



**ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**

**FACTORS AFFECTING AVAILABILITY OF CREDIT FACILITIES IN ETHIOPIA.
A CASE STUDY IN SMALL AND MEDIUM SIZE ENTERPRISES IN ADDIS ABABA**

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Factors affecting availability of credit facilities in Ethiopia
A case study in small and medium size enterprise in Addis Ababa

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DECLARATION

I hereby declare that the study entitled "Factors affecting availability of credit facilities in Ethiopia. A case study in small and medium enterprise in Addis Ababa" is my original work and has not been presented in Addis Ababa University or any other University, and that all sources of material used for the study have been duly acknowledged.

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Acronyms and Abbreviations

CBE: Commercial Bank of Ethiopia

EEA: Ethiopian Economic Association

FeMSEDA: Federal Micro and Small Enterprises Development Agency

GTP: Growth transformation Plan.

MFIs: Microfinance Institutions

NBE: National Bank of Ethiopia

SMEs: Small and Medium-sized Enterprises

SMBs: Small and Medium-sized Business

ILO: International Labour Organization

AfDB: Africa Development Bank

WB: World Bank

Abstract

The purpose of this study was to analyze the factors affecting the availability of credit facility by Small and medium enterprises (SME's). Small and medium enterprises (SME's) play a really significant role within the economy of any country. They provide employment and improve the quality of living of individuals-both the employers and employees. They are a major source of entrepreneurial skills and innovations; the objective of this study was to identify factors that affect credit access by SMEs in Addis Ababa. This study was intended to be of great importance to individual entrepreneurs, potential investors, lending institutions, and the county government of Ethiopia to facilitate enabling credit policies and other researchers. The target population was 6730 SMEs operating in Addis Ababa. The study used stratified random sampling and then applied the simple random sampling to select respondents from the selected stratas out of which 673 respondents were selected. Data was gathered using questionnaires. The data collected was subjected to correlation analysis and multivariate analysis was administered to determine the connection between the identified factors and credit uptake. It was then presented in tables and graphs. From the study, it emerged that number of financial institutions, interest rate charged on loans, collateral security, level of literacy and firm characteristics are the most significant factors that affect availability of credit facility among SMEs in Addis Ababa. The study recommends that: informal borrowing they ought to be discouraged through trainings, There was got to seek alternative means of collateral security, there's got to continuously educate SMEs on the way to manage finances, prepare books of account, prepare income and expenditure statements and the way to organize budgets. The researcher also recommends that the number of financial institutions can be increased by formation of saving and credit association for different categories to improve the level of financial expanding.

Key words: *availability of credit facilities, number of financial institutions, interest rate charged, collateral security, level of literacy, firm characteristics*

CHAPTER ONE

This section deals with an introduction about the area of small and medium size enterprise and the credit facilities for them. The sub sections include introduction, background of the study, problem statement, objectives of the study, scope of the study, limitation of the study, significance of the study and organization of the study.

1.1. Introduction

In both developed and developing countries, SMEs plays important roles in the process of economic growth and industrialization. Apart from increasing output and per capital income, SMEs generate the opportunities of employment, enhances balance of regional economy through industrial dispersion and promotes efficient and effective utilization of resources that is considered crucial for economic growth and development. However, because of poor management and inadequate funding, the development of SMEs businesses greatly affected. One of the main constraints behind this is unfavorable macro-environment. Most of the time it encourages financial institutions for being risk-averse to help SMSs businesses. The financial institution's unwillingness to fund SMEs can be due to insufficient income base of the banks as well as information asymmetry, which exists normally between lending institutions and SMEs (Manaye, 2018). Hence, this research paper aims to analyze availability and limitation of credit facilities in Ethiopia, especially in the development of SMEs.

The SME sector in Ethiopia is taken as an instrument in bringing about economic transition by effectively using the skill and talent of the people particularly women and youth without demanding high-level training, much capital and sophisticated technology. The Small and Medium Enterprises informal and Small Manufacturing Enterprise sector (SMEs) contributed value added of Birr 8.3 million in 1996. Based on the 1992/93 data, this figure constitutes about 3.4% of the GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the same year (Gebrehiwot, 2006). The development of the sector in Ethiopia is believed to be the main source of employment and income generation for a wider group of the society generally and concrete youth especially. The five-year Growth and Transformation Plan (GTP) of Ethiopia envisages making a complete of three million micro and small-scale enterprises at the top of the plan period (NBE,2011).

The financing of small and medium enterprises (SMEs) has been a subject of keen interest in recent years due to the key role that SMEs play in economic development and their potentially important contribution to economic diversification and employment (Ayyagari et al., 2007 cited in Berg and Fuchs, 2013). Numerous studies have discussed that SMEs are financially more constrained than larger firms in both developed and developing countries. In developing economies including Sub-Saharan Africa, SMEs are typically more credit constrained than large firms, severely affecting their possibilities to grow (Beck et al, 2005; Beck and Demirguc-Kunt, 2006; Beck et al, 2006; Ayyagari et al, 2008; Beck et al, 2008; Ayyagari et al, 2012). (Calomiris and Hubbard, 1990) noted that when the corporate is smaller, the restrictions on credit are greater. Furthermore, according to (Beck et al, 2006) cited in (ElSaid et al, 2013), small firms consistently report more financing obstacles than medium and large enterprises. Smaller, younger and domestic—as opposed to foreign-owned—enterprises report more financing obstacles even after controlling for other firm characteristics. The probability that a small firm lists financing as a major obstacle (as opposed to moderate, minor or no obstacle) is 39% compared to 36% for medium-sized firms and 32% for large firms. Small firms mainly borrow funds through the informal financial market, while larger firms obtain funds from the formal market (Beck et al., 2006 cited in El_Said et al., 2013) therefore, reducing this financing gap in low-income countries should raise the motivation to create SMEs and consequently improve economic process and increase job creation. In addition, improving SMEs' access to finance is significantly important in promoting performance and firm productivity (World Bank, 2015).

In Ethiopia, despite the big importance of the SME sector to the economy with regards to job creation and the alleviation of abject poverty, many of the SMEs are unable to realize their full potential thanks to the existence of various factors that inhibit their growth and performance. One among the leading factors contributing to the unimpressive growth and performance of the enterprises is limited access to finance (Wolday and Gebrehiwot, 2004).

In a similar way, comparing small and enormous firms the planet Bank finds that tiny firms face more challenges in obtaining formal financing than large firms; they're far more likely to be rejected for loans, and are less likely to possess external financing (World Bank, 2015).

Results indicate that banks and MFIs engagement in financing SMEs in Ethiopia is restricted. The demand side findings and analysis revealed that access to finance is significantly influenced by the age of the firm, firm's previous engagement with banks, experience of the manager and whether firms are managed by the owner (owner-manager) or not. In a similar fashion, SMEs specific factors like poor financial records of SMEs, lack of adequate collateral, SMEs poor management of risks, and informalities of SMES are the main obstacles underlined by banks and MFIs to their engagement with SMEs. In general, young firms who do not have adequate managerial and operation experience and people with inadequate collateral are highly credit constrained.

1.2. Background of the Study

Small and Medium sized enterprises (SMEs) have usually been perceived as the dynamic force for sustained economic growth and job creation in developing countries. They play multifaceted role such as boosting competition, innovation, as well as development of human capital and creation of a financial system. The SME sector in Ethiopia is taken as an instrument in bringing about economic transition by effectively using the skill and talent of the people particularly women and youth without demanding high-level training, much capital and complicated technology. The Small and Medium Enterprises informal and little Manufacturing Enterprise sector (SMEs) contributed value added of Birr 8.3 million in 1996. Based on the 1992/93 data, this figure constitutes about 3.4% of the GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the same year (Gebrehiwot, 2006).

The development of the world in Ethiopia is believed to be the main source of employment and income generation for a wider group of the society generally and concrete youth in particular. The five-year Growth and Transformation Plan (GTP) of Ethiopia envisages creating a complete of three million micro and small-scale enterprises at the top of the plan period (NBE, 2011). Citing the source from the Federal Micro and Small Enterprise Development Agency (FMESDA), the EEA Research Brief noted that a total of 70,500.00 (seventy thousand five hundred) new MSEs were established in 2011/12 employing 806,300.00 (eight hundred six thousand three hundred) people across the country. The performance is below the target set in GTP (EEA, 2015).

Access to finance is key to business development. Investment and innovation aren't possible without adequate financing. A difficulty in getting finance is one among the most obstructions to the expansion of the many businesses, particularly small and medium sized enterprises (SMEs). Therefore, reducing this financing gap in low-income countries should raise the incentive to create SMEs and consequently improve economic growth and increase job creation. In addition, improving SMEs' access to finance is significantly important in promoting performance and firm productivity (World Bank, 2015). The financing gaps to SMEs in Ethiopia are often attributed to both the demand side and provide side. The demand side has got to do more on the characteristics of enterprises that limit their ability to satisfy the standards for bank loans resulting in financial limitations. The supply side might be more associated with the banking sector reform and therefore the perceived risks by banks to finance SMEs. In Ethiopia, despite the introduction of banking sector reform in 1994 that led to expansion of the banking system, SMEs' problem of credit access has persisted implying that changes in the banking sector structure are not sufficient to introduce competition in the banking industry and an improvement in SME credit access (Ashenafi, 2012).

SMEs in Ethiopia: Definition of MSEs given by FeMSEDA is described as follows.

Micro Enterprises

A micro enterprise in the industrial sector (manufacturing, construction and mining) is one which operates with up to five people including the owner and/or has total assets not exceeding Birr 100,000 (approx US\$5,000). Similarly, for activities in the service sector (retailer, transport, hotel, tourism, ICT and maintenance), a micro enterprise is one which operates with up to five people including the owner and has total assets not greater than Birr 50,000 (approx US\$2,500).

Small Enterprises

A small enterprise in the industrial sector is one which operates with between 6 to 30 persons and/ or has paid up capital or total assets not exceeding Birr 1.5 million. Similarly, little service sector enterprise is one that has between 6 and 30 persons and/or has total assets or paid up capital of Birr 500,000.

Table 1.1 Definitions of Micro & Small Enterprise

Type of Enterprises	Sector	Man power	Total asset
Micro Enterprise	Industry	≤5	≤birr 100,000
	Service	≤5	≤birr 50,000
Small Enterprise	Industry	6-30	≤birr 1.5 million
	Service	6-30	≤birr 500,000

Source MSSED Strategy, 2011

According to the new Small & Micro Enterprises Development Strategy of Ethiopia (published, 2011) the working definition for categorizing private Enterprise is based on capital and Labor.

1.3. Problem Statement

Generally, SMEs are believed to be an engine, which run the economy; however, usually deprived of credit access because of their uncertain nature. It is considered to be the alarming threat, which existed for long time and requires immediate and appropriate attention from the non-government and governmental agencies both. The significance of SMEs in development of Ethiopia cannot be ignored. In the absence of appropriate credit facilities to the small businesses, whole economy will go through breakdown and will ultimately collapse (Munir, 2019). The private sector plays catalyst role for the economic change by offering options of financing that allows entities for innovating and expanding. However, small firms in the Ethiopia face greater challenges in obtaining financing compared to the large entities. They are having more chance for being rejected for loans and is also having less chance for external financing (Prah, 2016).

