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DETERMINANTS INFLUENCING ACCESS TO FINANCE FOR SMALL AND MEDIUM ENTRPRISES IN ADDIS ABABA

A thesis submitted to the department of accounting and finance of Addis Ababa University in partial fulfillment of the requirement for degree of masters of Science in accounting and finance

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July 2024

ADDISABABA, ETHIOPIA

Declaration

I hereby declare that the study entitled "Determinants influencing access to finance for small and medium enterprises in Addis Ababa" is my original work and has not been presented in Addis Ababa University or any other University, and that all sources of Material used for the study has been duly acknowledged.

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Letter of Certification

This is to certify that the thesis prepared by Eyerus Mekonen titled: Determinants influencing access to finance for small and medium enterprises 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 accepted standards with respect to originality and quality.

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LIST OF ACRONYMS

DFID	:	Department for International Development
EU	:	European Union
GDP	:	Gross Domestic Product
MFIs	:	Microfinance Institutions
MSEs	:	Micro and Small-sized Enterprises
MSMEs	:	Micro, Small and Medium-sized Enterprises
OECD	:	Organization for Economic Cooperation and Development
SMEs	:	Small and Medium-sized Enterprises
SPSS	:	Statistical Package for social Science

ABSTRACT

Most economies rely on Small and Medium-Sized Enterprises (SMEs) for their operations. Despite the fact that SMEs are vital to a nation's financial prosperity, one of the largest barriers to their growth and daily operations is still finding funding. Investigating factors influencing SMEs' access to financing in three sub-cities—Yeka, Nifas Silk, and Kolfe Keraniyo—of Addis Ababa was the aim of this study. The study included both descriptive and explanatory research designs.Simple correlation and regression analysis, ANOVA, and descriptive statistics like frequency, percentage, tables, and graphs were used to analyze the research. The findings indicate that, on average, 55.5% of the selected SMEs wanted financing but were unable to obtain it, whereas just 15.1% of the studied enterprises had access to financing and 29.3% of them asked for loans but were only granted a portion of them. Furthermore, the data indicates that the bulk of financing (47.6%) is utilized to support personal savings. In the Addis Ababa sub city, the size of the company, the need for collateral, awareness, and the cost of borrowing all have a statistically significant impact on SMEs' access to financing (yeka, Nifas silk, and kolfe keraniyo).

Keywords: Access to Finance, Sources of Finance, SMEs

CHAPTER ONE

1. INTRODUCTION

1.1Background of the Study

The majority of economic growth is largely attributed to small and medium-sized enterprises (SMEs)OECD, (2000). According to the OECD (2000) the majority of firms globally are small and medium-sized enterprises (SMEs), which play a crucial role in employment generation and global economic growth. Small and medium-sized enterprises are crucial to a country's financial success. Their role in creating job opportunities, fostering a business environment, supporting trades, and promoting fair compensation distribution is incredibly fundamental. Historically, small and medium-sized businesses (SMEs) have been viewed as the driving force behind continued economic growth and job creation in developing countries. They have a variety of functions, including fostering development, competitiveness, the improvement of human capital, and the establishment of a budgetary system. SMEs are portrayed as the typical place where businesses are located. The natural home of enterprise is portrayed as being the Micro and Small Enterprises (MSEs). In Ethiopia, the majority of big companies started out as SMEs and grew into larger ones over time by accumulating.

With increased urban population dynamics of Sub-Saharan Africa (SSA), the importance of SMEs is also growing. In SSA, given the rapid rural-urban migration and deficiency to absorb this migration, SMEs have become important urban economic activities particularly in providing urban employment. In similar fashion, in cities and towns of Ethiopia, SMEs and the informal sector are the predominant income generating activities and thus they have a significant contribution to local economic development and used as the basic means of survival (Gebre-egiziabher & Demeke, 2004).

Small-Scale businesses are driving forces for economic growth, job creation, and poverty reduction in developing countries. They are critical means to achieve accelerated economic growth and rapid industrialization. Furthermore, small-scale business has been recognized as a feeder to large- scale industries (Fabayo, 2009).

Without the need for expensive apparatus and technology, significant numbers of money, extensive knowledge, or sophisticated machinery, Ethiopia's SME sector is viewed as an instrument for enacting economic transformation through the effective use of the population's abilities and capabilities, particularly those of women and young people. In 1996, the value added contributed by the Small and Medium Enterprises (SMEs) informal and Small Manufacturing Enterprise sector (SMEs) was Birr 8.3 million. This amount represents approximately 3.4% of the GDP, 33% of the industrial sector's contribution, and 52% of the manufacturing sector's contribution to the GDP of the same year, according to data from 1992–1993. (Gebrehiwot, 2006). For a larger segment of Ethiopian society as a whole, the sector's growth is thought to be the primary source of employment and revenue generating. By the end of the five-year Growth and Transformation Plan (GTP) term, Ethiopia aims to have three million micro and small-scale businesses (NBE, 2011).

The financing of small and medium enterprises (SMEs) has been a topic of keen interest in recent years because of the key role that SMEs play in economic development and their potentially important contribution to economic diversification and employment (Ayyagari et al., 2007 cited in Berg and Fuchs, 2013). Numerous studies have discussed that SMEs are financially more constrained than larger firms in both developed and developing countries. In developing economies including Sub-Saharan Africa, SMEs are typically more creditconstrained than large firms, severely affecting their possibilities to grow (Beck et al, 2005; Beck and Demirguc-Kunt, 2006; Beck et al, 2006; Ayyagari et al, 2008; Beck et al, 2008; Ayyagari et al, 2012). Calomiris and Hubbard (1990) noted that when the company is smaller, the restrictions on credit are greater. Furthermore, according to Beck et al. (2006) cited in ElSaid et al. (2013), small firms consistently report more financing obstacles than medium and large enterprises. Smaller, younger and domestic as opposed to foreign-owned enterprises report more financing obstacles even after controlling for other firm characteristics. The probability that a small firm lists financing as a major obstacle (as opposed to moderate, minor or no obstacle) is 39% compared to 36% for medium-sized firms and 32% for large firms. Small firms mainly borrow funds through the informal financial market, while larger firms obtain funds from the formal market (Beck et al. 2006 cited in El_Said et al. 2013).

Access to finance is key to business development. Investment and innovation aren't possible without adequate financing. A difficulty in getting finance is one among the most obstructions to the expansion of the many businesses, particularly small and medium sized enterprises (SMEs). Therefore, reducing this financing gap in low-income countries should raise the incentive to create SMEs and consequently improve economic growth and increase job creation. In addition, improving SMEs' access to finance is significantly important in promoting performance and firm productivity (World Bank, 2015)

Many SMEs in Ethiopia are unable to reach their full potential because of many problems that impede their growth and performance, despite the SME sector's great relevance to the country's economy in terms of job generation and the reduction of extreme poverty. Limited access to capital is one of the main causes of the businesses' lackluster growth and performance (Wolday &Gebrehiwot, 2004). Similarly, when the World Bank compares small and large businesses, it discovers that small businesses have greater difficulties than large businesses in acquiring formal funding; they are far more likely to have external financing and to have their loan applications denied. (World Bank, 2015).

Since each country has its own classification based on its industrial regulations, there is no single, widely recognized definition of small and medium-sized enterprises (SMEs) in any given economic system. The number of employees, the value of the assets, the sales value, the size of the capital or turnover, the capital invested, and the overall balance sheet (asset, liability, and capital) are some of the often used criteria to define SMEs. The primary criteria are the segmentation of the subsector into service and industrial, the utilization of labor, and capital assets without operating buildings, as stated in Ethiopia's Small-Scale Enterprise Growth Stages Guideline (No.004/2011).

The definition of SMEs as per this guideline: In the industrial sector, encompassing manufacturing, construction, and mining, enterprises are defined as those employing 6-30 persons and possessing total assets ranging from ETB 100,001 to ETB 1,500,000 (USD 4,630 to USD 69,500). Similarly, in the service sector, which includes retail trade, transport, hotel, tourism, information technology, and maintenance services, enterprises are characterized by employing 6-30 persons and having total assets between ETB 50,001 and ETB 500,000 (USD 2,310 to USD 23,150).

1.2 Problem Statement

SMEs are often seen as the engines that propel the economy, yet because of their inherent uncertainty, they are typically denied access to loans. It is regarded as a serious issue that has long existed and that needs to be addressed right away by both governmental and non-governmental organizations. It is impossible to overlook the importance of SMEs to Ethiopia's development. The economy as a whole will experience disintegration and eventually collapse in the lack of suitable financing facilities for small firms (Munir, 2019). The private sector provides funding choices that enable businesses to innovate and grow, acting as a catalyst for economic change. However, compared to major corporations, small businesses in Ethiopia encounter more obstacles when trying to secure funding. They are less likely to receive outside funding and are more likely to have their loan applications denied (Prah, 2016).

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

One of the incentives that have been suggested to encourage this sector's growth and understanding of its potential role in the economy is to make financing facilities more accessible to it (by establishing credit and savings institutions). However, as small businesses grow and engage in innovative activities, their need for financing becomes more complex (Bataa, 2008).

According to the World Bank Ghana Office, Data collected in Zambia shows that while 95% of SMEs have bank accounts, only 16% had loans or lines of credit (6% of small and 25% of medium enterprises). (World Bank, 2015).

Several studies have demonstrated that SMEs have more financial constraints than larger enterprises, in both developed and developing countries. SMEs are often more credit-constrained than large enterprises in emerging nations, notably Sub-Saharan Africa, which negatively impacts their growth prospects (Ayyagari et al, 2012).

According to Osano and Languitone (2016), just 5% of SMEs in Mozambique receive funding from banks, indicating the majority of them look to other sources of funding for both working capital and investment. A significant proportion of small and medium-sized enterprises (SMEs) rely on personal, family, and friend funding for their projects because obtaining bank financing might present several challenges.

According to a survey done in Kenya in April 2010, SMEs are not happy with how easy it is to get financing, particularly from large financial institutions there. Approximately 65 percent of Kenyan micro, small, and medium-sized investors claim that during hard economic times, banking institutions did not provide them with financing. Just 12% of respondents claimed to have gotten financial assistance with favorable terms for repayment (Gabriel, 2011). However, 17.4% of Kenya's commercial banks' total bank credit goes to SMEs, according to Berg and Fuchs (2013).

In spite of this emphasis, SMEs are seen as the key to achieving government objectives. Nevertheless, in Ethiopia, this sector receives only 1% of the total funds that are loaned out. It is extremely low when compared to other countries like Kenya and Mozambique, indicating that not all SMEs should have access to financing because the amount provided only benefits a small number of SMEs. NBE. (2015-2016).

SMEs have several obstacles that hinder them from operating their enterprises profitably and efficiently. One of the most important factors in helping Small and Medium Enterprises (SME) expand and grow is financing. Many authors list a variety of factors that may hinder SMEs' ability to obtain financing. Manasseh (2004) states that barriers to obtaining bank finance include the absence of collateral requirements, the financial sector's structure, knowledge of funding alternatives, and small company support services. Ndungu (2014) states that the quantity of lending institutions, loan interest rates, collateral security, and literacy levels are the variables influencing SMEs' access to credit.

There hasn't been much research done on SMEs' access to financing in Addis Ababa. The West Oromia Region's (Deresse &Zerihun 2017) and Dilla Town's Brehanu Borji and Mesfin (2015) are two researchers that have studied SMEs' access to financing. Researchers that have studied the challenges associated with SMEs' growth in terms of financing access include Dereje (2012) and Feten (2010). While a number of studies have been conducted with a strong emphasis on SMEs and fiancé access, their findings have not been definitive or indicative of the current state of affairs. In order to provide light on how the issue of access to finance should be handled, this study examined the factors impacting SMEs' access to finance in Addis Ababa.

In the following ways, this study differs from previous research. Initially, past research concentrated on certain functional domains rather than the overall limitations faced by SMEs. It is possible to identify the general problem more broadly by looking into a problem with a focus on a general element. Second it is difficult to generalize the result only one sub city used as target population. This research aims to address the target population to three (kolfe keraniyo , Nefas Silk and yeka) subcities which have a large number of SMEs.

1.3 Objectives of the Study

1.3.1 General Objective

The main objective of this study is to establish factor affecting access to finance of small and medium enterprise (SMEs) in Addis Ababa.

1.3.2 Specific objective assessment

1. To examine the impact of firm size on SMEs' access to finance.

2. To assess the influence of collateral requirements on SMEs' access to finance.

3. To determine the role of awareness in improving SMEs' access to finance.

4. To analyze the effect of the cost of borrowing on SMEs' access to finance.

1.4 Significance of the Study

The growing importance of SMEs in Ethiopian economy and the ongoing obstacles they encounter in their daily operations served as the driving forces for this study. One development strategy that has been recognized for advancing industrialization, creating jobs, sparking creativity, and ending poverty in Ethiopia is the use of SMEs. The study's conclusions will be crucial to small- and medium-sized business owners since they highlight the key variables influencing these companies' ability to obtain financing in Ethiopia County. The study's data will be analyzed to provide insights that the Ethiopian County Government, and later other counties, can utilize in developing planning strategies. Additionally, this will help them develop a policy that is inclusive of all dealers, especially SMEs.

Non-governmental organizations and educational institutions will also be able to concentrate more on the requirements of small and medium-sized business owners, impart knowledge on the practical side of business, and identify locations where grants or donations can be made as well as opportunities to teach the less fortunate. It is intended that the metrics and recommendations will aid in cross-checking the government's commitment to Ethiopia's growth and transformation.

To academicians and researchers, the study will be useful as a reference for future researches on factors affecting the by access to finance small and medium entrepreneurs.

1.5 Organization of the Study

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

CHAPTER TWO

2. Literature Review

2.1 Introduction

In This chapter will be considers literature relevant to the subject under study. It summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are theoretical review, empirical review and the conceptual framework.

2.2. Theoretical Literature Review

This chapter provides an overview of the literature that has been written based on theories and facts. It is a type of theory that is developed to question and expand on current knowledge while staying within the bounds of crucial limiting assumptions. Theories are used to explain, predict, and comprehend phenomena.

2.2.1The Definition and Concept of SME's

There is a widely accepted definition of a SME (business entity), and some of the often used criteria include the number of employees, asset value, sales value, capital size, and turnover. Nonetheless, the most widely used factor in characterizing SMEs is the quantity of workers (Nugent, 2001). According to Hauser (2005), the size of a business determines its classification as small or medium-size. MEs are defined in the European Union by the Commission's May 6, 2003 recommendation. According to the current recommendation, a business is classified as small or medium sized if it employs fewer than 250 people, has a yearly revenue of less than 50 million euros, or a record total of 43 million euros, and has less than 25% of its shares owned by another business. The definition of SMEs is based on the nation.

The International Bank for Reconstruction and Development has not released a definition of the SME or provided one. In essence, the definition of SMEs is based on the total number of employees or the organizations' yearly sales. According to Tom Gibson H. J. van der Vaart's 2008 paper, the African Development Bank (AfDB) defines SMEs as businesses with no minimum requirement for revenue or turnover and a maximum of fifty employees. World Bank, 2015.

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

The main factors determining whether a company is an SME are:

1. Number of employees and

2. Either turnover or balance sheet total.

The Small Business Profiles are produced by the US Small Business Administration’s Office of Advocacy defined SMEs as firms employing fewer than 500employees.

An MSME in China is defined as a company that employs one to three thousand people, has total assets ranging from ¥40 to 400 million, and generates revenue ranging from ¥10 to 300 million, depending on the industry. In Japan, a SME is defined as a company that employs 300 people or fewer and has a capital of 300 million yen or less in the manufacturing sector, 100 people or fewer and has a capital of 100 million yen or less in the wholesale sector, and 50–100 people or fewer and has a capital of 50 million yen in the retail and service sectors.

According to (Bataa, 2008), because of the relative sizes of their economies and corporate entities, SMEs in developing nations often have far fewer employees, smaller assets, and lower turnover than their counterparts in wealthy nations. For instance, in Mongolia, small and medium-sized enterprises (SME) are classified as duly registered companies with 199 or less employees and annual revenue of 1.5 billion togrog (the equivalent of US dollars at the time, in Mongolian currency) or less. According to data from Financial Access 2010, as cited in Oyaet al. (2011), only 15 countries reported using loan size as a stand-in for SME definition. Similar to the definitions based on the number of employees and sales.

In Ethiopia, SMEs are characterized based on the capital utilized and the number of workers under the venture. The title given to these undertakings already were Small scale and Small Enterprises which is managed by Small scale and Small Enterprises Advancement Bureau. At this moment, the later announcement of Serve of Committee (regulation # 373/2016) sub partitions the previous institution in to two as; Urban Work Creation and Nourishment Security Organization and Small and Medium Industry Office.

The following defines for "service giving business" and "medium industry." A small Service giving business is one that, with the owner, his family, and other employees, employs six to thirty people and has an additional capital of Birr 50,001 to Birr 500,000 in the fabricating segment buildings excluded. The economy's "Medium Fabricating Industry" is defined as any sector with add-on capital in the manufacturing division between Birr 100,001 and Birr 1,500,000, excluding construction. Not counting the owner, his family, and other representatives, it employs between thirty-one and one hundred specialists.

