ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

Determinants of Access to Finance in Micro and Small Enterprises: The Case of Bole Sub-city

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Declaration

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

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ADDIS ABABA UNIVERSITY
SCHOOL OF GRADUATE STUDIES

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Approved by the board of examiners

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Contents

ACRONYMS

AAMSEDA: Addis AbabaMicro and Small Enterprises Development Agency

CLEP: Commission on Legal Empowerment of the Poor

CSA: Ethiopian Central Statistics Authority

DBE: Development Bank of Ethiopia

ILO: International Labor Organization

MFIs: Micro Finance Institutions

MSEs: Micro and Small Enterprises

MSMEs: Micro, Small and Medium Enterprises

NBE: National Bank of Ethiopia

NGOs: Non-Governmental Organizations

SME: Small and Medium Enterprises

SPSS: Statistical Package for Social Science

SSA: Sub-Saharan Africa

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Abstract

In developing countries, micro and small enterprises (MSEs) have a dynamic role and serve as engines through which the growth objectives of developing countries can be achieved. The MSE sector has been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and are reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology. However access to finance remains to be a major problem hampering MSEs from playing their constructive role in the economy. The main objective of this study was to assess the major determinants of access to finance by using semi structured questionnaire administered to 160 randomly selected MSEs in Bole sub-city. Binary logistic regression was used to identify major determinants of access to credit from formal financial institutions and test the hypotheses. The result of the study revealed that age of operator, educational level, employment size and lending procedure are significant factors that affect MSEs' access to credit. MSEs run by operators of >40 years of age, that have reached TVET/College and above ,with > 6 employees are more likely to access credit from formal financial institutions than MSEs run by operators of 31-35 years of age, with no formal education and with 1-2 employees. In addition, MSEs run by operators who have negative attitude towards lending procedure of formal financial institutions are less likely to access credit than those which did not. Considering the role of MSEs in employment generation, income generation and poverty alleviation, all stakeholders (government and non-governmental institutions) have responsibilities to facilitate sufficient access to finance for MSEs.

Key Words: *Access, Credit, Education, Fixed asset, Size, lending procedur*

CHAPTER ONE

INTRODUCTION

1.1Background of the study

It has long been recognized that in developing countries, micro and small enterprises (MSEs) have a dynamic role and serve as engines through which the growth objectives of developing countries can be achieved. The MSE sector has been instrumental in bringing about economic transition by providing goods and services, which are of adequate quality and are reasonably priced, to a large number of people, and by effectively using the skills and talents of a large number of people without requiring high-level training, large sums of capital or sophisticated technology. MSEs by virtue of their size, capital investment and their capacity to generate greater employment have demonstrated their powerful propellant effect for rapid economic growth in developing countries (ILO, 2008). The MSE sector generates substantial employment and economic output in many countries. Their share of overall employment tends to be higher in developing countries, which are typically more focused on small-scale production (Lara and Simeon, 2009).

Since the 1960s to date, SMEs have been given due recognitions especially in the developed nations for playing very important roles towards fostering accelerated economic growth, development and stability within several economies. They make-up the largest proportion of businesses all over the world and play tremendous roles in employment generation, provision of goods and services, creating a better standard of living, as well as immensely contributing to the gross domestic products (GDPs) of many countries (OECD, 2010). Over the last few decades, the contributions of the SMEs sector to the development of the largest economies in the world have beamed the searchlight on the uniqueness of the SMEs; and this have succeeded in overruling previously held views that SMEs were only “miniature versions” of larger companies (Al-Shaikh, 2008).

Accessing finance is a make-or-break issue for many micro and small enterprises (MSEs) in the developing world. Although, MSEs are major contributors to the gross domestic product (GDP) and employment in economies around the world, their financial needs are underserved, which holds back their growth. Where financing is available, it is usually out of reach because of short

payback periods and excessive collateral requirements. Nonbank financing options, such as leasing, are not always available. In many developing economies, certain segments of the population, primarily women, are excluded from business activity, because traditionally they do not own land, which is often the preferred collateral for loans (Sahar, 2010).

In Ethiopia, MSEs Sector is the second largest employment-generating sector following agriculture (CSA, 2005). According to national survey conducted by Ethiopian Central Statistical Authority (CSA) in 2005 there are nearly 585,000 and 3,000 operators engaged in micro and small scale manufacturing industries respectively, which absorb about 740,000 labour forces. This is a contribution of 3.4% to GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the year 2001 (CSA, 2005).

In spite of the enormous importance of the micro, small and medium enterprises (MSME) sector to the national economy with regards to job creation and the alleviation of abject poverty in Ethiopia, the sector is facing financial challenges, which impeded its role in the economy. These challenges are lack of access to credit, insufficient loan size, time delay and collateral (Gebrehiwot and wolday, 2006).

1.2. Statement of the problem

Small-scale enterprises have become an important contributor to Ethiopia's economy. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country, accounting for material amount of GDP (Eshetu and Mammo, 2009). Had this sector been provided proper emphasis, the sector has a high potential for contributing to meet the objective they were envisaged for. Yet the majority of entrepreneurs in this sector are considered un-creditworthy by most formal credit institutions as per the report of World Bank's (2009) and by Abebe, Million and Andrew (2009) about businesses and their access to finance in Ethiopia. Availability of finance determines the capacity of an enterprise in a number of ways, especially in choice of technology, access to markets, access to essential resources, etc, which in turn greatly influence the viability and success of a business. Securing

capital for business start-up or business operation is one of the major obstacles every entrepreneur, particularly those in the MSE sector (Solomon, 2009).

Access to financing is recognized as the leading obstacle to small businesses growth in Ethiopia, alike most other developing and under-developed countries. Small businesses, in most cases, manage to start a business with resources from informal sector, but find it extremely difficult to survive and expand without further financial assistance from the institutional lenders (Fetene, 2010).

The formal financial institutions in Ethiopia have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. The main sources of startup and expansion finance or funds for most MSEs in Ethiopia are personal savings followed by iqub/idir, family and friends/relatives. Nevertheless, the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs (Admasu, 2012).

Many researchers indicate that there are a number of factors that affect access to finance for MSEs. The main ones are firm level characteristics, entrepreneur characteristics and institutional characteristics.

Omboi et al. (2011) performed a study on factors that influence the demand for credit among MSEs in Meru Central District, Kenya and results show that education level of an entrepreneur, the number of dependants, and household income are significant factors that influence small-scale entrepreneurs to borrow credit from formal credit institutions. Demand for credit among women entrepreneurs in the MSE sector was found to be lower compared to their male counterparts.

According to Mabhungu et al. (2011), formality, value of assets, business sector, operating period, financial performance and size are all important factors in determining micro and small enterprises' access to finance in Zimbabwe.

As per the study by Tsehaye (2013) on credit rationing of MSEs in Mekelle; gender, education, firm age and collateral did not have any impact on credit rationing contrary to studies done in other countries (Anthony et el., 2013, Omboi et al., 2011, Seluhinga, 2013). On the other hand,

age of the owner of the firm, household size; initial investment and social capital have impact on credit rationing.

Although significant number of researches in Ethiopia have identified finance as one of the main factors that affect success, performance and growth of MSEs (Admasu, 2012; Brhane, 2011; Fetene, 2010; Gedam, 2010; Haftu, 2009; Mulugeta, 2011), there is little empirical evidence on determinants of access to finance in Micro and Small Enterprises. In addition to this, the aforementioned contradiction between Tsehaye (2013) and studies performed in other countries Omboi,(2011) in Kenya and Mabhnoug,(2011) in Tanzania and various inconsistencies in the literature indicate that it is quite important to thoroughly investigate determinants of access to finance in MSEs in Ethiopia. In Bole sub city determinants of access to finance in MSEs has not been studied. A report by Addis Ababa city MSEs Development Agency cites that one of the major problems faced by MSEs in Addis is lack of finance (AAMSEDA, 2015). This study therefore aims to assess the determinants of access to finance in MSEs in Bole sub city by taking into account entrepreneur characteristics, firm level characteristics and institutional characteristics.