The SME sector tends to suffer more because of SMEs are viewed as a less attractive investment opportunity than many other enterprises because of the high levels of uncertainty and risk they are perceived to have. As a result of the SMEs often have a limited track record in raising investment and providing suitable returns to their investors, low internal controls and have small tangible assets to offer as collateral security; investors are fear of investing in SMEs as they are concerned about how their funds might be used and the return. The easiest thing for an investor is to decline any opportunity to investment SME. (Ayyagors, et al, 2006)

There are many challenges SMEs face that prevent them from conducting their businesses effectively and efficiently. Getting financing is one of the crucial aspects that assist Small and Medium Enterprises (SME) in the process of their development and expansion. In the study of (Ndungu, 2014), state the factors affecting credit access by SMEs are number of lending institutions, interest charged on loans, collateral security and literacy levels. Also SMEs lack of collateral requirements, structure of the financial sector, awareness of funding opportunities, and small business support services are constraints in accessing bank financing (Manasseh, 2004).

Despite of enormous significance of SMEs sector in the growth of national economy in respect of alleviation of poverty and creation of job, various SMEs in Ethiopia are not able to realize their full potential because of multiple factors that inhibit their performance and growth. The major factor that contributes to unimpressive performance and growth of SMEs is limited availability and accessibility of finance (Tadesse, 2014). The researcher has been conducted to determine the factors affecting the availability credit facility by small and medium enterprises..

1.4. Objectives of the Study

General Objective

The main objective of this study is to establish factor affecting credit facility of small and medium enterprise (SMEs) in Ethiopia, especially in Addis Ababa.

Specific Objective

The specific objectives of the study are:-

- To investigate the impact of number of financial institutions on availabilities of credit facilities.
- To determine the effect of interest rate charged on availabilities of credit facilities.
- To identify the effect of collateral security on availabilities of credit facilities.
- To decide the effect of literacy level on availabilities of credit facilities.
- To determine the effect of firm characteristics on availabilities of credit facilities.

Hypotheses

Research Hypothesis Based on the literature review and the theorized connections presented in the conceptual framework the following hypotheses will be tested:

HP0: Firm characteristics has significant impact on availabilities of credit facilities

HP0: Interest rate has significant impact on availabilities of credit facilities

HP0: Number financial institutions have significant impact on availabilities of credit facilities

HP0: collateral security has significant impact on availabilities of credit facilities

HP0: literacy level has significant impact on availabilities of credit facilities

1.5. Scope of the Study

This research focuses on small and medium enterprises in Ethiopia. The SMEs in Addis Ababa, an urban town in Ethiopia, will choose as representatives in this research.

1.6. Limitation of the Study

The study is restricted to only city of Addis Ababa with regard to factors affecting the availabilities of credit facilities for Small and Medium enterprise (SMEs) in Ethiopia. This is mainly because of shortage of necessary finance/budget, time and current situation required to conduct the study in the whole of the country. In addition to this, the study is limited only to know the factors affecting the availabilities of credit facilities for Small and Medium enterprise (SMEs).

1.7. Significance of the Study

This research was motivated by the increasing role of SMEs in the Ethiopia economy, and the continuing constraints they face in their activities. SMEs have been identified as one of the development strategies for promoting industrialization, employment generation, catalyzing innovation and poverty eradication in Ethiopia. The findings of the study will be of great importance to small and medium entrepreneurs as it outlines the major factors that affect to access credit facility by small and medium enterprise operators in Ethiopia County. Information in this study will be used to insight which can be used by the County Government of Ethiopia'

and subsequently other counties when formulating policies on planning. This will also aid them in building an all-inclusive, policy for all traders including SMEs.

Educational institutions and non-governmental organizations will also be able to focus more on the needs of small and medium entrepreneurs, to educate on practical aspects of business and for the NGOs to be able to know areas to offer grants or donations and training the less fortunate. It is hoped that the recommendations and measures will help in counter checking whether the government is still on the truck in realization of the Ethiopian growth and transformation.

To academicians and researchers, the study will be useful as a reference for future researches on factors affecting the availability of credit facility by small and medium entrepreneurs.

1.8. Organization of the Study

This research was divided into five chapters. Chapter one states with the introductory part, background of the study, problem of the statement, objectives of the study, scope of the study, limitation of the study ,significance of the study and organization of the study. Theories and empirical studies and conceptual framework, which related to availability and limitation of credit facilities of Ethiopia thoughts, will be discussed in the second chapter. Chapter three covers the methodology and its approach. The forth chapter contains about data results, discussion and findings. Finally, the last chapter five presents the Summary of findings, Conclusion and recommendations.

CHAPTER TWO

Literature Review

The second chapter deals with major three topics: theories/concepts; the findings of the relationship; as well as conceptual frameworks.

2.1. Theoretical Literature Review

The Definition and Concept of SME's

Universally agreed definition of SME (business entities) a number of the commonly used criteria are the amount of employees, value of assets, and value of sales and size of capital or turnover. However, the foremost common basis of defining SMEs is number of employees (Nugent, 2001). As cited in (Hauser, 2005) small and medium size, enterprises are defined by their size. Within the European Union SMEs are defined within the Commission Recommendation of May 6, 2003. Concerning to the present recommendation an enterprise is considered small or medium sized if it is less than 250 employees, less than 50 Million Euro turnover resp. a record total of but 43 Million Euro and if less than 25% of the shares of such an enterprise are within the ownership of another enterprise. The SMEs definition is predicated on the country.

International Bank for Reconstruction and Development haven't published or defined specific definition on the SME. Basically SMEs definition is predicated on the numbers of workers of the organizations or the annual sales of the organizations. As cited in Tom Gibson H. J. van der Vaart 2008 work, the African Development Bank (AfDB) defines SMEs, as an enterprise which has maximum number of fifty Employees with none requirement Revenues or Turnover.(World Bank, 2015).

According to Wikipedia Small and medium-sized enterprises (SMEs, also small and medium enterprises) or small and medium-sized businesses (SMBs) are businesses whose personnel numbers fall below certain limits. The abbreviation "SME" is employed within the European Union and by international organizations like the planet Bank, the United Nations and therefore the World Trade Organization (WTO).Small enterprises outnumber large companies by a good margin and also employ more people. SMEs also are said to be liable for driving innovation and competition in many economic sector.

Access to Finance

Generally speaking, financial inclusion, or broad access to financial services, is defined as an absence of price and non-price barriers in the use of financial services. Improving access, then, means improving the degree to which financial services are available to all or any at a good price. It is easier to measure the use of financial services since data of use can be observed, but use is not always the same as access. Access essentially refers to the supply of services, whereas use is determined by demand as well as supply (BataaGanbold, 2008).

Conferring to Wikipedia Access to finance is the ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other risk management services. Those who involuntarily have no or only limited access to financial services is referred to as the unbanked or under banked, respectively.

Access to finance can be broadly defined as access to financial products (e.g. deposits and loans) and services (e.g. insurance and equity products) at a reasonable cost. Given the widely recognized link between access to finance, growth, income smoothing and poverty reduction, many countries have adopted the goal of universal financial access. (Sushma Narain, 2009).

Availability to Finance

The money available to a business for spending within the sort of cash, liquid securities and credit lines. Before going into business, an entrepreneur must secure sufficient financial resources so as to be ready to operate efficiently and sufficiently well to market success. SME finance is that the funding of small and medium-sized enterprises, and represents a serious function of the overall business finance market during which capital for various sorts of firms are supplied, acquired, and coasted or priced. Access to finance for little business businesses within the start-up and expansion phase of their existence is vital, since these firms generate employment, drive innovation, and boost competition in markets (Ellis and Ben, 2017).

Potential finance Sources for SMEs.

In reality, the sources of finance available for SMEs are quite limited. However, some of them are having a practical issue that limits their usefulness. Further, among the different sources, some of the major finance sources available for the SMEs as an initial source or an additional capital requirement to conduct the business includes SMEs family, friends and owners, trade credit, the business angel, invoice discounting and factoring, leasing, bank finance, the venture capitalist, listing, supply chain financing, crowd financing, informal financial sources. Moreover, some kinds of formal financial institutions include, commercial banks, cooperative, specialized state financial institutions and microfinance institutions.

- **The SME Owner, Family and Friends:**

This is often potentially a really good source of finance because these investors could also be willing to simply accept a lower return than many other investors as their motivation to take a position isn't purely financial. The key limitation is that, for many folks, the finance that we will raise personally, and from friends and family, is somewhat limited. (William, 2016)

- **Trade Credit**

It's the loan extended by one trader to a different when the products and services are bought on credit. Trade credit facilitates the acquisition of supplies without cash. Trade credit is usually employed by business organizations as a source of short-term financing. It's granted to those customers who have an inexpensive amount of monetary standing and goodwill (kuveya, 2020)

- **Business Angel**

A private who provides capital for a business start-up, usually in exchange for convertible debt or ownership equity .Angel investors usually give support to start-ups at the initial moments(where risks of the start-ups failing are relatively high) and when most investors aren't prepared to back them.

- **Invoice Discounting and Factoring**

Both of those sources of finance effectively let a corporation raise finance against the safety of their outstanding receivables. Again, this finance is merely short-term and is usually costlier than an overdraft. However, one among the features of those sources of finance is that, as an SME grows, their outstanding receivables will grow then the quantity they will borrow from their factor or from invoice discounting also will grow. Hence, factoring and invoice discounting are two of the very limited number of finance sources which grow automatically because the business grows. (William, 2016)

- **Leasing**

Leasing assets rather than buying them is often very useful for an SME as it avoids the need to raise the capital cost. However, leasing is only really possible on tangible assets such as cars, machines, etc. (William, 2016)

- **Bank Finance**

Banks could also be willing to supply an overdraft of some sort and should be willing to lend within the future where that lending are often secured on major assets like land and buildings. However, raising medium-term finance to fund operations is usually harder for SMEs as banks are traditionally rather conservative. Furthermore, banks will often require personal guarantees from the owner-manager of the SME, which suggests the owner-manager has got to risk his personal wealth so as to fund the corporate.

- **Venture capitalist**

A speculator company is extremely often a subsidiary of a corporation that has significant cash holdings that they have to take a position. The speculator subsidiary may be a high-risk, potentially high-return a part of their investment portfolio. (William, 2016)

- **Listing**

By achieving an inventory on a stock market an SME would become a quoted company and, hence, raising finance would subside of a problem. However, before inventories are often considered the corporate must grow to such a size that an inventory is possible. Many SMEs can never hope to realize this.

- **Supply chain financing**

Supply chain finance are often defined (EBA, 2013) because the use of monetary instruments, practices and technologies for optimizing the management of the capital and liquidity engaged in supply chain processes for collaborating business partners. The event of advanced technologies to trace and control events within the physical supply chain creates opportunities to automate the initiation of SCF interventions (Enrico, 2015).

- **Crowd financing**

Among the sources listed by scholars above only a couple of sources are available in our country. It's going to need a search how this funds or sources be workable on our working environment to assist SMEs in there need. However this shows that there's untapped marketplace for the source of formal finance which can reduce the constraint of accessing the finance (William, 2016)

- **Informal financial source**

The popular view of informal finance is of powerful moneylenders who exploit the poor through usurious interest and unfair seizure of collateral. In fact, informal finance is both extensive and diverse. The informal sector accounts for many of the financial services provided to the non-corporate sector. Additionally to family and friends, who provide an outsized percentage of the loans, informal finance consists of professional money lenders, pawnbrokers, trades people, and associations of acquaintances. (Meghana et al 2008).

- **Commercial banks**

Banks with a full banking license. Majority state-owned banks are included during this category once they perform a broad set of retail banking functions

- **Cooperatives**

Institutions with a mutual ownership structure, including credit unions.

