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**ADDIS ABABA UNIVERSITY  
COLLEGE OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE (POST GRADUATE PROGRAM)**

**DETERMINANTS OF ACCESS TO CREDIT IN COMMERCIAL BANKS IN  
ETHIOPIA. THE CASE OF SMALL AND MEDIUM SIZE ENTERPRISES IN ADDIS  
ABABA**

**BY: TENALEM TEMESGEN**

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FOR THE DEGREE OF MASTERS OF SCIENCE IN ACCOUNTING AND FINANCE**

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Addis Ababa, Ethiopia**

## DECLARATION

I, the undersigned, declare that this thesis entitled “**Determinants of Access to credit in Commercial Banks of Ethiopia, the case of small and medium enterprise in Addis Ababa.**”, is my original work and has not been presented for a degree in any other university or organization, and that all sources of materials used for the thesis have been duly acknowledged.

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**ADDIS ABABA UNIVERSITY**  
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**DECLARATION**

This thesis, written by Tenalem Temesgen, and entitled “**Determinants of Access to credit in Commercial Banks of Ethiopia, the case of small and medium enterprise in Addis Ababa.**” and submitted in partial fulfillment of the requirements for the Degree of Master of Science in Accounting and finance. Complies with the regulation of the University and meets the acceptable standards with respect to originality and quality. Approved by Board of Examiners:

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## List of Acronyms

**ANOVA:** Analysis of Variance

**NBE** - National Bank of Ethiopia

**SPSS** - Statistical Package for Social Sciences

**SME** - Small and medium-sized enterprise

**MSE** - micro and small enterprise

**IFC** - International Finance Corporation

## *ABSTRACT*

*This study aimed to identify the determinants of small and medium-sized enterprises' (SMEs) access to credit from commercial banks in Addis Ababa, Ethiopia. The general objective was to elaborate and discuss possible factors that affect SMEs' access to credit using both qualitative and quantitative research approaches. The study employed a mixed-methods approach with an explanatory and descriptive research design. The key independent variables investigated were collateral requirements, SME profile, financial performance, the number of financial institutions, and interest rates charged. Data was collected from 271 SMEs operating in Addis Ababa, using a questionnaire survey for primary data and annual reports National Bank of Ethiopia directives for secondary data. Simple random sampling was used to select respondents. The collected data were analyzed using SPSS version 26.0 and presented using percentages, means, standard deviations, and frequencies. In conclusion, the study found that collateral requirements, SME's profile, number of financial institutions, and interest rate all have significant effects on access to credit for SMEs in Addis Ababa. Collateral had the strongest effect, followed by interest rate, financial institution, and SME's profile. Based on these findings, policymakers and commercial banks should consider relaxing collateral requirements and reducing interest rates to improve SMEs' access to credit. Establishing more financial institutions could also increase competition and improve access to credit for SMEs. In summary, the findings can inform lending practices and policies to improve access to credit for small and medium-sized enterprises, which are critical for economic growth and development in Ethiopia.*

**Keywords:** Small and Medium-sized Enterprises, Access to Credit, Commercial Banks, Collateral Requirements, Financial Performance, number of financial institutions, Interest rates.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the study

According to the National Bank of Ethiopia's (NBE) Annual Report for 2022, over the past decade, Ethiopia has made significant progress in achieving rapid, extensive, and equitable economic growth. Despite facing both domestic and external challenges, the Ethiopian economy has continued to grow, registering a 6.4 percent growth rate in 2021/22. The population to bank branch ratio is 12 thousand people per branch, with 32.7 percent of the total bank branches located in Addis Ababa, including newly established private banks (NBE Annual report, 2022).

Small and Medium-sized Enterprises (SMEs) are now recognized as the engine of growth, development, and poverty reduction in almost all economies of the world. They are a key vehicle leading to sustainable economic growth and become the lifeblood of most economies. In fact, the SME sector is perceived to be the backbone of any economy worldwide, contributing significantly to national income, poverty reduction, and export promotion (World Bank, 2020).

SMEs also have the potential to address socio-economic problems such as unemployment, income inequalities, political stability, and economic growth. They are vital sources of income, not only for those who could not find employment in other sectors but also to provide a cushion for falling incomes of low wage earners. Furthermore, they make a significant contribution towards the provision of low-cost goods and services, particularly in developing countries like Ethiopia (United Nations Industrial Development Organization, 2018).

In most industrialized countries, over 96% of all construction and manufacturing sector firms originate from the SME sector. They also contribute 45% to employment and 33% to annual GDP in developing countries. In Ethiopia, since the establishment of the Federal MSE Development Agency (FMSEDA) through Proclamation No. 33/1998, the SME sector has been flourishing across the country, becoming the second-largest employment generating sector for poor households following the agriculture sector (Mohammed, Habtamu, & Desalegn, 2014).

Access to finance is crucial for SMEs to grow and succeed, but many SMEs in Ethiopia struggle to obtain credit. Commercial banks are a major source of financing for SMEs in Ethiopia, but many

SMEs face difficulties in accessing credit from these institutions. According to a study by the World Bank (2020), only 27% of SMEs in Ethiopia had a loan or line of credit from a financial institution in 2019. The study also found that the percentage of SMEs that applied for credit but were denied was much higher in Ethiopia compared to other countries in the region.

The lack of access to credit is particularly acute for SMEs in Addis Ababa, Ethiopia's. Addis Ababa is home to a large number of SMEs, but these businesses face numerous challenges in accessing finance from commercial banks. The reasons for this include high collateral requirements, high interest rates, and a lack of trust between lenders and borrowers (Abay et al., 2021).

The cited studies have identified several factors that enhance the probability of loan applications being approved by lenders, including the availability of collateral, good cash flows, age of the farmer, land size, and quality of management. However, despite the abundance of empirical evidence, the supply of credit to SMEs has not improved significantly. SMEs face a variety of challenges that limit their growth and development. One of the most significant challenges is limited access to financing. SMEs are often deemed as high-risk investments by banks and financial institutions, making it harder for them to obtain loans or credit (Jaworski et al., 2020). Research indicates that SMEs face greater financial constraints than larger firms and require more financing to expand and achieve their full potential (Beck et al., 2014).

Therefore, it is clear that the lack of financing for SMEs in low-income countries, such as Ethiopia, is a significant hindrance to economic growth and job creation. Improving SMEs' access to financing is crucial for enhancing their performance and productivity, but there are financing gaps on both the demand and supply sides that have yet to be adequately addressed. The characteristics of SMEs limit their ability to meet the standards for bank loans, while the banking sector reform introduced in Ethiopia in 1994 did not effectively address the perceived risks associated with financing SMEs, nor did it bring about competition in the banking industry (Ashenafi, 2012).

Generally, policymakers and financial institutions need to explore alternative solutions to address the financing gap for SMEs, such as providing innovative financing mechanisms or developing credit guarantee schemes to improve SME credit access (World Bank, 2015).

## 1.2 Legal definition of SMEs in Ethiopia

In Ethiopia, the definition of SMEs and their regulation is provided by the Micro and Small Enterprises Development Proclamation No. 815/2013. According to this proclamation, SMEs are defined as businesses that have an annual turnover of less than 1.5 million Ethiopian Birr (ETB) and employ fewer than 30 people.

The Micro and Small Enterprises Development Proclamation provides a legal framework for the promotion, development, and regulation of micro and small enterprises in Ethiopia. The proclamation establishes the Micro and Small Enterprises Development Agency, which is responsible for implementing policies and programs to support the growth and development of SMEs. Under this proclamation, SMEs are eligible for a range of government support services, including financial assistance, technical training, and marketing assistance. The government has also established a Micro and Small Enterprises Development Fund to provide financial support to SMEs.

The below table summarizing the definition of small and medium-sized enterprises (SMEs) in Ethiopia according to the Micro and Small Enterprises Development Proclamation No. 815/2013:

Table 1 Definitions of Micro, Small & Medium Enterprises

Type of Enterprise	Annual Turnover (ETB)	Number of Employees
Micro enterprise	Less than 500,000	Less than 10
Small enterprise	500,000 - 1,500,000	10 – 30
Medium enterprise	1,500,000 - 50,000,000	31 – 100

Source: MSED Strategy, 2013

As shown in the table, micro enterprises have an annual turnover of less than 500,000 Ethiopian Birr (ETB) and employ fewer than 10 people, while small enterprises have an annual turnover of between 500,000 and 1,500,000 ETB and employ between 10 and 30 people. Medium enterprises, on the other hand, have an annual turnover of between 1,500,000 and 50,000,000 ETB and employ between 31 and 100 people.

These definitions are important for determining eligibility for various government support services, as well as for complying with regulatory requirements related to SMEs in Ethiopia. There are other pieces of legislation related to the development and regulation of SMEs in Ethiopia. Here are a few examples:

Investment Proclamation No. 1180/2020: This proclamation provides the legal framework for investment in Ethiopia and includes provisions related to the promotion and development of SMEs. Under this proclamation, SMEs are eligible for various incentives and exemptions, such as tax holidays and duty-free imports of capital goods. Commercial Registration and Business Licensing Proclamation No. 980/2016: This proclamation establishes the legal.

### 1.3 Statement of Problem

Small and medium enterprises (SMEs) in Ethiopia play a vital role in the country's economic development, but their growth and survival are hindered by limited access to credit for small and medium enterprises (SMEs) in Ethiopia, particularly in Addis Ababa.

Small and Medium Enterprises in Africa are less likely to take loans from financial institutions such as from Banks than in any other developing regions; but many of firm and country level covariates explaining access to finance remain the same inside and outside Africa (Beck and Cull, 2014). Bank loans devoted to SMEs in Africa average only 5.4 percent while in other developing countries it amounted around 13.1 percent. And bank lending to such enterprises are costly compared to other developing countries. Fees charged on SME loans in Africa are almost twice as high as in other developing economies (Martinez Peria, 2009).

The demand side studies suggest that, whilst overall the majority of SMEs appear not to have difficulties obtaining external finance, there is evidence to indicate that a number of groups and sectors do face distinct challenges in accessing finance (Deakins et al., 2008).

Despite numerous studies that have investigated the factors affecting credit access for SMEs in Ethiopia, a significant gap remains in the literature regarding the impact of collateral requirements, number of financial institutions, interest rates, financial performance, and firm characteristics on SMEs' access to credit and also previous studies have investigated the access to credit by financial institutions in general, but my research focuses specifically on banks. While banks are a major source of financing for SMEs, they may face specific challenges in providing credit to these

businesses. By examining the factors affecting SME lending within the context of banks, my research aims to provide a more targeted understanding of the challenges and opportunities for improving access to credit for SMEs. This will help to inform more effective policies and practices for banks in supporting the growth and development of SMEs.

Therefore, there is a need for further research to understand the complex dynamics of credit access for SMEs in Ethiopia and to develop policies and strategies that will enable SMEs to access the credit they need to thrive and drive sustainable economic development. This study aims to fill this gap by investigating the determinants of access to credit from commercial banks for SMEs in Addis Ababa, Ethiopia.

## 1.4 Objectives of the Study

### 1.4.1 General Objectives

The main objective of this study is to examine the determinants of access to credit for SMEs in Addis Ababa from commercial banks in Ethiopia.

### 1.4.2 Specific Objectives

The specific objectives of the study focused on factors that affect access to credit for SME stated as follows:

- To investigate the effect of collateral requirements on access to credit.
- To determine the effect of SME profile characteristics on access to credit.
- To evaluate the effect of he of financial performance on access to credit.
- To examine the effect of number of financial institutions on access to credit.
- To assess the effect of interest rates charged by banks on access to credit.

## 1.5 Hypotheses

**H1:** *Collateral requirements have positive and significant effect on SMEs' access to credit from commercial banks in Addis Ababa.* Collateral Requirement: Many banks in Ethiopia require collateral before they can grant credit to SMEs. SMEs that cannot provide adequate collateral often face challenges in accessing credit, (Assefa and Vanroose, 2015; Ayalew, 2020; Berhane and Asfaw, 2016; Gebremedhin and Mekonnen, 2019)

**H2:** *SME's profile has positive and significant effect on SMEs' access to credit from commercial banks in Addis Ababa.* Firm Characteristics: The characteristics of SMEs, such as size, age, and sector, also affect their access to credit. SMEs in certain sectors, such as agriculture and manufacturing, face more challenges in accessing credit (Berhane and Asfaw, 2016; Getahun and Alemu, 2017; Tsegaye and Mekonnen, 2019).

This hypothesis is supported by studies that have found that the characteristics of SMEs, such as their size, age, and industry sector, can affect their ability to access credit from commercial banks in Ethiopia. For instance, SMEs in certain sectors, such as agriculture and manufacturing, face more challenges in accessing credit due to the perceived risk associated with these sectors.

