease of doing business in Ethiopian.
- To assess the credit access and procedures in order to do a business in Ethiopia
- To assess the reforms done so far regarding in the amelioration of service delivery in the ease of doing business in Ethiopia
- To highlight the necessary policy implications regarding the practices of the current credit facility and business start-ups to small and medium size businesses.

1.5 Methodology

This study has been carried out in specific organizations like: Ministry of Trade and Industry, National Bank of Ethiopia and also a questionnaires were distributed to 55 judgmentally selected small and medium size business enterprises in which 50 were responded. The author of this study has employed a descriptive method in order to attain this research. Furthermore, the author of this study has investigated government's policies and procedures in doing to resolve the problems to business start-ups and to credit facility of Small and Medium Sized businesses. Interviews had been conducted with high officials of Ministry of Trade and Industry and also with National Bank of Ethiopia's officials. The interview had been semi-structured since it lets the interviewer to be flexible in asking question and to address the issue relevant to the research objective. On top of that, the research has employed a mix of quantitative and qualitative technique to accomplish the study.

According to Babbie (1989:237), "surveys are appropriate for descriptive, explanatory and exploratory purposes." In addition measurements like quality design, perceptions and improvement

are parts of quality opinion, and tables and there are also some quantifiable data that has been gathered from concerned government agencies and from statistical report. Thus, employing this approach makes such type of study sounder.

1.5.1 Research Method

A Descriptive Survey method is important and useful method especially to examine the challenges and prospects of policies, regulations and quality of indicators to business doings, since those issues are mainly being discussed and debated over by the international Medias, Press and the likes, it is therefore more appropriate to employ this method which is mostly used methods in such type of research, primarily for its flexibility. This method has chosen for its multifaceted advantages and benefits and above all for its typical easing of investigations of problems in realistic settings. Thus, it enables one to examine the current trends of ease of business doings, the benefits so far attained, and performances of government in ameliorating the quality and utilizing technologies. As per Saunders (2007), its major threats and prospects as it happen can be scrutinized and predicted without requirement of any laboratory or screening room under artificial conditions. Further, this method is appropriate to conduct a research in a situation where there is shortage of money available to do the study. Because its cost is reasonable considering the amount of information needed to be gathered. The author of this study can control the amount of expenses by choosing from among the data gathering tools: mail, telephone, questionnaire or personal interview, and group administration. Finally, it lets one to collect large amount of data with relative ease from a variety of sources.

1.5.2 Methods of Data Analysis

The author of this study has made an attempt to take representative sample from the city of Addis Ababa's ten sub-cities by employing purposive sampling method in which judgmental sampling is selected to be more preferable for this study. Due to the nature of the study, the author of this study employed quantitative and qualitative methods to present, analyze and interpret the data collected. In addition, Simple statistical tools like Tables, Figure, and Percentage have been used in the analysis of data and presentation of findings.

1.5.3 Sources of Data

In this research both primary and secondary sources of data have been employed. The secondary sources of data is critically evaluated and it has been collected from archives, different publications, documents, periodic reports, databases, research results undertaken by others and internet sources. The primary sources of data has been employed from semi-structured interviews with higher officials of Ministry of Trade (MoT) and National Bank of Ethiopia (NBE). Moreover, questionnaires had been distributed to the managers of SMEs located in to different sub-cities of Addis Ababa city administration.

1.5.4 Data Collection and Instrumentation

The aggregation of elements from which the sample is actually selected is called population (Babbie, 1989:170). For the purpose of this study, the population that the author of this study identified to conduct this research have been the small and medium sized enterprises in Addis Ababa. As the complete coverage of the population is not possible, a subset of the population has been selected. The following figure illustrates the geographical representations of sub-cities in Addis Ababa city administration.

Figure 1. Map of the 10 sub-cities of Addis Ababa



Source: [http://commons.wikimedia.org/wiki/File:Addis_Ababa_\(district_map\).png](http://commons.wikimedia.org/wiki/File:Addis_Ababa_(district_map).png). Accessed on June, 2014.

Thus, in order to conduct this study, purposive sampling method has been used and for that reason judgmental sampling technique has been identified more appropriate and preferable for this study. The reason behind is that it wouldn't be possible to complete a list of the total Small and Medium Sized enterprises in Addis Ababa. Hence, the following table illustrates the number of data employed to conduct this research.

Table 1. Survey of data on questionnaires and Interviews

Sectors	No. of Questionnaires Distributed and Collected	Name of sub-cities (Nos. are represented from the above Map)	Organizations involved for an interview	Number of Interviews
Manufacturing	6	2 and 9	Ministry of Trade	3
Hotel	7	3, 4 and 6		
Tour Operation, Transport and Communication	4	4 and 8		
Construction contracting	6	4, 9 and 10	National Bank of Ethiopia	2
Wholesale, Retail trade and repair services	17	1, 3, 4, 5, 7 and 8		
Hospitals, clinics and Pharmacies	10	3, 4 and 6		
Total	50			5

Source: Field Survey 2014

Moreover, In order to collect primary sources of data the author of this study has distributed and collected closed and open ended questionnaires with judgmentally selected Small and Medium Sized businesses in Addis Ababa Sub-cities. As per Babbie (1989), the reason of using judgmental sampling technique is that it improves representativeness of the sample. Open ended questionnaire has been deliberately selected because of its various advantages. For instance, it allows the respondents freedom in answering questions and enhances the chance to provide in depth responses. In addition, it gives an opportunity to the author of this study to ask in between, i.e. the author of this study can ask the respondent the reason behind the answer and probe further explanation on the response provided. The author of this study also interviewed officials from

Ministry of Trade (MoT) and National Bank of Ethiopia (NBE) in order to substantiate this research.

1.6 Scope and Limitation of the Study

This research is confined to specifically assessing the policies and practices of doing business in Ethiopia, it does not investigate other areas of doing business indicators like: paying taxes, dealing with construction permit, registering property, enforcing contracts and resolving insolvency. Thus, the author of this study believes that the variables under this research are more significantly important for any entrepreneur to start a Small and Medium Sized Enterprise in Ethiopia.

On top of that, the allocation of meager finance coupled with shortage of time to undertake this research, were the factors which cast some problem on the quality of the research. Nonetheless, in spite of these difficulties the author of this study has done everything possible to offset the adverse effects of those limitations to enhance the reliability of the study and meet the objectives of the research.

1.7 Significance of the Study

The worthiness of this study is multifaceted; on one hand it tries to analyze the policies and trends on the ease of doing business in Ethiopia and its link to economic indicators like credit facilities and starting a business. In other words, policies and practices of this indicators have been investigated whether they are significant to the Ethiopian Economy. Thus, the findings of this study can be used as an input to policy makers, especially in the area of business and economic policies. On the other hand, this research is believed to indicate possible areas of intervention that call government and non-government institutions and thereby paves the way for more research to be conducted in this area.

1.8 Organization of the Research

This research paper is organized in to five chapters. The first chapter imparts the Introduction comprising mainly Background of the study, Statement of the problem, Objectives, Significance and Scope of the study and Research Methodology; then the Second Chapter follows with; The Review of Related Literatures; next to all these comes Chapter three, which emphasize Policies and Practices of doing business in Ethiopia context, it is followed by chapter Four i.e. Data Presentations, Interpretations and Analysis; and last but not least, chapter five comprises the Summary of Findings, Conclusions and Recommendations section.

Chapter II

2. Review of the Related Literature

This chapter delineates the related literatures by different authors on the Assessment of policies and practices of doing business. Thus, the research mainly focuses on the Small and Medium Sized Enterprises (SMEs), in which case SME can be defined as follows:

2.1 Defining the Small- and Medium-sized Enterprise (SME)

There are varying worldwide definitions of what constitutes an SME although they tend to use the same metrics of employment, turnover and asset base. For example, the European Union defines a SME made up of enterprises which employ fewer than 250 persons (micro 1–9; small 10–49, medium 50–249) and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. In the USA, the employment size threshold is 500 people, with small firms employing 100 people. IFAC has chosen to define small and medium-sized entities (SMEs) as “entities considered to be of a small and medium size by reference to quantitative (for example assets, turnover/employees) and/or qualitative characteristics (for example, concentration of ownership and management on a small number of individuals). What constitutes an SME differs depending on the country” (IFAC 2010).

In Ethiopian context Small and Medium sized enterprises are defined as follows; According to the new Small & Micro Enterprises Development Strategy of Ethiopia (published 2011) the working definition of MSEs is based on capital and Labor.

Table 2: Small and Medium Sized Enterprises in Ethiopia

Serial No.	Enterprise level	Sector	Hired labor	Capital
1	Small	Industry	6 – 30	From Br. 100,001.00 to Br. 1,500,000.00
		Service	6 - 30	From Br. 50,001.00 to Br. 500,000.00
2	Medium	Industry	31 - 99	From Br. 1,500,001 up to Br. 3,000,000
		Service	31 - 99	From birr 500,001.00 up to 2,000,000.00

Source: from the journal of the new Micro and Small Enterprises development and strategy in Ethiopia, 2011

2.2. Definition of SMEs

Small, and medium Sized enterprises (SMEs) are defined as any business activity/enterprise engaged in industry, agri-business/services, whether single proprietorship, cooperative, partnership, or corporation whose total assets, inclusive of those arising from loans but exclusive of the land on which the particular business entity's office, plant and equipment are situated, must have value falling under the following categories:

By Asset Size*

Small: P3,000,001 - P15,000,000

Medium: P15,000,001 - P100,000,000

Alternatively, SMEs may also be categorized based on the number of employees:

Small: 10 - 99 employees

Medium: 100 - 199 employees

*As defined under Small and Medium Enterprise Development (SMED) Council Resolution No. 01 Series of 2003 dated 16 January 2003

2.3. Role and Importance of SMEs

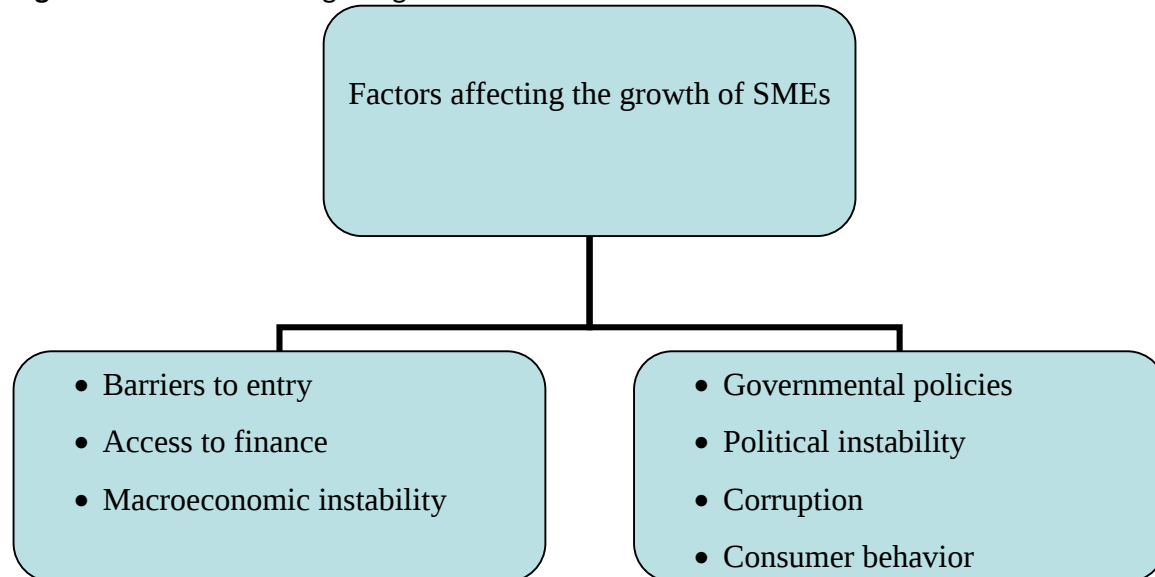
SMEs play a major role in the country's economic development through their contribution in the following: rural industrialization; rural development and decentralization of industries; creation of employment opportunities and more equitable income distribution; use of indigenous resources; earning of foreign exchange (forex) resources; creation of backward and forward linkages with existing industries; and entrepreneurial development.

They are vital in dispersing new industries to the countryside and stimulating gainful employment. SMEs are more likely to be labor-intensive. Thus, they generate jobs in the locality where they are situated. In this sense, they bring about a more balanced economic growth and equity in income distribution. In addition, SME play an important part in the provision of services in the community. They can make an important contribution to regional development programs (Grimsholm, E. and Poblete, L., 2010).

2.4. Factors affecting the growth of SMEs

SMEs face greater growth obstacles than larger firms, and limited access to finance, barriers to entry and governmental policies are some of the main hampering factors. The following figure illustrates factors that hinders the growth of SMEs:

Figure 2. Factors affecting the growth of SMEs



Source: Grimsholm, E. and Poblete, L., 2010
Internal and External factors affecting SME growth, Master's thesis.

2.4.1. Barriers to entry

Bureaucratic entry regulations impede entry but perhaps more importantly, they also negatively affect the growth and size of incumbent firms. However, other regulations such as those that enhance the enforcement of intellectual property rights or those that lead to a better developed financial sector are beneficial in that they lead to greater entry.

Similarly, firm incorporation decisions and entrepreneurship are also affected by the business environment. In fact, a poor business environment may actually lead to a larger SME sector, because restrictions and market imperfections dampen competition and slow firm growth, further shedding light on why a large SME sector is unlikely to be associated with faster growth. Businesses are also more likely to incorporate in countries with better-developed financial sectors and efficient legal systems. Similarly, individuals are more likely to become entrepreneurs and they are more likely to reinvest their profits if the institutional environment is favorable (Beck, Demirgüç-Kunt and Maksimovic , 2005).

2.4.1.1. Regulation of entry

Reducing the amount of time and money spent on starting a business can be important. However, doing so is not in any way enough to guarantee economic success. Here, deregulation would generally be viewed as worthwhile.

To this end, it is important to consider a given country's business start-up procedures, as this will affect the debate about reform. Particularly where the report touches on issues that are highly contested, few would argue against the idea of a balanced approach.

As Djankov et.al. (2010) argued that, "Countries with heavier regulation of entry have higher corruption and larger unofficial economies, but not a better quality of public or private goods. Countries with more democratic and limited governments have a lighter regulation of entry. The evidence is inconsistent with public-interest theories of regulation, but supports the public-choice view that an entry regulation benefits politicians and bureaucrats."

Moreover, by being registered, new companies acquire an official approval. That, of course, makes them reputable enough to engage in transactions with the general public and other businesses. The public interest theory predicts that a stricter regulation of entry, as measured by a higher number of procedures, in particular, should be associated with socially superior outcomes (Djankov et.al., 2010).

However, this does not see government as being so benign, and says that regulation is bound to be socially inefficient. The two main groups of theory, at any rate, are the following:

- ✓ The theory of regulatory capture, which states that regulation, is designed and operated primarily for the benefit of industry incumbents who acquire regulations that create rents for themselves, since they typically face lower information and organization costs than do the dispersed consumers. Regulating entry keeps out competitors and raises incumbents' profits. Because a stricter regulation raises barriers to entry, it leads to greater market power and profits, but does not bring any benefits to the consumers.
- ✓ The "tollbooth" view, on the other hand, holds that regulation is pursued for the benefit of politicians and bureaucrats. Politicians use regulation to create rents and to extract them through campaign contributions, votes and bribes (*Ibid*).

Nonetheless, the above two theories reflect that the business start-up regulations could create unfavorable situations for business enterprises. Thus, it will be more essential to have such strong regulations in order to hinder informal business firm's existence.

On top of the above listed business start-up procedures, it has been noted that Sub-Saharan countries have recently streamlined their company registration systems, in the belief that this will improve the business environment and enhance their ability to compete in the global economy. In particular, the advance of ICT has permitted substantial streamlining of old systems, particularly from the manual systems of many original laws. The minimum regulation, however, focuses on keeping good records of the businesses. The records should, of course, include the acceptable purpose of the establishment of the company, the name(s) of the company's owner(s), and the number and constitution (Memorandum of Association and Articles of Association, company regulations, etc). Such pieces of information are needed in order to have an idea of the individual people behind a company and to contact them as and when necessary. These pieces of information must, nonetheless, be kept up to date (Ibid).

A number of countries like Rwanda, Burundi, Moldova and Tanzania seem to have of late realized the advantages of streamlining their company registration systems and that simple company registration has a competitive advantage, both in attracting foreign businesses and in encouraging their own entrepreneurs to do business at home (Ibid).

In general, more than a minimal company regulation does not appear to benefit the economy or the development and growth of the private sector. The experiences in this regard indicate that business regulation in general is more aimed at creating some benefits for the regulators than for the public, although minimal standards of regulation are necessary. On top of these, there exists a correlation between the degree of regulation and the degree of poverty within a country. Improving, reducing and streamlining regulation is likely to lead to growth and poverty reduction (Ibid).

2.5. The Importance of business Registration Reform

The international good practices in business registration reform with the goal of helping policy makers and practitioners identify those practices that will best fit with and be most effective when adapted to their economies. Rather than prescribing the parameters of an ideal reform program, therefore, it highlights what a business registration project team needs to consider when undertaking this work and provides guidance on how to collect the information needed to make

informed decisions and choices. In preparation for that discussion, this chapter reviews the importance to an economy of having an effective business registration system (Bruhn, 2008).