- **Specialized state financial institutions**

Specialized financial institutions fully owned by the state or extensions of the government whose main purpose is to lend in support of economic development or to provide savings, payment, and

deposit services to the public. This group includes postal banks, government savings banks, small and medium-size enterprise lending facilities, agricultural banks, and development banks.

- **Microfinance institutions**

Financial institutions whose primary business model is to lend to and possibly take deposits from the poor.

Assumption or Theories on Source of Finance

Theories are formulated to elucidate, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the bounds of critical bounding assumptions. The theoretical framework is that the structure which will hold or support a theory of a search study. Here are some of the assumptions which can hold or support a theory of a research

Irrelevance Theory of Capital Structure

The theory by Modigliani and Miller in year 1958 has proposed irrelevance of the capital structure, which states that the enterprises finance their businesses with the assistance of using internal funds, equity and debt. Irrelevance theory has relevancy because it helps in recognizing that initially business people considers internal sources to the external sources for financing their business operations. In Ethiopia, this characteristic is common to the business owners (Hundera, 2014).

Pecking Order Theory

Pecking order theory is based on transaction cost and asymmetric information. This theory assumes that the financing hierarchy is followed by the enterprises and finance source is either external or the internal funds. This theory states that the enterprise seeks for external financing only when there is depletion of internal resources. If it is followed then requirement of external financing is essential, safer as well as without any restrictions for the enterprise. It is applicable to the Ethiopian SMEs because external finance requires collateral and most of the small business owners does not have sufficient property or any other asset, which they could offer to the lender for securing loan. Hence, they mostly prefer other sources (Gebreyohannes, 2015).

Trade-Off Theory

Trade-off theory on the opposite hand attempts to elucidate use of debt financing. According to this proposition, owners of enterprises evaluate the various costs and benefits associated with alternative debt plans. It assumes that an internal solution is preferred so that marginal cost and benefits are balanced. According to the theory, an enterprise sets a target debt-to-value ratio and then gradually moves towards it. This target tries to balance debt tax advantages against costs associated with bankruptcy(Goyal&Frank,2005).This theory is not perfect because the debt-to-value ratio is not directly observable and that taxation is more complex than assumed by the theory. In addition, it assumes that bankruptcy costs are deadweight costs and that transaction cost takes a specific form.

Among the above theories the pecking order theory is relevant for this research.

Factors Influencing Accessibility and Availability of Credit

One among the key obstacles to the credit access by SMEs is bank specific, SMEs specific and macroeconomic factors. Moreover, the opposite factors include legal factors affecting the banks, competition within the market of SME, lending characteristics of SMEs, contractual environment and lack of adequate demand. Consistent with International Labor Organization, in various countries, the enterprises commence their business on micro level and that they have rarely the chance for moving beyond 2-3 employees in size (Amentie, Negash&Kumera, 2016).

In most of the countries and Ethiopia too, the constraint facing SMEs are discriminatory regulatory practices, lack of access to the finance, market and business information, lack of the business premises, lack of ability to accumulate the managerial expertise and skills, low access to the acceptable technology and poor access to the standard infrastructure of business. Generally, SMEs are more credit constrained compared to the opposite segments of economy thanks to distortions of the financial sector, lack of the know-how on a part of the banks, asymmetries of data like unaudited financial statements and high risks inherent in SMEs lending (Adzido et al.,2016).

According to the International Labour Organization (ILO), as in many countries, it appears that enterprises start on a micro, subsistence level and infrequently have the chance to maneuver beyond two to 3 employees in size. The constraints facing micro and little enterprises in most developing economies are applicable to Ethiopia:

Unfavorable legal and regulatory environments and, in some cases, discriminatory regulatory practices;

- Lack of access to markets, finance and business information;
- Lack of business premises (at affordable rent);
- Low ability to accumulate skills and managerial expertise;
- Low access to appropriate technology; and
- Poor access to quality business infrastructure

As cited in Bataa, M et.al (2008), demonstrate that SMEs are usually more credit constrained than other segments of the economy due to the subsequent reasons: (i) financial sector policy distortions; (ii) lack of know-how on the a part of banks; (iii) information asymmetries, for instance , lack of audited financial statements; and (iv) high risks inherent in lending to SMEs. Detailed discussions on each of those reasons are as follow.

Information Asymmetries

The main information asymmetries that constrain SME access to finance are as follows:

High Cost of Obtaining Credit Information on SMEFor markets to allocate resources efficiently, all market participants must have equivalent relevant information. this is often seldom the case, however, in developing countries, and therefore the resulting market failures can create biases against small firms. Under these circumstances, for banks to get information on the creditworthiness of potential SME clients is difficult or costly. As a result, lenders perceive.

the risks of lending to SME to be greater than they really are, they're going to charge higher interest rates or refrain from lending to them altogether. If lenders do charge high interest rates, this increases the danger they're exposed to by discouraging low-risk, low-return borrowers from seeking loans, ultimately discouraging lenders from lending to SME

altogether. At an equivalent time, higher interest rates are related to mainly high-risk projects, a circumstance mentioned as adverse selection. (Malhotra et al 2007).

Inconsistent SME Financial Statements and Audits: As SME are often not required to adopt international accounting standards when preparing their financial statements, large discrepancies arise within the ways firms report their financial positions. for instance , many firms in developing countries may have two or three sets of books for various audiences. Auditing such statements is often labor- and time-intensive, which raises the value of loan processing for SME. Additionally, even audited financial statements are often unreliable.

Lack of Access to Third Party Information by Providers in the Market place. Lenders' lack of knowledge of their clients and of data on clients' credit profiles and histories reinforce their perception of the high risk involved in lending to SME. a method to beat the high cost to lenders of directly screening and monitoring clients is thru the establishment and use of credit bureaus as third party information providers. (Malhotra et al,2007).

High Risks of SMEs Operations:-SME operations are subject to 2 major risks. Vulnerability and Turnover SME are riskier borrowers than large firms. this is often because SME are more susceptible to market changes and sometimes have inadequate management capabilities due to their smaller size. Lack of demand and shortages of capital were the 2 most often mentioned underlying causes of those business failures. SME activities are extreme volatile with an outsized number of them beginning while many others are closing down

Management Weaknesses: - Despite evidence that lack of access to finance constrains many SME, actual effective (or bankable) demand may itself be constrained by weaknesses in firm management and the dossiers their management can present when applying for credit. Programs to increase financing for SME often begin with training and business development services to strengthen firms' management and productivity. However, sole proprietorships, such as many SME, have few incentives to obtain external audits of their financial statements to improve management and productivity, and such audits are also expensive relative to the size of loans that SME may be seeking. Thus banks often complain that loan applications from SME do not meet their standards. In addition to above mentioned constraints of SME, many literatures reveal other characteristic that SME in developing or emerging countries are more disadvantaged in obtaining

external finance than SME in developed countries. Developing countries are more likely to have macroeconomic imbalances that lead to excess demand for available domestic savings as well as institutional weakness that encourage large number of individuals to engage in low productivity informal activity. Furthermore, financial systems in developing countries are often characterized by less deregulation, openness and reform of ownership, governance and supervision. There are persuasive reasons to believe that when the institutional and financial framework in developing countries is weak, the SME will be adversely affected to a much large degree than large firms.

Finally, capital markets do not compensate for deficiencies in the banking sector as they do not have a comparative advantage to deal with opaque and small firms. In effect, capital market financing rests on comparatively high accounting and disclosure requirements which, by definition, opaque SME lack. Thus capital markets are typically not a source of direct funding for SME, given that these firms are unable to issue debt or equity in amounts sufficiently large to attract investors (who prefer liquid issues and are not willing to take too large a share of a single asset) and amortize issuance-related transaction costs (including compliance with complex legal, regulatory, accounting, and disclosure requirements). These factors normally render unfeasible the direct access to capital market financing for SME. (Malhotra et al 2007).

Credit Access and Growth of SMEs

The availability as well as availability of the external financing has greatly impacted performance and growth of any business. The financial institutions provide different credit facilities that are aimed at different business forms. When SMEs get appropriate credit facilities from these institutions, then it helps in improving their performance by increasing productivity, increasing incomes and improving the rates of return (Lenjisa, 2014). The trainings provided by some of the financial institutions to their clients helps in understanding their business operations in a better way. These trainings enhance entrepreneurs' skills, changes their attitude for conducting and perceiving their business activities that ultimately results in enhancing firm's ability to perform better (Fufa, 2016).

SMEs still faces various limitations against credit access. There is still lack of knowledge on the financial management of the managers of SMEs. Generally, smaller entities are having smaller assets base for securing loans in order to finance their investment in comparison to the larger

firms (Kersten et al. 2017). In Ethiopia, banking institutions have not made much of the effort for reaching out to the SMEs because of challenges with procedures and process involved in the administration of loans, higher cost to manage small loans and high risk of the loan default(Chirkos,2014).

Definition of variables

Collateral Security

Collateral refers to an asset that a borrower uses to secure a loan from the lender. A lender gets a fall back in case of default where they can dispose the asset to recover their money. (Kung'u, 2011) noted that secured loans are seen to have a low risk of default hence they are charged a lower interest. Most SMEs' do not have tangible assets that they can use to secure their loans hence their borrowing is limited

Interest rate charged

Interest rates as a cost of the loan have a significant effect on a company's growth plans. They not only affect loan payments, but they also have an impact on an enterprise funding (Ogolla, 2013). High interest rates reduce business earnings which ultimately hinders the business capacity to grow. High interest rates also affect a business cash flow in that one has to set aside more money to repay the loans. This in turn reduces its disposable income hence affecting ability to pay its other creditors (Ndungu, 2016).

(Anthony et al ,2013) who studied determinants of credit rationing to the private sector in Ghana found out that interest rate has a negative effect on credit allocation. Higher interest rate discourages micro and small enterprises to deepen their financial access Therefore, cost of borrowing tested as follows

Level of Literacy

Financial literacy refers to the ability of an individual to understand how money works-how it's earned, managed and invested. It is very important for any business entrepreneur to have knowledge on how to manage the business so that they can oversee its growth (Andoh & Nunoo ,2011). A literate entrepreneur understands on the best time to make certain investment decisions such as when to borrow and from whom to borrow and at what cost.

Number of financial institutions

The number of financial institutions offering credit in an economy has an impact on the overall growth of an economy. As observed by (Schoof, 2006) an inadequate number of financial institutions to offering credit services to SME's would constrain development of the industries. When number of small scale traders is many whilst the financial institutions with the services customized to them are few (demand exceeds supply) the price of the loan will be high therefore not affordable and hence low uptake by SMEs

Firm Characteristics

Firm characteristics affect SMEs' ability to access external finance. The size and age of the firm, having business skills and Ability to compile financial records and accounts were identified as important variables under this category. Firm size is one of the most important variables in literature related to access to credit. This was true for both developed as well as developing countries. As this research is focused on small and medium sized firms, it does not seem logical to consider size and age as a determinant of access to finance. However, even among the small and medium-sized enterprises' category, there is still a large variation in the size of the firms.

Numerous studies have discussed that small and medium-sized enterprises are financially more constrained than large firms (Carpenter and Petersen, 2002). Firstly, the small firms are faced with information opacity such as inability to provide financial information. When the firm is small, most of the time it is owned and operated by the entrepreneur himself and there is no such legal requirement to regularly report financial information and many firms do not maintain audited financial accounts. Second, smaller firms have fewer assets to offer as collateral. In order to reduce the anticipated risk and moral hazard associated with lending, the banks use collateral as one of the instrument. (Berger and Udell, 1998) found smaller and younger firms are more likely to face higher cost of financing and at the same time they are required to offer collateral.