**H3:** *SMEs' financial performance has positive and significant effect on SMEs' access to credit from commercial banks in Addis Ababa.* SMEs' financial performance, as measured by factors such as profitability, revenue growth, and liquidity, is significant impact on access to credit from commercial banks in Addis Ababa. SMEs with poor financial performance find it challenging to access credit from commercial banks in Ethiopia. Commercial banks require SMEs to demonstrate their ability to repay loans before they can grant credit. (Assefa and Vanroose, 2015; Ayalew, 2020; Gebremedhin and Mekonnen, 2019)

This hypothesis is supported by studies that have found that SMEs with poor financial performance find it challenging to access credit from commercial banks in Ethiopia. Commercial banks require SMEs to demonstrate their ability to repay loans before they can grant credit, and SMEs with weak financial performance may not meet these requirements.

**H4:** *Number of financial institutions have positive and significant effect on SMEs' access to credit from commercial banks in Addis Ababa.* The number of financial institutions offering credit to SMEs in Addis Ababa is significant impact on SMEs' access to credit from commercial banks. Number of Financial Institutions: The number of financial institutions in Ethiopia is relatively small, and this limits SMEs' access to credit. Most financial institutions in Ethiopia focus on large enterprises, leaving SMEs with few options. (Berhane and Asfaw, 2016; Getahun and Alemu, 2017; Tsegaye and Mekonnen, 2019)

This hypothesis is supported by studies that have found that the limited number of financial institutions in Ethiopia is a significant barrier for SMEs in accessing credit. Most financial institutions in Ethiopia focus on large enterprises, leaving SMEs with few options for obtaining credit.

**H5:** *Interest rates has positive and significant effect on access to credit for SMEs in Addis Ababa.* High interest rates charged by commercial banks in Ethiopia make it difficult for SMEs to access credit. SMEs that manage to obtain loans often have to pay high-interest rates, which can affect their ability to repay the loan. (Assefa and Vanroose, 2015; Ayalew, 2020; Gebremedhin and Mekonnen, 2019)

This hypothesis is supported by studies that have found that high-interest rates charged by commercial banks in Ethiopia make it difficult for SMEs to access credit. SMEs that manage to obtain loans often have to pay high-interest rates, which can affect their ability to repay the loan.

In conclusion, the factors affecting credit access in Ethiopia are multifaceted, and addressing these challenges will require a multi-pronged approach that involves policymakers, financial institutions, and SMEs themselves. Improving access to credit for SMEs is critical for driving economic growth and reducing poverty in Ethiopia.

## 1.6 Significance of the study

SMEs are a critical part of the Ethiopian economy, but they often face challenges in accessing credit from commercial banks. This study is significant Firstly, it helps to identify the factors that affect SMEs' access to credit and can provide insights on how to improve their access to credit. Secondly, it significant for commercial banks because it can help them to better understand the needs and challenges of SMEs when it comes to accessing credit. Banks that can develop products and services that meet the needs of SMEs can potentially gain a competitive advantage in the market. And thirdly, it can contribute to the literature on SME finance and can potentially inform future research in this area. By identifying the factors that affect SMEs' access to credit in a specific context, this study can provide insights on how to design and conduct research in other contexts.

Overall, the significance of the study lies in its potential to contribute to the understanding of the factors that affect SMEs' access to credit in the specific context of Addis Ababa, and its potential

to inform policy and practice in this area. Based on the facts acquired, this study is useful in suggesting and offering solutions for the identified problem.

## 1.7 Scope of the study

### 1.7.1 Conceptual scope

The conceptual scope of this study was focused on exploring the determinants of access to credit for small and medium-sized enterprises (SMEs) in commercial banks in Addis Ababa, Ethiopia. Specifically, the study were examine how interest rates, financial performance, SME profile, firm characteristics and the number of institutions affect SMEs' access to credit.

### 1.7.2 Geographical Scope:

The geographical scope of this study was limited to Addis Ababa, the capital city of Ethiopia. Addis Ababa is the economic center of the country and home to many SMEs that seek access to credit from commercial banks. The city's diverse and dynamic economic environment makes it an ideal location for the study.

### 1.7.3 Time Scope:

This study was focused on the determinants of access to credit for SMEs in commercial banks in Addis Ababa, Ethiopia. For a period of one year, we surveyed participants using a questionnaire to collect valuable data from SME's and bank employees, allowing us to draw meaningful conclusions about this topic. The study were examine how these determinant variables have affected access to credit for SMEs in commercial banks in Addis Ababa during this period.

## 1.8 Limitations of the study

The limitations of this study are primarily related to the scope and focus of the research. Firstly, this study only focuses on SMEs located in Addis Ababa, Ethiopia, and therefore, the findings may not be applicable to SMEs located in other regions of the country. Secondly, the study only considers SMEs that have accessed credit from commercial banks, and therefore, the findings may not be generalizable to SMEs that have not accessed credit or have accessed credit from other sources such as microfinance institutions. Thirdly, the study only examines the determinants of credit access from the perspective of the commercial banks, and therefore, the findings may not reflect the perspective of the SMEs themselves.

Additionally, the study only considers a limited number of determinants of credit access, including collateral requirements, number of financial institutions, interest rates, financial performance, and firm characteristics. Other factors, such as political and regulatory environments, may also have an impact on credit access for SMEs but are not considered in this study.

### 1.9 Organization of the study

This paper is divided into five chapters, each with its own specific focus. Chapter one provides an overview of the study, including the problem statement, research questions, objectives, hypothesis, and limitations. Chapter two reviews the existing literature on the subject, including the conceptual framework that underpins the study. Chapter three outlines the research methodology used to conduct the study. Chapter four presents the results of the study, along with an interpretation of these results. Finally, chapter five summarizes the findings of the study, draws conclusions based on these findings, and provides recommendations for future research and policy considerations.

# CHAPTER TWO

## LITERATURE REVIEW

### Introduction

This chapter's literature review is divided into three areas: theoretical framework, empirical review, and finally the conceptual framework.

### 2.1 Theoretical Literature Review

#### 2.1.1 Concepts of access to credit

The term "access to finance" refers to the availability of financial products, such as loans and deposits, and services, such as insurance and equity products, at reasonable costs. There is a well-established association between access to finance, economic growth, income stability, and poverty reduction, and as a result, numerous countries have embraced the objective of universal financial access. This goal seeks to ensure that everyone has access to financial services and products, regardless of their socioeconomic status (Sushma Narain, 2009).

Several theoretical frameworks have been proposed to explain the determinants of access to credit for SMEs. These frameworks help to identify the factors that influence SMEs' ability to obtain credit and explain the mechanisms through which these factors affect access to finance.

**1 Information asymmetry theory:** which suggests that lenders may be hesitant to lend to SMEs because of a lack of information about the borrower's creditworthiness (Myers & Majluf, 1984). SMEs often have less access to formal financial information, which can make it difficult for lenders to assess their creditworthiness. As a result, lenders may require higher collateral or charge higher interest rates to compensate for the increased risk of lending to SMEs.

Other theoretical frameworks, such as the signaling theory and the market power theory, provide additional insights into the factors that affect access to credit for SMEs. The signaling theory suggests that SMEs may use certain signals, such as audited financial statements or membership in a business association, to demonstrate their creditworthiness to lenders (Spence, 1973). The market power theory suggests that lenders may have greater bargaining power over SMEs in concentrated banking markets, which can lead to higher interest rates and collateral requirements (Berger & Udell, 2006).

Overall, these theoretical frameworks provide valuable insights into the factors that influence access to credit for SMEs. By understanding these factors, policymakers and financial institutions can develop strategies to improve access to finance for SMEs and promote economic growth and development.

## 2.1.2 Determinants of access to credit

### 2.1.2.1 SME's Profile and Access to Finance

The profile of SMEs can impact their access to credit. Generally, SMEs that are more established, have higher revenues, and are in certain industries may have an easier time accessing credit than newer, smaller, or riskier SMEs. According to a report by the International Finance Corporation (IFC), the most successful SME borrowers tend to be those that have been in business for at least three years, have consistent revenue and profits, and have collateral to offer (IFC, 2018). These SMEs are often able to obtain loans from traditional lenders, such as banks, at relatively low interest rates.

In contrast, newer or smaller SMEs may have a more difficult time accessing credit, particularly if they have not yet established a credit history or do not have sufficient collateral to offer. In these cases, alternative sources of financing, such as microfinance institutions or online lenders, may be more appropriate (OECD, 2020). The industry in which the SME operates can also impact their access to credit. According to the IFC report, SMEs in certain industries, such as trade and services, tend to have an easier time accessing credit than those in industries with high risk or low profitability, such as agriculture or construction (IFC, 2018).

Entrepreneurial characteristics are those factors which can positively or negatively influence SMEs accessibility to finance. Entrepreneurial characteristics include; educational background, managerial competency, networking, entrepreneur's age, gender and entrepreneur's marital status Olekma and Tang (2016). Owners/mongers characteristics, includes entrepreneurs age, education, professional experience, management skills and many more. According to research, these factors have been proposed to influence firms' access to finance (Nguyen & Luu 2013). Machirori & Fatoki (2013) entrepreneur's characteristics include gender, age and education.

Firm characteristics such as size, age, and sector may also be important determinants of SMEs' access to credit. Mekonnen and Alemayehu (2018) found that SMEs in Ethiopia that were larger

and more established had greater access to credit than smaller and newer SMEs. Similarly, Gebreyesus and Mohnen (2016) found that SMEs in African countries that were in the manufacturing and services sectors had better access to credit than those in the agricultural sector.

In conclusion, the profile of SMEs can impact their access to credit. Established SMEs with consistent revenue and profits, as well as those in certain industries, tend to have an easier time accessing credit from traditional lenders. However, newer or smaller SMEs, as well as those in high-risk or low-profitability industries, may have a more difficult time accessing credit and may need to explore alternative sources of financing. Various initiatives have been implemented to address this issue and provide financing options to SMEs that may not have access to traditional lenders.

#### 2.1.2.2 Collateral Requirement and Access to Finance

Collateral requirements can play a significant role in determining SMEs' access to credit. Collateral is an asset or assets that are pledged to secure a loan, providing lenders with a form of security in case the borrower defaults on the loan. According to a report by the International Finance Corporation (IFC), collateral requirements for SME loans are often higher than those for larger businesses, as SMEs are generally perceived to be riskier borrowers (IFC, 2018). This can make it more difficult for SMEs to obtain loans, particularly if they do not have sufficient collateral to offer.

The IFC report notes that collateral requirements can be particularly challenging for SMEs in developing countries, where assets that are traditionally accepted as collateral, such as property or equipment, may be less common or less secure (IFC, 2018). To address this issue, governments and development organizations have implemented various measures to reduce collateral requirements for SME loans. For example, some countries have established credit guarantee schemes, which provide partial or full guarantees to lenders, reducing the perceived risk and allowing lenders to offer loans with lower collateral requirements (OECD, 2020). In addition, some organizations have provided direct lending to SMEs with no collateral requirements. It's important to note, however, that reducing collateral requirements can also increase the risk of loan defaults. Therefore, lenders must carefully assess the creditworthiness of SME borrowers and ensure that their risk management practices are robust.

Several studies have examined the impact of collateral requirement on SMEs' access to credit. Abay et al. (2021) found that collateral was a significant determinant of SMEs' access to credit from commercial banks in Addis Ababa, Ethiopia. SMEs with higher collateral were more likely to receive loans than those with lower collateral. Similarly, Mekonnen and Alemayehu (2018) found that collateral was a significant factor affecting SMEs' access to credit in Ethiopia. They found that SMEs with higher collateral had greater access to credit than those with lower collateral.

In conclusion, collateral requirements can play a significant role in determining SMEs' access to credit. SMEs may face higher collateral requirements than larger businesses, making it more difficult for them to obtain loans. Governments and development organizations have implemented various measures to reduce collateral requirements for SME loans, but lenders must carefully assess the creditworthiness of SME borrowers to manage the risk of loan defaults.

#### 2.1.2.3. Number of Financial Institutions and Access to Finance

The number of financial institutions and access to credit for SMEs varies greatly across different countries and regions. According to a study by the World Bank, the number of financial institutions, including banks, microfinance institutions, and cooperatives, is positively correlated with the availability of credit for SMEs (World Bank, 2018). In countries with a higher number of financial institutions, SMEs are more likely to have access to credit than in countries with fewer financial institutions. However, the number of financial institutions alone is not enough to ensure access to credit for SMEs. Other factors, such as the legal and regulatory environment, the level of economic development, and the quality of financial infrastructure, also play important roles in determining access to credit (World Bank, 2018).