The Reform to Business Registration is needed in that the private sector, by making investments and creating jobs, plays a vital role in fighting poverty. Participation in the formal sector enhances those contributions. A limited liability company—the most common form of business around the world—benefits from reduced liability. In addition, successful legal entities tend to outlive their founders, continuing to contribute to the economy without the need to rebuild capital stock from scratch in each generation. Forming a limited liability company, in addition, enables shareholders to join forces and build a company's capabilities and capital. Because business registration provides the gateway through which businesses enter the formal economy, business registration reform is a crucial first step in fostering private-sector growth. This legal recognition provides businesses with rights to government services, fair treatment under the law, less uncertainty, and greater access to credit and markets, thus enabling the businesses to thrive, grow, invest, and employ (Ibid).

In Business Creation if Simpler, faster, and cheaper business registration processes increase the number of businesses in an economy. Studies of Colombia and Mexico find that a specific business registration reform—introducing a one-stop shop— increased firm creation by 5 percent and 6 percent, respectively (Bruhn, 2008). For instance, Portugal eased business start-up in 2006 and 2007 by reducing time to start a business from 54 days to 5. Consequently, new business registrations in 2007 and 2008, combined, were 60 percent higher than in 2006 (ILO, 2012).

Easier business registration processes can support a country's fight against poverty by empowering its citizens as workers and innovative entrepreneurs. Recent studies have found that simpler registration creates employment opportunities and more productive jobs. In Mexico, the introduction of a one-stop shop for registration increased employment by 2.8 percent.⁴ In Bogota, Colombia, a one-stop registration shop helped create 9,760 firms and 75,810 jobs (Motta, Oviedo, and Santini 2010).

A study by Barseghyan and DiCecio, (2009) showed that, 97 economies found that cutting entry costs for businesses by 80 percent increases total factor productivity by 22 percent.

The benefits of business registration are not confined to the businesses themselves: society as a whole gains. Business registration obligates businesses to pay taxes, play by the rules, and provide productive and decent employment. Easier start-up processes create more businesses, and more

businesses mean more competition—enhancing firm productivity, lowering prices, and improving product quality. More productive new firms put pressure on incumbent firms to increase productivity, as was found in India and the United Kingdom (Aghion, 2009).

Many economies struggle with high prices for essential goods and services. Easier start-up can enable businesses to enter markets and compete against incumbents, resulting in better products, lower prices, or both (Bruhn, 2008).

In addition to the above points, simpler processes for business entry and exit help workers and entrepreneurs to move rapidly across sectors to make the best possible use of their skills and capital. For example, during the global financial crisis of 2008, more economies than at any time since 2004 introduced regulatory reform, most involving business start-up (World Bank, 2009).

2.6. Governmental policies

According to Harvie (2005) in Developed countries there has been an increase in governmental policies promoting and supporting SMEs in order to achieve economic growth and reduce poverty, though there is still a lack of laws, administrative procedures and support from governmental agencies, thus, their legal standing are weakened. Though, the companies studied have all agreed that the governmental procedures and regulations have been supportive with SMEs. The owners have all received training from governmental agencies to improve their business. Hence, they perceive governmental laws and policies as a less significant issue hampering their growth. However, there are aspects that could be improved;

In concluding, Government policies are crucial for the prosperity of a given economy. Since the policies and administrative procedures determine the growth of SME.

2.7. An International good practice in Business Registration

Increasing numbers of economies like Rwanda, Burundi, South Africa, Moldova, and other European and North American countries are reforming their business registration systems; yet a number of others continue to maintain cumbersome registration processes. Country to country, therefore, prospective business owners experience a wide range of registration requirements

Why is business registration difficult in many economies? Djankov (2009) explores this question from theoretical and empirical perspectives. One view supporting a strict business registration system is that the government should screen new entrants to protect consumers. But economies like

countries ranked low in World Bank's doing business report in 2013, usually lack the capacity to enforce them—thus enabling informal firms to sell goods and services without meeting quality standards, possibly harming consumer welfare. Stricter regulatory systems also inhibit business entry, leading to limited competition and high protection for incumbent firms, which can also undermine consumer welfare.

As per Shleifer and Vishny (1993), strict regulation of business registration seems to be associated with high levels of corruption and low levels of transparency and political will for reform. In such environments, business registration and other regulatory reforms are strongly opposed by officials and beneficiaries of the status quo. Still, many good practices have emerged through various economies' reform experiences. The most successful, listed below,

- o Establishing a flat fee schedule
- o Standardizing incorporation documents
- o Moving registration out of the courts
- o Making the use of notaries optional
- o Reducing or eliminating minimum capital requirements
- o Making registration transparent and accountable
- o Instituting an integrated registration system and unique identification denominator
- o Creating a single interface: the one-stop shop
- o Utilizing information and communication technology (Ibid).

2.8. Important Steps in Policymaking Process

Policy making process to the doing business is the framework for decision making or it can be metaphorically represented as a skeleton to the human body. Thus, it is crucial to the growth of the economy as in general. A policy established and carried out by the government goes through several stages from inception to conclusion. The policymaking process is also viewed as a continuous struggle carried out by opposing groups, to secure power and control of public policy. As per Anderson (1997), the most common and important steps includes Agenda setting, Policy formulation, Policy adoption, Policy implementation, Policy evaluation. Policymaking is never an easy task, whether it be in the political or the business world. Policymakers typically progress through the above five different stages in the policy-making process before an idea is implemented and then either solidified or altered to become permanent policy. This type of system provides a

series of checks and balances that keep those in power or leadership from having too much control over the policymaking process, but it can also make the implementation of change occur at a relatively slow pace. As stated in above sections policymaking involves a combination of processes to look each one by one:

2.8.1. Agenda Setting

In agenda setting, government tries to identify policy problems and prioritize public demands for government action. Many factors influence the identification of policy problems. They include the methods of getting issues on the political agenda as well as keeping them off the agenda. Political ideology and special interests, the mass media, and public opinion all play roles in problem identification. Agenda Setting is deciding what is to be strong-willed, is the first critical step in the policymaking process. To get on the agenda, problems must come to policymakers' attention. Some problems—even major problems—are too “invisible” to make the agenda, while others such as healthcare, are already highly visible, because they affect us all. Other times, crises or “focusing events” are needed to bring problems to light. In order to create a policy, the government's attention has to be focused on a pressing problem requiring legislation. It is perceived for three ‘streams’ to conjoin for an item to be added to public policy:

- o The recognition of something as a problem (problem stream)
- o The identification of possible solutions (policy stream)
- o The requisite opportunities – time, accession to power of a party prepared to act and so forth (political stream)

Each government decision has a long and complex provenance, but all must start somewhere. Policy initiatives can originate in all parts of the political system but are often quite hard to identify. Policy initiatives can be started by; the general public, cause groups, media and academic experts, extra parliamentary parties and party groupings, parliament, Ministers departments, official inquiries and ‘think tanks’, Prime Minister and Cabinet. Before a policy can be created, a problem must exist that is called to the attention of the government. The first major stage in the policymaking process is the development of the influential idea that will eventually become policy. It is during this stage that the initial idea is discussed and developed so that the problem that the policy will be aimed at can properly be defined in terms of its scope and possible solutions. This involves not only recognizing that an issue exists, but also studying the problem and its causes in

detail. This stage involves determining how aware the public is of the issue, deciding who will participate in fixing it, and considering what means are available to accomplish a solution. Answers to such questions often help policy makers gauge which policy changes, if any, are needed to address the identified problem (Anderson, 1997).

2.8.2. Policy Formulation

After identifying and studying the problem, a new public policy may be formulated or developed. This step is typically marked by discussion and debate between government officials, interest groups, and individual citizens to identify potential obstacles, to suggest alternative solutions, and to set clear goals and list the steps that need to be taken to achieve them. This part of the process can be difficult, and often compromises will be required before the policy can be written. Once the policy is developed, the proper authorities must agree to it; a weaker policy may be more likely to pass, where a stronger one that deals with the problem more directly might not have enough support to gain approval (Ibid).

Formulating policy proposals can be formulated through political channels by policy-planning organizations, interest groups, government bureaucracies, state legislatures, and the prime minister and parliament. Nevertheless, the proposals that survive to that status of serious consideration meet several criteria, including their technical feasibility, their fit with dominant values and the current national mood, their budgetary workability, and the political support or opposition they might experience. Policy formulation involves adoption of an approach for solving a problem. There may be choice between a negative and a positive approach to a problem. After a policy is formulated, a bill is presented to the parliament, or proposed rules are drafted by regulatory agencies. The adoption of a policy takes place only when legislation is passed, or regulations are finalized or a decision has been passed by the parliament (Ibid).

Policy formulation means coming up with an approach to solving a problem. Once the limits or parameters of the problem have been defined, it is then necessary to move towards the development of a policy that properly defines an answer to the problem at hand. During this stage the policy must be developed in such a way that it takes into account the impact of the policy and the opinions of those who will participate in the policy-making process. A policy that does not do this may be doomed to failure from the start as it may find opposition from opponents who may seek to undo the policy if implemented (Ibid).

2.8.3 Policy Adoption

Policy is legitimized as a result of the public statements or actions of government officials, both elected and appointed in all branches and at all levels. This includes executive orders, budgets, laws and appropriations, rules and regulations, and decisions and interpretations that have the effect of setting policy directions. Policy is legitimized as a result of the public statements or actions of government officials; both elected and appointed officials, and the courts. This includes executive orders, budgets, laws and appropriations, rules and regulations, and administrative and court decisions that set policy directions. Once the policy has been implemented, it then generally goes through a testing phase of a period of legitimization. It is during this stage that questions over the appropriateness of the policy are sometimes raised (Ibid).

2.8.4 Policy Implementation

Policy is implemented through the activities of public bureaucracies and the expenditure of public funds. Policy implementation includes all the activities that result from the official adoption of a policy. Policy implementation is what happens after a law is passed. We should never assume that the passage of a law is the end of the policymaking process. Sometimes laws are passed and nothing happens. Political scientist Lineberry (2000:104) writes:

“The implementation process is not the end of policy-making, but a continuation of policy-making by other means. When policy is pronounced, the implementation process begins. What happens in it may, over the long run, have more impact on the ultimate distribution of policy than the intentions of the policy’s framers”.

Traditionally, public policy implementation was the subject matter of public administration. The separation of “politics” from “administration” was once thought to be the cornerstone of a scientific approach to administration. However, today it is clear that politics and administration cannot be separated. Opponents of policies do not end their opposition after a law is passed. They continue their opposition in the implementation phase of the policy process by opposing attempts to organize, fund, staff, regulate, direct, and coordinate the program. If opponents are unsuccessful in delaying or halting programs in implementation, they may seek to delay or halt them in endless court battles (school desegregation and abortion policy are certainly cases in point). In short, conflict is a continuing activity in policy implementation (Anderson, 1997).

The carrying out of policy or its implementation is usually done by other institutions than those that were responsible for its formulation and adoption. Many problems are technically so complex and difficult that the legislature does not try to deal with them in detail. The legislature thus indicates the broad lines of policy, and leaves the elaboration of the policy to other governmental agencies. The complexity of the policy, coordination between the agencies putting it into effect and compliance, determine how successfully the policy is implemented. Once a government and parliament have decided on a policy, they then have to implement it.

In order to achieve perfect implementation:

- ✓ There must be a unitary administrative system
- ✓ The norms and rules enforced by the system have to be uniform
- ✓ There must be perfect obedience or perfect control
- ✓ There must be perfect information and perfect communication as well as perfect coordination.
- ✓ There must be sufficient time for administrative resources to be mobilized (Ibid).

The implementation or carrying out of policy is most often accomplished by institutions other than those that formulated and adopted it. A statute usually provides just a broad outline of a policy. For example, in USA Congress may mandate improved water quality standards, but the Environmental Protection Agency (EPA) provide the details on those standards and the procedures for measuring compliance through regulations, As noted earlier, the Supreme Court has no mechanism to enforce its decisions; other branches of government must implement its determinations. Successful implementation depends on the complexity of the policy, coordination between those putting the policy into effect, and compliance (Ibid).

Implementation is not the last step in the policymaking process, but it does come just before the final stage. This fourth stage is the stage where the policy's impact is actually felt because it is carried out. This occurs in a number of different ways, such as through the passing of laws that support the policy, the spending of money that has been allocated toward the policy and through the development of regulations and even regulatory bodies to oversee the implementation. A new policy must be put into effect, which typically requires determining which organizations or agencies will be responsible for carrying it out. During the policy development step, compromises may have been made to get the policy passed that those who are ultimately required to help carry it out do not

agree with; as such, they are unlikely to enforce it effectively. Clear communication and coordination, as well as sufficient funding, are also needed to make this step a success (Ibid).

2.8.5 Policy Evaluation

The final stage of the policymaking process involves evaluating the policy to determine its effectiveness. Once the policy has been implemented, its limitations may be seen. This is where evaluation of the policy becomes important. Once the limits of the policy have been recognized, policy makers can then go about determining how to fix the limitations through modification of the existing policy. The final stage in the public policy process, known as evaluation, is typically ongoing. This step usually involves a study of how effective the new policy has been in addressing the original problem, which often leads to additional public policy changes. It also includes reviewing funds and resources available to ensure that the policy can be maintained. Historically, this step has not always been treated as very important, but policy makers are increasingly finding ways to make sure that the tools needed for evaluation are included in each step of the public policy process (Ibid).

Policies are formally and informally evaluated by government agencies, by outside consultants, by interest groups, by the mass media, and by the public. Although this stages or phases approach to policymaking has been criticized for being too simplistic, insufficiently explicating that some phases may occur together, and not saying much about why policy turns out as it does, it does provide a way to discuss many of the ways policy is constructed, carried out, evaluated, and made again. All these activities include both attempts at rational problem solving and political conflict.

Broad-scale political participation is essential to democracy. Money, power, and influence all play a part in the policy process, but we should never become cynical about our own participation and the effects it can have. Policy change is difficult and time-consuming, and it may look discouraging. However, with work and dedication, policy change is possible—it happens all the time, usually because ordinary people care enough to keep at it. Here are some general guidelines for changing policies and choosing tactics (Saasa, 1985). They are called the Eight Ps:

- o Preparation
- o Planning
- o Personal contact
- o Pulse of the community

- o Positivism
- o Participation
- o Publicity
- o Persistence

There are often many constraints that act upon policy makers. These include:

- Financial resources
- Political support
- Competence of key personal
- Time
- Coordination
- Personality factors
- Geographical factors
- International events
- The influence of foreign Policy networks

Evaluation means determining how well a policy is working, and it is not an easy task. People inside and outside of government typically use cost-benefit analysis to try to find the answer. Cost-benefit analysis is based on hard-to-come-by data that are subject to different, and sometimes contradictory, interpretations. History has shown that once implemented, policies are difficult to terminate. When they are terminated, it is usually because the policy became obsolete, clearly did not work, or lost its support among the interest groups and elected officials that placed it on the agenda in the first place. Finally, to sum up, according to Dye (1995), important feature of good policymaking are forward looking, out ward looking, innovative, flexible and creative, evidence based, inclusive, joined up, learn lessons, communication, evaluation, and review.

2.9. Regulatory policy

The objective of regulatory policy is to ensure that regulations are in the public interest. It addresses the permanent need to ensure that regulations and regulatory frameworks are justified, of good quality and “fit for purpose”. An integral part of effective public governance, regulatory policy helps to shape the relationship between the state, citizens and businesses. An effective regulatory policy supports economic development and the rule of law, helping policy makers to reach informed decisions about what to regulate, whom to regulate, and how to regulate.¹

Evaluation of regulatory outcomes informs policy makers of successes, failures and the need for change or adjustment to regulation so that it continues to offer effective support for public policy goals (JICA, 2008).

There have been successful policies and failures in the past. Thus, Country context mattered greatly when planning SME policy. As country context matters, a government should not just blindly copy the successful policy of another country: they need to learn how to analyze country context and how to adopt the best possible scenario. In other words, they need to “learn how to learn” selectively from the cases of various countries. For instance, the role of public sector to develop SME (Small and Medium Enterprises) changes according to the country context and to the stages of industrial development (Ibid).

Ohno (2013), stressed the importance of policy learning, and discussed that policy learning should be based on a systematic collection and comparison of international best policy practices and failures. This is to enhance government capability for a country to be able to become efficient and more convenient in the doing business. Thus, policy learning is another aspect on which some thought is required.

A government policy will affect private firm’s decision in many ways. For instance, productivity and quality improvement will be discouraged under high inflation and exchange rate volatility. This is because it is difficult for private firms to recognize and measure the results of the improvements under uncertain situations. On the other hand, government support such as infrastructure development, education, vocational training, and SME development policy will encourage private firms to improve productivity. Thus, policy and private firms’ operations are closely connected to each other. In order to industrialize, it is necessary to tackle both policy and private levels (Ibid).

Inadequate access to finance remains a major obstacle for many aspiring entrepreneurs, particularly in developing countries. As recent studies confirm, the global financing gap for micro, small and medium sized enterprises remains enormous.¹² Entrepreneurs of all types and sizes require a variety of financial services, including facilities for making deposits and payments as well as accessing credit, equity and guarantees. Many entrepreneurs in developing countries can benefit from targeted capacity building in financial literacy and from innovative delivery mechanisms using modern banking technologies. Special attention should be given to assist innovative, high-growth firms in the area of green technology and sustainability, which often need to attract distinct forms

of financing, including equity and venture capital. Policymakers have many options at their disposal to facilitate access to various types of financial services.

Several high-profile initiatives, such as the G20's SME

Finance Challenge, have recently published policy guides on innovative proposals and best practices to facilitate access to finance for developing country SMEs. Recent work by the OECD is addressing the fact that there is not only an SME lending gap but also an information gap on financial intermediaries' SME lending activity, which policymakers must bridge if they are to monitor the impact of their policies.