2.2. Empirical Literature Review

Some related studies are conducted by different researchers in different countries. The aim of this study was focused on availabilities and limitations of credit facilities for Small and Medium enterprise.

(Kung'u, 2011) conducted a research in Westland town, Kenya to examine factor affecting credit access to SMEs. The collected data was using 115 questionnaires. The research used descriptive approach, though the study would also have tested whether there was a relationship between collateral security and if it was significant or not. This study, therefore will aim to not only know the factors affecting SMEs in accessing credit, but also will establish the relationship and significance

(Hezron and Hilario, 2016), on their study conducted in Maputo central business district, Mozambique, there is a relationship between the structure of the financial sector and access to finance by SMEs; there's a relationship between awareness of funding and access to finance by SMEs; there's a relationship between collateral requirements and access to finance by SMEs; and there is a relationship between small business support and access to finance by SMEs.

As observed by (Schoof, 2006) an inadequate number of monetary institutions offering credit services to SME's may be a constraint to the event of this sector. (Mwongera, 2014) observed that there have been many small scale while the financial institutions with the services customized for them are few. (Essayed, 2005) noted that require off loan in small businesses are different from those of large businesses. There exist very few studies that have tried to find the relationship between the number of lending institutions and access credit and this study therefore is aimed at filling this gap by extending the study of the lending institution in Murang'a County and finding their relationship.

A study was carried to determine access to credit by smallholder farmers in Kenya in the Western region (Bungoma and Siaya counties) and Eastern region (Embu, Meru and Tharaka Nithi) by (Kiplimo, Ngenoh, Koech, & Bett ,2015). This study used primary and secondary data where 613 smallholders in both regions were randomly sampled according to the total number of households in each division. They used logistic regression model to work out the factors influencing credit access. Access to credit was measured by actual receipt of credit, financial service from any given source. The result indicated that education level (literacy) in years had significant positive effects on access to credit. This concurred with (Hussein, 2007). The choice of binary logit model was appropriate since the dependent variable was categorical.

As (Mensah & Agbekporu, 2015) analyzed the determinants of agribusiness in Kumasi (Ghana) in accessing credit. A sample of 151 respondents was questioned. This study classified these determinants as under socio-economics, management and firm characteristics. Access to credit dichotomous whether one had access credit or not and therefore a logit model was used to analysis the relationship between these variables. Results indicated that 55% had ever applied for loan before. Though in contrast to previous studies, most financial institutions did not “strictly demand collateral security.” Many institutions focused more on the relationship and nature of transactions in the past in granting credit. Logit model also indicated that for every 1% increase collateral would lead to a probability of 30% increase in access to credit. Finding also revealed a significant relationship between the collateral security and access to credit. The outcomes of this research coincided with (Fatoki & Odeyem ,2010).

According to the study conducted by (Brehanu and Mesfin, 2015), Micro and small enterprise in Dilla Town, has inadequacy of finance when starting and operating the projects. The formal financial institutions haven't been ready to meet the credit needs of the MSEs because MSEs aren't ready to fulfill the wants like business plan, governance systems, collateral and other accountability issues which are related to business riskmanagement.

Using correlation analysis (Muratha,2015) examined the factor affecting young entrepreneur case of Family Bank Limited. He collected data from 220 respondents through open- ended and close-ended questionnaires which were distributed by a stratified sampling method based on the segments of classification as per the business type. The researcher adopted descriptive survey research design. It was found that there was an insignificant positive relationship between the two variables-interest rates charged and credit accessibility. His choice of research design was appropriate for the study since the data collected was both structured and semi structured. Use of stratified sampling was also appropriate since the data needed to be representative of all the business segment.

(Muturi & Ogubazghi, 2014) examined effects of age and owners/ manager education level of access to loan in the Asmara city (Eritrea). A proportionate systematic sampling was used to collect primary data from 87 respondents. Data was analyzed using descriptive and log it regression model. Findings indicated that the education level of the owner / manager was

positive and statistically significant. This agrees with (Fatoki & Odeyemi, 2010) who discovered the education level is not important in determining SME's access to bank loans. Contrary to (Zarook, Rahman, & Khanam, 2013) who had observed a significant impact on a bankloan.

(Andoh and Nunoo,2014) conducted a research whether the financial literacy matter in four districts of the Great Accra Region of Ghana. Primary data was collected from 556 SMEs. Financial literacy was measured in terms of knowledge on interest rate, inflation savings and insurance, owners' characteristics such as level of education, age, sex of the entrepreneur and the entrepreneur had received financial education. Utilisatization of financial services was used to measure credit access. Researcher found that there is a positive significant relationship that firms whose owners were financially literate were more likely to utilize financial services for example by taking microcredit

Research Gaps

A research gap is defined as a topic or area for which missing or insufficient information limits the ability to reach a conclusion for a question. A research need is defined as a gap that limits the ability of decision-makers (policy-makers, patients, practitioners) from making decisions.

The researcher found on studies conducted in Ethiopia uses different related factors as a measure. None of these studies conducted in Ethiopia checked this five factor; Firm characteristics, Cost of borrowing, Collateral requirements and number of lending institutions, level of literacy with an availability of credit facilities

As it can be understand from the review the Lending institutions or financial source providers do not pay attention to make financial sources available for the SMEs. Further there is a lack/limitation of credit facilities agencies that are well suited for the all crucial SMEs' sectors.

Therefore, the researcher will combine and assess these five factors, Firm characteristics, Cost of borrowing, collateral requirements and number of lending institutions, level of literacy with an availability of credit facilities

2.3. Conceptual framework of the study

Based on the literature reviewed, the researcher developed the conceptual framework in order to explain the relationship of dependent and independent variables. (Denison and Neal ,2011), has

developed a model, which includes the four organizational culture traits/ component of involvement, consistency, adaptability, and mission in organizations exercise significantly positive influence on employee motivation. This model created and designed within the business environment and developed based on behavior.

The conceptual framework of this study shows the focus on the availability & limitation of credit facilities by small and medium enterprises. The variables in the conceptual framework are tested as hypotheses to establish the relationships between variables.

The independent variables of this study include the Number of financial institutions, interest rate charged, collateral security, Level of literacy and firm’s characteristics and the dependent variable is the availability of credit facilities by SMEs

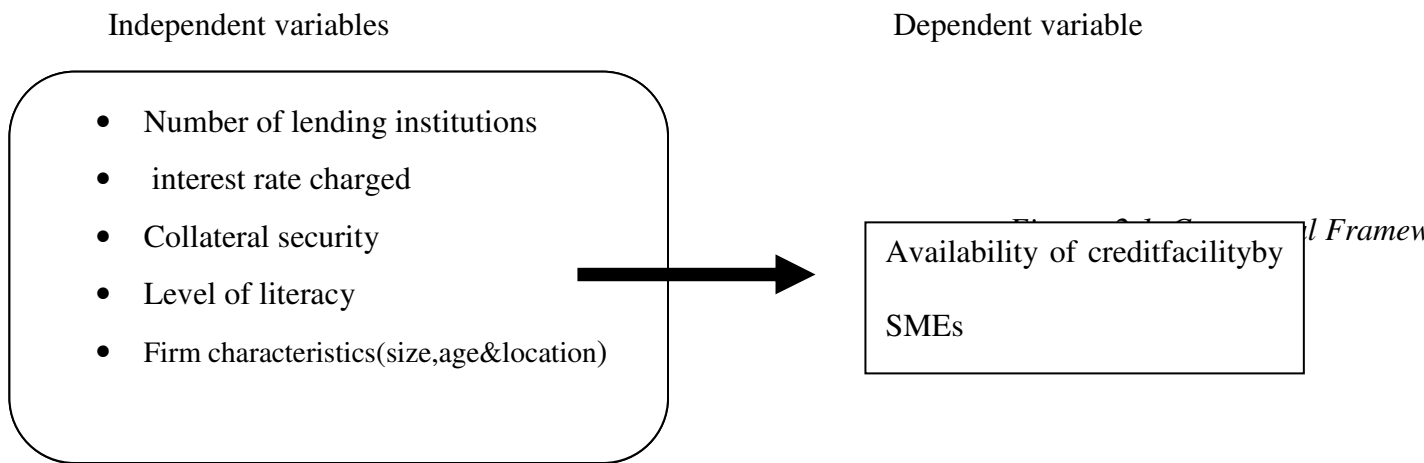


Figure: 2.1. Conceptual Framework

CHAPTER THREE

Research Methodology

Methodology is a body of methods, rules, and postulates employed by a discipline: a particular procedure or set of procedures (Merriam Webster, since 1828). Therefore, this chapter discussed about the type of research setting, approach and design employed in the study. In addition, topics related to the sample size, sampling techniques, method of data collection, data analysis and interpretation tools are included.

3.1 Research Setting

This study will be placed at the capital city of Ethiopia that is Addis Ababa.

3.2. Research Approach

This research carried out by investigating the factors affecting availabilities of credit facilities in Ethiopia the case of Small and Medium Scale Enterprises (SMEs) in the Addis Ababa, hence descriptive and inferential statistics research design is using. The objective of the study and answer the research questions, the researcher adopted both quantitative and qualitative (Mixed) research approach. The rationale of using a mixed approach is to gather data that could not be obtained by adopting a single method (Creswell, 2003). Hence, the basis of such approach helps to neutralize the limitations of applying a single approach in connection with the qualitative and quantitative nature of the research questions.

3.3. Research Methodology Adopted

To assess the factors affecting availabilities of credit facilities in Ethiopia the case of Small and Medium Scale Enterprises (SMEs) in the Addis Ababa, mixed research approach will apply.

Quantitative Aspect of the Study:

The quantitative aspect of the research method intends to obtain data needed to generalize about factors affecting availabilities of credit facilities in Ethiopia for Small and Medium enterprise (SMEs), particularly, in Addis Ababa.

3.4. Research Design

The researcher considered descriptive and explanatory method in order to provide an accurate and valid representation for the relationship of independent and dependent variables; that is between factors affecting availabilities of credit facilities. The quantitative analysis used information gathered from standard questionnaire, information will administered through questionnaire to a sample of individuals. This involved a process of collecting data in order to answer questions concerning the current status of the subjects in the study. This approach is use because it focuses on exploration behavior, experiences and opinions of respondents.

3.5. Population and Sampling Design

Using a sample that is too large is a waste of resources while using a sample that is to small means getting results that are likely to be lacking in validity. In light of this, to select adequate sample size, the following procedures will employee.

Population is defining as the business operators in the SMEs sector spread across Addis Ababa.

Based on NBE 2018-2019 annual reports there are 6,730 SMEs in Addis Ababa city.(Mugenda & Mugenda ,2003) argued that a sample of between 10-30% of the population, is adequate and enough for generalization of findings to the whole population. So a representative sample of 673 (10%) businesses was selected form ten subcities collection of relevant data. On the 18 Banks & 27 MFIs side the selection also based on random sampling to select 30 employees of banks and micro finance institutions who engaged in the area of study as ingredient for the research.

3.6. Sample Design

The researcher applied the simple random sampling techniques. The researcher selects The collection of data in this analysis has been obtained from both primary and secondary sources. The primary source will gathered through structured questionnaires and interviews. The secondary source of information in this paper is through bank, microfinance institutions and the SMEs. Different banks and their websites are analyzed for their demand side analysis and for the supply side, different SMEs operating in Ethiopia are analyzed. For doing the analysis, the methods used for research includes descriptive and explanatory research. Further, different

journal articles, books and other relevant information available published online by banking institutions and SMEs are used (Wodaje, 2018).