The number of financial institutions operating in a given area may also affect SMEs' access to credit. Mekonnen and Alemayehu (2018) found that the number of financial institutions operating in a region was positively correlated with SMEs' access to credit in Ethiopia. Similarly, Gebreeyesus and Mohnen (2016) found that SMEs in African countries with more developed financial systems had better access to credit.

Overall, the number of financial institutions is an important factor in determining access to credit for SMEs, but it is not the only factor. Other factors, such as the legal and regulatory environment and the quality of financial infrastructure, also play important roles.

#### 2.1.2.4. Interest Rate Charged and Access to Finance

The interest rate charged on loans to SMEs is an important factor in determining their access to credit. Generally, high interest rates make it more difficult for SMEs to obtain loans and can also negatively impact their ability to repay the loan. According to a report by the International Finance Corporation (IFC), the interest rates charged on loans to SMEs tend to be higher than those charged to larger businesses due to a higher perceived risk (IFC, 2018). This is because SMEs often have less collateral, less established credit histories, and less access to information about market conditions compared to larger businesses. However, excessively high interest rates can also be a barrier to access to credit for SMEs, particularly those in developing countries.

The IFC report notes that interest rates above 15-20% can limit the number of SMEs that can access credit and can also lead to a higher rate of loan defaults (IFC, 2018). To address this issue, governments and development organizations have implemented various measures to reduce the interest rates charged to SMEs. For example, some countries have established credit guarantee schemes, which provide partial or full guarantees to lenders, reducing the perceived risk and allowing lenders to offer loans at lower interest rates (OECD, 2020).

In addition, some organizations have provided direct lending to SMEs at low or no interest rates. In conclusion, the interest rate charged on loans to SMEs is an important factor in determining their access to credit. While high interest rates are generally necessary to reflect the higher risk of lending to SMEs, excessively high rates can be a barrier to access to credit for SMEs, particularly in developing countries. Various measures, such as credit guarantee schemes and direct lending, have been implemented to reduce interest rates and improve access to credit for SMEs.

The interest rate charged by lenders may also be an important factor affecting SMEs' access to credit. Abay et al. (2021) found that the interest rate charged was a significant determinant of SMEs' access to credit in Ethiopia. SMEs that were charged higher interest rates were less likely to obtain loans than those charged lower interest rates. Similarly, Gebreeyesus and Mohnen (2016) found that SMEs in African countries with high interest rates had lower access to credit.

#### 2.1.2.5. Financial Performance and Access to Finance

The financial performance of SMEs can play a significant role in their access to credit. Lenders generally consider the financial health of a business, including factors such as revenue, profits, and debt levels, when assessing the creditworthiness of a borrower. According to a report by the

International Finance Corporation (IFC), SMEs with strong financial performance are more likely to have access to credit than those with weak financial performance (IFC, 2018).

SMEs with consistent revenue and profits, low debt levels, and a strong credit history are generally perceived as lower-risk borrowers and may be able to obtain loans at more favorable interest rates. In contrast, SMEs with poor financial performance, including those with declining revenue, low profits, or high levels of debt, may have a more difficult time accessing credit. These SMEs are generally perceived as higher-risk borrowers and may need to explore alternative sources of financing or work to improve their financial performance to increase their chances of obtaining credit.

The financial performance of SMEs may also affect their access to credit. Mekonnen and Alemayehu (2018) found that SMEs with better financial performance had greater access to credit in Ethiopia. Similarly, Gebreeyesus and Mohnen (2016) found that SMEs with higher profitability and sales growth were more likely to obtain loans than those with lower profitability and sales growth.

In conclusion, the financial performance of SMEs can play a significant role in their access to credit. SMEs with strong financial performance are generally perceived as lower-risk borrowers and may have an easier time obtaining credit. In contrast, SMEs with poor financial performance may have a more difficult time accessing credit and may need to work to improve their financial performance or explore alternative sources of financing. Various initiatives have been implemented to support SMEs in improving their financial performance and accessing credit.

## 2.2 Empirical Literature Review

Some related studies are conducted by different researchers in different countries. The aim of this study was focused on analyses factors influencing access to formal finance for Small and Medium Enterprise.

### 2.2.1 Global studies

The study "Determinants of Access to Credit by SMEs in Ghana" was conducted by Dzansi (2018). The study collected data from a sample of 250 small and medium-sized enterprises through a structured questionnaire. The study used multiple regression analysis to analyze the data. The results of the study indicate that collateral requirements, credit history, and interest rates are

significant determinants of access to credit. The study found that the lack of collateral is a major barrier to accessing credit for SMEs in Ghana. The study also found that credit history is an important determinant of access to credit. SMEs with a good credit history are more likely to access credit than those with a poor credit history. The study further revealed that interest rates are also a significant determinant of access to credit. SMEs are more likely to access credit at lower interest rates.

Overall, the study concluded that access to credit for SMEs in Ghana is significantly influenced by collateral requirements, credit history, and interest rates. The study suggests that policy interventions aimed at reducing collateral requirements and interest rates could help improve access to credit for SMEs in Ghana. The study also highlights the need for SMEs to maintain a good credit history to improve their chances of accessing credit.

### 2.2.2 Local studies

The study conducted by Tsegaye and Gudeta (2016) investigates ‘‘Factors that affect SMEs' access to finance in Ethiopia, specifically focusing on the role of commercial banks in this process.’’ The authors collected data through a survey of 100 SMEs in Ethiopia, and analyzed the data using descriptive statistics and regression analysis. The results of the study indicate that collateral requirements, high interest rates, and lack of information are the main barriers to accessing finance for SMEs in Ethiopia.

The authors suggest that addressing these barriers requires a multi-faceted approach, including improving access to information, reducing collateral requirements, and implementing policies to lower interest rates. The study also highlights the need for greater collaboration between commercial banks and SMEs, as well as greater efforts to educate SMEs about financing options and the requirements for securing loans. Overall, this study provides valuable insights into the factors affecting SMEs' access to finance in Ethiopia, and offers recommendations for policymakers, commercial banks, and SMEs themselves to improve financing opportunities and promote economic growth in the country.

Gebrehiwot and Gebre Egziabher (2019) conducted a study titled "Determinants of Access to Finance among Small and Medium-Sized Enterprises in Ethiopia." The study aimed to identify the main determinants of SMEs' access to finance in Ethiopia and to provide policy recommendations

to improve access to finance. The authors used primary data collected from 384 SMEs in the Tigray region of Ethiopia through a structured questionnaire. They employed both descriptive and inferential statistics, including binary logistic regression analysis, to analyze the data. The study found that collateral requirements, interest rates, and lack of financial literacy were significant barriers to SMEs' access to finance in Ethiopia. The authors also found that the age, education level, and size of the SMEs were important determinants of access to finance.

The study recommended that policymakers should address the issues of collateral requirements and high interest rates in Ethiopia. The authors also suggested that financial institutions should provide more financial literacy training to SMEs to enhance their financial management skills.

The authors of the study "The Determinants of SMEs in Ethiopia: A Survey of Manufacturing and Service Firms" are Girma and Admassie (2002). The study examines the determinants of small and medium-sized enterprises (SMEs) in Ethiopia through a survey of 292 manufacturing and service firms. The study identifies several factors that impact the growth and performance of SMEs, including access to finance, infrastructure, technology, and government policies. The study found that access to finance is a major challenge for SMEs in Ethiopia, with only a small percentage of firms able to obtain credit from formal financial institutions. Additionally, the study highlights the importance of technology in improving the productivity and competitiveness of SMEs. The study suggests that government policies can play a crucial role in promoting the development of SMEs in Ethiopia by creating an enabling environment and providing targeted support to these firms. Overall, the study provides valuable insights into the challenges and opportunities facing SMEs in Ethiopia and emphasizes the importance of policies that support their growth and development.

**In conclusion**, access to credit is crucial for the growth and development of small and medium enterprises in Ethiopia. However, SMEs in Ethiopia face various challenges in accessing credit, including collateral requirements, high-interest rates, limited financial institutions, poor financial performance, and firm characteristics. Addressing these challenges requires a comprehensive approach involving policymakers, financial institutions, and SMEs themselves. Thus, it is essential to develop policies and strategies that support SMEs' access to credit to drive sustainable economic development in Ethiopia.

## Research Gaps

While previous studies have examined the factors affecting credit access for SMEs in Ethiopia, by Gebrehiwot and Gebre-Egziabher (2019) and Girma and Admassie (2002) have identified collateral as an important determinant of access to finance for SMEs in Ethiopia, there is a gap in the literature in terms of examining the specific collateral requirements of banks and how they affect SMEs' ability to access credit.

There is also a gap in the literature in terms of examining the impact of the number of banks operating in an area on SMEs' ability to access credit. While previous studies have identified government policies and regulatory frameworks as important factors in facilitating or hindering access to finance for SMEs (Abor and Quartey, 2010), there is a need for more specific research on the impact of bank competition on SMEs' access to credit in the context of Addis Ababa.

Finally, there is a gap in the literature in terms of examining the impact of interest charges and financial performance on SMEs' ability to access credit. While previous studies have identified a range of factors that influence SMEs' access to finance, including government policies, collateral, and credit history, there is a need for more specific research on how interest charges and financial performance affect SMEs' ability to access credit from banks in Addis Ababa. So, this study could help to fill several research gaps in the literature by providing more detailed insights into the specific determinants of access to credit for SMEs in Addis Ababa, Ethiopia, and by examining variables that have not been specifically examined in previous studies.

### 2.3 Conceptual framework

Access to credit is influenced by a variety of factors, including the collateral requirement, SME profile, number of financial institutions, interest rate charged and financial performance. These factors can be categorized into two main groups: supply-side factors and demand-side factors.

Supply-side factors refer to the characteristics of the financial institutions that provide credit to SMEs. The collateral requirement, number of financial institutions, and interest rate charged are all examples of supply-side factors. Banks in Ethiopia have different lending practices, including differences in collateral requirements, interest rates, and loan terms. These differences can impact access to credit for SMEs. For example, a high collateral requirement can exclude smaller

businesses that may not have sufficient collateral to secure loans. Additionally, higher interest rates can make loans less affordable for SMEs, which may limit their ability to access credit.

Demand-side factors refer to the characteristics of SMEs seeking credit. Financial performance and SME profile are examples of demand-side factors. SMEs that are financially stable and have a strong business plan are more likely to be able to repay loans, which may increase their chances of accessing credit. Similarly, SMEs that have a good track record with previous lenders may be more likely to receive credit.

The framework suggests that access to credit is influenced by a complex set of factors, including supply and demand-side factors, as well as broader external factors. Understanding how these factors interact can provide insight into how access to credit for SMEs can be improved in Ethiopia. Thus, the framework of this study is presented as shown in the figure 1 below.

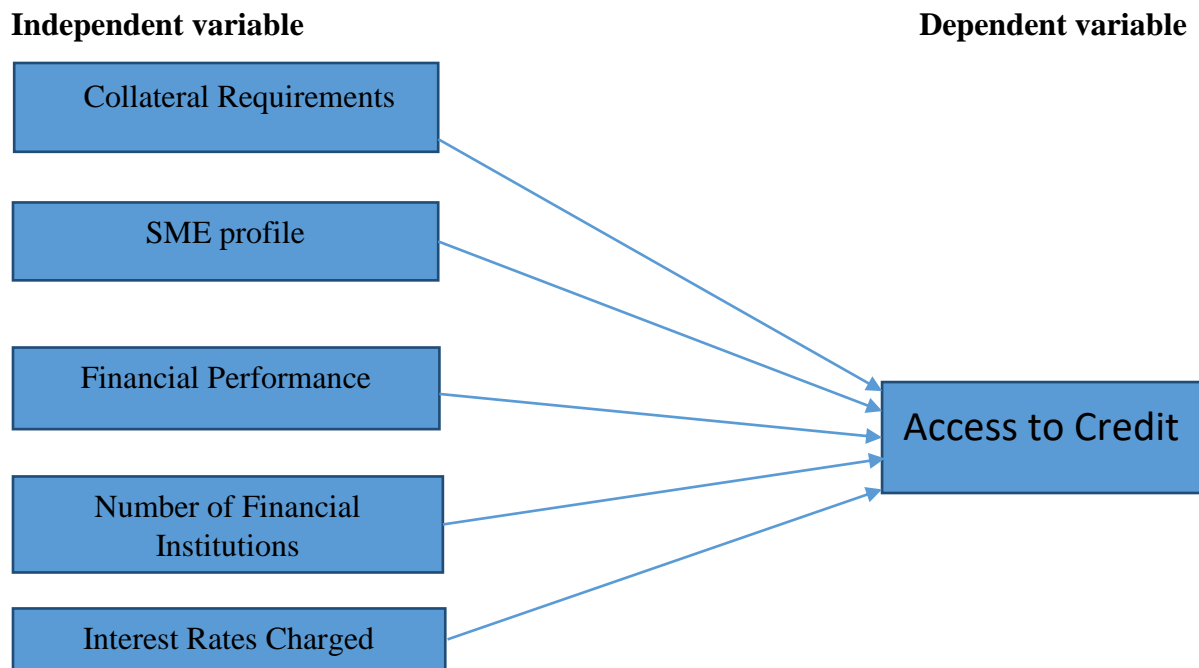


Figure 1 Conceptual Framework

# CHAPTER THREE

## RESEARCH METHODOLOGY AND DESIGN

### Introduction

This chapter of the research paper outlines the methodology employed to conduct the study, including the sampling techniques used, research design, source of data, collection method, target population, sample design, sample size, and methods of data analysis. The purpose of this chapter is to provide a detailed explanation of the research approach used to achieve the study's objectives.