2.2.2 Access to finance for SMEs

For SMEs to finance their operations, two external financing alternatives are essential. The first is equity finance, which comes in the form of venture capital and is provided to newly establish small businesses (Deakins, 2008). But when equity financing is scarce, small businesses resort to debt financing, which is mostly provided by banks. In actuality, access to debt financing is severely limited due to the limitations on lending provision, especially for SMEs (Deakins, 2008).

2.2.2.1 Equity financing

The equity financing approach refers to the extent to which a company offers a particular percentage of its shares in exchange for monetary remuneration. Depending on how the SMEs raise the equity capital, the creditors must forfeit a certain portion of the business, often 25 to 75 percent (Cavas &Haan, 2006). Gomes et al (2006) pointed out that equity financing is one method of raising capital for any form of investment. In this case, equity is issued as common stocks, which entitle investors to a share of net revenue after costs and taxes are subtracted. Equity is a long-term investment since it has no maturity date and pays dividends on a regular basis. The Cruickshank Commission of the United Kingdom underscored that prior government initiatives aimed at promoting debt finance had been misplaced.

However, public policy action needs to be refocused away from debt financing in order to prioritize and implement initiatives that help provide equity funding to small businesses. The federal government should then support the growth and establishment of venture capital funds. According to the Cruickshank Commission, there are a number of consequences from the market failure in SMEs' access to equity financing. These include an illiquid stock market for small business sectors and a lack of SME risk financing available to the SME sector, particularly to SMEs with significant development potential (Falkena et al, 2001).

2.2.2.2 Debt financing Debt

When firms acquire finance goods from lending institutions in the form of loans, with the understanding that the loans would be returned at a specific interest rate and after a specified amount of time, this condition is referred to as "financing" (3 Cooper &Ejarque, 2003). Moreover, debt financing is the method most frequently employed in the financial sector to raise money for investments and to launch new businesses, particularly SMEs. This includes a contract that specifies the set interest rate that must be returned to the lenders for the loan within a given amount of time. According to Mahembe, long-term debt has a maturity date of more than a year, whereas short-term debt has a maturity date of less than a year). Therefore, secured loans that demand collateral to obtain bank funding are included in debt finance. Banks typically use collateral to recoup their investment in a specific business when SMEs fail on their loan obligations (Falkena et al, 2001).

Regarding unsecured loans, the lender considers the borrower's credit history while granting loans. These loans are typically made for a short period of time, and they frequently have high interest rates (Cole, 2003). The majority of lenders are less likely to offer unsecured loans to small firms unless there has been a history of commercial dealings between the borrower and the lender; in that case, the lender will still want collateral to be provided.

2.2.3 Financial Source Providers for SMEs

As indicated by (Cook &Nixson, 2000), some of the types of formal financial institutions include,

- **Commercial banks**: are those that possess a complete banking license. When majority state-owned banks carry out a wide range of retail banking operations, they fall under this category.
- **Cooperatives**: institutions with a mutual ownership structure, including credit unions.
- **Specialized state financial institutions**: specialized financial institutions fully owned by the state or extensions of the government whose main purpose is to lend in support of economic development or to provide savings, payment, and deposit services to the public. This group includes postal banks, government savings banks, small and medium-size enterprise lending facilities, agricultural banks, and development banks.
- **Microfinance Institutions**: financial institutions whose primary business model is to lend to and possibly take deposits from the poor.

2.2.4 Barriers to formal finance: financial institution perspective

What factors influence how differently small, medium, and large businesses may receive financing? The goals of banks' risk management procedures and policies are to guarantee loan repayment and prevent default. If a cautious lender is uncertain about the true costs, risks, or expected return, it will choose not to offer loans—even at higher interest rates. Risk and return have a positive relationship; for example, a lender will demand a higher return if they are loan to a SME.However, there comes a point at which no goal return is justified by the loan because the risk is so great and the likelihood of payback is so low (Mishkin & Eakins, 2006; and ITC 2009). Many financial institutions are hesitant to consider SMEs as preferred borrowers, according to an ITC report from 2009. A few of the reasons for this reluctance to lend money to those businesses are high processing costs, incomplete information, the high default risk of SMEs, and a lack of collateral.

2.2.4.1 High transaction cost

The three main expenses related to transactions are credit analysis, loan processing, and loan oversight. Transaction costs and profitability are closely related. As transaction processing costs rise, the return falls. The total costs that banks incur, including transaction costs, determine the difference between the funding cost (deposit rates) and the lending rate that banks charge borrowers. If these transaction costs go up, companies will have to pay more to borrow money. As a result, the higher the chance that a specific set of borrowers will have trouble getting finance. The battle for capital among financial services organizations exacerbates the cost-profit-access dynamic that presents such a problem for small and medium-sized enterprises (SMEs) (ITC, 2009; Mishkin & Eakins, 2006; and Howells & Bain, 2007).

Since SME loans are usually smaller than loans to large companies, they are considered high-cost lending transactions. The issue is exacerbated by the fact that managing, monitoring, and evaluating SME loans frequently takes longer. According to many bankers, small firms need far more handholding and advisory support than mid-market or large corporate clients (ITC, 2009).

2.2.4.2 Imperfect information

Banks find it more difficult to differentiate SMEs with genuine promise from those that merely seem to have potential due to a lack of public information and credit histories, especially in nations without credit bureaus. Consequently, banks prefer to discourage the decent SMEs by either rejecting those with promising futures or lumping all SMEs together or charging exorbitant borrowing rates (ITC, 2009).

2.2.4.3 High default risk of SMEs

Default risk is another reason that prevents banks from reaching out to SMEs. Banks typically refrain from lending to those who are willing to pay higher interest rates because doing so tends to draw riskier borrowers with higher default probabilities. Banks can avoid the asymmetric knowledge problem by employing non-interest rate strategies such requiring collateral or proving competency using audited financial data (Mishkin & Eakins, 2006; Howells & Bain, 2007; and ITC, 2009).

2.2.4.4 Limited collateral or non-availability of collateral

Banks can collect money in the event of default by using collateral, which is security in the form of assets. Insufficient collateral leaves banks with few or no options for safeguarding the assets they have loaned. The absence of collateral among SMEs is an additional deterrent for lending institutions. In nations lacking a dependable registry for mortgages, liens, and other encumbrances, collateral may not always be of the quality it appears to be because it may have already been pledged for other loans. Bank caution in SME lending is also influenced by the legal frameworks of nations where it is challenging for banks to enforce rights to collateral (ITC, 2009; Mishkin & Eakins, 2006; and Howells & Bain, 2007).

2.2.5 Barriers to formal finance: SMEs perspective

The previous section discussed the challenges faced by financial institutions when providing financing. These challenges include the fact that small loans are more expensive to oversee and manage, that SMEs have a less favorable risk profile due to their diversity and opaqueness, and that because they have less collateral, they have very little ability to offset higher levels of risk with security for the bank. In addition to these difficulties, SMEs have the potential to make matters worse by their own activities.

SMEs frequently neglect to address lenders' worries; as a result, their actions may unintentionally amplify those fears and maintain limited access to finance. For example, the study by Brhane (2014) lists a number of factors that deter SMEs from obtaining financing, including small loan amounts, high interest rates, subpar bookkeeping practices, information gaps about finance, the tendency of group collateral requirements, fear of business failure, short loan terms, late loan payments, and inconvenient loan terms.

2.2.6 Informal Financial Source

Informal finance sources are those that do not belong to the organized sector and are not recognized financial institutions. The person could be a friend, a family member, or a local lender. It is strongly advised against using it as a source of unofficial credit for a loan, nevertheless. We may have to deal with harsh lending terms and increased interest rates because there is no mechanism to regulate these sources.

The benefit of using informal financial sources is that poor households can benefit from them because there is no external control over landing practices. However, there are drawbacks as well, such as the potential for extremely high interest rates and unethical collection tactics by lenders.

2.2.7Underlining Assumption and theories on Access to Finance for SMEs

Within the confines of fundamental boundary assumptions, theories are described as being able to explain, predict, and, in many situations, question and magnify current facts. The structures that support or refute a research hypothesis are known as hypothetical systems. These are some of the underlying assumptions that support or contradict a study hypothesis that have been compiled from the book Access to Fund and Improvement: Hypothesis and Measurement.

2.2.8 Irrelevance theorem of capital structure

Many theories attempt to provide an answer to the following query. How do business owners and managers decide which finance options to pursue? In an effort to address the above query, Modigliani and Mill operator proposed the insignificance hypothesis of capital structure in 1958. The theory holds that entrepreneurs reinvest their profits using internal cash, debt, and value. According to Goya and Point-Breaking(2005), the hypothesis suggests that the debt-to-equity ratio is determined in a method that isolates cash streams among the various financial specialists when it becomes essential to employ obligation and value. This notion is significant because it acknowledges that business owners first look within themselves for support before turning to other sources. Additionally, Ethiopian business owners, particularly those in the private sector, share this trait. (Goya & Point-Breaking, 2005).

2.2.8.1 Pecking order theory

Pecking order theory is used to help explain how businesses decide where to get funding. In doing so, it helps to explain what factors lead to the ideal capital structure, or the ideal balance between debt and value financing. According to the Pecking Order Theory, firm managers make funding decisions by following a sequential process that starts with retained profit (internal financing), moves on to loan financing, and ends with equity financing.

According to the pecking order idea, inside financing is the best option because it comes with no additional costs. In the unlikely event that a business decides to use its retained profits for funding, there are no costs associated with debt or equity to consider. Due to the interest costs involved with using obligation capital, debt financing becomes necessary. The corporation will have to pay some interest whether it decides to issue corporate bonds or take out commerce advances, which will increase the cost of debt over the nonexistent cost of using stored profit.

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According to the pecking order idea, equity finance comes last because it is the most expensive type of financing. Value capital, such as stock shares, has a higher cost than debt funding. Offering shares can show that a company's management believes the offers are excessive, alerting investors to the possibility of annoyance and potentially lowering their share price. A situation of unequal data is typically the central idea of the pecking order theory.

The pecking order theory created by states that issuing securities is subject to an unfavorable choice issue. Directors blessed with private data have motivations to issue overrated unsafe securities. But they too get it that issuing such securities will result in a negative cost response since sound financial specialists, who are at an data drawback, will markdown the costs of any hazardous securities the firm issues. Thus, firms take after a pecking arranges: utilize inside assets when conceivable; in case inside stores are lacking, get outside obligation; outside value is the final resort.

Stewart and Nicolas (1984) proposed the Pecking order theory (Swinnen, Voordeckers&Vandemaele, n. d.). This hypothesis is pivoted on asymmetric data and the presence of transaction costs. Pecking order theory expects that endeavors take after a financing pecking order and that source of finance is either inner or outside. In this case, agreeing to Botta (2014), priority is given to inner stores over outside reserves. The hypothesis stipulates that enterprises look for outside subsidizing as it were when inside assets are drained. It takes after at that point that outside reserves ought to be fundamental, more secure and without control confinements for the enterprise. This theory is pertinent to SMEs in Ethiopia since it touches on collateral which business proprietors in Ethiopia not have a property or other resource that a borrower offers as a way for a moneylender to secure the advance. Subsequently they as a rule incline toward other sources.

2.2.8.2 Trade off theory

The trade-off theory of capital structure is the thought that a company chooses how much debt finance and how much equity finance to utilize by adjusting the costs and benefits. The classical form of the speculation goes back to Kraus and Litzenberger who consideredan adjust between the dead-weight costs of insolvency and the assess sparing benefits of debt. Frequently organization costs are too included within the adjust. This hypothesis is regularly set up as a competitor hypothesis to the pecking order theory of capital structure. A survey of the trade-off hypothesis and its supporting prove is given by Ai, Straight to the point, and Sanati.

A critical reason of the hypothesis is to clarify the truth that enterprises as a rule are financed incompletely with debt and somewhat with value. It states that there's an advantage to financing with obligation, the charge benefits of debt and there's a taken a cost of financing with debt, the costs of money related trouble counting insolvency costs of debt and no bankruptcy costs (e.g. staff clearing out, providers requesting disadvantageous installment terms, bondholder/stockholder infighting, etc.). The negligible good thing about advance increments in obligation decays as debt increments, whereas the negligible cost increments, so that a firm that's optimizing it’s by and large esteem will Centre on this trade-off when choosing how much debt and equity to utilize for financing.

Trade-off theory on the other hand endeavors to clarify utilize of debt financing. Agreeing to this recommendation, proprietors of enterprises assess the different costs and benefits related with alternative obligation plans. It accept that an inside arrangement is favored so that negligible cost and benefits are adjusted. Concurring to the hypothesis, an endeavor sets a target debt-to-value ratio and after that continuously moves towards it. This target tries to adjust obligation charge preference against costs related with insolvency (Goyal& Frank, 2005). This hypothesis isn't culminate because the debt-to-equity proportion isn't specifically discernible which taxation is more complex than assumed by the hypothesis. In expansion, it expects that insolvency costs are deadweight costs which exchange cost takes a particular shape.

Information Asymmetry Theory information asymmetry deals with the study of decisions in exchanges where one party has more or superior information than the other. This asymmetry makes an imbalance of control in exchanges, which can some of the time cause the transactions to be inefficient causing market failure within the worst case.

2.2.8.3 Signaling theory

Signaling theory is valuable for describing behavior when two parties (people or organizations) have get to different information. Ordinarily, one party, the sender, must select whether and how to communicate (or signal) that data, and the other party, the receiver, must select how to interpret the signal.

2.2.9 Benefits of SMEs

The role of SMEs is quite substantial in many countries especially in emerging and developing countries. SMEs account for a large share of total employment job creation and GDP in emerging economies. Now that is really important, especially if we take in to account that 600 million jobs will be needed in the next 15 years to absorb a growing global work force, mainly in Asia and sub-Saharan Africa. New jobs boost living standards and foster social cohesion in a country. And therefore SMEs are one of the main factors of economic growth and social peace.

Without a robust and healthy SME sector, this cannot be achieved. Let‘s take the example of South Korea, while that country is associated with giants like Samsung, Hyundi, LG. SMEs in Korea account for more than 80% of total employment and about 50% percent of total value added. SMEs also played a large role in the transformation of Korea in to a high income industrialized country during the last quarter of the 20th century. Not surprisingly, SMEs are always high on the agenda of the government there. Of course we should not conclude that all SMEs are drivers of growth and job creators. SMEs can differ greatly in their role in the economy. A lot depends on the skills of individual entrepreneurs, their attitude and willingness and ability to grow their business. But on the whole, SMEs play an important role in many economies, and on average they contribute more to employment in low income countries than in high income countries. Now that we have established that SMEs play an important role in many economies.

2.3 Empirical Studies Related with SMEs Accesses to Finance

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

A recent World Bank study on SMEs, which in Ethiopia are estimated to have reached 800,000 up until 2016, found that financing was a key constraint to job creation and growth.

According to Wanjohi and Mugure, (2008), Lack of access to credit facilities is almost universally indicated as key problem for small and micro enterprises. In most cases, even where credit is available mainly through banks, the entrepreneurs may lack freedom of choice because the banks’ lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the bank. Credit constraints operate in variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends and relatives. Lack of access to long-term credit for micro, small and medium enterprise forces them to rely on high cost short term finance.

In Jane Anne Wangui et al (2014),study revealed that the key challenges hindering micro and small enterprises in KangemiHarambee Market in Nairobi City Kenya from accessing credit facilities to be high cost of repayment, strict collateral requirements, unwillingness of people to act as guarantors, high credit facilities' processing fees and short repayment period.

Gabriel (2011) discovered that the entrepreneur's business abilities, financial features, and firm size and age all affect their ability to obtain funding in his study conducted in Kenya's Westland division.

Hezron and Hilario (2016) found that there are relationships between the financial sector's structure and SMEs' access to financing; these relationships also exist between SMEs' awareness of funding and their ability to access financing; between SMEs' access to financing and the requirements for collateral; and between SMEs' access to financing and small business support. Their study was conducted in the central business district of Maputo, Mozambique.

Ethiopian small enterprises are falling behind every other sector, according to Fetene's (2010) findings. Their growth is slow, their product's marketability is restricted due to factors like quality, competition, and a lack of a market (inadequate infrastructure for product marketing), their access to inputs is scarce and costly, and they have very limited access to and use of finance.

Additionally, he mentioned that a small percentage of businesses had experience obtaining loans from outside sources. Just 41% of all small firms in the research sample had obtained credit in the previous 12 months; of these, 48% reported an increase in credit and 37% reported a drop in debt to asset.

Brehanu and Mesfin's (2015) study indicates that micro and small enterprises in Dilla Town lack sufficient funding to initiate and manage their projects. Because MSEs are unable to meet standards related to business risk management, such as those related to collateral, governance systems, business plans, and other accountability issues, conventional financial institutions have been unable to provide the MSEs with the credit they need

Hagos et al (2012) claim that the problem of debt financing for SMEs is not unique to Ethiopia and has plagued several emerging nations. A recent IFC report that reveals that just 20% of SMEs in non-OECD member countries are served by the top five largest investment banks further supports the notion that the majority of debt financing provided by financial institutions to SMEs often goes into OECD countries. Although this percentage is accurate for non-OECD nations, Africa typically makes up approximately 5% of the 20% total. It clearly indicates a significant issue that cannot be disregarded.