1.3 Research Objectives

1.3.1 General Objective

The main objective of the study is to assess the determinants of access to finance in MSEs in Addis Ababa.

1.3.2 Specific Objectives

The specific objectives are to:

1. Identify the sources of startup finance and working capital financeof MSEs in Bole sub city.
2. Investigate firm level characteristics that affect access to finance of MSEs in Bole sub city
3. Examine entrepreneur characteristics that affect access to finance of MSEs in Bole sub city
4. Examine institutional characteristics that affect access to finance of MSEs in Bole sub city

1.4. Significance of the Study

- **Traders and financial institutions:** The findings of the study are expected to empower the financial institutions in critiquing some of the policies governing credit financing and gauge whether they are generating the intended results. This in the long term will provide such users a base on which to modify these policies to suit the demands of the different stakeholders (entrepreneurs and business owners) hence hastening the credit financing accessibility by SMEs in Addis Ababa. It will also intend to aid financial institutions in designing and refining their range of products tailored to the needs and demands of small business.

- **Government:**The government can use the findings of this study to assist in policy formulation and development for a framework better access to finance. Moreover, the findings of this study will help the policy makers and financial institutions how to encourage establishment and expansion of small business.

- **Researchers:** The research findings and analysis are of great significance to those who purpose to do further research on this topic. This research is also expected to add to the existing literature on determinants of access to finance of MSEs.

1.5. Scope of the Study

As the topic indicates the research revolves around the determinants of access to finance in MSEs in Bole sub city. The research is conducted in order to identify major determinants of access to finance in MSEs in Bole sub city. In addition it will try to identify sources of finance or funds available for the start-up and the expansion of MSEs in Bole sub city.

1.6. Limitationsof the Study

The researcher faced the following limitations:-

i. Limitations due to nature of data set used (i.e. the use of cross sectional data vs time series data)

ii. Limitation due to resource constrains

1.7. Organization of the Study

This study was organized as follows; next chapter presents the literature review, whereas methodology, data type, targeted population and variable issues are discussed in chapter three of this study. Chapter four presents the empirical results and discussion of empirical results obtained. Chapter five is about summary of findings, conclusion and recommendations and the later were presents references used in due course of conducting the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 Overview of Micro and Small Enterprises

The MSE sector everywhere is characterized by highly diversified activities which can create employment opportunities for a substantial segment of the population. This implies that the sector is a quick remedy for unemployment and poverty problem. The realization of a modest standard of living through curbing unemployment and facilitating the environment for new job seekers and self-employment requires a direct intervention and support of the government and other concerned stakeholders (Mulugeta, 2011).

In most fast developing countries, MSEs by virtue of their size, location, capital investment and their capacity to generate greater employment have proved their powerful propellant effect for rapid economic growth. The sector is also known as an instrument in bringing about economic transition by effectively using the skill and talent of the people without requesting high level training, much capital and sophisticated technology. Moreover, they create job opportunities for a substantial segment of the population. Hence, since the sector is a quick remedy for unemployment problem, direct intervention and support of the government is crucial to facilitate the environment for new job seekers and ease self-employment (CLEP, 2006).

There are different ways of defining the term small and micro enterprises in different countries. The base for defining is deepened on the number of employees hired, the capital invested and the total balance sheet (asset, liability and capital). So, according to European Union, small enterprise is defined as an enterprise which employs fewer than 50 persons and whose annual turnover and/or annual balance sheet total does not exceed EURO 10 million. A micro enterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed EURO 2 million (Kayanula et al.,2000).

According to world Bank, Micro Enterprises are defined as; individuals/firms with total assets less than $100,000 and total sales less than $100,000 and employees less than 10 persons. Small Enterprises are firms with total assets or annual sales between $100,000 up to 3 million

andemployee 10 to 15 persons. Medium Enterprises are firms with a total assets or annual sales more than $3 million up to $15 million and employee more than 50 up to 300 persons.

In Kenya, MSEs are defined as those non-primary enterprises (excluding agricultural production, animal husbandry, fishing, hunting, gathering and forestry), whether in the formal or informal sector which employ 1-50 people (Ronge et al., 2002 cited in Mulugeta, 2011:15). More specifically, according to them, micro enterprises are those that employ 10 or fewer workers and small-scale enterprises are those that employ 11-50 workers. The same study argued that the above definitions are based on one of the three criteria mainly used in literature to define MSEs-number of employees. The second criterion relies solely on the degree of legal formality and is mainly used to distinguish between the formal and informal sectors. According to this criterion, MSEs are those enterprises that are not registered and do not comply with the legal obligations concerning safety, taxes and labor laws. The last criterion defines MSEs by their limited amounts of capital and skills per worker. The above indicated writers emphasized highlighted that the degree of informality and size of employment have perhaps been the two most readily accepted criteria on which classification of MSEs is based; and lastly they claimed that the term MSE incorporates firms in both the formal and informal sectors.

In Ethiopia, according to the Government of Federal Democratic Republic of Ethiopia MSEs Development strategy (GFRE MSEs development strategy, 2011), Micro and Small Enterprises are defined based on number of employees including family labor and total assets excluding land and building. In addition the overall sector has been divided into two divisions as industry which includes manufacturing, construction and mining; and services that includes retail trade, transport, hotel and tourism, information technology services and maintenance.

Table 2. Classification of enterprises based on number of employees and total assets

Type of enterprise	*Sector*	*Number of employees including family member*	*Total assets*
Micro	Industry	≤5	≤ 100,000 Birr
	Service	≤5	≤ 50,000 Birr
Small	Industry	6-30	≤ 1.5 million Birr
	Service	6-30	≤ 500,000 Birr

Source: GFRE MSEs development strategy (2011)

Nevertheless, there is lack of clarity, inconsistency, lack of organized information and consistent historical data is lacking in Ethiopia. The features that distinguish MSEs from larger scale enterprises include greater owner influence, dominance of one person, more subjective decision due to centralization of decision making, close contact of the top management with employees at lower levels and greater concern with financial matters due to difficulty of attributable funds etc.

The Ethiopian government has long recognized the important contribution that small and micro enterprises can make in poverty reduction, employment creation and private sector development. Micro and small enterprises offer both a safety valve for the survival of workers that is available to find steady wage employment and opportunity for the poor entrepreneurs to raise their capital and income. These enterprises also offer a vehicle for acquiring and applying skills to raise productivity and private sector growth, providing better wage earning opportunities for the poor, while raising national income. Due to these reasons and based on the government strategy of capacity building in public and private sectors, donors as well as national governments have attempted to promote micro and small enterprises through support for financial and non-financial services appropriate for them (Solomon, 2007).

To this effect, it has re formulated a National MSE Development and Promotion Strategy in 2011, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs. The overall objective of the strategy is to create an enabling environment for MSEs, with specific objectives to facilitate economic growth; bring equitable development; create long-term jobs; strengthen cooperation between MSEs; provide the basis for medium and large-scale enterprises; promote export; balance preferential treatment between MSEs & bigger enterprises (CLEP, 2006).

The strategy targets support measures and beneficiaries such as small manufacturers in food, textiles, leather, clothing metal works, and crafts; self-employment (focus on school leavers, disabled and unemployed youth); start-up and expanding firms (focus on women-owned); small enterprises in nomadic and disaster areas; agro-business and small scale farming and fishing; small builders/contractors; small exporters; as well as small-scale tourism operators

Among the MSE support framework, the strategy focuses on creating and implementing an enabling legal framework as well as on streamlining regulatory conditions by establishing an user friendly environment for the simplification and standardization of documents such as business registration and licensing; financial and loan application; purchasing and sub-contracting (tender) document; export documentation and other commercial documents; registration of contracts with municipalities; authentication of contracts at notary public; and simplified tax declaration forms for small businesses(CLEP, 2006).