Instrument and Data Collection Procedures

In this research, the structured questionnaire

3.7. Data Analysis

The data analysis is using both descriptive and statistical regression. Descriptive statistics such as correlation analysis, frequencies, percentages, means and standard deviations are used to summarize and present the data. Moreover, pictorial representations as well as tables were used to increase understanding and facilitate easy comparison of the data collected from the survey. With regard to statistical regression (particularly multiple regressions – Model summary, ANOVA, coefficient) were used to examine the significance contribution of each independent variable to the dependent variable. Finally major findings will be interpreted based on the result. Then the data will be collected and analyzed using the STATA.

A multivariate regression model will be used to link the independent variables to the dependent variable as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \mu$$

Where; Y = Availability of credit facilities

X₁ = Collateral security

X₂ = Interest rate charged

X₃ = Level of literacy

X₄ = Number of financial institutions

X₅ = Firm characteristics

From the model, β_0 is the constant term while the coefficient $\beta_i = 1 \dots 5$ will measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. μ represents the error term which captures the unexplained variations in the model.

3.8. Data Source and Type

In conducting this study, the researcher make used of both primary data and secondary data.

Primary Data: it's collected from target group the i.e. owner and/or managers of the business enterprises through well-designed and semi structured questionnaire.

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

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter presents the data analysis and discussion of the research findings obtained from data collected from the survey questionnaire. Responses for the measures on the questionnaire are summarized and presented using tables to facilitate easy understanding.

The demographic profiles of the study sample have been described using descriptive statistics and also different inferential statistics were engaged in order to analyze data obtained. Accordingly, standard multiple regressions were used to test hypothesis and achieve the study objective that focuses on identifying dependent variables trait with higher contribution to the dependent variable. Furthermore, Cranach's Alpha coefficients were used to test goodness and internal consistency of the measure.

4.1 Response Rate

Researcher distributed 673 questionnaires to meet the total sample size of 522 filled questionnaires were returned correctly. The number of filled questionnaires 522 which give a response rate of 78%.

Table 4.1 Response Rate

Questionnaires	Frequency	Percentage
Returned	522	77.6
Not returned	151	22.4
Total	673	100

4.2 Demographic Profile of Respondents

This section is going to analyze and summarize the demographic characteristics of 522 valid respondents. This includes gender, occupation, business experience, and number of employees, form of business, start-up capital, activity and major sources of financing. The result of the analysis is presented in Tables below.

Gender

In regards of gender, respondents were roughly proportionate between male and female, even though the numbers of male respondents are a bit higher (female 25.29%, male 74.71%).

Occupation

Out of the total respondents 24.71% are employee/manager, 34.67% are owner/manager, 2.87% are shareholder and the higher rate 37.74% goes to other than this.

Business experience

When looking at the business experience of respondents, only 5.75% of the respondents have 16-20 year of experience. 32.95% of the respondent have 6-10 years of experience. 6.13 % of the respondents have 11-15 years and more than 20 years of experience respectively. Furthermore, majority of the respondents 49.04% have 1-5 years of work experience.

Number of employees

In connection with number of employees the distribution is not evenly distributed. That is, only 67.43% of the respondents have less than ten employees. 24.52% of respondents, have 11-20 employee. 4.6% of respondents, have 21-30 employee. 3.45 % of the respondents have 31-40 employees and no more business have more than 40 employees.

Form of business

When looking at the legal form of business ownership, 83.52% of the businesses have sole trade form business 12.07% were private limited company and 4.41% were partnership business.

Start-up capital

It was found that majority 56.9% had less than 500,000 capitals, 27.59% had between 500,001-1,000,000, 4.79% had between 1,000,001-5,000,000, and 5.56% their capital fall between 5,000,001-10,000,000, the rest 5.17% have above 10 million.

Activity

With respect to firm's activity 1.72% construction materials, 4.79% had manufacturing sector, 39.08% were engaged in Wholesale or retail trade business, 10.15% and 5.56% Agricultural and Textile respectively, 18.39% were in hotel and tourism (cafe & Restaurant) business the rest 20.31% businesses involved in other services

Major sources of financing

About major sources of finance 56.51% of respondents got from Savings, 25.86% of respondents from bank Loan/other financial institutions, 10.92% of respondents borrowing got their financial

sources from friends/relatives, the rest 6.7% from other sources.

Table 4.2: Respondents' Demographic Profile

Variables	Group	Frequency	Percent
Gender of Respondents	Male	390	74.71
	Female	132	25.29
Occupation	Employee/manager	129	24.71
	Owner/manager	181	34.67
	shareholder	15	2.87
	other	197	37.74
Business experience	1-5 years	256	49.04
	11-15 years	32	6.13
	More than 20 years	32	6.13
	6-10 years	172	32.95
	16-20 years	30	5.75
Number of employees	None	0	0
	Less than 10	352	67.43
	11-20 employee	128	24.52
	20-30 employee	24	4.6
	30-40 employee	18	3.45
	Abave 40 employee	0	0
Form of business	Sole trader	436	83.52
	Private limited company	63	12.07
	Partnership	23	4.41
Start-up capital	Less than birr 500,000	297	56.9
	Between 500,000-1,000,000	144	27.59
	Between 1,000,000-5,000,000	25	4.79
	Between 5,000,000-10,000,000	29	5.56
	Abave 10,000,000 birr	27	5.17
Activity	Construction materials	9	1.72
	Manufacturing	25	4.79
	Wholesale or retail trade	204	39.08
	Agricultural	53	10.15
	Textile	29	5.56
	Hotel and tourism(cafе & Restaurant)	96	18.39
	Other services	106	20.31
Major sources of financing	Savings	295	56.51
	Bank Loan/other financial institutions	135	25.86
	Borrowing from friends/relatives	57	10.92
	Other sources	35	6.7

Source: Questionnaire and STATA

Reliability Test

Cronbach's alpha is a coefficient of reliability. It is commonly used as a measure of the internal consistency or reliability of a psychometric test score for a sample of examinees. This reliability is expressed as a coefficient between 0 and 1.00. The higher the coefficient, the more reliable is the test.

Table 4.3: Reliability test

Variables	Cronbach's Alpha	No. of Items	Comments
Collateral security	0.5774	5	Accepted
Interest rate charged	0.5710	7	Accepted
Level of literacy	0.5211	6	Accepted
Number of financial institutions	0.6953	8	Accepted
Firm characteristics	0.6959	5	Accepted

Source: Questionnaire and STATA

Descriptive Statistics

In regards to see the general perception of the respondents for the selected SMEs researcher has summarized the measures with the respective means and standard deviations. Hence, the mean indicates to what extent the sample group averagely agrees or does not agree with the different statements.

The researcher first tested the reliability of data as shown tables 4.3, the reliability of Collateral security questionnaire ($\alpha = 0.5774$), Interest rate charged questionnaire ($\alpha = 0.5710$), Level of literacy questionnaire ($\alpha = 0.5211$), Number of financial institutions questionnaire ($\alpha = 0.6953$), and Firm characteristics ($\alpha = 0.6959$) which approach to 1 so that reliability is not a problem for these research.

In order to determine the minimum and the maximum length of the 5-point Likert type scale, the range is calculated by $(5 - 1 = 4)$ then divided by five as it is the greatest value of the scale ($4 \div 5 = 0.80$). Later, number one that is the least value in the scale was added in order to identify the maximum of this cell. The length of the cells is determined as follows: from 1 to 1.80 represents (strongly disagree); from 1.81 until 2.60 represents (disagree); from 2.61 until 3.40 represents (neutral); from 3.41 until 4.20 represents (agree); and from 4.21 until 5.00 represents (strongly

agree). According to (Marczyk, Dematteo and Festinger ,2005), the lower the mean, the more the respondents disagree with the statements. The higher the mean, the more the respondents agree with the statement. On the other hand, standard deviation shows the variability of an observed response from a single sample. The mean and standard deviation values are presented together in single tables.

Table 4.4 : Score of Mean and standard deviation

Variables	Mean	Std.Deviation
Collateral security	3.6061	0.3760
Interest rate charged	3.6261	0.3250
Level of literacy	3.5083	0.3333
Number of financial institutions	3.4916	0.3632
Firm characteristics	3.5858	0.3963
Average Mean value and Std.Deviation	3.5636	0.3582

Source: Questionnaire and STATA

Based on table 4.4, Score of Mean and standard deviation. The thirty one (31) items used to measure factors affecting availability of credit facilities into five components, and almost all the respondents were responded slightly satisfied. In that regards, the mean and standard deviation scored as follows: Collateral security (M=3.6, S.D=.38), Interest rate charged (M=3.62, S.D=0.33), Level of literacy (M=3.5, S.D=0.33), Number of financial institutions (M=3.49, S.D=0.36), Firm characteristics (M=3.58, S.D=.0.39).

Table 4.5 : Means and standard deviations for Collateral security

Variable of availability of credit facilities-Collateral security	Mean	Std. Deviation
Not having types of collateral required makes difficult to availability of finance	3.5153	0.6707
Financial institutions are focusing more on potential to repay loan rather than on Collateral security in our business	3.5153	0.5916
The requirements that I provide security for my loan has pushed me seek other means to fund my business such as borrowing from relatives and buying on credit.	3.6226	0.6112
Collateral is mandatory requirement in availability of finance.	3.7068	0.5474
SMEs very worried about collateral in availability of finance	3.6705	0.6547
Mean and S.D of Collateral security	3.6061	0.6151

Source: Questionnaire and STATA

According to table 4.5, collateral security, Collateral is mandatory requirement in availability of finance the highest mean (Mean=3.7068, SD=0.5474) and the lowest mean i.e. Financial

institutions are focusing more on potential to repay loan rather than on collateral security in our business and Not having types of collateral required makes difficult to availability of finance, scoring (Mean=3.5153, SD=0.5916&0.6707) respectively which indicates that respondents believe that collateral security was mandatory for factors affecting availability of credit facilities. SMEs very worried about collateral in availability of finance, scoring (Mean=3.6705, SD=0.6547).And The requirements that I provide security for my loan has pushed me seek other means to fund my business such as borrowing from relatives and buying on credit has (Mean=3.6226, SD=0.6112).As a result, the independent variable that scores higher mean (Mean=3.6061, SD=0.6151), this indicates that the respondents are agree on collateral security for factors affecting availability of credit facilities.

Table 4.6 : Means and standard deviations for Interest Rate Charged

Variable of availability of credit facilities-Interest Rate Charged	Mean	Std. Deviation
Small businesses are usually charged higher interest rate by banks than large firms	3.8429	0.7551
Interest rates charged by institutions are prohibitive.	3.7183	0.6976
There are unrealistic credit processing costs and charges.	3.4827	0.5948
The interest rate charged by financial institutions discourages us from borrowing because they are high.	3.6379	0.6204
Failure to repay on time leads to the financial institutions confiscating business assets which affects my day to day running of the business and this discourages me from borrowing.	3.4367	0.5752
Financial institutions lend on short term basis with high interest rate and this hinders me from credit	3.6724	0.4858
At times of interest rate charged is on some loans is dependent on the security provided or nature of business	3.5919	0.5295
Mean and S.D of Interest Rate Charged	3.6261	0.6083

Source: Questionnaire and STATA

According to table 4.6, interest rate charged, Small businesses are usually charged higher interest rate by banks than large firms was the highest mean (Mean=3.8429, SD=0.7551) and the lowest mean i.e. failure to repay on time leads to the financial institutions confiscating business assets which affects my day to day running of the business and this discourages me from borrowing, scoring (Mean=3.4367, SD=0.5752) which indicates that respondents believe that interest rate charged was also mandatory for factors affecting availability of credit facilities. As a result, the

independent variable that scores higher mean (Mean=3.6261, SD=0.6083), this indicates that the respondents are agree on having interest rate charged for availability of credit facilities

According to table 4.7, the respondent answered for the question, I don't know of the legal issues that are needed to address access to credit for my business because conditions of laws and regulations are very complex was the highest mean i.e. (Mean=3.6341, SD=0.5863) from the given variables. Moreover, all of the six items that measures literacy level contributes almost equally to the overall mean. Level of education has positive influence on when/how to get loans to improve the business (Mean=3.2969, SD=0.7132), and training sessions have helped us to define capital and investment, where to buy and sell, how to set prices, investments, credit sales for my business (Mean=3.5919, SD=0.5473); My academic qualification helps me in making financial decisions for my business rated (Mean=3.5153, SD=0.6232). And the total (Mean=3.5083, SD=0.6109), this indicates that the respondents are agree literacy level for availability of credit facilities.