When deciding whether to grant credit to a customer, additional criteria are taken into account, such as the borrower's financial situation. Lending becomes discouraged in a regime marked by imprecise accounting practices that yield scant to nonexistent information regarding credit worthiness. Banks would be forced to use the so-called relationship-based lending method, which might take the place of requests for large amounts of collateral. Regarding capacity, it is clear that to the degree that bank are unable to determine the precise parameters of credit worthiness inside the domestic market both lenders in this instance, banks, and borrowers from the SME sector are facing the same difficulties. Their research indicates that banks' innate tendency, despite some hesitancy, is to pass all the associated risks onto borrowers in the form of higher-than-average interest rates.

In contrast, a study by Selamawit et al (2014) found that personal savings are the primary source of working capital and startup funding. On the other hand, friends and family are the main source of startup funding, followed by micro lending and "Equb." Informal financial institutions are also the main source of lending for working capital. Factors such as the entrepreneur's age, educational background, ownership of fixed assets, employment volume of MSEs, attitudes on the lending process, and loan payback duration all had statistically significant impacts on the ability to obtain credit from official financial institutions. In contrast, MSEs' ability to obtain financing from official financial institutions was unaffected by the entrepreneur's gender, firm age, industry, or interest rate perception.

Due to their perceived greater risk profile, MSEs have difficulty obtaining credit facilities. For a variety of reasons, including an unpredictable operating environment in developing and emerging markets, an uncertain competitive landscape, improperly registered assets, untimely payments for delivered goods and services, and a lack of adequate human and financial resources to withstand economic resources, lending institutions view MSEs as riskier businesses (Van Aardt & Fatoki, 2012, cited in International Journal of Scientific and Research Publications, Volume 4, Issue 12, December 2014).

"Commercial banks are reluctant to lend small amount of money to small business because the cost of administering the loan exceeds the benefit accrued to them," according to Eshetu and Mammo (2009, 15), as cited in Hagos and Yared (2012). This demonstrates that banks are unwilling to create a novel and methodical strategy that reduces risk and administrative expenses in order to support the industry.

2.3.1Research Gaps

A research gap is characterized as a topic or region where insufficient or absent information makes it challenging to reach a conclusion regarding a certain question. A research need is defined as a gap that keeps decision-makers (policymakers, patients, practitioners) from making decisions.

The researcher discovered that several associated parameters are used as a metric in investigations carried out in Ethiopia. These four factors firm size, cost of borrowing, collateral requirements, and awareness of the access of finance generally were not examined in any of the Ethiopian research.

In order to evaluate these four factors firm size, cost of borrowing, collateral requirements, and awareness with regard to financing access the researcher will integrate and evaluate them.

2.4 Conceptual framework of the study

This study's conceptual framework makes clear that its focus is on the variables that affect small and medium-sized businesses' access to finance. In order to determine the links between the variables, the variables in the conceptual framework are tested as hypotheses.

The characteristics of the firm, the amount of collateral needed, the cost of borrowing, and knowledge of funding alternatives are the independent variables in this study, and the availability of financing for SMEs is the dependent variable. The number of SMEs obtaining loans and the total amount of capital given to SMEs are two examples of the measurements or indicators for access to finance.

Figure 1 Conceptual framework

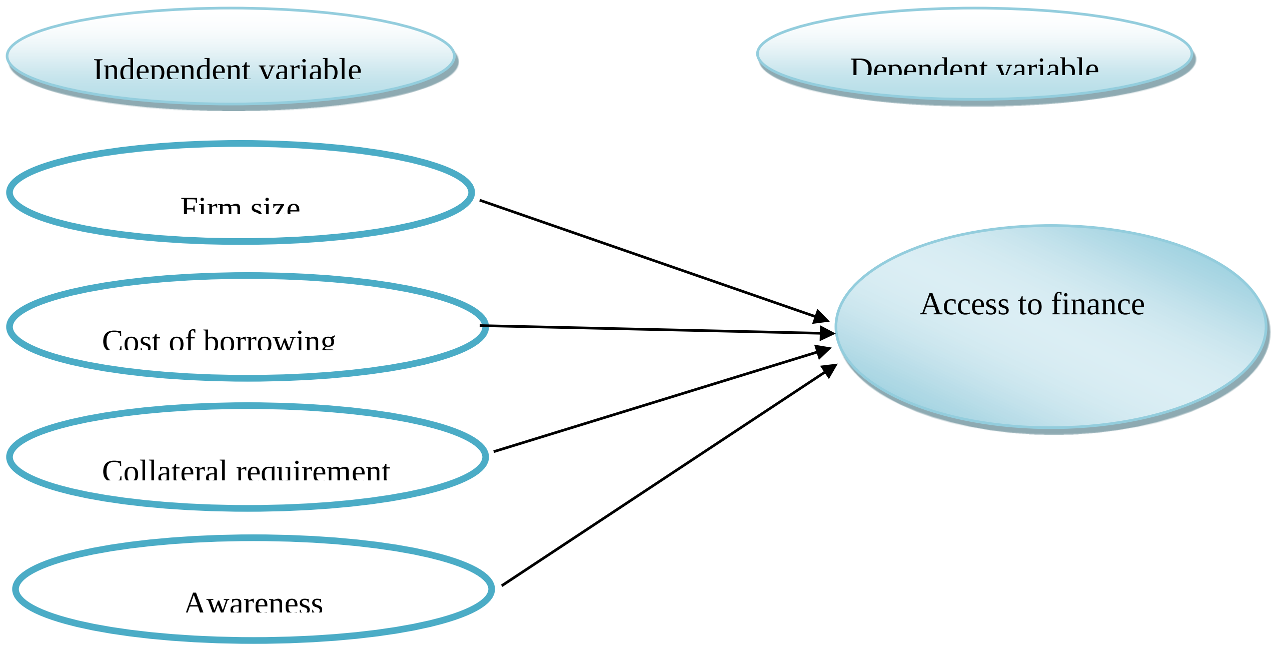


Fig 1 conceptual frame work based on literature review (Ayaleneh, 2018)

2.5. Research Hypotheses

2.5.1Firm's size

Firm characteristics affect SMEs' ability to reach outside back. Under this category, the firm's size and age, its ability to conduct business, and its ability to gather financial records and accounts were determined to be crucial elements. One of the most important factors in writing that relates to getting credit is firm measure. This was true for both developed and developing countries. Given that the focus of our investigation is small and medium-sized businesses, it does not seem reasonable to take age and measure into account when determining access to funding. However, even within the group of small and medium-sized businesses, there is still a great deal of variation in the organizations' estimates.

Since real assets typically affect the availability of lengthy debt when needed, the size of the company has a significant impact on the amount of debt in the capital structure of the company (Burkart &Ellingsen, 2004). Numerous researchers have investigated the financial pressures faced by small and medium-sized businesses compared to large corporations (Carpenter &Petersen, 2002). First of all, small businesses struggle with data opacity, such as when budgetary data is unavailable. When a company is small, it is typically owned and operated by the business owner themselves. There is no legal requirement to submit budgetary information on a regular basis, and many companies do not keep their budgetary accounts under review. Smaller businesses currently have less resources available as collateral. Collateral is one of the tools that banks use to reduce the expected risk and ethical risk associated with lending. Smaller and younger businesses are more likely to face greater financing costs and be obliged to provide collateral, according to research by Berger and Udell (1998).

Because small businesses have higher rates of disappointment than large businesses, there is a substantial risk involved. For instance, Schiffer and Weder (2001) examined businesses across several countries and discovered a negative correlation between the trade's estimate and the risk a loan specialist would face. As Beck et al (2005) point out, one important factor to consider when examining financial constraints is the size of the company. As a result, big and small businesses often don't have the same opportunities to access outside funding sources. Therefore, while the presence of both big and small businesses is essential for market competition and, consequently, for financial development, businesses also need access to financial markets in order to ensure mechanical flow.

Small businesses are typically the ones most negatively impacted by the defects in the financial system since their internal information is sometimes hazy or, at the very least, less transparent than it is in the case of their larger counterparts. Because they are less transparent and have less collateral to offer, small businesses searching for small advances face greater transaction costs and higher hazard premiums (Beck et al,2006). Similar results have been discovered by Schiffer and Weder (2001) and Beck et al (2005). According to Schiffer and Weder (2001), small businesses must overcome greater challenges to funding and growth.

Although a firm's industry has no direct impact on its capital structure, it may have an indirect effect due to the makeup and characteristics of the firm's assets (Hall et al, 2000). Since genuine assets tend to effect the availability to long obligation whenever required, the firm's estimate places a substantial weight on the obligation proportion within the firm's capital structure (Burkart &Ellingsen, 2004). Lenders evaluate the firm's past, present, and future performance based on its business facts, as noted by Kitindi et al (2007).

HP1: Firm's size has positive and significant impact on SMEs access tofinance

Collateral requirements

The amount of resources borrowers pledge to a moneylender as security for obligation installment is referred to as collateral (Gitman, 2003). If there is a default, the security resources should be used to recover the principal. In the event of a credit default, SMEs in particular provide security in the form of real estate (homes, businesses, vehicles, and anything that appears to truly pay back the central) (Garrett, 2009).Credit security needs to have the ability to be sold under standard market conditions, at a fair market value, and with a fair turnaround time. Regardless, most banks want 100% or more collateral to support SMEs and approve credit applications, which equals the total amount of the credit expansion or financing item (Mullei &Bokea, 2000).

Collateral requirements might reduce ethical risk by extending and including a prospective fetched to borrowers when those are not using their utmost effort. Occasionally, the borrowers withdraw the reserves provided by the loan experts for their own personal and private use. In this way, the collateral requirements when input can reduce adverse effects that may arise as a result of SMEs using reserves inappropriately.

It is clear that the majority of SMEs receive finance from loan specialists only after being turned down and segregated. This may be the result of high risk and inadequate assets available for use as collateral (Kihimbo et al, 2012). Developments for Destitution Activity states that banks sometimes demand collateral from customers, such as real estate or an arrival, in order to get loans. In any event, a lot of well-run SMEs face difficulties getting funding because they lack the kind of collateral that commercial moneylenders seek. This suggests that when SMEs need to manage advance or financing, collateralis needed more.

HP2: Collateral Requirement has positive and significant impact on SMEs access to finance

Awareness

For SMEs and financial providers alike, the data stream in the financial showcase is crucial (Falkena et al, 2001). To enable SMEs to identify possible financial service providers, they need enough information. In addition to obtaining knowledge about the area in which the SMEs will operate and its display segments, financial educators need it in order to evaluate the possible risks connected with SMEs that ask for bank funding (Othieno, 2010). Data focuses on SMEs' awareness of potential for subsidization. When it comes to expansion, data asymmetry occurs when important information is unavailable to and unknown to certain participants in the financial marketplace (Agostino, 2008).

The two players in the budgetary showcase are the ones who are truly concerned about data asymmetries. In this instance, the investors might not know as much about the borrowers' business cases as the borrowers do. However, it also entails the requirement for convenient, accurate, complete, and high-quality data regarding the candidates' ability to return the advance and obtain budgetary goods from the banking system (Bazibu, 2005).

HP3: Awareness has a statistically significant positive impact on SMEs access to finance

Cost of borrowings

The amount of money paid in interest on an advance or other obligation is known as the "taken a toll of borrowing." Put otherwise, it's the amount of money required to arrange for an advance of cash and is determined by the interest rate. The development plans of a corporation are significantly impacted by interest rates as a function of the advance. In addition to affecting upfront payments, they also have an impact on venture financing (Ogolla, 2013). High interest rates reduce commerce profit, which ultimately destroys a company's ability to grow. High interest rates also have an impact on a trader's cash flow because they require additional funds to be set aside for repaying advances. Its ability to pay its other lenders is consequently impacted as a result of this decreasing its expendable wage (Ndungu, 2016).

Anthony et al (2013) examined factors that influence credit allocation to the private sector in Ghana and discovered that interest rates have an adverse effect on credit allocation. A higher interest rate discourages small businesses and their attempts to improve their financial situation by making them less likely to borrow money in the future.

HP4; Cost of borrowing has a significant and positive effect on SMEs access to finance

CHAPTER THREE

3. RESEARCH DESIGN &METHODOLOGY

In this chapter will be sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. In this stage, most decisions about how research executed and how respondents are approached, as well as when, where and how the research completed. Therefore, in this section the research identifies the procedures and techniques that used in the collection, processing and analysis of data. Specifically, the following subsections included; research design, target population, sampling design, data collection instruments, data collection procedures and finally model specification.

3.1 Research approach

The research approach in this study is chosen based on the purpose and the research questions set out to be addressed. Accordingly, to achieve the objective of this study and answer the research questions, the researcher adopts quantitative research approach. Quantitative research is a structured way of collecting and analyzing data obtained from different sources. It involves the use of computational, statistical and mathematical tools to drive results. Because this study was deductive which intended to test hypothesis formulated based on the literature, quantitative research approach was used.

3.2. Research design

Research design is the blue print on how one goes about answering the objectives of the study (Bryman & Bell, 2007). It refers to the way in which the study was designed and the method that were used in carrying out the research. Both qualitative and quantitative approaches are used. A quantitative approach is linked to deductive method of testing theories while qualitative approach is characterized with inductive testing (Saunders et al, 2003). The study focused on the qualitative approach but in some instances, quantitative approach was employed in order to get better understanding and more insightful interpretation of the results. Cross sectional descriptive survey was employed in this case. Furthermore, descriptive research enables the study to generalize the results of the findings to a bigger population. Descriptive and explanatory research design used to obtain information concerning the current state to describe what exists in respect to variables or conditions in a situation. It is also useful in identifying variables and hypothetical constructs and it may be used to test theories. The approach involves gathering data that describes events and then organizes, tabulates, depicts and describes data. It uses description as a tool to organize data in patterns that emerge during analysis.

3.3. Population and Sampling Design

Utilizing an excessively high sample size results in resource waste, whereas an excessively small sample size leads to results that are probably not genuine. Given this, the following steps will be used to choose an appropriate sample size.

The population of the study comprises mainly of two groups. The first were those SMEs that are currently functioning across the study area. The second group of the population includes those financial institutions that directly or indirectly have an effect on the access of finance for SMEs. This is depicted in the table below; as can be seen on Table 3.1, the total number of SMEs enterprises registered in the study area since 2021. According to the City Government of Addis Ababa Job Creation & Enterprise Development Bureau there is 36,353 SME"s working on Manufacturing, Construction, Trade, Service & Urban agriculture at Addis Ababa region. The population of interest for this survey will be three sub cities who have the large number of

SMEswhich are yeka, Nifas silek lafto and Kolfie The next table below shows the total population distribution SMEs at sub-city

Table1Distributionof SMEs at the sub-city level from the five sub-sectors

No.	Name of sub-cities	No of SMEs by the five sectors					
		Manufacturing	**Construction**	**Trade**	**Service**	**Urban Agriculture**	**Total Sum**
1.	Yeka	1,088	1,787	1,256	701	216	5,048
2.	Nifas-Silk Lafto	1,452	1,527	1,082	781	213	5,055
3.	Lideta	387	371	547	324	39	1,668
4.	Kolfie	1,943	851	934	525	234	4,487
5.	Kirkos	671	573	1,034	932	80	3,290
6.	Gulale	1,517	1,016	1,098	442	85	4,158
7.	Bole	930	1,327	630	411	126	3,424
8.	Akaki-Kaliti	855	950	443	428	155	2,831
9.	Addis-Ketema	895	421	369	322	19	2,026
10.	Arada	766	702	2,098	773	27	4,366
Total		**10,504**	**9,525**	**9,491**	**5,639**	**1,194**	**36,353**

Table 2 Three selected sub cities that have large number of Distribution of SMEs from the five sub-sectors

No.	Name of sub-cities	No of SMEs by the five sectors					
		Manufacturing	**Construction**	**Trade**	**Service**	**Urban Agriculture**	**Total Sum**
1.	Yeka	1,088	1,787	1,256	701	216	5,048
2.	Nifas-Silk Lafto	1,452	1,527	1,082	781	213	5,055
3.	Kolfie	1,943	851	934	525	234	4,487
Total		**4,483**	**4,165**	**3,272**	**2,007**	**663**	**14,590**

3.4 Sample Size & Sampling Techniques

Non-probability/ Judgment sampling technique is employed so as to choose sub-city who have a large number of SMEs as well as a variety of SMEs in which all the selected fives subsectors are found. Nifas-Silk Lafto, yeka and kolife keraniyo sub-cities was selected out of the 10 sub-cities found in Addis Ababa, the reasons for the purposefully taking three of the 10 sub-cities in Addis Ababa is all the SMEs who are running the same sector have similar organizational structure, number of employees, starting capital, service delivery ,management style ,infrastructures ,supervision ,etc. This means that any of the SMEs working in the same subsectors can represent each other in respective of their location for operation.

To determine the sample, the following formula single proportion formula (Kothari, 2004)was used by the researcher

$$n = \frac{z^2.p.q.N}{e^2(N-1)+z^2.p.q}$$

$$\frac{1.96^2 \times 0.5 \times 0.5 \times 14{,}590}{0.05^2(14{,}690-1)+1.96^2 \times 0.5 \times 0.5} \quad = 371.84 \approx 372$$

Where: N= is the population size (14,590)

P= the population in the target population estimated to have characteristics being measured (50 %); q = 100 − p = 50 %; •N = total population

n= is the sample size

e= is level of precision or sampling error (0.05) by assuming 95% confidence interval

The total sample size was distributed to each of the three sub cities proportionate to number of SMEs found in each selected sub-city. Once the sample for each sub city is determined, following the regulation of national classification, the sectors in each sub city was classified into 5 industrial classes-manufacturing, construction, trade, service and urban agriculture. Table below shows proportionate distribution of the sample SMEs at each sub cities.