### 3.1 Research Approach

In order to achieve the objectives of this study, a qualitative research approach was utilized, as it is commonly used to gather and analyze non-numerical data through methods such as interviews and categorization. In contrast, quantitative research involves the use of numerical data generated through methods like questionnaires and statistical analysis. This distinction is according to Saunders et al. (2009). Therefore, a mixed research approach was implemented in this study to combine the strengths of both qualitative and quantitative research methods. This approach will provide a more comprehensive understanding of the research topic and enable a more robust analysis of the data collected.

### 3.2 Research Design

A research design serves as a blueprint for guiding the data collection and analysis phases of a research project. It outlines the type of information to be collected, its sources, and the collection procedure. According to Kinnear and Taylor (2015), the research design is critical in ensuring that the study is relevant to the problem being investigated. Kothari (2004) asserts that descriptive research is primarily focused on describing the current state of affairs.

For this study, a descriptive and explanatory research design was employed. Descriptive research was used to describe the characteristics of small and medium-sized enterprises (SMEs) in Addis Ababa, as well as their access to credit from commercial banks. This involved collecting data on the SMEs' profile, financial performance, and collateral requirements. On the other hand, explanatory research was used to determine the relationship between collateral requirements, SME profile, financial performance, number of institutions, interest rates charged, and access to credit

from commercial banks. This involved analyzing the data collected to identify any patterns or relationships between these variables. By employing a mixed research approach and utilizing both descriptive and explanatory research designs, this study aims to provide a comprehensive understanding of the factors that affect SMEs' access to credit from commercial banks in Addis Ababa.

### 3.3 Research Method

#### 3.3.1 Data Collection method

This research utilized both primary and secondary data sources to ensure a comprehensive analysis of the factors affecting small and medium-sized enterprises' (SMEs) access to credit from commercial banks in Addis Ababa. Primary data was collected through a structured questionnaire administered to SMEs and bank employees, designed to accurately measure the constructs of interest. Secondary data sources included prior studies, books, periodicals, journals, the internet, and annual reports of the bank. The use of both primary and secondary data sources ensured greater accuracy and validity in the results obtained, enabling a deeper analysis of the factors impacting SMEs' access to credit from commercial banks in Addis Ababa.

#### 3.3.2 Sampling technique

The population for this study is small and medium-sized enterprises (SMEs) operating in Addis Ababa, which was identified based on the National Bank of Ethiopia's (NBE) 2020-2021 annual reports, which reported a total of 7,667 SMEs in the city. To select the sample, a random sampling technique used for the selection SMEs and the bank employees who are assumed to be more exposed to bank loans and work in Addis Ababa city branches. The study selected 18 banks that have been in operation for more than 5 years in Ethiopia, and 30 employees of these banks who are engaged in the area of study were randomly sampled to serve as research subjects. This approach was used to ensure that the sample was representative of the population and that the data collected was reliable and valid.

In order to ensure that the sample is unbiased, a random sampling technique was employed where every member of the population had an equal chance of being selected. The study included a detailed discussion on the survey design, including population and sampling, instrument design, and the actual conduct of the survey. To determine the sample size, the researcher utilized a

formula provided by Easter by-Smith et al. (1999). This approach ensured that the sample size was appropriate and representative of the population, allowing for reliable and valid data collection.

### 3.3.3 Sampling size

The sample size was determined with the following Simplified formula.

$$n = N / (1 + N (e) ^2)$$

Where:

n = sample size

N = total population (7667 SMEs in your case)

e = margin of error (let's assume 5% for this example)

Plugging in the values, we get:

$$n = 7667 / (1 + 7667(0.05) ^2)$$

$$n = \underline{\mathbf{353}}$$

## 3.4 Analysis and Evaluation of Data

### 3.4.1. Validity

Validity is defined by Bryman & Bell (2007) as the extent to which a study instrument measures what it is intended to measure. It is an essential aspect of research as it ensures that concepts are measured accurately and that the study's conclusions are well-supported. According to Ghauri and Grønhaug (2005), validity explains how well the collected data covers the actual area of investigation.

In this study, validity was crucial in accurately representing both the secondary data obtained from prior studies, books, periodicals, journals, the internet, and annual reports of the bank, and the primary data collected from staffs of the bank and SMEs. The study considered various aspects of validity, including the design of the questionnaires, ensuring that they were clear, concise, and free from ambiguity. By paying close attention to the validity of the data collected, this study aimed to ensure that the results were accurate and supported by the evidence gathered.

### 3.4.2 Reliability

Reliability refers to how consistently a method measure something. If the same result can be consistently achieved by using the same methods under the same circumstances, the measurement is considered reliable. Thus, the reliability of a measuring instrument indicates the extent to which a measuring instrument indicated the extent to which a measure contains variable errors. Reliability estimates the consistency of the measurement or more simply the degree to which an instrument measures the same way each time it is used under the same conditions with the same subject. It is essentially about internal consistency. Internal consistency concerns the reliability of the test components and measures consistency within the questions how well a set of items measures a particular behavior or characteristics within the test (Ellen D, 2014). For the particular study, the questionnaires of Likert scale item reliability was checked by Cronbach's Alpha coefficient with the help of SPSS Software.

### 3.4.3 Econometrics Method

To prove the effect of independent variables to the dependent variable the study used multiple regression equation. Multiple Regression Equation as follow:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + \varepsilon$$

Where: Y = Access to Credit

a = Constant

X1 = Collateral requirement

X2 = SME profile

X3 = financial performance

X4 = number of financial institutions

X5 = interest rate charged

b1- b5 = Regression Coefficient

$\varepsilon$  = Standard Error

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION RESULT

#### Introduction

This chapter presents, the results of the study based on the empirical studies conducted to test the hypotheses. The sample size determined while designing the research methodology was 271. In order to get 271 sample sizes, a total of 353 questionnaires were distributed to employees of selected banks found in Addis Ababa and 271 (76.8%) usable questionnaires were obtained and used for further analysis. The data collected were entered and analyzed using SPSS software version 26.

#### 4.1 Preliminary tests

##### 4.1.1 Reliability Test

According to Sekaran and Bougie (2016), reliability of a measurement instrument refers to the extent to which the instrument consistently measures what it is intended to measure. This means that a reliable measurement instrument should be able to produce consistent results when used repeatedly under similar conditions.

Cronbach's alpha is a measure of internal consistency reliability that ranges from 0 to 1, where higher values indicate greater reliability. The alpha coefficient is calculated based on the inter-item correlations among the items in a measurement instrument. In general, a Cronbach's alpha value of 0.7 or higher is considered to indicate good internal consistency reliability, while values below 0.7 may indicate poor reliability.

Table 2 Reliability Analysis Cronbach's alpha result

Variables	Cronbach's Alpha	No. of Items	Comments
Collateral requirements	0.713	6	Accepted
SME's Profile	0.747	5	Accepted
Financial performance	0.720	7	Accepted
Number of financial institutions	0.701	6	Accepted
Interest rates charged	0.712	6	Accepted

Source: Own data survey, (2023)

In this study, the Cronbach's alpha coefficients for the variables indicate that the measurement instruments used to assess these variables have well to acceptable levels of internal consistency reliability. The coefficient for collateral requirements, SME's profile, financial performance, number of financial institutions and interest rates charged are all above 0.7, indicating good internal consistency reliability. These findings increase the confidence in the validity of the study's results and suggest that the measurement instruments used in the study are measuring the same underlying constructs consistently and reliably.

#### 4.2. Demographic Profiles of the Respondents

The table shows that the majority of the respondents were male (73.1%) and the rest were female (26.9%). In terms of age, the largest group of respondents fell in the age range of 31-39 years (42.1%), while the smallest group was below the age of 25 (14%). More than half of the respondents were married (55%), while 42.1% were single and only 2.9% were divorced. The majority of the respondents had completed a Bachelor's or Master's degree (32.8%), while 28% had completed a TVET/Diploma program. A smaller percentage had completed Grade 9-12 (22.2%), and 17% had completed Grade 8 or less.

In terms of occupation, the largest group of respondents identified as "other" (38%), while 35.1% were owners/managers and 22.8% were employees/managers. Only a small percentage identified as shareholders (4.1%). The largest group of respondents (49.1%) had been in business for 5-9 years, while 22.9% had been in business for more than 10 years. A smaller percentage had been in business for 2-4 years (21%), and only 7% had been in business for less than 1 year. Only a small percentage of respondents (22.1%) had applied for a loan, while the majority (77.9%) had not. The most common source of financing was informal financing (50.9%), followed by personal financing (14%) and bank loans (22.2%). Friends and family were also a source of financing for some respondents (12.9%).

Table 3 Respondents' *Demographic Profile*

<i>Variables</i>	<i>Category</i>	<i>Frequency</i>	<i>Percentage</i>
<b>Gender</b>	Male	198	73.1%
	Female	73	26.9%
	Total	271	100%
<b>Age</b>	below 25	38	14%
	26-30	73	26.9%
	31-39	114	42.1%
	Above 40	46	17%
	Total	271	100%
<b>Marital Status</b>	Single	114	42.1%
	Married	149	55%
	Divorced	8	2.9%
	Total	271	100%
<b>Education level</b>	Grade 8 and less	46	17%
	Grade 9 to 12 completed	60	22.2%
	TVET/ Diploma	76	28%
	BA/ BSC , MA/ MSC and above	89	32.8%
	Total	271	100%
<b>Occupation</b>	Employee/manager	62	22.8%
	Owner/manager	95	35.1%
	Shareholder	11	4.1%
	Other	103	38%
	Total	271	100%
<b>Number of years you have been in business?</b>	Less than 1 year	19	7%
	2-4 years	57	21%
	5-9 years	133	49.1%
	above 10 years	62	22.9%
	Total	271	100%
<b>Have you ever applied for a loan?</b>	Yes	60	22.1%
	No	211	77.9%
	Total	271	100%
<b>What is / are your major sources of financing?</b>	Bank loan	60	22.2%
	Informal	138	50.9%
	Personal	38	14%
	Friends and family	35	12.9%
	Total	271	100%

Source: Own data survey, (2023)

### 4.3 Descriptive Statistics of Study Variables

The study aimed to assess the impact of different factors on the availability and accessibility of finance for small and medium-sized enterprises (SMEs) in Addis Ababa. To measure the participants' perceptions of these factors, a five-point Likert scale was used. The scale ranged from strongly disagree (1) to strongly agree (5), allowing participants to express their level of agreement or disagreement with the constructs presented. The means recorded were interpreted from 1.0 – 1.5 (Strongly disagree), 1.6 – 2.5 (Disagree), 2.6 – 3.5 (Neutral), 3.5 – 4.5 (Agree) and 4.6 – 5.0 (strongly agree).

Table 4 Score of mean and standard deviation

	Mean	Std. Deviation
Collateral requirements	3.5025	0.77817
SME's profile	3.4863	0.94630
Financial performance	3.2509	0.69963
Number of financial institutions	3.1937	0.74899
Interest rate charged	3.8235	0.74211

Source: Own data survey, (2023)

Based on the results presented in Table 4, the respondents' perceptions of these factors were generally slightly satisfied. The mean and standard deviation scores were as follows: collateral requirements (mean=3.50, standard deviation=0.77), SME's profile (mean=3.48, standard deviation=0.95), financial performance (mean=3.25, standard deviation=0.7), number of financial institutions (mean=3.19, standard deviation=0.74), and interest rate charged (mean=3.82, standard deviation=0.74). These scores indicate the level of satisfaction or dissatisfaction with each of the factors and provide insight into the areas that need improvement to enhance the accessibility of credit facilities for SMEs in Addis Ababa.

#### 4.3.1 Collateral requirements

Collateral requirements is one of the major factors which affect access to credit. The below table presents the mean scores of CR attributes.

