

**Barriers to Access Micro-Finance by SMEs: a Survey of SMEs in Addis Ababa**



**ADDIS ABABA UNIVERSITY COLLEGE OF BUSINESS AND ECONOMICS  
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**June 2024  
Addis Ababa**

Barriers to Access Micro-Finance by SMEs: a Survey of SMEs in Addis Ababa

Thesis submitted to the graduate studies of Addis Ababa University College of Business and Economics in partial fulfillment of the requirements for a Master of Science Degree in Accounting & Finance

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June 2024

Addis Ababa, Ethiopia

### Statement of Declaration

I, Wondimenh Maru, declare that this thesis work entitled "Barriers to Access Micro-Finance by SMEs: a Survey of SMEs in Addis Ababa" is my original work. I have carried out it independently with the guidance and suggestions of the research advisor. It has not been presented at Addis Ababa University or any other University.

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Addis Ababa University

June 2024

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ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES

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## **Acknowledgements**

First, I thank Almighty God and St. Mary for sustaining me with inspiration and strength through all my exertions. Next, I express my sincere gratitude to my mentor, Dr. Temesgen Worku, for his indispensable advice and wholehearted support.

My gratitude is also extended to the SME operators who selflessly spent their precious time and gave sincerely honest answers to my questionnaires. Without their support the paper would not have been accomplished.

Lastly, my father, my wife and the whole family should be acknowledged for all the encouragement, appreciation, and heartfelt prayers that they never stopped providing me with. The undisputed backbone of my pursuit has been their continuous encouragement during the process. May God to bless them over and over.

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## ACRONYMS

SMEs-	Small and Medium-Sized Enterprises
GDP-	Gross Domestic Product
IFC-	The International Finance Corporation
MSMEs-	Micro, Small, and Medium Enterprises
SACCOs-	Saving and Credit Cooperatives
Ru/SACCOs -	Rural/Saving and Credit Cooperatives (RU/SACCOS)
VSLAs-	Village Saving and Lending Associations (VSLAS)
NBE-	National Bank of Ethiopia
MFI-	Microfinance Institution
EDI-	Entrepreneurship Development Institute

## **Abstract**

*Microfinance is a type of financing that can be used to finance small and medium enterprises (SMEs). The objective of this study is to examine the barriers to accessing microfinancing by SMEs from the demand side perspective. The study aims to assess the barriers that SMEs face in obtaining access to finance from selected SMEs. The study used closed-ended questionnaires and it was analyzed using SPSS. A non-probability convenience sampling was used to select the 150 SMEs based on their experience relevant to the study and their willingness to participate. Similarly, a descriptive study was used to analyze data collected from SMEs. The quantitative data was obtained through a survey of closed-end questionnaires from SMEs in the capital city of Addis Ababa. The majority of the sample SMEs surveyed (68.4%) indicated that their source of initial or startup finance was their savings followed by Friends and family indicating that informal financial institutions serve as the major source of finance for SMEs. The main reasons for loan rejection include the lack of feasible guarantees, strict MFI guidelines, and high interest rates as some of the major causes. The research findings highlight the complex character of the financial informational walls of the SMEs and highlight the importance of addressing these impediments and providing directed efforts to improve the economic development of Addis-Ababa. Through the implementation of focused programs aimed at building upon financial literacy, formalizing businesses, and improving interest rates and MFI loan procedures, key actors can assist in unleashing the growth potential of SMEs and thus move towards broader economic development objectives.*

*Keywords: Microfinance, SMEs, strict MFI guidelines, high-interest rates*

## CHAPTER ONE

### Introduction

#### 1.1 Background of the study

SMEs are crucial when it comes to the economy. They provide lots of jobs and help generate production. In many places, SMEs are even behind most of the freshly created jobs. That's why they are so essential. Mainly, they offer formal job opportunities, come up with new ideas, and bring about price competition. Plus, they are often better than bigger businesses because of lower costs and fewer staff. (The World Bank, 2021)

Small and medium-sized enterprises (SMEs) play a huge role in driving economic growth. The World Bank estimated in 2021 that SMEs make up around 90% of businesses worldwide, provide 50% of employment, and contribute up to 40% of a nation's GDP in emerging economies. On top of that, SMEs are responsible for most new job opportunities. Plus, they are often more likely to employ people from disadvantaged backgrounds, such as women and ethnic minorities, compared to larger firms.

SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises (The World Bank, 2021). The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of \$5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending (Bruhn et al., 2017). For example (Nega & Hussein, 2016) Studies have also shown that SMEs in Ethiopia have limited access to finance from financial institutions. A study directed by the World Bank (2015) on SME finance in Ethiopia showed that just 3% of small enterprises and 23% of medium enterprises have loan facilities.

SMEs in Ethiopia obtain financing from formal, semi-formal, and informal institutions. Banks, microfinance institutions, and capital goods finance/ lease companies are examples of formal financial institutions. Saving and credit cooperatives (SACCOs), rural/saving and credit cooperatives (Ru/SACCOs), and village saving and lending associations (VSLAs) are examples of semi-conventional institutions that are not controlled by the National Bank of Ethiopia (NBE) but have their own administrative office. Furthermore, informal funding sources include family members, friends, Idir, and Equb.

The beginning of modern banking in Ethiopia was celebrated in 1905 by Emperor Minilik II and Mr. Ma Gillivray, a delegate of the British-owned National Bank of Egypt. Following the agreement, the emperor established the first bank, known as the Bank of Abyssinia, on February 16, 1906. On the other hand, the government passed its first microfinance law in 1996 (proclamation 40/96), with the intention of providing microfinance services to the poor through deposit-taking. The primary goal of these organizations is to convey advances, tiny savings, and cash movement. As indicated by the (2021/22) National Bank of Ethiopia annual report the number of micro finances reached 43. Their entire capital and total assets climbed by 68.2 and 24.6 percent, respectively, to reach Birr 15.5 billion and Birr 58.9 billion. The conversion of Oromia Credit and Saving Institution, Amhara Credit and Saving Institution, and Somali Microfinance Institution S.C to banks, reduced the microfinance institutions' (MFIs') saving deposits, outstanding credit, capital, and total assets by about half.

Until 2004/2005, the national plan was executed only at the national level by the Federal SMEs Development Agency. As a result, it was extremely difficult to make the plan work, particularly in terms of providing business development services to SME operators. Thus, considering the sector's vital importance and the constraints experienced by SME operators since 2004/2005, the government of Ethiopia decided to establish an SME coordinating body at the regional level.

Despite efforts by the Ethiopian government to expand SMEs' access to finance through financial institutions, the financial sector in Ethiopia remained immature when compared to neighboring countries. As a result, SMEs have limited access to finance, limiting their capacity to contribute to the country's growth. Although the difficulties in getting micro-finance for SMEs might be from both the demand and supply side perspectives, the goal of the study is to examine the barriers to accessing micro-finance by SMEs from the demand side viewpoint.

**Table 1. Borrowing percentage from age 15+ population**

Country Name	Borrowing any money	Borrowing from Financial Institution	Borrowing from Saving Clubs	Borrowing from Family and Friends
Ethiopia	39%	5%	6%	30%
Kenya	76%	22%	19%	54%
Tanzania	47%	4%	9%	29%
Uganda	75%	19%	21%	57%
Sub-Saharan Africa (excluding high-income)	56%	10%	11%	41%

Source: World Bank Findex Database 2021

## 1.2 Statement of the Problem

SMEs play an important role in Ethiopia's continuing development by providing jobs, reducing poverty, and raising living conditions. On the other hand, they suffer several problems that block their growth and development. Access to financing is one of the most significant challenges. According to research on SMEs' access to finance in Ethiopia, (Nega & Hussein, 2016) banks, and microfinance institutions (MFIs)' involvement in funding SMEs is limited. According to the study, access to finance is highly impacted by criteria such as the age of the firm, the firm's previous engagement with banks, the experience of the manager, and whether firms are managed by the owner (owner-manager) or not.

On the supply side, banks and MFIs have cited weak SMEs' financial records, a lack of suitable collateral, inadequate risk management, and SMEs' informalities as important barriers to their participation with SMEs. In general, new enterprises with little management and operational expertise, as well as those with insufficient collateral, face severe credit constraints.

Reaching financing to SMEs is one of the ideas offered to assist the development and full potential of the Ethiopian economy. The demand for finance by SMEs grows and becomes more difficult as they expand and become more active. However, difficulties with microfinancing institutions, such as loan terms and conditions, remain unresolved. Furthermore, empirical research on how enhanced lending rules by financial institutions assist private enterprises in obtaining capital is lacking. There is a need to learn more about

Ethiopia's financial markets, particularly in terms of a quantitative examination of the barriers that SMEs experience in accessing finance.

Despite the area of barriers to accessing microfinance for SMEs has attracted hefty attention from scholars in the past literature, the existing findings are ambiguous as well outdated and hence require a contemporary view. Further, there is a lack of literature that focuses on investigating the effect of access to microfinance issues. More specifically, what is largely missing from the study is an empirical investigation of the difficulties that small businesses encounter in obtaining microfinance in Addis Ababa. This research will describe the challenge and seek to fill this gap by exploring the factors hindering access to microfinance for SMEs in Addis Ababa and how they can be managed as well. SMEs in Ethiopia do not have the option of selecting the best financing option for their needs. The primary formal source of finance available to them is debt financing from financial institutions, which frequently comes with a long list of restrictions that most SMEs find impossible to satisfy. The other form is capital goods/lease financing, which requires operators of SMEs to contribute at least 30% of the capital and the financing institution to provide the remaining for the purchase of the assets, in addition to a comprehensive list of conditions. Because they are all short-term in nature, this sort of financing does not allow for the expansion of the SME sector. Therefore, the researcher wants to observe the following main issues:

1. What are the challenges that SMEs are facing in accessing sufficient microfinance?
2. What government policies influence the operations of microfinance and other financial intermediaries?
3. What efforts is the government implementing to minimize these difficulties, and are these actions easing the problems?

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The overall objective of this paper is to assess the barriers to accessing microfinance by SMEs from selected SMEs in Addis Ababa.

#### **1.3.2 Specific Objectives**

In pursuing the overall objective, the paper has three specific objectives:

1. To assess whether SMEs have challenges in accessing microfinance in Addis Ababa and what these challenges are.
2. To determine the extent to which these challenges have affected the operations of SMEs.
3. To identify the alternative sources of finance that SMEs are using and evaluate the viability of these sources.

#### **1.4 Significance of the Study**

Studying why SMEs in Addis Ababa have difficulty accessing finance from microfinance institutions from the perspective of the SMEs is critical because it would present the problem from the SMEs' perspective, making it a baseline study for policy interventions by government, development partners, and non-governmental organizations with missions to develop the SME sector. The significant expectation established for this research report is to provide insights into how SMEs are addressing access to financial obstacles, present thoughts and recommendations for future development actions, and offer information for those who want to carry out additional research into the issue under the subject matter.

#### **1.5 Scope of the Study**

The study focuses on SMEs in Addis Ababa and the challenges they experience in gaining access to microfinance. The research will look at the issues that hinder SMEs' access to finance from MFIs. Addis Ababa is the capital of Ethiopia and the political, economic, and cultural center of the country. Compared to other parts of the country, there is generally a wider range of economic activities, financial institutions, and businesses. Addis Ababa often offers good facilities such as infrastructure and potential research participants. This can improve the quality and depth of research. Addis Ababa also has a larger population than other regions or cities, potentially providing a more diverse and representative sample for research. Studies in Addis Ababa allow future comparisons with other locations. Establishing a baseline allows researchers to explore differences and similarities in other cities. Overall, focusing on Addis Ababa is strategic and realistic for this study because of its economic, resource, demographic, and institutional importance focus, and for the opportunity for future comparative research. The study gathered primary data from SMEs in Addis Ababa via surveys to understand their experiences and problems in obtaining finance.

