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Addis Ababa University

School of Business and Public Administration

Department of Accounting and Finance

Role of Financial Institutions in the Growth of Small and Medium Enterprises in Addis Ababa

A thesis submitted to the Department of Accounting and Finance in partial fulfillment of the requirements for the degree of Masters of Science in Accounting and Finance.

By

Dereje Workie Nigussie

February, 2012

This thesis is dedicated to my late mother Ejigayehu Andualem

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Chairperson (Graduate Committee) Signature

Approved by Board of Examiners:

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Advisor	Signature
Dr Venkata Pannala	21/02/2012
Examiner	Signature

Statement of Certification

This is to certify that Dereje Workie Nigussie has carried out his thesis on the topic entitled "Role of financial institutions in the growth of small and medium enterprises in Addis Ababa." The work is original in nature and is suitable for submission for the reward of the Degree of Masters of Science in Accounting and Finance.

Advisor: Wollela A Y (PhD): W. Abr.

Date: 21/02/2012

Statement of Declaration

I, the undersigned, declare that this thesis is my original work, has not been presented for a degree in any other university and that all sources of materials used for the thesis have been dully acknowledged.

Declared by:

Name: Dereje Workie Nigussie

Signature: ____________________

Date: 21 - Feb - 2012

Abstract

This thesis examines the role of financial institutions, banks and microfinance institutions, in the growth of small and medium enterprises (SMEs). The study focuses on examining the contribution of financial institutions, assessing the accessibility and affordability of products and services, and identifying ways of addressing the problems in accessing and settling loans.

The study adopts a mixed research approach to test the hypothesis and answer research questions. Specifically, the study uses survey of SMEs, documentary analysis (documents held by SMEs), and in-depth interviews with banks managers/officials. The study statistically analyses the results of survey and documentary analysis while descriptive research approach was employed for in-depth interviews.

Results show that financial institutions were contributing to SMEs growth. Consequently, the relationship between loans from financial institutions and SMEs growth are positive and statistically significant. However, the extents of contribution were very low. Further, it identifies ways of addressing the problems that SMEs face in accessing and settling loans include: flexing terms and conditions, using alternative collateral and credit facilities, refinancing, and postponing maturity period. Finally, the thesis recommends a serious of measures which should be performed by the government and by financial institutions. These include: creation of a level playing field, lowering transactional costs, and commercial banks should reappraise their role.

Key words: role, financial institutions, SMEs growth

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List of abbreviations

CSA	Central Statistics Authority
ETB	Ethiopian birr
ERCA	Ethiopian Revenue and Custom Authority
EC	European Commission
LDCs	Least Developing Countries
MFIs	Microfinance Institutions
OLS	Ordinary Least Square
SMEs	Small and Medium Enterprises
S D	Standard Deviation
UNIDO	United Nation Industrial Development Organization

Chapter One

Introduction

Small and Medium enterprises (SMEs) and financial institutions are vital contributors to the overall performance of an economy. SMEs play a crucial role in developing the economy and in creating employment. They do not only provide employment and income opportunities to a large number of people, but also are at the forefront of technological innovations and export diversification. Similarly, financial institutions play an indispensable role in firm's growth and thus industry productivity and economic growth. They provide a sound medium of exchange and facilitate trading, encourage mobilization of resources through savings and allocate resources to activities with highest returns, monitor investments and exert corporate governance, and spreads risks by offering a diversity of financial instruments. Furthermore, they provide financial assistance to fulfil the varied needs of enterprises.

Zeller (2003) broadly defined financial institution as an organization, which may be either for-profit or nonprofit, that takes money from clients and places it in any of a variety of investment vehicles for the benefit of both the client and the organization. Common examples of financial institutions are banks, insurance companies, credit Associations, microfinance, financial and economic firms.

The term SMEs covers a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there is no universally agreed definition of SME some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital or turnover. However, the most common basis of defining SMEs is number of employees (Nugent, 2001).

Whatever the definition, and regardless of the size of the economy, the growth of SMEs is becoming increasingly crucial to economic growth. The issue of SMEs development ranks high among the priorities of socio-economic development, given the growing need for employment creation and poverty alleviation (Nugent, 2001). Nugent (2001) further noted that there is also an urgent need to create a strong competitive SMEs sector that is able to play a leading role in the development process.

In dealing with the development of SMEs, financial institutions are one essential organ. Therefore, access to financial services and institutions is a critical element for SMEs growth. However, there appears to be limited evidence that confirms the contribution of financial institutions for SMEs growth. To this end, this study is significantly place as its main focus, the examination of financial institutions role in SMEs growth in Ethiopia, particularly in Addis Ababa.

The purpose of this chapter is to provide background information on the study. The balance of the chapter is organized as follows. The first section sets out statement of problems. The second section provides the research objective. The research methods used is presented in section three. Significance and scope of the study are presented in section four and five respectively. Finally, the structure of the thesis is presented in section six.

Chapter 1 Introduction

1.1. Statement of problems

Obviously, SMEs constitute the backbone of an economy. The SMEs sector plays a vital role in the industrial development of the country. World Bank (1994) indicated that industrial development was earlier believed to have occurred because of large enterprises. However, starting in the late 1970s and early 1980s, SMEs have become perceived as the key agent for industrialization. It is recognised that this sector provides not only employment opportunities to an increasing number of people in the country, but it is also an effective means of fighting poverty and income inequality. At the same time, SMEs serve as a training ground for emerging entrepreneurs. It is within this context that SMEs development became focal attention for governmental as well as nongovernmental organizations. This requires bringing the specific needs of the enterprise to the center of the policy-making process, and recognizing that SMEs are to be assisted not because they are small, but because of their capability to be efficient, innovative and able to compete in the local and international markets.

However, as Albaladejo (2001) noted, in the majority of developing countries, most SMEs' activities are undertaken in the informal sector even though they play a major role in economic growth. They use their own saving, reinvestment of profits, and own labor as the main sources for their development. Despite these, their sustainable growth will largely depend on the capacity of financial institutions to mobilize resources from low valued to high valued and invest in SMEs activities.

Since SMEs' sector does have a very significant role in the Ethiopian economy, the government was striving to create competitive and productive SME sector. It is for this reason that the Ethiopian government develops policy so as to address the constraints and to tap the full potential of the sector. This policy will serve as guidelines to all stakeholders and thus stimulate new enterprises to be established and existing ones to grow and become more competitive. When a company is growing rapidly its current financial resources may be inadequate. Few growing companies are able to finance their expansion plans from cash flow alone. They will therefore need to consider raising finance from other external sources. In support of this, the Ethiopia government, in order to provide adequate supply of financial services to various sectors of the economy, especially to small business, has evolved a wide variety of financial institutions both at the national and regional level as an effective means of fighting poverty and income inequality. Therefore, it is absolutely essential that the financial institutions should contribute for the development of SMEs not only quickly but also at a minimal cost. However, as shown in the literature review in the next chapter, there appears to be limited evidence that confirms the contribution of financial institutions for SMEs growth. In Ethiopian context, there appears to be no attempt to investigate role of financial institutions on SME growth. Therefore, the deficiencies of the previous studies along with the above discussed issues called for the current research.

1.2. Research objective, hypothesis and research questions

In the context of the problems highlighted above, the broad objective of this study is to investigate the role of financial institutions, with a particular focus on banks and MFIs, on the growth of SMEs in Ethiopia, particularly in Addis Ababa by using disaggregated data. The study was focused on the SMEs growth and to investigate the extent to which financial institutions may have contributed to this SMEs growth.

To achieve this general objective, one hypothesis and four research questions were developed.

H_o: *Loan from financial institutions, banks and MFIs, does not foster SMEs growth.*

H_1: *Loan from financial institutions, banks and MFIs, contributes significantly to SMEs growth.*

In addition to the above hypothesis the study has developed the following four research questions.

RQ1. What roles do financial institutions, specifically banks and MFIs, play in SMEs growth?

RQ2. What forms of financing are available in financing working capital as well as medium & long-term loan requirements of SMEs?

RQ3. Are the financial institutions products and services, accessible and affordable for the SMEs?

RQ4. How do financial institutions address the problems that SMEs face in the process of accessing and settling loans?

1.3. Research methods

To achieve the above research objective a mixed research approach is adopted. The main reason of using such approach is to alleviate the limitations of quantitative and qualitative research approaches and to gather data that could not be obtained by adopting a single method. Thus, the thesis uses cross sectional survey of SMEs with semi-structured questionnaire, documentary analysis (documents held bay SMEs), and in-depth interview with banks and MFIs managers/officials.

The survey contains both open and close ended questions and administered through distribution of questionnaires to SMEs. The purpose of survey is to gather data which is not available from other sources and for standardization of measurement. In order to seek clarifications and the related products and services that financial institutions have in-depth interviews were held with banks and MFIs managers/officials. Apart from survey of SMEs and in-depth interviews with banks and MFIs managers/officials, the study was used documentary analysis to obtain other facts that may not be obtained through interviews and administering of questionnaire.

Regards to results and analysis, the responses obtained from survey of SMEs was tabulated and interpreted by using descriptive statistics while descriptive research was used to present the outcomes of in-depth interviews with banks and MFIs managers/officials. Finally, the study concurrently analyzes survey and in-depth interviews results to answer a series of research questions and multiple OLS regression analysis to test the hypothesis.

1.4. Significance of the study

Yet until now, there appeared to be no attempt to investigate the role of financial institutions in the promotion of SMEs in Ethiopia. Therefore, this study is the first to provide a comprehensive approach to the understanding of role of financial institutions and will intend to fill the gap in this arena.

Generally, this study contributes to the knowledge in many important areas of financial institutions and SMEs studies. Firstly, it advances to a better understanding of functions and roles of financial institutions, secondly, it increases the understanding of how financial institutions influences the development of SMEs and, third, it will pave the way forward for the government, policy makers, financial institutions and to the general public at large to understand the different roles of financial institutions in the enterprises development process.

Currently, the Ethiopian government gives due emphasis to micro, small, and medium enterprises establishment and development. The establishment of these enterprises would eventually lead to the transfer of appropriate technology and its adaption to suit the environment. This requires bringing the specific needs of the enterprises to the center of the policy-making process In Ethiopia, perhaps the most important challenge facing policy makers in industrial development is the financing and technological upgrading of the myriad of SMEs that formed the back bone of industry and provide the bulk of employment and income generation. To this end, the current government of Ethiopia has continued to articulate policy measures and programme to achieve micro, small, and medium enterprises development, through appropriate alternative funding. The main sources of funding typically are financial institutions. Therefore, this study is significantly devoted or place as its main focus, the examination of the financial institutions role in SMEs growth.

Finally, this study will also be used as a basis for any future study that will examine the relationship between financial institutions and enterprises and for those who further needs to explore on some other concerns of SMEs.

1.5. Scope of the study

This research entirely focuses on the role of financial institutions in the growth of SMEs, particularly in Addis Ababa but, no attempt was made to take any other segment of the country. The current study further limits itself from those other functions of financial institutions. Thus any functions of financial institutions that they play in the other aspect of economic growth of the country were not the concern of this study. It is also worth mention that this research thesis was not being entirely about SMEs instead, it only investigate the contribution of financial institution for their growth.

1.6. Structure of the study

This research involves five chapters. Chapter one presents background, problem statement, objectives of the research, significance, and scope of the study. Chapter two contains a review of the literature. The research methodology is presented in chapter three. Chapter four presents the results of the different methods used and analysis. Finally, chapter five presents conclusions.

Chapter Two

Literature Review

This chapter reviews the theoretical and empirical literature on the role of financial institutions in the growth of SMEs. This review of the literature establishes the framework for the current study and provides the deficiencies of the previous studies, which in turn, help in clearly identifying the gap in the literature and formulating research questions for the study.

The review has three sections. Section one presents a theoretical review of role of financial institutions and SMEs development. This is followed by a review of the relevant empirical studies on financial institutions role in the development of SMEs. Finally, conclusions and knowledge gaps are presented in section three.

2.1. Theoretical studies

This section briefly sketches different types of financial institutions which have proven effective in providing services to SMEs. These are banks and MFIs. The section opens with an overview of financial institutions. This shows the various products and services that financial institutions have and explain the theoretical role of banks and MFIs to the development of firms. These give an idea on how financial institutions contribute to the development of SMEs. Finally, the concern is to show the nature, importance, measures of growth and constraints of SMEs.

2.1.1. Overview of Financial Institutions

The European Community programme of policy and action for sustainable development (1993, p.27) recognized the importance of financial institutions by stating that "financial institutions which assume the risk of companies and can exercise considerable influence - in some cases control over investment and management decisions which could be brought into play for the benefit of the environment". On a more practical level, financial institutions interact with the environment in a number of ways:

- as investors: supplying the investment needed to achieve sustainable development;
- as innovators: developing new financial products to encourage sustainable development;
- as valuers: pricing risks and estimating returns, for companies, projects and others;
- as powerful stakeholders: as shareholders and lenders they can exercise considerable influence over the management of companies;
- as polluters: while not "dirty" industries, financial institutions do consume considerable resources;
- as victims of environmental change: e.g. from climate change

As Amina (2009) noted the financial sector can have more impact on firms' growth in two ways: firstly, a well-developed financial system allows the firms to have access to financial services, which they are often denied. They need to have access to a large array of financial services, such as saving facilities, payment instruments, credit, and insurance. Secondly, the financial sector can also contribute to firm's growth indirectly, as a diversified and competitive financial sector plays an important role in economic development generally. Indeed, a well-functioning financial sector contributes to the maintenance of economic stability; it provides a means of payment and makes possible secure financial and commercial transactions; it helps to mobilize domestic and external savings; and it is crucial for the efficient allocation of capital to productive investments. In order for firms to benefit from economic growth, the SMEs need to have access to products/services which is provided by financial institutions.

The common products that financial institutions provide includes: credit, savings, insurance, credit cards, cash management, and payment services. These points are briefly described each as follows:

Credit: These are borrowed funds with specified terms for repayment. People borrow when there are insufficient accumulated savings to finance a business. They also take into consideration if the return on borrowed funds exceeds the interest rate charged on the loan and if it is advantageous to borrow rather than to postpone the business operations until when it is possible to accumulate sufficient savings (Waterfield and Duval, 1996).

Savings: A financial institution collects funds from the public and places it in financial assets, safekeeping and uses them to make loans to other customers (Waterfield and Duval, 1996).

Insurance: This is one of the services and products that are experimented by financial institutions. The key economic benefits of insurance as risk transfer, indemnification and financial intermediation (Ward, 2000)

Credit cards: These are cards that allow borrowers to have access to a line of credit if and when they need it. This card also used to make purchase assuming the supplier of the goods will accept the credit card or when there is a need for cash (Ledgerwood, 1999).

Payment Services: payment services include checks cashing and checks writing opportunities for clients who retain deposits. In addition to checks cashing and writing privileges, payment services comprise the transfer and remittance of funds from one area to another (Ledgerwood, 1999).

In transferring resource allocation from direct financing to indirect financing, as Amina (2009) noted financial institutions provide the following five basic services:

- Currency alteration: Buying financial claims denominated in one currency and selling financial claims denominated in another currencies.
- Quantity Divisibility: Financial institutions are capable in producing a broad range of quantity from one dollar to many millions, by gathering from different people.

- Liquidity: Easy to liquidate the instruments by buying direct financial claims with low liquidity and issuing indirect financial claims with more liquidity.
- Maturity Flexibility: Creating financial claims with wide range of maturities so as to balance the maturity of different instruments so as to reduce the gap between assets and liabilities.
- Credit Risk Diversification (portfolio investment): By purchasing a broad range of instruments, financial institutions are able to diversify the risk.

The purposes of this section is to present an overview of financial institutions and their products and services the remaining sections briefly reviews role of banks and MFIs on the growth of SMEs respectively.

2.1.1.1. Role of Banks

Private, domestic commercial banking is a relatively recent phenomenon in many developing countries, especially in Africa. From the 1950s through the 1970s, financial systems in many developing countries were predominantly composed of state-owned banks and of branches of foreign-owned commercial banks that provided short-term commercial and trade credit. The state-owned banks promoted economic development priorities through a network of financial institutions such as agricultural banks, development banks, and export banks, while borrowing heavily from multilateral and foreign private banks to support these efforts (Allen and Gale (2008).

Allen and Gale (2008) further noted that with the advent of structural adjustment and financial liberalization in the 1980s, private domestic commercial banking expanded rapidly. Many new private banks were founded by large business groups to access funds for their own businesses and corporations. As such, they naturally favored the large accounts of an established clientele. When granting loans to less familiar clients, banks protected themselves with asset (mostly real estate) collateral two to three times the value of the loans. Competition is growing, however, as new banks enter the market under banking laws that allow more freedom of entry and a less repressed regulatory environment. The struggle to survive is forcing many of these banks to look at new markets, including the microfinance market.