Other specific support areas and programs in the strategy include the facilitation of access to finance; incentive schemes; encouraging partnerships, training in entrepreneurship, skills and management; facilitating access to appropriate technology, access to market, access to information and advice, access to physical infrastructure and the institutional strengthening of private sector associations and chambers.

While the strategy clearly stipulates that the provision of meaningful supports require the vigorous and synchronized efforts of the various development actors including government bodies, non-governmental organizations, business associations, private enterprises, foreign agencies and similar others, Government has been setting-up Federal and Regional Micro Enterprises Promotion Agencies aiming at providing the above services and coordinating efforts of the various stakeholders. Even though, it might require substantiating with figures and facts, these efforts are not only inadequate but also fragmentary or uncoordinated (CLEP, 2006).

2.2. Access to Finance and Its Measurement

Access to finance, can be broadly defined as the share of households and firms that are able to use financial services if they choose to do so, can have substantial effects on welfare and can contribute to the reduction of poverty (Liliana, 2010). Access to finance refers to the possibility that individuals or enterprises access financial services, including credit, insurance and other risk management services. It is the ability of a firm to get and use financial services that are affordable, usable and meet their financial needs (Martin, 2013). In particular, financial access allows individuals and firms to move away from short-term decision making toward an inter-temporal allocation of resources. This encourages savings and removes the straitjacket of self-finance, thus improving incentives for productive investments and for the enlargement and

deepening of markets for goods and services (Liliana, 2010). Access has four key dimensions: physical access, affordability, appropriate features that meet the users' particular needs and appropriate terms that do not effectively exclude any category of potential user (Martin, 2013).

Measures of access fall into two broad categories, those based on the providers' information, such as banks and other service providers, and those based on users' information – individuals, households or firms (Beck et al., 2009). More specifically, access to finance can be measured in terms of access to certain institutions, such as banks, insurance services, or microfinance institutions, or the services that these institutions provide, such as payments services, savings or loans and credits. Another approach would be to look at details on the uses of specific financial products, such as debit cards, credit cards, life insurance, home mortgages, among others (Martin, 2013).

Access to finance is one of the most important constraints faced by MSMEs, in addition to weak investment climate and poor infrastructure. The financing constraint is more severe in less-developed countries, where financial markets are not well-developed, regulatory and legal frameworks are weak, informational asymmetries are persistent, and risk management systems are not as robust. A developed financial sector helps mobilize and allocate resources, and manage risks, contributing to private sector development. Finance helps economic growth, and in turn, job creation (IFC, 2013).

At the firm level, studies have shown that having access to finance is correlated with higher job growth rates (Dinh et al., 2010). According to a recent IFC study (IFC, 2013), there are four channels through which finance leads to job creation: (1) finance helps start new businesses—entrepreneurship, (2) finance helps businesses make larger investments, (3) finance provides businesses with liquidity, and (4) finance supports indirect job creation through supply and distribution chains.

Improving access means improving degree to which financial services are available to all at a fair price. It is easier to measure the use of financial services, since use can be observed, but use is not always the same as access. Therefore accesses indicate that supply of their financial facilities on the other hand use indicate both the supply and demand side of the market. These

means to access is the availability of financial institutions in the market where as the use is whether the financial facilities are being accessed properly by the users. (World Bank, 2008)

2.3 Micro and Small Enterprises Finance

There are no single independent sources of finance that can be useful to run MSEs. Rather several MSE attempted to secure their finance from different sources. Before a business sells its first product or delivers a service to the market, it needs financial resources for product development, sales, marketing and promotional efforts, administrative support, the company's formation, and countless other critical business functions. Capital is not only perceived as just the amount of cash on hand but also as the amount of financial resources available to support the execution of a business plan. While financial resources come in different forms, types, and structures (Brhane, 2011).

The availability of external financing depends not only on each MSE's individual situation but also on the wider policy and institutional environment supporting the enforceability and liquidity of the contracts that are involved in financing MSEs. Availability also depends on the existence and effectiveness of a variety of intermediaries and ancillary financial firms that help to connect fund providers and users (Beck and Maksimovic, 2005).

In Ethiopia, according to the survey conducted by the Ministry of Trade and Industry 1997, 50% of the micro business operators indicated that their main problem in operating their business was lack of sufficient initial capital. It was reported in the survey that the major problem of about 35% of the small scale enterprise was lack of sufficient initial capital particularly at the start of their operation. It only when the business has been operating for some time, usually as a micro enterprise or small scale that an attempt is made to seek financing from bank for further development and expansion. Only then is there any likelihood of obtaining access to funds from such financial services, although it will never be easy (Yared and Seneshaw, 2008).

2.4 Source of Finance for MSEs in Ethiopia

2.4.1 Formal Financial Institutions

The formal sources are financial institutions that are set up legally and engaged in the provision of credit and mobilization of savings. These institutions are regulated and controlled by the

National Bank of Ethiopia (NBE). In the Ethiopian context formal financial sector includes National Bank of Ethiopia (NBE), commercial banks (owned by private and public), Development Bank of Ethiopia (DBE), credit and savings cooperative, insurance companies (both public and private) and microfinance institutions (owned by regional governments, NGOs, associations and individuals) (Sisay, 2008).

One of the most stylized facts of developing economies is that formal financial institutions leave the poorest population tightly constrained in their access to financial services. It is also widely recognized that economic progress relies largely on access to financial services such as savings, insurance, and credit.

The capacity of the formal banking system have been too limited in serving the needs of micro and small enterprises and their loan conditions are not designed to meet the needs of the majority of micro and small enterprise operator (Yared and Seneshaw, 2008).

Despite the large number of micro and small enterprise in the country, their access to financial service for vertical growth and diversification of activities is limited. Formal banks policies (public and private) alike make fixed asset collateral mandatory, thereby excluding MSEs from the credit market. Furthermore, due to various reasons, MSEs are considered high risk for commercial bank lending. Consequently, the conventional banks in the country do not dare to venture in to financing of MSEs (Haftu et al. 2009).

2.4.2 Micro Finance Institutions

Microfinance is a type of banking service that provides financial service to unemployed or low income individuals or groups who would otherwise have no other means of gaining access to financial services. Microfinance is used to denote both micro and small business finance i.e. the provision of credit products and other financial services to micro and small businesses operators. According to this definition microfinance is a financial service provided to some special groups of people (Kavitha, 2007: Leleux, 2007).

The establishment of sustainable MFI that reach a large number of rural and urban poor who are not served by the conventional financial institutions, such as the commercial banks, has been a prime component of the new development Strategy of Ethiopia which has been supported by the

proclamation enacted to govern microfinance activities in Ethiopia (Proclamation No. 40/1996). Microfinance institutions (MFIs) are mushrooming following the proclamation, in the last six years, the microfinance industry showed remarkable growth in terms of outreach and performance (Gebrehiwot and Wolday, 2006).

Until 2009, there were 28 MFIs in the country, of which 12 are licensed to operate in regional states and the rest are licensed to operate nationwide. They provide financial service, mainly credit and saving and, in some cases, loan insurance. Almost all microfinance institutions in the country have poverty alleviation as an objective. They are thus meant to address the lower strata of micro-entrepreneurs including those engaged in activities that are started and operated just for survival (Haftu et al. 2009).