## **1.6 Limitations of the Study**

Even though access to finance may be quantified on both the supply and demand sides, the focus of the research is confined to the demand side. The study was limited to SMEs operating in Addis Ababa and did not encompass SMEs in other regions of Ethiopia, potentially overlooking regional variations in microfinance access barriers. The findings were based on data collected during a specific period and did not account for changes in the business environment or financial sector that occurred after the data collection period. The sample size was small or not diverse enough, so the results may not be generalizable to all SMEs in Addis Ababa. The study may not have fully accounted for external factors such as economic conditions, political stability, and regulatory changes that can impact access to microfinance.

## **1.7 Organization of the Paper**

The first chapter introduces the topic and touches on some of the challenges regarding SMEs' access to finance. The second chapter focuses on a literature review and examines the various finances available to SMEs and the barriers they experience in acquiring finances from financial institutions. The third chapter covers the research methodology used to collect the data. The fourth chapter looks into the data analysis, presentation, and discussion of the findings on barriers to accessing microfinance by SMEs. Chapter five outlined a summary of findings, Conclusion, and recommendations explaining findings from the data.

## CHAPTER TWO

### Literature Review

#### 2.1 Introduction

Despite the fact that there is no universal consensus on what constitutes a small-scale firm, governments define them differently based on their country's economy, investment amount, number of employees, yearly sales turnover, and legislation. The working definition of MSEs is based on capital and labor force, according to Ethiopia's Small and Micro Enterprise Development Strategy (published in 2011). According to IFC (2012), Companies with less than 5 workers are classified as micro-enterprises, companies with 10 to 50 employees are classified as small enterprises, and organizations with 50 to 300 people are classified as medium enterprises. This chapter evaluates the theoretical and empirical literature by critically reviewing the numerous theories and prior studies done on the research subject, identifying strengths, and then determining what deficiencies of past studies may be filled.

#### 2.2 Theoretical Literature

Getting the cash together is the toughest part of launching a business as well as getting it off the ground. An entrepreneur may have a wonderful concept of how to make it a successful venture but if they can't get enough money, it's unlikely the business will take off. However, they should think about more than just where the funds are coming from, but also the financial controls of those funds and how they'll be paid back. In the Study by (Wajebo, 2022), 89.5% of financial institutions agree that the accessibility of guarantee and the reimbursement of past loans are the most important criteria for loan processing. While the remaining 10.5% of respondents indicated that the presence of security and prior credit history are important criteria.

The financing gap for SMEs in Ethiopia can be attributed to both the demand side and the supply side. The demand side must do more on the characteristics of enterprises that limit their ability to fulfill the criteria for bank loans leading to financial limitations. The supply side could be more related to the banking sector reform and the perceived risks by banks to finance SMEs (Nega & Hussein, 2016).

### **2.2.1 SME Owners/ Operators**

The person responsible for a small business is responsible for making plans, and decisions, and managing all aspects of the organization. They must regularly review and update business plans, assess budget information, track accounting and cash management methods, and ensure that the business is running as expected.

(Derreumaux, 2009) Small firms frequently struggle to get finance owing to a lack of equity, insufficient personnel, accounting, and administration, and a lack of a long-term plan. Most SMEs are founded by individuals without conducting extensive market or competitive research, which can lead to failure and inability to repay debts. Though they are theories from the standpoint of financial institutions, are they truly difficulties from the standpoint of businesses? After considering all the reasons why SMEs struggle to obtain financing, it is clear what the research should focus on.

### **2.2.2 Financial Institutions**

As indicated in MSSSEs' policy and strategy (MoUDH, 2016) Microfinance institutions are meant to provide credit services to small and medium-sized enterprises. However, if the SMEs grow in size and operation, MFIs may not have enough capital to keep up, making it hard for the businesses to get the support they need (Nega & Hussein, 2016).

In recent times, the significance of small and medium enterprises to the economy has been increasingly acknowledged, and financial institutions have started to become more proactive in giving financial aid to this area. Nevertheless, there are still some obstacles that must be dealt with to guarantee that SMEs have access to the capital they need to develop and thrive. According to a study, some of the major obstacles underlined by banks and MFIs to their engagement with SMEs include poor financial records of SMEs, lack of adequate collateral, SMEs poor management of risks, and informalities of SMEs (Nega & Hussein, 2016).

## **2.3 Contribution of SMEs to Economic Growth and Development**

SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies (The World Bank, 2021). SMEs have a significant effect on the countries' operations both from economic and socioeconomic

aspects. Economically, SMEs can enhance economic growth and accelerate socioeconomic progress by providing traders with the resources to exploit market opportunities and further accelerate the development of rural regions (Oshora et al., 2021).

## **2.4 Different Sources of Finance**

Small and medium-sized businesses can obtain funding from a variety of sources. These sources are basically classified as internal and external. Internal sources of financing originate from within the organization, and external sources come from outside the organization.

Smaller and medium-sized enterprises use many financial sources to carry out their operations and promote their growth. Internal sources of financing arise within the firm itself and sometimes refer to the use of profits, the owner's savings, or the sale of assets. Redistribution of profits in the company keeps control of the business while reducing borrowed money. In addition, drawing on private savings is one way of having other sources of financing that don't require interest payments or commitment to external lenders. In addition, selling assets often gives a quick capital boost, but it may at the same time decrease the business's long-term asset base and operational capabilities (Pradhan, 2022). In the second place, external sources of finance are types of financial resources that cover a variety of choices which consist of taking cash from entities outside the firm. They can be bank or microfinance loans, venture capital investments, angel investors, and government grants. Bank loans are one way of external funding through which business obtains money from various financial institutions based on previously agreed terms and interest rates. Alternatively, venture capital and angel investors involve an exchange of funding for ownership equity or convertible debt. Similarly, government grants can be accessible to companies for designated projects or initiatives, mostly to foster innovation, research, or economic growth within a particular sector of the economy.

Small and medium-sized enterprises can get the capital they need for their various goals such as expansion, research and development, inventory management, and everyday operations through the mixing of internal and external sources of finance. The sources of financing selected are determined by the business's financial health, growth prospects, risk tolerance, and long-term objectives. Through diversification of funding sources, businesses

minimize risks associated with over-reliance on one way of financing as well as enhance opportunities for engagement and conformance to market dynamics (Pradhan, 2022).

### **2.4.1 Internal Sources**

Personal savings, selling of assets, and retained profits are common examples of internal sources of finance for SMEs. When starting a firm, individuals frequently look to these sources first. They are typically simple to get and do not need any collateral (Borad, 2018).

#### **2.4.1.1 Personal Savings**

Loans and contributions from friends and family are typical sources of financing, especially for newly formed businesses, because financial institutions are hesitant to provide capital for start-up businesses due to the risk involved. The main sources of startup and expansion finance or funds for most MSEs in Ethiopia are personal savings followed by Equb/Idir, family, and friends/relatives (Berhanu, 2018).

#### **2.4.1.2 Retained Profits**

Retained profits (earnings) represent the portion of a business's profits that are not distributed as dividends to shareholders but instead are reserved for reinvestment back into the business. Retained profits (earnings) are an important source of finance for SMEs, allowing them to reinvest their profits back into the business to achieve growth and expansion. A study Chit & Rizov (2023) indicates that most SMEs specialize their sources of financing, exclusively in retained earnings for their investments, while, in general, financially constrained SMEs rely more on diversified financing sources to fund their investments.

### **2.4.2 External Sources**

Trade credit, Joint ventures, lease financing, and bank or microfinance loans, are all examples of external sources of finance for SMEs. These sources of finance may need collateral or credit checks, and their standards may be stricter than those of internal sources.

#### **2.4.2.1 Trade Credit**

Trade credit can be a great way to manage cash flow and help businesses grow in the short term. Basically, it allows the business to get the goods or services needed now and pay for them at a later date.

Suppliers are a lot more open to working with small businesses than banks; they usually just check the credit of the SME rather than making them provide financial statements and

cash flows. Suppliers usually love adding customers to their list, no matter the size of the firm, and that often means they are more willing to take on more risk.

Study results show that trade credit provides the most important alternative lending technology to bank loans for credit-constrained SMEs and that trade credit plays an especially vital role during a credit crisis (Carbó Valverde et al., 2016).

Even though trade credit isn't free, the costs aren't as obvious as, say, the interest on bank or microfinance loans. The supplier is basically paying the price for giving out credit and making up for it by adding that cost to the cost of the goods they're selling.

#### **2.4.2.2 Joint Ventures**

These days, businesses are forming all sorts of strategic alliances. One of the most important is a joint venture, which is when two or more companies' team up to create a new entity. The goal is to get an edge on the competition and make more money. When businesses join forces, they can provide services more efficiently, make products cheaper, and use their facilities or money in the best way. All this leads to bigger profits than if the companies stayed separate. Joint ventures also help smaller businesses with financing since they can depend on the large companies' better financial standing. Plus, the joint entity has a better chance of getting credit or raising more money because investors have more confidence in it. Also, creditors have more security since the asset base is larger.

Venture capital can financially support entrepreneurial activities for economic growth, govern and nurture the growth of SMEs, and can significantly improve SMEs' technology innovation, profitability, and growth ability (Du & Cai, 2020).

#### **2.4.2.3 Lease Financing**

Lease financing is a contractual agreement between the owner of an asset, who grants another party the right to use the asset in return for a periodic payment, and the other party who is the user of such assets. Lease financing is a popular medium and long-term financing option that allows companies to access assets without the hefty cost often associated with purchasing property, plant, and equipment.

Small and medium-sized businesses can lease financing, which does not require a lot of collateral and is processed quickly and easily. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of \$5.2 trillion every

year, which is equivalent to 1.4 times the current level of the global MSME lending (The World Bank, 2021). Lease financing was introduced to solve the acute shortage of finance for SMEs, and they were made to be the top priority for getting lease financing nevertheless, the focus of the lease financing organizations is still not on SMEs (Gebremichael et al., 2020).

#### **2.4.2.4 Bank or Microfinance Loan**

Businesses have two distinct options for accessing credit: bank loan financing and microfinance loan financing. Banks generally require collateral for loans, while microfinance institutions (MFIs) are designed to help those who have few assets. Through microfinance, individuals, or small businesses without access to traditional funding can receive assistance.

Microfinance has the potential to have a great effect on reducing poverty levels and promoting economic growth. Micro banking is a form of banking offered to people who may not otherwise have access to traditional banking services due to their low income. It provides them with access to credit and other financial services. Microfinance provides people with the opportunity to obtain manageable loans for starting small businesses while adhering to ethical lending standards. Although they exist all around the world, the majority of microfinancing operations occur in developing nations, such as Bangladesh, Cambodia, India, Afghanistan, the Democratic Republic of Congo, Indonesia, and Ecuador (Kagan, 2020).

Microfinance institutions (MFIs) are more inclined to provide loans to SMEs, yet they lack the necessary funds. The Bank of Abyssinia signed a loan agreement with four private commercial microfinance institutions (MFIs) Dynamic, Harbu, Metemamen, and Nisir that will create Moveable Loan Collateral opportunities, and unlock access to finance for micro, small, and medium enterprises (MSMEs) in Ethiopia (Mastercard Foundation, 2021).