Understanding the many roles that banks play in the firm's growth is one of the fundamental issues in theoretical economics and finance. The efficiency of the process through which resources are channeled into productive activities is crucial for growth and general welfare. Banks are one part of this process. As discussed in Allen and Gale (2008) banks perform various roles in the growth of firms. First, they ameliorate the information problems between investors and borrowers by monitoring the latter and ensuring a proper use of the depositors' funds. Second, they provide inter temporal smoothing of risk. Third, they perform an important role in corporate governance. The relative importance of the different roles of banks varies substantially across countries and times but, banks are always critical to firm growth., Each of these roles is described as follows.

Role of Banks in corporate governance

Banks can exercise in corporate governance of firms through holding enterprise debt or through ownership rights. Whether banks hold shares or not, they actually have control over firms but the pattern of effective control is different in the two cases. As creditor's banks exercise control over firms using the threat of withdrawing credits; in the case of long-term loans such intervention is obviously less frequent than in the case of short-term loans. Banks also intervene if a firm cannot face its promised payment: during periods of poor financial performance the right to control is transferred from shareholders to creditors (Boot, 2000). As owners, banks may have their representatives on the company board and can influence the selection and the dismissal of management. How efficient banks' role in corporate governance is obviously depends upon the degree of concentration of debt (the size of loans) and of equity claims (the voting rights) (Allen and Gale, 2008).

The most common argument in favor of banks having concentrated stakes (debt and equity) in firms refers to the economies of scale in monitoring managers. Concentrated stake allows overcoming the public good problem of monitoring: banks act as delegate monitors for a large number of small savers (Diamond, 1984). In the world of informational asymmetry between financiers and managers, dispersed security holders contracting directly with borrowers would either free ride on monitoring (because their share of the benefit is small) or would have to repeat monitoring individually, which is costly and useless. Both solutions are inefficient. Consequently, it is argued, delegating monitoring to financial intermediaries contributes to the lowering of the fixed cost of information collection (Allen and Gale, 2008).

According to Edwards and Fischer (1994) banks have an additional advantage over other financial intermediaries (such as pension funds or insurance companies) because they have direct access to important information. Firms usually hold their accounts with the banks and thus the latter can directly observe all withdrawals and deposits which permit to assess the firm's financial situation.

Another theoretical argument in favor of bank intermediation underlines the advantages of commitment to long-term relationships (Allen and Gale, 2008). The authors argue that in the situation of incomplete contracts (i.e. when it is impossible to specify all future actions and payments because these are too complex to be described or because managerial decisions are not verifiable) banks help reduce moral hazard between financiers, managers and employees through the creation of the mechanism for long term commitment. Without such commitment implicit contracts between investor, manager and employees may be unsustainable (Allen and Gale, 2008).

Finally, it is argued, in the case of firms with cash flow problems, concentrating firms financial obligations may facilitate coordination and may allow for the reduction of reorganization or liquidation costs (Hoshi et al., 1994).

The Risk Sharing Role of Banks

One of the most important functions of the financial system is to share risk and it is often argued that financial markets are well suited to achieve this aim. Traditional approach financial theory suggests that the main purpose of financial markets is to improve risk sharing through exchanges of risk among individuals at a given point in time. However, this strategy cannot eliminate macroeconomic shocks that affect all assets in a similar way (Allen and Gale, 2008).

Departing from the Traditional approach, Allen and Gale (1997) focus on the inter-temporal smoothing of risks that cannot be diversified at a given point in time. They argue that such risks can be averaged over time in a way that reduces their impact on individual welfare through inter-temporal smoothing by banks. This involves banks building up reserves when the returns on the banks' assets are high and running them down when they are low. The banks can thus pay a relatively constant amount each period and do not impose very much risk on depositors.

The Monitoring Role of Banks

The idea that banks exist to reduce the monitoring costs associated with external finance is central to modern theories of financial intermediation. Rather than having multiple lenders collect information about the firm's prospects prior to granting credit and then simultaneously monitor the borrower's actions once an investment has been undertaken, potential investors may find it more efficient to delegate these tasks to a bank, through which they all provide funding to the firm (Diamond, 1984).

This role of banks is particularly important for small-business borrowers, whose small size and relative opacity make funding through public markets a virtual impossibility, and leads naturally into the idea of banks as "relationship lenders." Through their ongoing monitoring efforts, banks build relationships with their customers that give them valuable information about these firms' prospects in the future (Beck, et al, 2004).

The Financing Role of Banks

The banking sector, as noted in Allen and Gregory (2005), specifically commercial banks, have several ways to get involved in SMEs financing, ranging from the creation or participation in SMEs finance investment funds, to the creation of a special unit for financing SMEs within the bank. Banking sector services provided to SMEs, take various forms, such as:

- Short term loans;
- Repeated loans, where full repayment of one loan brings access to another, and where the size of the loan depends on the client's cash flow;
- Very small loans or bank overdraft facilities are also appropriate for meeting the day to day financial requirements of small businesses
- Factoring and invoice discounting,
- Long term loans

2.1.1.2. Role of Microfinance institutions

Robinson (1998) defined microfinance as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro-insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where firms do not have access to other sources of financial assistance. In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999).

According to Ledgerwood (1999), MFIs can offer a variety of products/ services to SMEs. The most prominent services are financial. Banks do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the banks find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral due to distance. It is by this that the cost to lend a dollar will be very high and also there is no tangible security for the loan. The high lending cost is explained by the transaction cost theory (Christabell, 2009).

As Christabell (2009) the transaction cost can be conceptualized as a non financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan. The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts. On the other hand, Robinson (2003) noted the borrowers cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling thesis work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings.

The services provided by MFIs can be categories into four broad different categories (Legerwood, 1999):

- Financial intermediation or the provision of financial products and services such as savings, credit, credit cards, and payment systems.
- Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor.
- Enterprise development services or non financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis.
- Social services or non financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training.

2.1.2. Nature and Importance of SMEs in Economic Development

The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organization whose legal entity or framework may expand in time with the collection of both tangible and in tangible (resources that are human nature) (Penrose, 1995).

2.1.2.1. What is an SME?

The issue of what constitutes an SME is a major concern in the literature. Different authors have usually given different definitions to this category of business. Some attempt to use the capital assets while others use number of employees and turnover level. Others define SMEs in terms of their legal status and method of production.

The European Commission (EC) defined SMEs largely in term of the number of employees as follows: first, firms with 1 to 9 employees - micro enterprises; second, 10 to 99 employees - small enterprises; third, 100 to 499 employees - medium enterprises. Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. However, the EC definition is too all-embracing to be applied to a number of countries.

The UNIDO (1999) also defined SMEs in terms of number of employees by giving different classifications for developed and developing countries. The definition for developed countries is given as follows: Large firms with 500 or more workers; Medium firms with 100-499 workers; and Small firms with 99 or less workers. The classification given for developing countries is also as follows (UNIDO, 1999): Large firms with 100 or more workers; Medium firms with 20-99 workers; Small firms with 5-19 workers; and Micro firms with less than 5 workers.

In the context of Ethiopia, the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises as:

- Microenterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.
- Small Enterprises are business enterprises with a paid-up capital of more than Birr 20,000, but not more than Birr 500,000, but excluding high-tech consultancy firms and other high-tech establishments.

The Central Statistical Authority (CSA) (2003), for the purposes of its survey on Urban Informal Sector Activity Operators and Small-scale Manufacturing Industries, attached various definitions to enterprises in different sectors. The CSA based its definitions on the size of employment and extent of automation for small-medium- and large-scale enterprises and used a combination of criteria for defining informal sector operators.

CSA definition of enterprises:

- Large and medium scale manufacturing enterprises have been classified as establishments with more than ten employees using automated machinery.
- SMEs are establishments that engage less than 10 persons using power driven machinery.
- Cottage/handicrafts are household type enterprises located in households or workshops normally using own or family labor and mostly manual rather than automated/mechanical machinery.

The Ethiopian Revenue and Custom Authority (ERCA) also defined enterprises for the tax purpose as enterprises having below ETB 1million annual turnovers as Small enterprises, from ETB 1million to ETB 4 million annual turnovers as medium, and above ETB 4 million annual turnovers as large enterprises.

From the above, it can be understood that the definitions of SMEs in different countries, even across economic sector in the same nation, is different. This may be a result of the fact that most nations have higher economic levels than others. Even though every nation has different definition, SMEs play very important role in its economic activities. In Least-Developed Countries (LDCs), their role is considered even more important, since they offer the only realistic prospects to increase employment and value added. Many LDCs provide employment opportunities for the majority of population who live under the poverty line. So, SMEs contribute not only economic but also social benefits by reducing crime rate and alleviating poverty (Aung, 2008). They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Nugent, 2001).

Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMEs (Cook and Nixson, 2000). SME development can encourage the process of both inter and intra-regional decentralization and they may well become a countervailing force against the economic power of larger enterprises. More generally, the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Cook and Nixson, 2000).

2.1.2.2. Indicators of Growth

Hoy et al. (1992) stress that a consensus has been reached among academics that sales growth is the best growth measure. It reflects both short and long term changes in the firm and is easily obtained. Furthermore these authors maintain that sales growth is the most common performance indicator among firms themselves.

The growth process as such provides further arguments for advocating sales growth. A growth process is likely to be driven by increased demand for the firm's products or services. That is, sales increases first and thus allow the acquisition of additional resources such as employment or other assets (Ardishvili, et al., 1998). It is also possible to increase sales, by outsourcing the increased sales volume, without acquiring resources or employing additional staff. In this case, only sales would increase. Thus, sales growth has high generality.

On the other hand, there is a widespread interest in the creation of new employment. This makes employment growth. Another important aspect to capture in the process of rationalization; it is possible to replace employees with capital investment. In other words, there is to some extent an inverse relationship between capital investment and employment growth, as a consequence, assets are another important measure of growth. Measuring growth in terms of assets is often considered problematic in the service sector (welnzimmer et al, 1998). This appears to be mainly an accounting problem. While intangible assets indeed may expand in a growing service firms, this is not reflected in the firm balance sheet.

There are two basic approaches to measure growth: absolute and relative. Measures of absolute growth examine the actual difference in firm size from one observation to another. Growth rates refers to relative changes in size, that is size changes are related to initial size of the firm typically, by dividing the absolute growth by the initial growth of the firm.

2.1.2.3. General Constraints to SMEs' Growth

Despite the potential role of SMEs to accelerate growth and job creation in developed and developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors. A set of constraints, which is not intended to be exhaustive, is identified below.

Input Constraints: SMEs face a variety of constraints in factor markets (Kayanula and Quartey, 2000).

- Debt and Equity: SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, existence of high collateral to financial institutions, credit rating, accounting and auditing, economies of Scale and the higher costs of intermediation for smaller firms. As a result, SMEs often cannot obtain long-term finance in the form of debt and equity.
- Labor Market: An insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations.
- Information and Technology: SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. At the same time, other constraints on

capital, and labor, as well as uncertainty surrounding new technologies, restrict incentives to innovation.

- Production inputs: SMEs face constraints in the availability of production inputs. For instance, better quality raw materials are generally exported or are available only to larger firms and their suppliers tend to be oligopolies. Inadequate infrastructure and weak provision of basic services such as transportation, energy, urban planning and production sites represent particular impediments for SMEs.
- Lending infrastructure: The lending infrastructure includes the information environment, the legal, judicial and bankruptcy environment, and the tax and regulatory environments. All of these elements may directly affect SME credit availability by affecting the extent to which the different lending technologies may be legally and profitably employed. The final element, the regulatory environment, may also restrict SME credit availability indirectly by constraining the potential financial institution structure (Allen and Gregory, 2005).

Output Constraints: Access to domestic and international markets can be constrained by factors that relate to the size of SMEs (Kayanula and Quartey, 2000).

- Domestic Markets: The diminished role of the state in productive activity and renewed private investment has created new opportunities for SMEs. Nonetheless, limited access to public contracts and subcontracts, often because of cumbersome bidding procedures and/or lack of information, inhibit participation in these markets. Also, inefficient distribution channels and their control by larger firms pose important limitations to market access for SMEs.

- International Markets: Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. Limited international marketing experience, poor quality control and product standardization and little access to international partners, however, impede expansion into international markets.

Management Constraints: The lack of economies of scale and competition for one of the most scarce resources, management know-how, place significant constraints on SME development (Gockel and Akoena, 2002).

- Management skills and training: Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries of the region, has a magnified impact on SMEs.
- Consulting Services: The lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for the scale of SMEs.

Regulatory Constraints: Although wide ranging structural reforms have improved prospects for enterprise development, many issues remain to be addressed at the firm level (Kayanula and Quartey, 2000).

- Taxation & Tariffs: Complicated and inefficient tax codes that include cascading sales taxes and stamp taxes are least favorable to SMEs. At the same time, the tariff and non-tariff barriers which favor larger firms that play a role in policy making are often biased against SMEs (Kayanula and Quartey, 2000).
- Legal: High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs. The absence of antitrust legislation favors larger firms, while the lack of protection for property rights limits SME access to foreign technologies.
- Labor Markets: Inflexible labor codes and other indirect labor costs bear most heavily on SMEs, raising their cost of doing business and depriving them of the flexibility to adapt.

2.2. Empirical Review

In spite of the above theoretical recognition of role of financial institutions and their contribution to the development of SMEs, there appears to be limited empirical evidence available and most of them generally focused on challenge of SMEs in access external finance and on role of financial institutions in economic growth. As a result, slight studies had been done on the contribution of financial institutions in the development of SMEs. One line of inquiry points to financial institutions and their role in economizing on information costs. For example, Rajan and Zingales (1998) argued that well-developed financial markets and institutions help a firm to overcome problems of moral hazard and adverse selection, thus reducing the firm's cost of raising money from outsiders. This thesis uses under this view, firms in less financially developed countries are likely to exhibit lower levels of firm investments (and firm growth) because of financial constraints. The thesis basically focused on quantitative aspects by using the cross country database survey. Consistent with this prediction, several studies find financial development to be positively related to the level of industry and/or firm growth rates (Levine, (2005); Kang et al, (2000)).

Patel (2004) argues that, in the case of India, development financial institutions have been major conduits for channeling funds to firms, industries and sectors during their development. Other studies (Allen and Gale (1997); Levine (1997)) have identified the importance of development financial institutions in the South Korean and Japanese process of industrialization. In Germany, especially in the post Second World War era, this mode of financial intermediation has been used in national reconstruction as well.

Olu (2009) noted that the MFIs are evident tools for entrepreneurship development due to the various services they offer and the role they performs towards the development of the economy. This research study investigates the impact of microfinance on entrepreneurial development of small scale enterprises that craving for growth and development in Nigeria. The researcher used questionnaire as an instrument of primary data collection. The study centers on two broad variables; the dependent variable which is entrepreneurial development and the independent variable which is MFIs. The study reveals that there is a significant difference in the development of firms which uses MFIs and those who do not use them; and there is a significant effect of MFIs activities in predicting entrepreneurial productivity.

Allen and Gregory (2005) also assessed the presence of small and large or state owned and foreign-owned financial institutions effect on SME credit availability through comparative advantages in the different lending technologies. In particular, a greater presence of foreign-owned institutions and a lesser presence of state-owned institutions are likely to be associated with significantly higher SME credit availability in developing nations because foreign-owned institutions appear to have advantages in some of the lending technologies, and state-owned institutions appear to be generally disadvantaged.

Moreover, Allen and Gregory (2005) strongly suggested that "worse" lending infrastructures may also reduce SME credit availability indirectly. This may occur if a restrictive regulatory environment constrains the potential financial institution structure, preventing some types of financial institutions from gaining sufficient market shares to capitalize on their comparative advantages in specific lending technologies. The research evidence suggests that some of these effects may be quite strong. Many nations explicitly or implicitly restrict the entry of foreign institutions. These restrictions may have significant negative effects on SME credit availability, given the advantages that foreign-owned banks appear to have in SME credit availability in developing nations. In addition, the governments of a number of nations maintain large market shares for state-owned financial institutions with lending subsidies and tax collection procedures. These practices appear to "crowd out" more efficient privately-owned institutions and result in lower overall SME credit availability, despite the mandates of state owned institutions to the contrary.

Ageba and Amha (2006) presented evidence on the state of micro and small enterprises finance in Ethiopia from a survey of 1000 micro and small enterprises in six major towns conducted by the authors. This thesis deals with the issue of micro and small enterprises finance and is the first empirical work on trade credit in Ethiopia. It suggests a new venue to channel funds to micro and small enterprises by linking support to micro and small enterprises, supplier's credit and bank lending. It shows that friends/relatives, suppliers credit, and *Iqub*[1] are the most important sources of finance in that order. The amount involved (in both stock and flow terms) is also relatively high. Trade credit appears to be used as a substitute for bank loans. Contrary to the common belief that trade credit occurs between people with strong social ties, most micro and small enterprises that granted trade credit and those that received suppliers credit characterized their relation as 'business only'. More than half of the MSEs that granted trade credit also received suppliers credit whose amount exceeded what they received, suggesting that suppliers credit is being passed on to customers. Supplier's credit thus avails itself as a potential instrument for banks to channel finance to micro and small enterprises to improve their access to modern machinery/equipment/tools.