2.10. Improving the Quality of SME Policy

What is really at stake in considering what constitutes an SME is the quality of future discussions and formulations of SME policy, particular if we are at the point of a significant debate over the role of SMEs in developing economies. Which businesses, we should ask, are most likely to grow, reduce poverty, promote economic stability and, ultimately, undergird political stability? We believe these constitute the relevant SMEs, and these in turn are the SMEs that should be supported (World Bank, 2013).

Albaladejo (2002) observed that through the expansion of existing firms and the creation of new start-ups, SMEs in Africa account for most of the private sector jobs available. Other advantages associated with SMEs include: a contribution towards a more equitable distribution of income; serving as stimulus for local and regional development as they tend to agglomerate to make an effective and rational use of resource endowments; and the promotion of a culture of entrepreneurship and other business-related skills by virtue of low entry barriers.

A broad range of business environment factors are linked to SME performance and the extent to which entrepreneurs have ready access to any required financial information concerning a credit finance, price levels, market depth and other relevant information should be transparent in order to attract more entrepreneurs in to the economy Ayyagari *et al.* (2007), he also find that lower costs of entry, better and transparent credit information sharing are associated with a larger size of the SME sector, while higher exit costs are associated with a larger informal economy. The overall banking structure is another important factor.

Shen *et al.* (2009), find that total bank assets are not significant for banks' decision to lend to SMEs. Yet, more local lending authority, more competition, carefully designed incentive schemes, and stronger law enforcement encourage commercial banks to lend to SMEs.

Macroeconomic instability in developing countries and competition in developed countries are perceived as the biggest obstacles to SME finance. Rocha *et al.* (2010) provide supportive evidence from banks in Middle East and North Africa, noting lack of SME transparency and underdeveloped financial systems as the main obstacles.+

A number of macroeconomic and institutional factors are associated with greater levels of SME financing. There is a positive correlation between the overall level of economic development measured by income per capita and financial development measured by the ratio of private credit to GDP with the level of SME financing. Legal frameworks and the overall business environment are also important factors affecting the level of SME financing. For example, the ability to open and close a business is found to be an important factor associated with growth. Using information from the Doing Business database, it is found out that there is a negative correlation between the number of days it takes to start and close a business and the value of SME financing (Beck *et al.*, 2008).

Countries where banks have less efficient structures measured by a higher ratio of overhead costs to total assets, higher interest rate margin and a greater cost to income ratio, tend to have lower levels of SME financing. Even after controlling for the overall development using income per capita as a proxy, it is found that the framework for starting businesses and the overall level of development of the financial market are significantly correlated with the levels of SME financing. It is also found that parameters characterizing efficiency of the banking system, including cost ratios and net interest margins, have statistically significant negative coefficients, even after controlling for the overall level of development (Ibid).

As to the author of this study's point of view, it is more convincing that Countries where banks have less efficient structures measured by a higher ratio of overhead costs to total assets, higher interest rate margin and a greater cost to income ratio, tend to have lower levels of SME financing.

2.11. Access to Finance

One strand of the literature on SME financing indicates that SMEs pay higher interest rates on formal bank credit. For example, Cressy and Toivanen (2001) find that collateral provisions and loan size reduce the interest rate paid and that better borrowers get larger loans and lower interest

rates. Hernandez-Canovas and Martinez-Solano (2007), using firm-level data from Spain, argue that close relationships with financial institutions may generate advantages such as improved conditions of financing and increased credit availability. Furthermore, Dietrich (2010) argues that the lack of negotiating power of small enterprises has significant explanatory power in explaining differences in lending rates between small and large enterprises.

There is still an ongoing debate regarding bank size and/or ownership and SME lending. Until recently, a large strand of literature argued that small banks are more likely to finance SMEs as they are better suited to engage in “relationship lending.” The strength of bank-borrower relationship is argued to be positively related to various credit terms (Peltoniemi, 2007).

However, some studies, including Berger and Udell (2006), and Beck *et al.* (2008), have disputed this conviction by arguing that large banks, relative to other institutions, can have a comparative advantage in financing SMEs through arms-length lending technologies, such as asset-based lending, factoring, leasing, fixed-asset lending and credit scoring, as opposed to relationship lending.

2.11.1. Source of Finance for Small and Medium Sized Business Enterprises

When implementing a new business concept and expanding or financing operation, only one definition captures the real essence of capital: “It takes money to make money.” From the aspiring entrepreneur designing a new office furniture product in a home office to an executive of a multinational corporation looking to expand foreign distribution channels for new product introductions, launching any new business concept requires capital, or money, as a basis to execute the business plan (Rodriguez, 2003). While financial resources come in countless forms, types, and structures, two main basic types of financial resources are available to most businesses: debt and equity.

As indicated by Tracy and Tracy (2009) for Small and Medium scaled business enterprises source initial or additional capital needed to conduct business can be:

- Family, friends, and close business associates (FF&CBAs)
- Venture capitalists (VCs), investment bankers, angels or white knights, and similar types of private investment groups.
- Debt capital sources including banks, leasing companies, government-backed programs (microfinance in our country’s context), asset-based lenders, factoring companies.

- A company generates positive internal cash flow and reinvests this asset internally as needed.
- Vendors, partners, customers, and so on to provide a real source of capital.
- Gifts. Governments, universities, and nonprofit organizations.

In today's business world where consumer's credit and other types of credits being offered by banking sectors in developed and developing countries, it is amusing to see the Medium and Small scale business, change agent, suffer from lack of access to finance in these country. As known an important role of banks is to provide relationship lending services that help resolve problems in providing external finance to informational obscure small businesses (Berger and Udell, 1994).

However, a number of factors may affect the banking system's ability to provide credit to small medium sized businesses. Banking industry consolidation creates large banks that may be oriented toward transactions lending and providing capital market services to large corporate clients. These institutions are also often headquartered at great distances from small business customers and may have difficulty processing locally-based, and often less quantitative, relationship information (Berger, Klapper and Udell, 2001).

2.11.2. Access to Finance and Development

Finance is at the core of the development process (World Bank, 2008). It is indicated that improving access and building inclusive financial system is goal that is relevant to economies, at all level of development. The challenge of better access means making financial service available to all, thereby spreading equality of opportunities and tapping the full potential in an economy. But as per the author of this study's perception the challenge is greater than ensuring that as many businesses or firm or individual as possible access to basic financial service. The challenge of access to finance in developing countries includes where, who, when and under what condition that business are accessing credit.

The policies and procedures of the institutions providing credit service to the SMEs is dependent up on its flexibility. From this point of view, what the author of this study strongly support that the challenges are as much about enhancing the quality of credit, savings payments, insurance, and other risk management products (World Bank, 2008). Here, even though, it is very challenging if not impossible to apply the credit facilities developed countries are using the modern technology oriented instrument;

In concluding the above World Banks report, a country like Ethiopia can make use of the traditional finance oriented instruments by blending them with the modern engineered financial facilities. In addition, the policies and procedures of the institutions providing credit service to the SMEs is need to be more flexible.

2.11.3. Measurement Indicators of Access to Finance

As per report produced by World Bank (2008), financial inclusion or broad access to financial service is defined as an absence of price or non-price barriers in the use of financial services. It is obvious that improving access means improving degree to which financial services are available to all at a fair price. It is easier to measure the use of financial services, since use can be observed, but use is not always the same as access. Therefore accesses indicate that supply of their financial facilities on the other hand use indicate both the supply and demand side of the market. These means to access is the availability of financial institutions in the market where as the use is whether the financial facilities are being accessed properly by the users (World Bank, 2008).

2.11.4. Measuring Access to and Use of Financial Service

World Bank measured access to credit with census data on the number and characteristics of households that have a bank like financial institution. The other basic method that, Neave (2009) have used to measure access to finance is target group. Complete loan and deposit account data though surveys of bank regulators for a cross –section of countries and documents the large variation in those indicators across countries. This was made though computation of GDP per capita.

In concluding the world Banks’ and Naeve’s report, it is more appropriate to have a measuring access to finance by measuring the number of banks to the availability of the population and to GDP per capita.

2.11.5. Barriers of Accessing Finance

Understanding only the actual use of financial services, not complete by itself but access across its different dimension is important too. Collecting indictors of and barriers to access and comparing them to usage and other country characteristics will enable researchers and policy maker close the gap. The quantity and quality of access is important. Barriers identified as main by Fetene, (2010)

as Ethiopia's small and medium sized businesses access to finance are religion, problem of forming group, high interest rate and the willingness to receive loan from financial institution (owner managers are pessimist) are the basic.

The World Bank's report (2008) indicate that, service may be available but may not be customized to different needs, or points of delivery may be too few or delivery may take a long time.

The study of Beck, Remirguc-Kunt, and Martinez Peria(2007) sponsored by the world Bank, indicated that barriers as availability of location, minimum account and loan balances account fees, fees associated with payments documentation requirements and processing ties are found to vary significantly both across banks and across countries. Indicators of access barriers are also found to be negatively correlated with actual use of financial services, confirming that these barriers can exclude individuals from using bank services. Geographic access is also the most important finding of (Beck, Remirguc-Kunt and Martinez Peria, 2007).

Berger and Udell (2004) argued that the differences in the financial institution structure and lending infrastructure may significantly affect the availability of funds to different types of small and medium business enterprises. However, small business enterprise need finance to undertake productive investment in order to expand their business to introduce new product to market the products as well as to loop up with temporary financial problems.

In contrary to the fact that the geographic access, which is mentioned above the author of this study believes that barriers like reluctance to provide loan to small and medium sized businesses because of high risk and supervision cost associated with this type of investments, government regulations and excessive documentations are the main barriers to access the finance.

2.11.6. The benefits of lowering Financial Barriers to Small and Medium Sized Businesses

Finance does not just raise aggregate firm performance uniformly; it also transforms that structure of the economy by affecting different types of firms in different ways. Small and Medium Sized businesses have more difficulty obtain external finance than Large Sized business. As financial access conditions improve in an economy, those that were formerly shut out have an opportunity to expand. Survey finding suggest that financing obstacles loom much on small business enterprises specifically Back, Demigruc-kunt and Maksimovic (2005) find that financial constraints reduce firm growth by 6% points, on average large firm, but by 10% points on average for large but by 10% firms in the case of small firms. While lack of financial access tends to hurt small firms the

most in countries with underlying weaknesses in their institutional environment (Back, Demigru-Kunt and Maksimovic, 2005).

As per the points raised under the above subtitle, the benefits of lowering financial barriers to SME will make an opportunity for SME to grow and able to travel long distance.

2.11.7. What Aspect of Financial Sector is Important for Small and Medium Sized Business?

As indicated before business organizations can access finance from different areas. Making credit from banks and other intermediaries that provide debt finance more widely accessible calls for two complementary approaches. On the other hand, the modern trend to transaction lending, whether based on assets or an automated credit appraisal such as credit registries. Gebrehiwot and Wolday, (2006) As per the finding banks can effective in financing ventures not firms in sector where there is little dispute over the sector prospects and where firms can be relied up on pay back loans provided they maintain cost control and productive efficiency.

Debt financing is the other major external financing instrument that Small and Medium sized businesses use. Diverse technologies are employed for reaching different types of client in contrasting environments especially where client do not have conventional collateral or where collection of collateral is not secured. Berger and Udell (2006) have pointed out between transaction lending based primary on “hard” quantitative data (such as a credible set of borrower’s financial accounts) or secured on assets and relationship lending, based significantly on “soft” quantitative information.

On the other hand Bergar and Udell (2006) pointed out that because of the time and effort evolved in understanding the borrowers business and financial needs. Relationship leading is costly for the lender and therefore requires either high spreads or large volumes to be viable. If the customer’s creditworthiness is hard to evaluate then there may be no alternative to relationship lending. A point that must be provided emphasis is that relationship lending is at the core of the banking business continuing to give banks a comparative advantage over markets and nonbank financial institutions, even in developed country.

World bank report of the year 2008, in “Finance for all” booklet indicate that credit network that employ sustain a form of social capital through relationship lending have long been observed in different part of the world. These networks are often characterized by a common ethnicity of the

participants although ethnic group membership does not automatically convey membership in the credit market.

In concluding, the customer's credit worthiness, the provision of "soft" quantitative information and the provision of collateral are more important to Financial Sectors.

2.11.8. Determinants and Implications of Access to Finance

It is true that firms finance their operations and growth in many different ways. Their financing choices are influenced by the preferences of each firm's entrepreneurs and more important by the options that are available to them. World Bank's report (Finance for all, policies and pitfalls in extending access) indicates that in what form, from whom, how successfully and at what cost small and medium sized businesses are financed thus depends on a wide range of factors both internal and external to the firm. As per the report financial resources available to the SMEs' entrepreneurs and other insiders are of course important, which is strongly supported by the pecking order theory of Myers and Majluf (1984). But given information and agency problems, external financing also depends on the firm entrepreneurs' own ability to project a credible financial proposal, their willingness to share control, the nature of their business plan and the uncertainty and risks involved in implementing it. Factors external to the firm matter a lot too, which includes the economic conditions, financial environment and other macroeconomic factors.

Moreover, according to Nichter and Goldmark (2009) there are policy biases towards Small and Medium Enterprises face problems in growing due to lack of access to finance. Generally these policies favor SMEs to have encountered difficulties in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions. The reason why it is difficult for SMEs to receive loans is that they do not have the collateral, management skill or the accounting system put in place and SMEs are perceived as high risk.

Table 3. Improving access to finance.

Policy objectives	Policy options
a. Improve access to relevant financial services on appropriate terms	• Develop public credit guarantee schemes • Stimulate the creation of private mutual guarantees • Promote FDI in financial services, supply chain finance (“factoring”) and leasing • Facilitate collateral-free loan screening mechanisms
b. Promote funding for innovation	• Provide incentives to attract venture capital investors and business angels • Encourage equity and “risk capital” financing modalities • Provide performance-based loans and incentives for innovation and green growth • Facilitate the use of intellectual property as collateral
c. Build the capacity of the financial sector to serve start-ups	• Establish a national financial charter • Promote public-private sector "access to finance partnerships" for specific groups • Provide capacity-building grants and technical assistance to expand lending activities (e.g. financial service provision through post offices and other “proximity lenders”; use of new banking technologies to reach rural areas)
d. Provide financial literacy training to entrepreneurs and encourage responsible borrowing and lending	• Set up financial and accounting literacy training • Undertake appropriate supervision of financial products offered to social and micro-entrepreneurs • Expand private credit bureau and public credit registry coverage

Source: United Nations Conference on Trade and Development (UNCTAD), 2012

The UNCTAD Entrepreneurship Policy Framework will focus on a limited set of issues that directly impact access to finance for entrepreneurial start-ups and financial inclusion of entrepreneurs from various backgrounds.

On top of the above stated issues, the author of this study believes that the rapidly evolving technologies based on the internet (e-finance) and cell phone (mobile phones or m-finance) can be powerful engines of access. But lack of legal clarity may impede the adaption of these technologies.

2.11.9. Banking Sector in Financing SME

Small and Medium Sized Businesses like the repayment schedule that banks provide in Ethiopia bankers are not interested in providing loan especially to small sized business because of the loan immateriality which increase the transaction cost banks incur and high mortality rate of small businesses (Fetene, 2010).

In addition, as Peltoniemi, Janne (2007) states that, the type of fund that a business organization raise can be publically placed bonds and term loan from financial institution manly banks.

As it is stated above, the author of this study believes that banks could provide a convenient access to SME. Since there are so many facilities in which the business firms could benefit from the banks as the same time.

2.11.10. Government's Role, Regulation and Development of Access to Finance

It is known that regulation government imposes on economy has got two broad effects: positive and negative. Here history and research revealed that access to finance has both the two effect aforementioned. One experiment is that in year 1977 to 1990 the Indian government has imposed policy indicating that commercial banks are allowed to open one new branch in a district that already had a bank presence only after it opened four branches in areas without a bank present.

This policy led to the opening of 30,000 new rural branches over this period. The other experiment as per Burgess and Pande (2005) have indicated in their finding that this branching regulation resulted in fast development of nonagricultural products, products, poverty decline faster, while the opposite was true before and after this period of regulation. It is obvious that this regulation might have negative impact on some commercial banks.

Furthermore, as per the World Bank report (2008), pointed out that given the evidence financial access varies widely around the world and the expanding access remains an important challenge even in advanced economies, it is not enough to say that the markets will provide. Market failure related to information gaps the need for coordination on collective action and concentrations of power means that government everywhere have an extensive role in supporting regulating and sometimes directly intervening in the provision of financial services. But one has to bear in mind that not all government action is quality effective, however and some policies can be counterproductive.

In addition, Complex systems responses can make will intentioned policies misfire, so successful policy design must be context specific. Governance issues are important: policy success can depend on institutional quality. Measures that are effective in environments that already enjoy strong institutions may fail elsewhere, at the sometime, a well-functioning financial system itself is likely to contribute to strengthening national governance. Researchers (E.g. Burgess and Pande, 2005) have tried to identify specific policies to facilitate financial access indicated government can achieve additional impact in the short to medium terms by taking action specifically directed at facilitating financial market activity that help access. Beyond the overall legal structure and its

protections, an important practical question is that extents to which contract enforcement in finance need to be supplemented by specific laws restricting and classifying and there by offering more reliable protection to; certain types of financial business more generally.