### **2.5 Barriers to Access Finance**

Having access to finance is key for businesses of every size if they want to thrive. Unfortunately, many companies come up against it when it comes to obtaining the money they need. These can be financial, structural, or regulatory issues.

Small and medium-sized enterprises (SMEs) are the driving force of the international economy and make up most businesses and jobs. Even though this is the case, it's common

for SMEs to struggle to find finance, which can really hold them back from advancing. One of the main issues is not having enough collateral. Collateral is something a borrower can offer to a lender if they fail to pay back their loan - this way, the lender can still recover what they lost. Generally, SMEs don't have as much collateral as bigger businesses, so it's hard for them to get loans. The average value of collateral needed for loans in Ethiopia is also very high compared to other regions of the world as well as to other developed economies in Africa. On average, Ethiopian firms require 234 percent of the loan amount for collateral, compared to 134.3 percent in Eastern Europe and Central Asia (The World Bank, 2015).

Interest rates are one of the most typical barriers to finance. Interest rates are the cost of borrowing money and can vary depending on a variety of criteria such as the borrower's credit score, loan term, and loan type. Interest rates for SMEs can be especially expensive since they are generally seen as riskier borrowers than bigger corporations. This makes it difficult for SMEs to pay the cost of borrowing money and may prevent them from seeking funding at all. In Africa local interest rates from banks are often in the double digits, sometimes higher than 20–25 percent. Alternative finance providers, such as microfinance institutions or digital lenders can charge even higher rates, as much as 40–50 percent (Daniel et al., 2021).

There are several reasons why SMEs' interest rates might be so expensive. One reason for this is because SMEs may have less collateral to offer lenders than bigger corporations. Another reason for high lending rates for SMEs is that they are typically regarded as more volatile than bigger firms. This implies that their financial performance might change more quickly, making lenders wary of handing them money. As a result, SMEs may be required to pay higher interest rates to get finance. SMEs may also suffer from high-interest rates as they begin to use and implement new technologies since they lack collateral and have a perceived higher risk as a business (Daniel et al., 2021).

The loan procedure in Ethiopia can also be a challenge to SMEs' access to financing. The procedure can be complicated and time-consuming, deterring SMEs from seeking financing. Furthermore, the paperwork requirements for loans can be complicated, making it difficult for SMEs to complete the application procedure. Access to financial constraints for SMEs in Ethiopia can substantially influence their capacity to develop and flourish.

These barriers can impede SMEs from investing in new equipment, recruiting new personnel, or entering new markets.

## **2.6 Microfinance Role in SMEs Finance**

MFIs play an essential role in small-business lending and economic growth. They give much-needed money to enterprises that could not obtain it otherwise. This money can be used to establish or develop a firm, buy equipment, or cover running costs. MFIs can also assist small firms in developing financial management skills and gaining access to other business development services. Microfinance involves making a wide range of financial services available, like deposits, loans, transfers, and insurance services to small businesses. It also involves making available financial services to small businesses that are usually not catered for by the commercial banks (Edwin et al., 2016).

MFIs can be helpful in encouraging economic growth, according to (Sultan & Masih, 2016) study finding there is significant impact of microfinance on the domestic growth (GDP) during the period 1983-2013. Even in the long run, after 1-year horizon, microfinance holds the position of first leading variable to create significant impact on growth (GDP) and the depth of the financial system shapes the structure of the economy in indirect ways and leads to sustainable economic growth and reduce income inequality.

MFIs, however, are not without difficulties. One of the most difficult issues is that they frequently operate on a small scale with minimal resources. This can make reaching a big number of borrowers challenging.

Another issue is that MFIs may be prone to fraud and corruption. Corruption and fraud in the MFIs industry subsector have included a range of unlawful and unethical practices. These include granting of unauthorized loans, the posting of fictitious credits, fraudulent transfers or withdrawals and unashamed financial theft (Boateng et al., 2014). In September 2010, the National Bank of Ethiopia, the ruling body for banking and microfinance in Ethiopia, put out some risk management guidelines for microfinance institutions through its Microfinance Institutions Supervision Directorate.

## **2.7 Government Regulation and Development of Access to Finance**

Government regulation plays a crucial role in the growth of access to finance. Having access to affordable financial products and services can be a game changer in helping reduce poverty and increase wealth. Everyone needs access to banking services, such as

being able to make payments, save money and get credit. This way, people from all walks of life can benefit from responsible and sustainable financial services.

Government regulation can help to address these concerns by promoting financial inclusion. In recent years, government policy has emphasized the growth potential of MSME (micro- small and medium-sized) sector, with an impressive program of support through the provision of land, premises, and equipment for potential growth sectors of the economy. The policy has included strong promotion of financial inclusion for participants, with access to microfinance services integral to this program (Mackie et al., 2015). For example, regulations can be put in place to ensure that financial institutions provide services to underserved populations. This can help to reduce barriers to accessing finance and promote economic growth. In addition, government regulation can help to promote competition in the financial sector. This can help to drive down the cost of financial services, making them more affordable for individuals and businesses. MFIs will naturally enter new market segments, where they often experience tougher competition that will push them to reduce prices (D’Espallier et al., 2017). Regulations can also be put in place to ensure that financial institutions are transparent about their fees and charges.

## **2.8 Empirical Studies Related with SMEs Accesses to Finance**

Various studies have been conducted by researchers in multiple countries on related topics. This study specifically focuses on analyzing the barriers that small and medium enterprises (SMEs) in Addis Ababa face in accessing microfinance. A recent World Bank study on SMEs, which estimated that there were around 800,000 SMEs in Ethiopia by 2016, identified financing as a significant constraint to job creation and growth.

According to Wanjohi and Mugure (2008), the lack of access to credit facilities is widely recognized as a major issue for small and micro enterprises. Even when credit is available, usually through banks, entrepreneurs often face restrictive lending conditions that limit their choices, such as being required to purchase heavy, immovable equipment to use as collateral. In Kenya, credit constraints manifest in several ways, with an underdeveloped capital market compelling entrepreneurs to rely on self-financing or borrowing from friends and relatives. Additionally, the lack of access to long-term credit forces micro, small, and medium enterprises to depend on expensive short-term financing.

According to Fetene (2010), Ethiopian small businesses are trailing behind other sectors, exhibiting sluggish growth. The marketability of their products is limited due to quality issues, competition, and lack of market access. Additionally, these businesses face high costs for inputs and have extremely limited access to finance. Fetene also noted that only a small number of small businesses had experience accessing external loans. Over the past twelve months, only 41% of the small businesses surveyed had accessed credit, and of those, 48% reported an increase in credit, while 37% mentioned a decrease in the debt-to-asset ratio.

According to a study by Brehanu and Mesfin (2015), micro and small enterprises (MSEs) in Dilla Town face significant financial inadequacies when starting and operating their projects. Formal financial institutions have not been able to meet the credit needs of these MSEs because they struggle to fulfill requirements such as business plans, governance systems, collateral, and other accountability issues related to business risk management.

Hagos et al. (2012) also highlight that the problem of debt financing for SMEs is not unique to Ethiopia but is a common issue in many developing countries. Most debt financing to SMEs by banking institutions tends to go to OECD countries. This is further supported by a recent IFC report which states that only a meager 20 percent of SMEs in non-OECD member countries receive services from the top five leading investment banks. Within this figure, Africa's share stands at almost 5%, indicating a significant challenge that cannot be overlooked.

## CHAPTER THREE

### **Methodology**

#### **3.1 Research Design**

This study adopted a descriptive survey research design and assessed the barriers to accessing microfinance by small business enterprises in Addis Ababa city. The research used a quantitative research approach. The quantitative method is an inquiry into a problem that can be measured with numbers and analyzed using statistical techniques. The quantitative data was obtained through a survey of closed-end questionnaires from SMEs in Addis Ababa.

#### **3.2 Area of the Study**

SMEs are located all over the nation, with the majority of them concentrated in Addis Ababa, the country's capital. This area was found to have a significant number of SMEs. The research was conducted in Addis Ababa, which is composed of eleven sub-cities. The decision to carry out the study in Addis Ababa was based on the following factors: the presence of a wide range of small and medium enterprises and microfinance institutions, the convenience of the area for data collection, and the researcher's familiarity with the area.

#### **3.3 Data Collection Technique**

Primary data sources were used to collect data for this investigation. The major data source for this study was a questionnaire. The questionnaires were delivered to SME operators and/or owners to get firsthand information for use in answering the study questions. The primary data was crucial to this study since it allowed for the collection of pertinent replies firsthand.

#### **3.4 Sample Size and Sampling Techniques**

The researcher identified small and medium-sized enterprises (SMEs) in the capital city of Addis Ababa for the study. Convenience sampling was used to select the 150 SMEs based on their experience relevant to the study and their willingness to participate. This sampling technique was chosen to encourage participation, as respondents may have been reluctant to provide information due to concerns that it could be revealed to competitors or tax authorities. The quality of responses is believed to be high as participants take their time to answer the questionnaire.

### **3.5 Data Analysis**

Descriptive statistics was used as an analysis technique to determine the Barriers to accessing microfinance that small and medium-sized enterprises (SMEs) experienced when attempting to get microfinance loans. Data from a questionnaire and document analysis in a survey was tabulated and graphed to make it easier to understand the issues reported by the respondents using SPSS 25 for data processing software.

## CHAPTER FOUR

### **Research Results and Discussion**

In this chapter, we look at the results that followed from the study that sought to address the issues raised in the research questions.

#### **4.1 Results of the study**

The study aimed to assess the portable nature of microfinance and the problems faced by small and medium enterprises in funding their capital and operational requirements. The data were collected from structured questionnaires and document reviews to enable a full knowledge of the subject. Each dataset was systematically analyzed, presented, and interpreted according to the research questions to allow for useful results.

The questionnaires thus formed a reliable tool for determining how SMEs raise funds for their daily operations and gave birth to the complexities of their transaction processes. The questionnaires were used to identify indicators explaining the various mechanisms through which SMEs manage their financial affairs. Besides, the nature of these financial dealings was also thoroughly scrutinized, greatly contributing to the operational understanding and the financial strategies of the surveyed companies.

More so, combining the findings of the questionnaires and document analysis provided a complex picture of the financial challenges the SMEs face in accessing the required financial resources. This analysis defines the different stumbling blocks that affect the financing process thereby highlighting the most common problems. These findings, thus synthesized, promote a general viewpoint on the situation as far as microfinance accessibility goes; moreover, they stress the importance of the provision of targeted solutions for the identified problems.

##### **4.1.1 Respondents' Personal Information**

From the targeted 150 owners/operators in this study, a notable 92.66% (139) returned completed questionnaires. However, upon closer inspection and error detection, 90.67% (136) were deemed usable for further analysis. This means that while the initial response rate was high, a small portion of responses were ultimately excluded due to errors or incompleteness. Nevertheless, the remaining 136 questionnaires still represent a strong foundation for insightful analysis.

According to Table 3, among the respondents, 78 owned entities represented approximately 57.4% of the population, whereas 58 owner representatives accounted for roughly 42.6%, indicating a balanced distribution of ownership between males and females. Consequently, the research incorporates perspectives from both male and female stakeholders, contributing to a comprehensive understanding of the studied phenomenon.

**Table 2. Gender of the Respondents**

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Male	78	57.4	57.4	57.4
Female	58	42.6	42.6	100.0
<b>Total</b>	<b>136</b>	<b>100.0</b>	<b>100.0</b>	

**Source:** Study findings (2024)

The age range of the responders is displayed in Table 3 below. 3.7 percent of the respondents, or 5 owners, were younger than 25. Of the responders, 47 owners, or 34.68%, were between the ages of 26 and 35. Of the responders, 61 owners, or 44.9%, were between the ages of 36 and 45. Twenty-three owners, or 16.9% of the total, were in the 46–60 age range.