Table3Proportion at Sampling Distribution to the selected sub city

No.	List of sub city	Number of SMEs	Proportion of sample
1.	Nifas silek Lafto	5,055	$\frac{372}{14690}$ x5055= 129
2.	Yeka	5,048	$\frac{372}{14690}$x5048=128
3.	Kolife Keraniyo	4,487	372x4487=115

			14690
	TOTAL	14,690	372

3.5 Data Collection Instrument

3.5.1 Data Type & Sources

In order to achieve the research objectives, both primary and secondary data will be collected through questionnaires and specifically questionnaires will designed and distributed to SMEs engaged in different economic activates (manufacturing, construction, trade, service and urban agriculture), the questioner will distributed for those enterprises includes close ended questions.

Primary Data: Data collection through questionnaires will be distributed to respondents that involve Business operators, Managers, Department Managers for SMEs

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

3.5.2 Data Collection Instrument

The data collection instrument that was used for this study was questionnaires, which was the best method to gather information without complexity, Then the researcher was distribute the questionnaires for small and medium enterprises in Addis Ababa on the selected three sub city's The questionnaire was prepared to get information about factors affecting the access to finance

SMEs. The questionnaire was consist three parts. Part one was assess some demographic information of the SMEs or general information about the respondents like gender, occupation, educational level ,work experience and manager of the business Part two will be prepared to collect about general information on the business . Part three from the factors affecting the access to finance SMEs. The third part was structured in close-ended questions by which the respondents was asked to indicate their level of agreement using a five Likert rating scale measurement where: Strongly Disagree (SDA) =1; Disagree (D) =2; Neutral (N) =3; Agree (A) = 4; and Strongly Agree (SA) = 5. The use of Likert scale is to make it

3.6Definition and Measurement of Variables

This section presents definition and measurement of variables considered for this study. Wherever possible, items used for the constructs were adapted from prior research in order to ensure the content validity of the scale used (Hezron et al, 2016). Average score for ever factor of each perception construct and used for further analysis.

Dependent Variable: In this study the dependent variable Access to finance. It takes the value of 1=If Accessed finance, take 0=If needed but not have accessed finance

This relates to the intent of SME's owner, employee/manager and shareholder to use financing. So, it is measured in terms of responses to the question: With respect to the financing structure of your firm, did you accesses/needed internal funds and/or external financing during in the past?

Independent Variables: Four independent variables were considered: Firm characteristics, Cost of borrowing, Collateral requirements and Awareness of Funding Opportunity (Accesses to Finance).

Firm characteristics (FC): The degree to which a person believes that using his firms age, proper records of books of account, having business skills will influence business performance and hence access to finance. Variable measured on a five-point scale.

Cost of borrowing (CBR): the degree to which a person believes that using financing or loan has more cost or not. This variable measured on a five-point scale.

Collateral requirements (COLL): Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003). This variable also measured on a five-point scale.

Awareness of Funding Opportunity (Availability of Finance) (AWRE): the degree to which a person believes that is there available source of finance and did everybody aware of that. This variable also measured on a five-point scale.

3.7. Method of Data Analysis

After the data was gathered, the data were analyzed using statistical technique (Descriptive &explanatory). For analysis, all independent variables were graded on a Likert scale. The program IBM SPSS Statistics version 22 was used for the analysis and SPSS provides several diagnostic statistics that allow the case-by-case evaluation of the data for possible influential cases The research will able to arrange and summarize the data obtained using descriptive statistics, frequency tables, charts, and the mean. A linear combination of the independent variables will used to represent the relationship between the dependent and independent variables.

Where: AS= Access to finance β0= Constant term FS= Firm size CR= collateral requirement CB=cost of borrowing AW= Awareness

Based on the provided variables, the model specification for examining the factors influencing SMEs' access to finance (AS) can be formulated as follows

$$AS=\beta 0+\beta 1FS+\beta 2CR+\beta 3AW+\beta 4CB+\epsilon$$

Where:

- AS = Access to finance (dependent variable)β0 = Constant term (intercept)
- FS = Firm size (independent variable)CR = Collateral requirement (independent variable)
- AW = Awareness (independent variable)CB = Cost of borrowing (independent variable)
- ϵ = Error term

The research will use tables to show data gathered from primary sources, which were provided in the form of mean and SD. The study employs descriptive statistics, inferential analysis such as correlation, linear, and multiple regression analysis to investigate the link between Access to finance (dependent variable) and each of the four identified components (independent variables).

Table 4 Reliability Rating Scale

Rating scale	Mean Range	Interpretation Response Made
1.0 - 1.7	strongly disagree	Very low
1.8 - 2.5	Disagree	Low
2.6 - 3.3	Not Sure	Neutral
3.4 - 4.1	Agree	High
4.2 - 5.0	strongly agree	Very High

Source: (Andrich, 2001)

3.8 Validity and reliability

3.8.1. Validity

Validity is the test of the level of ability and appropriateness of measurements to measure what they are supposed to. For the purpose of confirming its validity, the following activities will be carried out.

- The theories and information used are credible which can also be checked out by using the names of the scholars and the year of publications.
- The questionnaires was distributed and submitted right at the spot which was useful in making sure that the information given is provided to the best of the knowledge the customer and free from the influence of other people.
- To guarantee that the data that was collected is free from human error, data analysis software; SPSS 22 is used.

3.8.2 Reliability

Reliability to ensure the reliability of the measurement scales was used Cronbach's alpha. Where by a higher value above 0.6 indicated that the variables were reliable, while values above 0.9 were regarded as the most reliable, but anything below 0.6 was regarded as inconsistent with the reliability scales of Haines, Saba, & Choquette (2008).

Table 5 Cronbach's Alpha

Name of Variables	Number of Items	Cronbach's Alpha
Firm characteristics	3	0.914
Cost of borrowing	3	0.843
Collateral requirement	3	0.873
Awareness	4	0.847
Access to finance	2	0.884

Source: Own Survey (2024)

3.9 Ethical Consideration

Ethical issues were also considered in this study, including informed consent (by informing respondents of the context of the research and the importance of the data collected from them) and confidentiality issues (informing respondents that all information in this research would use for academic purposes only)

CHAPTER FOUR

4. DATA ANALYSIS, PRESENTATION ANN DISCUSSION

4.1 INTRODUCTION

This chapter deals with the presentation and analysis of data collected from questionnaires administered to get SMES owners shareholders and employee/manager opinion on Access to finance SMEs. A total of 374 questions were distributed to respondents, among the distributed questionnaires 317 or almost 85% were filled and responded, while 54 of the respondents didn't respond and never returned the questionnaire and it constituted about 15% of the total respondents. This corroborates Bailey's (2000) assertion that a response rate greater than 50 % is adequate.

Data obtained from research instrument was analyzed using the Statistical Package for Social Science (SPSS). Data were also arranged in a meaningful form, into tables of frequencies, percentages, and charts.

4.2Demographic Characteristics of the Respondents

The questionnaire include a segment of SMEs profile such as an assortment of demographics and other factors that likely to influence the factor of finance of with respect to the access of finance to SMEs by banks and other financial institution . In studies like this it is important to analyze the background information of the respondents. This is because people's social background influences their thinking pattern and to larger extent what they do. The background information comprised of gender, occupation, educational level, experience and management.

4.2.1Gender of the respondent

Among the total of 317 respondents, 114 (36%) were Females and the rest 203 respondents (64%) were males. This implies that the major owners, manager, shareholders and employees on SMEs are males. So we can say that in SMEs in Addis Ababa the major owners, employee's managers and shareholders are males.

Table 6 Gender of respondent of SMEs

Gender	Frequency	Percent
Female	114	36%
Male	203	64%
Total	317	100%

Source Own Survey (2024)

4.2.2 Occupation of respondent SMEs.

In case of occupation, 39.4 %(125) of the total respondents were owner/manager , 33.4 % (106) were employee and rest 27.1% (86) of the total respondents are shareholders form the total occupation. This implies that most of the respondents are owners/managers.

Table 7 Occupation of respondents

Occupation	Frequency	Percent
Employee/Manager	106	33.4%
Owner/Manager	125	39.4%
Share holder	86	27.1%
Total	317	100%

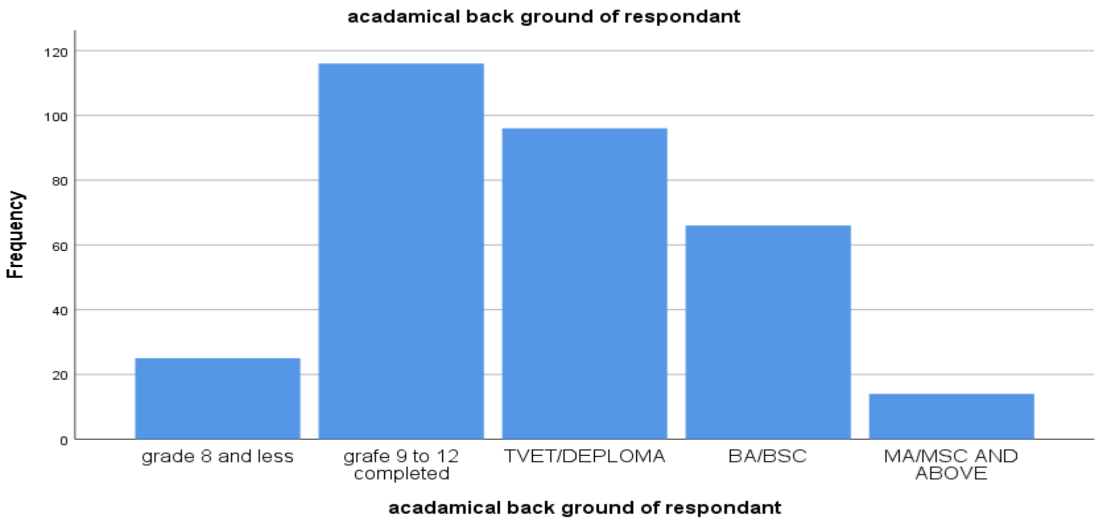
Source Own Survey (2024)

4.2.3 Academic background of respondent

Regarding the academic background of respondents 36.6 %(116) of the respondents were grade 9 to 12 completed, 30.3 %(96) were TVET/Diploma holders, 20.8 %(66) were first degree holders, 7.9% (25) were grade 8 and less and 4.4 %(14) of the total respondents were Masters and above holders none of the sample respondents categorized under the illiterate group educational levels.

It is interesting to note that respondents with high school, diploma and first university degree were highly represented in this study.. There were medium number of managers in other sectors educated to diploma and higher degree levels, none of the managers had been categorized under illiteracy. But it also shows that SMEs sector in not running in highly educated persons.

Figure 2 Academic backgrounds of respondents



Source Own Survey (2024)

4.2.4 Managerial experience of SMEs respondent

Regarding the managerial experience of respondents 52.4 %(166) of the respondents have from 4-6 years' experience, 22.7%(72) of the respondents have from 7-10 years managerial experience, 11.7%(37) of the respondents have from 10 years and above managerial experience, 7.3%(23) of the respondents have from 1-3 years managerial experience and from the total respondents 6% (19) have less than 1 year managerial experience.

Figure 3Managerial experiences of respondents

Source Own Survey (2024)

4.2.5 Manager of the business

From the total respondent 188 (59.3%) manager of the business are owners, 109(40.7%) respondents manager of your business are employed /salary manager.

Table 8Manager of your business

Manager of the business	Frequency	Percent
Owner	188	59.3%
Employed,manager/salary manager	109	40.7%
Total	317	100%

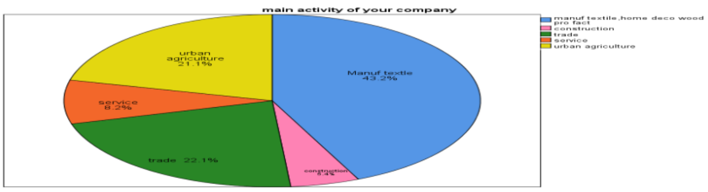
Source Own Survey (2024)

4.3 General information on the business

4.3.1 Main activity of the business

The type of businesses on which the research was conducted were consisting of five sectors, namely Manufacturing (textile, home decorates wood products factory etc.), Construction, Trade, Service, urban Agriculture etc.Fromthesurveyresult,43.2%areengagedinmanufacturing sector and followed by the trade and urban agriculture sectors which accounted 22.1%and 21.1%, respectively. The service and construction sectors accounted for a small share which has 8.2% and 5.4% of total sample respondent each. This shows that most of SMEs engaged in manufacturing, urban agriculture and trade activities which were pretty good represented in the sample size of this study.

Figure 4**Main activity of company**

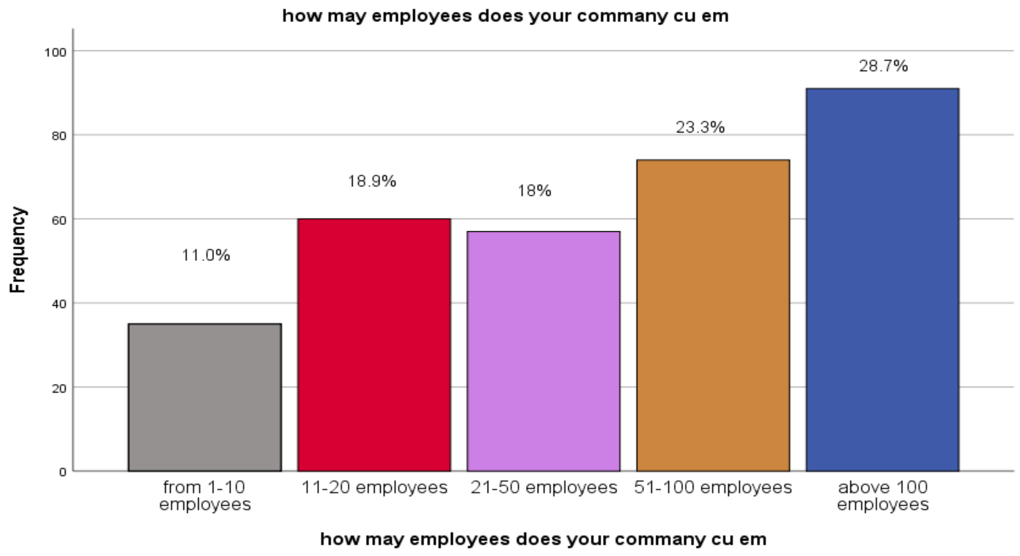


Source Own Survey (2024)

4.3.2 Number of employees

From the total respondent 91 (28.7%) SMEs companies employ above 100 employees, 74 (23.3%) employ 50 to 100 employees, 60 (18.9%) employ 11 to 20 employees, 57 (18%) employ 21-50 employees and 35 (11%) employ from 1 to 10 employees. This implies that SMEs .employment is high.

Figure 5 numbers of employees



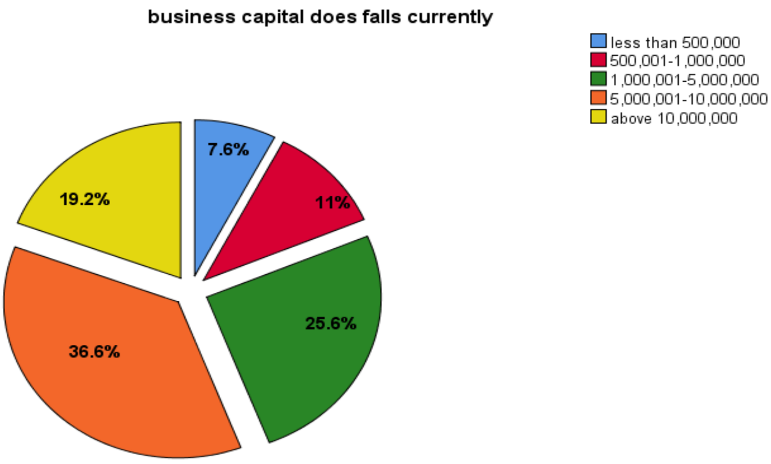
Source Own Survey (2024)

4.3.3 Respondent Current Business capital of SMEs

Capital refers to financial assets or the financial value of assets, such as funds held in deposit accounts, as well as the tangible machinery and production equipment used in environments such as factories and other manufacturing facilities. Additionally, capital includes facilities, such as the buildings used for the production and storage of the manufactured goods.

As per chart of SMEs 7.6% current capital is up to_500,000 birr, 11% have a capital from 500,001 - 1millon birr and 25.6% falls there capital between 1 million and 5 million. Their capital falls between 5 million to 10 million are 36.6% the rest 19.2% have a capital more that 10 million birr. This shows that it was pretty good represented in the sample size of this study.