[1] rotating saving and credit associations

2.3. Conclusion and Knowledge Gaps

The review of empirical evidence reveals that most of the studies used database survey as their principal source of data which led to expulsion of recent data and low representativeness. Further, Allen and Gregory (2005) do not assess the overall credit availability infrastructures to SME. Instead they merely focused on banks technologies. Olu (2009) on the other hand focuses on the role of MFIs in entrepreneurial development by ignoring the other institutions which are proven effective in providing services to SMEs. Lastly, Ageba and Amha (2006) present evidence on the state of micro and small enterprises finance in Ethiopia not on SMEs and simply argues about the source of finance and their contribution for the development of micro and small enterprises.

In conclusion, the literature review has showed that, although empirical evidence appears to be limited, the financial institutions influence the development of SMEs. However, there is high focus of financial development and firm performance studies in developed nations. On the other hand, in developing countries there has been a relatively limited number of evidence on the relationship between financial institutions and SME development including South Korea, Nigeria and India. Further, previous studies only focus on financing role of financial institutions by ignoring other roles such as governance, non financial services/social intermediation services, risk sharing and monitoring and controlling. Finally, to the knowledge of the researcher, in Ethiopian context there appears to be no attempt to examine the role of financial institutions in the growth of SME. These gaps in the literature led to the current research questions:

> *What roles do the financial institutions play in SMEs growth? Are the financial institutions products/services, accessible and affordable for SMEs? How do financial institutions address the problems that SMEs face in the process of accessing and settling loans?*

This study is needed for three reasons. Firstly, there is no reliable and comprehensive study to examine role of financial institutions in SME growth in Ethiopia, particularly in Addis Ababa. Secondly, it will pave the way forward for the government, policy makers, and financial institutions to understand the different roles of financial institutions in the development process. Finally, this study advances the knowledge of how financial institutions influence the development of SMEs. The following chapter provides details of the research method in respect of the identified research problem.

Chapter Three

Research Methodology

The way in which research is conducted may be conceived of in terms of the research philosophy subscribed to, the research approach employed and the research instruments developed and utilized in the pursuit of a goal – the research objective(s)- and the quest for the solution of a problem - the research question. The purpose of this chapter is to present the research methodology adopted in this study. The chapter is arranged as follows. Section 3.1 presents the hypothesis and research questions for the study. The three common approaches (quantitative, qualitative, and mixed methods) to conducting research are separately presented in section 3.2. Finally, discussions of the choice of the appropriate methods for this research are presented in section 3.3.

3.1. Hypothesis and Research questions

As presented in chapter one, the broad objectives of this study is to investigate the role of financial institutions, with a particular focus on banks and MFIs, on the growth of SMEs in Ethiopia, particularly in Addis Ababa by using disaggregated data. The study was focused on the SMEs development of, and to investigate the extent to which financial institutions may have contributed to this SMEs' development. To achieve this general objective, one hypothesis and a series of research questions were developed.

Hypothesis (H)

This thesis builds on earlier studies of Rajan and Zingales (1998); Demirguc,- Kunt and Maksimovic's (1998); and Levine (2005) which showed that the development of a country's financial markets and institutions foster firm's access to external financing and firm growth rate. So, well-functioning financial institutions affect firms' ability to get external finance and firm's ability to access finance raise firm's growth.

Perhaps the most prominent external determinant of firm growth is the financial system. Generally, firms do not make their capital structure entirely with their internal funds to meet their investment needs. For getting different benefits associated with debt, firms raise external finance through debt financing. Well developed financial institutions make easier for firms to access external finance that facilitate firms to grow. Firm growth and financial system nexus has been analyzed by Levine (2005). Levine (2005) describes the financial system in terms of information, enforcement, and transaction costs. According to the author, in a well functioning financial system, financial institutions potentially shape key aspects of firm dynamics, such as size and growth.

An underdeveloped financial system amplifies the magnitude of market imperfections in terms of information asymmetry and transaction cost which prevent firms to grow. Further, it makes firms financially constrained, for which it is complex or too expensive to get external finance and forced to limit its investment options, and hence its growth. Levine (2005) also suggest that financial development boosts growth of firms that rely heavily on external finance by reducing the transaction costs and informational barriers and supports more the industries that comprises of small firms.

In light of this, it is hypothesized that:

H_0: *Loan from financial institutions, banks and MFIs, does not foster SMEs growth.*

H_1: *Loan from financial institutions, banks and MFIs, contributes significantly to SMEs growth.*

Because as Albaladejo (2001) noted the challenge for many SME's development is access to financing, in particular, many SMEs find it difficult to finance their production cycle after they start up their operation. On the contrary, when the contribution of financial institutions is low, it is less likely that such a growth rate will occur. The reason is that firms in less financing access are less able to respond systematically to sector growth opportunities because shortage of finance prohibit firms to the best investment opportunities.

Research Questions (RQ)

In addition to the above hypothesis the study has developed the following four research questions.

RQ1. What roles do financial institutions, specifically banks and MFIs, play in SMEs growth?

RQ2. What forms of financing are available in financing working capital as well as medium & long-term loan requirements of SMEs?

RQ3. Are the financial institutions products and services, accessible and affordable for the SMEs?

RQ4. How do financial institutions address the problems that SMEs face in the process of accessing and settling loans?

The discussion so far presented the hypothesis and research questions developed based on the broad objective of the study. The research problem along with the philosophy of research methodology would guide the choice of the appropriate research method. The following section describes the three common approaches to conducting research.

3.2. Research Approaches

This section introduces the fundamental elements of research approaches. The three common approaches to conducting research are quantitative, qualitative, and mixed methods. Researchers typically select the quantitative approach to respond to research questions requiring numerical data, the qualitative approach for research questions requiring textural data, and the mixed methods approach for research questions requiring both numerical and textural data (Carrie, 2007). The subsequent discussions present the basic features of quantitative, qualitative and mixed methods research approaches in an orderly manner.

3.2.1. Quantitative research approach

Quantitative research is the one in which the investigator primarily uses positivist claims for constructing knowledge. Positivists believe that reality is stable and can be observed and described from an objective viewpoint i.e. without interfering with the phenomena being studied (Philips, 1990). This often involves manipulation of reality with variations in only a single independent variable. Predictions can be made on the basis of the previously observed and explained realities and their inter-relationships. Positivism has also had a particularly successful association with the physical and natural sciences (Philips, 1990).

Quantitative research places the emphasis on measurement when collecting and analyzing data. Quantitative research is defined, not just by its use of numerical measures but also that it generally follows a natural science model of the research process measurement to establish objective knowledge (that is, knowledge that exists independently of the views and values of the people involved). Quantitative research can be used in response to relational questions of variables within the research (Leedy and Ormrod (2001) cited in carrie, 2007).

Well designed and implemented quantitative research has the advantage of making generalizations to a wider population from the sample. To enhance the generalization of findings, quantitative research approach follow standardized procedures in sample selection, instrument design, implementation and analysis. Standardization in turn enhances the reliability of findings and alleviates the impact of investigator and subjects biases. Despite these advantages, quantitative research design has a number of limitations: lack flexibility in design, standardization can cause bias or hinder exploitation of new ideas, and lack interpretive and exploratory examination of a research problem (Creswell, 2003).

A quantitative research approach employs strategies of inquiry such as experiment and survey; collects information using preset standardized instruments; and uses statistical methods in describing patterns of behavior and generalizing from sample to populations.

A survey research is one of the ways to gather data in the social sciences. In line with this, a survey design provides a quantitative or numeric description of trends, attitudes, or opinions of a population by studying a sample data with the intention of statistically generalizing to the population under investigation (Creswell, 2003). Survey enables the researcher to obtain data about practices, situations or views at one point in time through questionnaire.

Under the experimental research, the researcher investigates the treatment of an intervention into the study group and then measures the outcomes of the treatment (Leedy and Ormrod (2001) cited in carrie, 2007). The use of survey permits the investigator to study more variables at one time than is typically possible in experiments (Carrie, 2007).

3.2.2. Qualitative research approach

Qualitative research approach is the one in which the investigator often makes knowledge claims based on the multiple meanings of individual experiences, socially and historically constructed meanings, participation in issues, collaboration or change oriented with an intent of developing a theory or pattern. In contrast to quantitative research design, qualitative approach is rooted on the philosophy constructivist. Constructivists contend that only through the subjective interpretation of and intervention in reality can that reality is fully understood (Mertens, 1998). The study of phenomena in their natural environment is the key to the constructivist's philosophy (Mertens, 1998). This approach tries to examine experiences and events within their natural setting and understanding a phenomenon under investigation in its entirety (Creswell, 2003).

Marshall and Rossman (1999) noted that qualitative research emphasizes meanings (words) rather than frequencies and distributions (numbers) when collecting and analyzing data. Qualitative research is also described as an unfolding model that occurs in a natural setting that enables the researcher to develop a level of detail from high involvement in the actual experiences. There are different types of research designs that use qualitative research techniques to frame the research approach. As a result, the different techniques have a dramatic effect on the research strategies explored. What constitutes qualitative research involves purposeful use for describing, explaining, and interpreting collected data. Marshall and Rossman (1999) further emphasized that qualitative research is less structured in description because it formulates and builds new theories. Qualitative research can also be described as an effective model that occurs in a natural setting that enables the researcher to develop a level of detail from being highly involved in the actual experiences (Creswell, 2003).

A qualitative research approach uses strategies of inquiry including narratives, ethnographies, case studies, observations, interviews, and the findings are communicated subjectively through descriptions using words rather than numbers (Creswell, 2003, p.186-187).

Qualitative research design has its own advantages and disadvantages. The advantage of a qualitative research design is that it is flexible and emergent without being constrained by standardized procedures that the investigator to explore and understand phenomena entirely in their natural setting (Creswell, 2003). Wimmer and Joseph (2006) also justified that qualitative techniques can increase a research's depth of understanding of the phenomenon under investigation. Another advantage of qualitative methods is that they allow the researcher to listen carefully to what participants say, engage with them according to their individual personalities and styles, and use "probes" to encourage them to elaborate on their answers.

In spite of the above advantage, qualitative research design has its own limitations: lack of standardized rules reduces the objectivity of the findings, the personal view and stand of the researcher may induce bias in the interpretation of the data, and the findings cannot be statistically generalized for a broader population under investigation (Creswell, 2003).

3.2.3. Mixed methods approach

As indicated in the above discussion, both quantitative and qualitative research approaches have limitations. According to Sale et al. (2002) the advantage of a quantitative research approach may be limitations for a qualitative approach and vice versa.

Mixed research design, which is supposed to alleviate the limitations of quantitative and qualitative approaches, bases on pragmatic knowledge claims. Pragmatists contend that knowledge claims arise out of actions, situations, and consequences rather than antecedent conditions. There is a concern with applications and solutions to problems. Instead of methods being important, the problem is most important, and researchers use all (mixed method studies) approaches to understand the problems (Creswell, 2003).

Sale et al (2002) instanced that it has often been observed very accurately that no single research methodology is intrinsically better than any other methodology, many authors calling for a combination of research methods in order to improve the quality of research. Researchers incorporate methods of collecting or analyzing data not only numerical data, which is customary for the quantitative research, but also narrative data, which is the norm for qualitative research in order to address the research question(s) defined for a particular research study. The goal for researchers using the mixed methods approach is to draw from the strengths and minimize the weaknesses of the quantitative and qualitative research approaches (Carrie, 2007).

To sum up, quantitative and qualitative research methods investigate and explore the different claims to knowledge and both methods are designed to address a specific type of research question. While the quantitative method provides an objective measure of reality, the qualitative method allows the researcher to explore and better understand the complexity of a phenomenon. The discussion so far presented a clear statement of what constitutes quantitative and qualitative research approaches and summarized techniques used to conduct studies for both research approaches. Further the discussion so far showed the nature of mixed methods research approach. The following section provides details of the research design in respect of the identified research problem.

3.3. Research Methods Adopted

Scientific problems can be solved only on the basis of data and a major responsibility of the investigator is to set-up a research design capable of providing the data necessary for the solution of the study problem. The more clearly and thoroughly a problem and its ramifications are identified, the more adequately the study can be planned and carried to a successful completion. Therefore, it was tried to avoid what may be characterized as methodological monism, i.e. the insistence on using a single research method. This is not due to an inability to decide between the various advantages and disadvantages of the various alternatives. Instead, it is believed that all methods are valuable if used appropriately, that research can include elements of both the qualitative and quantitative approaches, if managed carefully. In light of the research problem and the underlying philosophy of each research approach highlighted above, the current research combines both qualitative and quantitative research approaches. That is, to get the benefits of a mixed method approach, as presented earlier, and to mitigate the bias in adopting only one approach. The quantitative aspect, qualitative aspect, and data analysis methods adopted in this study are further elaborated in the following sections.

3.3.1. Quantitative aspect of the study

The quantitative aspect of the research method intends to obtain data needed to generalize about financial institutions role in SMEs growth in Ethiopia, particularly, in Addis Ababa. To gather data for quantitative aspect of the current study, survey design and documentary analysis were employed to examine the role of financial institutions in SMEs growth. The following section reveals the survey design and documentary analysis of this study respectively.

3.3.1.1. Survey design

To obtain data at one point in time from a sample selected relevant for the investigation of financial institutions role on SMEs growth, this study employed a cross-sectional survey with semi-structured questionnaires, which administered through distributing to sample of SMEs in Addis Ababa.

The adoption of survey method is to obtain information that was not available from other sources and for standardization of measurement (same information collected from every respondent). In this regard, Linda (2002) noted the nature of survey methods include standardization of measurement, use of probability sampling, and uniqueness of information. Typically, there are many modes of survey administration includes face –to-face, telephone, mail, web, and combination of methods.

The use of mail and web modes of survey design has many advantages. However, due to under developed communication system and illiteracy, the current study used paper semi structured questionnaire.

The questionnaire is perhaps, the most used and the most abused survey instrument (Osuala, 2005). Questionnaire really constitutes the first attempt at scaling. The questionnaires are advantageous whenever the sample size is large enough to make it economical for reasons of time or funds to observe or interview every subject. The greatest difficulty with questionnaires that are distributed to the subjects or potential respondents is the probable bias which exists when less than the total number in the sample actually responds to the questionnaires. The questionnaire was prepared and distributed to ensure fair and equitable distribution and response from the respondents which was expected to give a true or fair representation of the views of the respondents to allow for generalization in the final analysis.

Sample Design

In selecting sample, three factors determine the size of an adequate sample includes: nature of population, types of sampling design and degree of precision desired (Salant and DIllman, 1994). 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 were employed.

First the population was defined as the business operators in the SMEs sector spread across Addis Ababa. Second 30,000 enterprises were identified as population units which were registered both in Addis Ababa Trade and Industry Bureau and Ethiopian Investment Agency. The researcher uses a combination of both Addis Ababa Trade and Industry Bureau, CSA (2003), and UNIDO definitions of SMEs (see section 2.1.2.1.). Third stratification units were categorized among ten districts; finally 170 SMEs were proportionally selected from each district.

Random sampling technique was employed that draw a portion of a population so that each member of the population has an equal chance of being selected. A sample drawn at random is unbiased in the sense that no member of the population has any more chance of being selected than any other member. Therefore, sample size was determined by using random sample calculator at 90% confidence level, 5% error level and 30,000 sample frame as list of units in the population.

Survey instrument

The survey instrument contains both open and closed questions. The open questions give the respondent freedom to decide the aspect, detail and length of his/her answer. It enables the respondents to give a more adequate presentation of his/her particular case and convey flexibility in his/her choice. The closed questions on the other hand are designed to keep the questionnaire to a reasonable length and this encourages response and validity in terms of the representativeness of the returns. It minimizes the risk of misinterpretation unlike the former. It also permits easier tabulation and interpretation for the researcher.

The questionnaire was designed in three main sections. The first section is SMEs respondent's profile. The second and third section possesses the questions relating to the subject matter of the inquiry. These sections were designed to collect both qualitative and quantitative data on financial institutions role in SMEs growth. Specifically, questions relating to role of banks and MFIs respectively. The responses for these second and third sections form the basis for the analysis. This represents purely the primary source of data collection and it was prepared in both English and Amharic accordingly for the purpose of clarity and ease understanding of the informants. The English and Amharic version questionnaires are presented in appendices 1and 2 respectively.

Conduct of survey

The survey with randomly selected sample SMEs were conducted in the period between June and July, 2011. The survey questions were developed by translating the research questions and research objective in to questions. Then it was given to the research advisor for final suggestions and comments. Then 170 SMEs were contacted based on their address found in Addis Ababa micro and small enterprises bureau and in Ethiopian Investment Agency at their home office and questionnaires were distributed after explaining the purpose of the study and getting their consent to participate in the survey. However, some of the addresses were found incorrect and were replaced by others. But, only 149 SMEs were returned the questionnaires. Twenty one SMEs owner/managers refused to return the questionnaires. Those who chose not to return typically gave reasons such as they were too busy and they never participate in surveys.