**Table 3. Age Category of the Respondents**

Age	Frequency	Percent	Valid Percent	Cumulative Percent
Below 25 years	5	3.7	3.7	3.7
26-35 years	47	34.6	34.6	38.2
36-45 years	61	44.9	44.9	83.1
46-60 years	23	16.9	16.9	100.0
<b>Total</b>	<b>136</b>	<b>100.0</b>	<b>100.0</b>	

**Source:** Study findings (2024)

Table 5 presents 46 or 33.8% of SME operators had a secondary school level of education while 50 operators (36.8%) had TVET/diploma education. 34 SME operators had completed undergraduate studies and only 6 of the total Operators had a postgraduate degree. The percentages show the proportion of respondents up to each educational level. For instance, 33.8% of respondents had a secondary school education or below, while 36.8% had at least a TVET/diploma level education.

The table also indicates the number of respondents who had access to loans within each educational category among those with a secondary school education, 11 out of 46

respondents (23.9%) had access to loans. For TVET/Diploma holders, 14 out of 50 respondents (28.0%) had access to loans. Among undergraduate degree holders, 14 out of 34 respondents (41.2%) had access to loans, and from postgraduate degree holders, 2 out of 6 respondents (33.3%) had loan access.

**Table 4. Respondent's education level**

Education level	N	Percent	Cumulative Percent	Access to Loan (N)	Percentage within a level of education
Secondary School	46	33.8	33.8	11	23.9
TVET/Diploma	50	36.8	70.6	14	28.0
Undergraduate	34	25.0	95.6	14	41.2
Postgraduate	6	4.4	100.0	2	33.3
<b>Total</b>	<b>136</b>	<b>100.0</b>			

Source: Study findings (2024)

An important thing to notice is that a great part, around 57.4% of the company belongs to the "0 to 5 years" 'group', which is an expression of the fact that SME market is dynamic and young businesses are prevalent here. "More than five year" and "more than 10 years" groups likely have a relatively small proportion and may compose around 42.7% of the whole. This fact demonstrates that it is hard to start and maintain even a small business in the first times and the deficit in the mature SMEs while many SMEs are in the growth stage. Results in table 6 show that 30 owners, corresponding to 22.1% of the respondents have less than one year's experience in the business. 48 operators, equivalent to 35.3% of the respondents have 1 to 5 years of experience. 30 respondents, equivalent to 22.1%, countered that they have been in the business between 5 and 10 years and the final group of owners 28, corresponding to 20.6%, have been in the business more than 10 years.

**Table 5. Respondents' Experience level in the business**

	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 1 year	30	22.1	22.1	22.1
1 to 5 years	48	35.3	35.3	57.4
5 to 10 years	30	22.1	22.1	79.4
More than 10 years	28	20.6	20.6	100.0
<b>Total</b>	<b>136</b>	<b>100.0</b>	<b>100.0</b>	

Source: Study findings (2024)

#### 4.1.2 Characteristics and Distribution of SMEs

Among participating SMEs in Addis Ababa, it can also be noted that out of the 136 people who responded, 67.6% started their businesses as a sole proprietorship. Table 6 shows that there were more sole proprietorship Companies than the other options in the registration types of SMEs according to the survey conducted. The partnership business type had the second most common structure, with 23 responses (16.9%). The rest, which is 15.4%, is private limited company businesses operated by 21 businesses.

**Table 6. Frequency distribution of SME characteristics**

	N	Percent	Cumulative Percent	Access to Loan (N)	Percentage within a level of SME characteristics
Sole Proprietorship	92	67.6	67.6	16	17.4
Partnership	23	16.9	84.6	17	73.9
Private Limited Company	21	15.4	100.0	8	38.1
<b>Total</b>	<b>136</b>	<b>100.0</b>			

**Source:** Study findings (2024)

Since SMEs are known to operate in all areas of an economy, the replies obtained were fairly distributed throughout the economy, with the service sector having the highest concentration. As Table 7 shows, this sector alone accounted for 31.6% of all replies. For access to microfinance, the manufacturing sector accounted for 36.6% followed by the construction sector at 34.1%, the service sector at 22%, merchandise (retail business) at 4.9%, the other business sectors accounted for 2.4% of access to microfinance in comparison, the farming sector accounted 0%.

**Table 7. Frequency distribution of SME type of business and access to loan**

SME Business Sectors	Loan Access					
	Yes	Percent	No	Percent	Total	Percent
Service	9	22.0%	34	35.8%	43	31.6%
Manufacturing	15	36.6%	27	28.4%	42	30.9%
Farming	0	0.0%	15	15.8%	15	11.0%
Merchandise (Retail business)	2	4.9%	14	14.7%	16	11.8%
Construction	14	34.1%	5	5.3%	19	14.0%
Others	1	2.4%	0	0.0%	1	0.7%
<b>Total</b>	<b>41</b>	<b>100.0%</b>	<b>95</b>	<b>100.0%</b>	<b>136</b>	<b>100.0%</b>

**Source:** Study findings (2024)

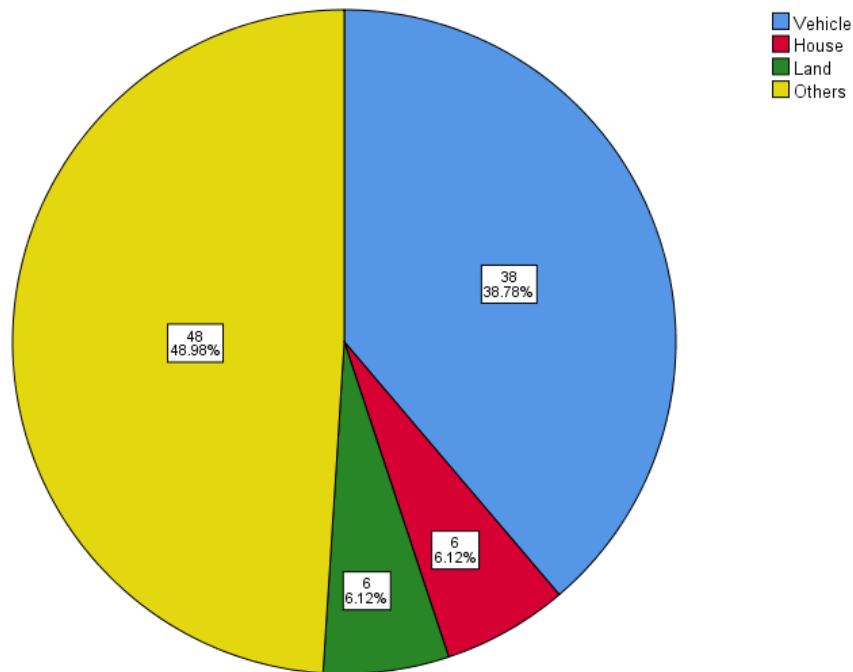
Table 8 and Fig 1 show that just 71 (52.2%) of the sample SMEs polled had a fixed asset in their ownership. 65 other SMEs, or 47.8%, lacked any fixed assets. Of the respondents who have fixed assets in their disposal 38 (38.78%) possess vehicle, 9 (6.12%) acquired house and land and the rest 48 (48.98%) have other kinds of machinery or equipment. Table 9 shows SMEs with fixed assets, 32 (45.1.1%) were able to obtain loans from microfinance institutions, whereas 39 (54.9%) were unable to do so. However, of the SMEs without fixed assets, 9 (or 13.8%) were able to obtain financing, while the remaining 56 (or 86.2%) were unable to do so.

**Table 8. Plant Property and Equipment acquired**

	Yes		NO		Total	
	N	Percent	N	Percent	N	Percent
Businesses that hold PPE	71	52.2%	65	47.8%	136	100.0%

Source: Study findings (2024)

**Figure 1. Plant Property and Equipment distribution**



Source: Study findings (2024)

**Table 9. Access to microfinance and the types of holding of PPE**

Access to Microfinance Loan							
Plant Property and Equipment acquired	Yes		No		Total	Percent	
	Yes	Percent	No	Percent			
	Yes	32	45.1%	39	54.9%	71	100.0%
	No	9	13.8%	56	86.2%	65	100.0%
<b>Total</b>		<b>41</b>	<b>30.1%</b>	<b>95</b>	<b>69.9%</b>	<b>136</b>	<b>100.0%</b>

**Source:** Study findings (2024)

Table 10 summarizes the average monthly sale for the 136 respondents that 32 of them reported having more than 200,000 Birr sales every month. This makes SMEs purely service and manufacturing industries of economy to comprise about 23.5% of total replies. 10.3% of business owners with ETB 100,000.00 to ETB 200,000.00, while 32% of business owners operating with ETB 50,000.00 to ETB 100,000.00. The sample of enterprises included 47 small businesses, or 34.6%, that earned between 10000 and 50000 Birr monthly, and only 11 business, or 8.1%, reported a monthly turnover of less than 10000 Birr. If the above data is the reference, then there is no other choice but to assume that the respondents were SMEs, as defined in the regulation number 373/2016. SME, according to the government of Ethiopia, is a company who do not employ more than 100 persons and whose total capital base is not more than Birr Twenty Million.

**Table 10. Average monthly revenue of SMEs**

Amount in ETB	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 10,000 ETB	11	8.1	8.1	8.1
10,001 to 50,000 ETB	47	34.6	34.6	42.6
50,001 to 100,000 ETB	32	23.5	23.5	66.2
100,001 to 200,000 ETB	14	10.3	10.3	76.5
Greater than 200,000 ETB	32	23.5	23.5	100.0
<b>Total</b>	<b>136</b>	<b>100.0</b>	<b>100.0</b>	

**Source:** Study findings (2024)

#### 4.1.3 Analysis of Capital Mixtures

Table 11 brings to light how early-stage financing is raised among 136 surveyed respondents who employ a variety of sources. Personal savings is the primary source of startup capital for 101 respondents reporting (42.4%). This means that SMEs in the majority manage to derive the capital required for startup from their finances. Family and

friends, overwhelmingly with 93 participants (39.1%), constitute the most important source of startup funding as they are a primary source of start-up capital. This shows wherein the social networks and the appropriation of family help form the base for the promotion of SMEs. On the other hand, having gained 44 respondents (18.5%), Equb became an important source of funds for start-ups in the community, but it should also be added with the fact that these assessments referred to the minority of the entrepreneurs that put their bet on traditional community savings schemes.

Going into the ratios of financing reveals the sheer scale of acquired inputs used to start a business. Personal savings accumulate 74.3% in the study, this reveals its significance to an individual who wants to start a business and proves the contribution of personal cash investments to business. The family and friends' group are composed of 68.4% of total cases and this emphasizes the important part they play so these SMEs adventurers can succeed every time. Equb, which isn't widely used, but still has 32.4% of the cases amongst others, shows to what extent it influences some groups or situational context. In summary, the table illustrates the multiplicity of funding through which SMEs attract start-up capital; personal savings and family and friends register as the top sources, whereas traditional community-based tools like Equb (though with a small role) also contribute to bringing up SME projects.

Counting 136 respondents, this represents the total number of individuals who reported utilizing at least one of the options for their startup capital. The column percentage is calculated based on this figure, resulting in a total of 100%. Consequently, these totals do not align with the sum of values in the percent of cases columns. On average, each respondent exhibits approximately 1.75 combinations of startup capital choices.