Figure 6 current business capitals



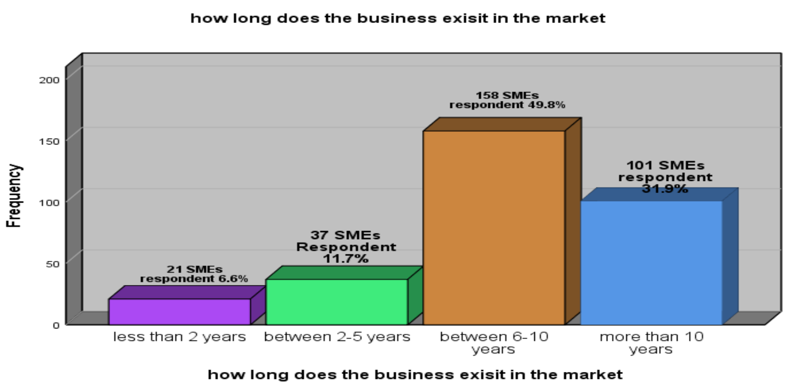
Source Own Survey (2024)

4.3.4 Respondents of the SMEs Age (Duration) in the operation

From the total respondent of SMEs 158 (49.8%) business were exist in the market for 6 to 10 years, 101 (31.9%) respondent of SMEs business duration and exist in the market for more than 10 years, 37 (11.7%) respondent of SMEs business duration and exist in the market for 2 to 5 years and the remaining 21 (21%) respondent of SMEs business duration and exist in the market is less than 2 years.

This indicate than almost 82 % from the total respondent SMEs business were exist and have duration 6 years and above which show us they have good existence and experience in the market.

Figure 7 duration of SMEs business existence



Source Own Survey (2024)

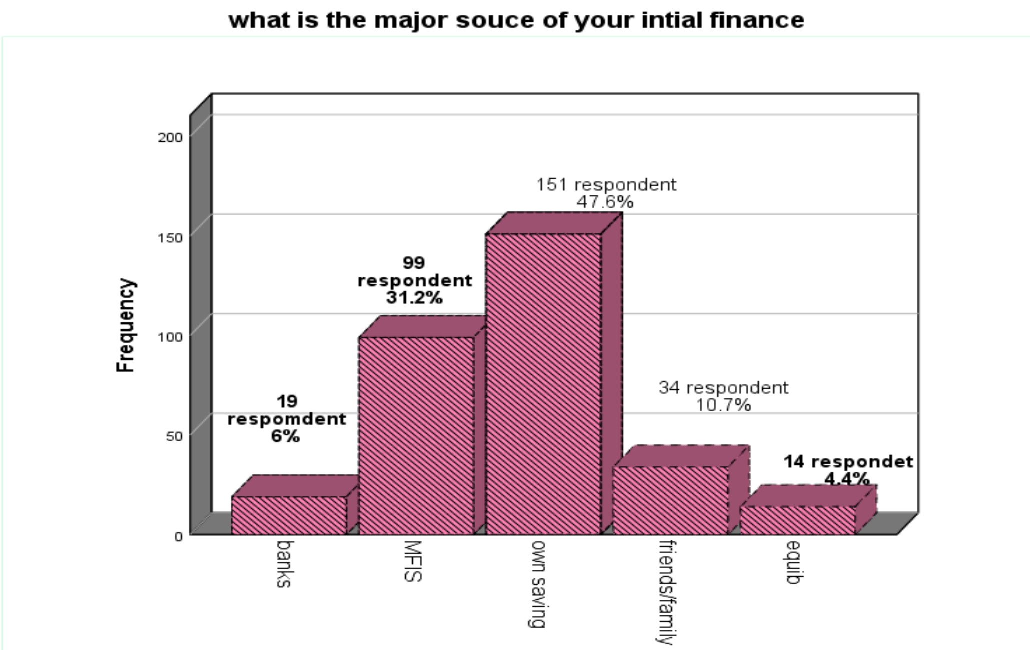
4.3.3 SMEs major source of initial finance

One of the objectives of this study was identifying the source of initial and working capitalfinance for SMEs in Addis Ababa. Availability of finance influences the viability and success of SMEs since it determines the capacity of an enterprise in choice of technology, accessto markets, and access to essential resources, etc. Yet, securing capital for business start-up orbusiness operation is one of the major obstacles of every entrepreneur, particularly those in theSMEs sector (Solomon, 2009).

Almost half of respondent 151 (47.6%) SMEs major source for initial finance was from their own saving, 99 (31.2%) respondent of SMEs major source for initially financed by MFIS, 34 (10.7%) SMEs respondents' major source initially financed by their friend and family's, 14 (6%) SMEs respondent initial financed by banks and the remaining 14 (4.4%) respondent of SMEs initial major source was from Equb.

The figure show us that most of major initial source for SMEs is by their own saving and compare to banks, MFIs are plays good role in giving initial finance than Banks.

Figure 8respondent major source of initial finance

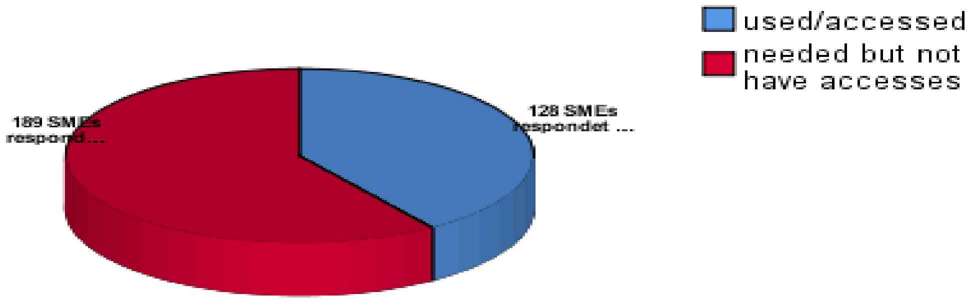


Source Own Survey (2024)

4.3.4 SMES use / access financing for past 2 year

The percentage of respondents who have accessed financing in the last two years is 40.4% out of a total of 128 respondents; the remaining 189 respondents, or 59.6% of the total, have needs but do not have access to finance.

Figure9respondent access of fund for the past 2 years

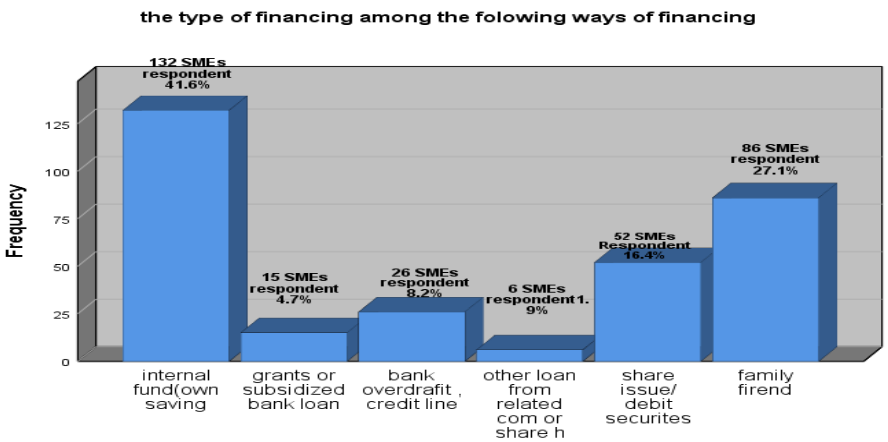


Source Own Survey (2024)

4.3.5 Types of financing used by SMEs

41.6 % (132) respondent SMEs use internal fund or own saving from type of financing the business, 27.1% (86) respondents of SMEs used finance type from family and friend, 16.4 (52) respondent SMEs use from type of financing the business from share issue or debit securities. The remaining 8.2% (26) respondents, 4.7% (15) respondents 1.9 %(6) respondent use the banks over draft or line of credit ,grants or subsidized bank loan and other loan from related companies and shareholders respectively.

Figure 10SMEs respondent types of financing used

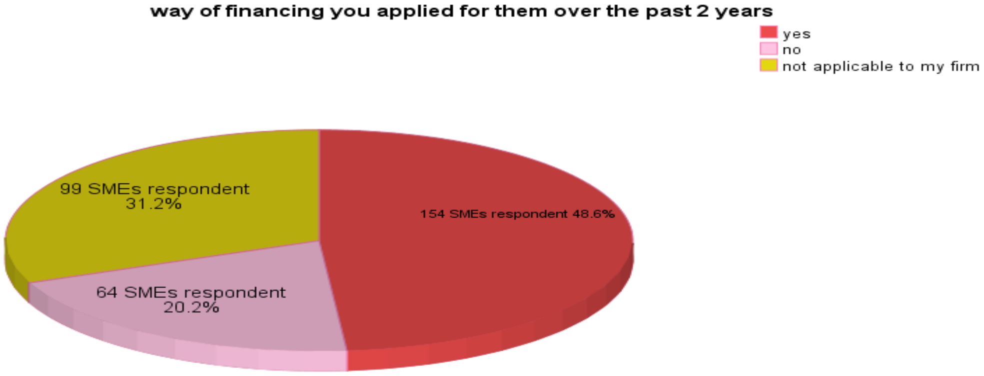


Source Own Survey (2024)

4.3.6 Ways of financing SMEs applied for the past 2 years

By offering loans that are hard to obtain from the traditional banking system, financing assists people in starting their own small businesses. Inquiring further, our SMEs reply said if they had submitted a loan application in the previous two years. The loan request that SMEs made to the financial source providers is based on the figure below. Out of all the respondents, 48.6% requested a loan from them, whereas 20.2% did not request a loan and the remaining 31.2% did not use a loan at all.

Figure 11 from the ways of financing SMEs applied for the past 2 years

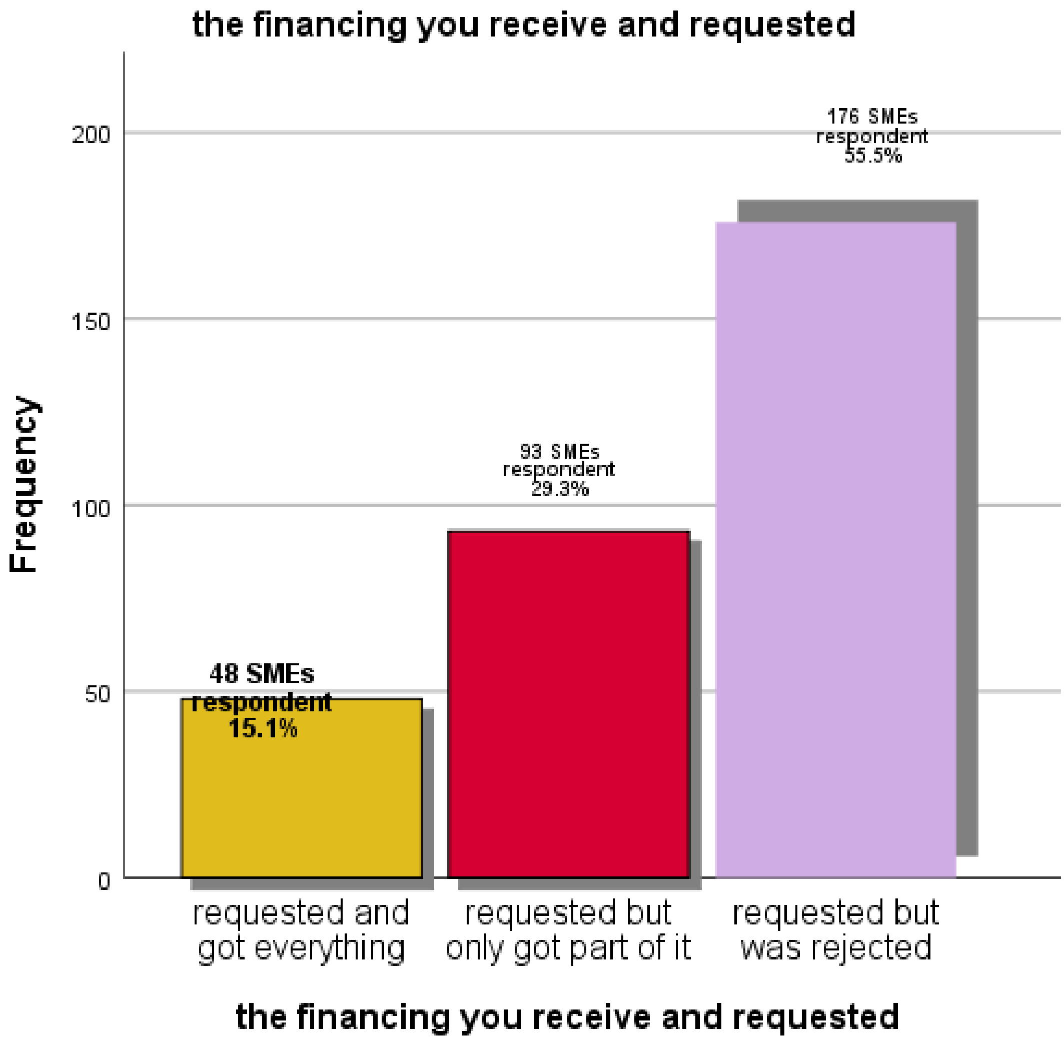


Source Own Survey (2024)

4.3.6 Loan Request Responses SMEs

The other problem, in spite of their desire, is whether or not their suggested methods for meeting their demands were addressed. The answer is depicted in the picture below, wherein only individuals that applied submitted their loan requests to lenders. According to the response, 15.1% of respondents received the loan completely as per their proposal, while 29.3% received a partial grant. However, 55.5% of respondents stated that their loan request was denied by financial source providers.

Figure 12 finance requested and acceced

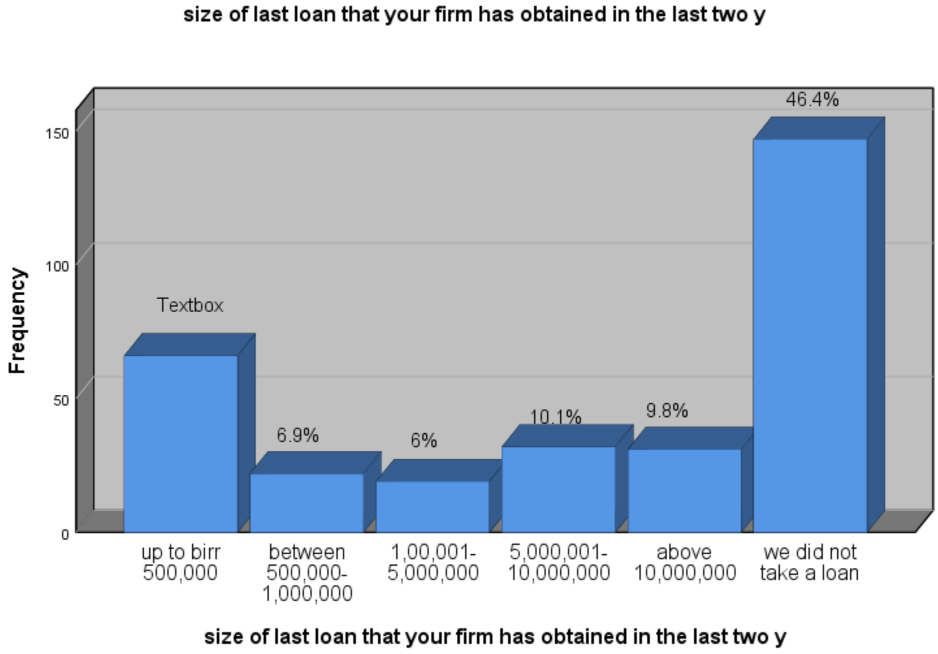


Source Own Survey (2024)

4.3.7 Respondents of size loan/finance with the amount

The respondent inquired about whether they had used any loans or financing in the last two years under this question. The graph below shows that 46.4% of respondents said they had never taken out a loan or other financial arrangement, 20.8% had borrowed up to 500,000 birr, 6.9% had used money between 500,000 and Br 1 million, 6% had borrowed up to Br 1,000,000 and Br 5,000,000, 10.1% had borrowed up to Br 5,000,000 and Br 10,000,000, and the remaining 9.8% had only used money above Br 10 million.

Figure 13 shows size of finance /loan obtained in the last two years

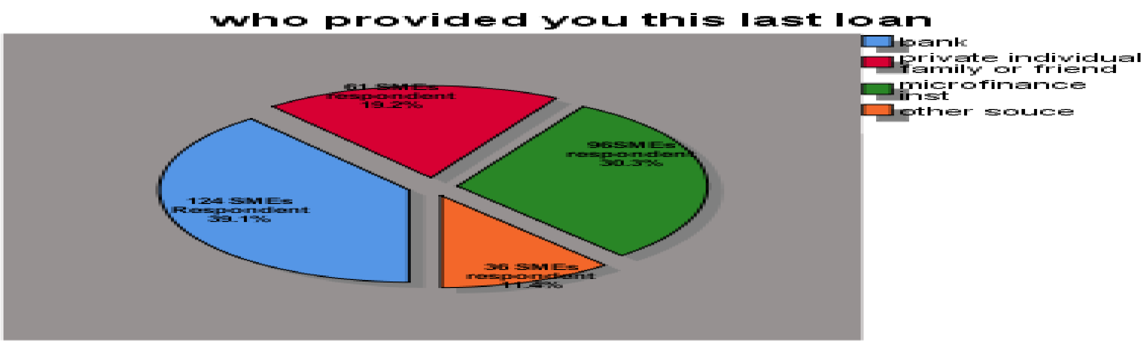


Source Own Survey (2024)

4.3.9 Finance source of providers for the last loan

Regarding the aforementioned matter, the respondent inquired as to who is offering the loan or financing and if they are free to choose who they choose to get it from. Their answers are shown in the image below. The graph below shows that 39.1% of respondents said that they have received a loan or other kind of financing from a bank in the last two years. The remaining amount has been taken up by MIF, which makes up 30.3%, friends, family, and "ekub," which has contributed its own funds by 19.2%. The remaining 11.4% has used other sources of funding throughout the last two years.