However, most of the microfinance institutions in the country are relatively young. They seem to replicate each other instead of innovating their own approach. Their financial products are almost the same with the exception of a few microfinance institutions that have recently started adding some new products. The loan sizes of most of the microfinance institutions t are too small that some of their clients outgrow it very quickly. Some of the causes for high client drop out in both rural and urban areas seem to be small loan size , lack of product diversification on the part of the MFIs, lack of flexibility in approach, etc (Haftu et al. 2009)

Although most MFIs in developing countries aim to reach poor people, it has become increasingly apparent that they rarely serve very poor people. Most MFIs reach the “upper poor” in much greater numbers than the “very poor.” The extent to which microfinance programs are able to reach the poorest of the poor remains an open debate (Sisay, 2008).

2.4.3 Informal Finance

This system includes entities operating outside of the domain of the National Bank of Ethiopia. It includes the financing from families and friends, supplier credit, private money lenders and semi-formal lending institutions, such as the rotating savings (Iqub) and credit associations. These are dominant and sustainable traditional institutions that meet the financial and social needs of micro and small business operators specially women (Yared and Seneshaw, 2008).

Dejene (2003) on the other hand stated that non-formal sources in Ethiopia include relatives and friends, moneylenders, neighbors, Iddir, Iqqub and Mahaber. The major sources of loans include friends and relatives (66 percent), moneylenders (14 percent), and Iddir (7 percent). In other words the bulk of the rural credit comes from informal sources. Every year, the informal sector mobilizes resources equivalent to about 10 percent of deposits mobilized by all banks in Ethiopia. Rural Iddirs mobilized through informal loans alone an amount 3.5 times the total capital of all micro finance institutions in Ethiopia.

These forms of financing reach deep down to the poor who is not the focus or target of formal financial institutions. These types of financing have also nurtured the social values of the society. Iqub, the dominant form of credit and savings in urban and rural areas, is the most popular and periodic lending option for micro and small enterprises willing to mobilize in saving groups. Members are required to attend scheduled meetings and the group can be dissolved or continued after each member has had a turn at borrowing. However, the main challenge in here is that money lending is a high risk form of financing , since the client is required to repay the loan , usually at the end of each trading day, whether they have sold all of their goods or not. Interest rates and repayment terms are often quite flexible, but could be as high as 200 percent, (Yared and Seneshaw, 2008).

It is argued that informal sources, however, do not generate enough and affordable finance for business to stimulate economic development. In particular, the individual moneylender (the Arata Abedari) is extremely expensive, and is only resorted to in the absence of any alternative. In this case borrowers are required to provide guarantors and the interest rate is excessively high. Until recently the annual interest rates that the money lenders charged was estimated to range from 60% to 120% (Getaneh, 2005).

2.5 Empirical Studies on Determinants of Access to Finance

The literature reveals that the main major determinants that affect access to finance of MSEs fall under entrepreneur characteristics, firm level characteristics and institutional characteristics.

2.5.1 Entrepreneur Characteristics

The personal characteristics of the owner-manager also make a difference to the firm's ability and likelihood of accessing external finance (Irwin & Scott, 2010; Cassar, 2004).

Gender

Mijid (2009) found higher loan denial rates and lower loan application rates among female entrepreneurs. Coleman (2007) also provided evidence of credit discrimination against female entrepreneurs as they were more frequently charged higher interest rates and asked to pledge additional collateral in order for loans to be granted. Explanations given in the literature for differences between men and women entrepreneurs with respect to access to finance can be categorised into discrimination, abilities and preferences, and competition (Harrison & Mason, 2007). Moreover, Verhuel and Thurik (2001) divided the impact of gender on SMEs capital into direct and indirect effect. The former "gender effect" refers to the fact that while male and female entrepreneurs may share characteristics but they are different in the way in which they finance their firms. However, the latter "female profile" can be more attributed to differences related to business type, management and experience.

Age

Vos et al., (2007) found that younger owner–managers tend to use more bank overdrafts and loans, credit cards, own savings, and family sources than older owners who appear to be more dependent on retained profits. Clarifying the connection between the financial growth cycle of SMEs and the owner–manager's life cycle, Briozzo and Vigier (2009) state that; "As the firm and its owner grow older, information asymmetries decrease, granting easier access to debt (a supply-side effect), while the owner's risk aversion and personal costs of bankruptcy increase with age, and thus he or she desires to use less leverage (demand side effect)".

Educational Level

A study by Bates (1990) examining the impact of owner–manager's personal characteristics on SME longevity across a wide sample of SMEs owned–managed by men across the US between 1976 and 1986 concluded that owner–managers who had higher levels of education were more likely to retain their firms operating throughout the period of study. He further emphasized that

the level of education of entrepreneurs is a major determinant of banking loans amounts offered to SMEs. As for the demand side, Storey (1994) asserts that higher levels of education provide entrepreneurs with greater confidence in dealing with bankers and other funders when applying for loans.

2.5.2 Firm level characteristics

According to Mabhungu et al. (2011), formality, value of assets, business sector, operating period, financial performance and size are all important factors in determining micro and small enterprises' access to finance.

Possession of fixed asset

Financial institutions are more likely to approve loans to firms that are able to provide collateral and to those firms that have established long term relationships with lenders. Due to the existence of asymmetric information, banks base their lending decisions on the amount of collateral available. Collateral acts as a screening device and reduces the risk of lending for commercial banks. By pledging his assets, a borrower signals the quality of his project and his intention to repay. In the case of default, collateral serves to put the lender into a privileged position with regard to other creditors (Green, 2003).

Collateral reduces the problem of uncertainty, since the lender can theoretically recover some, or all, of his loan in the event of default. It also reduces information asymmetries; as it is often easier to value physical assets than to value character. Moreover, the borrowers will find it costly to put valuable collateral if they intend to default with the proceeds of the loan, because they will lose their collateral. Thus, the collateral requirement can also help to weed out rogues from honest borrowers, leaving only those bona-fide applicants who fully intend to repay the loan. The potential loss of their collateral also makes the borrower think twice before investing in risky ventures (Basu, 2006).

According to Mayada et al., (1994) who studied credit rationing in small-scale enterprises in Ecuador, potential investors said they did not apply for loans from the formal financial institutions because they did not have any collateral. This could be explained by the fact that most entrepreneurs are aware that it is a very important requirement in securing credit and hence those without collateral security would not dare to seek for loans especially from the formal financial sector (Mayada et al., 1994). That of supply on the other hand may be explained by the

fact that lenders think that with such a requirement borrowers would not want to default in order for their collateral to be seized.

Firm Age

According to Martin and Daniel (2013), firm age was found to play a role in firms' access to finance. More specifically, firms that are older were found to have more access to finance. These results were not unexpected because older firms have the network capital generated overtime and also credit history that can be used by lenders to assess their credit worthiness. In contrast, younger firms may lack the necessary connections on the providers of finance and also the historical performance of the firm may be lacking.

Klapper et al. (2002), suggest that younger enterprises (those established less than four years), are more reliant on informal financing and far less on bank financing. This is supported by Quartey (2003) who concluded the significant positive effect of firm age on the ability to access external finance.

Firm Size

Studying firms financing and capital structure using a sample consisted of 292 Australian firms, Cassar (2004) concluded that the "larger" small firms are, the more they rely on long-term debt and external financing, including bank loans. This is consistent with Storey (1994) who found that in the case of SMEs, the owner–manager's personal savings are more important as a source of funds during the start-up stage than outside finance such as loans and overdrafts from banks. From another angle, the extent to which firm size can impact the availability of finance to the firm was measured by Petersen and Rajan (1994). They argued that as firms grow, they develop a greater ability to enlarge the circle of banks from which they can borrow. They then provided evidence that firms dealing with multiple banks and credit institutions are nearly twice as large as those with only one bank.