**Table 11. Distribution Frequency of Primary Source of Start-up Capital**

<b>Response of 136 Respondents</b>			
<b>Primary Source of Start-Up Capital</b>	<b>N</b>	<b>Percent</b>	<b>Percent of Cases</b>
Personal saving	101	42.4%	74.3%
Family and friends	93	39.1%	68.4%
Equb	44	18.5%	32.4%
<b>Total</b>	<b>136</b>	<b>100.0%</b>	<b>100.0%</b>

**Source:** Study findings (2024)

The data contained in Table 12 below are revelatory about the answer to this question regarding the main source of 136 participants who used the mix of sources. Personal savings turn out to be one of the major mediums of finance, provided that 57 people (19.9%) reported that they borrow money from their savings. This demonstrates the requirement of using up one's private financial resources to continue carrying on the SME's activities. Further, Equb, an old and popular pattern of savings receives the largest response (27.5%) amongst all traditional community-based saving schemes. Equb's continuing to be wanted once again implies it still serves the function of giving credit in an area and their culture as well. Other sources of working capital and MFI loans accounted for 74 people (25.8%) and 48 people (16.7%) of the total respondents, respectively. Furthermore, the availability of bank loans, money lenders, and family and friends, while less common individually, demonstrates the wide financing landscape accessible to SMEs, allowing them to adjust their funding strategy to their requirements and circumstances.

Analyzing the ratios of those cases which are further interpreted as the mass distribution levels of working capital. Personal savings make up 41.9% of all the cases studied, thus having a specific attribute of high importance in funding the investments of individuals. Equb, while constituting 27.5% of the respondents, represents a substantial 58.1% of the cases, emphasizing its dominance and impact within the respondent pool. Microfinance loans accounted for 16.7% of the respondents and represented 35.3% of the cases total. Other sources, including bank loans, money lenders, family and friends, and other choices, account for 75.8% of the instances, indicating the wide range of financial instruments that businesses use to satisfy their working capital needs. Overall, the table demonstrates the diverse character of working capital acquisition among SMEs, with personal savings, and community-based programs such as Equb playing important roles alongside conventional financial institutions and alternative financial sources.

A total of 136 SMEs reported using at least one of the options for their working capital. The column percentages are derived from this count, totaling 100%. As a result, these totals do not match the sum of values in the percentage of cases columns. On average, each respondent demonstrates approximately 2.11 combinations of working capital choices for their day-to-day operations.

**Table 12. Distribution Frequency of Primary Source of Working Capital**

Primary Source of Working Capital	Response of 136 Respondents		
	N	Percent	Percent of Cases
Personal savings	57	19.9%	41.9%
Family and friends	6	2.1%	4.4%
Bank loans	10	3.5%	7.4%
MFI loans	48	16.7%	35.3%
Money lenders	13	4.5%	9.6%
Equb	79	27.5%	58.1%
Others	74	25.8%	54.4%
<b>Total</b>	<b>100</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Study findings (2024)

#### 4.1.4 Application and Microfinance Access

Table 13 which presents data regarding whether the organization has received a loan or not, based on responses from 136 participants. When answering the question, only 41 out of 136 respondents (30.1%) stated that their SME has taken a loan while 95 respondents (69.9%) reported that the SME has not taken any loan. These figures imply that a certain percentage of the questioned companies chose to overlook loans as a source of financial assistance.

**Table 13. Distribution Number of SMEs having access to Microfinance**

Gender	Has the organization taken a loan					
	Yes		No		Total	
	N	Percent	N	Percent	N	Percent
Male	22	53.7%	56	58.9%	78	57.4%
Female	19	46.3%	39	41.1%	58	42.6%
<b>Total</b>	<b>41</b>	<b>100.0%</b>	<b>95</b>	<b>100.0%</b>	<b>136</b>	<b>100.0%</b>

Source: Study findings (2024)

#### 4.1.5 Reason SMEs did not apply for loan from formal financial institutions

Table 14 reveals the reasons of 95 participants, the SME owners, who did not apply for loans at microfinance institutions. Ascending the list of the reasons most reported as the barrier, the absence of collateral appears, as it was selected by 88 considerers (34.9%). In essence, this shows that the financing of SMEs is a great task for formal institutions who normally ask for collateral as a way of securing the debts. Given that the principal cause of rejection is the absence of collateral, it can be presumed that a vast number of SMEs may

not be able to fulfill the criteria, which might eventually hinder their ability to access critical financial interventions for their continued development. Moreover, one of the reasons for not seeking loans from MFI is the conditions imposed by the institutions being counted 71 respondents (28.2%). This indicates that the terms and requirements set by financial institutions may not align with the needs or capabilities of SMEs, further hindering their ability to secure financing through formal financial institutions.

What should also be noted is that the table illustrates why SMEs are reluctant to take up loans from microfinance institutions for other reasons too. It is noteworthy that 67 respondents (26.6%) talked about high-interest rates as among the challenges they find in these loan schemes. Such indicates the lack of affordable and sustainable loan options available to them. The fact that 24 people (9.5 percent) view the amount of money given to small businesses as small may show that the existing loans do not fully take into consideration the financial needs of SMEs that operate in specified areas or with a unique business model. Finally, of several other participants, only one (0.4%) mentioned the issues of short repayment time and other conditions. Summing up, a summary of the reasons why this is a complicated financial arena for the SME business to access sufficient funds for expansion and development in connection with high interest rates, stricter loan conditions, and difficulty in acquiring collateral is provided below.

Actual data about the percentage of cases analysis show that the sum of the cases is greater than 100%, which implies that many respondents indicated more than one reason in response to their financing choices. The main reason for this is that they do not have any collateral - 92.6% accounts for the highest number of cases, implying that it is the major obstacle for most SMEs accessing microfinance loans. Likewise, limitations by financial institutions and high-interest rates mentioned in 74.7% and 70.5% of the cases mean that underlining the challenges SMEs face in meeting the requirements and managing the financial costs associated with loan acquisition. The amount of sum meant for SMEs is very small as it makes up 25.3% of the cases. This is still a great worry that a quarter of the respondents say that this inadequate sum cannot provide for the various loan needs of SMEs. This implies that no suitable loan services are being availed to SMEs. In conclusion, another feature is the limited focus on extremely little repayment time, it is only mentioned in 1.1% of cases, thus partly confirming the idea that even timing is a consideration, but,

not as critical as others. In the end, the study points to the fact that SMEs conduct business in an environment with multiple challenges in microfinance, consisting both of various requirements and terms of the loan, as well as in the affordability and appropriateness of the financing available.

Out of 95 SMEs surveyed, all cited at least one reason for not taking a loan. The percentages in the columns are based on this total, adding up to 100%. Consequently, the overall percentages may not correspond with the individual percentages in the columns. On average, each respondent listed approximately 2.65 combinations of reasons for not seeking loans from MFIs.

**Table 14. Distribution Frequency of SMEs who didn't take a loan**

<b>Response of 95 Respondents who do not take a loan</b>			
<b>Why the SME didn't take a loan</b>	<b>N</b>	<b>Percent</b>	<b>Percent of Cases</b>
High-interest rate	67	26.6%	70.5%
Lack of collateral	88	34.9%	92.6%
The sum allocated to small traders is minimal	24	9.5%	25.3%
Conditions imposed by Bank/MFIs	71	28.2%	74.7%
Repayment time is usually short	1	0.4%	1.1%
Others	1	0.4%	1.1%
<b>Total</b>	<b>95</b>	<b>100.0%</b>	<b>100.0%</b>

**Source:** Study findings (2024)

#### **4.1.6 Reasons for rejection of loan application by formal financial institutions**

Table 15 is detailed more with the most common primary reasons given by the 95 respondents who were not granted loans by MFIs. It is possible that the respondents who didn't have loans can give more reasons. The most predominant reason mentioned is the lack of collateral which was cited by 76 respondents (55.1%) showing that the role of collateral is invaluable during the loan approval process. The overwhelming majority of cases (80.0%) were attributed to the lack of collateral emphasizing the significance of this obstacle for SMEs' access to financing provided by microfinance services. Such a rate shows that a sizeable part of SMEs could encounter difficulties in meeting the collateral requirements imposed by MFIs, despite them owning some assets, as this leaves them with insufficient collateral to secure loans for the purposes they need.

18 respondents (13.0%) mentioned the riskiness of the business ventures for SMEs main reason for loan refusal by MFIs, thus this study suggests that lenders determine their loan decisions based on the perceived riskiness of the proposed commercial activities. The share of investment crisis where SMEs control 18.9% of the total suggests MFIs strive to verify the financial stability and feasibility of businesses before they give credit. Besides, insufficient document preservation and lack of experienced management are put forward by the rest of the SMEs, the proportion constitutes 9.4% of the overall cases. To a lesser extent, such other considerations are no less recognized as the basis for credit decision-making processes in MFI lending. In addition, identical proffered reasons by 10 respondents (7.2%) implicates multiple others which are likely to form part of the additional elements that influence MFI loan decisions. 8 SMEs (5.8%) from the majority of cases (8.4%) mentioned default on previous loans as a main reason for the refusal of credit by MFIs. The implication is the perception of diverse challenges faced by SMEs as well as the diversity of MFI lending practices.

In summary, the reasons behind MFI loan rejection include a wide range of issues SMEs experience when it comes to having their loan approved by such microfinancing institutions. Collateral, as one of the key issues that take the leading position, comes before those interrelated with risk perception of the business ventures are running, lack of experienced management, absence of proper records within the business, as well as previous debts default history. The existence of other motives additionally highlights a problem of MIF attractiveness assessments and multiple factors that affect loan-issuing decisions. In conclusion, the results demonstrate the significance of dealing with the barriers to reach a higher standard of service, inclusive of financial services that can foster and achieve inclusive economic development.

Out of 95 SMEs surveyed, all cited at least one primary reason for not granted loans by MFIs. The percentages in the columns are based on this total, adding up to 100%. Consequently, the overall percentages may not correspond with the individual percentages in the columns. On average, each respondent listed around 1.45 combinations of reasons for not being granted loans from MFIs.

**Table 15. Frequency of Primary reason for refusal to grant a loan by MFIs**

<b>Response of 95 Respondents who were not granted loans by MFIs</b>			
<b>Primary reason for refusal to grant a loan by MFIs</b>	<b>N</b>	<b>Percent</b>	<b>Percent of Cases</b>
Lack of collateral	76	55.1%	80.0%
Lack of experienced management	13	9.4%	13.7%
Risky business venture	18	13.0%	18.9%
Inadequate record keeping	13	9.4%	13.7%
Default on the previous loan	8	5.8%	8.4%
Other reasons	10	7.2%	10.5%
<b>Total</b>	<b>95</b>	<b>100.0%</b>	<b>100.0%</b>

**Source:** Study findings (2024)

#### **4.1.7 Interest rates and levels on loans**

The tabular representation below of my research highlights the interest rates charged on loans by MFIs to 41 respondents who accessed microfinance loans. The data tell that, overall, the loaning to 24 SMEs out of 41 were charged with an interest rate of 15% -20%. This proves that customers of MFIs in the investigation represent the highest part of the interest rates' interest group. The total percentage for this category was 58.6% showing that more than half of the SMEs who were lured through microfinance loans received interest rates of between 15% and 20% which was a prevalent interest rate to most borrowers in these loan types. In addition, 11 respondents (26.8%) being customers of MFIs got loans having interest rates equaling more than 20%, which expresses the presence of higher interest rate options provided to SMEs.