Table 5 Descriptive for Collateral requirements

Variables	N	Mean	Std. Deviation
Before granting a loan to small and medium-sized enterprises (SMEs), banks typically request security or a guarantee.	271	4.05	1.187
My loan application was rejected because I did not have enough collateral to secure it.	271	3.89	1.371
The collateral requested by banks from SMEs is often reasonable and within their means to provide.	271	1.53	0.934
The collateral requirements set by banks can discourage many SMEs from even applying for loans.	271	3.73	1.261
As a result of the demand for collateral for my loan, I have had to explore alternative funding sources such as borrowing from family and purchasing on credit.	271	3.49	1.319
Small and medium-sized enterprises (SMEs) are concerned about collateral requirements when attempting to obtain financing from banks.	271	4.34	1.165
Valid N (listwise)	271		

Source: Own data survey, (2023)

As presented in Table 5, the mean score for the variable "Before granting a loan to SMEs, banks typically request security or a guarantee" is 4.05 with a standard deviation of 1.187, indicating that the majority of respondents agree that banks require SMEs to provide collateral before granting loans. The mean score for the variable "My loan application was rejected because I did not have enough collateral to secure it" is 3.89 with a standard deviation of 1.371, indicating that a lack of collateral can lead to loan application rejection. Respondents generally disagree that the collateral requested by banks is often reasonable and within the means of SMEs to provide, with a mean score of 1.53 and a standard deviation of 0.934, suggesting that SMEs may struggle to provide the collateral requested by banks, leading to loan application rejection.

The mean score for the variable "The collateral requirements set by banks can discourage many SMEs from even applying for loans" is 3.73 with a standard deviation of 1.261, indicating that the majority of respondents agree that collateral requirements can discourage SMEs from applying for loans. The mean score for the variable "As a result of the demand for collateral for my loan, I have

had to explore alternative funding sources such as borrowing from family and purchasing on credit" is 3.49 with a standard deviation of 1.319, suggesting that collateral requirements can lead SMEs to explore alternative funding sources. The variable with the highest mean score is "Small and medium-sized enterprises (SMEs) are concerned about collateral requirements when attempting to obtain financing from banks," with a mean score of 4.34 and a standard deviation of 1.165, indicating that the majority of respondents agree that SMEs are concerned about collateral requirements when attempting to obtain financing from banks.

Overall, the data suggest that collateral requirements are a significant barrier to SMEs accessing loans from banks, and that collateral requirements can discourage SMEs from applying for loans, leading them to explore alternative funding sources.

#### 4.3.2 SME's profile

The SME's profile was identified as one of the independent variables in this study. The study utilized a table to present the scores of attributes that were used to measure the SME's profile. These attributes were important in understanding the characteristics and needs of SMEs in Addis Ababa and provided insight into the factors that impact their ability to access credit facilities.

Table 6 Descriptive for SME's profile

Variables	N	Mean	Std. Deviation
The age of the owner/manager can impact the ability to secure financing for an SME.	271	3.53	1.189
There may be gender-based disparities in loan accessibility, with men having more opportunities to obtain loans than women.	271	3.57	1.323
Women are often dissuaded from pursuing bank credit.	271	3.56	1.318
The level of education of an SME owner/manager can influence their likelihood of obtaining financing.	271	3.35	1.435
The industry in which an SME operates can affect its creditworthiness and ability to access credit.	271	3.42	1.430
Valid N (listwise)	271		

Source: Own data survey, (2023)

As presented in Table 6, the descriptive statistics for the variables related to SMEs' profiles suggest that various factors can impact their ability to access financing from banks. The mean score for the variable "The age of the owner/manager can impact the ability to secure financing for an SME" is 3.53 with a standard deviation of 1.189, indicating that respondents agree that the age of the owner/manager can influence the ability of an SME to secure financing. The mean score for the variable "There may be gender-based disparities in loan accessibility, with men having more opportunities to obtain loans than women" is 3.57 with a standard deviation of 1.323, suggesting that respondents agree that gender-based disparities in loan accessibility exist, with men having more opportunities to obtain loans than women.

The mean score for the variable "Women are often dissuaded from pursuing bank credit" is 3.56 with a standard deviation of 1.318, indicating that respondents agree that women may be discouraged from pursuing bank credit. The mean score for the variable "The level of education of an SME owner/manager can influence their likelihood of obtaining financing" is 3.35 with a standard deviation of 1.435, suggesting that respondents agree that the level of education of an SME owner/manager can influence their likelihood of obtaining financing. The mean score for the variable "The industry in which an SME operates can affect its creditworthiness and ability to access credit" is 3.42 with a standard deviation of 1.430, indicating that respondents agree that the industry in which an SME operates can affect its creditworthiness and ability to access credit.

Overall, the descriptive statistics suggest that various factors can impact SMEs' ability to access financing from banks, including the age, gender, education level of the owner/manager, and the industry in which the SME operates. The findings highlight the need for banks and policymakers to address these issues to ensure that SMEs have equal opportunities to access financing and grow their businesses.

#### 4.3.3 Financial performance

Financial performance is a variable that evaluates the financial health and success of a company based on different financial metrics, including revenue, profit, cash flows, return on investment, and earnings per share. In this study, financial performance was one of the variables under investigation. The mean and standard deviation scores of the attributes used to measure financial performance are presented in a table, providing insight into the financial health of SMEs in Addis Ababa and their ability to access credit facilities. Additionally, the study also investigated the

variable of office comfort, which was important in understanding the working conditions and environment of SMEs in the city.

Table 7 Descriptive for Financial performance

Variables	N	Mean	Std. Deviation
My business performance has been impacted by a shortage of funds.	271	3.41	1.010
The financial performance of an organization can be influenced by its capital structure.	271	3.86	1.255
Performance can be affected by a lack of managerial skills.	271	3.80	1.206
Implementation of advanced technology can enhance performance.	271	3.84	0.929
I have completed training that has improved my ability to manage the business.	271	1.83	1.141
There is sufficient capital available for me to operate my business.	271	2.34	1.159
Performance can be impacted by the size of a firm.	271	3.68	1.278
Valid N (listwise)	271		

Source: Own data survey, (2023)

As presented in Table 7, the descriptive statistics for the variables related to financial performance suggest that various factors can impact the financial performance of SMEs. The mean score for the variable "My business performance has been impacted by a shortage of funds" is 3.41 with a standard deviation of 1.010, indicating that respondents agree that a shortage of funds can impact the performance of an SME. The mean score for the variable "The financial performance of an organization can be influenced by its capital structure" is 3.86 with a standard deviation of 1.255, suggesting that respondents agree that the capital structure of an organization can influence its financial performance. The mean score for the variable "Performance can be affected by a lack of managerial skills" is 3.80 with a standard deviation of 1.206, indicating that respondents agree that a lack of managerial skills can impact the performance of an SME.

The mean score for the variable "Implementation of advanced technology can enhance performance" is 3.84 with a standard deviation of 0.929, suggesting that respondents agree that

implementing advanced technology can enhance the performance of an SME. The mean score for the variable "I have completed training that has improved my ability to manage the business" is 1.83 with a standard deviation of 1.141, indicating that respondents generally disagree that they have completed training that has improved their ability to manage the business. The mean score for the variable "There is sufficient capital available for me to operate my business" is 2.34 with a standard deviation of 1.159, suggesting that respondents generally disagree that there is sufficient capital available for them to operate their business. The mean score for the variable "Performance can be impacted by the size of a firm" is 3.68 with a standard deviation of 1.278, indicating that respondents agree that the size of an SME can impact its performance.

Overall, the data suggest that various factors can impact the financial performance of SMEs, including a shortage of funds, capital structure, managerial skills, technology implementation, and firm size. The findings highlight the importance of addressing these factors to improve the financial performance of SMEs.

#### 4.3.4 Number of financial institutions

Table 8 Descriptive for Number of financial institutions

Variables	N	Mean	Std. Deviation
The availability of financial institutions in our area has enabled us to accumulate savings, resulting in increased investment in our businesses.	271	4.14	1.067
The spread of financial institutions has improved access to credit for many small and medium-sized entrepreneurs, leading to business expansion.	271	2.10	1.302
Most of entrepreneurs, through financial institutions have realized an effective way to integrate access to financial service.	271	2.13	1.024
Many financial institutions do not offer products that are tailored to our specific requirements.	271	3.57	1.242
The length of my relationship with my financial provider can determine my access to credit.	271	3.52	1.360
The increase in demand for credit services has resulted in financial institutions incorporating mobile money transfer services.	271	3.70	1.059
Valid N (listwise)	271		

Source: Own data survey, (2023)

As presented in Table 8, the descriptive statistics for the variables related to the number of financial institutions suggest that the availability and accessibility of financial institutions can impact the financial behavior of SMEs. The mean score for the variable "The availability of financial institutions in our area has enabled us to accumulate savings, resulting in increased investment in our businesses" is 4.14 with a standard deviation of 1.067, indicating that respondents agree that the availability of financial institutions has enabled them to accumulate savings and invest in their businesses. The mean score for the variable "The spread of financial institutions has improved access to credit for many small and medium-sized entrepreneurs, leading to business expansion" is 2.10 with a standard deviation of 1.302, suggesting that respondents generally disagree that the spread of financial institutions has improved access to credit and led to business expansion.

The mean score for the variable "Most entrepreneurs, through financial institutions, have realized an effective way to integrate access to financial service" is 2.13 with a standard deviation of 1.024, indicating that respondents generally disagree that financial institutions have provided an effective way to integrate access to financial services. The mean score for the variable "Many financial institutions do not offer products that are tailored to our specific requirements" is 3.57 with a standard deviation of 1.242, suggesting that respondents agree that financial institutions do not offer products that are tailored to their specific requirements. The mean score for the variable "The length of my relationship with my financial provider can determine my access to credit" is 3.52 with a standard deviation of 1.360, indicating that respondents agree that the length of their relationship with their financial provider can determine their access to credit. The mean score for the variable "The increase in demand for credit services has resulted in financial institutions incorporating mobile money transfer services" is 3.70 with a standard deviation of 1.059, suggesting that respondents agree that financial institutions have incorporated mobile money transfer services to meet the increasing demand for credit services.

Overall, the descriptive statistics suggest that the availability and accessibility of financial institutions can impact the financial behavior of SMEs. While the availability of financial institutions can enable SMEs to accumulate savings and invest in their businesses, financial institutions may not always offer products tailored to their specific requirements. The findings also suggest that the length of the relationship with a financial provider can determine access to credit, and that financial institutions have incorporated mobile money transfer services to meet the increasing demand for credit services.

#### 4.3.5 Interest rate charged

The Mean and standard deviation scores of the attributes interest rate charged is presented in the below table.

Table 9 Descriptive for Interest rate charged

Variables	N	Mean	Std. Deviation
Banks often impose higher interest rates on small businesses than on larger firms.	271	4.33	.907
The interest rates charged by financial institutions can be exorbitant and prevent businesses from taking out loans.	271	4.01	1.167
There are unreasonable costs and fees associated with processing credit applications.	271	3.83	1.210
The high interest rates charged by financial institutions are a deterrent to borrowing.	271	4.05	1.219
Late repayments can result in financial institutions seizing business assets, which can negatively impact day-to-day operations and discourage borrowing.	271	3.66	1.206
In some case, interest rates on loans may be influenced by the nature of the business or collateral provided.	271	3.04	1.210
Valid N (listwise)	271		

Source: Own data survey, (2023)

As presented in Table 9, the descriptive statistics for the variables related to interest rates charged suggest that interest rates can be a significant concern for SMEs seeking loans from financial institutions. The mean score for the variable "Banks often impose higher interest rates on small businesses than on larger firms" is 4.33 with a standard deviation of 0.907, indicating that the majority of respondents agree that banks impose higher interest rates on small businesses than on larger firms. The mean score for the variable "The interest rates charged by financial institutions can be exorbitant and prevent businesses from taking out loans" is 4.01 with a standard deviation of 1.167, suggesting that respondents agree that high interest rates can prevent SMEs from taking out loans.

The mean score for the variable "There are unreasonable costs and fees associated with processing credit applications" is 3.83 with a standard deviation of 1.210, indicating that respondents agree that there are unreasonable costs and fees associated with processing credit applications.

The mean score for the variable "The high interest rates charged by financial institutions are a deterrent to borrowing" is 4.05 with a standard deviation of 1.219, suggesting that respondents agree that high interest rates can deter SMEs from borrowing. The mean score for the variable "Late repayments can result in financial institutions seizing business assets, which can negatively impact day-to-day operations and discourage borrowing" is 3.66 with a standard deviation of 1.206, indicating that respondents agree that late repayments can negatively impact SMEs, discouraging borrowing. The mean score for the variable "In some cases, interest rates on loans may be influenced by the nature of the business or collateral provided" is 3.04 with a standard deviation of 1.210, suggesting that respondents agree that interest rates on loans may be influenced by the nature of the business or collateral provided.