Thus, regulations are required to be designed by government to fever disadvantaged groups in the economy. As per the World Bank (2013) report, policies to promote competition in the banking system can help restrain the exercise of market power that could be damaging to access and Procedural regulation has also its own contribution. Here an important point that should not be forgotten is that regulation can fever the economy and harm the economy too.

In the process of expanding access, it is important to build long term institution. The emphasis in recent literature on the importance institutions – the “rule of the game” for economic development and the parallel role these intuitions are thought to play in financial development suggests that the mechanisms of finance are at the heart of the complex process that lead to accelerated economic growth in a way that is still far from being fully understood (World Bank, 2008).

As such, adjusting institution in direction that clearly helps improve the functioning of finance is likely to be a highly effective pro-growth strategy and the government’s role is very vital. Here the strategy is long term but the short term on which the long term relay is not being provided emphasis.

According to Nichter and Goldmark (2009) cited in the World Bank’s report government involvement in creating a credit guarantee company is often rationalized by the obscuration that small and medium scale enterprise commonly do not have the kinds of collateral that bankers require. Means given that financial markets are not perfectly efficient, to do so need not necessarily involve subsidy and fiscal outlay- although typically it does. In addition, there are policy biases towards Small and Medium Enterprises face problems in growing due to lack of access to finance. Generally these policies favor SMEs to have encounter difficulties in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions

As per Sleuwaegen and Goedhuys (2002), they argue that restricted access to finance is great problem for SMEs in developing countries and most SMEs face problems in ensuring security for loan guarantees.

Obviously, in concluding, the policies and regulation of government impose on the existence and growth of SME. More specifically, as stated above government’s policies favor SMEs to have

encounter difficulties in growing due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions.

On top of these, there shall be a policy objectives in order to improve access to relevant financial services on appropriate terms and to promote funding for innovation. In such instance there need to be a policy options to:

- Develop public credit guarantee schemes
- Stimulate the creation of private mutual guarantees
- Facilitate collateral-free loan screening mechanisms
- Provide incentives to attract venture capital investors and business angels
- Encourage equity and “risk capital” financing modalities
- Provide performance-based loans and incentives for innovation and green growth
- Facilitate the use of intellectual property as collateral

On top of these, there need to have a debt financing, which is the other major external financing instrument that Small and Medium sized businesses use. Diverse technologies are employed for reaching different types of client in contrasting environments especially where client do not have conventional collateral or where collection of collateral is not secured (Berger and Udell, 2006).

2.12. Good practices of doing business from around the world

The following section illustrates good policies and practices that are a good model to present and to ease the ups and downs of doing business around the world.

Table 4. Good practice around the world by doing business

Topics	Practice	Economies	Examples
Making it easy to start a business	Putting procedures online	109	Azerbaijan; Chile; Costa Rica; Hong Kong
	Putting procedures online	99	Cape Verde; Greece; Kazakhstan; Kenya;
	Having a one-stop shop	96	Bahrain; Benin; Burkina Faso; Burundi;
Making it easy to get credit	Allowing a general description of collateral	92	Canada; Nigeria; Rwanda; Singapore
	Maintaining a unified registry	65	Afghanistan; Bosnia and Herzegovina; Ghana; New Zealand; Romania
	Credit information -Distributing data on loans below 1% of income per capita	128	Brazil; Bulgaria; Germany; Kenya; Malaysia; Sri Lanka; Tunisia
	Credit information -Distributing both positive and negative credit information	109	China; Croatia; India; Italy; Jordan; Panama; South Africa
	Credit information -Distributing credit information from retailers or utilities as well as financial institutions	57	Fiji; Lithuania; Nicaragua; Rwanda; Saudi Arabia; Spain

Source: World Bank Doing Business Mini Report 2014.

As it is clearly indicated on the above table, the author of this study believes that, Ethiopia could learn a lot from those countries which have a good practice on the ease of doing business on making easy to get credit and start a business.

Nonetheless to the above good practices of Doing Business in a country level, doing business must be reformed to better fulfil the World Bank's mandate to eradicate poverty. Accordingly, many of their priorities for being able to “do business” identified in research by United Kingdom and others, and indeed reflected in the World Bank's own enterprise surveys are not featured in Doing Business. For example, Zambia ranks well on the Access to Credit indicator, whilst the majority of firms cite this as their major constraint when surveyed. In order to improve the relevance of Doing Business to poor small business owners, the World Bank should: Broaden consultation to specifically get viewpoints of [medium and small-sized enterprises and address reforms that suit them.

Doing Business must be used in an appropriate way in policy formulation. As recognized by the Doing Business team, the project is not intended to provide a blueprint for regulatory reform. It is poorly designed for such a purpose. It captures what is easily measurable, without any deeper analysis and in a relatively unscientific way. Consequently, the World Bank recognizes that the reforms listed might not be appropriate in all contexts. Therefore, it is inappropriate to promote Doing Business reforms in countries as being the “right” thing to do or to set direction of

regulatory reform. To avoid such incentives arising, the World Bank should: Recommend that Doing Business is not used by donors as benchmarks in aid programs and not rank countries according to their Doing Business “scores” (Manuel, 2013).

In addition to the above points, Manuel (2013) found three key weaknesses in the doing business report by the World Bank:

“First, because most of the indicators presume that less regulation is better, it is difficult to tell whether the top-ranked countries have good and efficient regulations or simply inadequate regulation. Second, the small informant base makes it difficult to measure confidence in the accuracy of the individual indicator values, and thus in the aggregate rankings. Third, changes in a country’s ranking depend importantly on where it sits on the distribution: small changes can produce large ratings jumps, and vice versa. These factors contribute to anomalies in the rankings. These issues alone may not jeopardize [the Doing Business report’s] indicators’ reliability. But the lack of transparency about them undermines [the Doing Business report’s] credibility and goodwill. [The Doing Business report’s] documents and presentations should include full explanations and cautions on these points.”

The debates about Doing Business, however, continued. In its discussions with the Doing Business team, Bank representatives and external stakeholders, the Panel found that there was consensus on the view that private-sector development is the key to economic growth and poverty reduction.

The doing business report’s indicators aim to highlight conditions that are conducive to business.

These conditions may be improved either by deregulation or by more focused regulation.

Finally the followings are the **SMART** business regulations as defined by Doing Business:

- **Streamlined**—regulations that accomplish the desired outcome in the most efficient way.
- **Meaningful**—regulations that have a measurable positive impact in facilitating interactions in the marketplace.
- **Adaptable**—regulations that adapt to changes in the environment.
- **Relevant**—regulations that are proportionate to the problem they are designed to solve.
- **Transparent**—regulations that are clear and accessible to anyone who needs to use them (Doing Business World Bank, 2013).

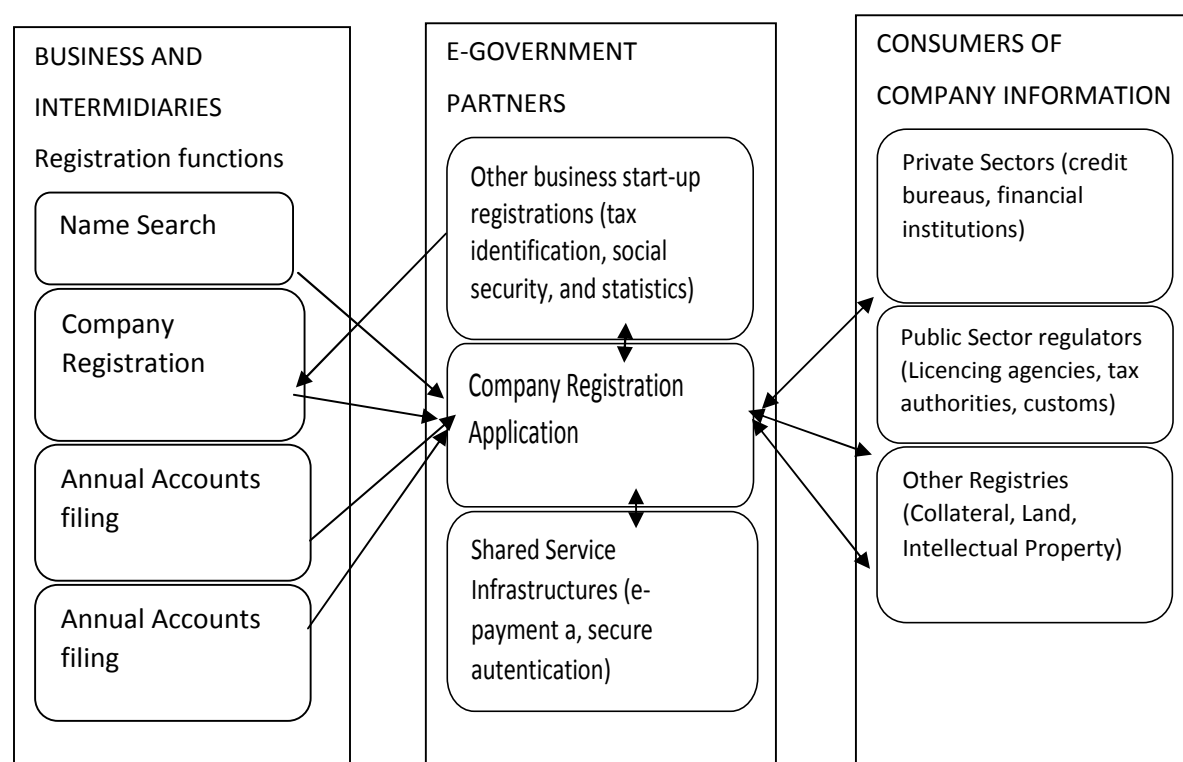
In concluding, a flexible and transparent government’s regulation, policy and good provisions of infrastructure to SME, is the most important and cost-efficient way to promote economic growth

and reduce poverty. However, regulation is necessary to protect societal and environmental interests.

2.13. A good model of business registration system

The following figure shows a good practical model for ameliorating the business start-ups and as well as ameliorating the transparency and simplicity of other related activities like for instance, the database shall be linked to other institutions in order to ease the ups and downs of doing business.

Figure 3. Business Registration Model



Source: World Bank Group 2013.

2.14. Conclusion

In conclusion, the major issues that transpire from the above discussion are:

First the role of SMEs in the country's economic development through their contribution in the following: rural industrialization; rural development and decentralization of industries; creation of employment opportunities and more equitable income distribution; use of indigenous resources;

earning of foreign exchange (forex) resources; creation of backward and forward linkages with existing industries; and entrepreneurial development.

Secondly, in concerning business, the experiences in regard to business regulation in general is more aimed at creating some benefits for the regulators than for the public, although minimal standards of regulation are necessary. As it is presented in this chapter, many countries have recently streamlined their company registration systems, in the belief that this will improve the business environment and enhance their ability to compete in the global economy. In particular, the advance of ICT has permitted substantial streamlining of old systems, particularly from the manual systems of many original laws. The minimum regulation, however, focuses on keeping good records up to date.

Thirdly, the above chapter imparts the reviews on international good practices in business registration reform with the goal of helping policy makers and practitioners identify those practices that will best fit with and be most effective when adapted to their economies. Rather than prescribing the parameters of an ideal reform program, therefore, it highlights what a business registration project team needs to consider when undertaking this work and provides guidance on how to collect the information needed to make informed decisions and choices.

Furthermore, The Reforms and practices to Business startup are discussed. Since business registration processes can support country's fight against poverty by empowering its citizens as workers and innovative entrepreneurs. For instance, recent studies have found that simpler registration creates employment opportunities and more productive jobs. In Mexico, the introduction of a one-stop shop for registration increased employment by 2.8 percent.⁴ In Bogota, Colombia, a one-stop registration shop helped create 9,760 firms and 75,810 jobs

When we look at the policy established and carried out by the government goes through several stages from inception to conclusion. The policymaking process is also viewed as a continuous struggle carried out by opposing groups, to secure power and control of public policy. The most common and important steps includes Agenda setting, Policy formulation, Policy adoption, Policy implementation, Policy evaluation. Policymaking is never an easy task, whether it be in the political or the business world. Policymakers typically progress through the above five different stages in the policy-making process before an idea is implemented and then either solidified or altered to become permanent policy.

Moreover, important features of good policymaking are forward looking, outward looking, innovative, flexible and creative, evidence based, inclusive, joined up, learn lessons, communication, evaluation, and review. Moreover, inadequate access to finance remains a major obstacle for many aspiring entrepreneurs, particularly in developing countries. As recent studies confirm, the global financing gap for micro, small and medium sized enterprises remains enormous.

In general from the above discussion we can understand that, doing Business must be used in an appropriate way in policy formulation and in providing a conducive environment to the entrepreneurs in a given economy.

CHAPTER THREE

POLICIES AND PRACTICES OF DOING BUSINESS IN ETHIOPIAN CASE

This chapter delineates the related literatures by different authors on the Assessment of policies and practices of doing business in Ethiopian case.

3.1. Business Registration Regulations and Licensing Procedures in Ethiopia

The following Proclamations and articles are declared on the business start-up registration and business licensing in Ethiopia.

Proclamation No. 67/1997: Commercial Registration and Business Licensing Proclamation; Regulation No. 13/1997: Federal Government Commercial Registration and Licensing Regulation; Proclamation No. 123/1995: Concerning Inventions, Minor inventions and Industrial Designs; Council of Ministers Regulation No. 12/1997: Inventions, Minor Inventions and Industrial Designs Regulation; Proclamation 49/2001: A Proclamation to Provide for the Establishment of Export Trade Incentive Scheme; Proclamation No. 329/2003: Trade Practice Proclamation

Business start-up Registration and Business Licensing **Proclamation No. 686/2010** or **686/2002** EC.

- Commercial registration of a sole business person(Article 10)
- Commercial registration of Share Company (Article 12)
- Commercial Registration of a Business Organization Other than a Share Company(Article 11)
- Commercial Registration of a Federal Public Enterprise or Regional Public Enterprise (Article 14)
- Commercial Registration of a Commercial Representative (Article 15)
- Alteration and Amendment of Commercial Registration(Article 16)
- Cancellation of Registration(Article 17)
- Renewal of Commercial Registration(Article 18)
- Issuance of Substitute Certificate of Registration(Article 19)
- Effective Date of Registration(Article 20)
- Request for Copies of Entries(Article 21)
- Application for Business License(Article 32)

- Issuance of Business License (Article 33)
- Rights and Duties of a Business Person Holding a Business License (Article 34)
- Permit for Expansion and Upgrading (Article 35)
- Validity Period and Renewal of Business License (Article 36)
- Suspension of Business License (Article 37)
- Cancellation of Business License (Article 39)
- Issuance of a Substitute Business License (Article 40)
- Issuance of Business License Upon Transfer of Business (Article 41)

3.1.1. Company Registration

This refers to the process undertaken by a willing party to show his/her interest in starting a business. It does not, nevertheless, commit the interested party to start up the business. It only shows the party's intent to start the business by securing a business license whenever he/she is ready to do so (Amha B., Nigatu, 2009).

3.1.2. Business-License Issuance

This has to do with the process of securing a license to operate any kind of commercial activity under the rules and regulations of the Commercial Code of Ethiopia (Ibid).

3.1.3. Business-License Renewal.

This refers to the process of renewing a business license so as to continue operating a business.

3.1.4. Alteration of a Commercial Registration and/or Addition of a Business License

This is usually done when a businessperson either upgrades or downgrades his/her field of activity. So, if there is any fundamental change within the company—that is, a change of address, change in the MoA document, etc.,—the change will have to be reflected in the company's registration and on its business license (Ibid).

3.1.5. Replacement of a Commercial Registration/Business License

A replacement for the company's registration or for its business license is issued if and when one or both of these documents have been misplaced or lost (Ibid).

3.1.6. Summary Registration

This is done if a business person/a company has been registered before with the MoTI or by any other regional registrar office but needs to be registered in the new region he/she wants to start operating (Ibid).

3.1.7. Returning a Company's Registration Certificate/Closing a Business

As clearly implied by the sub-title, this refers to the process that the owner of a business has to go through if and when he or she wants to close his/her business and return his/her company's registration certificate (Ibid).

3.2. SME Registration in Addis Ababa and the Sub-cities

The Addis Ababa City Administration is divided into ten sub-cities and each sub-city has its own registrar bureau, where it undertakes the activities listed earlier as enforced by the Ministry of Trade. That is, Company registration, business-license issuance and business-license renewal are done not at the Addis Ababa Trade and Industry Bureau but at the sub-cities (Amha B., Nigatu, 2009).

The Company Registration Center at the Addis Ababa Trade and Industry Bureau handles the following:

- Prepares reports on the activities undertaken with regard to company registration and business-license issuance within the city administration and submits them to the MoTI. It also prepares performance reports.
- Responds to requests that come to it from organizations and individuals. The requests are, of course, for information on registered companies and trade operators.

Such centers support the sub-cities in using and managing the registration process as well as in using the IT system in place.

At the MoT a company license could be issued for all types of business to be started in Addis Ababa and the principal company registration could be done either with one or more specific sectors. The registration certificate could also be upgraded to include more sectors once it was issued, or downgraded to remove some sectors from the list.

The fees for company registration and business-license issuance were different at the sub-cities from the fees paid at the federal Office as shown on the process maps that follow this section. The consultant also found out that, unless a company required a temporary license to start operations, it could not be registered without at first securing a business license (Ibid).

3.3. Banking sector proclamations

The Banking Sector Proclamations depend up on Monetary and Banking proclamation No.83/1994 and the Licensing and Supervision of Banking Business No.84/1994 which laid down the legal basis for investment in the banking sector in Ethiopia. As per the mandate by NBE directives on licensing and supervision of banking business are communicated to banks.