Martin and Daniel (2013) suggested that the reason for the effect of size of the business on the ability to access finance is that larger firms are likely to have collaterals that act as a security in securing finances. Another reason is that large size in itself provides information to lenders that the firm is able to meet the needs of other constituencies and thus is able to grow in size

Business sector

Michaelas et al. (1999) empirically analyzed the different capital structure determinants across time and industries utilizing a sample of 3,500 randomly selected SMEs across ten industries in the UK. They summarized that the impact of industry on short-term and long-term debt varies greatly across industries. The effect of industry classification on the capital structure of Ghanaian SMEs was examined by Abor (2007).

The results of the study revealed some differences in the funding preferences of the Ghanaian SMEs across industries. SMEs in the agriculture sector and medical industries rely more on long-term and short-term debt than their counterparts in manufacturing. Abor (2007) further concluded that short-term credit is more used in wholesale and retail trade sectors compared with manufacturing SMEs, whereas construction, hotel and hospitality, and mining industries appear to depend more on long-term finance and less on short-term debt.

Abor (2007) found that SMEs in the agricultural sector exhibit the highest capital structure and asset structure or collateral value, while the wholesale and retail trade industry has the lowest debt ratio and asset structure.

2.5.3 Institutional characteristics

Credit terms considerably influence financial decisions of SME borrowers. Credit terms are conditions under which credit is granted. The conditions involve interest rate, credit limit, and loan period. Credit terms control the monthly and total credit amount, maximum time allowed for repayment, discount for cash or early payment, and the amount or rate of late payment penalty (Richard, 2010).

Interest rate

Rate of interest is a key determinant of access to finance as it influences investment. Whenever interest rate rises up, investment will eventually fall, this is because with higher interest rate the possibility of making profit out of investment is very low, hence high interest rate reduces the marginal efficiency of capital. On the contrary, bank charges interest to investors out of which certain percentage will be paid to savers as deposit rate. At higher deposit rate saving will be attractive and similarly banks will extend more loans, but investors will reject further loans as interest rises (Sacerdot, 2005).

Lending procedures

Schmidt and Kropp (1987) revealed that the type of financial institution and its policy will often determine the access. What is displayed in form of prescribed minimum loan amounts, complicate application procedures and give restrictions on credit for specific purposes. Where credit duration, terms of payment, required security and the provisions of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.

Inflexible repayment period

Lapar and Graham (1988) using secondary data for a sample of 344 bank clients and survey data of 65 bank12 respondents in the Philipines, estimated separated models of the intensity13 of bank credit rationing and the probability of credit rationing. The length of the loan maturity period required by the borrower may also influence the bank‟s credit rationing behavior. The longer the loan maturity period, the greater the risk of loan recovery due to the riskier nature of long term investments, hence the higher will be the likelihood that the borrower will be credit rationed.

2.6. Hypothesis

Based on an extensive literature review and an effort to identify determinants of access to finance in Micro and Small Enterprises, the following hypotheses have been developed.

Hypothesis 1*: Male operated MSEs have more access to finance than female operated MSEs.*

Hypothesis 2*: MSEs run by older operator tend to have more access to finance than those run by younger ones.*

Hypothesis 3*: MSE operators with higher education have more access to finance than those with lower or no education.*

Hypothesis 4*: MSEs which possess fixed asset are more likely to have access to finance than those which do not.*

Hypothesis 5*: MSEs engaged in the manufacturing sector have more access to finance than MSEs engaged in the other sectors.*

Hypothesis 6*: MSEs that are older have more access to finance to than MSEs that are young.*

Hypothesis 7*: MSEs with larger employment size have more access to finance that those with smaller employment size.*

Hypothesis 8*: Interest rate of financial institutions negatively affects MSEs' access to finance.*

Hypothesis 9*: Lending procedures of financial institutions negatively affect MSEs' access to finance.*

Hypothesis 10*: Loan repayment period of financial institutions negatively affects MSEs' access to finance.*

2.7 Conceptual Framework

Hence, based on the above explanations and the author's knowledge of the financial constraints of MSEs in the study area and in order to align with the objectives the following conceptual framework has been developed and it portrays the most important variables expected to influence MSEs access to finance in the study area.

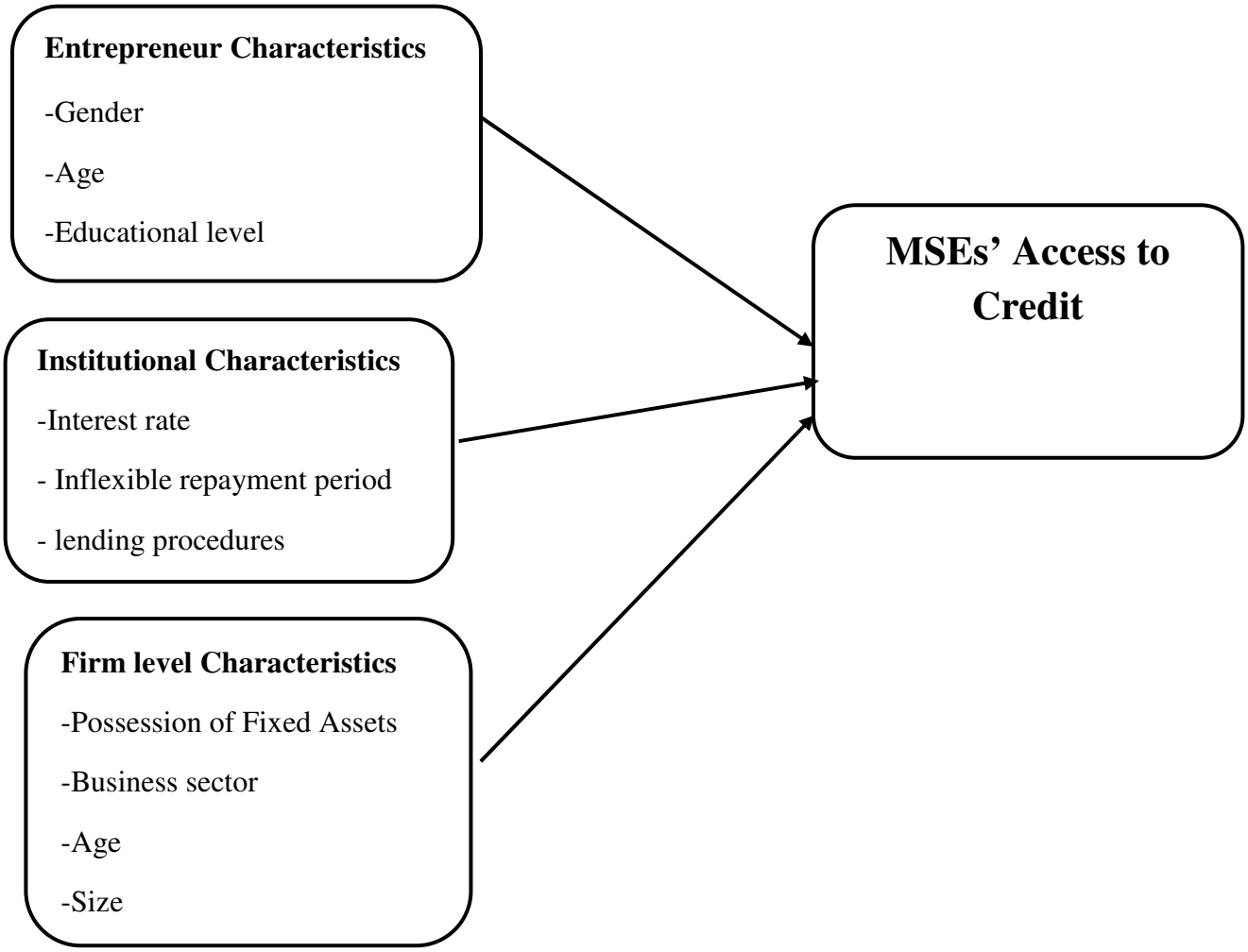


Figure 1. Conceptual framework of determinants of access to finance in MSEs

Source:Selamawit, (2014)

CHAPTER THREE

RESEARCH METHODS AND DATA COLLECTION

3.1. Site Selection and Description of the Study Area

The study area is located in Addis Ababa, Bole Sub city. Bole Sub city is one of the big sub cities among 10 sub-cites found in Addis Ababa.