Table 4.7 : Means and standard deviations for Literacy Level

Variable of availability of credit facilities-Literacy Level	Mean	Std. Deviation
I don't know of the legal issues that are needed to address access to credit for my business because conditions of laws and regulations are very complex	3.6341	0.5863
My academic qualification helps me in making financial decisions for my business	3.5153	0.6232
Level of education has positive influence on when/how to get loans to improve the business	3.2969	0.7132
Financial institutions have adopted to offer training sessions which creates awareness of their products that are of benefit to my business	3.4425	0.5308
Training sessions have helped us to define capital and investment, where to buy and sell, how to set prices, investments, credit sales for my business	3.5919	0.5473
I am discouraged from borrowing a loan because the information on availability and charges is not communicated in a language I can interpret	3.5689	0.6644
Mean and S.D of Literacy Level	3.5083	0.6109

Source: Questionnaire and STATA

Table 4.8 : Means and standard deviations for Number of financial institutions

Variable of availability of credit facilities-Number of financial institutions	Mean	Std. Deviation
The presence of financial institutions in our area has enabled us mobilize savings which has resulted to more capital injection in the businesses.	3.4713	0.8267
Access to many financial institution has improved credit accessibility to most of the small and medium entrepreneurs and this has led to business growth.	3.5364	0.7354
Most of entrepreneurs, through financial institutions have realized an effective way to integrate access to financial service	3.5057	0.6203
Many financial institutions have not fit made products that suits our needs	3.3678	0.6060
I have established a personal relationship with the financier which has enhanced credit availability	3.4080	0.5646
Duration of my relationship with my financier determines whether I can access credit	3.4866	0.5752
Increase in demand for credit services has led to financial institutions incorporating mobile money transfer services	3.5306	0.5678
Recently there are more focused financial institution services emerging hence attracting the interests of donor agencies including NGOs, credit unions and non-banking financial intermediaries to provide credit services	3.6264	0.5977
Mean and S.D of Number of financial institutions	3.4916	0.6367

Source: Questionnaire and STATA

Number of financial institutions traits scores the least mean of 3.3678 and SD of 0.6060. This indicates that alike all the variables the respondents have slight neutral on the measures of number of financial institutions. Based on table 4.8, Recently there are more focused financial institution services emerging hence attracting the interests of donor agencies including NGOs, credit unions and non-banking financial intermediaries to provide credit services (Mean=3.6264, SD=0.5977), the respondents over all response score (Mean=3.4916,SD=0.6367) this indicates that the respondents are agree literacy level for availability of credit facilities

The mean score for firm characteristics was higher than literacy level (Mean=3.5858, SD=0.6277). This shows that firm characteristics give more value and agree with the measure of for availability of credit facilities. Although, having business skills will influence business performance and hence on availability of finance scores a higher mean.

Table 4.9 : Means and standard deviations for Firm characteristics

Variable of availability of credit facilities-Firm characteristics	Mean	Std. Deviation
The age of the firm affects its availability of finance	3.5402	0.7032
Having business skills will influence business performance and hence availability of finance	3.5287	0.6955
Ability to compile financial records and accounts affects its availability of finance	3.5957	0.5215
Ownership type of the firm affects its availability of finance	3.6264	0.5977
. Location and firm performance affects its availability of finance	3.6379	0.6204
Mean and S.D of Firm characteristics	3.5858	0.6277

Source: Questionnaire and STATA

4.3. Analysis of Inferential Statistics Results:

One of the major objectives of the study is factors affecting availability of credit facilities for SMEs in Addis. For this purpose, inferential statistics of correlation and regression analysis have been used and the results are presented in the below sections.

4.3.1 Correlation Analysis

Pearson correlation coefficient was used to explore the relationships between the explanatory variables. Especially, to assess the magnitude and direction of relationships (either positive or negative) and the intensity of the relationship between the explanatory variables. The relationship between factors affecting availability of credit facilities and collateral security was found strong and positive ($r= 0.7946$) but significant at 1% level of significance. Further, correlation analysis between factors affecting availability of credit facilities and interest Rate Charged was also found to be strong and positive ($r= 0.7902$) but significant at 1% level of significance. Also the researcher found that there was medium strength but positive relationship between factors affecting availability of credit facilities and literacy level($r=0.6353$) but significant at 1% level of significance. Further, correlation analysis between number of financial institutions and factors affecting availability of credit facilities was strong and positive($r=0.7147$) but significant at 1% level of significance. Finally, correlation analysis between firm characteristics and factors affecting availability of credit facilities was medium strength and

positive ($r=0.5682$) but significant at 1% level of significance.

4.3.2. Regression Analysis

Normality Test

Normality test helps to determine how likely it is for a random variable underlying the data set to be normally distributed. There are several normality tests such as Skewness Kurtosis test, Jarque-Bera test, Shapiro Wilk test, Kolmogorov-Smirnov test and Chen-Shapiro test.

Figure 4.2. Shows the frequency distribution of the standardized residuals compared to a normal distribution. Although, there are some residuals (those occurring around 0) that are relatively far away from the curve, many of the residuals are fairly close. Moreover, the histogram is bell shaped which lead to infer that the residuals are normally distributed.

Variance	0.0285727
Skewness	-0.0553363
Kurtosis	2.864378

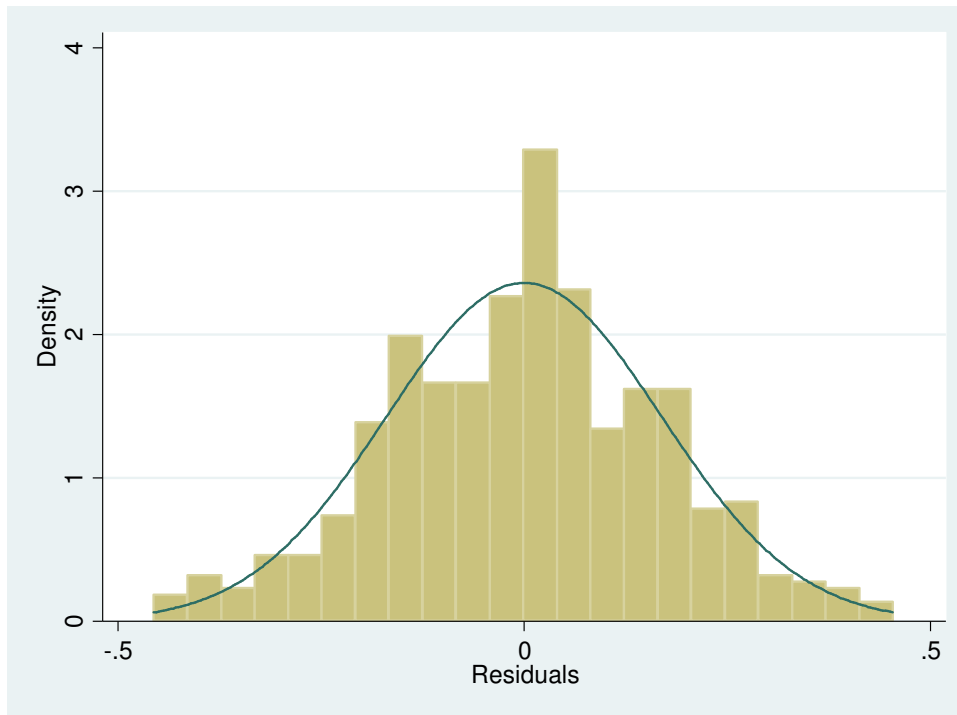
The result shows that the estimated model is normally distributed

Table 4.10: Correlation Analysis

	Availability of credit facilities	Collateral security	Interest Rate Charged	Literacy Level	Number of financial institutions	Firm characteristics
Availability of credit facilities	1					
Collateral security	0.7946*	1				
Interest Rate Charged	0.7902*	0.7895*	1			
Literacy Level	0.6353*	0.6022	0.5986 *	1		
Number of financial institutions	0.7147*	0.7033*	0.7191*	0.6175*	1	
Firm characteristics	0.5682*	0.6356*	0.7230*	0.4169*	0.6474*	1

*. Correlation is significant at the 0.01 level.

Figure 4.2: Frequency Distribution of Standardized Residual



Source: Questionnaire and STATA

Multicollinearity Test

Multicollinearity is a state of very high inter-correlations or inter-associations among the independent variables. It is therefore a type of disturbance in the data, and if present in the data the statistical inferences made about the data may not be reliable. Multicollinearity can also be detected with the help of tolerance and its reciprocal, called variance inflation factor (VIF). If the value of tolerance is less than 0.2 or 0.1 and, simultaneously, the value of VIF 10 and above, then the multicollinearity is problematic.

Table 4.11: Multicollinearity Test

	Collinearity Statistics	
	VIF	Tolerance
Collateral security	3.08	0.3249
Interest rate charged	3.75	0.2667
Level of literacy	2.68	0.3735
Number of financial institutions	2.32	0.4318
Firm characteristics	1.85	0.5400
Mean VIF	2.73	0.3874

Source: Questionnaire and STATA

Heteroscedasticity

As it relates to statistics, heteroscedasticity (also spelled heteroscedasticity) refers to the error variance, or dependence of scattering, within a minimum of 1 experimental variable within a specific sample. These variations are often wont to calculate the margin of error between data sets, like expected results and actual results, because it provides a measure of the deviation of knowledge points from the mean value.

The default **Breusch-Pagan test** specified by hottest is used to test of heteroscedasticity, e.g. as \hat{y} goes up, the error variances go up. During this default form, the test doesn't work well for non-linear forms of sort of heteroscedasticity, Like the hourglass shape we saw before (where error variances got larger as X got more extreme in either direction). The default test also has problems when the errors aren't normally distributed. The result shows that there is no a problem of heteroscedasticity. The date is free of heteroscedasticity.