However, there were 6 SMEs (14.6%) who were given loans at an interest rate which was 10%-15%. Remarkably, this segment accounts for the lowest figure among all interest rates range. It can be seen then that some SMEs were able to secure such loans with low interest rates but the figure of cumulative 14.6% explains that the percentage of these types of attractive loans is relatively small within MFI lending operations. In sum, the research on the interest rate demonstrates the spectrum of the interest rate provided and the significance of the disclosure and affordability in microfinance credit practices to strengthen the financial inclusion and the power of the borrowers.

**Table 16. Frequency of interest rate on Loans**

<b>Interest rates</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
10 to 15 %	6	14.6	14.6
15 to 20 %	24	58.6	73.2
Greater than 20%	11	26.8	100.0
<b>Total</b>	<b>41</b>	<b>100.0</b>	

**Source:** Study findings (2024)

Table 17 provides observations into the perceptions of 136 SMEs regarding the level of interest rates, categorizing their views into three measures: Very High, High, and Moderate. Data shows that most of the respondents, numbering 80 people (58.8%), categorized the interest rates as Very High. This considerable proportion implies the generalized worry among SMEs about the level of interest rates in the financial ecosystem they belong to.

Additionally, among the total 49 responders (36.0%) responded to the condition as "High", suggesting that a considerable proportion of the sample group also considered interest rates elevated, although possibly not to "Very High" which is the extreme category. The accumulated figure reveals the fact that 94.9% of respondents who describe interest rates as very high or high suggest a high degree of correspondence between different categories of respondents who perceive interest rates as very high and those who approach them as high. Thus, the overwhelming concern over the interest rate level is taking the play. In addition, the figures of participants have shown a low proportion of answers, 7 individuals (5.1%), thought that the interest rates were Moderate, which indicates the minority opinion that interest rates are more acceptable or that they can be managed.

**Table 17. Frequency of Interest Rate Level on Loans**

<b>Measures</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Very High	80	58.8	58.8
High	49	36.0	94.9
Moderate	7	5.1	100.0
<b>Total</b>	<b>136</b>	<b>100.0</b>	

**Source:** Study findings (2024)

The table below represents the degree of barriers to microfinance accessibility that are faced by different 136 SMEs in a way to present their level of difficulties in gaining microfinance. The data shows that the challenges were on a wide variety of levels, from no

difficulties to severe difficulties. The most of responders, who were registered as 63 SMEs (46.3%), responded with major difficulty with microfinance access.

In addition to that, 50 (36.8%) of the SMEs considered that Obstacles represented moderate difficulty, which means that this struggle had shown barriers that were not that severe but still represented noticeable challenges.

A smaller share of SMEs reporting either minor problems or severe problems each stood for 5.9% of the respondents as well. Although these categories account for only a fraction of the total number of SMEs, they yet show the entire range of accessibility problems of microfinance institutes stretching from minor obstacles to severe barriers that might impact their business. Out of the surveyed SMEs, 7 organizations (5.1%) reported encountering no difficulties in accessing microfinance for their operations. Most of these SMEs obtained their financing from banks, indicating a relatively smooth process of securing funding without significant obstacles.

**Table 18. The degree of barriers to accessing microfinance impairs SME's operation**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
No Difficulty	7	5.1	5.1	5.1
Minor Difficulty	8	5.9	5.9	11.0
Moderate Difficulty	50	36.8	36.8	47.8
Major Difficulty	63	46.3	46.3	94.1
Severe Difficulty	8	5.9	5.9	100.0
<b>Total</b>	<b>136</b>	<b>100.0</b>	<b>100.0</b>	

**Source:** Study findings (2024)

Table 19 gives insights into the extent of SMEs that received loans from informal structures while categorizing the responses like "Yes" and "No". From the sample size of 136 SMEs, most firms which comprised 101 businesses (74.3%) were confirmed to have received loans from informal forms of structures. This is a cautionary rate. It says a widespread use of informal funding sources among SMEs. In addition, a considerable percentage of 74.3% of SMEs get their financing from the informal sector is hinted. This means that a significant number of the surveyed organizations have settled for financing through informal institutions possibly to the benefit of factors against formal institutions.

On the other hand, 35 SMEs (25.7%) out of the surveyed said that they did not get any loans from informal lenders. While this concerns a small proportion of the SMEs surveyed

in this case, it still echoes, however, the kind of heterogeneous financing approaches taken up by SMEs. Some organizations had picked to raise financing from formal organizations like a bank or a microfinance institution among other institutions. Alternatively, some organizations used alternative sources of funds such as personal savings or family and friends.

**Table 19. Loan Obtained from Informal Institutions**

	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
Yes	101	74.3	74.3	74.3
No	35	25.7	25.7	100.0
<b>Total</b>	<b>136</b>	<b>100.0</b>	<b>100.0</b>	

**Source:** Study findings (2024)

Table 20 provides an overview of the situation when 101 SMEs use informal financial institutions for loan purposes and allows for the possibility that one can say more than one reason for using this practice. Equb generates responses from a considerable number of them, being a traditional source among 57 respondents (37.7%) considering it as an available channel for obtaining loans. The aggregate of the incidence of the classes of Equb for this study population, accounting for 56.4%, shows how it implies its role in giving a high number of localized and affordable financial options to SMEs.

Consequently, the key people from family and friends for the informal loans are also identified, and 79 (52.3%) of the SMEs depend on them for funding. This confirms, moreover, how essential are social networks and family as a source of support for SMEs to expand their access to financing. An analysis of the cumulative percentage of times that are related to family and friends comes to 78.2%, proving the dominant position of these actors in the informal lending system. Moreover, the 15 (9.9%) SMEs who mentioned a combination of other informal sources for getting funds showed the multiple fund channels available during the event other than Equb and family or friend's networks.

**Table 20. Frequency distribution of obtained loans from Informal Institutions**

<b>Informal Loan Institutions</b>	<b>N</b>	<b>Percent</b>	<b>Percent of Cases</b>
Equb	57	37.7%	56.4%
Family and Friends	79	52.3%	78.2%
Others	15	9.9%	14.9%
<b>Total</b>	<b>101</b>	<b>100.0%</b>	<b>100.0%</b>

**Source:** Study findings (2024)

Respondent SMEs are all given a “Yes” or “No” choice for each specific feature they want MFIs to address to promote organizations to apply for a loan. Table 21 demonstrates the specific features that SMEs desire microfinance institutions (MFIs) to promote when considering taking out loans. The interest rate turned out to take the key position since 128 individuals (31.2%) gave a preference to it as the MFI focus issue. The respondents of the number of cases that are towards interest rates, constituting 94.1%, strongly tells us that the respondents majority prioritize having payable interest rates if they borrow loans from MFIs. This implies that SMEs are especially vulnerable to the cost of borrowing to the point that this aspect highlights the necessity for such companies to have access to cheap financing. Moreover, 129 respondents (31.5%) highlighted that another vital factor is collateral requirements which make loans affordable to those who do not have collateral as MFIs should promote lenient collateral requirements. The aggregated percentage of issues rated as collateral requirement, at 94.9%, gives us a general impression, that SMEs have a crippling problem with how to access required collateral indifference to their financial institutions' harsh requirements. Thus, many SMEs may face difficulties in meeting strict collateral conditions set by MFIs.

Also, loan processes are added as one of the crucial considerations with 70 respondents (17.1%) responding that MFIs should rationalize and simplify the loan procedures. The share of cases for loan procedures, i.e., 51.5% of all cases, implies that many SMEs seek simple and quick financing from MFIs. Similarly, the duration of loan repayment time is identified as a key feature, with 64 respondents (15.6%) underlining the importance of flexible repayment schedules. The cumulative percentage of cases for loan repayment time, at 47.1%, indicates that many SMEs value manageable repayment timelines that align with their cash flow and operational needs. Additionally, 19 respondents (4.6%) cited other kinds of features they want MFIs to promote, underscoring the diversity of preferences and needs among SMEs when considering loan options. On average, each SME prefers roughly 3.1 combinations of specific features they want MFIs to address to encourage organizations to apply for a loan.

**Table 21. Specific Features that SMEs want MFIs to promote**

<b>Specific Feature</b>	<b>N</b>	<b>Percent</b>	<b>Percent of Cases</b>
Interest Rate	128	31.2%	94.1%
Collateral Requirement	129	31.5%	94.9%
Loan Procedures	70	17.1%	51.5%
Duration of loan repayment time	64	15.6%	47.1%
Others	19	4.6%	14.0%
<b>Total</b>	<b>410</b>	<b>100.0%</b>	<b>301.5%</b>

**Source:** Study findings (2024)

## **4.2 Discussion**

The study sought to know the extent to which various barriers to access microfinance by SMEs in Addis Ababa. The extent to which the factors influenced access to finance and its availability was measured on closed-ended questionnaires.

Therefore, the descriptive results highlighted constraints in the area of access to finance and its availability. Based on the questions, this segment seeks to understand the Respondents' perceptions by evaluating their closed responses. Respondents were asked a question regarding the major challenge that their firm currently suffers from; many pointed out some factors. Some of the sites from SME owners included high interest rates, lack of collateral, and the strict conditions MFIs place on the borrowers. Moreover, the question provided in Appendix Section C Q5 enlists other ones being able to be grounds for a loan denial like no experienced management, speculation, and earlier loan defaults. The respondents were also given a set of questions on which of the features they would wish financial institutions to enhance to enable them to apply for a loan. Concisely 31.2% of them agreed on attractive interest rates, fewer collateral requirements (31.5%), better loan procedures (17.1%), and duration of loan repayment date (15.6%).

High interest is expensive for borrowing and equally numerous respondents complained of high interest rates as the main reason they missed their loan repayments and were unable to gain finance from loan facilities. This challenge shows the acute problem of SMEs' access to cheap sources of external financing because high interest rates negatively impact SMEs' ability to cope with debt and attract more funds.

Hence, if the SMEs get the assurance of low borrowing costs, especially in terms of the interest rate, then, they will be motivated to seek funding. Such an adjustment would also

minimize the rate of defaults and improve the perception that SMEs have regarding the oxygen that borrowing brings in. Thus, it would promote greater usage of the services, development, and stability of the relevant companies along the way. These results are consistent with those of research conducted by ( Mwangi and Bwisa, 2013, Berhanu, 2018; Nega & Hussein, 2016).

## CHAPTER FIVE

### Summary of findings, conclusion, and recommendations

#### 5.1 Summary of Findings

This study aimed to investigate barriers to accessing microfinance by SMEs from selected SMEs in Addis Ababa. Convenience sampling was used to select 150 sample SMEs. Primary data was then collected from SME operators by using a structured questionnaire. Descriptive statistics was then used to analyze the data study.

The study was focused on SME operators' characteristics (age, gender, and educational level), firm-level characteristics (age, size, sector, and possession of fixed asset), and institutional characteristics (interest rate, lending procedure, and loan repayment period) and their effect on access to finance from microfinance institutions.

Descriptive statistics result indicates that for the largest percentage of sample SMEs surveyed (68.4%), their source of initial or startup finance was their savings followed by Friends and family indicating that that informal financial institutions serve as the major source of finance for SMEs in Addis Ababa.

Although much of the sample MSE were males (57.4%) there was only a very small difference between male SME operators with access to credit 22 and female SME operators with access to credit 19. This implies that gender does not affect SMEs' access to credit from microfinance institutions.