According to the data obtained from the structural plan of Addis Ababa town, Bole Sub city occupies an area of 122.08 square kilometers. The sub city has divided by 14 woreda and total population of Bole Sub city is more than 328,900. The total population density per sq,m: 2694.1

Figure 2. Map of Bole sub-city

The sub city is composed of different ethnic groups. Concerning education, there are 3 state owned and 12 private banks with several braches. There are 65 private Kindergartens and 7 government and 13 privately owned Elementary schools. There are also 4 High schools and 1 Preparatory school. Moreover, there are 2 government and 2 privately owned Colleges and 45 government TVET Schools and 2 privately owned universities.

The MSE support package operates under the governance of Addis Ababa regional Trade, Industry and Transport Bureau. According to bole sub city MSEs office in 2016 the office planned to create a job for 8,757 job seekers however the actual job created in the budget year was 3,220 (Webalem, 2017).

According to SMEDA of Bole sub city, there are 14 branch offices in each fourteen woredas of the sub-city. Which are designed to supervise closely and provide a better service to different enterprises found in the sub-city?

The reason for selection of Bole sub city for the study was because of knowledge of the investigator about the area and convenience to collect data in short time.

3.2 Research Strategy and Design

3.2.1. Research Strategy

Quantitative data was collected from primary and secondary data sources. Quantitative research design is used in situations where there are predetermined instrument based questions, performance data, attitude data and observational data (Creswell, 2003 cited in Gedam, 2010).

3.2.2. Research Design

Research design is a master plan specifying the methods and procedures for collecting and analyzing the needed information. It ensures that the study would be relevant to the problem and that it uses economical procedures (John et al., 2007). This study adapts descriptive and explanatory research design.

The major purpose of descriptive research is description of the state of affairs as it exists at present. Then this study tried to describe and critically assesses determinants of access to finance of MSEs in Bole sub city. In addition, the study was explanatory in that the relationship between variables is correlated with an aim of explaining the integrated influence of explanatory variables on access to finance.

Besides, the study was cross-sectional in the sense that all relevant data will be collected at a single point in time. The reason for preferring a cross-sectional study is due to the vast nature of the study and obtaining information from a cross-section of a population at a single point in time is a reasonable strategy for pursuing many descriptive researches (Janet, 2006).

3.3 Data Type and Source

3.3.1. Data Type

Quantitative research approach was used in this study. Quantitative method is an inquiry into a problem that can be measured with numbers and analyzed using statistical techniques (Gray et al., 2007).

3.3.2 Data Sources

Both primary and secondary sources of data collection were employed in the study.

i. Primary Sources

Well-designed and semi- structured questionnaire was utilized. The questionnaire was partlyadapted from Selamawit (2014). This was completed by operators or managers of the enterprises.

ii. Secondary Sources

The secondary data obtained from the report of Addis Ababa Micro and Small Enterprises Development Agency of 2008 EC and Central Statistical Agency was used to provide additional information where appropriate. Besides, published and/or unpublished government documents, reports and newsletters were reviewed to make the study fruitful.

3.4. Target Population and Sampling

3.4.1. Target Population

According to Addis Ababa Micro and Small Enterprises (MSEs) Development Agency, there are 1,632 MSEs are registered in Bole sub city. Those MSEs are engaged in manufacturing, construction, urban agriculture, in service andin trade sectors (AASMEDA, 2015)

3.4.2. Sampling Design and Procedures

Sampling procedure

Simple and stratified random sampling technique was used in the study. Simple random sampling is a sampling procedure that ensures that each element in the population will have an equal chance of being included in the sample. Stratified random sampling is a sampling procedure that subsamples are drawn within different strata; each stratum is more or less equal on some characteristic.

Simple and stratified random sampling will apply to get information from different sizes of the MSEs. This technique is preferred because it is used to assist in minimizing bias when dealing with the population. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. This step increases the probability that the final sample will be representative in terms of the stratified groups (Janet, 2006).

Sample size

The correct sample size in a study is dependent on the nature of the population and the purpose of the study. Although there are no general rules, the sample size usually depends on the population to be sampled (Catherine, 2009).

In this study to select sample size, a list of the population of interest for this survey is MSEs Bole sub city, in number 1632 (AAMSEDA, 2015).

The sample sizeselected here is considered as representative of manufacturing, construction, Urban-Agriculture, service and trading sector and is large enough to allow for precision,

confidence and generality of the research findings. The following formula was used for the calculation of the sample size since it was relevant to studies where a probability sampling method was used. Given the total population of the study, a simplified scientific formula provided by Yamane (1967), i.e

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

In which e is the level of precision.i.e. e= 0.075 (0.075 level of significance).

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

$= 1632/(1+ 1632(0.075)^2)$ = **162**

Accordingly, 162 respondents will select randomly from 162 MSEs. The 162 respondents will be selected from each sector (stratum)on proportional basis.

3.5. Data Collection and Instruments

3.5.1. Quantitative Data Collection Instruments

The main tool for collecting quantitative data was through semi structured questionnaire. The questionnaire was kept very simple to encourage meaningful participation by the respondents. The questions were kept as concise as possible with care taken to the actual wording and phrasing of the questions. The literature in the study was used as a guideline for the development of the questions in the questionnaire.

3.6. Data Collection Procedures

The researcher along with two data collectors disseminated the questionnaire to the respondents. Training was given to the data collectors for assisting the respondents in filling out the questionnaires. Explanationabout the objectives of the study was done and after the required consent was obtained, the questionnaire was disseminated. Secondary data sources were also carefully study and relevant information was extracted.

3.7 Data Processing and Analysis

3.7.1. Data Processing

In this study, data was processed manually and using computer. Data processing has two phases namely: data clean-up and data reduction. During data clean-up the collected raw data was edited to detect anomalies, errors and omissions in responses checking that the questions are answered accurately and uniformly. To reduce responses into a limited number of categories codes wewe assigned. After this, the processes of classification or arranging large volume of raw data into classes or groups on the basis of common characteristics was performed and then data entry or recording. Finally, tabulation and pie charts were used to summarize the raw data and display it for further analysis.

3.7.2 Data Analysis

The Statistical Package for Social Science (SPSS) version 20 was used to analyze the data obtained from primary sources. Descriptive statistics (mean and standard deviation) were taken from this tool.A binary logit model which best fits the analysis of determinant of access to credit by micro and small enterprises were employed.

Specification of the Logit Model

In this study binary logistic regression model was used to examine the relationship between the independent variables and dependent variable (MSEs access to credit).

The justification for using binary logistic regression model is its simplicity of calculation and that its probability lies between 0 and 1(two categories). Moreover, its probability approaches zero at a slower rate as the value of explanatory variable gets smaller and smaller, and the probability approaches 1 at a slower and slower rate as the value of the explanatory variable gets larger and larger (Gujarati, 2004).

But when the dependent variable are categorical, OLS regression technique produces parameter estimates that are inefficient and heteroscedastic error structure. As a result, testing hypothesis and construction of confidence interval becomes inaccurate and misleading (Gujarati, 2004).