Overall, the descriptive statistics suggest that interest rates are a significant concern for SMEs seeking loans from financial institutions. SMEs are likely to face higher interest rates than larger firms. High interest rates, unreasonable costs and fees, and the risk of losing assets due to late repayments can discourage borrowing. The findings highlight the need for financial institutions to offer fair and reasonable interest rates and to simplify the loan application and processing procedures.

#### 4.4 Analysis of Inferential Statistics Results:

The study aimed to identify the factors that impact the availability of credit facilities for SMEs in Addis Ababa. To achieve this objective, the researchers utilized inferential statistics, specifically correlation and regression analysis. The results of these analyses are presented in the following sections of the study.

#### 4.4.1 Correlation Analysis

Table 10 Correlation matrix of the study model

		Access to credit	Collateral requirements	SME's profile	Financial Performance	Number of financial institutions	Interest rate charged
Access to credit	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	271					
Collateral requirements	Pearson Correlation	.791**	1				
	Sig. (2-tailed)	.000					
	N	271	271				
SME's profile	Pearson Correlation	.732**	.728**	1			
	Sig. (2-tailed)	.000	.000				
	N	271	271	271			
Financial Performance	Pearson Correlation	.734**	.761**	.769**	1		
	Sig. (2-tailed)	.000	.000	.000			
	N	271	271	271	271		
Number of financial institutions	Pearson Correlation	.763**	.733**	.788**	.750**	1	
	Sig. (2-tailed)	.000	.000	.000	.000		
	N	271	271	271	271	271	
Interest rate charged	Pearson Correlation	.778**	.767**	.681**	.699**	.752**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	
	N	271	271	271	271	271	271

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Source: Own data survey, (2023)

The table also shows the significance level (p-value) for each correlation coefficient. The p-value indicates the probability of observing a correlation as strong as the one calculated, assuming that

there is truly no correlation in the underlying population. A p-value less than 0.05 is generally considered statistically significant, meaning that the correlation is unlikely to have occurred by chance. The strongest correlation is observed between access to credit and collateral requirements, with a correlation coefficient of 0.791. This indicates a strong positive relationship between the two variables, suggesting that collateral requirements have a significant impact on SMEs' access to credit.

The second strongest correlation is observed between SME's profile and the number of financial institutions, with a correlation coefficient of 0.788. This indicates a strong positive relationship between the two variables, suggesting that the number of financial institutions can have a significant impact on SMEs' profiles.

The correlation between access to credit and SME's profile is also strong, with a correlation coefficient of 0.732. This indicates a positive relationship between the two variables, suggesting that SMEs' profiles can impact their access to credit.

The correlation between access to credit and financial performance, as well as the correlation between collateral requirements and financial performance, is also positive and significant, with correlation coefficients of 0.734 and 0.761, respectively. This suggests that access to credit and collateral requirements can impact SMEs' financial performance.

Finally, the correlation between interest rate charged and all other variables is also significant and negative, with correlation coefficients ranging from -0.699 to -0.778. This indicates that high interest rates charged by financial institutions can negatively impact SMEs' access to credit, collateral requirements, SMEs' profiles, financial performance, and the number of financial institutions.

Overall, the findings suggest that collateral requirements, SMEs' profiles, financial performance, and the number of financial institutions can impact SMEs' access to credit. Additionally, high interest rates charged by financial institutions can negatively impact all other variables. The results highlight the importance of addressing these factors to improve SMEs' access to finance and their financial performance.

## 4.4.2. Regression analysis

### 4.4.2.1. Regression assumptions test

#### Multi-collinearity Test

A crucial assumption in multiple regression analysis is the presence of a strong correlation between two or more independent variables in the study, known as multi-collinearity. This concept, as defined by Wooldridge (2012), refers to the high correlation between independent variables that can impact the accuracy and reliability of the regression model. It is important to consider and address multi-collinearity to ensure that the regression results are valid and can be used to draw reliable conclusions about the relationship between the independent and dependent variables.

Table 11 Collinearity test result of result of tolerance and VIF

		Collinearity Statistics	
Model		Tolerance	VIF
1	Collateral requirements	.294	3.398
	SME's profile	.295	3.389
	Financial Performance	.302	3.310
	Number of financial institutions	.274	3.644
	Interest rate charged	.331	3.026

a. Dependent Variable: Access to credit

Source: Own data survey, (2023)

The collinearity statistics table provides insight into the level of multi-collinearity between the independent variables used in the regression model. To evaluate multi-collinearity in this study, tolerance and VIF statistics were used. According to Andy (2009), a tolerance value of less than 0.1 indicates a serious problem with multi-collinearity. However, in this study, all of the independent variables had a tolerance of more than 0.1, with values ranging from 0.274 to 0.331. A low tolerance value suggests a high degree of correlation between the independent variables, while a higher value indicates less correlation. Based on these results, it can be concluded that the independent variables in this study did not have a significant problem with multi-collinearity.

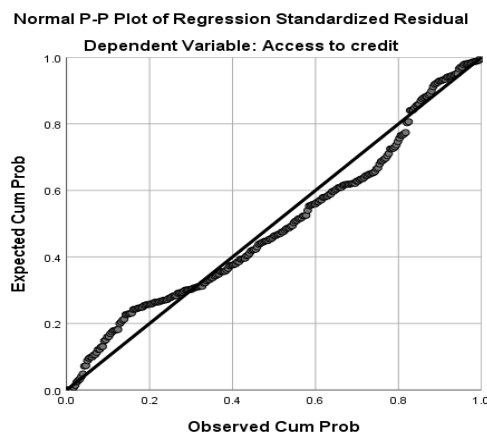
According to Burns and Burns (2008), a VIF value exceeding 10 is a concern for multi-collinearity. However, in this study, all VIF values were below 4, indicating that the assumption of multi-collinearity was not violated. The VIF values suggest that there was no significant correlation between the independent variables used in the regression model, and the potential impact of multi-collinearity on the results was minimal. These findings confirm that the regression model used in this study is appropriate for analyzing the relationship between the independent and dependent variables.

### Linearity Test

Statistical analysis involves several steps, and one of the crucial steps is to test for linearity between variables. This is important because non-linear relationships between variables can impact the accuracy and validity of the results obtained from the analysis. There are different statistical techniques that can be used to perform a linearity test, including scatter plots, correlation analysis, and regression analysis. It is essential to ensure that the relationship between variables is linear to draw accurate conclusions from the analysis.

The scatter plot of residuals in Figure 2 indicated that the points were distributed in a relatively straight line from the bottom left to the top right. This suggests that there was a linear relationship between the variables, and the assumption of linearity was not violated. The scatter plot of residuals is a useful tool for assessing the linearity assumption in regression analysis, and in this case, it provided evidence that the relationship between the independent and dependent variables was linear, and the results of the analysis could be considered valid.

Figure 2 Scatter plot of residuals

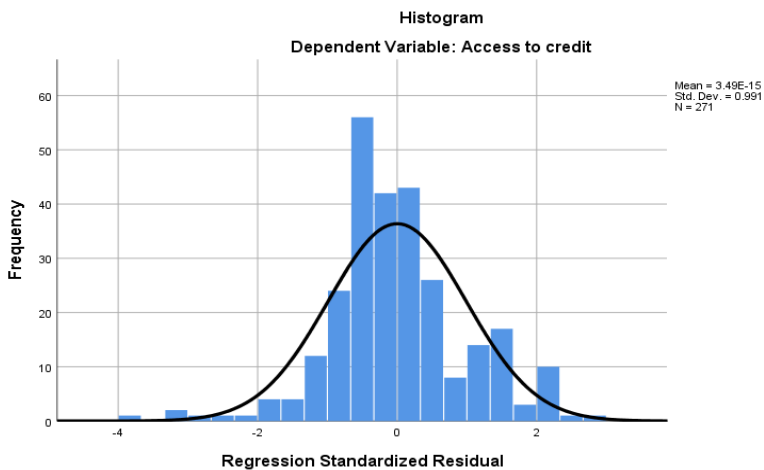


Source: Own data survey, (2023)

## Normality Test

One of the fundamental assumptions of the classical linear regression model is that the error term should follow a normal distribution, with an expected value of zero ( $E(UT)=0$ ). To test this assumption, a histogram test was conducted to examine the distribution of residuals. The results of the normality test are presented in Figure 3, which provides insight into whether the error term met the assumption of normality. The normality of the error term is an important assumption in regression analysis, and it is essential to test this assumption to ensure the validity of the results obtained from the analysis.

Figure 3 Test of Normality



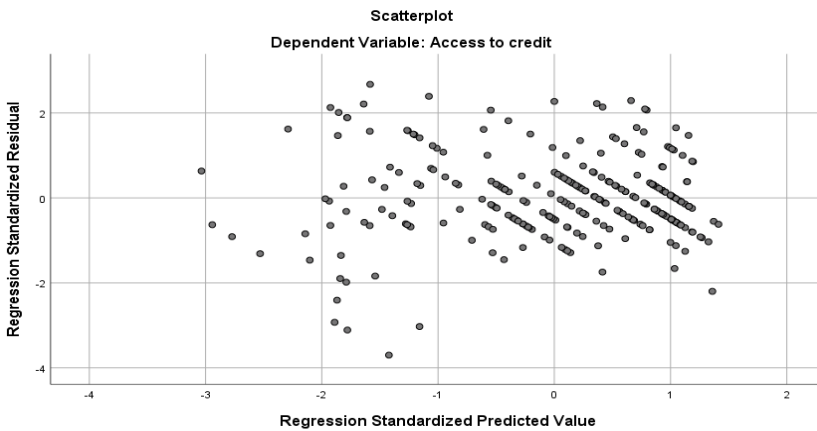
Source: Own data survey, (2023)

As it is shown in the figure 3 above, the P-P plot of residuals reveals no large deviation in the spread of the residuals that almost all residuals lay on the linear straight line. Therefore, this indicates that the relationship between the independent variables and the dependent variable is linear.

## Heteroscedasticity Test

Based on the scatter plot of residuals shown in Figure 4, there was no discernable pattern in the distribution of the residuals. This suggests that the model met the assumption of homoscedasticity, which means that the variance of the residuals was constant across all levels of the independent variables. Homoscedasticity is an important assumption in regression analysis, and violations of

Figure 4 Heteroscedasticity Test



Source: Own data survey, (2023)

this assumption can lead to biased and unreliable results. Therefore, the results of this analysis can be considered valid because the model met the assumption of homoscedasticity.

## Regression Model

The model summary shows the results of a regression analysis in which one or more independent variables are used to predict a dependent variable. The summary provides information on how well the model fits the data and how accurate the predictions are likely to be.

Table 12 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858 <sup>a</sup>	.736	.731	.36019

a. Predictors: (Constant), Interest rate charged, SME's profile, Financial Performance, Collateral requirements, Number of financial institutions

b. Dependent Variable: Access to credit

Source, Own data survey (2023)

The summary shows that the model has a multiple R of 0.858, indicating a strong positive relationship between the independent and dependent variables. The R-squared value of 0.736 indicates that 73.6% of the variance in the dependent variable can be explained by the independent variable(s) in the model. This suggests that the model is a good fit for the data and that the independent variable(s) are good predictors of the dependent variable.

The adjusted R-squared value of 0.731 takes into account the number of independent variables in the model and adjusts the R-squared value accordingly. In this case, the adjusted R-squared value is only slightly lower than the R-squared value, indicating that the independent variable(s) in the model are good predictors of the dependent variable even when considering the number of independent variables. The standard error of the estimate of 0.36019 provides an estimate of the average distance between the observed values of the dependent variable and the predicted values produced by the model. This suggests that the model's predictions are likely to be fairly accurate with an average error of 0.36019 units.

Overall, the model summary suggests that the independent variable(s) used in the regression analysis are good predictors of the dependent variable and that the model is a good fit for the data.

Table 13 Variance analysis

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	95.967	5	19.193	147.937	.000 <sup>b</sup>
	Residual	34.381	265	.130		
	Total	130.348	270			

a. Dependent Variable: Access to credit

b. Predictors: (Constant), Interest rate charged, SME's profile, Financial Performance, Collateral requirements, Number of financial institutions

Source: Own data survey, (2023)

The variance analysis table shows the results of an ANOVA for a regression model with five predictors (interest rate charged, SME's profile, financial performance, collateral requirements, and number of financial institutions) on the dependent variable of access to credit. The regression model is significant ( $p < .001$ ) and explains a significant amount of the variance in access to credit (R-squared = .737). The F-test value of 147.937 and the associated p-value indicate that the model is a good fit for the data and that at least some of the predictors are significantly related to the outcome.