SME owners with undergraduate and postgraduate degree holders' access to loans is higher as compared to those with secondary school or TVET/diploma certificate holders. For example, for those secondary school graduates, the percentage of loan access was 23.9%. This percentage jumped to 28.0% for TVET/diploma holders and 41.2% for undergraduates, but it got down to 33.3% for postgraduates. Individuals having high educational backgrounds possess better financial literacy which, in the long run, empowers them to negotiate all the loan formalities as well as meet the qualifying criteria of the loans being applied for.

According to the survey, SMEs with partnership or Private limited company set up had the highest percentages 73.9%, and 38.1% respectively among themselves to access credit from formal financial institutions. This is due to MFIs being more encouraged to give loans

to these setups of business because they come in a group of 2 or more rather than a single person in sole proprietorship business types.

The percentage distribution of SMEs with access to credit from MFIs is distributed across all sectors indicating that the sector in which SMEs are engaged does have a pronounced effect on their access to credit from MFIs. It implies that the SMEs in the manufacturing and construction sectors had a greater chance of being able to avail themselves of loan facilities than others. Microfinance is usually inaccessible to SMEs in the farming and other business sectors except for a few groups that get minimal or no chances. Possession of some kind of fixed asset also influences the probability of access to finance that a considerable portion of SMEs with fixed assets were able to obtain finance from microfinance institutions, this suggests that the presence of fixed assets will increase the likelihood of access to microfinance.

The barriers confronted by SMEs in sorting out the issue of financial accessibility, specifically the Microfinance Institutions (MFIs), are complex and desperately impactful. The results highlight the barriers that SMEs are facing in sourcing finance from MFIs; with a substantial number citing the lack of feasible guarantees, strict MFI guidelines, and high interest rates as some of the major causes. Furthermore, the relatively lowered loan amounts sanctioned to many small businesses make it hard for them to look for capital from MFIs.

Besides, the total percentage of 58.8% shows the opinion that the interest rates are extremely high for SMEs in the survey. This shows that most of the borrowers or potential borrowers in the microfinance sector share this opinion. Furthermore, this group represents only a portion of the proportion of SMEs who were surveyed, indicating that the general sentiment among reactors is believing that the current rate of interest is higher. Underlining criteria like interest rates are indisputably vital in SME financing, especially at microfinance levels where microfinance interest rates shape the cost of loans for borrowers. There are major barriers that hamper SME operations. The eyes on this number tell us that a noticeable number of SMEs find their major difficulty, which could mean that they may not enjoy doing business-related things such as investment, expansion, and working capital. From the result, more than one out of every three SMEs that experience moderate difficulty in operating their business might be those who are unable to access microfinance.

The fact that the SMEs that do not have access to financial institutions like informal sources of finance indicates the different tastes and conceptions of the enterprises when it comes to their deciding to access financial facilities, which reveals that though informal institutions play an important role not necessarily accepted or suitable for all SMEs. The analysis gives us a broad understanding that the informal environment is what most SMEs usually trace for loans and in essence, the SMEs have enough financial options to choose from, hence the need to deliver any form of financial aid in a more individualized approach.

Overall, the study showed the stage of informal financial channels as sources of finance by the SMEs who participated in the survey the two of them which are Equb and family/friend network as being the source of finance. This brings home the issues of community-based and personal networking among SMEs in getting finance mostly in the informal to formal institutions financial service could be nonexistent or inadequate. In addition, the presence of other semi-formal sources suggests the multitude and fluidity of informal credit practices, which reflect what different SMEs accessing credit tend to prefer and to what circumstances lead them.

The complex nature of the expectations of SMEs from MFIs not only highlights a need for targeted financing options but also identifies the need for solutions that consider the explicit requirements and constraints of SMEs. In the end, this study assesses the major features of SMEs that tend to guide them when seeking loans at microfinance institutions, and interest rates and collateral requirements stand out among them. Besides that, MFIs must identify the loan procedures and loan repayment time as critical areas that need to be addressed.

## **5.2 Conclusion**

The evidence presented demonstrates the complex character of the ground reality of microfinance institutes towards the Small and Medium Enterprises (SMEs) in Addis Ababa city. That could be done by looking into mentioning different operators' features, entity-specific attributes, and the dynamics of institutions to know what affects the SMEs' chance of gaining access to credit in a current environment. Informal financial institutions function as the key providers of initial or startup financing as they are accessed by a major segment of SMEs, which is evidence showing how SMEs support one another and depend on community networks for capital injection.

The analysis equally brings to the fore educational attainment and business structure as the primary reasons for the flow of credit to SMEs, most often individuals with higher education and those operating as partnership or private limited get the credit most of the time. Besides, the position the SMEs take within the economy's branch results very much in the facility of credit issuing, being manufacturing and construction sectors most accessible compared to the other ones. However, SMEs experience diverse types of obstacles, the obstacles relate to the processes of access to formal financial services and have real and far-reaching impacts. Problems of MFI adhering to stringent regulations, interest rates, and the absence of foreseeable guarantees present significant obstacles. The enterprises of SMEs might consequently lack sufficient capital for investment, expansion, and work capital.

The research results bring home the complex character of the financial informational walls of SMEs in Addis-Ababa. The role of tailored interventions cannot be ignored in the process of bridging these impediments. The policymakers and financial institutions should in a joint effort develop specific financing solutions that not only attend to the diverse SME needs and constraints but also do motivate such SMEs. Concentrate on driving financial literacy campaigns, conducting an enabling environment for formal financial institutions offering flexible types of loan products, and consequently the creation of robust regulatory frameworks that foster SME lending. Through addressing these impediments and providing directed efforts, stakeholders can attend to facilitating the growth and solidity of SMEs, hence, improving the economic development of Addis Ababa as a result.

### **5.3 Recommendations**

Consequently, the study report contains several proposals on how to overcome the obstacles to getting microfinance SMEs in Addis Ababa. Firstly, programs of financial literacy are required to be focused on small and medium-sized enterprises. These programs should also consider those business operators who have low educational attainment. Such programs ought to build upon the financial literacy of SMEs by providing them with education on loan formalities and the conditions for qualifying to access microfinance and in turn owning these firms' decision-making. Financial literacy can achieve success among SME operators by making them able to negotiate loan terms and giving them higher chances of accessing microfinance.

For a second, the attempts of enhancement of the SMEs existing in the informal sector should be developed through joint ventures or private limited partnerships. SME formalization may carry with it an increased chance of accessing credit. This means that soliciting SMEs to set up their formal structures will make them more eligible for microfinance loans. Such assistance can consist of drawing up platforms for encouraging or facilitating small and medium businesses to undergo a change from sole proprietorships to a more formal structure. In such a manner, such firms receive privileged treatment from formal financial institutions, and they do not need to depend on informal methods of financing.

Besides, MFIs should revisit their lending protocols to effectively serve the different requirements of SMEs. One of the ways of doing this is to look again at the interest rates, loan procedures, and terms of repaying the loans to make them more friendly to Small and Medium Enterprises and their sustainability. A discount of interest rates, better loan repayment terms, and simplification of the lending process can guarantee the existing microfinance players in this ecosystem play a huge role in SME access to credit, thereby at least tackling three main impediments identified during the research.

However, overcoming the obstacles that SMEs face involves an integrated approach that includes all the stakeholders, including the government, financial institutions, and SME operators. Through the implementation of focused programs aimed at building upon financial literacy, formalization of businesses, and improving interest rates and loan procedures, key actors can assist in unleashing the growth potential of SMEs in Addis Ababa and thus move towards broader economic development objectives.

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**APPENDICES**

**Addis Ababa University  
College of Business and Economics  
Department of Accounting and Finance  
Graduate studies**

Dear respondent,

This is an academic survey questionnaire intended to investigate barriers to SMEs accessing finance from microfinance institutions. The researcher believes that the research findings will contribute to providing answers to the issues that these small and medium-sized businesses face. Your impartial responses will shed light on these obstacles from your viewpoint, aiding in the formulation of practical solutions. Rest assured, this research is strictly academic and will be used solely for its intended purpose. Any information shared will remain confidential.

**PART I**

**SECTION A**

**Personal information**

1. Sex:

- a) Male
- b) Female

2. Age:

- a) Below 25
- b) 26-35
- c) 36-45
- d) 46-60
- e) Above 60

3. Level of Education:

- a) Primary School
- b) Secondary School
- c) TVET/Diploma
- d) Undergraduate
- e) Postgraduate
- f) PhD

4. Experience in the business:

- a) Less than 1 year
- b) 1-5 years
- c) 5-10 years
- d) more than 10 years

5. Location of your business: .....Sub City

**SECTION B**

**General information about the organization**

1. Nature of Organization

- a) Sole proprietorship
- b) Partnership
- c) Private Limited Company
- d) Other.....

2. Type of Organization

- a) Service
- b) Manufacturing
- c) Farming
- d) Merchandise (Retail business)
- e) Construction
- f) Other.....

3. How many people are employed by your organization?.....

4. Does your organization hold property, plant, and equipment (PPE)?

- a) Yes
- b) No

5. If Yes What type of property, plant, and equipment (PPE) does your organization hold?

- a) Vehicle
- b) House
- c) Land
- d) Other.....

6. What is your organization's average monthly revenue?

- a) Less than ETB 10,000.00
- b) ETB 10,001.00 to ETB 50,000.00
- c) ETB 50,001.00 to ETB 100,000.00
- d) ETB 100,001.00 to ETB 200,000.00
- e) Greater than ETB 200,000.00

7. The premises where your organization is currently operating?

- a) Rented
- b) Owned
- c) Family
- d) Shed (from government)
- e) Others.....

**SECTION C**

**The following inquiries relate to your organization's financial matters: barriers encountered in accessing finance**

1. What served as your primary source of start-up Capital? (Multiple responses are acceptable)
  - a) Personal Savings
  - b) Family and Friends
  - c) Bank Loans
  - d) Microfinance Loans
  - e) Money Lenders
  - f) Equb
  - g) Other Sources
  
2. What serves as the primary source of your working capital?
  - a) Personal Savings
  - b) Family and Friends
  - c) Bank Loans
  - d) Microfinance Loans
  - e) Money Lenders
  - f) Equb
  - g) Other Sources
  
3. Has your organization taken a loan?
  - a) Yes
  - b) No
  
4. If the answer above is NO, why?
  - a) High-Interest rates
  - b) Lack of collateral
  - c) The sum allocated to small traders is minimal
  - d) Conditions imposed by Bank/MFIs
  - e) Repayment time is usually short
  - f) Others.....
  
5. What was the primary reason for your bank's refusal to grant you a loan?
  - a) Lack of collateral
  - b) Lack of experienced management
  - c) Risky business venture
  - d) Inadequate record keeping
  - e) Default on previous loan
  - f) Others.....
  
6. What was the maximum amount your organization has borrowed from a bank/MFI?
  - a) Less than ETB 100,000.00
  - b) ETB 100,001.00 to ETB 300,000.00
  - c) ETB 300,001.00 to ETB 500,000.00
  - d) Greater than ETB 500,000.00

7. What information did your bank request? (Multiple responses are acceptable)
- a) Business plan  d) Collateral
- b) Audited financial statements  e) Bank Statements
- c) Sales Performance  f) Others.....

8. What was the duration of the loan's maturity you obtained?
- a) Within 1 year  c) Within 3 years
- b) Within 2 years  d) More than 3 Years

9. What is the interest rate percentage on the loan?
- a) Less than 10%  c) 15% to 20%
- b) 10-15%  d) Greater than 20%

10. How did you find the borrowing rates?
- a) Very High  c) Moderate
- b) High  d) Low

11. To what degree do the barriers to accessing microfinance impair your organization's operations? (Thick the appropriate box)

Microfinance Access	No Difficulty	Minor Difficulty	Moderate Difficulty	Major Difficulty	Severe Difficulty

12. Have you taken a loan from an informal financial institution?

- a) Yes
- b) No

13. If the answer above is YES, from which informal financial institutions did you take the loan? (Multiple responses are acceptable)

- a) Equb  c) Family/Friends
- b) Edir  d) Others.....