Therefore, to alleviate these problems and come up with relevant out put the non-linear specification model will select i.e, the cumulative distribution function (CDFs) are commonly chosen to represent the 0-1 response model that are the logit and probit models. The logit model

assumes cumulative probability distribution function whereas the probit model is associated with the cumulative normal distribution (Gujarati, 2004). The logit and the probit model yield similar parameter estimates, but the cumulative logistic regression model is preferred because of its comparative mathematical simplicity and more meaningful interpretation of odds ratio (Gujarati, 2004).

Hosmer and Lemeshew (1989) pointed out that the logistic distribution (logit) has got advantage over the others in the analysis of dichotomous outcome variable in that it is extremely flexible and easily used model from mathematical point of view and results in a meaningful interpretation. Hence, the logistic model has been selected for this study.

Logistic regression model was used to determine factors that influence access to credit by MSEs from formal and informal financial institutions. Logistic regression is useful for this kind of a situation where prediction of the presence or absence of an outcome based on values of a set of predictor variables is needed. This model is similar to a linear regression model but it is suited to models where the dependent variable is dichotomous.

According to Gujarati, (2004), the cumulative logistic probability distribution model for this study is econometrically specified as follows:

$$P_i = F(Z_i) = \frac{1}{1 + e^{-(\alpha + \sum \beta_i X_i)}} \qquad (1)$$

Where P_i is the probability that an individual has accessed credit given X_i

X_i represents the i^{th} explanatory variables

α& βi are regression parameters to be estimated.

e is the base of the natural logarithm

For ease of interpretation of the coefficients, a logistic model could be written in terms of the odds and log of odd. The odds ratio is the ratio of the probability that MSEs would have access to credit (Pi) to the probability that MSEs would not have access to credit (1- Pi). That is,

$$\left(\frac{P_i}{1-P_i}\right) = e^{Z_i} \quad (2)$$

and taking the natural logarithm of equation (2) yields:

$$\ln\left(\frac{P_i}{1-P_i}\right) = Z_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \ldots + \beta_m X_m \quad (3)$$

If the disturbance term Ui is taken into account, the logit model becomes:

$$Z_i = \alpha + \sum_{i=1}^{m} \beta_i X_i + U_i \quad (4)$$

The dichotomous response variable Y= 0 or 1 with Y=1 denotes the occurrence of the event of interest while Y=0 denotes otherwise. The dummy variables, also known as indicators and bound variables, characterize dichotomous responses. In this study, since only two options are available, namely "access to credit" or "no access to credit" a binary model was set up to define Y=1 for situation where MSEs accessed credit and Y=0 for situations where MSEs did not access credit from either formal sources. The logistic regression in this study can therefore be specified as:

$Yi = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + U_i$

X1 denotes gender of operator

X2 denotes age of operator

X3 denotes educational level of the operator;

X4 denotes; possession of fixed Assets;

X5 denotes the age of the enterprise

X6 denotes firm Size the

X7denotes business sector;

X8 denotes interest rate

X9 denotes lending procedures

X10 denotes inflexible repayment period

3.8 Definition of Variables

3.8.1 Dependent variable

The dependent variable for the logit analysis is of dichotomous nature representing small MSEs access to credit. Y=1 for situation where MSEs accessed credit and Y=0 for situations where MSEs did not access credit from formal credit sources.

3.8.2. Independent/Explanatory variables of the study

Review of literatures on determinants of access to finance of MSEs, past research findings and the author's knowledge of the access to finance of MSEs in the study area were used to establish independent variables working of this study. In other words, among a number of factors, which have been related to MSEs' access to finance, in this study, the following entrepreneurial, firm level and institutional characteristics were hypothesized to explain the dependent variable.

Gender of the operator (X1): Gender (sex) of the operator of MSEs.Males are more likely to access credit than females.

Age of the operator (X2): Is a measure of age (in years) of the operator. Older operators are more likely to access credit formal financial institutions than younger ones.

Educational level of the operator(X3): Educational status of the MSE operator.Operators who have reached a higher level of education are more likely to access credit from formal financial institutions than operators of lower educational level.

Possession of fixed Assets (X4): Possession of tangible fixed asset that could serve as collateral. MSEs who have fixed asset are more likely to access credit from formal financial institutions than those who do not.

Age of the enterprise (X5): Age of the enterprise measured in number of years in which the MSE has been operating. Older MSEs are more likely to access credit formal financial institutions than younger ones.

Business sector (X6): The sector in which the MSE is engaged in. MSEs in the manufacturing sector are more likely to access credit formal financial institutions than MSEs in other sectors.

Firm Size (X7): Employment size of MSEs in terms of number of employees including family members. MSEs with larger employment size are more likely to access credit from formal financial institutions than MSEs with smaller employment size.

Interest rate(X8): Attitude of MSE operators towards interest rate charged by formal financial institutions and how it discourages loan application. MSE operators with a negative attitude towards interest rate will be discouraged from loan application and are less likely to access credit from formal financial institutions.

Lending procedures(X9): Attitude of MSE operators towards lending procedure of formal financial institutions and how it discourages loan application. MSE operators with a negative attitude towards lending procedure will be discouraged from loan application and are less likely to access credit from formal financial institutions.

Loan repayment period(X10): Attitude of MSE operators towards loan repayment period of formal financial institutions and how it discourages loan application. MSE operators with a negative attitude towards loan repayment period will be discouraged from loan application and are less likely to access credit from formal financial institutions.

Table 3. Name, type, code and value of variables

Name	Type	Code	Value
MSEs' access to credit	Dummy	CREDacc	Y=1if Access to credit, 0 if No access
Gender of the operator	Dummy	OPRgen	1 if MSE operator is female, 0 if male
Age of the operator	Categorical	OPRage	1 if 18-25, 2 if 26-30, 3 if 31-35, 4 if 36-40, 5 if >40
Educational level	Categorical	OPReduc	1 if No formal education, 2 if primary school, 3 if secondary school, 4 if TVET/College and above
Possession of fixed asset	Dummy	ENTass	1 if there is fixed asset, 0 otherwise
MSE age	Continuous	ENTage	MSE age in number of years
MSE employment size	Categorical	ENTsize	1 if 1-2 employees, 2 if 3-4, 4 if 4-5, 5 if >6
Sector	Categorical	ENTsector	1 if manufacturing, 2 construction, 3 urban agriculture, 4 service, 5 trade
Interest rate	Dummy	INT	1 if yes, 0 otherwise
Lending procedure	Dummy	LEND	1 if yes, 0 otherwise
Loan repayment period	Dummy	LEP	1 if yes, 0 otherwise

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Descriptive Statistical Analysis

The main objective of this study was to assess the determinants of access to finance in MSES in Bole sub-city. In order to achieve the objective questionnaires were distributed to a sample of 162 MSEs and 160 questionnaires were filled properly, with all of the questionnaires returned. MSEs' access to credit is affected by entrepreneur, firm level and institutional characteristics. This section provides descriptive analysis of the major source of initial and startup finance and difference between MSEs who had access to credit(Access) and MSEs which did not have access to credit (No access) with respect to explanatory variable which were hypothesized to affect MSEs' access to credit from formal financial institutions.