3.3.1.2. Documentary analysis

This method of data collection is based on observations or informal conservations. They are usually incomplete and biased, but in certain cases they are very useful. As Osuala

(2005) noted documentary analysis reveals many facts and relevant information that may not be obtained through other methods. Therefore, in addition to survey of SMEs, documentary analysis (both time series and cross sectional; and both quantitative/numeric and qualitative data) was used for the study which take a variety of forms held by SMEs for the period between 2005/6 and 2009/10 such as financial statements, archival records, personal documents, and administrative documents. This form of data collection constitutes the secondary source of data for the study in order to have some information on the different variables that may not be obtained through interviews and administering of questionnaire.

3.3.2. Qualitative aspect of the study

To substantiate the data obtained through survey and documentary analysis and to get clarification on some issues, in-depth interviews with banks and MFIs managers/officials was also used. This form of data collection procedures constitutes the qualitative aspect for the study. The following section thus presents the content and the way in which in-depth interviews were used.

3.3.2.1. In-depth interviews

As a research method, the interview is a conversation carried out with the definite aim of obtaining certain information. It is designed to gather valid and reliable information through the responses of the interviewee to a planned sequence of questions.

Unstructured interview, which is highly favored for its flexibility and detailed clarification Wimmer and Joseph (2006), has been used for the study in order to have some explanations on role of financial institutions in SMEs development and their products and services. There were thirteen banks and ten MFIs which were working in Addis Ababa out of which eight banks and six MFIs managers/officials were selected through purposive sampling technique. To substantiate the data obtained through in-depth interviews with banks and MFIs managers/officials, information from documentary studies were also employed. The interview questions were developed by translating the research questions and research objective in to questions. Then it was given coupled with survey questions to the research advisor for final suggestions and comments. Interview questions are presented in appendix 3.

3.3.3. Data analysis methods

In order to investigate the role of financial institutions in the growth of SMEs, the results obtained from the above mentioned data gathering instruments were separately presented and jointly analyzed to address the various research questions and to test the hypothesis. With respect to survey, the responses obtained from survey of SMEs was tabulated and interpreted by using descriptive statistics. Regarding in-depth interviews descriptive research approach was employed to present outcomes of in-depth interviews with banks and MFIs managers/officials. Finally, to assess the relationship between SMEs growth (i.e. sales growth) and financial resources from financial institutions, regression analysis was used. It was used annual sales as a measure of firm growth as dependent variable because of the difficulty of obtaining realistic information on profits earned. This conforms to the studies by Wijewardena and Cooray (1995); Wijewardena et al. (1999); and Esra, (2003), which have used sales growth as a key indicator of small business success and growth. To this end, the current study also used sales growth as an indicator of firm growth and it was measured by the growth rate in percentage terms. Hence, the dependent variable includes information of both positive and negative growth.

Sales growth is significantly influenced by the following set of variables: external finance, firm size, age of firms, and internationalization (Esra, 2003). Perhaps the most prominent determinant of firm growth is the financial resources. Generally, firms do not make their capital structure entirely with their internal funds to meet their investment needs. For getting different benefits associated with debt, firms raise external finance through debt financing. Thus, financial institutions make easier for firms to access external finance that facilitates firms to grow. Accordingly, the expected coefficient of the variable is positive.

In addition to financial resources from financial institutions, the independent variables include firm's size, firm's age, and internationalization. The size of firms is included in the model because it can be expected that the larger firms grow faster than smaller ones due to their ability to employ high skilled, skillful managers and workers and to achieve more efficient product facilities. Accordingly, the expected coefficient of the firm size variable is positive. Another factor could be the age of firms because, younger firms, would grow rapidly due to innovative ideas and dynamic management. On the other hand, older firms may achieve stronger growth because of their experience. Thus, the expected coefficient of the age variable can be either positive or negative. The internationalization of firms is included in the model because it can be expected that firms, active in export trade, may be relatively more capable of increasing their sales.

To empirically test the relationship between the dependent and independent variables discussed so far, particularly whether β_1 is statistically significantly positively different from zero, the following multiple OLS regression model was applied:

$$GR_{it} = \beta_0 + \sum_{k=1}^{n} \beta_i X_{it} + \varepsilon \tag{3.1}$$

GR_{it}: Growth of enterprises i at time t; i = 1, 2, . . ., 149 enterprises

β_0: The intercept of equation

β_i: Coefficients of X i t variables

X_{it}: The different independent variables for growth of enterprises i at time t

t : Time = 1, 2,……,5 years; i: number of enterprises

ε: The error term

Specifically, when the above general least squares model converted into current study specified variables it becomes:

$$GR_{it} = \beta_0 + \beta_1 (DBM_{it}) + \beta_2 (SZ_{it}) + \beta_3 (AGE_{it}) + \beta_4 (INR_{it}) + \varepsilon \qquad (3.2)$$

Where:

β_0 = a constant; the average growth when all independent variables are zero

β_{1-4} = the coefficient; the contribution of each marginal change in independent variables on SME growth respectively.

ε = the error term; the error in predicting the value of growth, given the value of *i* variables

The variables (with expected sign in parenthesis) are:

GR_{it} = Growth (defined as percentage change in sales volume for *i* enterprises at time *t* for the last five years from 2005/06 to 2009/10), or what is being predicted or explained

DBM_{it} = Loans from banks and MFIs, defined as percentage change in total borrowed capital for *i* enterprises at time *t* (+)

SZ_{it} = Size of firm, defined as percentage change in both permanent and temporary employees of *i* enterprises at time *t* over the period of last five years -2005/06 to 2009/10 (+)

AGE_{it} = Age of enterprises *i* at time *t* (- or +)

INR_{it} = Internationalization of firms, Dummy variable that equals 1 if SME have export strategy and 0 otherwise (+).

In conclusion, survey of SMEs, documentary analysis (documents held by SMEs), and in-depth interviews with bank and MFIs managers/officials were separately held to gather data for the quest of the research objective. The results from these methods of inquiry was separately presented and jointly analyzed to address the various research questions and to empirically test the hypothesis. The analyses were based on the results obtained and literature guide. The next chapter presents the results and analysis of each of these methods of inquiry.

Chapter Four

Results and Analysis

The preceding chapter presented the hypothesis and research questions along with choice and rationale of the research approaches adopted for this study. This chapter presents respectively the results and analysis of the findings of different research techniques used. The first section presents the outcomes of the different methods used independently. Next, the results obtained using different methods are jointly analyzed in section two to address the hypothesis and each research question.

4.1. Results

This section presents respectively the survey results obtained from sample SMEs and in-depth interview results gathered from selected financial institutions and the results of regression model based on the available information (financial as well as non financial) accumulated from SMEs records.

4.1.1. Survey results

As indicated in the previous chapter, survey was the main strategy of inquiry adopted to investigate the role of financial institutions in the growth of SMEs. To this end, the results obtained from the survey are presented in three parts. The first part reveals respondent's profile. This is followed by role of banks and MFIs on the growth of SMEs in part two and part three respectively.

4.1.1.1. Respondents' profile

Data for the analysis in this study were collected from 149 owners/managers of small and medium sized firms out of a sample size of 170 SMEs located in Addis Ababa city. These owners/managers and their businesses were randomly selected from the register of Ethiopian Investment Agency and Addis Ababa Trade and Industry Bureau. A response rate of 87.6 percent was achieved. Those who chose not to participate typically gave reasons such as they were too busy or they never participate in surveys. All the survey respondents were located in Addis Ababa.

About 30 percent of survey respondents had bachelor degree, while 22.8 percent hold Diploma, 40 percent hold less than diploma, and 6 percent had a Master Degree or above in a particular profession (table 4.1.).

Table 4.1 Respondents' level of education*

Level of education	Frequency	Percent
Diploma	34	22.8
Degree	45	30.2
Masters and above	9	6.0
Others	61	40.9
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

Regarding the current position, 56.4 percent of the survey respondents were managers while 36.9 percent and 6.7 percent of the respondents were owners/mangers and sales persons respectively (table 4.2).

Table 4.2 Respondents' current position*

Current Position	Frequency	Percent
Managers	84	56.4
Owners/Managers	55	36.9
Sales person	10	6.7
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

In terms of year of experience, 63.8 percent of the survey respondents had 1 to 5 years of work experience while 19.5 percent had 5 to 10 years of experience. The rest had less than 1 year and more than 10 years of experience (table 4.3).

Table 4.3 Respondents by years of work experience*

Years of experiences	Frequency	Percent
Less than one year	20	13.4
1-5 years	95	63.8
5-10 years	29	19.5
More than 10 years	5	3.4
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

Regarding the age of business, 60 percent of survey respondents' firms were less than five years old while 40 percent indicated that their businesses existed for more than five years (table 4.4).

Table 4.4 Age of business*

Age of business	Frequency	Percent
Less than one year	2	1.3
1-5 years	88	59.1
5-10 years	49	32.9
More than 10 years	10	6.7
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

In terms of business activities, about 31.5 percent, 27 percent, 20.8 percent, and 16.8 percent of survey respondents were manufacturing, services, construction, and trade respectively. The rest were agriculture and others business activities (table 4.5).

Table 4.5 Types of business activity*

Business activities	Frequency	Percent
Manufacturing	47	31.5
Trade	25	16.8
Agriculture	2	1.3
Services	40	26.8
Constriction	31	20.8
Others	4	2.7
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

As to forms of business ownership, 43.6 and 36.2 percent of survey respondents were sole proprietors and private limited companies (Plc) respectively. The rest were partnership and others (Table 4.6).

Table 4.6 Business ownership form*

Forms of ownership	Frequency	Percent
Sole proprietorship	65	43.6
Partnership	30	20.1
PLC	54	36.2
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

According to the data presented in Table 4.7, about 41.6 percent of business surveyed had between eleven and twenty employees while 32.9 percent had less than ten employees and the balance was for those that had more than twenty employees.

Table 4.7 Business by number of employees*

Range of number of employees	Frequency	Percent
1-10	49	32.9
11-20	62	41.6
21-50	30	20.1
51-100	8	5.4
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

Almost 91.3 percent of SMEs faced some degree of market competition while 8.7 percent had no market competition in their sector (table 4.8).

Table 4.8 Business by level of market competition*

Degree of market competition	Frequency	Percent
No competition	13	8.7
Moderate competition	93	62.4
Strong competition	39	26.2
Severe competition	4	2.7
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

In terms of annual turnover, during the 2009/10 fiscal year, 14.8 percent of survey respondents had total sales of birr10, 000 or less. About 21.5 percent, 18.8 percent, 17.4 percent, and 27.5 percent of SME survey respondents had total annual sales of birr 10,001 to birr 50.000, birr 500,001 to birr 100,000, birr 100.001to one million birr, and above one million birr respectively (Table 4.9).

Table 4.9 SMEs by annual sales for 2009/10 fiscal year*

Range of total sales	Frequency	Percent
birr 10,000 and less	22	14.8
birr 10,001 -50,000	32	21.5
birr 50,001-100,000	28	18.8
birr 100,001-1,000,000	26	17.4
more than birr 1,000,000	41	27.5
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

According to the data presented in table 4.10, about 81.2 percent of survey respondents sold their products/services in the domestic market. However, the firms participating in export trade had low proportion of export to total sales.

Table 4.10 SMEs by export to total sales ratio in 2009/10 fiscal year*

Export to total sales ratio	Frequency	Percent
No	121	81.2
1-10%	5	3.4 1
11-20%	23	15.4
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

4.1.1.2. Role of Banks in the Growth of SMEs

To capture information regarding the relative importance of banks in SMEs growth, survey respondents were asked about the accessibility of bank products and services. About 59.7 percent of survey respondents had access to financial resources from banks. The balance had no access to the financial resources provided by banks (table 4.11).

Table 4.11 Access to bank loans

Access to banks loans	Frequency	Percent
Yes	89	59.7
No	60	40.3
Total	149	100.0

Sources: SMEs survey

In order to investigate factors for inaccessibility of bank loans, survey respondents were asked to indicate the reasons. As presented in table 4.12, some SMEs were discouraged from applying by high collateral requirement (76.7 percent), difficulty of processes involved (75 percent), high cost of borrowing (18.3 percent) while some were due to lack of knowledge about the facility, or where and how to apply (11.7 percent) and fear of repayment ability (51.7 percent).

Table 4.12 Reasons for not having access to bank loans (multiple answers were possible)*

Reasons for not having access to bank loans	Frequency	Percent
Inadequate collateral	46	76.7
Process too difficult	45	75.0
Fear of inability to repay	31	51.7
High borrowing cost	11	18.3
No need for credit	0	--
Others	7	11.7

*Totals may not agree due to rounding
Sources: SMEs survey

To investigate the real accessibility of bank loans, SMEs that had access to financial resources were asked whether they ever applied and received bank loan (table 4.13).

Table 4.13 Bank loans applied and received**

Bank loans received	Frequency	Percent
Yes	89	100.0
No	0	0.0
Total	89	100.0

** To those that have access to bank loans only
Sources: SMEs survey

SMEs that applied and received loans were also asked about terms of credit (i.e. maturity period) involved in relation to bank loans. This is to distinguish whether the loan was used for short term working capital needs to finance operating activities (37.1 percent) or for financing of medium and long term financing requirement (62.9 percent) (table 4.14).

Table 4.14 Bank loans maturity periods*

Loans maturity Periods	Frequency	Percent
Less than 1 year	33	37.1
1-3 years	40	44.9
3-10 years	16	18.0
More than 10 years	0	0
Total	89	100.0

* To those that applied and received bank loans only
Sources: SMEs survey

The use of collateral/guarantee to secure loans was also quite common among all types of lenders (except informal sources such as *iqub,* friends and relatives) with noticeable differences in the extent of coverage. Looking at table 4.15, it can be noted that the criteria in granting bank loans were based on various types of securities/guarantee. About 98.9 percent of survey respondents that had access to bank loans indicated that enterprises must have valid documents of property ownership certificate while 91.2 percent were showed that enterprises must present third party guarantee as collateral. The rest of survey respondents indicated that banks were assessing previous loans records and current business status.

Table 4. 15 Banks loans criteria (multiple answers were possible)*

Loans criteria	Frequency	Percent
Collaterals	90	98.9
Business plan	7	7.7
Third parties guarantor	83	91.2
Others	2	2.2

*To those that applied and received banks loans only
Sources: SMEs survey

As table 4.16 presents, 67.4 percent of survey respondents indicated that bank loans criteria were not easy to meet. Those who said it was easy constitute 32.6 percent.

Table 4.16 Simplicity of bank loans criteria*

Simplicity of bank loans criteria	Frequency	Percent
Yes	29	32.6
No	60	67.4
Total	89	100.0

*To those that applied and received bank loans only
Sources: SMEs survey

About 52.8 percent of survey respondents that had access to bank loans had received adequate funds from banks. The balance indicated that bank loans were inadequate for financing of operating activities as well as for investing activities (table 4.17).

Table 4.17 Adequacy of bank loans *

Adequacy of bank loans	Frequency	Percent
Yes	47	52.8
No	42	47.2
Total	89	100.0

* To those that applied and received bank loans only
Sources: SMEs survey

Table 4.18 presents that bank loans were most commonly used for financing operating activities (83.1 percent). Despite the common belief that bank loans are typically used for medium- (1 to 3 years) and short-term (less than 1 year) financing requirements, a good number of the survey respondents indicates that bank loans were also used to purchase of long lived assets like business house and machinery (57.5 percent). It was also found that SMEs used bank loans for the payment of previous loans (7.9 percent).

Table 4.18 Purposes of bank loans (multiple answers were possible)*

Purpose of bank loans	Frequency	Percent
Purchase of inputs/raw materials	69	83.1
Purchase of long lived assets	74	57.5
Payment of previous loans	7	7.9
others	1	1.1

* To those that applied and received bank loans only
Sources: SMEs survey

Among the 89 SMEs which actually applied and received banks loans, 40.4 percent had difficulties in paying back the loan while the remaining 59.6 percent did not face any problem in paying back the borrowed funds (table 4.19).

Table 4.19 SMEs that face problems in paying back bank loans**

Loans back pay problems	Frequency	Percent
Yes	36	40.4
No	53	59.6
Total	89	100.0

* To those that applied and received bank loans only
Sources: SMEs survey

Cash flow and liquidity problem (current assets are less than current liabilities) were among the common problems encountered by SMEs. The two main mechanisms that SMEs used to resolve such problems were borrowing from informal sources and postpone the payment date. Use of informal source of finance was widespread, for instance, 43.4 percent of survey respondents used *iqubs*, friends and relatives as means of mitigating liquidity problem.

About 89.2 percent of survey respondents had access such as saving and payment facilities to other than loans while 8.7 percent and 2 percent had received third party (trustee) asset management and ongoing business monitoring services respectively. The rest was for those which have no access to bank additional products and services (table 4.20).

Table 4.20 Additional services offered by banks*

Bank additional services	Frequency	Percent
No	14	9.4
Regular control of business	3	2.0
Third party asset management (trustee)	13	8.7
Savings and payments	119	79.7
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

According to table 4.21, 83.2 percent survey respondents indicates that banks had no special products/services to SMEs while the rest 14.8 percent said that banks sometimes provided special loan reschedule services.