Figure 14 who provide the last loan / finance



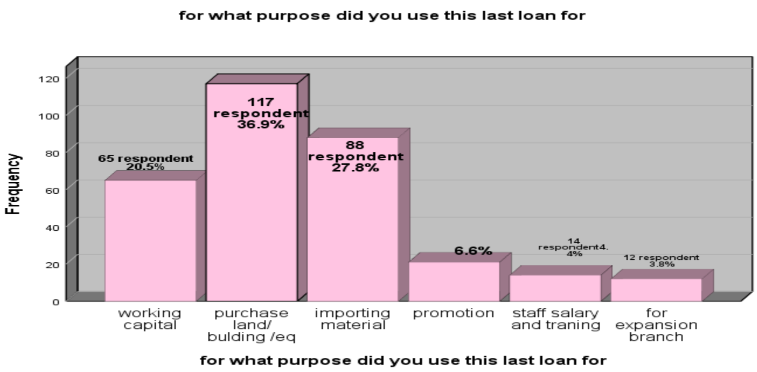
Source Own Survey (2024)

4.3.9 Respondents on purpose of the loan/finance taken

The majority of the loans offered by those financial source providers to SMEs were installment and term loans. The objective of the loan, the borrower's ability to repay the loan, and the institution's lending capacity all determined the loan's size and tenure. Small business owners and managers were asked to determine the objective of the loan or financing and to exercise their freedom to choose whether or not to use it for all of the stated purposes.

The following figure shows that a sizable portion of small business owners used their funds for various purposes. Of them, 36.9% (117 counts) said they used them to acquire plant assets, 27.8% (88) said they used them to buy raw materials, and 20.5% (65) said they used their funds to finance working capital for their companies. Additionally, a few small enterprises expanded their operations and used the loan to pay for compensation increases and promotions. These show that a sizeable portion of the loan was utilized to fund the small firms' working capital and the purchase of plant assets.

Figure 15 purpose of the loan/finance taken by SMEs



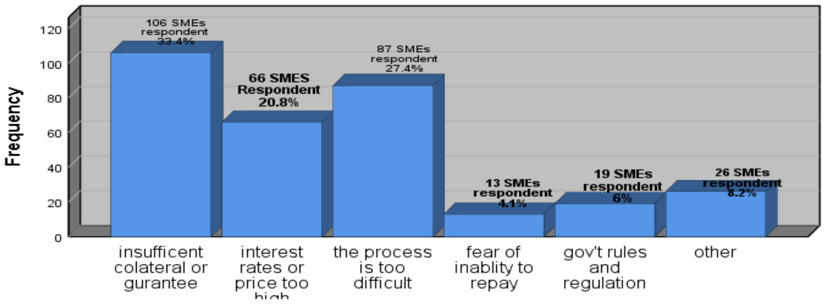
Source Own Survey (2024)

4.3.10 Respondents on Obstacles to get loan/finance

Future loan and financing applicants for development incentives were asked to pinpoint any potential issues that might prevent them from accessing funding and to use their right to self-determination in the event that they encounter all of the listed restrictions. Consequently, the majority of respondents (106, or 33.4%) stated that the main obstacle to obtaining financing will be a lack of collateral. A total of 87 respondents (27.4%) and 66 respondents (20.9%)

indicated that they were hindered by the lengthy loan application process and high interest rates. The owners and managers of SMEs also list fear of loan repayment, government rules and regulations, and the unavailability of certain loan types as barriers.

Figure 16 respondents on obstacles to get loan



Source Own Survey (2024)

4.4 Descriptive statistical analysis of service quality dimension

The researcher uses an itemized rating scale to generate a range. The respondents' perceived interest in each variable was calculated using this range. The researcher uses the following formula to construct the range (Shrestha, 2015).

In order to analyze the data for this study, the researcher used central tendency or descriptive statistics to calculate the mean scores of each variable. This assessment's main objectives were to compute each dimension's grand mean and display the average responses of respondents for each item included under each predictor variable's dimension. In order to fulfill the study's partial research objectives, the grand mean of each independent dimension is finally used to interpret the data.

Itemized rating scale: $\frac{\text{Max - Min}}{5} = \frac{5 - 1}{5}$

$$= 0.80$$

The mean of each individual item ranging from 1- 5 falls within the following interval:

Table 9Means Interpretation Key

Range	Extent of Influence
1.0 – 1.5	Strongly disagree
1.6 – 2.5	Disagree
2.6 – 3.5	Neutral
3.5 – 4.5	Agree
4.6 – 5.0	Strongly agree

4.4.1 Firm characteristics and accesses to finance

Table 10Firm characteristics

Firm characteristics		N	M	SD
1	The age of firm affects its ability to access fund	317	4.57	.636
2	Having business skill influence business performance and hence access to finance	317	4.47	.940
3	Ability to compile financial records and accounts affects is ability to access fund	317	4.25	.976
Average of Firm characteristics		317	4.43	0.850

Source: Own Survey (2024)

The research findings indicate that the age of the company had an agreeable effect on finance access (M = 4.57, SD = 0.636), and business competence also had an agreeable effect (M = 4.47, SD = 0.940) on finance access. There is also agreement regarding the impact of the capacity to gather financial documents and accounts (M = 4.25, SD = 0.976).The standard deviations indicated the extent to which the responses were dispersed from the mean. Overall, Firm characteristics influenced access to finance to a moderate extent (M= 4.43, SD= 0.850). This confirms the importance firm characteristics which are firm's age, having adequate business skills and managing proper records of books of account will influence to access external financing almost all respondent agree firm characteristics is one factor access to finance SMEs. The results are as shown in the above (Table 9) these findings are in line with those of (Gabriel, 2011; Deresse et.al, 2017; Daniel, 2009).

4.4.2 Effect of Cost of Borrowing on accesses to finance

Table11 cost of borrowing

Cost of borrowing		N	M	SD
1	Small businesses are usually charged higher interest rate by banks than large firms	317	4.26	1.005
2	Lack of reputation and contact in the banking market make it hard to borrow money from the banks	317	4.38	0.940
3	Lack of information and knowledge in method or ways of financing makes to borrow hard.	317	4.19	1.070
Average of Cost of borrowing		317	4.27	1.005

The study discovered that the high interest rates imposed to banks and MFI had an agreeable effect on the degree to which borrowing costs affected access to financing (M= 4.26, SD= 1.005). Access to financing was impacted to a degree of agreement by a lack of contacts and reputation in the banking industry (M= 4.38, SD= 0.940). Lack of knowledge and information about finance methods and strategies had an impact on a degree of agreement (M= 4.19 SD= 1.070). In general, elements under borrowing costs had an impact on financing availability as well, with the agreed-upon result having (M= 4.27, SD= 1.005). The outcomes are displayed in Table 10.

It is evident that high borrowing costs make it difficult to obtain financing, and respondents cited high interest rates as a factor in their payback defaults and a barrier to obtaining financing from lending institutions. A dependable and reasonable cost of borrowing (interest rate) will be acknowledged favorably by SMEs, and this may serve as a strong incentive for them to obtain financing. Nearly all respondents concur that one barrier to financing SMEs is the cost of borrowing. The results of a study conducted by (Mwangi and Bwisa, 2013, Ndungu, 2016; Anthony et al., 2013; Fetene, 2010) are reflected in these findings.

4.4.3 Influence of collateral requirements on accesses to finance SMEs

Table 12 collateral requirement

Collateral requirement		N	M	SD
1	Not having Types of collateral required makes difficult to access finance	317	4.07	1,141
2	collateral is a mandatory requirement in accessing finance	317	4.19	1.040
3	SMEs very worried about collateral in accessing finance	317	4.38	0.825
Average of collateral requirement		317	4.21	1.002

Source: Own Survey (2024)

The above table shows that access to financing is influenced by not having the required type of collateral, with a level of agreement of (M= 4.07, SD= 1.141). Conversely, those who view collateral as a necessary requirement in order to access financing are in agreement, with a level of agreement of (M= 4.19, SD= 1.040), and SMEs who were very concerned about collateral (M= 4.38 SD= 0.825). In general, collateral constraints affected credit facility access to a predetermined degree (M=4.21, SD= 1.002). This suggests that stringent collateral requirements severely restricted access to financing.

It is evident that the majority of SMEs face discrimination and denials from lenders when applying for financing due to their high risk profiles and insufficient resources for collateral. Moreover, the results are corroborated by the main informants in the descriptive question posed. The majority of them stated that one major obstacle preventing them from obtaining financing was the absence of sufficient collateral. These results are consistent with those of the following studies: Fetene, 2010; Eshetu and Mamo, 2009; Hezronet al, 2016; Brehanu et al., 2015; Deresse et al., 2017; Selamawit et al., 2014; Fetene et al., 2013; Matavire et al., 2013.

4.4.4 Effect of awareness of funding opportunity on accesses to finance

Table 13of awareness of having funding opportunity

awareness of having funding opportunity		N	M	SD
1	There is no Available of information on who is offering credit facilities .	317	4.19	1.048

2	No Performance of Commercial Banks and micro finances	317	4.60	0.680
3	There is no an Accessible of ways of financing for SME	317	4.34	1.024
4	Past experience in obtaining loan finance is not successfully	317	4.29	1.031
Average of awareness of having funding opportunity		317	4.35	0.945

Based on the outcome displayed in Table 12 above, which indicates that access to finance was impacted by the lack of information regarding the providers of credit facilities access finance (M = 4.19, SD = 1.048). The absence accessible way of financing for SMEs with (M= 4.6 SD= 1.024) is the other factor affecting access to financing. The performance of commercial banks and microfinance finance was the element that had the greatest influence (M= 4.60, SD= 0.680). Additionally, previous attempts to get have failed, with a M= 4.29 and SD= 1.031. All factors combined have an impact on financial access at a level of substantial agreement (M = 4.35, SD = 0.945).

4.5 Correlation Analysis and Interpretation

In order to ascertain whether the dependent and independent variables had a significant relationship, a set of Spearman correlations was computed. The correlation coefficient, according to Kothari (2004), is a highly helpful tool for condensing the link between two variables into a single value that ranges from -1 to +1. The correlation coefficient is generally represented by the letter "r." This means that a perfect negative relationship (r = 0) shows that there is no linear link between the two variables, a perfect positive relationship (r = +1.00) implies a direct relationship, and an indirect relationship is indicated by a perfect negative relationship (r = -1.00).

Version 22 of the Statistical Package for Social Science (SPSS) software was used to examine the correlation between the dependent and independent variables as well as the casual impact. The correlation between the variables (independent & dependent) is shown in the above correlation matrix along with the Pearson correlation coefficient to indicate the strength of the link.

The convergent validity of the relationship was demonstrated through the use of Pearson correlation analysis, whose coefficients indicate the strength and direction of positive or negative relationships as well as their magnitude. The most fundamental and practical way to measure the relationship between two or more variables is probably through correlation.

Table 14 Correlation Table

		awareness	Firm characteristic	Cost of borrowing	Collateral requirement	Access to finance
Awareness	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	317				
Cost of borrowing	Pearson Correlation	.486**	1			
	Sig. (2-tailed)	.000				
	N	317	317			
Cost	Pearson Correlation	.781**	.663**	1		
	Sig. (2-tailed)	.000	.000			
	N	317	317	317		
Collateral requirement	Pearson Correlation	.691**	.487**	.820**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	317	317	317	317	
Access to finance	Pearson Correlation	.899**	.280**	.628**	.569**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	317	317	317	317	317

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

*. Correlation is significant at the 0.05 level (2-tailed).

4.5.1 Correlation between Dependent and Independent Variable

The correlation coefficient between the dependent variable (access to financing) and the Independent variables (firm characteristics, cost of borrowing, collateral requirement, and awareness) is displayed in Table 16 above.

The correlation between awareness and access to credit revealed a positive coefficient of association of 0.899, as the table above illustrates. This finding indicates a strong correlation between the features of awarenessand access to finance.

With a value of 0.280, the correlation coefficient between firm characteristics and access of finance is positive. This suggests that firm characteristics and access to financing are positively correlated.

The correlation coefficient between access to finance and cost of borrowing has positive value of 0.628, implying that there is strong correlation between them.

Based on the correlation result collateral requirementhave a positive and strong relationship with access to finance with the coefficient of 0.569.

4.6 Regression Analysis

The multiple regression analysis enables you to assess the strength of relationship between a numerical dependent variable and two or more numerical independent variables. Calculating a multiple regression coefficient and regression equation using two or more independent variables is termed multiple regression analysis. The coefficient of determination (represented by R2) can take on any value between 0 and +1. It measures the proportion of the variation in a dependent variable that can be explained statistically by the independent variables (Saunders et al., 2009).

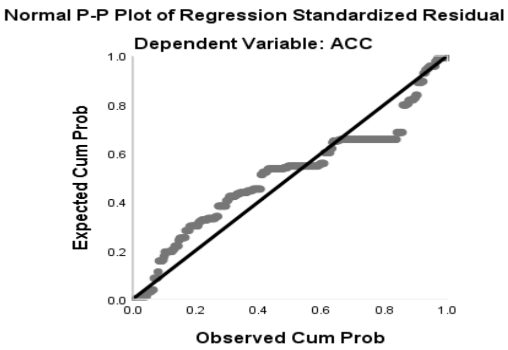
4.6.1. Diagnosis Test

Prior to using regression analysis, the following checks were carried out to make sure the data fit the regression analysis's assumptions:

4.6.2Linearity Test

The degree to which a change in the independent variables is correlated with a change in the dependent variable is known as linearity. Plots of the regression residuals using SPSS software had been used to ascertain whether the link between the dependent variable and the independent variables firm characteristics, cost of borrowing, collateral requirement and awareness is linear.

Figure 17 the normal probability plot



Source own survey (2024)

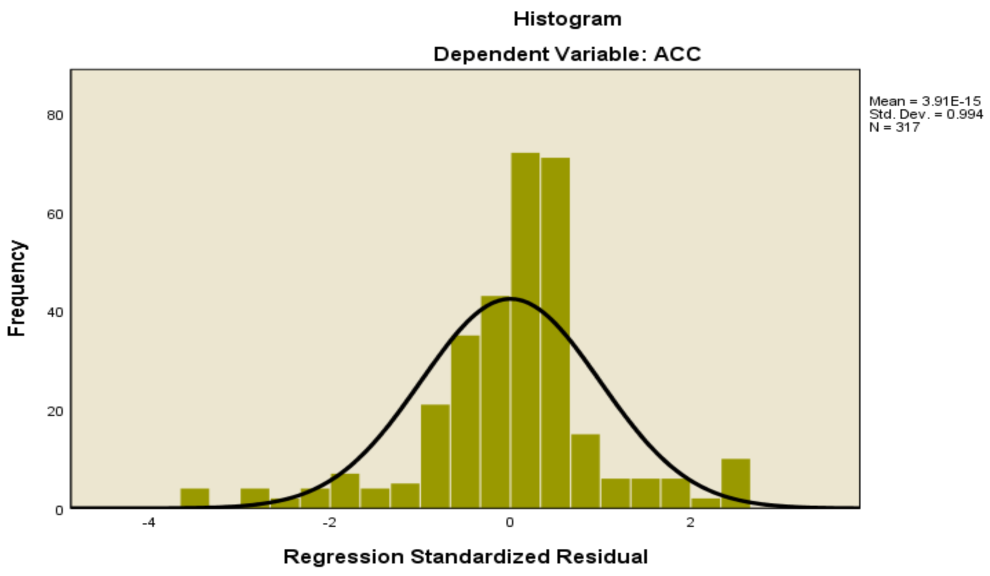
The normal probability plot also shows deviations from normalcy. In this graphic, the straight line denotes a normal distribution, while the dots represent the observed residuals. Consequently, every point in a data set with an exact normal distribution will fall on the line (Field, 2009). In a similar vein, as seen in figure 17 above, there is little to no deviation from normalcy since the dots are tightly aligned with the straight line. Because the fundamental tenet of linear regression has been met, we can fairly conclude that the model is accurate and that it can be applied to the whole population.

4.6.3 Normality test

This is why it is advised to use a histogram and a P-P plot (probability–probability plot) to examine a distribution in order to confirm the normality assumptions for basic linear regression analysis. Therefore, the researcher checks for normalcy using a P-P plot and a histogram to confirm the validity of these assumptions.

As noted by Field (2009) and Garson (2012), a symmetric bell-shaped curve is a normal distribution. As a result, the distribution is normal and the histogram looks to have a bell-shaped curve or normal distribution, as seen in figure 2. The curve is twisted and symmetrical as well. It can therefore draw the conclusion that the model fits the data well.

.**Figure17NormalityTestResult**



4.7 Multiple Regression Results

Multiple regression analysis was used in this study to determine the constructs' predictive values. It is necessary to do a separate regression analysis against each variable that is thought to be full of other variables since the model is constructed in such a way that every construct is full of other constructs. This was primarily developed to ascertain the structures' linear combination. The outcomes of the multiple regressions that were performed using access to financing as the dependent variable and the four factors (firm characteristics, cost of borrowing, collateral requirement, and awareness) as the independent variables are shown in Tables 15 and 16.