As per the proclamation No. 591/2008, the government Ethiopia placed all banks and financial institutions under the National Bank of Ethiopia's control and supervision. The National Bank of Ethiopia regulated currency, controlled credit and monetary policy, and administered foreign-currency transactions and the official foreign-exchange reserves.

3.4. Acceptable Collaterals and their margin followed by Commercial Banks of Ethiopia

As per the Archive of National Bank of Ethiopia, The following table presents the Collaterals that is used to secure the customers requested loan. It is evident that a 100 percent collateral secured credit facility is available in commercial banks of Ethiopia. For that reason, there are few SME owners who are more beneficial than those who doesn't have a collateral to secure their request. The collaterals values are estimated accordingly:

- Residential and Commercial Buildings' values are estimated by the Bank's Engineers
- Commercial and privately owned vehicles, Machineries and Heavy trucks' values are estimated from their insurance value in which it is specifically calculated from their duty paid values.
- Guarantees and Share Certificates are estimated from their gross value.

Table 5. Acceptable Collaterals for lending process

Collaterals	Offset Margin (%)	Lendable Margin (%)
Building to Term Loan for existing customer	5	95
Building to Term Loan for new customer	10	90
Building for New customer	15	85
Building for Over draft new customer	15	85
Building for Overdraft existing customer	10	90
Cash and Cash substitutes	0	100
Commercial Vehicles	60	40
Foreign bank guarantee – Overdraft	2	98
Foreign bank guarantee – Term loan	0	100
Local bank guarantee – Overdraft	2	98
Personal Guarantee	0	100
Residential house	5	95
Share Certificate	10	90
Vehicles and Machineries under 5 years - Overdraft	50	50
Vehicles and Machineries under 5 years – Term loan	40	60
Vehicles and Machineries over 5 years - Overdraft	50	50
Vehicles and Machineries over 5 years old – Term loan	60	40

Source: Archive of NBE, 2014

3.5. Banking Sector Reforms in Ethiopia

As per the Archive and an interview conducted with NBE’s officials, The NBE has made numerous reforms in the Ethiopian banking sector. When EPRDF came to power the main reform it introduced was allowing the private commercial banks to operate on the economy. This can be taken as the main reform in the banking sector, particularly when private banks are concerned. Then after not more than two reforms had been introduced by NBE.

The pre-reform period refers to the period 1974 to 1991 (the Derg regime). During this period all private banks were nationalized. The National Bank of Ethiopia was at the apex of the banking structure and was engaged in all the functions of a central bank. CBE, DBE were in operation

during this period. In addition to these banks, there were also two other financial institutions: Ethiopian Insurance Corporation (EIC) and the Pension and Social Security Authority (PSSA). The CBE, followed by the DBE, were and remain the most important banks in the country both before and after reform (Geda, 2005).

After the 1991 government change, the provision of Licensing and Supervision of Banking Business Proclamation no.84/94 and the 1960 commercial code of Ethiopia, many private commercial banks flourished in to the business.

After the 1992 reform, in Ethiopia there are 15 privately owned banks 3 government owned banks, among the state owned banks, Development Bank of Ethiopia is a bank that gives long term loans particularly for large sized businesses, whereas the rest the private and commercial banks including the Commercial Bank of Ethiopia and Construction and Business Bank give credit facility to Small and Medium Sized Businesses. They also accept deposit and do the money transfer services.

The degree to which banks collect cash and generate deposits stand for the degree of financial intermediation. By excluding, currency outside banks from broad money supply, using this measure of financial development in Ethiopia, was just 3.8 percent in 1971 increased to 12.5 percent in 1993. After the economic reform of 1993, it rises by about 18.3 percent annual average and reached 24.0 percent in 2010, significant developments occur (World Bank (2013)).

Since their introduction, the role of private commercial banks has become increasingly important. And the demand deposits mobilized by the private banks increased, the loans dispersed by them also increased, and there is a significant shift from the dominantly state owned banks controlling the finance sector in many areas and towards privately owned commercial banks.

Banks, insurance companies and microfinance institutions are the major financial institutions operating in Ethiopia. The number of banks reached 19 of which 16 were privately owned. According to NBE the current information gathered from the interviewee, the total number of branches has reached to an approximation of 1900 branches to both private and government owned commercial banks, and they are highly concentrated in the cities, the reason as per the interviewee justified that most of the small and Medium Sized businesses are concentrated in cities. Despite of these, Ethiopia remains one of the most under banked countries in the world given its population is more than 91 million. Some 40 percent of the total bank branches were located in Addis Ababa. Of the total bank branches, the share of private banks slightly grew to 58.4 percent from 57.1 percent in the previous quarter of the 2009 (World Bank, 2013).

Furthermore, Lack of access to finance is a significant constraint for local businesses. A January 2011 National Bank directive forces banks to purchase central bank bills to the tune of 27% of their loans and advances at an interest of 3% (lower than the cost of funds at 5%) and a maturity of five years. As a result, banks' liquidity and capacity to supply businesses with needed finance is constrained. To address these problems, the central bank reduced reserve and liquidity requirements of banks from 15% and 25% to 10% and 20%, respectively in January 2012 and further reduced the reserve requirement from 10% to 5% in March 2013 (World Bank, 2013).

In Ethiopia context, the author of this study believes that, 100 percent collateral provisions and loan size reduce the interest rate paid and that better borrowers get larger loans and lower interest rates. Moreover, Government banks are more likely to finance SMEs as they are better suited to engage in “relationship lending.” The strength of bank-borrower relationship is argued to be positively related to various credit terms.

3.6. The number of reforms done so far on doing business in Ethiopia

The following table illustrates the reforms done so far in the ease of doing business in Ethiopia, as it is ranked from the world economy context.

Table 6. The number of reforms done in doing business in Ethiopia

Economy	Year	Rank	Reforms
Ethiopia	2006	93	0
	2007	99	0
	2008	110	0
	2009	111	0
	2010	107	2
	2011	104	0
	2012	111	0
	2013	127	1
	2014	125	0

Source: World Bank, 2014

As it is illustrated in the above table, the report on doing business in Ethiopia, there has been few reforms done so far and these are:

Starting a Business: Ethiopia reforms at the registry and streamlining of procedures improved the registration process easing the process of new business start-up and also Ethiopia made trading easier by addressing internal bureaucratic inefficiencies in 2010.

Getting Credit: Ethiopia improved access to credit information by establishing an online platform for sharing such information and by guaranteeing borrowers' right to inspect their personal data in 2013.

3.7. Conclusion

In regard to the policies and practices of doing business in Ethiopia, the above chapter delineates, business start-up procedures and access to credit facility with their link to the ease of doing business in Ethiopia context. Thus, in Ethiopia the SME start-up registration procedures depend up on Proclamation 686/2010. In this chapter it is shown how business start-ups are communicated in Ethiopia are shown and the necessary policies and procedures regarding business registration in Ethiopian context is highlighted. In addition, it is also found that lower costs of entry, better and transparent credit information sharing are associated with a larger size of the SME sector.

On the other hand, broad range of business environment factors which are linked to SME performance and the extent to which entrepreneurs have ready access to any required financial information concerning a credit finance, price levels, market depth and other relevant information should be transparent in order to attract more entrepreneurs in to the Ethiopian Economy.

Furthermore, lack of access to finance is a significant constraint for local businesses. For instance, A January 2011 National Bank directive forces banks to purchase central bank bills to the tune of 27% of their loans and advances at an interest of 3% (lower than the cost of funds at 5%) and a maturity of five years. As a result, banks' liquidity and capacity to supply businesses with needed finance is constrained. To address these problems, the central bank reduced reserve and liquidity requirements of banks from 15% and 25% to 10% and 20%, respectively in January 2012 and further reduced the reserve requirement from 10% to 5% in March 2013.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter deals with the presentation, analysis and interpretations of the data in order to answer the main research questions of the study. The data are gathered through questionnaires, interviews, and document reviews. All data are systematically analyzed presented and discussed under each topic of the main research questions.

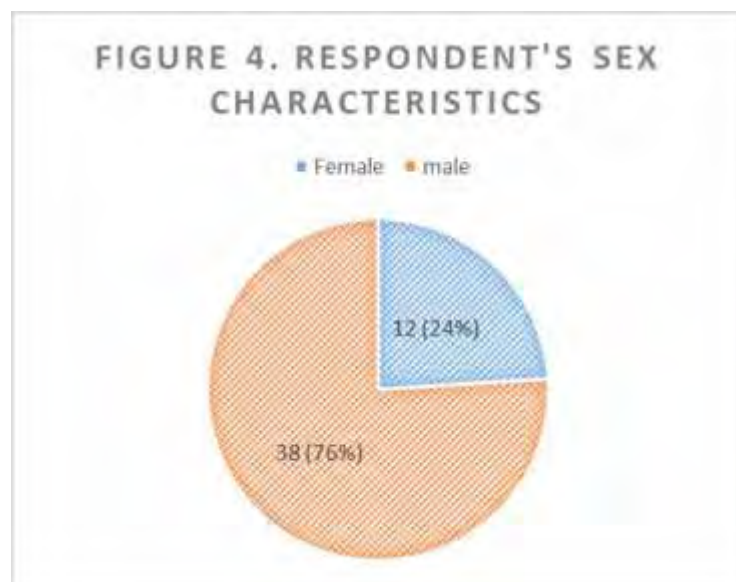
Senior experts and officials from Ministry of Trade and National Bank of Ethiopia are interviewed. At the same time questionnaires were distributed to Small and Medium Sized Enterprise owners or to the managers of these Enterprises. A total of 55 questionnaires were distributed out of those 50 of them are responded, 3 officials from Ministry of Trade and 2 officials from National Bank of Ethiopia were interviewed.

A. ANALYSIS OF RESULTS FROM QUESTIONNAIRES AND INTERVIEWS

4.1. Characteristics of the respondent

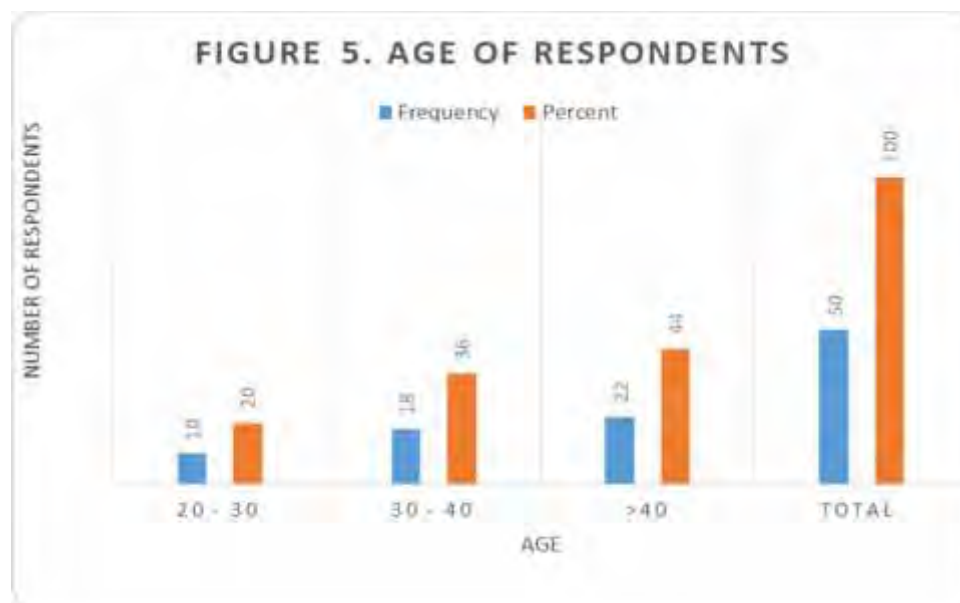
The author of this study distributed 55 questionnaires to judgmentally selected 10 sub city's Small and Medium sized business Enterprises. The author of this study then differentiates the Small from the Medium and also from other categories as per the definition given by the previous chapter. Specifically, the companies with 6 to 49 workers and with capital up to birr 500,000.00 to service giving enterprises and a capital up to birr 1,500,000.00 for industries are considered Small Enterprises and those companies employing from 50 to 99 workers and with capital from 500,000.00 to birr 2,000,000.00 for service giving enterprises and a capital from birr 1,500,000.00 to 3,000,000.00 for industries were considered as Medium Sized Enterprises and the author of this study implemented the above criteria of selection for this research purpose.

From the total of 55 questionnaires that are distributed, 50 are responded properly but the rest are not appropriately responded by the Small and Medium Sized Enterprise owners or managers and it is due to different reasons. Thus, the response rate is 91 percent and it is appropriate to pursue the research with such response rate. Thus, the analysis and presentation of respondents' Sex and Age characteristics are presented below.



Source: Field Survey, 2014

The above Pie Chart shows that the majority of the respondents are male than female. When this is converted to percentage, male dominate the percentage i.e. more than 75% of the respondents are male. From this we can deduce that there exists a high male dominance in Small and Medium Sized Enterprise possession or the top management position to these enterprises are occupied by men. The reason for such difference could be the dominance of educational competency and due to the psychological perception that men are more preferable in top management and leading the business. According to recent studies, the government of Ethiopia has been giving so many benefits to the women entrepreneurs in order to narrow the gap between such dominance.



Source: Field survey, 2014

As per figure 5. The majority of respondents' age characteristics revealed that, 22 of the respondents (44 percent) of them are more than 40 years old. It also showed that 18 respondents (36 percent) are between the ages of 30 to 40 years. Therefore, the author of this study believes that the respondents had enough work experience to reveal their know-how and to pertain enough information in relation to the assessment of policies and practices of doing business in Ethiopia. More importantly to the Small and Medium sized enterprises in Ethiopia.

Having consider the respondents' Age and Sex characteristics, the following data analysis and presentation presents the respondents' educational background and their work experience in SME.

Table 7. Respondents' educational level and work experience status in Managing Small and Medium Enterprises

Educational Level	Frequency	Percent	Respondents Experience in SME	Frequency	Percent
Secondary school	5	10	0 – 3 Years	2	4
Diploma	14	28	3.1 – 6 years	5	10
B.A/B.Sc	21	42	6.1 – 9 years	16	32
M.A/M.Sc	8	16	9.1 – 12 years	8	16
PhD	0	0	12.1 – 15 years	7	14
Others (ACCA+ BA)	2	4	>15 years	12	24
Total	50	100	Total		100

Source: Field Survey, 2014

The above Table 7 Shows that educational level and work experience status of the respondents. As one observed from the table majority of the respondents i.e. 23 of them (46 percent) have first degree in which 2 of them also possessed ACCA. The second outnumbered of the respondents are Diploma holders i.e. 14 of them (28 percent) and the third place is taken by the M.A / M.Sc holders which constitutes 8 respondents (16 percent) from the total of 50 person (100 percent) .

Moreover, more than 85% of the respondents have more than 6 years of work experience in managing Small or Medium sized business firms.

Thus, the above figure indicates that the work experience of the respondents as well as their educational level enabled the author of this study to get adequate information related to the topic.

4.2. Assessment of business start-up procedures

First of all, a simple company or SME start-up registration has a competitive advantage, both in attracting foreign businesses and in encouraging their own entrepreneurs to do business. Easier business registration processes can support a country's fight against poverty by empowering its citizens as workers and innovative entrepreneurs. Furthermore, lower costs of entry, better and transparent credit information sharing are associated with a larger size of the SME sector, while higher exit costs are associated with a larger informal economy. Thus, In SME Creation Simpler, faster, and cheaper business registration processes increases the number of businesses in an economy.

So in assessing the simplicity, the existence of computerized database system and easiness to start-up will convey the essence of business start-up procedures. While, lower registration costs are associated with higher business density.

Thus, the following business start-up procedures inquiry were responded by the Small and Medium Sized Enterprises as follows:

Table 8. The extent to which the respondents agreement to the business start-up procedures

Items	Responses made by the respondents					
	SA	A	N	DA	SDA	No. / %
The registration procedure for starting A new business in Ethiopia is simple		12 (24%)	28 (56%)	5 (10%)	5 (10%)	50 (100%)
There exists a networked database System to facilitate business start-up Procedure			17 (34%)	20 (40%)	13 (26%)	50 (100%)
The current easiness of business start- up Practices will attract more investors to join in		13 (26%)	19 (38%)	11 (22%)	7 (14%)	50 (100%)
The cost of business start-up registration is expensive		25 (50%)	17 (34%)	8 (16%)		
The cost of business closure is expensive		33 (66%)	11 (22%)	6 (12%)		

SA-strongly Agree; **A**-Agree; **N**-Neutral; **DA**-Disagree; **SDA**-Strongly Disagree

Source: Field Survey, 2014

The data summarized in Table 8, according to the first inquiry or to the simplicity of registration procedure, 28 respondents i.e. (56%) of them were neutral and 12 respondents (24%) out of the total agreed and the rest 10 respondents (20%) disagreed to the simplicity business start-up procedure in Ethiopia.