Table 4.21 Special products and services offered by banks*

Bank special products and services	Frequency	Percent
No special services	124	83.2
Reschedule loans	22	14.8
Provide the necessary skills and counseling	1	.7
Factoring/discounting	1	.7
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

4.1.1.3. Role of MFIs in the growth of SMEs

The prospective of microfinance is to broaden access to financial services for lower-income levels and increases the amount of undertaken productive projects. By inclusion into the financial sector, improved income-generation is predicted. MFIs are supposed to be different from other financial institutions in that they are believed (and particularly established) to serve the microfinance needs of those who are underserved by banks. Several parameters can be used to assess the extent to which MFIs are actually doing this. These include accessibility, criteria used to offer loan, package of services delivered, adequacy of loan amount, and appropriateness of the loan duration and timeliness of disbursement.

According to the data presented in table 4.22, 53 percent of survey respondents had access to and receive financial resources from MFIs. Accessing credit is considered to be an important factor in increasing the development of SMEs.

Table 4.22 Access to MFIs loans

Accessibility of microfinance institution loans	Frequency	Percent
Yes	79	53.0
No	70	47.0
Total	149	100.0

Sources: SMEs survey

About 55.7 percent of survey respondents that had access to MFIs credit received loans with a maturity period of more than one year while the remaining 44.3 percent had borrowed money with a maturity period of less than one year (table 4.23).

Table 4.23 MFIs loan maturity periods*

MFIs loan maturity periods	Frequency	Percent
less than 1 year	35	44.3
1-5 years	44	55.7
More than 5 years	0	0
Total	79	100.0

*To those that applied and received MFIs loans only
Sources: SMEs survey

One more prominent result depicts that 88.6 percent of survey respondents said that MF's' loans criteria were easy to meet. Those who said it was not easy represented 11.4 percent (table 4.24).

Table 4.24 Simplicity of MFIs loans criteria*

Simplicity of MFIs loan criteria	Frequency	Percent
Yes	70	88.6
No	9	11.4
Total	79	100.0

*To those that applied and received MFIs loans only
Sources: SMEs survey

Some MFIs failed to provide credit to SMEs. The most frequently mentioned reasons were: enterprises business size was beyond the target for MFIs credit facilities; SMEs were unaware to MFIs loan facilities; difficulty to form a group which is a requirement for MFIs loans, and no MFIs were operates in the area (70 percent). Other reasons were also given by survey respondents such as inadequate collateral, high borrowing cost and fear of in ability to repay and difficulty of the process (table 4.25).

Table 4.25 Reasons for not having access to MFIs loans*

Reasons for not having access to MFIs loans	Frequency	Percent
Inadequate collateral, high borrowing cost	3	4.3
Inadequate collateral, process to difficult	5	7.1
Inadequate collateral, fear of inability to repay, process to difficult	6	8.6
Inadequate collateral, high borrowing cost, process to difficult	7	10.0
Others: business size beyond the target for MFIs credit facilities; not aware of MFIs loan facilities	49	70.0
Total	70	100.0

*To those that have no access to MFIs loans only
Sources: SMEs survey

Table 4.26 shows 57 percent of survey respondents indicate that collateral and permanent working places in a specified *kebele*[2] were the criteria to receive loans. Another 40.5 percent said that business plan, previous loans records, current business status and the repayment ability of the enterprises in combination with the above mentioned securities were also considered as criteria to given out loans.

[2] Specific address that firms located/operated

Table 4.26 MFIs loans criteria's*

MFIs loans criteria's	Frequency	Percent
Business plan, permanent working places	2	2.5
Collateral, business plan, permanent working places, and others	32	40.5
Collateral and permanent working places	45	57.0
Total	79	100.0

*To those that applied and received MFIs loans only
Sources: SMEs survey

About 84.8 percent of survey respondents had received inadequate fund (i.e. MFIs are far from meeting the loan requirements of their clients). The rest was for those who had received adequate funds (table 4.27).

Table 4.27 Adequacy of MFIs loans*

Adequacy of MFIs loans	Frequency	Percent
Yes	12	15.2
No	67	84.8
Total	79	100.0

*To those that applied and received MFIs loans only
Sources: SMEs survey

In terms of loans purposes, about 97.5 percent of survey respondents indicated that MFIs loans were most commonly used for the purchase of inputs/raw materials while 31.6 percent and 22.8 percent said that they were used to purchase long lived assets like business house, machinery and payment of previous loans respectively (table 4.28).

Table 4. 28 Purposes of MFIs loans (multiple answers were possible)*

Purpose of MFIs loans	Frequency	Percent
Purchase of inputs/raw materials	77	97.5
Purchase of long lived assets	25	31.6
Payment of previous loans	18	22.8
Others	0	0

*To those that applied and received MFIs loans only
Sources: SMEs survey

According to the data presented in table 4.29, among 79 SMEs that actually received MFIs loans, 16.2 percent had problems in paying back their loans. The rest 83.8 percent did not have any problem in paying back the loans. Inflexibility of loan period in accordance with the working condition of SMEs, failure of the business venture and market conditions were among the problems encountered by SMEs. Sometimes, MFIs had provided some remedies to SMEs to tackle such problems such as postpone payment date instead of forcing for immediate payment, refinancing future potential projects, and make constant supervision of business activities.

Table 4.29 SMEs that face problems in paying back the MFIs loans*

Loans pay back problems	Frequency	Percent
Yes	12	16.2
No	67	83.8
Total	79	100.0

* To those that applied and received MFIs loans only
Sources: SMEs survey

Survey respondents were also asked about the additional product/services apart from financial services offered by MFIs. In this regard, 17.4 percent of the respondents indicated that MFIs help them in setting up their business plans and control their business activities. About 15.4 percent indicated that saving, insurance and asset management were additional products/services provided by MFIs. The remaining 64.4 percent complained that MFIs had no additional products/services (table 4.30).

Table 4.30 MFIs additional services*

MFIs additional services	Frequency	Percent
No	96	64.4
Third party asset management (trustee)	4	2.7
Savings, Third party asset management (trustee) insurance	23	15.4
Set business plans, monitoring and supervision, training	26	17.4
Total	149	100.0

*Totals may not agree due to rounding
Sources: SMEs survey

Survey respondents were also asked to identify and rank the sources they normally use to meet their finance needs for working capital and medium & long term investment separately. The results are given in tables 4.31 and 4.32 respectively. It can be observed that own savings/retained earnings were rated as the single most important source of finance both for working capital and medium & long term investment.

Table 4.31. Source of finance to meet working capital needs*

Source of finance	1st	2nd	3rd
Own saving /Retained earning	39	28	3
Borrowing from banks	11	28.5	19
Borrowing from MFIs	22	12.8	18.8
Governmental advice	0	5	11.4
Borrowing from relatives, *iqub*, associations	28	25.5	27.5

*Totals may not agree due to rounding
Sources: SMEs survey

Despite this, banks and MFIs also provided financial resources to finance working capital and investment needs. MFIs were primarily providing short-term loans. However, bank loans were good for financing investment needs.

Table 4.32 Source of finance for medium and long term investment*

Source of finance	1st	2nd	3rd
Own saving /Retained earning	45	39.5	11.5
Borrowing from banks	19	13.8	19.2
Borrowing from MFIs	12	8.4	17.4
Governmental advice	1	0	0
Borrowing from relatives, *iqub*, associations	24	23	10

*Totals may not agree due to rounding
Sources: SMEs survey

4.1.2. In-depth interview Results

In addition to survey of SMEs managers and/or owners and sales persons, the researcher conducted in-depth interview with bank and MFIs' managers and/or officials. The outcomes of the in-depth interviews are presented in two sections. The first section shows banks' products and services package available to SMEs while the second section presents MFIs' products and services package provided to SMEs.

4.1.2.1. Bank products and services

In depth-interviews were conducted with bank officials and /or managers. According to the outcomes of the interviews, banks offer financial as well as non financial products and services to SMEs. The first important service of banks was mobilizing deposits from the public and business community. Depending upon the nature of deposits (current/demand deposit, saving deposit, fixed deposit, recurring deposit, miscellaneous deposits), funds deposited with banks also earn interest. Thus, deposits with the banks grow along with the interest earned.

The second important function of banks was grant loans and advances. Such loans and advances are given to fulfill the financing requirement of the business community. The rate of interest charged on loans and advances varies depending upon the purpose, period and the mode of repayment. The borrower may withdraw and repaid the entire amount in lump sum or in installments. An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances was to meet the day to day requirements of business.

Besides the primary functions of accepting deposits and lending money, banks were performing a number of secondary functions. These include: issuing letters of credit, demand drafts and pay orders, transferring money from one place to another, and other transactional products such as currency alteration, liquidity, quantity divisibility, and maturity flexibility and collecting and supplying business information.

Apart from these two main activities, banks were also rendering a number of auxiliary services. These services supplement the main activities of the banks. They broadly fall under two categories: agency services and general utility services. Agency services are those services which were rendered by banks as agents of their customers. They include: collection and payment of money, and payment of checks and bills on behalf of the customers, if so instructed; acting as a trustee or executor; acting as agents or correspondents on behalf of customers for other banks and financial institutions at home and abroad. General utility services are those services which are rendered by banks not only to the customers but also to the general public. These are available to the public on payment of a fee or charge. They include: safe-keeping of valuables in safe deposit locker; supplying trade information and statistical data useful to customers; and acting as a referee regarding the financial status of customers.

Regarding the mode of financial assistance, the outcomes of interviews with bank managers/officials reveals that banks offer short term financial assistance by way of short term loans, cash credit, and overdraft facility. A cash credit is an arrangement whereby the bank agrees to lend money to the borrower up to a certain limit. The amount is credited to the account of the customer. The borrower draws the money as and when they needs.

Apart from granting cash credit and short term loans, banks also grant short term financial assistance by overdraft facility. Overdraft facility is the result of an agreement with the bank by which a current account holder is allowed to withdraw a specified amount over and above the credit balance in their account. This facility is made available to current account holders who operate their account through checks. The customer is permitted to withdraw the amount as and when they need it and to repay it through deposits in their account as and when it is convenient to them. By granting these short term financial assistances, banks help the business community in financing working capital.

In addition to the above short term financial assistances, the outcomes revealed that banks grant intermediate and long term loans. Bank term loans (both lump sum and installments) had been the main mode of finance for medium and long term financing requirement of SMEs during the preceding few years. This is in line with the traditionally important role of commercial banks.

4.1.2.2. Microfinance institutions' products and services

In depth-interviews were also conducted with MFIs officials and/or managers. The outcomes of the interviews regarding the MFIs products and services show that MFIs also provide financial as well as non financial services. MFIs typically provide variety financial services (loans, savings, cash management, insurance, and payment facilities) which are crucial for SMEs growth.

Loans provided by MFIs that were available to SMEs are term loans and installment loans. The Loan term and size was depending on the purpose of the loan, the capacity of the borrower to pay the loan, and the lending capacity of the institution.

Savings and saving mobilization are other financial services provided by MFIs. MFIs provide two types of savings products: voluntary and compulsory saving facilities. Compulsory saving may have an advantage of developing saving culture among borrowers and used as collateral for loan. Enterprises were also used this savings as one of the instruments for arrears settlement. Cash collections, savings mobilization activities, and loan disbursements were made both at center or branches level.

MFIs also provided some supplementary services to SMEs such as accepting contracting document (between SMEs and their customers) for granting loans, refinancing future potential SMEs projects, and act as trustee.

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MFIs also provided some supplementary services to SMEs such as accepting contracting document (between SMEs and their customers) for granting loans, refinancing future potential SMEs projects, and act as trustee.

Apart from financial services, MFIs also provide non-financial services to SMEs. The major non-financial services include setting up business plans, counseling, marketing, bookkeeping, monitoring, and experience sharing among clients. Business development training about marketing, record keeping, and pricing was delivered for every client. Association of Ethiopian Microfinance Institutions also provides experience-sharing forums by preparing workshops, panels, and publicizing bulletin, occasional thesis s and other materials.

4.1.3. Documentary analysis – regression estimates

Finally, role of financial institutions in the growth of SMEs has been examined by estimating linear regression model. The data for this section was collected from different documents kept by SMEs coupled with survey. The mean loan value of SME along with the control variables for five years has been regressed against mean values of growth variable i.e. sales of each SME. Table 4.33 and 4.34 shows the result of descriptive statistics and regression model respectively.

Table 4. 33 Descriptive Statistics

Variables	Mean	Median	Maximum	Minimum	S D
Sales	371497.1	208845.0	4837954.2	11200.00	493244.7
Debt	181302.1	104121.8	2771323.	6784.000	231114.2
Employment	11.00000	10.00000	41.00000	1.000000	6.976010
Age	6.840268	7.000000	27.00000	3.000000	4.254029
Internationalization	0.028591	0.000000	1.000000	0.000000	0.165916

Source: E views results

It was used annual sales as a measure of firm growth as dependent variable and measured by the growth rate in percentage terms. Sales growth is significantly influenced by the following set of variables: external finance (percentage change in total borrowed capital from bank and MFIs), firm size (percentage change in employees), age of firms, and internationalization (dummy variable that equals 1 if SME have export strategy and 0 otherwise).

Table 4.34 Regression results

Dependent Variable: Percentage change in Sales
Method: Panel Least Squares
Sample (adjusted): 2005/6 2009/10
Cross-sections included: 149

Variable	Coefficient	t-Statistic	Prob.
Constant	35.46062	0.169297	0.8656
Percentage change in debt	0.449794	16.86151	0.0000
Percentage change in employment	0.445895	2.171338	0.0304
Age	2.412629	0.020923	0.9833
Internationalization	31.43836	2.732537	0.0065

R-squared	0.617728	Mean dependent var	83.48759
Adjusted R-squared	0.483064	S.D. dependent var	263.5878
F-statistic	4.587179	Hannan-Quinn criter.	13.99430
Prob.(F-statistic)	0.000000	Durbin-Watson stat	2.027297

Source: E views results

To ensure the statistical adequacy of the model (to satisfy the assumption of classical linear regression model), diagnostic tests were performed and violations were also detected. The adjusted R^2 value indicates that 48 percent of the total variability of growth (percentage change in sales) about their mean value was explained by the model. For a cross sectional regression, this is fairly high (Brooks, 2008). The Durbin-Watson statistics of 2.03 indicating no evidence for autocorrelation between the independent variables of the regressions model (Brooks, 2008).

This chapter has separately presented the results of different methods adopted. Specifically, the results of survey of SMEs, documentary analysis (documents held by SMEs), and in-depth interviews with banks and MFIs managers/officials. In order to address the research problems and achieve research objective, the results of the different data collection methods were jointly analyzed. The analyses were based on the results obtained and literature guide. The next section, presents the analysis of each of these methods of inquiry to address each of the research questions and hypothesis.

4.2. Data analysis

The purpose of this section is to address each research questions and hypothesis in achieving the overall objective of the study using data presented in the preceding section. Hence, the results obtained under different methods are jointly analyzed to address each research questions and hypothesis.

4.2.1. Research question (RQ1)

What roles do financial institutions, specifically banks and MFIs, play in SMEs growth?

Data obtained from SMEs survey and in-depth interview with financial institution managers/ officials was used to address this research question.

As noted in chapter two, a well-developed financial institution allows the firms to have access to financial services as well as non financial services, which they are often denied (Amina, 2009). The efficiency of the process through which resources are channeled into productive activities is crucial for growth. Banks and MFIs are one part of this process.

Banks, as Allen and Gale (2008) noted, have historically been viewed as playing a good role in firm's growth for two reasons. One is that they perform a critical role in facilitating payments. The other is that they have long played an important role in channeling credit to households and businesses. Commercial banks, as well as other intermediaries, provide services in screening and monitoring borrowers; and by developing expertise as well as diversifying across many borrowers, banks reduce the costs of supplying credit. Thus, in their role as lenders, banks are often not merely buying someone's debt; rather, they are providing significant financial services associated with extending credit to their customers. And to the extent that investors want to hold bank liabilities, banks can fund borrowers directly.

Examination of the results in respect of roles of banks in the growth of SMEs showed the following findings. Firstly, banks provided both short and long term financial resources to SMEs for working capital as well as investment financing requirements. About 59.7 percent of SMEs had access to and received financial services from banks (table 4.11). This seems to support the view that SMEs use banks as one source of finance (Hoshi, 1990). This enables the SMEs to finance urgently needed expenditures. As Edwards and Fischer (1994) noted, borrowing from banks has many advantages to the business community than other sources. First, finance is available for a definite period; hence it is not a permanent burden. Second, banks keep the financial operations of their clients secret. Third, banks do not interfere in the internal affairs of the borrowing concern; hence the management retains the control of the company. As shown in table 4.18, 4.19, 4.31, and 4.32, banks finance a significant proportion of companies' investment needs and also provided finance for working capital requirements.

Secondly, it was also interesting that bank loans were used for the payment of previous loans, which is in support of the refinancing role of financial institutions (table 4.18). This means of financing is commonly used by firms when the cost of previous borrowed funds is higher than the current interest rate (Edwards and Fischer, 1994).

Thirdly, SMEs typically received a variety of additional financial services that only banks are well-positioned to provide. These include cash management, saving and payments, and other transactional products i.e. currency alteration, liquidity, quantity divisibility, and maturity flexibility (table 4.20).