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of availabiltyofcreditfacility

chi2(1)    =    60.35
Prob > chi2 =    0.0000
```

Regression Model

The model summary illustrates the significance and percentage of variation in dependent variable that is caused by independent variables. R-squared is measured the goodness of fit of the variables in explaining the variation in measures of the variable Predictor: (Constant), Collateral security, Interest rate charged, Level of literacy, Number of financial institutions and Firm characteristics. The R-square value for the regression model was 0.7332; this indicates the variables in this study explain 73.3% of the variation on availability of credit facilities among SMEs in Addis Ababa can be explained by Collateral security, Interest rate charged, Level of literacy, Number of financial institutions and Firm characteristics. The remaining 35.8% of the variation percentage can be explained by other factors that are not in the model.

Table. 4.12: Model Summary

Model	R	R Square	AdjustedR Square	Std. Error of the Estimate
1		0.733	0.731	

a. Predictors: (Constant), Collateral security, Interest rate charged, Level of literacy, Number of financial institutions and Firm characteristics

b. Dependent Variable: availability of credit facility

Source: Questionnaire and STATA

Table 4.13: Variance analysis

Model	Sum of Squares	df	Mean Square	F	Sig
1 Regression	40.855	5	8.17	283.61	.000b
Residual	14.866	516	0.288		
Total	55.721	521			

a. Dependent Variable: availability of credit facility

b. Predictors: (Constant), Collateral security, Interest rate charged, Level of literacy, Number of financial institutions and Firm characteristics

Source: Questionnaire and STATA

Based on table 4.13 variance analysis results shows the overall significance/ acceptability of the model from a statistical perspective; i.e. the significance value of $F=283.61$, statistics shows that the calculated value .000, which is less than $p < 0.05$, It reflects there was a statistically significant correlation between dependent variable and independent variable at 1% significant level. Which means the independent variables; Collateral security, Interest rate charged, Level of literacy, Number of financial institutions and Firm characteristics have great contribution on availability of credit facility. However, it does not mean that all these factors have equal significant correlation with availability of credit facility.

Table 4.14: Regression Coefficients

Model		Unstandardized Coefficients		t	Sig
		B	Std. Error		
1	Constant	0.35	0.0914	3.84	0.000
	Collateral security	0.32	0.0347	9.09	0.000
	Interest rate charged	0.37	0.0443	8.45	0.000
	Level of literacy	0.12	0.0303	4.04	0.000
	Number of financial institutions	0.16	0.0335	4.82	0.000
	Firm characteristics	-0.08	0.0285	-2.88	0.004

a. Dependent Variable: availability of credit facility

Source: Questionnaire and STATA

Table 4.14 shows the regression coefficient results, where t ratio shows the acceptance region of the null hypothesis. Alternatively, the p value can be used to test the acceptance of the null hypothesis and where the p value is less than 0.05 then we accept the null hypothesis otherwise we reject it.

The B column will be used to show the nature of the relationship and if it has a positive sign then there is a positive relationship if negative then there is a negative relationship.

A multivariate regression model linked the independent variables to the dependent variable as follows;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \mu$$

Where; Y = Availability of credit facilities

X₁ = Collateral security

X₂ = Interest rate charged

X₃ = Level of literacy

X₄ = Number of financial institutions

X₅ = Firm characteristics

$$Y = 0.35 + 0.315 X_1 + 0.375 X_2 + 0.122 X_3 + 0.161 X_4 - 0.082 X_5 + \mu$$

From the model, β_0 is that the constant term while the coefficient $\beta_i = 1 \dots 5$ will measure the sensitivity of the dependent variable (Y) to unit change in the predictor variables. μ represents the error term which captures the unexplained variations in the model

From the study there was a positive and significant relationship between interest charged and Availability of credit facilities among SMEs in Addis Ababa ($\beta = 0.375$, $t = 8.45$, p value < 0.05). This implies that a unit increase in interest rate increase the chances of accessing credit by 0.375 units while holding other factors constant.

There was also a positive and significant relationship between collateral security and availability of credit facilities among SMEs in Addis Ababa ($\beta = 0.315$, $t = 9.09$, p value < 0.05). This implies that a unit change in collateral security increases credit by 0.315 units while holding other factors constant. On level of literacy, there was a positive and significant relationship between literacy levels and availability of credit facilities among SMEs in Addis Ababa ($\beta = 0.122$, $t = 4.04$, p

value <0.05). This implies that a unit change in level of literacy increases availability of credit facilities by 0.122 units while holding other factors constant. There was positive and statistically significant between number of financial institutions and availability of credit facilities among SMEs in Addis Ababa ($\beta=0.161, t=4.82, p\text{value}<0.05$). This implies that a unit increase in number of financial institutions increase availability of credit facilities by 0.161 units while holding other factors constant. Finally, there was negatively but not statistically significant between firm characteristics and availability of credit facilities among SMEs in Addis Ababa ($\beta=-0.082, t=-2.88, p\text{value}>0.05$). This implies that a unit increase in number of financial institutions decrease availability of credit facilities by 0.08 units while holding other factors constant

4.4. Data Collection from Interview

In regards of gender, respondents were roughly proportionate between male and female, even though the numbers of male respondents are a bit higher (female 43.33%, male 56.67%). Out of the total respondents 20% are manager, 46.67% are supervisory level, 26.67% are officer level and the lower rate 6.67% goes to clerk. When looking at SMEs to have loan or finance how long the business should be in the market then, only 6.67% of the respondents more than 10 year of experience. 26.67% of the respondent have between 5-10years of experience. 56.67 % of the respondents have between 2 -5 years experience. 10% of the respondents have less 2 years experience.

Respondents of Loan Request by the SMEs, financing helps people start their own small business by providing loans which will be difficult to get from the main banking system Our SMEs respondent also asked whether they applied there loan request within the past two years The loan request provided by SMEs to the financial source providers. Among all the respondent 85% applied for loan request to them while 11% did not request loan and the other did use loan at all some of respondent replay that why they did not apply request for loan, it is because of religious issue and the type of activities they engaged did not have an option to have a loan On the banks and MFIs side the loan request received by the Banks and MFIs that respondents received loan application from SMEs, 24% did not receive loan application and the rest 2% responds that they did not provide loan for SMEs because of risk as the give reason for that. This indicates that Banks and MFIs received loan request application from SMEs frequently.

Despite their request the other issue is that did the request have an answer on their proposed ways on needs. Below taking only those who applied given partial of their request however, 22% responded that there request has declined with some reason the other 23% full decline there loan request by financial source providers. Considering the above both issue from both perspectives both SMEs and Banks& MIFs is almost has same ground of issue which needs to be addressed by them to have a benefit which satisfy both parties Respondents of the of financial source providers services availability respondents were also asked whether financial source provider's services availability showed improvement or not. The response from both side (SMEs and Banks & MFIs) is presented. In SMEs regard, 44% of the respondents indicated that there availability increased. 24% suggested that it was stable during the period while 23% indicates it was decreasing the rest 9% indicate that as they did not know their improvement on the service because of didn't use any loan or finance from them In Banks & MFIs regard, 59% of the respondents indicated that there availability increased 10% suggested that it was stable during the period while 21% indicates it was decreasing the rest 10% indicate that as they did not provide loan/finances to SMEs. This comparisons show that the availability of loan/finance is increasing from the pas times however, this level of increase did not exploited by users as it can be used.

Respondents on Obstacles to get loan/finance for SMEs to have loan/finance for their development incentive in the future were asked to identify the possible problem that constrain them for availability of credit facilities and have dependence to choose all if they face all stated constraints Accordingly majority of the respondents indicated that insufficient collateral is the basic problem that they will face in getting credit facilities ,Others responded lengthy of loan process and high interest rate. In addition the government rule and regulations, unavailability of loan type and fear of repaying the loan are the barriers indicated by the SMEs owners/

4.5. Discussion of the Findings

(Zachary, 2013) examined the effect of interest rate on demand for credit by SMEs in Nairobi County. The correlation research design was adopted where primary data were collected by administering 50 questionnaires using stratified sampling method. Multiple regression analysis was used to analyze this data and results showed there was a positive, statistically significant relationship between the interest rates and demand for credit from lending institutions. Further studies were done in Wa Municipality in Ghana (Bawuah, Sare, & Musah, 2014) on the effect of

interest rate on MSMEs access to fund. Multiple research method and descriptive survey were employed. Primary data, totaled to 200 enterprises which were selected by convenience and random sampling techniques from 5 areas. Findings showed that the majority did not access credit facility due to the interest charged. Researcher failed to establish whether the relationship was significant, however the study showed that most SMEs are funded by the owners' capital, which is always insufficient to meet the arising business needs.

(Gichuki, Njeru & Ondabu ,2014) examined challenges affecting SMEs in Kangemi Harambee market in Nairobi County by adopting a descriptive research design. A sample of 241 respondents was selected using stratified sampling since the population was not homogeneous. Credit access was measured in terms of funds availability and securing a loan whilst collateral was assessed by using the capital investment, ownership of assets such as the title deed, log book and the guarantors that one had. Overall, it was found that collateral requirements influenced credit accessibility to a moderate extent and comparing with other factors affecting credit showed that business risks influences credit access at a great extent. Collateral requirements and cost of credit followed closely to a moderate extent and then availability of information had a small impact. Also, most participants preferred to access their business startup capital from personal savings before considering financial institutions because of strict requirements to have collateral security and high repayment cost especially if one lacks security. The researcher failed to test for the significance and correlation coefficient by adopting a purely descriptive design and therefore there exist a knowledge gap. They should have tested whether there is a relationship between collateral, credit cost, information availability and business risk with credit access. To do this they could have used a multiple regression model.

A study was carried to determine access to credit by smallholder farmers in Kenya in the Western region (Bungoma and Siaya counties) and Eastern region (Embu, Meru and Tharaka Nithi) by (Kiplimo, Ngenoh, Koech, & Bett ,2015). This study used both the primary and secondary data where 613 smallholders in both regions were randomly sampled according to the total number of households in each division. The logistic regression model was used to determine the factors influencing credit access. Access to credit was measured by actual receipt of credit, financial service from any given source. The result indicated that education level (literacy) in years was statistically significant with positive effects on access to credit. This

concurrent with (Hussein,2007). The choice of binary logic model was appropriate since the dependent variable was categorical.

Mwongera (2014) examined the relationship between the number of lending institutions and access to credit in Athi river, Machakos County, Kenya. For women entrepreneur access to credit was measured by the amount borrowed, number of clients granted loan, microfinance offering credit facilities, uptake of loan and effectiveness of credit service. A number of lending institutions were examined by the number of financial institutions, branches of microfinance, customer base, product offered, nature of business, supply versus demand and means of delivery. Researcher adopted descriptive research design and collected primary data by questionnaires. Descriptive, content and multiple regression analysis were used to analyze the data. The results showed that licensing of more financial would encourage more uptake of the loan. Findings also revealed the need for more lending institutions was the chief determinant of credit accessibility for women entrepreneur. Further, it was established that there is positive relationship between the number of lending institutions and credit accessibility.

The importance firm characteristics which are firm's age, having adequate business skills and managing proper records of books of account will influence to access external financing

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

In this chapter the major findings of the study are summarized, conclusion will be drawn and recommendations as well as suggestions for other studies will be made.

5.1 Summary

The current study was hinged from the realization that there was a research problem that though they are many small and medium enterprises in Addis Ababa their performance was reserved due to limited capital. Empirical literature had revealed that there were several factors affecting the credit access among SMEs wide but there was limited studies targeting SMEs in Addis Ababa. Moreover, most of the studies which had been conducted were limited to use of descriptive analysis. The current used simple random sampling to select 673 respondents from 6,730.00 licensed SMEs in Addis Ababa. Primary data was sought through the use of closed ended questionnaires in the various attributes showing each factor.

The results of the study revealed that SMEs have provided employment among the youths since most of the owners men; secondly most of the SMEs owners' occupation was other than employee/manager, owner/manager and shareholder. The most common form of SMEs was sole proprietorship while partnership was still common and very few were limited companies. Most of the SMEs had exceeded the incubation period since they had been in existent for more than five years.