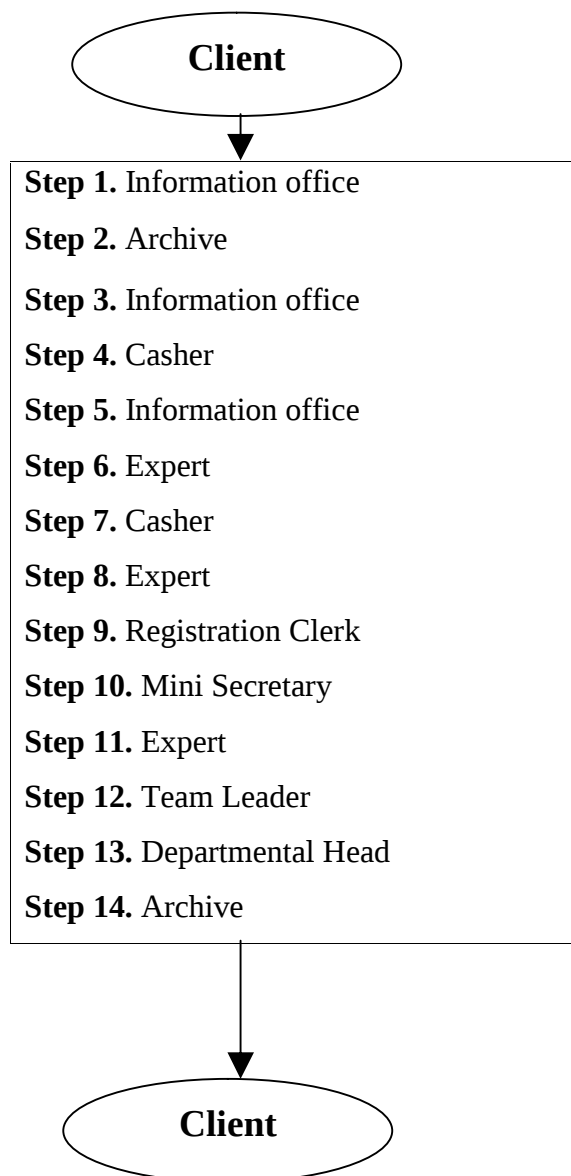
In addition to the above responses officials from Ministry of Trade are also interviewed to give their opinions about the simplicity of registration procedure. Their response were as follows, even if there is an improvement in business start-up procedures as per the BPR conducted in 2010, there is a knowledge gap in making a good records and accounts. This is because there is lack of expertise in easing up the ups and downs of business start-up registration and most of all there exists lack of adequate document presentations from the customers' side. Thus, this could make the procedure to take a little bit longer than it is expected to be.

As per their justifications, the Ministry of Trade used to take 14 working steps and 8 days for SME. After the conduct of the BPR, it only takes 6 work steps and 34 minutes, respectively. This reform

has been taking place since 2010 and in consequence, Ethiopia had improved its' rank in doing business from 105 position in 2010 to 104 in 2011 as per World Bank Doing Business Report (2012). It implied reforming the business start-up registration has a direct relationships to the ease of doing business in a given economy. The following figure illustrate the reform done so far in ameliorating the business and license registration in Ethiopia.

Figure 6. Workflow of Registration Activities for SME in License and Registration Department

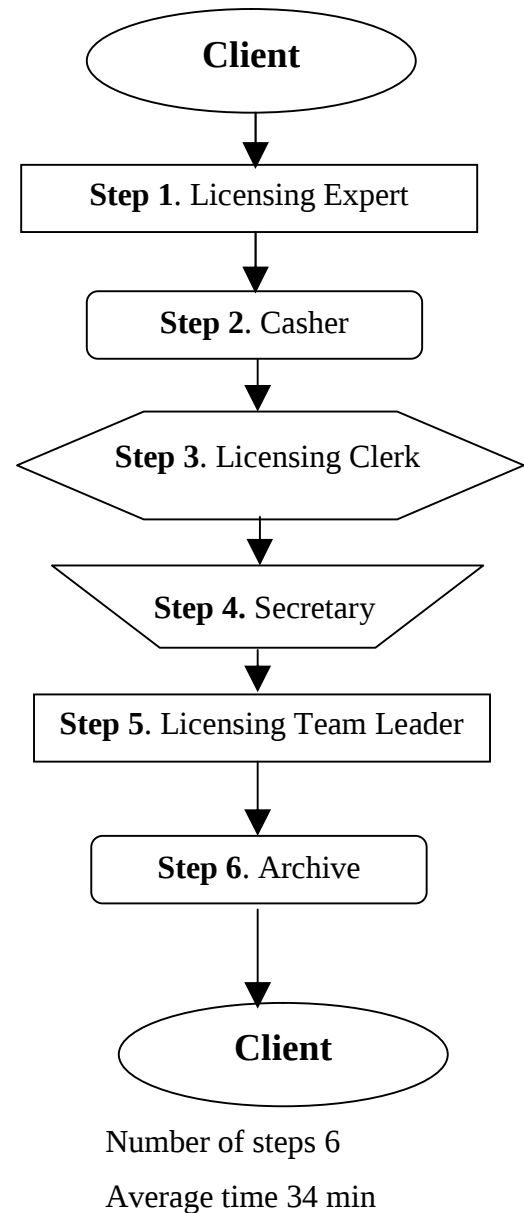
Workflows of Registration service before the reform



Number of Steps 14 and average time it used to take is 8 days

Source: Berihu Assefa, (2009: 4).

Workflows after the reform



Furthermore, as per the responses made to the second inquiry or to the existence of a networked database system to facilitate business start-up procedures, the majority of the respondents i.e. 33 respondents of which (66%) of them were disagreed. It shows that the procedures to accelerate the business start-up needs to have a well-organized and computerized database system as per the respondents' response.

Hence, as per the interview conducted to the Director of Business Registration and Licensing Directorate at Ministry of Trade, The Ethiopian Ministry of Trade has recently started to install Online Trade Registration and Licensing System (OTRLS) to each Business Registration centers especially in the cities. The 300 million birr project was initiated by the federal government and is expected to be launched on a national level. The software for the OTRLS program, which would replace the current manual business registration process, was developed by Custor Computing plc at a total cost of 1 million birr. The online system will not require applicants for a new business license or those seeking renewal of licenses to appear in person at the ministry offices except to pick up the physical copy of the license issued. The new system allows a person to log into the system to obtain information on the requirements for a particular type of business license or for renewal. The individual can then go on to fill out the appropriate form and attach scanned copies of supporting documentation such as their Tax Identification Number and business details.

As per the interviewee's discussion, these project lags behind schedule due to lack of coordination, lack of adequate skilled man power to each registry center and due to other unspecified reasons. Thus, the digitized system will help streamline the ministries services and it will ease the ups and downs to the ease of doing business in Ethiopia. On top of that, many good practices have emerged through various economies' reform experiences. Among the most successful reforms are Creating a single interface: the one-stop shop and utilizing information and communication technology are essential.

Therefore, Ministry of Trade could have to accelerate the utilization of information and communication technology in order to ease the ups and downs to the ease of doing business.

Moreover, the data summarized in table 3.3. Specifically to the third inquiry or to the attractiveness of the current easiness of business start-up to the investors, 19 respondents i.e. (38%) of them were neutral and 18 respondents (36%) out of the total agreed and the rest 13 respondents (26%)

disagreed to the inquiry. Therefore, from these the author of this study has noticed that the current easiness of business start-up Practices will attract more investors to join in.

The next inquiry revealed that the responses made to the expensiveness of the cost of business start-up registration in Ethiopia, 7 respondents i.e. (14%) of them were neutral and 25 respondents (50%) out of the total agreed and the rest 8 respondents (16%) disagreed to the inquiry.

In addition, the final enquiry to this category revealed that, the responses made to the expensiveness of the cost of business closures in Ethiopia, 11 respondents i.e. (22%) of them were neutral and 33 respondents (66%) out of the total agreed and the rest 6 respondents (12%) disagreed to the inquiry.

Furthermore, as per the information gathered from the interview, starting businesses in countries like Ethiopia, one should have to face much larger regulatory procedures than those in rich countries. In addition, an entrepreneur could be obliged to spend 3 times the administrative costs, and nearly twice as many procedures and delays associated with them. Which does not hold when we control for reverse causality.

4.3. Assessment to credit facility

In assessing the time taken to facilitate a credit facility from commercial banks and the satisfaction level of SME owners in benefiting a credit facility, one has to note that the existence of these challenges could hinder the ease of access to credit from commercial banks.

Therefore, the following two inquiries are important in noticing the existence of such challenges.

Thus, the inquiries are responded by the Small and Medium Sized Enterprises as follows:

Table 9. The extent to which the respondents' agreement to the credit facility

Inquiries	Responses made by the respondents					
	SA	A	N	DA	SDA	Percent
Procedures to the credit facility from Commercial banks is time consuming in respect to the urgency	10 (20%)	17 (34%)	8 (16%)	15 (30%)	0 (0%)	50 (100%)
Business owners are satisfied with the presence of transparent system in benefiting a credit facility	7 (14%)	8 (16%)	10 (20%)	25 (50%)	0 (0%)	50 (100%)

SA-strongly Agree; **A**-Agree; **N**-Neutral; **DA**-Disagree; **SDA**-Strongly Disagree

Source: Field Survey, 2014

As per the data presented in table 9 Specifically, the responses made to the above first inquiry or the existence of time consuming commercial bank's procedures to deliver the credit facility revealed that, out of 50 (100%) respondents, 27 respondents (54%) or more than half of the respondents agreed to the lack of commercial bank's speed in facilitating a credit access to Small and Medium sized enterprises.

As per the response from the higher officials of NBE, they revealed that banks prepares a credit portfolio and the procedures depend up on the performance from credit officers to the credit analysts approvals at their head office. Thus, as per the NBE directive no. SBB/42/2007 and also the loan provision Directive no. SBB/52/2008 and the manual to each commercial banks, each branch of commercial bank is responsible to identify and verify the type of documents that has to be presented to process the loan request. The type of documents to be presented depends upon the type of loan requested, the formation of the business, and the type of collateral offered. The following lists are among the necessary documents in which a credit officer inquires in which these have a direct relationship to the easiness of the procedures. These are:

Loan requesting application letter, TIN certificate, Feasibility study, in case of new projects, Credit information regarding the loan requesting business firm. It has to be presented from the National Bank of Ethiopia. Now it has been changed to a more time saving and transparent system, Latest two years Audited or Provisional financial statements and business plan, supported by projected cash flow statement.

On top of that, a consolidated financial statements is required if the applicant has sister company. In the absence of an Audited or provisional financial statements, a commercial credit report is acceptable, Renewed Trade License, Principal trade registration, Investment permit, Tax payment clearance certificate, Memorandum and articles of association with all the latest amendments in the case of business enterprises should be obtained and referred to Ethiopian Legal services Department for review and comment as to who is authorized to conclude loan contracts on behalf of the enterprise and also whether he can mortgage the property of the company, Evidence of power of attorney if the loan requested through an agent and it has to be presented to the legal department for opinion, Documents evidencing marital status of borrower in case of natural person, Profile of management team, stating their present position, qualification and their work experience, Background of business or company, names of shareholders and their share contributions. Paid up

capital should be supported by certificate of registration and the amount should be reflected in the latest balance sheet.

Moreover, if the applicant is a public enterprise; Negarit Gazette describing the official establishment of enterprise, an official letter of Board of management authorizing the General Manager to borrow from a bank, Security documents; if the collateral offered is a vehicle, the borrower should present a photocopy of ownership booklet verified against original. If the collateral offered is a building: an approved plan of building, photocopy of title deed of land and leasehold certificate verified against the original and evidence of annual payment of lease for land held on leasehold basis. If the collateral offered is a share: share certificate from a reputable bank or insurance co., written undertaking of the company whose shares are going to be pledged to make transfer of ownership to the bank in the case of default. The company should also undertake not to transfer ownership until the loan is fully settled, and pro-forma invoices, receipts and other related attachments need to be presented.

On top of the available documents submission to the commercial banks, the following practice has to take place in all commercial banks in order to minimize the risks associated to the risk of failure. Thus, one should follow the following steps: Credit origination, evaluation, preparation of commercial credit report format and statement of financial condition, preparation of the Loan Approval Format (LAF) and recommendation/approval, signing of Contract, insurance coverage, disbursement and follow up.

In concluding, the policies and procedures of the institutions like Commercial Banks providing credit service to the SMEs is dependent up on its flexibility. From this point of view, the challenges are as much about enhancing the quality of credit, minimizing the document requirements and other risk management products. Here, even though, it is very challenging if not impossible to apply the credit facilities developed countries are using the modern technology oriented instrument; here in Ethiopia, the policy shall be revised in order to deliver a more flexible and fast credit access to SMEs.

On the other hand, respondents' response to the transparency of credit facility system revealed that, 25 of the respondents (50%) of them disagreed while 15 of the respondents (30%) disagreed and the rest 10 of the respondents (20%) were neutral. From these data, it can be concluded that the majority of the respondents are fairly satisfied with the presence of transparent systems in benefiting a credit facility.

To this end, business environment factors are linked to SME performance and the extent to which entrepreneurs have ready access to any required financial information concerning a credit finance, price levels, market depth and other relevant information should be transparent in order to attract more entrepreneurs in to the economy.

4.4. The extent of Service delivery on credit facility and business start-up procedures

In the assessment of service delivery on credit facility, the rapidly evolving technologies based on the internet (e-finance) and cell phone (mobile phones or m-finance) can be powerful engines of access. But lack of legal clarity may impede the adaption of these technologies.

On the other hand, in the delivery of good business start-up registration, the more Simpler, faster, and cheaper business registration processes could increase the number of businesses in an economy and the following response concerning the service delivery on credit facility by commercial banks and service delivery to business start-up registration is presented, analyzed and interpreted as follows:

Table 10. Service of credit facility and business start-up registration

Item	Responses made by the respondents					
	Very good	Good	Neutral	Bad	Very Bad	Total Percent
How do you rate the service of Commercial banks in delivering Access to credit facility	3 (6%)	6 (12%)	18 (36%)	13 (26%)	10 (20%)	50 (100%)
How do you rate the service of Business start-up registration	3 (6%)	11 (22%)	23 (26%)	8 (16%)	5 (10%)	50 (100%)

Source: Field Survey, 2014

As per the responses made to the first inquiry of table 10, a total of 23 respondents (46%) rated the service of commercial banks in delivering access to credit facility as bad or very bad . whereas, 9 respondents (18%) of the sample population rated as good and above. Hence, the rest 18 respondents (36%) remain neutral. From these response, the author of this study noted that the

service delivered by commercial banks in accessing credit facility is bad and it needs to be ameliorated and the banks could give an emphasis in upgrading their service.

As per the respondents comment to this item indicates that, the credit analysis by the commercial banks could take months for an entrepreneur with the whole pertinent documents submitted. Therefore, the service delivery by commercial banks in accessing credit facility shall be revised and efficient policy and supervision needs to be practiced.

Moreover, as per the responses made to the above second inquiry, a total of 14 respondents (28%) rated the service of business start-up registration as good and very good. whereas, 13 respondents (26%) of the sample population rated as bad and very bad. Hence, the rest 23 respondents (26%) remain neutral.

From these response, the author of this study noted that the service delivered to start-up a business is fairly good enough and satisfactory. Hence, a further emphasis is better for further improvements.

4.5. Assessment to policy initiation to the challenges of business start-up procedures

Policy initiatives can originate in all parts of the political system but are often quite hard to identify. The following response regarding the policy initiations to business start-up procedures were presented, analyzed and interpreted as follows:

Table 11. Analysis on public derived policy initiations to business start-up

Item	Responses made from respondents			
	Yes		No	
	Frequency	%	Frequency	%
Have you ever been invited to participate in discussing challenges to the business start-up procedures with government officials	14	28	36	72

Source: Field Survey, 2014

As per table 11, More than 35 respondents (72%) respond that they never had a meeting with the concerned government officials, especially on easing the ups and downs of the business start-up registration procedures and policies.

As per the interview made to the higher officials from Ministry of Trade, Policy initiatives are started by; extra parliamentary parties and party groupings, parliament, Ministers departments, official inquiries, Prime Minister and Cabinet. Before a policy can be created, a problem must exist that is called to the attention of the government. The first major stage in the policymaking process is the development of the influential idea that will eventually become policy. It is during this stage that the initial idea is discussed and developed so that the problem that the policy will be aimed at can properly be defined in terms of its scope and possible solutions. This involves not only recognizing that an issue exists, but also studying the problem and its causes in detail.

Furthermore, according to the Interviewee's response, government officials have promised to actively engage the business community when laws and regulations are drafted. Officials at MoT reported that still the idea of improving the proclamation does exist but declined to comment further, stating that it was premature to do so at this stage. The interviewee perceived that the current business start-up policies and procedures are more comforting to invest in Ethiopia, in addition the country's economy is growing and, at the same time, the Public Private Consultation Forum is working for both sides in the right way.

4.7. Assessment to the challenges of business start-up procedures

In the assessment of about challenges to business start-up procedures, one should give an emphasis to bureaucratic entry regulations, that impede entry but perhaps more importantly, they also negatively affect the growth and size of businesses

The following responses, regarding the challenges of business start-up procedures were presented, analyzed and interpreted as follows:

Table 12. Discussing about the challenges to business start-up procedures

Items	Responses made from respondents			
	Yes		No	
	Frequency	%	Frequency	%
Challenges of service delivery appear to occur during Company registration in starting up a new business	35	70	15	30
Challenges to the service delivery appear to occur during business-license issuance in starting up a new business	27	54	23	46
Challenges to the service delivery appear to occur during business-license renewal	29	58	21	42
Challenges to the service delivery appear to occur during the addition of other business-license	25	50	25	50
Challenges to the service delivery appear to occur during the replacement of commercial registration in case of lost	29	59	21	42
Challenges to the service delivery appear to occur during in need of registering other parts of regions	33	66	17	34
Challenges to the service delivery appear to occur during returning a business registration certificate or in closing a business	50	100	0	0

Source: Field Survey, 2014

As it is presented in table 12, from 25 to 50 respondents' that is (50% - 100%) of the respondents agreed that there exists a challenges in business license issuance, Company registration in starting up a new business, in business-license renewal, while processing the addition of other business-license, in replacing commercial registration in case of lost, in need of registering to other parts of regions and of course in returning a business registration certificate or in closing a business. Contrary to the above response, there are few respondents that is from 0 to 25 (0% - 50%).