Fourthly, besides providing financial resources, banks, as discussed in Allen and Gale (2008), help SMEs growth through ameliorating information problems, ensuring proper utilization of funds, provide inter temporal smoothing of risk, and standing guarantee on behalf of its customers for making payments.

Generally, banks were helping the development of SMEs directly as well as indirectly. First, banks allowed the SMEs to have financial services such as saving facilities, payment instruments, credit and other transactional products. Second, the banking sector also contributed to SME's growth indirectly as Diamond (1984) noted, by reducing monitoring and transactional costs associated with external finance, and improving risk sharing through exchanges of risk among individuals at a given point in time.

Apart from banks, MFIs were also proven effective in providing services to SMEs. Securing financial services is the main target for the establishment MFIs. MFIs do not only grant financial services but also provided them with some non financial services. These non financial services are meant to feed the SME with the necessary business skills to better run the venture (Ledgerwood, 1999).

MFIs are assets to the developing and transition countries (Ledgerwood, 1999). The services they provide are tailored to meet the needs and aspirations of the local inhabitants and emphases are towards the poor. The products and services put forth to the community are not solutions by themselves to the numerous problems affecting the poor. Instead, they only provide a plat-form for those who were considered not fit to meet bank requirements. SMEs were very much affected by these constraints and MFIs are towards bridging the gap. Microfinance is only a portion of what is needed to boost enterprises which are incapable of getting the necessary assistance from commercial banks. They develop new markets, increases income, create and accumulate assets and promote a culture of entrepreneurship (Albaladejo, 2001).

Examination of the results in respect of role of MFIs in the growth of SMEs demonstrated the following outcomes. Firstly, 53 percent of SMEs had access to and received financial services from MFIs (table 4.22). It is believed that access to credit enables SMEs to overcome their liquidity constraints and undertake some investments such as the improvement of technological inputs thereby leading to an increase in production (Robinson, 2003).The financial services delivered by MFIs were lending and savings. The types of loan provided by MFIs take two forms such as term loans and installment loans. Loan term and size was depending on the purpose of the loan, the capacity of the borrower to pay the loan, and the lending capacity of the institution. It is thought that credit augment growth of SMEs.

MFIs also deliver voluntary and compulsory saving activities. Compulsory saving may have an advantage of developing saving culture among SMEs. MFIs also attempt to deliver demand-driven financial products that meet the need of clients in various activities.

Secondly, apart from financial services, MFIs also provided non-financial services to SMEs. The major non-financial services provided by MFIs were training, setting up business plan and monitoring and supervisions, consulting services, and experience sharing forums (table 4.30). Some MFIs provide enterprise development training in the area of marketing, bookkeeping, and Social services. Social services such as health care, education and literacy training that improve the ability of the low-income earners. Sometimes MFIs also provides third party asset management (act as trustee), insurance and other transactional facilities (table 4.30).

Thirdly, the deliveries of MFIs' products and services had transaction cost consequences in order to have greater outreach (Christabell, 2009). MFIs visit their clients instead of them to come to the institution thereby reducing the cost that clients may suffer from. Microfinance clients admit that convenience is more important to them than return.

From the above discussion, one can deduce that financial institutions played different role in different stages of SMEs development. At the founding stage, they were provided startup capital and consulting in founding procedures. In the growth stage financial institutions contributed significant services in consultancy in financial management operation, lending short term working capital for mass production and inventory management, and long term capital for expansion of business. Financial institutions were also providing fund for expansion of production capacity, development of new products and transformation of core business at the maturity and transformation stage.

4.2.2. Research question (RQ2)

What forms of financing are available in financing working capital as well as medium & long-term loan requirements of SMEs?

Before one could set up any business venture, it needs a certain amount of capital, whether the business venture falls under the small, medium or large scale category. Firms' financing can be broadly divided into internal and external funds. A firm can use one of these two financing sources only or, as is more often the case in practice, a mixture of them. Traditionally, internal funding, i.e. personal savings, retained profit and sales of assets, is an important means of financing for SMEs. As Boot (2000) noted, investing personal savings maximizes the control of the entrepreneur keeps over the business. It is also a strong signal of commitment to outside investors or providers of funds.

External funding can be broadly divided into debt and equity. In practice, equity finance is limited in Ethiopia (Ageba and Amha, 2006). With respect to this study, this section investigates financial institutions' forms of debt financing used to finance SMEs working capital and investment needs.

There were varieties of sources of working capital finance for SMEs (Allen and Gregory, 2005). However, quite a number of SMEs survey respondents indicate that their main sources of working capital were from personal savings (39 percent), and informal sources like friends, relatives and *iqub* (28 percent). In addition, a significant number of SMEs indicates that they were obtained loans from MFIs (22 percent) and banks (11percent) to finance working capital. Poor performance was observed in respect of loans from government agencies (table 4.31). This is an indication that most of financial institutions were established to provide credit to the SMEs. The outcomes of interviews with bank managers/officials revealed that bank credit was available in such forms. First, cash credit, under this facility, the bank specifies a predetermined limit and the borrower were allowed to withdraw funds from the bank up to that sanctioned credit limit. Second, overdraft, under this arrangement, the borrower is allowed to withdraw funds in excess of the actual credit balance in its current account up to a certain specified limit during a stipulated period. Third, short term loan, under this system, the total amount of borrowing is credited to the current account of the borrower or released to the borrower in cash.

On the other hand, MFIs also grant working capital requirement in the form of term loans and installment loans. MFIs provide its lending services using mostly the group-based lending. However, cooperative and individual based lending methodologies were lately introduced in the system. Group members are jointly responsible for the loan. They will take the risk if one of a group member fails to repay the loan. The cooperative based loan requires physical asset or capital as collateral. Similarly the individual loan requires property or salary of permanent employees as collateral. Before taking the loan, all clients are required to undertake a training or orientation.

There were also a lot of sources available for funding of SMEs investment needs. These include among others personal savings, cooperative societies, government agencies, financial institutions, and international donor agencies (Allen and Gregory, 2005). Examination of the results revealed the following findings. Table 4.32 reveals that major source of finance for investment needs of SMEs were personal saving (45 percent), family and friends (24 percent), banking institutions (19 percent), and MFIs (12 percent). As Ageba and Amha (2006) discussed owner's savings and family and friends were still constitute a major source of financing for both working capital and investment requirements in Ethiopia. This was due to that informal loans take place among parties with utmost good faith, making the transactional costs and collateral requirement low.

Indeed, bank loans, cash credit and overdrafts and MFIs loans were not only used to finance working capital but also investment needs. Beck et al (2004) also show that small firms finance a smaller share of their investment with formal sources of external finance.

From the above discussion, even though personal savings and informal sources are the major forms of finance, banks and MFIs also played greater roles in financing working capital and investment requirements of SMEs. As the results presented in table 4.14; table 4.18; table 4.23, and table 4.28, finance available from these financial institutions were used to finance both day to day operating activities and investment needs. But the MFIs finance for meeting working capital needs was easily available to SMEs than bank financial resources. This was because microfinance institution loans criteria were easy and simple to fulfill. The view that requirement of collateral and loans criteria are relatively simple in case of MFIs than banks is consistent with expectations since such loans take place among parties with intimate knowledge, making the need for security (in the form of asset collateral and guarantee) low (Ledgerwood, 1999).

4.2.3. Research Question (RQ3)

Are the financial institutions products and services, accessible and affordable for the SMEs?

Several parameters were used in this study to assess the accessibility and affordability of financial institutions, specifically banks and MFIs' funds. These include criteria used to offer the loan, simplicity of loan criteria, adequacy of loan amount being provided, and timeliness of disbursement.

As Olu (2009) noted, loans that are inadequate to finance the intended activity are likely to be diverted into uses with lower outlays, more so in case of borrowers lacking own funds to fill the gap. Again rapid disbursal of funds allows borrowers to grasp immediate opportunities. Similarly, a mismatch of the maturity period (hence the repayment cycle/frequency) with the gestation period of the activity financed by the loan may lead to delinquency and/or client desertion. The transaction costs also affect the accessibility and affordability of funds such as cost of forming a group, cost of negotiating with the lender, cost of filling thesis work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings (Ledgerwood, 1999).

Examination of results in respect to accessibility and affordability revealed the following outcomes. Firstly, about 40.3 percent of SMEs survey respondents indicate that the bank loans were inaccessible and unaffordable (table 4.11). The possible explanations for inaccessibility and unaffordability of bank loans as presented in table 4.12. First it may be considered as discouraging potential borrowers (i.e. firms that need credit but were discouraged from applying by perceived or real high collateral requirement (76.7 percent), difficulty of processes involved and worsen terms and conditions (75 percent), high cost of borrowing (18.3 percent), or fear of repayment ability (51.7 percent)). Second it may be considered as uninformed i.e. not aware of the facility, or where and how to apply (11.7 percent). About 47.2 percent indicates that bank loans were inadequate for financing of operating activities as well as for investing activities (table 4.17).

Regarding the MFIs, 47 percent of survey respondents indicate that the MFI loans were inaccessible and unaffordable. Table 4.25 clearly shows the most frequently mentioned reasons such as respondent's business size were beyond the target for MFIs credit facilities; respondents were not aware of MFIs loan facilities; difficulty to form a group which is a requirement for MFIs loans, and no MFIs operates in the area (70 percent). Other reasons were also including inadequate collateral, high borrowing cost and fears of in ability to repay, and difficulty of the process to be given a loan.

Secondly, securing financial resources was also determined by the stage or level of business development. Businesses that are viewed as growing had it easy to get a loan (Beck, et al, 2004). But in the context of Ethiopia, as outcomes of interviews with bank managers and/or officials reveals that the main criteria to offer loans were the ability to pay back and to meet the established requirements. Due to this about 67.4 percent of SMEs find it hard to meet to be given bank loans (table 4.16).

4.2.4. Research question (RQ4)

How do financial institutions address the problems that SMEs face in the process of accessing and settling loans?

In Ethiopia, the potential sources of finance include banks, MFIs, cooperatives, government projects, semi-formal & informal lenders, as well as trade credit (Ageba and Ahma, 2006). But, having access to some of the sources was a major constraint to SMEs. High collateral and transactional costs, inadequate supply of finance, forms of finance, liquidity, and long and difficult application process were some of the problems that SMEs face in accessing funds. Information asymmetry between loan provider and loan receiver was also other constraints that hindering SMEs growth.

Finance helps firms overcome liquidity constraints and thus improve resource allocation in the economy (Rajan and Zingales, 1998). Allen and Gregory (2005) noted the higher financing obstacles that SMEs report match not only anecdotal evidence from both developed and developing countries; they also confirm theory's predictions. In a world with fixed transaction costs and information asymmetries, small firms with demand for smaller loans face higher transaction costs and face higher risk premiums since they are typically more opaque and have less collateral to offer. (Beck et al (2004) finds that the higher financing obstacles faced by SMEs indeed translates into slower growth.

There were many reasons why the SMEs do not have access to financial services; specifically there were two important problems. First, the smaller firm has no collateral. Second, dealing with small transactions was costly to financial institutions. Financial institutions, specifically banks and MFIs, addressed some of the constraints that SMEs face in accessing funds. First, MFIs tried to overcome these two constraints in many ways: Group lending, cooperative, and individual based lending schemes. These were improving repayment incentives and transactional costs, and also build support networks and educate borrowers. These alternative collateral and credit facilities will prominently enhance SMEs growth by ways of easing SMEs' financing constraints and on increasing their access to formal sources of external finance (Christabell, 2009).

Second, to mitigate financial distress that comes from the mismatching of cash inflows and out flows (loan maturity period), financial institutions were flexing loan terms and conditions/requirements and postpone the payment date. The more time a firms get, the less likely the firm is to experience problems of meeting short-term obligations. Thus, the probability that a firm will avoid financial distress can be enhanced through flexing and postpone payment date (Waterfield and Duval, 1996).

Third, financial institutions, specifically MFIs, were provided consultancy and training to equip SMEs in the area of business skills, book keeping, production, and financial management. As noted in Kayanula and Quartey (2000) training will enhance skills of employees', flexibility in managing the operations, and reduce costs.

Fourth, financial institutions were ameliorated the information problems through their monitoring effort and supply of valuable information. Credit availability to enterprises, but especially to SMEs, depends on the infrastructure that supports financial transactions, including the legal system and the information environment. Commercial laws that effectively assign and protect property rights and their efficient enforcement are crucial for financial transactions (Beck et al., 2004). Allen and Gale (2008) have also shown the positive effect that information has on credit availability to SMEs.

4.2.5. Hypothesis (H)

As pointed out in chapter three, the hypothesis formulated for the purpose of this research work would be tested using the statistical technique. The research hypothesis states that:

H_0: *Loan from financial institutions, banks and MFIs, does not foster SMEs growth.*

H_1: *Loan from financial institutions, banks and MFIs, contributes significantly to SMEs growth.*

To test this hypothesis, data was obtained from the document analysis coupled with survey. Table 4.33 shows the result of regression model in which the role of financial institutions on growth measures has been explained. The regression result reveals that there was change in the level of SMEs sales (i.e. growth of SMEs) as a result of change in level of financing by financial institutions. The coefficient of debt from financial institutions was 0.45. Specifically, if financial institutions loans rise by 1percent, growth (sales of SMEs) will be expected to rise on average by 0.45 percent. Furthermore, the p-value (p-value =0.0000) of change in debt (loan from banks and MFIs) was positive and statistically significant at 1 percent. The positive coefficient of debt indicates that a positive relationship between the SMEs growth and debt i.e. sales and external finance.

As noted in Levine (2005) financial institutions potentially shape key aspects of firm dynamics, such as size and growth, and thus industry productivity and growth. The impact across firms of financial institutions is most likely heterogeneous as firms differ in their need of external finance. The actual sign of the coefficients was compared with their expected sign, given in chapter three. This empirical evidence is consistent with the theory of development of financial institutions having significant effect on the firm's growth and size (Rajan and Zingales, 1998; Demirguc,- Kunt and Maksimovic's, 1998); and Levine, 2005).

As stated in Brooks (2008), another way to evaluate an econometric model is to determine whether it is consistent with theory. In this instance, according to Levine (2005), in a well functioning financial system, financial institutions potentially shape key aspects of firm dynamics, such as size and growth. Rajan and Zingales (1998) also argued that well-developed financial institutions help firms to overcome problems of moral hazard and adverse selection, thus reducing the firm's cost of raising money from outsiders. Thus, financial institutions could generate an overall positive effect on firm's growth that is comprised of a range of effects across firms.

Apart from debt, other independent variables like average size (percentage change in employees), internationalization (dummy variable that equals 1 if SME have export strategy and 0 otherwise) and natural logarithm of age were used in the regression model. Firm's size (p-value =0.0304) and internationalization (p-value =0.0065) were statistically significant at 5 percent or lower while the regression F-statistic do not support the null hypothesis that all coefficient values on explanatory variables are zero. This phenomenon confirms with Esra (2003) the notation that size (percentage change in employees) and internationalization (dummy variable that equals 1 if SME have export strategy and 0 otherwise) were strongly affected the growth measures i.e. change of sales. As discussed in Esra (2003) export strategy is the main foreign-market entry mode used by business enterprises in their internationalization efforts, because it can be expected that firms, active in export trade, may be relatively more capable of increasing their sales. Size of firms was also affect sales, because it can be expected that the larger firms grow faster than smaller ones due to their ability to employ high skilled, skillful managers and workers and to achieve more efficient product facilities (Ardishvili, et al., 1998).

However, age of the SMEs was not found to be statistically significantly affecting the SMEs growth. This is the views that younger firms would grow rapidly than older firms due to innovative ideas and dynamic management.

In general, the discussions in this chapter endeavored to integrate the results of the quantitative and qualitative methods so as to address the research questions and hypothesis and achieve the research objective. The next chapter presents the summary and conclusions of major findings and highlight implications and future research directions.

Chapter Five

Conclusions

The purpose of this last chapter is to summarize the whole thesis and highlight implications and future research directions. Accordingly, section one presents an overview of the thesis and its major findings. The second section discusses the implications to the policy makers and financial institutions. Finally, the limitations and future research directions are presented in section three.

5.1. Overview of the thesis and its major findings

The thesis began with an elaboration of financial institutions role in general and to SMEs in particular. It was noted that access to financial institutions products and services is a crucial element for the development of SMEs. Thus their sustainable growth will largely depend on the capacity of financial institutions to mobilize resources from low valued to high valued and invest in SMEs activities.

The thesis reviewed literature on the theoretical recognition and empirical evidence of the role of financial institutions in enterprises growth, particularly in SMEs growth. The review highlighted overall role of financial institutions. This shows the various roles that financial institutions, particularly, banks and MFIs, play in the development of SMEs.

With regard to banks, the literature review revealed the banks role in ameliorating information problems and monitoring investments, inter-temporal smoothing of risk, corporate governance, and financing working capital and investment requirements.

In respect of MFIs, the literature review showed that MFIs were established to fill the gap existed between commercial banks and poor or small business entrepreneurs and then increased the amount of undertaken productive projects. Apart from this the review revealed MFIs products and services package available to enterprises such as financial services, social intermediation or non financial services and enterprises development services.