4.7.1 Regression Analysis

Overall regression model and its ANOVA are summarized as follows:

Table 15 Model Summary

Model Summary: Table indicating R and R square value

Model Summary [b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.917[a]	.841	.839	.31015

a. Predictors: (Constant),firm characteristics, cost of borrowing ,collateral requirements, awareness

b. Dependent Variable: access of finance

The cost of borrowing, firm characteristics, collateral requirements, and awareness are independent variables, while access to financing is a dependent variable. According to the table above, the coefficient determination is 0.841, meaning that independent variables account for approximately 84.1% of the variation in access to financing. Given that the value of r2 is 0.841, the regression equation seems to be highly helpful for making predictions.

Table 15 shows that the coefficient of adjustment (R2) was 0.841, meaning that the four criteria mentioned above may predict 84.1% of SMEs' access to financing. Other factors not included in the model account for the remaining 15.9% change in financing access. Therefore, the factors that affect access to finance (firm characteristics, cost of borrowing, collateral requirements, and awareness) when combined have a major impact on that access. All explanatory variables firm characteristics, cost of borrowing, collateral requirements, and awareness are statistically significant at the five percent significance level, as indicated by the sig. (p-value). The investigator discovered that the regression function was established as follows: Table 15 provides evidence of a positive and statistically significant link revealed by the regression.

4.8 Effect of determinants on Access to finance

The main objective of this study was to examine the Determinants influencing Access to finance for small and Medium Enterprises in Addis Ababa. According to the multiple regression analysis results, each specific objectives of the study is successfully achieved. The results of determinants influencing Access to finance for SMEs in Addis Ababa in relation to the previous research findings were discussed as follows:

4.8.1 Effect of Firm size on Access to finance

The result of this study indicates that reliability ($\beta=0.212$, $p<0.05$) has strong and positive and significant effect on Access to finance. This finding is supported by Hitesh (2015), found that Firm size has a positive and significant effect on Access to finance.

4.8.2 Effect of collateral requirement on Access to finance

The finding of this study also indicates that cost of borrowing (β=0.027 $p<0.05$) has strong and positive and significant effect on Access to finance.(Brehanu et al 2015; Deresse et al, 2017) find collateral requirement has high positive and significant effect on access to finance

4.8.3 Effect of cost of borrowing on access to finance

Furthermore, the result of this study also indicates that service security (β=0.027, $p<0.05$) has less effect on Access to finance. (Ketene, 2010) find cost of borrowing has high positive and significant effect on access to finance.

4.8.4 Effect of awareness on access to finance

The finding of this study indicates that awareness (β=0.995, $p<0.05$) has positive effect on access to finance. This finding is also supported by (Selamawit et al, 2014) found that awareness has positive and significant effect on access to finance.

4.9. Multiple Regression

Examination a regression model was used to examine the impact of several factors on SMEs' ability to obtain financing. The purpose of the study is to determine the relative significant influence of the independent variable firm characteristics, collateral requirements, awareness, and borrowing costs on the dependent variable, or in this case of Addis Ababa on three sub-cities. They all significantly relate ($p<0.05$) to the dependent variable, which is the access of finance for SMEs.

Table 16 regression coefficient

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.229	.124		9.913	.000
	Aw	.995	.035	1.034	28.267	.000
	Cha	.212	.034	.189	6.203	.000
	Cost	.027	.042	.028	.525	.000
	Col	.027	.035	.031	.768	.001

Source: Own Survey (2024)

The standardized beta coefficients were displayed in Table 16to facilitate cross-variable comparisons, the standardized coefficients should be employed. "Standardized" refers to the fact that these numbers have been scaled to the same value for all the variables so that you may compare them. A unit change in the factor affecting access to finance would have an impact on SMEs' to access finance. Therefore, assuming the other variables remain constant, it is projected that a one standard deviation rise in standardized awareness would result in a 0.995 standard deviation increase in standardized access to financing for SMEs. It also works for the remaining variables to predict in the same way.

Furthermore, Table 16's result shows that, at the $p<0.05$) levels, all of the factors that affect SMEs' ability to obtain financing firm characteristics, borrowing costs, collateral requirements, and awareness have a positive and significant impact on that ability. However, the importance level differed among the variables. According to the perspective of SMEs, awareness ($\beta = 0.995$, $p<0.05$) and business characteristics ($\beta = 0.212$, $p<0.05$) have a significant impact on financing accessibility. However, the results also show that the cost of borrowing ($\beta=0.027$, $p<0.05$) and the collateral requirement ($\beta=0.027$, $p<0.05$) had comparatively less of a favorable impact on access to finance SMEs.

4.10. Summary of Hypotheses Testing

HP1: Firms size has positive and significant impact on SMEs access to finance.

The above table's multiple regression analysis result amply illustrates the substantial impact that firm size has on SMEs' ability to obtain financing ($p<0.05$). Additionally, the value of beta in business characteristics ($\beta=0.212$) demonstrates the beneficial impact on SMEs' ability to obtain financing. This suggests that for every unit improvement in a firm's attributes, the access to financing for SMEs would increase by 0.212 units.

(Beck & Maksimovic, 2005) "Financial and legal constraints to growth: Does firm size matter?" published in *The Journal of Finance*, the authors found that the cost of borrowing is a critical factor influencing SMEs' access to finance. Higher costs of borrowing can deter SMEs from seeking external financing, impacting their growth and operations.

As a result, the hypothesis put out above is accepted.

HP2: Collateral Requirement has positive and significant impact on SMEs access to finance.

The result of multiple regression analysis of the above table clearly indicates that Collateral Requirement has significant influence on SMEs access to finance ($p<0.05$). Besides, the value of beta in Collateral Requirement ($\beta=0.027$) shows the positive effect of on SMEs access to finance. This implies that a one unit increase in Collateral Requirement, 0.027 unit increase in SMEs access to finance.

(Beck & Maksimovic, 2005) In their research paper "Financial and Legal Constraints to Growth: Does Firm Size Matter?" published in the Journal of Finance, the authors found that larger firms face fewer financial constraints compared to smaller firms. This supports the conclusion that firm size has a substantial impact on access to finance, with larger firms typically enjoying better financing opportunities.

(Berger & Udell, 1998) Their study "The economics of small business finance: The roles of private equity and debt markets in the financial growth cycle" in the Journal of Banking & Finance shows that firm size is a crucial determinant in accessing finance. Larger SMEs have more collateral, established credit histories, and better relationships with lenders, which enhances their ability to secure funding.

Thus, the above proposed hypothesis is accepted.

HP3: Cost of borrowing has a significant effect on SMEs access to finance.

The multiple regression analysis result definitely shows that the cost of borrowing significantly affects SMEs' ability to obtain financing ($p<0.05$). Additionally, the beta value in the cost of borrowing ($\beta=0.027$) demonstrates the beneficial impact on SMEs' ability to obtain financing. This suggests that for every unit increase in borrowing costs, SMEs' access to financing will increase by 0.027 units.

De Haas and van Lelyveld (2006) analyzed how changes in interest rates affect credit availability for SMEs in different economic environments. Their findings highlight that higher borrowing costs can restrict SMEs' access to financing, particularly in less developed financial markets.

As a result, the hypothesis put out above is accepted.

Hp4: Awareness has a statistical significant positive impact on SMEs access to finance.

The multiple regression analysis result show that awareness significantly influences access to finance SMEs' ($p<0.05$). Additionally, the beta awareness value ($\beta=0.995$) demonstrates the beneficial impact on SMEs' ability to obtain financing. This suggests that for every unit rise in awareness, SMEs' access to financing will improve by 0.995 units.

Research by World Bank (2012) emphasizes that SMEs with higher levels of financial literacy and awareness about financial products and services are more likely to successfully access external financing. This supports the idea that enhanced awareness positively influences SME financing outcomes.

(Stiglitz and Weiss, 1981), suggest that enhancing awareness reduces asymmetric information between SMEs and lenders. This reduction can lead to improved trust and better lending terms, there by facilitating SMEs' access to finance

As a result, the hypothesis put out above is accepted.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATIONS

This chapter is the last chapter which presents summary of findings, conclusion and recommendation of the study. Then, conclusion and recommendations were derived from the discussion and findings. Then, as a result of limitation of the study, the researcher forwarded suggestion for future and further studies.

5.1 Summery

- All factors that affect to access of finance including firm size, collateral requirement, cost of borrowing and awareness were found to be crucial for access to finance SMEs, according to the study.
- In order to determine the relationship between the independent and dependent variables, correlation analysis was also performed in the study. The study's findings showed that therea positive, strong and significant correlation with access to finance SMEs.

- The study's findings indicated on(figure 12), 176 SMEs (55.5%) requested finance but rejected, 93 SMEs (29.3%) requested but only got the partial of their request and 48 SMEs (15.1 %) requested and got full finance.

- The results of the regression analysis show that awareness has the largest, most significant, positive (B=0.995) impact on SMEs' to access finance. Additionally, there is a noteworthy and favorable (B=0.212) impact of firm size (characteristics) on SMEs' access to financing. similarly , the cost of borrowing (B=0.27) and the need for collateral (B=0.27)

5.2conclusion

The study makes use of primary data that was gathered from 317 participants. Of the total respondents, half were either employees or managers (106, or 33.4%), followed by owners or managers (125, or 39.4%), and shareholders (86, or 27.1%). 36% of the respondents identified as female, and 64% as male. 35 (11%) of their firm's sites or branches employed one to ten people. Currently, 11% of their business capital is between Br 500k and Br

1,000,000, and 166 (52.4%) of their business has been in operation for 4-6 years. The primary business activity of the responders' company is 5.4% construction, followed by 21.1 urban agriculture, 43.2% manufacturing, 22.1% trade, and 8.2% service. Over the previous two years, the majority of respondents 132, or 41.6% applied for financing to access their own internal funds.

Generally the study surveyed SMEs in three sub-cities of Addis Ababa, revealing significant challenges in accessing finance. A substantial 59.6% of SME respondents reported being unable to access necessary financing over the past two years, despite 55.5% expressing the need for it. Among financing methods used, 41.6% relied on internal funds, while 27.1% accessed informal finance from family and friends. Multiple regression analysis identified several critical factors influencing access to finance, including firm size, collateral requirements, awareness levels, and borrowing costs, all of which showed statistically significant impacts ($p<0.05$) on SMEs' ability to secure financing. These findings underscore the multifaceted barriers faced by SMEs in obtaining external funding, highlighting the complex interplay of economic and institutional factors in Addis Ababa's entrepreneurial landscape

5.3Recommendation

- **Enhance Financial Awareness Programs**: Given that awareness of financial options significantly impacts SMEs' access to finance, initiatives should be undertaken to educate entrepreneurs on available financial products, requirements, and procedures. This can include workshops, seminars, and online resources tailored to SMEs.
- **Simplify Collateral Requirements**: Since collateral requirements were identified as a barrier, financial institutions should explore ways to accept alternative forms of collateral or reduce the stringent requirements, especially for smaller enterprises. Government policies could incentivize banks to adopt more flexible collateral policies.
- **Improve Loan Approval Processes**: Given the high percentage of SMEs that apply for loans but receive only partial funding or are denied altogether, streamlining and transparent loan approval processes are crucial. This includes reducing bureaucratic hurdles, improving communication between banks and

SMEs, and possibly introducing peer review mechanisms for loan applications.

- **Lower the Cost of Borrowing**: The study highlighted the cost of borrowing as a critical factor influencing access to finance. Policymakers and financial institutions should collaborate to lower interest rates for SME loans through targeted subsidies, interest rate caps, or facilitating competition among lenders.

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Appendix I:

Survey Questionnaire for SMEs in Amharic version

አዲስ አበባ ዩኒቨርሲቲ

የቢዝነስና ኢኮኖሚክስ ፋኩልቲ

ቢዝነስ አድምንስትሬሽን ትምህርት ክፍል

የተከበሩ የጥናቱ ተሳታፊ: የዚህ ጥናት **FACTORS AFFECTING ACCESS TO FINANCE ON SMALL AND MEDIUM ENTRPERASE IN ADDIS ABABA** ነው፡፡

ይህ ጥናት የሚከናወነው በአዲስ አበባ ዩኒቨርሲቲ በቢዝነስ አድምንስትሬሽን የድህረ ምረቃ ትምህርት ክፍል መሟሪቂያ ወጤት ለማሟላት ነው፡፡ የጥናቱ ዋና ዓላማ በአዲስ አበባ ከተማ አስተዳደር ወስጥ የሚገኙ የአነስተኛና መካከለኛ ድርጅት /ተቋማት/ (አመድ) የብድር (የገንዘብ) ምንጭ እጥረት መንስሄዎች የጥናት ማጠይቅ ነው፡፡

በዚህ ማጠይቅ ላይ መሳተፍ ሙሉ በሙሉ በፈቃደኝነት ላይ የተመሠረተ ነው፡፡ ማጠይቁ የተሳታፊውን ማንነት ሳይለይ ይይመዘግብና ጥብቅ በሆነ ሚስጥርነት ይጠበቃል፡፡ የያንዳንዱ ተሳታፊ መልሶች በአጥኚ ወጽሁፍ ላይ የመላሹ ማንነት ተገልጾ አይቀመጥም፡፡

ይህን ዓላማ ለማሳካት ለሰዋችሁት ወድ ጊዜና ጉልበት ትልቅ አድናቆት የምንሰጠው ሲሆን፤ የምትሰጡት ምላሽ ለጥናቱ ግብእ ጅግ አስፈላጊ በመሆኑ ለሁሉም ጥያቄዎች አጥጋቢ ምላሽ ለማስጠት 15 ደቂቃ የሚሆን ጊዜ ለዚህ ጉዳይ እንድታወሉ ስጠይቅ በታላቅ አክብሮት ነው፡፡

ለበለጠ ማዝበራሪያ እባክዎን አጥኚውን በሚቀጥለው አድራሻ ያግኙት፡

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የአነስተኛና መካከለኛ ድርጅት/ተቋማት(አመድ)የ ጥናት ማጠይቅ

ክፍል 1 - አጠቃላይ የመሻሹ መረጃ

1. ፆታ:ሴት   ወንድ

2. የስራሁኔታ: ተቀጣሪ/ስራአስኪያጅባለሀብት/ስራአስኪያጅባለአክስዮን

3. የትምህርትደረጃዎትንግለፁ?

ሀ. የቀለምትምህርትያልወሰደ...

ለ. ከ 8ተኛክፍልበታች...

ሐ. ከ 9 – 12ተኛ..

መ. ቴክኒክናሞያሰልጣኝ/ ዲፕሎማ...

ሠ. ዲግሪ ....

ረ. ማስተርስናከዚያበላይ...

4. ስንትዓመትየአስተዳደርነት (የማኔጅመንት) ስራልምድአለዎት?

ሀ. ከ 1 ዓመትበታች.......................................

ለ. ከ 1 – 3 ዓመት (< 3 ዓመት)........................

ሐ. ከ 4 – 6 ዓመት (< 6 ዓመት)............................

መ. ከ 7 – 10 ዓመት (< 10 ዓመት) ....

ሠ. 10 ዓመትእናከዚያበላይ..

5. የድርጅትዎየስራሐላፊማንነወ?

ሀ. የድርጅቱባለቤት

ለ. ተቀጣሪየስራሐላፊ/ ደሞዝተኛየስራሐላፊ

ሐ. ሌላ ሰ ወይ ግለ ፁ

ክፍል 2 - አጠቃላ ይየ ስራወሚ ጃጠቅላላ ስለ ቢዝነ ሱሚ ጃ

1.የ ድር ጅትዎዋና እ ን ቅስ ቃሴምን ድን ነ ወ?

ፋብሪ ካ(ጨ ቃጨ ቅ፣ የ ቤትጌ ጣጌ ጥማምረ ቻ፣ የ እ ን ጨት ምር ቶችማምረ ቻ፣ ወዘ ተ)..........

ፋብሪ ካ(ጨ ቃጨ ቅ፣ የ ቤትጌ ጣጌ ጥማምረ ቻ፣ የ እ ን ጨት ምር ቶችማምረ ቻ፣ ወዘ ተ)..................

ግን ባ ታ(ኮን ስ ትራክሽን)…. …….…………………………………………

ን ግድስ ራ……………..……………………………………………………

አ ገ ልግሎትሰ ጪ………………..…...…………………………………………..

የ ከተማማብርና …..…..….............………….……………………………………

ማዕ ድን ፍለ ጋ ………………………....…………...…. …

ጅምላ ና ችር ቻሮን ግድ……………………………………………………………

የ ጋራቤትልማት(ኪራይ)(ሪልስ ቴት)……………………………………..............…………

ሆቴልና ቱሪ ዝም………………………………..…………….………………….

ሌሎችአ ገ ልግሎቶች…………………………………….……..……...........

2.በአ ሁኑ ሰአ ትበአ ማካ ይበድር ጅቱወስ ጥምን ያ ህልቋሚ ጊዜ ያ ዊሰ ራተኞችአ ሉ? (በሁሉም አ ካባቢ/በቅር ን ጫፉ ፅ / ቤትጨምሮ)

ከ1 -10 ሰ ራተኞች…………………….….…....……………………………………

ከ 11-20 ሰ ራተኞች……………………………………………………………….

ከ21-50 ሰ ራተኞች…………………………………………………………………….

ከ 51-100 ሰራተኞች……………………………………………………………..

100 በላይ………………………………………………………………………..

3. በአሁኑ ሰአት የ ድርጅቱየ ሀብትማጠን (capital)ምን ያህልደርሶል?

ከብር 500,000 በታች……………………………………………...……….