Furthermore, 50 respondents or (100%) of them agreed that there exists a challenge in returning the business license while closing the business. Their justification is that: the tax clearance procedure is very time consuming and it needs to be improved, the requirements are not clearly transparent and they had to go to different government offices to accomplish the task and sometimes it is customary that they had to pass through many bureaucratic procedures and they had further explained that they are obliged to bring documents that had never been inquired before. Like for instance, an audited financial statements until the closing date in which they find it very time taking.

On the other hand, as per respondents' explanation to the rest of service delivery challenges: there is lack of skilled manpower in every registration center, there is lack of adequate orientation to the customers, most of all there exists a gap in office to office coordination., moreover there is a frequent electric power disruption in the offices of business registration center and an inefficient service delivery to other bureaus has a also a direct impact to business start-up registration offices and last but not least lack of computerized database and proper filing systems hinders the speed of work.

As per the interview response from the higher officials of Ministry of Trade: The Ministry of Trade is to amend the proclamation for Trade Registration and License, which came into effect in 2011. The new drafted proclamation was mainly to create favorable business environment where businesses could thrive in the processes by providing significant inputs.

“The SME start-up registration procedures depend up on Proclamation 686/2010. As to the amendment of the earlier proclamations 67/1997 there has been a new additions to it and these are:

- ✓ *Bank statements/ asset evaluation are required to attest the registered capital of a SME, but this was not required before.*
- ✓ *Certificate of competency issued by the concerned governmental body. This used to be done for a few categories only. Now the majority is required to have this certificate.*
- ✓ *A title deed for own offices of an authenticated contract of lease (by Wilina Masreja) if it's leased.*
- ✓ *General forms of business such as General Import, General Export are not allowed. The subcategory has to be specified as per the Ethiopian Standard Industrial Classification.*

These are the new requirements that has been added to Proclamation 686/2010, this is done in order to enforce the validity of the procedures and also to minimize the possible fraud and other illegal deeds”.

4.8. Policy initiation to credit finance and intentions to the utilization of credit facility

In the assessment of policy initiation to the credit finance, it is more prolific if policies on easing the ups and downs of accessing credit facility are initiated from Small and Medium Sized Enterprises. Since they are the main stakeholders.

Besides, In assessing the access of financial credit facility, policy biases towards Small and Medium Enterprises face problems in growing due to lack of access to finance and due to insufficient collateral, high transaction costs and incapability to deal with the complexity of formal financial institutions. Thus, the following response delineates the extent to which SMEs’ access to credit finance from commercial banks and the policy initiations to credit finance. It is presented, analyzed and interpreted as follows:

Table 13. Analysis on public derived policy initiations to credit finance

Item	Responses made from respondents				
	Yes		No		Total
	Frequency	%	Frequency	%	
Have you ever been invited to participate in discussing challenges to the availability of credit finance with government officials	0	0	50	100	50 (100%)
Have you ever utilized financial credit facilities from commercial banks	31	62	19	38	50 (100%)

Source: Field Survey, 2014

As clearly indicated in table 13, it showed that all respondents has never got an opportunity to discuss with the concerned government officials on easing the ups and downs of credit utilization from commercial banks. These implies that the designing of financial policy initiation regarding credit facility is not participative to the business owners as well as to the public.

As per the interview with the concerned high officials and the information from the archives, the policies to both institutions that is: Ministry of Trade and National Bank of Ethiopia are initiated and adopted in an identical manner. The source of all annual policies and law is by the call up of the president to joint meeting of House of People Representative and House of Federation. According to the council of ministers working rules and regulation of 1996 section 6, article 29 up to article 35, the policymaking process of Ethiopia is mainly; according to council of ministers working regulation. The power and action of initiating policy is given to each ministry in which it was organized by proclamation (article 30), in these circumstance the author of this study has noticed that policy initiating issues are not participatory to the public sectors rather:

Problems or policy initiating issues are discussed between the Ministry officials and concerned officials from different regions and sub-cities only.

Then to make all the process possible, it needs to pass with all of its sub articles as follows; the initiated policy will be discussed with the following organs, as per (article 31):

Primarily, with higher government officials or executives sufficient discussion will be carried out.

Each minister offices when preparing a policy document, they should take enough time for detail discussion with all staffs and stakeholders priority. Then, discussion with line ministry will be carried also by face to face and sending a copy of policy document to get enough feedback. It is the duty of the offices for carrying out enough detail discussion with accommodation of feedbacks of stakeholders to avoid any critics, not to delay or not rejected by council of ministers so it may be approved on time to achieve the goal of the organization.

Then, the document goes to council ministers in prime ministers offices priority to policy and law directorate with brief history of discussion it pass still and feedback obtained. If there is no agreement in some issues it comes clearly with all options. For the issue of budget during implementation and cost benefit analysis there must be discussion and agreement with the ministry of finance and economics.

The cabinet minister of the prime minister office shall make a discussion with directorate and they may reject the document back to ministry if it seems insufficiently discussed before council of ministers. The discussion in council of ministers shall be with clear cut explanation of the ministry with the written document and MOFED for budget issues.

Finally, the final policy document will be cross-checked for any conflict with other policies, law, and constitution then submitted to House of People Representatives for adoption.

Nevertheless, the policymaking process in Ethiopia is directly influenced by the socio cultural factors and the sociopolitical and economic settings, each ethnics and areas of the country react to policies based the benefit they got from the policy. The initiative on the policy front remains with the prime minister and his cabinet meaning council of ministers mainly.

In conclusion, for policy initiation EPRDF party in our country is actively dominating and hence the role of Small and Medium sized enterprises in policymaking process and in ameliorating the business start-up registrations and also to credit facility to the ease of doing business is very low in our country.

On top of that, as it is indicated under the second inquiry on table 13. The respondents' responses showed that, a total of 31 respondents (62%) clearly justified that they had utilized credit facility from commercial banks. They indicated that, they have been utilizing credit facility for their business operations, for financing their working capital, in which they utilize a credit facility for balancing cash flow shortages.

While 19 respondents (38%) responded that they didn't benefited a credit facility from commercial banks. As per the respondents comment to this inquiry showed that, the procedures and criteria's at commercial banks are not suitable to their demand, the procedures took too much time in comparison to the urgency, and they also commented that, commercial banks are not interested to give loans to new customers instead they prefer to deal with their clients who has been customers for a long period of time.

Whereas, the response taken from the interview of NBE officials revealed that commercial banks prepares a credit portfolio. And they also said that there is concentration of credits given to the domestic sectors like trade and to import and export sectors. According to them, the first challenge for the banks to give as much as credit to its borrowers is that the liquidity position of the banks that is the deposit loan ratio wouldn't allow them to give loans, since they can't go beyond a certain level.

The second challenge is that the government imposes different monetary as well as fiscal policies to be strictly followed by the banks this includes 'credit cap', mandatory purchasing of government bonds with a low interest rate , recently the government has forced banks to buy government bonds and of the total loans they provide they should buy 27% of the loan with 3% interest rate , thirdly capital of the banks is also not large enough to give as much as loans and it limits lending and

eighteen percent of respondents pointed out this problem ,this is compatible with the idea that most of the private commercial banks capital is not high.

The fourth challenge to commercial banks is Competition from Microfinance institutions- There is very strong competition faced with Micro finance institutions especially to Small sized enterprises, NGOs, Women's fund and other who give loan without interest.

Economic condition or activity as well as peace and security of the country are also mentioned by the interviewee as a factor that limits lending, branches in low economic activity areas give small amount of loans and they simply collect deposits.

4.9. A continuity of doing business activity

In assessing the futurity of the business activity, a hope for a better policy and practices of doing business could motivate an entrepreneur to further think of continuing doing business.

Thus, the following response delineates the future hopes of SMEs’ and it is presented, analyzed and interpreted as follows

Table 14. Discussions to the future continuity of doing business

Item	Responses made from respondents				
	Yes		No		Total
	Frequency	%	Frequency	%	
Would you like to continue in doing business for the coming future	43	86	7	14	50 (100%)

Source: Field Survey, 2014

As per table 14, the respondents’ response to their future continuity on their business reflected that, 43 respondents (86%) had clearly justified that they will continue in doing business for the future. They justified that things will get well in the future and there is hope for some improvements to the current situations.

In addition, respondents opinion concerning the availability of credit facility by commercial banks in Ethiopia, shows that they had a good intuition to utilize at any time although the 100 percent collateral requirements, the unavailability of credit facility from private commercial banks except that there are few, the high lending interest, and a long duration of time to process files before gaining the facility from the banks perspective.

The respondents open opinion implicate that: the government of Ethiopia should play a major role to solve the gaps between demand and supply of credit facility, and also as per the respondents’

response government should have to do something in order to ameliorate the business start-up procedures. Thus, an up-to-date information would be more beneficial and it shall be better if there exists a meeting once or twice a year with government officials.

4.10. Information Technology in facilitating a Credit facility and Credit Information at commercial banks

As per the interview made with the Information Technology Department at National Bank of Ethiopia, NBE launched new CORE banking system:

“The National Bank of Ethiopia (NBE) launched its new centralized, on-line, real-time, electronic (CORE) banking system, called Quantum Intellect, on Monday 18, 2013. This will replace the previous Bank Master System. The Intellect solution, which was developed specifically for central banks, is expected to resolve these issues by allowing the integration of currency management, securities, payments and settlement and the enterprise general ledger. In addition, it should speed the Bank’s operations and allow it to keep accurate management and regulatory reports, according to Polaris press release at the time of the contract signing. ...The NBE has brought and deployed new services and software to support its CORE banking system. Afcor plc was awarded a one million-dollar contract in April 2013 for the supply of IBM 3650-M3 servers and Oracle software for data storage”.

The National Bank of Ethiopia (NBE) issued a competitive bid during August 2009 to find a credit bureau solutions provider to develop, implement and install of a Credit Information Center (CIC) for Ethiopia. Compuscan Direct (CSD) submitted a proposal to NBE and competed against some of the largest and most reputable credit bureau solution suppliers in the world. After a long and comprehensive evaluation process NBE decided to award CSD the project in July 2010.

Being extremely proud and enthusiastic, Compuscan Direct has already established its project team that is currently working on site in Ethiopia in partnership with its local partner GCS (Global Computing Services).

The CIC system is the first building block to provide financial institution with modern tools to improve credit granting processes and it represents a significant step forward for the entire market in Ethiopia. It will provide factual and predictive credit information to the lending institutions which will consequently be able to extend more and more credit to both business and consumers. In addition, it will allow borrowers much easier access to financial products and more importantly it

will provide the National Bank of Ethiopia with the tools and the information to monitor the credit market in Ethiopia.

Compuscan Direct has already installed the credit migration software which has replaced the Credit Information system assisting NBE with any further requirements, the credit information to the customers who demand credit facility from commercial banks, used to take weeks for confirmation at National Bank of Ethiopia. This had a negative impact to facilitate the urgency. So, recently the National Bank of Ethiopia has fully implemented the credit migration software in collaboration with Compuscan, accessible to all banks which had an access to the CORE banking systems. Thus, it will take for each bank 5 minutes to access and at the same time to fill out the necessary informations regarding the status of the customer in that specific branch. In addition to these, In Ethiopia where access to credit is rated to be very low, the government has got role of creating credit registries, or private sector can play a greater role in forming credit registries. Even where the operation and ownership registry is left to the private sector, government actions strongly influence the ability of registries to function.

The rapidly evolving technologies based on the internet (e-finance) and cell phone (mobile phones or m-finance) can be powerful engines of access to banking system in Ethiopia.

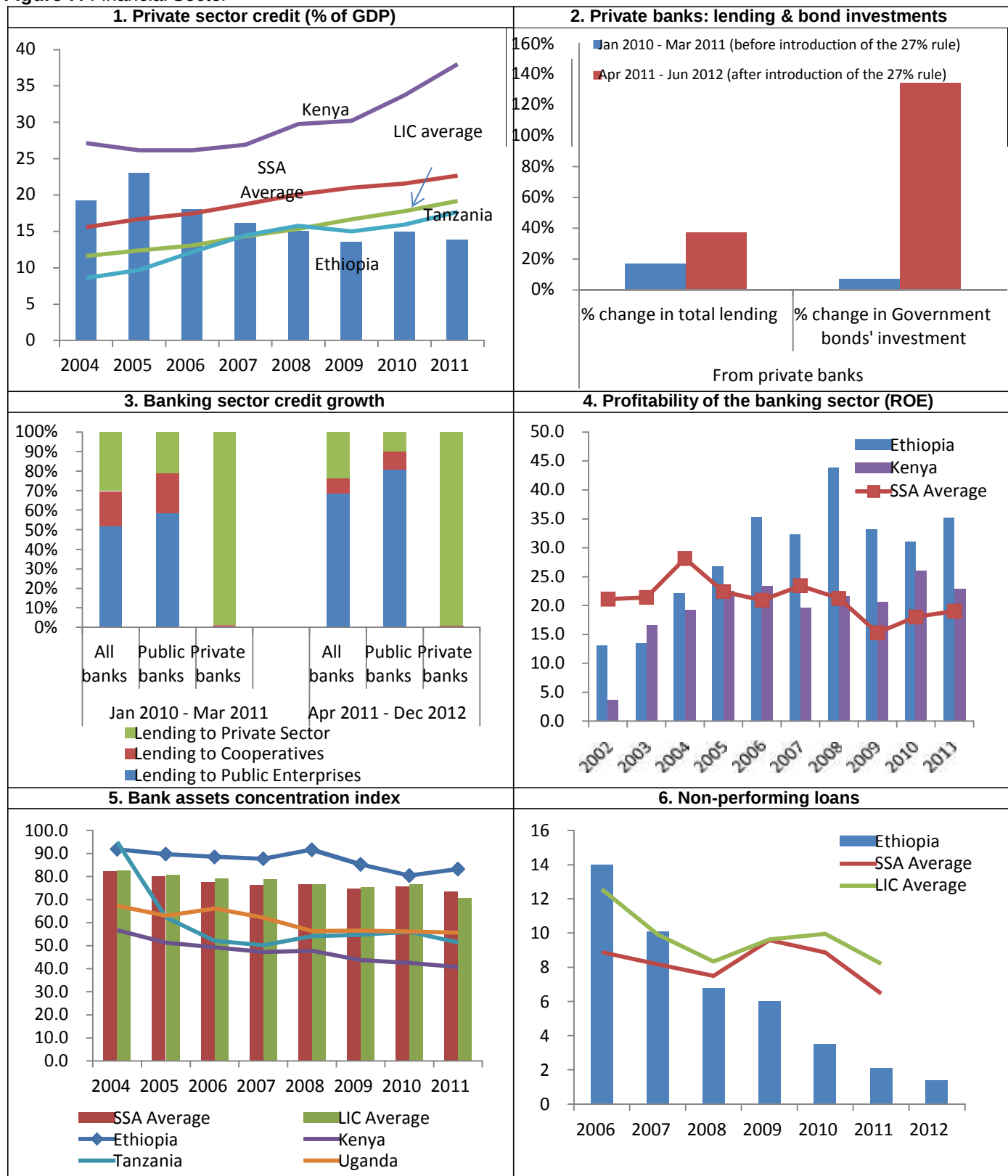
B. ANALYSIS OF RESULTS FROM THE DOCUMENTS REVIEWED

As per the World Bank Doing Business Report (2013), many economies have eliminated minimum capital requirements for registration and in many poor economies where startup capital is often a key constraint, such requirements undermine entrepreneurship. Furthermore, a one-stop-shop service delivery is practiced in many parts of the economy like for instance, in Rwanda and Burundi from Sub Saharan Economy. Thus Ethiopia shall adopt a better reform in order to mitigate the ups and downs of ease of doing businesses. The following analysis reveals the economic activities of Ethiopian financial sectors.

4.11. Financial Sectors

Financial sectors play an important role in the growth of SME in a given economy and also financial intermediation is a driving force for economic development. Thus the following analysis of data clarifies the financial status of Ethiopian Institutions.

Figure 7: Financial Sector



Source: World Bank (FinStats 2013) & NBE.

As it can be seen from the above figure 7.1, financial intermediation is relatively low in Ethiopia and it is on a declining trend. Financial intermediation is a driving force for economic development, but Ethiopia is falling behind its peers in this area. In 2011, credit to the private sector in Ethiopia was equivalent to about 14 percent of GDP compared to the regional average of 23 percent of GDP. Moreover, while the worldwide trend has been an increase in private sector credit, Ethiopia has experienced a decline of about 5 percentage points since 2004. An expansion in credit to the private sector enables firms to invest in productive capacity thereby laying the foundation for a sustainable growth path.

As per figure 7.2, The macroeconomic environment has contributed to the declining depth of the financial sector. Historically high inflation resulted in steeply negative real interest rates. Low nominal deposit rates, which do not respond to inflation because of excess liquidity of commercial banks, erode the real value of deposits, discourage savings, and dampen demand for broad money. Moreover, in April 2011 the monetary authorities issued a directive requiring private banks to purchase NBE bills equivalent to 27 percent of any new loan disbursements.