Further, the literature review showed the nature and importance of SMEs in economic development and employment. The review indicated the different definition of SMEs across nation and business categories. Concerning the definition it was pointed out that there is no single demarcation line to categorize enterprises as micro, small, medium and large. Even though every nation has different definition, SMEs play important role in its economic activities. In Ethiopia, their role is considered even more importance in achieving sustainable economic development. And also the review revealed growth indicators/measures and then, sales as the best growth measure.

Apart from nature and importance of SMEs, the literature review highlighted the general constraints to SMEs growth. The review showed the input, output, regulation and management constraints.

The review of empirical evidence revealed that in spite of their limitedness, financial institutions potentially shape key aspects of firm dynamics, such as size and growth, and then economic growth. Further, in the empirical evidence it was indicated that the previous studies merely focused on access to finance and challenges of SMEs, but other than financing role appeared to be unknown. Finally, in the context of Ethiopia, there is no reliable and comprehensive study to examine the role of financial institutions in SMEs growth. These gaps in the literature led to the current research questions:

> *What roles do financial institutions, specifically banks and MFIs, play in SMEs growth? Are the financial institutions products and services, accessible and affordable for the SMEs? How do financial institutions address the problems that SMEs face in the process of accessing and settling loans?*

It was discussed that depending on the quest for the solution of a problem and research philosophy, a research method would be based on quantitative, qualitative or mixed approach. The thesis examined the three common research approaches features. In general, it was noted that the use of a single methods in assessing a given phenomenon is likely to yield limited outcomes. So, the current study combined both qualitative and quantitative research approaches to get the benefit of a mixed method approach. While the quantitative aspect were survey and documentary analysis (quantitative/qualitative data), the qualitative aspect employed in-depth interviews with banks and MFIs managers/officials. With respect to survey, semi-structured questionnaire was distributed among randomly selected SMEs in Addis Ababa and a response rate 87.6 percent was achieved. The survey instrument contained both open and close ended questions. Documentary studies also conducted simultaneously with actual conduct of survey to obtain information that may not be obtained through survey. On the other hand, in-depth interviews with banks and MFIs managers/officials were conducted at different time in their home office in order to have some clarifications on the issues that were raised.

The results of survey coupled with data obtained from documents held by SMEs and in-depth interviews with banks and MFIs managers /officials were jointly used in analyzing role of financial institutions in SMEs growth. In general, the results and analysis reflect the following major findings.

Financial institution has shown an encouraging growth in its growth and outreach. The number of borrowers, average loan size has increased in a remarkable way. However, SMEs has a serious hindrance in gaining access to products and services from financial institutions, particularly from banks. Inadequate collateral, difficulty of processes, fear of inability to repay, and high borrowing cost were frequently mentioned reasons by SMEs for inaccessibility of banks products and services.

Even though they had limited access to banks financial resources, SMEs were received both short term and long term loans. Thus SMEs were used banks as one source of financing either for working capital or investment requirements. Not surprisingly, bank loans were also used not only for operation requirement but also for settlement of previous loans. Similarly, banks were typically provided a variety of additional financial services such as cash management, saving and payment, and other transactional products. Besides providing financial services, banks were help SMEs growth through ameliorating information asymmetry, inter temporal smoothing of risks, and by ensuring proper utilizations of funds. However such contributions of financial as well as non financial services were found to be by far lower than the SMEs demand.

Concerning with banks products and services, the result of in depth interviews with banks managers and officials revealed that banks also rendering a number of auxiliary services such as agency and general utility services.

Regards the forms of financial assistance, banks offered short term loans, cash credit, and over draft facility to finance SMEs working capital requirements. Similarly, banks also offered medium and long term financial assistance by way of term loans. This is in line with the traditional role of commercial banks. In general, although limited provision of banks products and services, banks help the SMEs development and growth.

Apart from banks, MFIs played significant role in SMEs development process. In the context of Ethiopia, MFIs were established to broaden access to financial services for poor and small enterprises. MFIs provided both term loan and installment loans. It was shown that access to MFIs enabled SMEs, particularly small enterprises that are underserved by banks, to overcome financing constraints and thereby accelerating their growth rate. Despite their importance in SMEs growth, MFIs still provided inadequate financial access to finance SMEs working capital as well as investment needs.

In addition, MFIs typically provided a variety of additional financial services include: cash management, saving and payment, third party asset management (trustee) and insurance. Besides providing financial services, MFIs also provided social intermediation, non financial services, and enterprise development services. However, some MFIs failed to provide such products and services. The most frequently mentioned reasons are low lending capacity, business size were beyond the target, inadequate funds, and high borrowing cost. However, the social benefits that gained by clients of MFIs supersede the high borrowing cost.

In addition, MFIs also support the development of SMEs through training in book keeping and manpower development, business control and monitoring, and by providing available business as well as others relevant information.

Further, financial institutions addressed some of the problems that SMEs face in the process of accessing and settling of loans. Sometimes banks flexing loan terms and conditions/requirements to enhance SMEs access to banks financial resources and postponed loan maturity period to overcome SMEs financial distress. Similarly, MFIs used alternative collateral and credit facilities to address financing constraints and postpone loan maturity period and refinancing future potential projects to overcome loan settlement problems.

Finally, with respect to the relationship between SMEs growth and loans from financial institutions, banks and MFIs, the result of regression analysis showed that there was positive statistically significant relationship between them. That is, SMEs growth had increased when the level of financial resources from financial institutions was increased.

5.2. The implications of these findings

The goal of financial institutions is to support the competitiveness and long-term growth of enterprises, and then the economic development of a country. This will be accomplished through support for enhancing the private delivery of services. In this context the following five main measures were suggested to the financial institutions and policy makers.

1. **Creation of a level playing field**: In order to promote the development and growth of SMEs the institutional biases should be reduced so as to include the small business into the system. This will enable them to get access to the financial institutions especially banks', products and services.
2. **Lowering transactional costs of business**: To the extent that it is practical, financial institutions' programs should lower financial and economic transaction costs. It is recognized that the fixed costs of doing business are less easily absorbed by smaller firms than by large ones. Therefore, actions to reduce bureaucratic procedures, enhance access to credit, eliminate unnecessary

requirements, and expand the availability services will benefit SMEs to a greater degree.

3. **Targeted programs**: Eliminating institutional biases and lowering transactions costs are necessary, but not sufficient steps to promote SMEs. In cases where SMEs do not have access to the necessary inputs because of the failure of the market to provide them, the Banks and MFIs can promote the provision of services and information that fill these gaps.
4. It is necessary to **reappraise** the role of commercial banks in Ethiopia, which have been the traditional intermediaries between saving households and investing firms. These may include asset management, fee based services, enterprises development services. The move away should be encouraged by regulators.
5. Financial institutions should develop wide range financial as well as non financial products/services to the needs of SMEs.

5.3. Limitations and further research directions

As a research this thesis is not without limitations and exhaustive. Thus, this section briefly discuses these limitations and also indicates possible future research directions.

One of the limitations of this thesis is inadequacy of time and scarcity of money so as to carry out a thorough/ detailed research including all the states/regions in the country. The focus of the thesis on single segment of the economy i.e. SME is another limitation. Further, the thesis also ignores other functions of financial institutions for large enterprises and economic growth. From this it was apparent that such issues as role of financial institutions on other segments of the economy were not examined. Finally, this research thesis was not being entirely about SMEs instead, it only investigate the contribution of financial institutions for the growth of SMEs.

These limitations lead to possible future research directions. This thesis only focused on role of financial institution in SMEs growth. So, overall funding arrangement for SMEs sector in Ethiopia is remain unknown. Investigating the role of financial institutions in large enterprises and economic growth provides another area of future research.

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Appendix 1 - SMEs survey instrument (English version)

Addis Ababa University
School of Business and Public Administration
Department of Accounting and Finance

Small and Medium Enterprises (SME's) survey questionnaire

Dear Participant

This project is entitled **"Role of financial institutions in the growth of small and medium enterprises in Addis Ababa"**. The investigator is Dereje Workie who is currently an MSc (in accounting and finance) student at the Addis Ababa University.

The aim of this project is to investigate the long run relationship between financial institutions and Small and Medium Enterprises growth in Ethiopia, particularly in Addis Ababa city. To supplement the data obtained from selected banks and microfinance institutions by means of face-to-face interviews, the investigator seeks to gather relevant information from randomly selected SMEs in Addis Ababa using a self administered questionnaire.

Participation in this project is completely voluntary. Survey results will be recorded anonymously and strict confidentiality will be maintained. Individual responses will not be identified in the investigator's MSc thesis.

For further information, please cont act Dereje Workie by the following address:

Tel.: +251 913 55 33 89

E mail: deje24@yahoo.com

Appendix 1 SMEs survey instrument (English version)

Section I: Background

1. What is your level of education?

Diploma ▢**1**

Bachelor degree ▢**2**

Masters or above ▢**3**

Others ▢**4,** Please specify...

2. What is your current position in the company

Manager ▢**1**

Owner/manager ▢**2**

Sales person ▢**3**

Others ▢**4,** Please specify...

3. How long have you been working in this position

Less than one year	▢**1**	5-10years	▢**3**
1-5 years	▢**2**	More than 10 years	▢**4**

4. What is your main business activity?

Manufacturing ▢**1**

Trade ▢**2**

Agriculture ▢**3**

Services ▢**4**

Construction ▢**5**

Others ▢**6,** Please specify.....................................

5. Your business is:

Sole proprietorship ▢**1**

Partnership ▢**2**

Private Limited company ▢**3**

Others ▢**4,** Please specify.................................

6. How long has your organization been in business?

Less than one year	▢**1**	5-10years	▢**3**
1-5 years	▢**2**	More than 10 years	▢**4**

7. How many employees (both permanent and temporary) work for your enterprise in 2009/10 fiscal year?

1-10	▢1	51-100	▢4
11-20	▢2	More than100 employees	▢5
21-50	▢3		

8. Over the last 3 years how was the level of market competition in the area that your business is engaged in

No competition	▢1	Strong competition	▢3
Moderate competition	▢2	Severe competition	▢4

9. Please indicate roughly the average sales of your business in 2009/10 fiscal year.

Birr 10,000 or less	▢1	Birr 100,001 – Birr 1,000,000	▢4
Birr 10,001 – Birr 50,000	▢2	Birr 1,000,001 or more	▢5
Birr 50,001 – Birr 100,000	▢3		

10. Please indicate the average export to total sales ratio of your business in 2009/10 fiscal year.

1-10%	▢1	More than 50%	▢4
11-20%	▢2		
21-50%	▢3	Unknown	▢5

Section II: Role of banks in Small and Medium Enterprises growth

11. Does your organization have access to financial resources from banks needed for developing your business? Yes ▢1 No ▢2

12. If the answer for question No. 11 is No, what do you think the reasons for not having access to financial resources (multiple answers are possible)?

Inadequate collateral	▢1
No need for credit	▢2
Fear of inability to repay	▢3
High borrowing cost	▢4
Process too difficult	▢5
Others	▢6, please specify............................

13. If the answer for question No. 11 is Yes, have you ever applied for a loan ("borrowed capital") to finance your business? Yes ▢1 No ▢2

14. If the answer for question No. 13 is Yes, what terms of credit (i.e. maturity period) involved in relation to the most recent loan received from banks

0-1year ▢1 5-10years ▢3

1-5 years ▢2 More than10 years ▢4

15. What criteria do the banks use to offer loans (multiple answers are possible)?

Collateral ▢1 Others ▢4, Please specify......................

Business plan ▢2

Third party guarantee ▢3

16. Are the criteria easy to be met? Yes ▢1 No ▢2

17. Do banks give adequate fund needed for your business? Yes ▢1 No ▢2

18. Loans received from banks are most commonly used for

Purchase of inputs/raw materials ▢1

Purchase of long lived assets (like machinery, business building) ▢2

Payment of previous loans ▢3

Others ▢4, please specify...

19. Have you ever had any problems in paying back the loan? Yes▢1 No▢2

20. If the answer for question No. 19 is yes, Please specify those problems

....

21. If the answer for question No. 19 is yes, what has happened to resolve them (multiple answers are possible)?

Restructuring ▢1

Post pone payment date ▢2

Removal of interest payment ▢3

Others ▢4, please specify...................................

22. Apart from financial services offered by the banks, how do banks help you (multiple answers are possible)

Set business plans and regular control of business ▢1

Saving and Payment services ▢2

Third parties asset management (trustee) ▢3

Insurance services ▢4

Others ▢5 please specify...

23. Do banks have special products and services designed for your business growth (multiple answers are possible)?

    Reschedule loans ☐1

    Provide the necessary skills and counseling ☐2

    Low interest rate on borrowing funds ☐3

    Factoring/discounting ☐4

    Others ☐5, please specify ……………………………………………………………

Section III: Role of microfinance institutions in Small and Medium Enterprises growth

24. Does your organization have access to financial resources from microfinance institutions needed for developing your business? Yes ☐1 No ☐2

25. If the answer for question No. 24 is No, what do you think the reasons for not having access to financial resources (multiple answers are possible)?

    Inadequate collateral ☐1

    No need for credit ☐2

    Fear of inability to repay ☐3

    Process too difficult ☐4

    High borrowing cost ☐5

    Others ☐6, please specify……………………………………...

26. If the answer for question No. 24 is Yes, have you ever applied for a loan ("borrowed capital") to finance your business? Yes ☐1 No ☐2

27. If the answer for question No. 26 is Yes, what terms of credit (i.e. maturity period) involved in relation to the most recent loan received from microfinance institutions

    Less than 1year ☐1 5-10years ☐3

    1-5 years ☐2 More than10 years ☐4

28. What criteria do the microfinance institutions use to offer loans (multiple answers are possible)?

    Collateral ▢**1**

    Business plan ▢**2**

    Permanent working places ▢**3**

    Others ▢**4,** Please specify................................

29. Are the criteria easy to be met? Yes ▢**1** No ▢**2**
30. Do microfinance institutions give adequate fund needed for your business?

    Yes ▢**1** No ▢**2**

31. Loans received from microfinance institutions are most commonly used for

    Purchase of inputs/raw materials ▢**1**

    Purchase long lived assets like machinery, business building ▢**2**

    Payment of loans ▢**3**

    Others ▢**4,** please specify...

32. Have you ever had any problems in paying back the loan to microfinance institutions?

    Yes ▢**1** No ▢**2**

33. If the answer for question No. 32 is yes, what has happened to resolve them (multiple answers are possible)?

    Restructuring ▢**1** Post pone payment date ▢**3**

    Removal of interest payment ▢**2**

    Others ▢**4,** please specify..

34. Apart from financial services offered by the microfinance institutions, how do microfinance institutions helps you(multiple answers are possible)

    Set business plans and regular control of business ▢**1**

    Saving and Payment services ▢**2**

    Reschedule/restructuring loans ▢**3**

    Insurance services ▢**4**

    Others ▢**5** please specify...

35. Do microfinance institutions have special products and services designed for your business growth (multiple answers are possible)?

Reschedule loans ▢1

Educating employee on the products and services offered ▢2

Provide the necessary skills and counseling ▢3

Low interest rate on borrowing for business development ▢4

Others ▢5, please specify ....

36. Rank the sources your business normally uses to meet finance needs for working capital requirement

Own saving/retained earn ▢1

Borrowing from banks ▢2

Borrowing from microfinance institutions ▢3

Government advance ▢4

Borrowing from relatives, *iqub,* associations ▢5

37. Rank the sources your business normally uses to meet finance needs for investment

Own saving/retained earn ▢1

Borrowing from banks ▢2

Borrowing from microfinance institutions ▢3

Government advance ▢4

Borrowing from relatives, *iqub,* associations ▢5

38. What is the role of banks in your business growth?

....

39. What is the role of microfinance institutions in your business growth?

....

40. Please indicate the impact of lack of finance on your business growth

....

41. Please indicate the role of banks and microfinance institutions which have not been covered by the questions so far

....

42. Do you or can you conclude that banks and microfinance institutions have helped you in developing your business? Explain how

....

Appendix 2 - SMEs Survey instrument (Amharic Version)

አዲስ አበባ ዩኒቨርሲቲ

የቢዝነስና ኢኮኖሚክስ ፋኩልቲ

አካውንቲንግና ፋይናንስ ትምህርት ክፍል

የአነስተኛና መካከለኛ ድርጅት/ተቋማት/ የጥናት መጠይቅ

የተከበሩ የጥናቱ ተሳታፊ

የዚህ ጥናት ርዕስ **"Role of financial institutions in the growth of small and medium enterprises in Addis Ababa"** ነው:: አጥኚው ደረጀ ወርቄ ሲባል በአሁኑ ጊዜ በአዲስ አበባ የኒቨርሲቲ ውስጥ በአካውንቲንግና ፋይናንስ የድህረ ምረቃ ተማሪ ነው::

የጥናቱ ዋና አላማ በአዲስ አበባ የገንዘብ ተቋማት በድርጅቶች እድገት ላይ ያላቸውን ሚና ማወቅ ነው:: ይህንን ለማድረግ መረጃ በዕጣ ከተመረጡ ባንክ ቤቶችና የብድርና ቁጠባ /microfinance/ ተቋማት በፊት ለፊት የጥያቄና መልስ እና በዕጣ ለተመረጡ አነስተኛና መካከለኛ ድርጅት/ተቋማት/ መጠይቅ በመበተንና በመሠብሠብ ይሆናል::

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

ለተጨማሪ መረጃ ደረጀ ወርቄን በሚከተለው አድራሻ ማግኘት ይችላሉ

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Appendix 2 SMEs survey instrument (Amharic version)

ክፍል አንድ፡ የርስዎና የድርጅቱ ጠቅላላ ሁኔታ

በተሰጡት የምርጫ ሳጥኖች ውስጥ የ ✓ ምልክት ያስቀምጡ፡፡

1. የርስዎ የትምህርት ደረጃ
   - ዲፕሎማ ☐1
   - ዲግሪ ☐2
   - ማስተርስና ከዚያ በላይ ☐3
   - ሌሎች ☐4 (ባክዎን ይግለጿቸው) ....