On overall in Addis Ababa city SMEs factors affecting credit facilities was determined by interest rate charged, collateral security, level of literacy, number of financial institutions, and firm size to the tune of 73% while only 27% was explained by other factors which were excluded from the model.

Both regression analysis and correlation analysis revealed that there was a positive and significant relationship between interest rate charged, collateral security, number of financial institution and credit facility. Therefore, there is need for financial institutions to evaluate their lending policies so as to encourage more SMEs to take credit as such improve their business performance.

Both level of literacy and firm size had a positive and moderate significant relationship with credit facility among SMEs in Addis Ababa. These calls for development of curriculum which is geared towards increasing financial awareness and consequently trigger credit uptake which will improve organizational performance and ultimately improve growth and development in the region.

5.2 Conclusion

From the findings it can be concluded that there is need to consider the interest rate charged which are charged to SMEs by financial institutions. This is especially so considering that the interest rate charged by commercial banks is regulated but the SMEs may still be accessing from alternative sources some of which are informal.

Though there is need to provide collateral security prior to lending as such to minimize the level of risk exposure there is need to evaluate credit rate on SMEs individualized cases so as to ensure there is optimal gain to both the lender and borrower. Moreover, financial institutions ought to use alternative lending methods according to borrowers risk level and creditworthiness.

Since literacy levels has a positive influence on credit access there is need for a customized financial literacy classes to be developed among SMEs as such to improve their financial awareness and consequently change their financial behavior and improve the chances of SMEs accessing credit.

The number of financial institutions ought to be increased. Through this procedure SMEs will have alternative sourcing of borrowing funds and will ultimately improve their performance. Customized lending institutions should be opened through faith based organizations, non-governmental organization and specific sectors like savings and credit cooperative societies.

Availability of credit facility is one of the key obstacles of SMEs in operating their business. Identifying the major factors influencing of availability of finance is therefore quite crucial. The study result shows that there is a significant relationship between availability of credit facility and its the influencing perception elements collateral security, interest rate charged, level of literacy, number of financial institutions and firm characteristics. Therefore, Hypotheses 1, 2, 3,4 and 5 were all supported. As per this research result these perception factors are important factor when SMEs consider the availability of finance. From the study findings, this study concludes

interest rate charged influences availability of finance to a great extent followed by collateral security, number of financial institution, level of literacy and firm characteristics influenced availability of finance negatively.

5.3 Recommendations

There is need to seek alternative means of collateral security as such to improve the level of financial deepening among SMEs. These can be attained by allowing different SMEs to guarantee each other for a loan through these the demand for collateral security will reduce and consequently increase the chances of the availability of credit facility.

From the findings it can be deduced that the rate of interest charged by different financial providers have to be evaluated and harmonized. Since some of the SMEs could depend heavily on informal borrowing they should be discouraged through trainings. The financial institutions should devise measures such as group lending so as to increase the credit access amongst SMEs

Trainings and capacity building programs for SMEs to improve their financial literacy and management capacity are also necessary. Hence, the government and concerned body needs to exert much effort towards providing seminar, workshop, training and coordinating the resources to work on providing technical and management trainings for SMEs owners on how to run a successful small business.

One of the fundamental financial practices for any organization is keeping books and records. It is vitally important for defending the organization's assets, and for managing and reporting on its financial activities .There is a felt need for the SMEs also to improve on their provision of information by proper book keeping coupled with the auditing of their accounts which help them for availability of credit facility.

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APENDIX-I

Questioner for SMEs

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS ANDECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE MSC PROGRAM

Dear Respondent,

I, Wesene Bekele, am a student at Addis Ababa University. In order to finish my study Master of Accounting and finance, I need to conduct research. My research is about the availabilities and accessibilities of credit facilities for Small and Medium enterprise (SMEs) in Ethiopia especially in Addis Ababa. Information collected via this questionnaire is confidential and will only be used for the purpose of this research. Therefore, genuine and timely response is highly important to arrive at sound conclusions. In this regard, I kindly request you to complete the questionnaire carefully at your earliest convenience. Thank you in advance for your kind cooperation.

Instructions: Indicate with a tick (✓) or mark (X) in the space(s) provided.

Section A: General Information

1. Gender:

Female [] Male []

2. Occupation:

Employee/manager [] Owner/manager [] shareholder [] other []

Section B: About the business

1. How many years has your business been in operation?

1 – 5 years [] 11- 15 years [] More than 20 years []

6- 10 years [] 16 – 20 years []

2. How many employees do you have in your firm?

None [] Less than 10 [] 11-20 [] 20- 30 [] 30- 40 []

40 – 50 [] Above 50 employees []

3. What form of business do you operate?

Sole trader [] Private limited company [] Partnership []

4. Where your business capital does falls currently?

Less than birr 500, 000 [] Between 500,000 to 1, 000,000 []

Between 1,000,001 to 5, 000,000 [] Between 5,000,001 to 10, 000,000 []

Above 10,000,000 birr []

5. What is the main activity of your company?

Construction Materials [] Manufacturing [] Wholesale or retail trade []

Agricultural [] Textile [] Hotel and tourism []

Other services _____

6. What is/ are your major source(s) of financing?

Savings []

Bank Loan []

Borrowings from friends/ relatives..... []

Other sources (please specify)

7. Can you indicate the type of financing among the following ways of financing?

(You can tick more than one option)

▪ Internal fund []

▪ Bank overdraft, credit line or credit cards overdraft..... []

▪ Loan (excluding overdraft)..... []

▪ Merchandize loan..... []

▪ Subordinated loans, participation loans or similar financing instruments ... []

▪ Trade credit []

▪ Other loan (e.g. from a related company or shareholder) []

▪ Debt securities issued []

▪ Equity issuance or external equity investors []

▪ Other.....

8. What do you see as the most important limiting factor for not having access to financial resources? Put your rank also in the box provided

• Interest rates or price too high..... []

• Government rules and regulation []

• Fear of inability to repay []

• The Process is too difficult []

• Financing not available at all..... []

• Lack of transparency of loan conditions ... []

• Limited understanding of projects/needs..... []

• Other _____

Section D: Availabilities and accessibilities of credit facilities for among SMEs.

Please indicate the degree of your agreement/disagreement scale ranging from strongly disagree to strongly agree for the following statements associated with the five traits aspects of Collateral security, Interest Rate Charged, Literacy Level, Number of Financial Institutions, and Firm characteristics on the availabilities and accessibilities of credit facilities for among SMEs.

1. I strongly disagree 2. I disagree 3. Neutral 4. I agree 5. I strongly agree

Collateral security	1	2	3	4	5
Not having types of collateral required makes difficult to access finance.					
Financial institutions are focusing more on potential to repay loan rather than on Collateral security in our business					
The requirements that I provide security for my loan has pushed me seek other means to fund my business such as borrowing from relatives and buying on credit.					
Collateral is mandatory requirement in accessing finance.					
SMEs very worried about collateral in accessing finance					
Interest Rate Charged					
Small businesses are usually charged higher interest rate by banks than large firms					
Interest rates charged by institutions are prohibitive.					
There are unrealistic credit processing costs and charges.					
The interest rate charged by financial institutions discourages us from borrowing because they are high.					
Failure to repay on time leads to the financial institutions confiscating business assets which affects my day to day running of the business and this discourages me from borrowing.					
Financial institutions lend on short term basis with high interest rate and this hinders me from credit					
At times of interest rate charged is on some loans is dependent on the security provided or nature of business					

Level of Literacy					
I don't know of the legal issues that are needed to address access to credit for my business because conditions of laws and regulations are very complex					
My academic qualification helps me in making financial decisions for my business					
level of education has positive influence on when/how to get loans to improve the business					
Financial institutions have adopted to offer training sessions which creates awareness of their products that are of benefit to my business					
Training sessions have helped us to define capital and investment, where to buy and sell, how to set prices, investments, credit sales for my business					
I am discouraged from borrowing a loan because the information on availability and charges is not communicated in a language I can interpret					
Number of financial institutions					
The presence of financial institutions in our area has enabled us mobilize savings which has resulted to more capital injection in the businesses.					
Access to many financial institution has improved credit accessibility to most of the small and medium entrepreneurs and this has led to business growth.					
Most of entrepreneurs, through financial institutions have realized an effective way to integrate access to financial service.					
Many financial institutions have not fit made products that suits our needs					
I have established a personal relationship with the financier which has enhanced credit availability					
Duration of my relationship with my financier determines whether I can access credit					
Increase in demand for credit services has led to financial institutions incorporating mobile money transfer services					
Recently there are more focused financial institution services emerging hence attracting the interests of donor agencies including NGOs, credit unions and non-banking financial intermediaries to provide credit services					
Firm characteristics					
The age of the firm affects its ability to access funds					
Having business skills will influence business performance and hence access to finance					
Ability to compile financial records and accounts affects its ability to access funds					
Ownership type of the firm affects its availability of finance					
Location and firm performance affects its availability of finance					

Credit facility and its availability					
All ways of financing are available in our country					
All ways of financing or prevailing ways of financing are available to all					
Government rules and regulation have limiting factor for availability of finance					
Fear of inability to repay loan can cause difficulty in availability of finance					
The Process of loan is one obstacle for credit facility					

APENDIX-II

Questioner for Banks and MFIs
ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE MSC PROGRAM

Dear Respondent,

I, Wesene Bekele, am a student at Addis Ababa University. In order to finish my study Master of Accounting and finance, I need to conduct research. My research is about the availabilities and accessibilities of credit facilities for Small and Medium enterprise (SMEs) in Ethiopia especially in Addis Ababa. Information collected via this questionnaire is confidential and will only be used for the purpose of this research. Therefore, genuine and timely response is highly important to arrive at sound conclusions. In this regard, I kindly request you to complete the questionnaire carefully at your earliest convenience. Thank you in advance for your kind cooperation.

Instructions: Indicate with a tick (√) or mark (X) in the space(s) provided.

Section A: General Information

Gender: Female [] Male []

Status:

Manager [] Supervisory level [] Officer level [] Clerk []

For SMEs to have loan or finance how long the business should be in the market

More than 10 years [] Between 5 and 10 years []

Between 2 and 5 years [] Less than 2 years []

What is currently the most pressing problem you face in providing loan or finance to SMEs?

.....

With respect to the financing structure, did the bank/micro financing for SME's who has a capital of 500,000 birr and more in the past?

Give [] Not give [] for SME's we did not give []

Can you indicate the type of financing that you render among the following ways of financing?(You can tick more than one option)

Bank overdraft, credit line or credit cards overdraft..... []

Loan (excluding overdraft)..... []

- Merchandise loan..... []
- Leasing or hire-purchase or factoring []
- Subordinated loans, participation loan or similar financing instruments.... []
- Others.....

For each of the above ways of financing, did you receive application from SMEs over the past two years

Yes [] No [] Instrument is not given for SME's []

If your answer is yes for the above question, could you please indicate the financing you received and requested?

- Received and give requested amount..... []
- Received but only give part of it..... []
- All was rejected..... []

If your answer is no for the above question could you please indicate the reason?

.....

For each way of financing, what would you say about their availability?

Increased [] Stable [] Deteriorated [] Not available for SMEs []

What do you see as the most important limiting factor for SMEs in access to financial resources? Put your rank also in the box provided

- Insufficient collateral or guarantee..... []
- Interest rates or price too high..... []
- Government rules and regulation..... []
- Fear of inability to repay..... []
- The process of loan is too difficult..... []
- Lack of transparency of loan conditions..... []
- Limited understanding of needs..... []
- Other.....

Give any comment or suggestion on how to improve the availability of finance and its limitation.....