These bills have low-interest earning of 3 percent and a maturity of 5 years. This directive, while not affecting the level of liquidity in the system, appears to have an additional negative impact on private banks' intermediation activities. In particular, it has encouraged Bank's purchases of Government bonds (T-bills and NBE bills), while reducing the growth rate of loans. Figure 7.2 compares the 15 month period before and after the introduction of the directive. It shows that the investment of private banks in Government bonds has increased by 127 percentage points, while loans increased by 20 percentage points in comparison

Figure 7.3 shows that, Ethiopia's banking system is dominated by government-owned banks. This makes of Ethiopia an exception within Sub-Saharan Africa and across the developing world, where banking systems have much higher shares of private and foreign participation. As of December 2012, public banks represented over 70 percent of total banking sector assets and provided 77 percent of total loans to the economy, with the remaining 23 percent being divided among the 15 private banks. By comparing the 15 months before and after April 2011, the percentage of new loans from public banks to the private sector has been reduced by half, from 21 percent to 10 percent.

Despite the overall disintermediation trend, the Ethiopian financial sector continues to have the potential to be a driver of growth. The banking sector remains stable, well-capitalized and

continues to be highly profitable. Figure 7.4 shows how the Ethiopian banking sector ranks higher than the SSA average in terms of profitability measured on the basis of Return on Equity (ROE). High profitability is also explained by limited competition. Although the total number of banks operating in Ethiopia has increased from 11 in 2006 to 18 in 2012, the bank assets concentration index (focusing on the 3 biggest banks) shows that Ethiopia's banking sector is much more concentrated than the SSA and Low Income Group averages (Figure 7.5). Finally, according to NBE, the non-performing loan ratio is at very low levels of 1.4 percent (Figure 7.6).

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

The objective of this study is to assess the policies and practices of doing business in Ethiopia. In light of this basic objectives the summary of findings and conclusions to the main topics of the study is presented as follows:

5.1. Summary of Finding

This research is conducted in Addis Ababa city of administration with the prime intent of critically assessing the policies and practices of business start-up and access to credit facility in relation to the ease of doing business in Ethiopia. Thus, the following findings are noted:

- Although there exist to show an improvement in business start-up procedures as per the BPR conducted in 2010, there is a knowledge gap in making a good records and accounts. This is because there is lack of expertise in easing up the ups and downs of business start-up registration and most of all there exists lack of adequate document presentations from the customers' side. Thus, this could make the procedure to take a little bit longer than it is expected.
- As per the responses made to the existence of a networked database system to facilitate business start-up procedures, the majority of the respondents i.e. 33 respondents of which (66%) of them were disagreed. it shows that the procedures to accelerate the business start-up needs to have a well-organized and computerized database system as per the respondents' response.
- As per the responses made to the expensiveness of the cost of business start-up registration in Ethiopia, 7 respondents i.e. (14%) of them were neutral and 25 respondents (50%) out of the total agreed and the rest 8 respondents (16%) disagreed to the inquiry. In addition, as per the responses made to the expensiveness of the cost of business closures in Ethiopia, 11 respondents i.e. (22%) of them were neutral and 33 respondents (66%) out of the total agreed and the rest 6 respondents (12%) disagreed to the inquiry.
- As per the responses made to the existence of time consuming commercial bank's procedures to deliver the credit facility revealed that, out of 50 (100%) respondents, 27 respondents (54%) or more than half of the respondents agreed to the lack of commercial bank's speed in facilitating a credit access to Small and Medium sized enterprises.

- On the other hand, respondents' response to the transparency of credit facility system revealed that, 25 of the respondents (50%) of them disagreed while 15 of the respondents (30%) disagreed and the rest 10 of the respondents (20%) were neutral. From these the author of this study noticed that the majority of the respondents are fairly satisfied with the presence of transparent systems in benefiting a credit facility.
- As per the responses made to the rate of services of commercial banks in delivering access to credit facility, it shows that a total of 23 respondents (46%) rated the service of commercial banks in delivering access to credit facility as bad or very bad . whereas, 9 respondents (18%) of the sample population rated as good and above. Hence, the rest 18 respondents (36%) remain neutral. From these response, the author of this study noted that the service delivered by commercial banks in accessing credit facility is bad and it needs to be ameliorated and the banks could give an emphasis in upgrading their service.
- More than 35 respondents (72%) respond that they never had a meeting with the concerned government officials, especially on easing the ups and downs of the business start-up registration procedures and policies
- As per this research findings, from 25 to 50 respondents' that is (50% - 100%) of the respondents agreed that there exists a challenges in business license issuance, Company registration in starting up a new business, in business-license renewal, while processing the addition of other business-license, in replacing commercial registration in case of lost, in need of registering to other parts of regions and of course in returning a business registration certificate or in closing a business.
- Furthermore, 50 respondents or (100%) of them agreed that there exists a challenge in returning the business license while closing the business. Their justification is that: the tax clearance procedure is very time consuming and it needs to be improved, the requirements are not clearly transparent and they had to go to different government offices to accomplish the task and sometimes it is customary that they had to pass through many bureaucratic procedures and they had further explained that they are obliged to bring documents that had never been inquired before. Like for instance, an audited financial statements until the closing date in which they find it very time taking.
- As per this research's findings, all respondents has never got an opportunity to discuss with the concerned government officials on easing the ups and downs of credit utilization from

commercial banks. These implies that the designing of financial policy initiation regarding credit facility is not participative to the business owners as well as to the public.

- In MoTI's case, a more detailed investigation of the records would have to be done to get a clear and definitive number. The investigation must look into, among other things, whether or not there were "dead files" (companies no longer operational) still listed and the relaxed control environment allows the business community to re-register for a number of business licenses in order to avoid paying penalty on late renewals, which were causing a significant number of duplicate registrations.
- Financial intermediation is relatively low in Ethiopia and it is on a declining trend. Financial intermediation is a driving force for economic development, but Ethiopia is falling behind its peers in this area. In 2011, credit to the private sector in Ethiopia was equivalent to about 14 percent of GDP compared to the regional average of 23 percent of GDP. Moreover, while the worldwide trend has been an increase in private sector credit, Ethiopia has experienced a decline of about 5 percentage points since 2004.
- The macroeconomic environment has contributed to the declining depth of the financial sector. Historically high inflation resulted in steeply negative real interest rates. Low nominal deposit rates, which do not respond to inflation because of excess liquidity of commercial banks, erode the real value of deposits, discourage savings, and dampen demand for broad money. Moreover, in April 2011 the monetary authorities issued a directive requiring private banks to purchase NBE bills equivalent to 27 percent of any new loan disbursements. These bills have low-interest earning of 3 percent and a maturity of 5 years. This directive, while not affecting the level of liquidity in the system, appears to have an additional negative impact on private banks' intermediation activities.
- On top of that, Ethiopia's banking system is dominated by government-owned banks. This makes of Ethiopia an exception within Sub-Saharan Africa and across the developing world, where banking systems have much higher shares of private and foreign participation.

5.2. Conclusion

The conclusions are based on the findings of the study and from these conclusions, recommendations are made to government bodies, to the concerned stakeholders and suggestion for other researchers are made.

Based on the findings or the gaps identified from this research the following conclusion has been drawn:

As it has been noticed from the research, the gap to the service delivery of business start-up registration are mainly due to: Lack of skilled manpower in every registration center, lack of adequate orientation to the customers, lack of office to office coordination even to the Ministry of Trade, Lack of continuous electric power supply and different obstacles to facilitate the daily tasks, the cost of business start-up as well as the cost of business closure is high in Ethiopia, there also exists an inadequate service delivery to other bureaus which have direct relationship to the business start-up registration offices and lack of computerized database and proper filing systems. Furthermore, the existence of Ethiopian bank's time consuming procedures to deliver the credit facility coupled with the existence of a less transparent of credit facility system hinders in meeting Small and Medium sized enterprises' need. Moreover, the government imposes different monetary as well as fiscal policies to be strictly followed by the commercial banks this includes 'credit cap', mandatory purchasing of government bonds with a low interest rate, capital of the banks is also not large enough to give as much as loans and it limits lending.

In concluding to the policy making process, it is identified that the policy making process to both MTI and NBE is the same and it is from top-down policy making process and the initiative on the policy front remains with the prime minister and his cabinet meaning council of ministers mainly. Thus, the role of Small and Medium sized enterprises in policymaking process and in ameliorating the business start-up registrations and also in ameliorating the credit facility to the ease of doing business is very low in Ethiopian economy.

There exists a challenges in business license issuance, Company registration in starting up a new business, in business-license renewal, while processing the addition of other business-license, in replacing commercial registration in case of lost, in need of registering to other parts of regions and of course in returning a business registration certificate or in closing a business and there exists also a challenge in returning the business license while closing the business.

Finally, from this research it was identified that Ethiopia has only made reforms at the registry and streamlining of procedures in order to improve the registration process, that could ease the process of new business start-up and also Ethiopia has improved access to credit information by establishing an online platform for sharing such information and by guaranteeing borrowers' right to inspect their personal data.

5.3. Recommendations

Based on these findings and the resulting conclusions, the following recommendations shall be drawn:

Suggestions for corrective and complementary measures to enhance the potential performance of institutions with a direct link to business start-ups and access to credit facility are essential.

The policies or the reforms done could be more successful if it relies up on creating a single interface: the one-stop shop and utilizing information and communication technologies. Thus, Ministry of Trade shall accelerate the utilization of information and communication technology in order to ease the ups and downs of doing business. Moreover, a strict regulation of business registration shall be minimized since it is more vulnerable to high levels of corruption, and low levels of transparency. In such environments, business registration and other regulatory reforms are strongly opposed by officials and beneficiaries of the status quo. Therefore, it shall be more beneficial to adopt good practical policies from other countries' good experience.

In addition, the policies and procedures of the institutions like Commercial Banks providing credit service to the SMEs is dependent up on its flexibility. From this point of view, the challenges shall be minimized by enhancing the quality of credit and other risk management products. Here, even though, it is very challenging if not impossible to apply the credit facilities by using the modern technology oriented instrument like in the developed countries; here in Ethiopia, the policy shall be revised in order to deliver a more flexible and fast credit access to SMEs. Since better and transparent credit information sharing are associated with a larger size of the SME sector.

Policy making process could be better communicated from Bottom-up approach instead of Top-down approach. Thus, it could produce a better result if problems are conducted or policies are initiated from the general public instead of only by Ministry department or the incumbent party.

Furthermore, there is not only an SME lending gap but also an information gap on financial intermediaries' SME lending activity, which policymakers must bridge if they are to monitor the impact of their policies. Thus, the policy objectives shall provide financial literacy training to entrepreneurs and encourage responsible borrowing and lending. It shall be better to deliver a credit facility with other alternatives other than 100 percent collateral secured credit facility. The time taking credit analysis procedure which hinders meeting the urgency of SME owners shall also be reformed to give the best possible opportunities to ease the ups and downs on doing businesses.

Finally, as per this research there exists a gap in service delivery by commercial banks in accessing credit facility to SME in Ethiopia. Hence, policies shall bring about a change in addressing the gap and it needs to be ameliorated and the banks could give an emphasis in upgrading their service.

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Dear respondents

The purpose of this questionnaire is to conduct a research on the **Assessment of policies and practices of Doing Business in Ethiopia**. Your input to the success of this research is a Lot, so contribute your idea of the real situation freely. The information you provide is used for this purpose and it will be kept confidential. Thank you.

Instruction: Give your appropriate response by putting a tick mark or by writing the appropriate answer on the space provided

Part I. Personal Information

Sex Male ☐ Female ☐
Age <20 ☐ 20-30 ☐ 30-40 ☐ >40 ☐
Occupation/Job _____

Which of the following best describes your educational level?

Illiterate

Primary school

Secondary School

Diploma

B.A/B.Sc.

M.A/M.Sc.

PhD

Others please specify _____

In which part of the Sub-city do you reside _____

How many years have you been working on business _____

Part II. Question related to business startups and Credit facility

Please tick one box to indicate the extent to which you agree or disagree

SA-strongly Agree; A-Agree; N-Neutral; DA-Disagree; SDA-Strongly Disagree

	SA	A	N	DA	SDA
1. The registration procedure for starting A new business in Ethiopia is simple	☐	☐	☐	☐	☐
2. There exists a networked database System to facilitate business start-up Procedure	☐	☐	☐	☐	☐

	SA	A	N	DA	SA
3. Procedures to the credit facility from Commercial banks is time consuming In respect to the urgency					
4. Business owners are satisfied with The presence of transparent system in benefiting a credit facility					
5. The current easiness of business startup Practices will attract more investors to join in.					
6. The cost of business start-up registration is expensive					
7. The cost of business closure is expensive					

Instruction: Please rate the extent to which you are feeling good or bad to the question 6 and 7

	Very Good	Good	Neutral	Bad	Very Bad
8. How do you rate the service of Commercial banks in delivering Access to credit facility					
9. How do you rate the service of Business startup registration					

10. Have you ever utilized financial credit facilities from commercial banks?

Yes No

Please justify your reasons _____

11. Would you like to continue in doing business for the coming future?

Yes No

Please justify your reasons _____

12. Have you ever been invited to participate in discussing challenges to the availability of credit finance with government officials?

Yes No

If yes, please justify when and explain if any changes made afterwards _____

13. Have you ever been invited to participate in discussing challenges to the business startup procedures with government officials?

Yes ☐ No ☐

If yes, please justify when and explain if any changes made afterwards _____

—

14. Challenges of service delivery appear to occur during Company registration in starting up a new business

Yes ☐ No ☐

If yes, please justify your reasons _____

15. Challenges to the service delivery appear to occur during business-license issuance in starting up a new business

Yes ☐ No ☐

If yes, please justify your reasons _____

16. Challenges to the service delivery appear to occur during business-license renewal

Yes ☐ No ☐

If yes, please justify your reasons _____

17. Challenges to the service delivery appear to occur during the addition of other business-license

Yes ☐ No ☐

If yes, please justify your reasons _____

18. Challenges to the service delivery appear to occur during the replacement of commercial registration in case of lost

Yes ☐ No ☐

If yes, please justify your reasons _____

19. Challenges to the service delivery appear to occur during Summary of registration or if in need of registering other parts of regions

Yes ☐ No ☐

If yes, please justify your reasons _____

20. Challenges to the service delivery appear to occur during returning a business registration certificate or in closing a business

Yes ☐ No ☐

If yes, please justify your reasons _____

21. What is your opinion regarding the business startup procedures in Ethiopia?

22. What sources of finance do you utilize in order to finance your business?

23. What is your opinion regarding the availability of credit facility by commercial banks in Ethiopia?

24. Please use this space to provide any comment that you would like to provide

Thank you for taking the time to complete this questionnaire

Interview Questions to the Ministry of Trade and Industry

The purpose of this interview question is to conduct a research on the **Assessment of policies and practices of Doing Business in Ethiopia**. Your input to the success of this research is a Lot, so contribute your idea of the real situation freely. The information you provide is used for this purpose and it will be kept confidential. Thank you.

1. In formulation of better business startup registration formalities to the Small and Medium sized Enterprises (SMEs), what kind of simplified procedures have been implemented?
2. What kind of policies and procedures are developed in order to ease the ups and downs of business start-up to SME
3. Are there any reforms made so far regarding the policies in ameliorating business start-up procedures? If it does, when?
4. What kinds of reforms have been done so far in respect to simplifying company registration formalities?
5. How do you see the effects in the ease of doing business before and after the reform?
6. What are the challenges encountered so far in formulating policies and Implementing with regard to startup of a new SME in Ethiopia?
7. How do you express the magnitude of the problems existed so far in relation to the current business startup system in Ethiopia?
8. How do the policy of business startups adopted? Were there parliamentary hearing and SMEs' owners participation?
9. What are the main goals and objectives of the current new business startup policy?
10. What do you recommend to the policies and procedures in the provision of more simplified new business startup?

Interview Questions to the National Bank of Ethiopia

The purpose of this interview question is to conduct a research on the **Assessment of policies and practices of Doing Business in Ethiopia**. Your input to the success of this research is a Lot, so contribute your idea of the real situation freely. The information you provide is used for this purpose and it will be kept confidential. Thank you.

1. In formulation of the better credit information to the SME business owners what were the policies which addressed to resolve the existing problems?
2. What kinds of mechanisms are developed in order to ease the procedures to financing SMEs?
3. Are there any reforms made so far regarding the accessibility of credit finance to SMEs? If it does when?
4. What kind of reforms have been done so far in respect to the accessibility of credit facility to Small and Medium sized Enterprises?
5. How do you see the effects of policy implementation in the ease of doing business before and after the reform?
6. What are the challenges encountered so far in policy formulating and implementing with regard to financing to SME?
7. Do you have any monitoring mechanisms to assess the appropriate credit facility utilizations by business entities?
8. How was the policy of finance adopted in regard to credit or loan by commercial banks? Were there parliamentary hearing and SMEs' owners participation
9. What are the main goals and objectives of the current financial policy in respect to access to credit?
10. What are the sources of finance to the small and medium sized enterprises in Ethiopia?
11. What are the barriers to SME to access the finance from government and private owned banks and what does the government do in order to overcome the barrier?
12. What do you recommend to the policies and procedures in the provision of finance to SME business owners?

Declaration

I, the undersigned, declare that this study entitled “An Assessment of Policies and Practices of Doing Business in Ethiopia” is my own work. I have undertaken the research work independently with the guidance and support of the research advisor. This study has not been submitted for any degree or diploma program in this or any other institutions and that all sources of materials used for the thesis have been duly acknowledged.

Declared by

Name: Tewodros Million

Signature: _____

Date: June, 2014

Place: Addis Ababa, Ethiopia

Advisor: Mulugeta Abebe (PhD)

Signature: _____

Date: _____