2. በድርጅቱ ውስጥ ያለዎት የስራ ድርሻ
   - ስራ አስኪያጅ ☐1
   - ባለሀብት/ስራ አስኪያጅ ☐2
   - የሽያጭ ሰራተኛ ☐3
   - ሌሎች ☐4 (ባክዎን ይግለጿቸው) ....

3. በዚህ የስራ ክፍል ላይ ለምን ያህል ጊዜ አገልግለዋል?
   - ከአንድ አምት በታች ☐1
   - 1-5 ዓመት ☐2
   - 5-10 ዓመት ☐3
   - ከ 10 ዓመት በላይ ☐4

4. የድርጅቱ ዋና የስራ እንቅስቃሴ ምንድን ነው?
   - ማምረት ☐1
   - ንግድ ☐2
   - እርሻ ☐3
   - አገልግሎት ☐4
   - ግንባታ ☐5
   - ሌሎች ☐6 (እባክዎ ይግለጿቸው)

5. የድርጅቱ የባለቤትነት ሁኔታ
   - በአንድ ግለሰብ ባለቤትነት የተያዘ ☐1
   - ከአንድ በላይ ባለሀብቶች ያሉት (ሽርክና) ☐2
   - ሀላፊነቱ የተወሰነ የግል ማህበር(plc) ☐3
   - ሌሎች ☐4 (እባክዎ ይግለፃቸው)..

6. ድርጅቱ በዚህ የስራ ዘርፍ ላይ ለምን ያህል ጊዜ ቆይቷል?
   - ከአንድ አምት በታች ☐1
   - 1-5 ዓመት ☐2
   - 5-10 ዓመት ☐3
   - ከ 10 ዓመት በላይ ☐4

7. በ2002 የበጀት ዓመት በአማካይ በድርጅቱ ውስጥ ምን ያህል ቋሚና ጊዜያዊ ሰራተኞች አሉ?
   - 1-10 ☐1
   - 11-20 ☐2
   - 21-50 ☐3
   - 51-100 ☐4

Appendix 2 SMEs survey instrument (Amharic version)

8. በአማካይ ለአለፉት ሦስት ዓመታት የገበያ ውድድር/ፉክክር ምን ይመስላል?

   ፉክክር የለም ☐1 ጠንካራ ፉክክር ☐3
   መካከለኛ ፉክክር ☐2 በጣም ጠንካራ ፉክክር ☐4

9. በ 2002 የበጀት ዓመት በአማካይ ድርጅቱ ምን ያህል ሽያጭ ነበረው?

   ብር 10,000 ወይም በታች ☐1 ብር 100,001 – 1,000,000 ☐4
   ብር 10,001 – 50,000 ☐2 ብር 1,000,001 ወይም በላይ ☐5
   ብር 50,001 – 100,000 ☐3

10. በ 2002 የበጀት ዓመት በአማካይ ድርጅቱ ወደ ውጭ ሀገር የሸጣቸው/የላካቸው/ ከአጠቃላይ ሽያጭ ጋር ሲነጻጸር በመቶኛ ሲሠላ ምን ያህል ይሆናል ?

    1-10% ☐1 ከ 50% ☐4
    11-20% ☐2 የለም/አይታወቅም ☐5
    21-50% ☐3

ክፍል ሁለት፡ ባንክ ቤቶች በድርጅቶች ዕድገት ላይ ያላቸው ሚና

11. ድርጅቱ ከባንክ ቤቶች የገንዘብ ብድር የማግኘት ዕድል አለው? አዎ ☐1 የለውም ☐2

12. ለጥያቄ ቁጥር 11 መልስዎ 'የለም' ከሆነ፤ ምክንያቱ ምን ይሆናል ብለው ያስባሉ(ከአንድ በላይ መምረጥ ይችላሉ)?

    በቂ ያልሆነ ዋስትና ያለመኖር ☐1
    ብድር ያለመፈለግ ☐2
    ብድሩን ለመመለስ ያለ ፍራቻ ☐3
    ወለዱ ብዙ ስለሆነ ☐4
    ብድር ለማግኘት ሂደቱ ከባድ ስለሆነ ☐5
    ሌሎች ☐6 (እባክዎ ይግለጿቸው)...

13. ለጥያቄ ቁጥር 11 መልስዎ 'አዎ' ከሆነ፤ ድርጅቱን ለማሳደግ የገንዘብ ብድር ተጠይቆ ያውቃል?

    አዎ ☐1 የለም ☐2

14. ለጥያቄ ቁጥር 13 መልስዎ 'አዎ' ከሆነ፤ ድርጅቱ በቅርብ ጊዜ የተበደራቸው ብድሮች ለምን ያህል ጊዜ ቆይታ/የብድር ጊዜ/ አላቸው?

    ከአንድ አምት በታች ☐1 5-10 ዓመት ☐3
    1-5 ዓመት ☐2 ከ 10 ዓመት በላይ ☐4

15. ባንክ ቤቶች የገንዘብ ብድር ለመስጠት ምን ምን ዓይነት መስፈርቶች ይጠይቃሉ(ከአንድ በላይ መምረጥ ይችላሉ)?

የዋስትና ማስያዥያ ☐1

የስራ ዕቅድ (business plan) ☐2

ዋስ/ተያዥ ☐3

ሌሎች ☐4 (እባክዎ ይግለጿቸው)...

16. ባንክ ቤቶች ብድር ለማበደር የሚጠይቋቸው መስፈርቶች ቀላል ናቸው? አዎ ☐1 አይደሉም ☐2

17. ባንክ ቤቶች ድርጅቱ የሚጠይቀውን/የሚያስፈልገውን/ ያህል ገንዘብ ያበድራሉ?

አዎ ☐1 የለም ☐2

18. ድርጅቱ ከባንክ የተበደረውን ገንዘብ አብዛኛውን ጊዜ ለምን ያውለዋል?

የፊጆታ ዕቃና ግብዓት ለመግዛት ☐1

ለረጅም ጊዜ የሚያገለግሉ ሀብቶችን ለመግዛት ለምሳሌ፡- የንግድ ቤት፤ ማሽኖች ☐2

ቀደም ሲል የነበሩ ብድሮችን ለመክፈል ☐3

ሌሎች ☐4 (እባክዎ ይግለጿቸው)...

19. ድርጅቱ የተበደረውን ገንዘብ በሚከፍልበት ወቅት ችግር አጋጥሞት ያውቃል? አዎ☐1 አያውቅም ☐2

20. ለጥያቄ ቁጥር 19 መለስዎ 'አዎ' ከሆነ፤ ባክዎን ችግሮችን ይግለጡ?

....

21. ለጥያቄ ቁጥር 19 መለስዎ 'አዎ' ከሆነ፤ ችግሮችን ለመፍታት ባንክ ቤቶች ምን የመፍትሄ አማራጭ ይሠጣሉ (ከአንድ በላይ መምረጥ ይችላሉ)?

የብድር ማስተካከያ/ሥረዛ ☐1

የመክፈያ ጊዜን ማራዘም ☐2

ወለድ የመተው ☐3

ሌሎች ☐4 (እባክዎ ይግለጿቸው)...

22. ከገንዘብ ብድር በተጨማሪ ባንክ ቤቶች ለድርጅቱ ዕድገት ምን አገልግሎት/ዕገዛ/ ሠጠውት ያውቃሉ (ከአንድ በላይ መምረጥ ይችላሉ)?

ቁጠባ አገልገሎት ☐1

የስራ ዕቅድ ማዘጋጀትና የስራ አፈጻጸም ክትትል ☐2

የሦስተኛ ወገን ገንዘብ ማስተዳደር አገልግሎት(trustee) ☐3

የኢንሹራንስ/መድህን/ አገልግሎት ☐4

ሌሎች ☐5 (እባክዎ ይግለጿቸው)...

23. ለድርጅቱ ዕድገት ሲባል ባንክ ቤቶች ምን የተለየ አገልግሎት ይሠጣሉ (ከአንድ በላይ መምረጥ ይችላሉ)?

የመክፈያ ጊዜ ማስተካከል/Reschedule loans/ ☐1

የስልጠናና የምክር አገልገሎት ☐2

አነስተኛ የወለድ መጠን ያለው ብድር ☐3

ድርጅቱ ከደንበኞቹ የተቀበለውን የዱቤ ሽያጭ ደረሰኝ መግዛት (discounting) ☐4

ሌሎች ☐5 (እባክዎ ይግለጿቸው)..

ክፍል ሦስት፡ ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት በድርጅቶች ዕድገት ላይ ያላቸው ሚና

24. ድርጅቱ ከብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት የገንዘብ ብድር የማግኘት ዕድል አለው?

አዎ ☐1 የለውም ☐2

25. ለጥያቄ ቁጥር 24 መልስዎ 'የለም' ከሆነ፤ ምክንያቱ ምን ይሆናል ብለው ያስባሉ(ከአንድ በላይ መምረጥ ይችላሉ)?

በቂ ያልሆነ ዋስትና ያለመኖር ☐1

ብድር ያለመፈለግ ☐2

ብድሩን ለመመለስ ያለ ፍራቻ ☐3

ወለዱ ብዙ ስለሆነ ☐4

ብድር ለማግኘት ሂደቱ ከባድ ስለሆነ ☐5

ሌሎች ☐6 (እባክዎ ይግለጿቸው)..

26. ለጥያቄ ቁጥር 24 መልስዎ 'አዎ' ከሆነ፤ ድርጅቱ ለማደግ የገንዘብ ብድር ጠይቆ ያውቃል?

አዎ ☐1 የለም ☐2

27. ለጥያቄ ቁጥር 26 መልስዎ 'አዎ' ከሆነ፤ ድርጅቱ በቅርብ ጊዜ ውስጥ የተበደራቸው ብድሮች ለምን ያህል ጊዜ ቆይታ አላቸው?

ከአንድ ዓመት በታች ☐1 5-10 ዓመት ☐3

1-5 ዓመት ☐2 ከ 10 ዓመት በላይ ☐4

28. የብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት የገንዘብ ብድር ለመስጠት ምን ምን ዓይነት መስፈርቶች ይጠይቃሉ(ከአንድ በላይ መምረጥ ይችላሉ)?

የዋስትና ማስያዥያ ☐1

የስራ ዕቅድ ☐2

ቋሚ የስራ ቦታ ☐3

ሌሎች ☐4 (እባክዎ ይግለጿቸው)..

29. ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ብድር ለማበደር የሚጠይቋቸው መስፈርቶች ቀላል ናቸው?

አዎ ▢1 አይደሉም ▢2

30. ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ድርጅቱ የሚጠይቀውን/የሚያስፈልገውን/ ያህል ገንዘብ ያበድራሉ?

አዎ ▢1 የለም ▢2

31. ድርጅቱ ከብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት የተበደረውን ገንዘብ አብዛኛውን ጊዜ ለምን ያውለዋል?

የፈጀታ ዕቃና ግብዓት ለመግዛት ▢1

ለረጅም የሚያገለግሉ ሀብቶችን ለመግዛት ለምሳሌ:- የንግድ ቤት፤ ማሽኖች ▢2

ቀደም ሲል የነበሩ ብድሮችን ለመክፈል ▢3

ሌሎች ▢4 (እባክዎ ይግለጿቸው)..

32. ድርጅቱ የተበደረውን ገንዘብ በሚከፍልበት ወቅት ችግር አጋጥሞት ያውቃል?

አዎ▢1 አያውቅም ▢2

33. ለጥያቄ ቁጥር 32 መለስዎ 'አዎ' ከሆነ፤ ችግሮችን ለመፍታት ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ምን የመፍትሄ አማራጭ ይሠጣሉ (ከአንድ በላይ መምረጥ ይችላሉ)?

የብድር ማስተካከያ/ሥረዛ ▢1

የመክፈያ ጊዜን ማራዘም ▢2

ወለድ መተው ▢3

ሌሎች ▢4 (እባክዎ ይግለጿቸው)..

34. ከገንዘብ ብድር በተጨማሪ ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ለድርጅቱ ዕድገት ምን አገልግሎት/ዕገዛ/ ሠጠውት ያውቃሉ (ከአንድ በላይ መምረጥ ይችላሉ)?

የቁጠባ አገልገሎት ▢1

የስራ ዕቅድ ማዘጋጀትና የስራ አፈጻጸም ክትትል ▢2

የሦስተኛ ወገን ገንዘብ ማስተዳደር አገልግሎት(trustee) ▢3

የኢንሹራንስ/መድህን/ አገልገሎት ▢4

ሌሎች ▢5 (እባክዎ ይግለጿቸው)..

35. ለድርጅቱ ዕድገት ሲባል ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ምን የተለየ አገልግሎት ይሠጣሉ (ከአንድ በላይ መምረጥ ይችላሉ)?

የመክፈያ ጊዜ ማስተካከል/Reschedule loans/ ▢1

የስልጠናና የምክር አገልገሎት ▢2

አነስተኛ የወለድ መጠን ያለው ብድር ▢3

ድርጅቱ ከደንበኞቹ የተቀበለውን የዱቤ ሽያጭ ደረሰኝ መግዛት (discounting) ▢4

ሌሎች ▢5 (እባክዎ ይግለጿቸው)..

Appendix 2 SMEs survey instrument (Amharic version)

36. የአጭር ጊዜ የገንዘብ ፍላጎትን ለማሟላት ድርጅቱ የሚጠቀማቸውን የገንዘብ አማራጭ ምንጮች በቅደም ተከተል ያስቀምጡ(በሳጥኑ ውስጥ ከ 1-5 ቁጥሮች በመስጠት የደረጃ ቅደም ተከተላቸውን ያሳዩ)?

የድርጅቱ ቁጠባና ትርፍ	☐
ከባንክ ቤቶች ብድር	☐
ከብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ብድር	☐
ከመንግስት የሚሠጥ ገንዘብ	☐
ከዘመድ፤ከቤተሠብ፤ከዕቁብ፤ከማህበራት	☐

37. የረጅም ጊዜ የገንዘብ ፍላጎትን ለማሟላት ድርጅቱ የሚጠቀማቸውን የገንዘብ አማራጭ ምንጮች በቅደም ተከተል ያስቀምጡ(በሳጥኑ ውስጥ ከ 1-5 በመስጠት የደረጃ ቅደም ተከተላቸውን ያሳዩ)?

የድርጅቱ ቁጠባና ትርፍ	☐
ከባንክ ቤቶች ብድር	☐
ከብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ብድር	☐
ከመንግስት የሚሠጥ ገንዘብ	☐
ከዘመድ፤ከቤተሠብ፤ከዕቁብ፤ከማህበራት	☐

38. ለድርጅቱ ዕድገት ባንክ ቤቶች ምን ምን ዓይነት ሚና ተጫውተው ያውቃሉ?

....

39. በድርጅቱ ዕድገት ውስጥ የብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ምን ምን ዓይነት ሚና ተጫውተው ያውቃሉ?

....

40. የገንዘብ እጥረት በድርጅቱ ላይ ያስከተለው ችግር ምንድን ነው?

....

41. እባክዎትን ከላይ በአጠቃላይ በመጠይቁ ከተጠቀሱት ውጭ ባንክ ቤቶችና የብድርና ቁጠባ ተቋማት ለድርጅቱ እድገት ያደረጉት አስተዋጽዖ ካለ ይግለጹ?

....

42. በርስዎ እይታ ባንክ ቤቶችና የብድርና ቁጠባ ተቋማት ለድርጅቱ እድገት እረድተውታል ብለው ያስባሉ? ያብራሩ

....

Appendix 3 - In-depth interviews questions

1. What bundle of financial institution products/services delivered to SMEs?
2. What are the tools, techniques or modes employed in financial institutions for financing of SME's?
3. Does your organization have special products/ services design for SMEs? How?
4. Are your products/services really as accessible and as effective in catering for the specific needs of SME's?
    a. Term
    b. Duration
    c. Adequacy
    d. Cost (time and many)
    e. Simplicity
    f. Criteria
5. Discuss modalities for the resolution of the problems encountered by SME's in accessing financial institutions products and services.
6. Is there any cooperation between microfinance institutions and commercial banks in financing SME's?