ከብር 500,000 - 1,000,000 …………………………………………………………..

ከብር 1,000,001 - 5,000,000 ………………………………………………………

ከብር 5,000,001 - 10,000,000……………………………………………………..

ከብር 10,000,000በላይ……………………………………………………………………..

4. ድርጅቱበዚህየ ስራዘርፍላይለምን ያህልጊዜቆይቷል?

ከ 2 ዓመትበታች…………………………………………………………………

ከ 2-5 ዓመት……………………………………………………………………….

ከ 6-10 ዓመት……………………………………………………………….

ከ 10 ዓመትበላይ………………………………………………………………

ስለየገንዘብማግኛአይነቶች

፶ ድርጅቱማሻካፒታልምንጭየትነው?(ከ1 በላይመልስማስጠትይቻላሉ)

ሀ.ከባንክ ለ.ከቁጠባናብድርተቋም ሐ.ከገንዘብአበዳሪዎች መ.ከራስቁጠባ ሠ.ከጓደኛ/ቤተሰብ

ረ.ከዕቁብ ሰ. ሌላ

6.በድርጅቶአወቃቀር መሠረት ተጨማሪ የገንዘብ ፍላጎት በወስጣወእና በወጫዊ የገንዘብ ምንጯ ዘርፍ ሊገኝ ይችላል? እርሶ/ድርጅቶ ባለፉት ጊዜያት እነዚህን የምንጯ ዘርፉ ተጠቅሟል?

ሀ.አዎ ተጠቅሜ አለሁ ☐ ለ.አፈልጋለሁ ተጠቅሜ አላወቅም ☐

7. ከሚከተሉት የገንዘብ ማግኛ መንገዶች መካከል የሚወቁዋቸወን ድርጅቶች የተገለገሉባቸወ ካሉ ምልክት ያድርጉ

የራስ ገንዘብ ምንጭ(የድርጅቱ ቁጠባ ና ትርፍ) .... ☐

ድጎማ (ከህዝባዊ ድርጅቶች ሊሆኑ ይችላሉ).. ☐

ተንቀሳቃሽ የባንክ ብድር .... ☐

ሌላ የብድር አይነት (ከእህት ድርጅት ወይም ከባለአክሲዩኖች).......... ☐

ከቤተሰብ ከወዳጆች ከዘመዶች ከእቁብ ከሌላ አይነት መንገድ............ ☐

አክሲዮን በመሸጥ ወይም ሌሎችን ገንዘብያላቸወን ባለድሻ በማድረግ ... ☐

8. ከላይ ከተዘረዘሩት የገንዘብ ማግኛ አይነቶች ወስጥ ባለፉት 2 ዓመት ወስጥ ለአንድ አገልግሎት ጥያቄ አቅርበወ ያወቃሉ

ሀ.አዎ ☐ ለ.አላወቅም ☐ ሐ.አገልግሎቱ ለኔ ድርጅት የሚስጥ አልነበረም ☐

9.መልሶ አዎ ከሆነ ለቀረቡት ጥያቄ ምን አይነት ምላሽ ነበረዎት

የተጠየቁትን በሙሉ ተሰቶኛል .... ☐

ከተጠየቁተ የተወሰነ ወተሠቶኛል... ☐

የተጠየቁት ወድቅ ተደርጓል... ☐

10.ባለፉተ ሁለት ዓመታት ማንኛወን አይነት ብድር/ፋየናንስ ተጠቅመው/ወስደው/ ያወቃሉ? ከሆነ ምን ያህል ነበረ?

እስከ 500,000 ……………………………………………

ከ500,000 እስከ1,000,000 …………………………………

ከ1.000, 001 እስከ 5,000,000 …………………………………

ከ5,000,001 እስከ 10,000,000 …………………………………

ከ10,000,000 ብርበላይ ……………………………………….

ምንምአይነትብድርአላገኘንም …………………………………

11.ይህንንብድርየሰጠውአካልማንነበር(ከአንድበላይመምረጥይቻላሉ)?

ባንክ …………………………………………………………..

የቤተሰብአባል…………………………………………………………….

ጥቃቅንእናአነስተኛብድርተቋም………………………………

ሌላካለ ……………………………………………………….

12.ይህንየወሰዱትንብድርለምንተግባርአዋሉት(ከአንድበላይመምረጥይቻላሉ)?

ለስራማስኬጃ…………………………………………………………

ሜሬትህንፃመኖሪያለመግዛት……………………………………………

ለምርትአገልግሎትየሚውሉጥሬእቃዎችንለመግዛት…………………

ማስታወቂያአገልግሎት………………………………………………………

ለሰራተኛማሠልጠቻእናደሞዝክፍያ ……………………………………

ለስራማስፋፊያ ……………………………………………

ሌላ ካለ.____

13.ብድር ለማግኘትወይምተጨማሪ የ ገ ን ዘ ብአ ቅምለ ማግኘትከሚያ ግዱምክን ያ ቶችወስ ጥየ ትኛወብ ጣምተፅ ዕ ኖፈጣሪ ሆኖአ ግኝተውታል(ከአ ን ድበ ላ ይመምረ ጥይችላ ሉ)?

በ ቂ ያ ልሆነ ዋስ ትና አ ለ መኖር ....

ወለ ዱብዙስ ለ ሆነ ....

ብድሩን ለ ማግኘትሂደቱከባድና ወስ ብስ ብስ ለ ሆነ ....

ብድርን ያ ለ መጣ ስ ያ ለ ፍራቻ...

የ ብድር አ ገ ልግሎትአ ይነ ቶችአ ለ መኖር ....

የ መን ግስ ትህግና መተዳደሪ ያ ደን ብ....................................

ሌላ ካለ _..

ክፍል - ሦስ ት Access to Finance Perception

እ ባ ኮየ ዕ ር ሶ ን ስ ምምነ ትበ ቀ ረ ቡትአ ረ ፍተነ ገ ሮችመሠረ ትከ ታችከተጠቀ ሱትአ ማራጮችወስ ጥበ መምረ ጥይግለ ፁልኝ ፡ ፡ አ ማራጮቹከ1-5 የ ቀ ረ ቡሲሆን 1= በ ጣምአ ልስ ማማም (በ አ), 2= አ ልስ ማማም (አ), 3= ገ ለ ልተኛአ ድሎዊነ ትየ ሌለ ው(ገ), 4= እ ስ ማማለ ሁ(እ) and 5 = በ ጣምእ ስ ማማለ ሁ (በ እ).

የ ገ ን ዘ ብፍላ ጎትአ ማራጭምን ጮችለ ማጠቀ ምተፅ ኖየ ምን ድረ ግበ ትምክኒ ያ ቶች	በ አ	አ	ገ	እ	በ እ
Firm characteristics (የ ድር ጅቱየ ስ ራባ ህሪ)					
1. ድር ጅቱበ ስ ራላ ይየ ቆየ በ ትጊዜ (ዕ ድሜ)	1	2	3	4	5
2. ያ ለ ን የ ስ ራችሎታእ ና ተፅ ኖፈጣሪ ነ ትብደር ላ ለ ማግኘትሊረ ዳን ይችላ ል	1	2	3	4	5
3. የ ድር ጅትሂሳ ብና መዛ ዎችን በ አ ግባ ቡና በ ስ ር ዓትመያ ዝብደር ለ ማግኘትተፅ እ ኖያ ሳ ድራል	1	2	3	4	5

Cost of borrowing (የ ማበደሪያ ዋጋ ወድነ ት)					
4.በ ብደር ሰ ጪ ተቋማት አነ ስተኛ እና መካከለኛ ኢንተርፕራይዞች ከፍተኛ ወለድ ይጠየቃሉ ትላልቅ ተቋማት ከሚጠየቁት አንፃር	1	2	3	4	5
5.ብደር ሰ ጪ ተቋማት ጋር ግንኙነ ት አለመፍጠር እና በተደጋጋሚ ፍላጎ ት አለማሳየ ት ብድር ላለማግኘት ትልቀተፅእኖ ያሳድራል	1	2	3	4	5
6.የ ገ ንዘ ብ ፍላጎት አማራጭ ምንጮች ላይ ያለን መረጃ እና ዕውቀት ማነ ስ በከፍተኛ ወለድ እንድን በደር ያደርገ ናል	1	2	3	4	5
Collateral requirements(የ ማበደሪያ ዋስትና)					
7.የ ምን ጠየ ቀ ወየ ዋስትና አይነ ት ብድር ለማግኘት ትልቀተፅእኖ ያሳድር ብናል	1	2	3	4	5
8.ዋስትና (collateral) ብድር ለማግኘት ብቸኛ ወና ዋነ ኛ ወአማራጭ	1	2	3	4	5
9. የ ምን ጠየ ቀ ወየ ዋስትና አይነ ት ቢኖረን ም ባለሌላ ምክኒ ያት ብድር ማግኘት አልቻልን ም	1	2	3	4	5
Awareness of having Funding Opportunity (ስለ ብድር ወይም ተጨማሪ የ ገ ንዘ ብ አቀርቦት ያለን መረጃ)					
10. መረጃ በበቂ ሁኔ ታ አለ (ይገ ኛል) የ ትኛው ብድር አይነ ት በየ ትኛው ተቋም እንደሚሰ ጥ	1	2	3	4	5
11. የ ብድር ሰ ጪዎች ወቅታዊ አቋም (Performance) ብድር ለማግኘት ይረዳል	1	2	3	4	5
12.የ ገ ንዘ ብ ፍላጎት አማራጭ ምን ጮች ለ ሁሉም SMEs ተደራሽ መሆን	1	2	3	4	5
13.ከዚህ በፊት በተሳካ ሁኔ ታ ብድር የ ወሰ ድን በትልም ድ ብደር ለማግኘት ይረዳል	1	2	3	4	5
General (ሁሉን አቀፍ)					
14. ሁሉን ም አይነ ት የ ገ ንዘ ብ ፍላጎት አማራጮች ምን ጮች ወይም እየ ተሰ ራባቸው ያ ሉት የ ሁሉም ባ እ ኩል ሚል ኩ ተደራሽ ና ቸው	1	2	3	4	5
15. የ ገ ንዘ ብ ፍላጎት አማራጭ ምን ጮችን ማጠቀ ም ከ መ ጥ ፎ ጉ ት ይልቅ በ ጉ ጉ ት ያ መዘ ና ል	1	2	3	4	5

Appendix I Survey Questionnaire for SMEs in English version

ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE MSC PROGRAM

SURVEY QUESTIONNAIRE

Dear Participants

This studyis conductedinpartialfulfillmentof Masters of BusinessAdministration inAddis Ababa University. The study is aimed to explore the factor affecting access to finance for SMEsinAddisAbaba.Tothisend, questionnaire isused to gatherpertinentdatafromrespondents. Theinformationyouprovideisanominousandstrictlyconfidential–you need notdiscloseyouridentity.

The information will be used only for the study and will not be given to any other organization,government department or person. I realize your time is valuable and appreciate your concern &contribution for SMEs effort toward growths. Your responses are vital to the outcome of thestudy and hence you are kindly requested to spare 15 minutes to objectively answer all questions.Thank you in advance for your indispensable cooperation to spare your time and energy tocompletethis questionnaire.

For further information, please contact the researcher using the following address:

Tel. (mobile): +251-991- 74 50 01

E-mail: jerrymekonen9@gmail.com

Addis Ababa, Ethiopia

Part I - General Information of the Respondent

About You

1. Gender: Female ☐ Male ☐
2. Occupation: Employee/manager ☐ Owner/manager ☐ share holder ☐
3. Whatis youracademicbackground?

A, literate B, Grade8andless C, Grade9to12completed

D, TVET/Diploma E, BA/BSC F, MA/MSC and above

4. Howmanyyearsofmanagerialexperiencedoyouhave?
   A, Lessthan1year B, 1–3year (<3years) C, 4–6year (<6years)
   D, 7–10 year (<10years) E, 10 yearsand above

5. Whoisthemanagerofyourbusiness?
   A, Theowner B.Employedmanager/Salarymanager

Part II - General information on the business

1. Whatisthemainactivityof your company?
   - Manufacturingtextile, home decorateswoodproductsfactory, etc.)…....……… ☐
   - Construction…………………………………………………………………… ☐
   - Trade……………………………………….…….. ☐
   - Service…………………………….………….. ☐
   - UrbanAgriculture…………..……….....………………………………………… ☐
   - Mining………………………..…..………………………………………………. ☐
   - Wholesaleorretail trade………………………..……......……… … … … …… ☐
   - Realestate…………………………………….……… … … … … … … … … ☐
   - Hotelandtourism…………………………………………………………………….. ☐
   - Otherservices…………………………………………………………………… ☐

2. Howmanyemployeesdoesyourcompanycurrentlyemploy(bothfullandparttimeemployees)atall locations orbranches ofyourfirm?
   - From1employeeto10employees…………………..……...……..…… ☐
   - From11employeeto20employees…………………….…………...….. ☐
   - From21employeesto50employees……………………………………… ☐
   - From51employeesto100employees…………………………….…… ☐
   - Above 100 employees …………………………………………… ☐

3. Whereyourbusinesscapitaldoesfallscurrently?

   - Lessthanbirr500, 000 ………………………………………… ☐
   - Between500, 001 to 1,000,000……………………………… ☐
   - Between1, 000,001 to 5,000,000 ……………………………… ☐
   - Between5, 000,001 to 10,000,000 ………………………… ☐
   - Above 10,000,000 …………………………………………... ☐

4. Forhowlongdoesthe businessexist inthe market? (Duration ofbusiness existence)

- Lessthan 2years………………………………………………
- Between2and5years……………………………………….
- Between6and10years……………………………………..
- Morethan10years…………………………………………

5. Whatisthemajorsource of yourinitialfinance? (Multipleanswersispossible)
A, Banks B.MFIs C.Moneylenders D.Ownsavings

E.Friends/Family F.“Equib” G.Others

6. With respect to the financing structure of your firm, did you use/accesses internal funds and/or external financing during in the past?

A Used/accessed B. needed but not have accesses

7. If you used the above source of financing can you indicate the type of financing among the following ways of financing?

- Internal funds...
- Grants or subsidized bank loan (Involving Support from Public Sources). …..
- Bank overdraft, credit line or credit cards overdraft..
- Other loan (e.g. from a related company or shareholders)………………………
- Share issue, Debt securities issued...
- Other____

8. For each of the above ways of financing, could you please indicate whether you applied for them over the past 2years?

Yes No Instrument is not applicable to my firm

9. If your answer is yes for the above question could you please indicate the financing you receive and requested?

- Requested and got everything ………..……………………………….
- Requested but only got part of it …..……………………………….

- Requested but was rejected ……………………………………….

10. What is the size of the last loan, of any kind, that your firm has obtained in the last two years?

A, Up to birr 500,000 ……………. ………………………………………..

B. Between 500,000 to 1,000,000…………………………………………

C. Between 1.000,001 to 5,000,000…………………………………………

D. Between 5,000,001 to 10,000,000 ……………………………………….

E. Above 10,000,000 birr …………………………………………………

F we did not take a loan ……………………………………………………

11. Who provided you this last loan? (You can tick more than one option)

- Bank..
- Private individual – family or friend.........................
- Microfinance institutions ……………………..……
- Other source...

12. For what purpose did you use this last loan for?

- For working capital...
- For purchase of Land/ buildings or Equipment/vehicles................................
- For importing material..
- For Promotion..
- For Staff salary and training..
- For expansion of branch...

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

- Insufficient collateral or guarantee...
- Interest rates or price too high...
- The Process is too difficult……………………………………..
- Fear of inability to repay………………………………………..
- Government rules and regulation ………………………………
- Other…………………………………………………………..

In ACCESS TO FINANCE your firm ability affected by	SD	D	N	A	SA

Part –III accessibility Perception

Please indicate your level of Agreement on the following statements by ticking the appropriate number using the key given below. Circle a number from 1 to 5 that represents your extent of agreement, where 1= Strongly Disagree (SD), 2= Disagree (D), 3= Neutral (N), 4= Agree (A) and 5 = Strongly Agree (SA).

Firm characteristics					
1. The age of the firm affects its ability to access funds	1	2	3	4	5
2. Having business skills will influence business performance and hence access to finance	1	2	3	4	5
3. Ability to compile financial records and accounts affects its ability to access funds	1	2	3	4	5
Cost of borrowing					
4. Small businesses are usually charged higher interest rate by banks than large firms	1	2	3	4	5
5. Lack of reputation and contact in the banking market make it hard to borrow money from the banks	1	2	3	4	5
6. Lack of information and knowledge in method or ways of financing makes to borrow hard.	1	2	3	4	5
Collateral requirements					
7. Not having Types of collateral required makes difficult to access finance	1	2	3	4	5
8. collateral is a mandatory requirement in accessing finance	1	2	3	4	5
9. SMEs very worried about collateral in accessing finance	1	2	3	4	5
Awareness of having Funding Opportunity (Availability of Finance)					
10. There is No Available of information on who is offering credit facilities	1	2	3	4	5

11. Performance of Commercial Banks and micro finances	1	2	3	4	5
12. There is no Accessible of ways of financing for SME	1	2	3	4	5
13. Past experience in obtaining loan finance successfully	1	2	3	4	5
General thoughts about Access to finance					
14. All ways of financing are available in our country	1	2	3	4	5
15. All ways of financing or prevailing ways of financing are accessible to all	1	2	3	4	5