14. What specific features would you prefer financial institutions to enhance, prompting the organization to apply for a loan?

	Yes	No
a) Interest rate		
b) Collateral requirements		
c) Loan Procedures		
d) Duration of loan repayment period		
e) Others.....		

**Addis Ababa University**  
**College of Business and Economics**  
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**Graduate studies**

**ውድ የጥናቱ ተሳታፊዎች፤**

ይህ የጥናት ዳሰሳ መጠይቅ አነስተኛ እና መካከለኛ ተቋማት የፋይናንስ አቅርቦት እንዲያገኙ ሊያደርጉ የሚችሉ እንቅፋቶችን ለመመርመር የታሰበ ነው። ተመራማሪው የጥናት ግኝቶቹ የንግድ ተቋማቱ የሚያጋጥሟቸውን ተግዳሮቶች ምላሽ ለመስጠት አስተዋፅዖ እንደሚያበረክቱ ያምናል። ውድ የጥናቱ ተሳታፊ ምላሽዎት በእርስዎ በጎ ፈቃደኝነት ላይ የተመሰረተ ሲሆን ለመጠይቆቹ ከእርስዎን እይታ አንጻር ምላሽ ይስጡ ። እነዚህ መልሶች ለተግዳሮቶቹ ተግባራዊ መፍትሄዎችን ለማዘጋጀት ይረዳሉ። ይህ ጥናት ለትምህርታዊ እና ለታለመለት አላማ ብቻ የሚውል ሲሆን ማንኛውም መረጃ ሚስጥራዊ ሆኖ ይቆያል።

**ክፍል I**

**ክፍል ሀ**

**የግል መረጃ**

1. ፡ ያታ

- ሀ) ወንድ
- ለ) ሴት

2. ዕድሜ፡-

- ሀ) ከ25 በታች  መ) 46-60
- ለ) 26-35  ሠ) ከ 60 በላይ
- ሐ) 36-45

3. የትምህርት ደረጃ፡-

- ሀ) የመጀመሪያ ደረጃ ትምህርት  መ) የመጀመሪያ ዲግሪ
- ለ) ሁለተኛ ደረጃ ትምህርት  ሠ) የድህረ ምረቃ
- ሐ) የቴክኒክና ሙያ ትምህርትና ሥልጠና/ዲፕሎማ  ረ) ፒኤችዲ

4. በንግድ ውስጥ ያሉት ልምድ፡-

- ሀ) ከ1 አመት በታች  ሐ) ከ 5-10 ዓመታት
- ለ) 1-5 ዓመታት  መ) ከ 10 ዓመት በላይ

5. የንግድ ቦታ አድራሻ፡-

.....ክፍለ ከተማ

**ክፍል ለ**  
**ስለ ድርጅቱ አጠቃላይ መረጃ**

1. የድርጅት አይነት

ሀ) የግል ተቋም

ሐ) ኃላፊነቱ የተወሰነ የግል ማህበር

ለ) አጋርነት

መ) ሌላ.....

2. የድርጅት የስራ አይነት

ሀ) አገልግሎት

መ) ሸቀጦች (የችርቻሮ ንግድ)

ለ) ማምረቻ

ሠ) ግንባታ

ሐ) እርሻ

ረ) ሌላ.....

3. በድርጅትዎ ምን ያህል ሰዎች ተቀጥረው ነው የሚሰሩት? .....

4. ድርጅትዎ ቋሚ ንብረት አለው?

ሀ) አዎ

ለ) አይ

5. መልስዎ አዎ ከሆነ ድርጅትዎ ምን አይነት ቋሚ ንብረት አለው?

ሀ) ተሽከርካሪ

ለ) ቤት

ሐ) መሬት

መ) ሌላ.....

6. የድርጅትዎ አማካይ ወርሃዊ ገቢ ስንት ነው?

ሀ) ከብር 10,000.00 በታች

ለ) ከብር 10,001.00 እስከ ብር 50,000.00

ሐ) ከብር 50,001.00 እስከ ብር 100,000.00

መ) ከብር 100,001.00 እስከ ብር 200,000.00

ሠ) ከ 200,000.00 ብር በላይ

7. የእርስዎ ድርጅት በአሁኑ ጊዜ እየሰራበት ያለው ቦታ?

ሀ) በኪራይ የተያዘ

ለ) በባለቤትነት የተያዘ

ሐ) የቤተሰብ

መ) ሼድ (ከመንግስት)

ሠ) ሌሎች .....

**ክፍል ሐ**

**የሚከተሉት ጥያቄዎች ከድርጅትዎ የፋይናንስ ጉዳዮች ጋር ይዛመዳሉ፡ ፋይናንስን ለማግኘት ያጋጠሙ ተግዳሮቶች**

1. የመነሻ ካፒታልዎ ዋና ምንጭ ምንድን ነው? (በርካታ ምላሾች ተቀባይነት አላቸው)
 

ሀ) የግል ቁጠባ <input type="checkbox"/>	ሠ) ገንዘብ አበዳሪዎች <input type="checkbox"/>
ለ) ከቤተሰብ እና ጓደኞች <input type="checkbox"/>	ረ) ዕቁብ <input type="checkbox"/>
ሐ) የባንክ ብድሮች <input type="checkbox"/>	ሰ) ሌሎች ምንጮች <input type="checkbox"/>
መ) የማይክሮ ፋይናንስ ብድር <input type="checkbox"/>	
  
2. የሥራ ካፒታልዎ ዋና ምንጭ ምንድን ነው?
 

ሀ) የግል ቁጠባ <input type="checkbox"/>	ሠ) ገንዘብ አበዳሪዎች <input type="checkbox"/>
ለ) ከተሰብ እና ጓደኞች <input type="checkbox"/>	ረ) ዕቁብ <input type="checkbox"/>
ሐ) የባንክ ብድሮች <input type="checkbox"/>	ሰ) ሌሎች ምንጮች <input type="checkbox"/>
መ) የማይክሮ ፋይናንስ ብድር <input type="checkbox"/>	
  
3. ድርጅትዎ ብድር ወስዷል?
 

ሀ) አዎ <input type="checkbox"/>	ለ) አይ <input type="checkbox"/>
--------------------------------	--------------------------------
  
4. ከላይ ያለው መልስ አይ ከሆነ ለምን?
 

ሀ) ከፍተኛ የወለድ ምጣኔ <input type="checkbox"/>	መ) በባንክ/ማይክሮ ፋይናንስ/ የተቀመጡ መስፈርቶች <input type="checkbox"/>
ለ) የዋስትና እጥረት <input type="checkbox"/>	ሠ) የመክፈያ ጊዜ አጭር ስለሆነ <input type="checkbox"/>
ሐ) ለአነስተኛ ነጋዴዎች የተመደበው ብድር አነስተኛ ስልሆነ <input type="checkbox"/>	ረ) ሌሎች .....
  
5. ባንኮችዎ /ማይክሮ ፋይናንስ /ብድር ሊሰጡዎት ያልፈለጉበት ዋና ምክንያት ምን ነበር?
 

ሀ) የዋስትና እጥረት <input type="checkbox"/>	መ) በቂ ያልሆነ የመዝገብ አያያዝ <input type="checkbox"/>
ለ) ልምድ ያለው አስተዳደር እጥረት <input type="checkbox"/>	ሠ) የቀድሞውን ብድር ባለመመለስ <input type="checkbox"/>
ሐ) አስተማማኝ ያልሆነ የንግድ ሥራ <input type="checkbox"/>	ረ) ሌሎች .....
  
6. ድርጅትዎ ከባንክ/ ማይክሮ ፋይናንስ የተበደረው ከፍተኛው መጠን ስንት ነበር?
 

ሀ) ከብር 100,000.00 በታች <input type="checkbox"/>	
ለ) ከብር 100,001.00 እስከ ብር 300,000.00 <input type="checkbox"/>	
ሐ) ከብር 300,001.00 እስከ ብር 500,000.00 <input type="checkbox"/>	
መ) ከ500,000.00 ብር በላይ <input type="checkbox"/>	
  
7. አበዳሪ ባንክዎ ምን መረጃ ጠየቀ? (በርካታ ምላሾች ተቀባይነት አላቸው)
 

ሀ) የንግድ እቅድ <input type="checkbox"/>	መ) መያዣ ቋሚ ንብረት <input type="checkbox"/>
ለ) አዲት የተደረገ የሂሳብ መግለጫዎች <input type="checkbox"/>	ሠ) የባንክ መግለጫዎች <input type="checkbox"/>
ሐ) የሽያጭ አፈጻጸም <input type="checkbox"/>	ረ) ሌሎች .....

8. ያገኙት የብድር መመለሻ ጊዜ ምን ያህል ነበር?

ሀ) በ 1 አመት ውስጥ

ሐ) በ 3 ዓመታት ውስጥ

ለ) በ 2 ዓመታት ውስጥ

መ) ከ 3 ዓመት በላይ

9. በብድሩ ላይ ያለው የወለድ ምጣኔ በመቶ ስንት ነው?

ሀ) ከ 10% በታች

ሐ) ከ 15% እስከ 20%

ለ) 10-15%

መ) ከ 20% በላይ

10. የብድር ምጣኔዎቹን እንዴት አገኙት?

ሀ) በጣም ከፍተኛ

ሐ) መጠኛ

ለ) ከፍተኛ

መ) ዝቅተኛ

11. ማይክሮ ፋይናንስ ብድር ባለማግኘትዎ በድርጅትዎን እንቅስቃሴ ላይ ያመጣው እንቅፋት በምን ያህል ደረጃ ነው? (የሚመለከተውን ሳጥን ውስጥ ምልክት ያድርጉ)

የማይክሮ ፋይናንስ ብድር	ምንም ችግር የለም	አነስተኛ ችግር	መጠኛ ችግር	ከፍተኛ ችግር	ከባድ ችግር
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

12. ከመደበኛ ያልሆነ የፋይናንስ ተቋም ብድር ወስደዋል?

ሀ) አዎ

ለ) አይ

13. ከላይ ያለው መልስ አዎ ከሆነ፣ ከየትኞቹ መደበኛ ያልሆኑ የፋይናንስ ተቋማት ብድር ወስደዋል? (በርካታ ምላሾች ተቀባይነት አላቸው)

ሀ) ዕቁብ

ሐ) ቤተሰብ/ጓደኞች

ለ) እድር

መ) ሌሎች .....

14. የፋይናንስ ተቋማት ምን ዓይነት ማሻሻያዎችን ቢያደርጉ ተቋማት ብድር እንዲጠይቁ/ እንዲወስዱ ሊያበረታታ ይችላል?

	አዎ	አይ
ሀ) የወለድ መጠን	<input type="checkbox"/>	<input type="checkbox"/>
ለ) የዋስትና መስፈርቶች	<input type="checkbox"/>	<input type="checkbox"/>
ሐ) የብድር ሂደቶች	<input type="checkbox"/>	<input type="checkbox"/>
መ) የብድር ክፍያ ጊዜ የሚቆይበት ጊዜ	<input type="checkbox"/>	<input type="checkbox"/>
ሠ) ሌሎች .....	<input type="checkbox"/>	<input type="checkbox"/>