The residual mean square of .130 suggests that there is some unexplained variance remaining in the model. Overall, this ANOVA suggests that the regression model with the five predictors is a significant predictor of access to credit.

Table 14 Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.751	.121		6.227	.000
Collateral requirements	.258	.052	.289	4.975	.000
SME's profile	.088	.043	.120	2.073	.039
Financial Performance	.097	.057	.098	1.700	.090
Number of financial institutions	.166	.056	.178	2.963	.003
Interest rate charged	.255	.051	.272	4.955	.000

a. Dependent Variable: Access to credit

Source: Own data survey, (2023)

Table 14 provides the unstandardized and standardized coefficients, t-values, and significance levels of the independent variables in the regression model.

The unstandardized coefficients represent the change in the dependent variable (Y) associated with a one-unit change in the independent variable (X), holding all other variables constant. For example, the unstandardized coefficient of Collateral requirements is 0.258, meaning that for a one-unit increase in collateral requirements, there is an increase in the dependent variable (Y) by 0.258 units, holding all other variables constant. The standardized coefficients, also known as beta coefficients, represent the change in the dependent variable (Y) associated with a one-standard deviation change in the independent variable (X), holding all other variables constant. The standardized coefficient of Collateral requirements is 0.289, indicating that a one-standard deviation increase in collateral requirements is associated with a 0.289 standard deviation increase in the dependent variable (Y), holding all other variables constant.

The t-values indicate whether the coefficients are statistically significant. A t-value greater than 1.96 (assuming a 95% confidence level) suggests that the coefficient is statistically significant. In this case, all coefficients except for Financial Performance have statistically significant t-values, indicating that they are significantly related to the dependent variable. The p-values, or significance levels, provide the probability of obtaining the observed results by chance alone. In this case, all p-values are less than 0.05, indicating that the results are statistically significant at a 95% confidence level.

The results suggest that collateral requirements, the number of financial institutions, and interest rates charged are significant predictors of the dependent variable, as their coefficients are both statistically significant and have a relatively large effect size. SME's profile also has a statistically significant coefficient, but the effect size is relatively small. Financial Performance, on the other hand, does not have a statistically significant coefficient, although it is still important to consider in the model due to its potential impact on the dependent variable.

The multiple regression model for predicting Access to credit based on the five independent variables:

$$\text{Access to credit} = 0.751 + 0.258X_1 + 0.088 X_2 + 0.097X_3 + 0.166X_4 + 0.255X_5 + 0.258X_1 + \epsilon$$

Where:

$X_1$  = Collateral requirements

$X_2$  = SME's profile

$X_3$  = Financial performance

$X_4$  = Number of financial institutions

$X_5$  = Interest rate charged

$\epsilon$  = Standard Error

The model suggests that collateral requirements, SME's profile, number of financial institutions and interest rate charged are important predictors of Access to credit, while the financial performance is not a significant predictor of Access to credit after controlling for the other variables in the model.

## 4.5. Hypotheses testing

The researcher summarized the study hypotheses results from table 12 above. The researcher summarized for alternative hypotheses. The researcher tested hypotheses by using p-value.

- Collateral requirements: The p-value for Collateral requirements is less than 0.000, indicating that the coefficient is statistically significant at a 95% confidence level. Therefore, we can reject the null hypothesis that there is no relationship between Collateral requirements and Access to credit. The alternative hypothesis is that there is a significant positive relationship between Collateral requirements and Access to credit.
- SME's profile: The p-value for SME's profile is 0.039, indicating that the coefficient is statistically significant at a 95% confidence level. Therefore, we can reject the null hypothesis that there is no relationship between SME's profile and Access to credit. The alternative hypothesis is that there is a significant positive relationship between SME's profile and Access to credit.
- Financial Performance: The p-value for Financial Performance is 0.090, which is greater than the significance level of 0.05. Therefore, we cannot reject the null hypothesis that there is no relationship between Financial Performance and Access to credit. The alternative hypothesis is that there is a significant relationship between Financial Performance and Access to credit, but we do not have enough evidence to support it at this confidence level.
- Number of financial institutions: The p-value for Number of financial institutions is 0.003, indicating that the coefficient is statistically significant at a 95% confidence level. Therefore, we can reject the null hypothesis that there is no relationship between Number of financial institutions and Access to credit. The alternative hypothesis is that there is a significant positive relationship between Number of financial institutions and Access to credit.
- Interest rate charged: The p-value for Interest rate charged is less than 0.001, indicating that the coefficient is statistically significant at a 95% confidence level. Therefore, we can reject the null hypothesis that there is no relationship between Interest rate charged and Access to credit. The alternative hypothesis is that there is a significant positive relationship between Interest rate charged and Access to credit.

Overall, the hypothesis results suggest that Collateral requirements, SME's profile, Number of financial institutions, and Interest rate charged are all significant predictors of Access to credit, while the relationship between Financial Performance and Access to credit is not statistically significant at this confidence level.

The researcher tested hypotheses by using p-value.

Table 15 Hypotheses Summary

No	Hypotheses	Sig	Decision
Hypothesis 1	Collateral requirements has positive effect on access to credit	.000	Accepted
Hypothesis 2	SME's profile has positive effect on access to credit	.039	Accepted
Hypothesis 3	Financial performance has negative effect on access to credit	.090	Rejected
Hypothesis 4	Number of financial institutions has positive effect on access to credit	.003	Accepted
Hypothesis 5	Interest rate charged has positive effect on access to credit	.000	Accepted

## CHAPTER FIVE

### FINDINGS, CONCLUSION AND RECOMMENDATIONS

Chapter five of the research report provides a comprehensive conclusion based on the findings presented in the previous chapters. The conclusion highlights the key findings of the research and their implications for policymakers, financial institutions, and small and medium-sized entrepreneurs in Addis Ababa.

#### 5.1 Conclusions

The study found that small and medium-sized enterprises in Addis Ababa face numerous challenges in accessing finance, including high collateral requirements, high-interest rates, limited access to tailored financial products, and various factors related to SMEs' profile and financial performance. These challenges have significant implications for the growth and development of SMEs, which play a critical role in the economic development of Ethiopia.

Based on the regression analysis results it can be concluded that the model is a good fit for the data and is a significant predictor of access to credit for small and medium-sized enterprises (SMEs). The model has a high R-squared value of .736, indicating that the model explains a significant amount of the variance in access to credit. The adjusted R-squared value of .731 suggests that the model is a good fit and that the predictors included in the model are relevant to explaining access to credit for SMEs. The standard error of the estimate is relatively low at .36019, indicating that the model's predictions are relatively accurate and that the model can be used to make predictions about access to credit for SMEs.

The study also found that the availability and spread of financial institutions have a positive impact on access to credit and savings, leading to business expansion. However, participants expressed concerns about high-interest rates, unreasonable costs and fees associated with processing credit applications, and the potential negative consequences of late repayments.

Overall, these results suggest that interest rate charged, SME's profile, financial performance, collateral requirements, and number of financial institutions are important factors that influence access to credit for SMEs. Policymakers and stakeholders can use this information to develop

strategies and policies that can improve access to credit for SMEs and promote economic growth and development.

The conclusion of the research report highlights the importance of improving access to finance for small and medium-sized enterprises in Addis Ababa and provides several recommendations for policymakers and financial institutions to address the challenges faced by SMEs in the city.

## 5.2 Recommendation

Based on the findings presented in the research, the following recommendations are proposed to improve access to finance for small and medium-sized enterprises (SMEs) in Addis Ababa:

- According to this study, collateral requirements have a significant effect on access to credit. As a result, the banks can consider accepting a wider range of collateral types beyond traditional assets such as real estate or vehicles. This could include intellectual property, future cash flows or inventory, which may be more relevant to SMEs, can simplify and standardize collateral evaluation processes to make it easier for SMEs to understand and comply with the requirements. This could involve developing clear guidelines and checklists for evaluating different types of collateral and also banks can provide education and support to SMEs to help them understand the collateral requirements and identify potential collateral options. This could involve offering workshops, online resources, or one-on-one consultations.
- This study also found interest rate charged for SMEs have a significant effect on access to credit. So the bank may be to review its credit analysis process for SME borrowers to ensure that it is thorough and fair. This could involve assessing the bank's criteria for determining creditworthiness, such as examining its credit scoring model, and reviewing its underwriting policies and procedures to ensure up-to-date and appropriate for the current market environment, and also the bank consider alternative lending model that could help to reduce the cost of borrowing for SMEs, such peer-to-peer lending platforms.

These platforms often offer lower interest rates and more flexible terms than traditional banks, which could be attractive to SMEs that are struggling to obtain financing from traditional lenders. By adopting a multi-faceted approach that involves these strategies,

Banks can potentially reduce the cost of borrowing and gain access to more affordable credit.

- Banks can take several steps to improve access to credit for SMEs. They can develop tailored loan products that are designed to meet the specific needs of different types of SMEs, such as those owned by women or minority businesses or startups may have unique features that are more suitable for these types of SMEs. Banks can also simplify their loan application processes to make it easier and more efficient for SMEs to apply for credit. This could involve digitizing the application process, reducing documentation requirements, or providing online resources to guide SMEs through the process. Additionally, banks can offer flexible repayment terms that are tailored to the cash flow cycles and revenue streams of different types of SMEs. For example, seasonal businesses may require loan repayment terms that are tied to their seasonal revenue streams. Banks can provide education and support to SMEs to help them improve their creditworthiness and business profile. Finally, Banks can collaborate with other stakeholders such as government agencies, industry associations, and business incubators to improve access to credit for SMEs with different profiles.

In conclusion, these recommendations can help to improve access to finance for SMEs in Addis Ababa, which will ultimately contribute to the development and growth of these businesses, and the overall economic development of Ethiopia.

### 5.3 For Future Research

Firstly, Due to time and budget constraints this research was geographically restricted to SMEs in Addis Ababa. Therefore, any future work might include outside the capital city, Addis Ababa.

Secondly, this study has focused on examining factors affecting access to credit with limited number of independent variable, so that future researchers can include other unobserved variables because access to credit can be affected by other variables.

And finally, future researchers are also suggested to include other research approaches for instance focus group discussions and interviews to obtain data that are more accurate and a depth in explanation.

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## APENDIX-I

### Questionnaires for SMEs

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

Dear Respondent,

I, Tenalem Temesgen, am a student at Addis Ababa University. In order to finish my study Master of Accounting and finance, I need to conduct research. My research is about the accessibilities of credit facilities for small and medium enterprise (SMEs) in Ethiopia especially in Addis Ababa. The information you are to provide will be used as a primary data in my research study as it is meant for academic purpose only and all responses to this survey will be held confidential.

I, therefore, kindly request you to fill the questionnaire honestly and accurately, so that the quality of the information you provide determines the ultimate reliability of the study.

Thank you in advance for your valuable cooperation and assistance.

#### **Directions for filling the questionnaire:**

There is no right and wrong answer of the options provided.

Therefore, you are kindly requested to fill your real opinion regarding each question.

- ✓ Please put a tick (✓) or mark (X) in the space(s) provided.
- ✓ There is no need to write your name

#### **Section A: General Information**

1) Gender Male [ ] Female [ ]

2) Age below 25 [ ] 26-30 [ ] 31-39 [ ] Above 40 [ ]



## 1. Collateral requirements

No.	Description	1	2	3	4	5
1	Before granting a loan to small and medium-sized enterprises (SMEs), banks typically request security or a guarantee.					
2	My loan application was rejected because I did not have enough collateral to secure it.					
3	The collateral requested by banks from SMEs is often reasonable and within their means to provide.					
4	The collateral requirements set by banks can discourage many SMEs from even applying for loans.					
5	As a result of the demand for collateral for my loan, I have had to explore alternative funding sources such as borrowing from family and purchasing on credit.					
6	Small and medium-sized enterprises (SMEs) are concerned about collateral requirements when attempting to obtain financing from banks.					

## 2. SME's Profile

No.	Description	1	2	3	4	5
1	The age of the owner/manager can impact the ability to secure financing for an SME.					
2	There may be gender-based disparities in loan accessibility, with men having more opportunities to obtain loans than women.					
3	Women are often dissuaded from pursuing bank credit.					
4	The level of education of an SME owner/manager can influence their likelihood of obtaining financing.					
5	The industry in which an SME operates can affect its creditworthiness and ability to access credit.					

### 3. Financial performance

No.	Description	1	2	3	4	5
1	My business performance has been impacted by a shortage of funds.					
2	The financial performance of an organization can be influenced by its capital structure.					
3	Performance can be affected by a lack of managerial skills.					
4	Implementation of advanced technology can enhance performance.					
5	I have completed training that has improved my ability to manage the business.					
6	There is sufficient capital available for me to operate my business.					
7	Performance can be impacted by the size of a firm.					

### 4. Number of financial institutions

No.	Description	1	2	3	4	5
1	The availability of financial institutions in our area has enabled us to accumulate savings, resulting in increased investment in our businesses.					
2	The spread of financial institutions has improved access to credit for many small and medium-sized entrepreneurs, leading to business expansion.					
3	Most of entrepreneurs, through financial institutions have realized an effective way to integrate access to financial service.					
4	Many financial institutions do not offer products that are tailored to our specific requirements.					
5	The length of my relationship with my financial provider can determine my access to credit.					
6	The increase in demand for credit services has resulted in financial institutions incorporating mobile money transfer services.					

## 5. Interest rates charged

No.	Description	1	2	3	4	5
1	Banks often impose higher interest rates on small businesses than on larger firms.					
2	The interest rates charged by financial institutions can be inflated and prevent businesses from taking out loans.					
3	There are unreasonable costs and fees associated with processing credit applications.					
4	The high interest rates charged by financial institutions are a limiting to borrowing.					
5	Late repayments can result in financial institutions seizing business assets, which can negatively impact day-to-day operations and discourage borrowing.					
6	In some cases, interest rates on loans may be influenced by the nature of the business or the collateral provided.					

## 6. Access to Finance

No.	Description	1	2	3	4	5
1	Small and medium-sized enterprises (SMEs) possess information regarding available financial services.					
2	Competent staff can have an impact on SMEs' access to finance.					
3	SMEs require experience to financial access.					
4	Industry regulations have an influence on access to finance.					
5	Banks do not always offer transparent information regarding loan application processes, eligibility criteria, and required documentation.					



6) በንግድ ውስጥ የነበሩባቸው ዓመታት ብዛት?

ከ 1 ዓመት በታች [ ] 2-4 ዓመታት [ ] 5-9 ዓመታት [ ] ከ 10 ዓመታት በላይ [ ]

7) ለባንክ ብድር አመልክተዋል? አዎ [ ] አላመለከትኩም [ ] ምንም ሁኔታ ከሌለ

ለምን \_\_\_\_\_

ክፍል ለ-ምርምር ተዛማጅ ጥያቄዎች

የሚከተሉት ጥያቄዎች በአምስት ነጥብ ልሴት ላይ ቀርቦባል ከዚህ በታች በተጠቀሰው ሰጥን ውስጥ “v” ን

በማድረግ በእያንዳንዱ መግለጫ ላይ የስምምነትዎን ወይም አለመግባባትዎን ደረጃ ያመልክቱ

1	2	3	4	5
በጣም እስማማለሁ	እስማማለሁ	ገለልተኛ	አልስማማም	በጣም አልስማማም

**1. የብድር መስፈርቶች**

ተ.ቁ	ዝርዝር	1	2	3	4	5
1	ለአነስተኛ እና መካከለኛ ኢንተርፕራይዞች ብድር ከመስጠታቸው በፊት ባንኮች በተለምዶ ደህንነትን ወይም ዋስትና ይጠይቃሉ					
2	የብድር ማመልከቻዬ ተቀባይነት አላገኘም ምክንያቱም እሱን ለማስጠበቅ በቂ ስምምነት ወይም ማስይዘዱ ንብረት ስላልነበረኝ					
3	ከአነስተኛ እና መካከለኛ ኢንተርፕራይዞች ባንኮች የተጠየቀው ስምምነት/ማስያዣ ብዙውን ጊዜ ምክንያታዊ እና ለማቅረብ አቅም ነበረኝ					
4	በባንኮች የተቀመጡት የብድር ግዴታዎች ብዙ አነስተኛ እና መካከለኛ ኢንተርፕራይዞች ብድርን እንኳን እንዳያመለክቱ ሊያደርጋቸው ይችላል					

5	በባንክ ብድር ማስያዣ ጥያቄ ምክንያት ፣ ከቤተሰብ ብድር እና በብድር መግዛትን የመሰሰሉ አማራጭ የገንዘብ ምንጮችን ተጠቅሟልሁ.					
6	አነስተኛ እና መካከለኛ መጠን ያላቸው ኢንተርፕራይዞች ከባንኮች ፋይናንስ ለማግኘት በሚሞክሩበት ጊዜ ስለ የብድር መስፈርቶች ያሳባሉ					

2. የአነስተኛ እና መካከለኛ ኢንተርፕራይዞች መገለጫ

ተ.ቁ	ዝርዝር	1	2	3	4	5
1	የባለቤቱ / ሥራ አስኪያጅ ዕድሜ ለፋይናንስ የማግኘት ችሎታን ተጽኖ ሊኖረው ይችላል					
2	በብድር ተደራሽነት ውስጥ በ ጾታ ላይ የተመሰረቱ ልዩነቶች ሊኖሩ ይችላሉ ፣ ወንዶች ከሴቶች ይልቅ ብድር ለማግኘት ብዙ ዕድሎች አሏቸው					
3	ሴቶች ብዙውን ጊዜ የባንክ ብድርን ከመውሰድ ይወገዳሉ					
4	የአነስተኛ እና መካከለኛ ኢንተርፕራይዞች ባለቤት / ሥራ አስኪያጅ የትምህርት ደረጃ ፋይናንስ የማግኘት ዕድላቸው ላይ ተጽዕኖ ሊኖረው ይችላል					
5	አንድ የአነስተኛ እና መካከለኛ ኢንተርፕራይዞች የሚሰራበት ኢንዱስትሪ ብድርን የማግኘት አቅሙ እና ችሎታው ላይ ተጽዕኖ ሊያሳድር ይችላል					

3. የፋይናንስ አፈጻጸም

ተ.ቁ	ዝርዝር	1	2	3	4	5
1	የእኔ የንግድ ሥራ አፈጻጸም በገንዘብ እጥረት ምክንያት ተጽዕኖ አሳድሯል					
2	የአንድ ድርጅት የገንዘብ አፈጻጸም በካፒታል መዋቅር ተጽዕኖ ሊኖረው ይችላል					
3	አፈጻጸም በአስተዳደራዊ ችሎታዎች እጥረት ሊካካ ይችላል					
4	የላቀ ቴክኖሎጂ አፈጻጸም አፈጻጸምን ሊያሻሽል ይችላል					
5	ንግዱን የማስተዳደር ችሎታዬን ያሻሻለ ስልጠና አጠናቅቄያለሁ					
6	ንግዴን እንደሠራ ለእኔ በቂ ካፒታል አለ					
7	አፈጻጸም በአንድ ድርጅት መጠን ተጽዕኖ ሊኖረው ይችላል					

4. የገንዘብ ተቋማት ብዛት

ተ.ቁ	ዝርዝር	1	2	3	4	5
1	በአካባቢያችን ያሉ የገንዘብ ተቋማት መገኘታቸው ቁጠባዎችን ለመሰብሰብ አስችሎናል ፣ ይህም በንግዶቻችን ውስጥ ኢንስትሜንት እንዲጨምር ምክንያት ሆኗል					
2	የገንዘብ ተቋማት መስፋፋት ለብዙ አነስተኛ እና መካከለኛ መጠን ላላቸው ሥራ ፈጣሪዎች የብድር ተደራሽነት የተሻሻለ ሲሆን ይህም ወደ ንግድ መስፋፋት ይመራል					
3	አብዛኛዎቹ ሥራ ፈጣሪዎች በገንዘብ ተቋማት በኩል የገንዘብ አገልግሎትን ተደራሽነት ለማቀናጀት ውጤታማ መንገድ አግኝተዋል					
4	ብዙ የገንዘብ ተቋማት ለተለያዩ ፍላጎታችን የሚመጡን ምርቶችን አያቀርቡም					

5	ከገንዘብ አቅራቢዬ ጋር ያለኝ ግንኙነት ርዝመት የብድር ተደራሽነትዬን ሊወስን ይችላል					
6	የብድር አገልግሎቶች ፍላጎት መጨመር የሞባይል ገንዘብ ማስተላለፍ አገልግሎቶችን የሚያካትቱ የገንዘብ ተቋማት አስገኝቷል					

5. የወለድ መጠን

ተ.ቁ	ዝርዝር	1	2	3	4	5
1	ባንኮች ብዙውን ጊዜ በትላልቅ ኩባንያዎች ላይ ሳይሆን በአነስተኛ ንግዶች ላይ ከፍተኛ የወለድ ምጣኔን ከፍ ያደርጋሉ					
2	በፋይናንስ ተቋማት የተከሰቱት የወለድ ተመኖች ሊበዙ እና ንግዶች ብድር እንዳያወጡ ሊከለክሉ ይችላሉ					
3	የብድር ማመልከቻዎችን ከማካሄድ ጋር የተዛመዱ ምክንያታዊ ያልሆኑ ወጭዎች እና ክፍያዎች አሉ					
4	በፋይናንስ ተቋማት የተከሰቱት ከፍተኛ የወለድ ተመኖች ለመበደር የተገደቡ ናቸው					
5	ዘግይተው የሚደረጉ ክፍያዎች የዕለት ተዕለት ሥራዎችን አሉታዊ ተፅእኖ ሊያሳድሩ እና ብድርን ሊያደናቅፉ የሚችሉ የንግድ ተቋማትን የንግድ ሥራ ንብረቶችን እንዲይዙ ሊያደርግ ይችላል					
6	በአንዳንድ ሁኔታዎች በብድር ወለድ ወለድ በንግድ ተፈጥሮ ወይም በተጠቀሰው የብድር ወለድ ተጽዕኖ ሊያሳድር ይችላል					

6. የብድር ተደራሽነት

ተ.ቁ	ዝርዝር	1	2	3	4	5
1	አነስተኛ እና መካከለኛ ኢንተርፕራይዞች የሚገኙትን የብድር አገልግሎቶች በተመለከተ መረጃ አላቸው					
2	የተፎካካሪ ሠራተኞች በአነስተኛ እና መካከለኛ ኢንተርፕራይዞች የብድር ተደራሽነት ላይ ተፅዕኖ ሊኖራቸው ይችላል					
3	አነስተኛ እና መካከለኛ ኢንተርፕራይዞች ለብድር ተደራሽነት ተሞክሮ ይፈልጋሉ					
4	የኢንዱስትሪ ሀጎች በብድር ተደራሽነት ላይ ተጽዕኖ ያሳድራሉ					
5	ባንኮች የብድር ማመልከቻ ሂደቶችን፣ የብቁነት መስፈርቶችን እና አስፈላጊ ሰነዶችን በተመለከተ ሁል ጊዜ ግልፅ መረጃን አይሰጡም					

## APENDIX-II

### Questionnaires for Banks

#### ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS DEPARTMENT OF ACCOUNTING AND FINANCE MSC PROGRAM

Dear Respondent,

I, Tenalem Temesgen, am a student at Addis Ababa University. In order to finish my study Master of Accounting and finance, I need to conduct research. My research is about the accessibilities of credit facilities for small and medium enterprise (SMEs) in Ethiopia especially in Addis Ababa. The information you are to provide will be used as a primary data in my research study as it is meant for academic purpose only and all responses to this survey will be held confidential.

I, therefore, kindly request you to fill the questionnaire honestly and accurately, so that the quality of the information you provide determines the ultimate reliability of the study.

Thank you in advance for your valuable cooperation and assistance.

#### **Directions for filling the questionnaire:**

There is no right and wrong answer of the options provided.

Therefore, you are kindly requested to fill your real opinion regarding each question.

- ✓ Please put a tick (√) or mark (X) in the space(s) provided.
- ✓ There is no need to write your name

#### **Section A: General Information**

1) Gender Male [ ]

Female [ ]

2) Age below 25 [ ]

25-40 [ ]

Above 40 [ ]



Leasing or hire-purchase or factoring ..... [ ]

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

Others.....

5) Have you received applications from SMEs for each of the aforementioned financing methods in the past?      Yes [ ]                      No [ ]                      Instrument is not given for SME's [ ]

6) If you answered "Yes" to the previous question, please indicate which financing methods you have received applications for and provided financing for in the past two years.

Received and give requested amount..... [ ]

Received but only give part of it..... [ ]

All was rejected..... [ ]

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

.....

8) Please rank the following factors in order of importance as limiting factors for SMEs in accessing financial resources, and indicate your rankings in the provided box:

Insufficient collateral or guarantee..... [ ]

Interest rates or price to high..... [ ]

Government rules and regulation..... [ ]

Fear of inability to repay..... [ ]

The process of loan is too difficult..... [ ]

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

Limited understanding of needs..... [ ]

Other.....

Please provide any comments or suggestions on how to improve the availability of finance and reduce its limitations.....