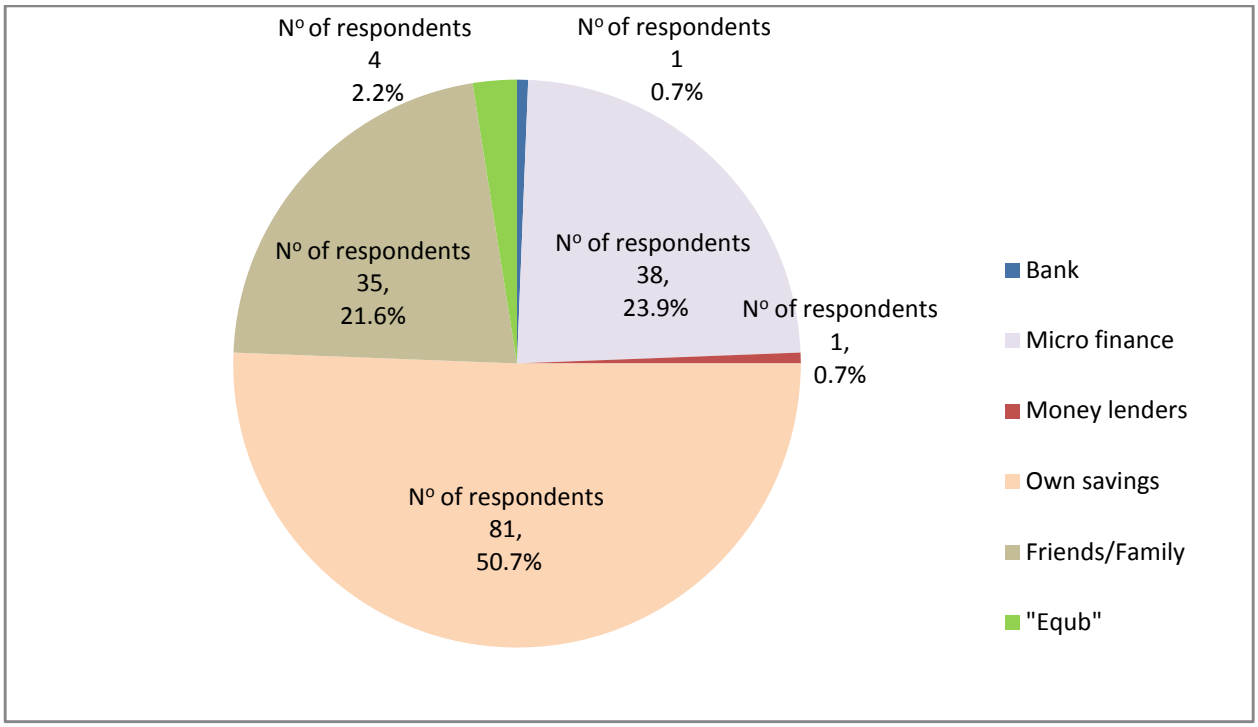
4.1.1. Source of Finance

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

As indicated in Graph 4.2, the major source of working capital finance is again from own savings representing 81(50.7%) of the source of working capital finance for sample MSEs that were surveyed. The highest percentage of working capital finance from informal financial institutions was represented by friends and family (21.6%) followed by "equb" (2.2%) and money lenders (0.7%). Formal financial institutions represented by microfinance and banks were sources of working capital finance for 23.9 percent and 0.7 percent of sample MSEs surveyed.

Most firms financed their business from own savings, MFI and friends/family. Few firms are also financed their business form equib and banks. This implies the major source of finance for MSEs are Owen saving, microfinance institutions friends/family due to many of the small firms do not have collateral that can provide for banks and also they do not meet the requirements that are set by banks. In short the major source of finance for SMEs in Bole sub-city was from informal and from formal financial institution mainly microfinance institution. The number of firm that was finance form their own saving and friend/family had a huge percentage. This implies that informal financial institutions are greatly contributing for the development of SMEs and creating of employment opportunities. This indicates that beyond startup, informal financial institutions are also serving as important sources of working capital finance. This also confirms the assertion by (Admasu, 2012) that formal financial institutions in Ethiopia have not been able to meet the credit needs of the MSEs

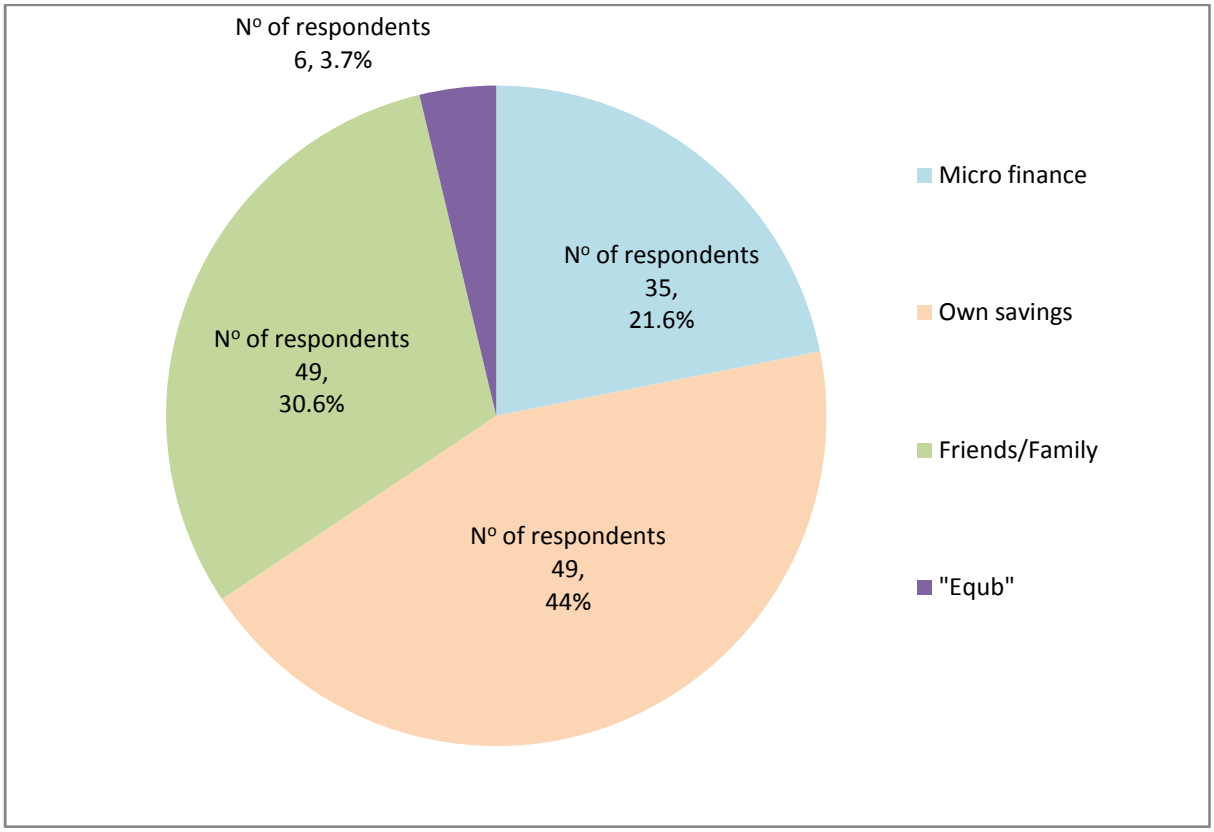
Graph 4.1: The major source of Initial/Startup Finance



Source: Own survey data 2018

In Ethiopia, formal finance has not yet superseded informal finance largely because the current working practices of formal financial intermediaries are not adapted to providing service in small packets at a cost that makes them affordable to the poor (Haftu et al, 2009). According to Graph4.1, for the largest percentage of sample MSEs surveyed (44%) in Bole sub-city, their source of initial or startup finance was own savings. The major sources of loan or credit on the other hand are friends and family (30.6%), microfinance (21.6%) and "Equb" (3.7%). This indicates that the major source of credit for MSEs (61.3%) during startup were informal financial institutions (friends/family and "equb"). Formal financial institutions, represented by micro finance served as a source of initial or startup finance for only 21.6 percent of MSEs surveyed and 28.7 percent of those who used credit.Its implies that informal financial institutions serve as the major source of finance for MSEs. This confirms the assertion by (Yared and Seneshaw, 2008; Admasu 2012), that informal financial institutions serve as the major source of finance for MSEs in Ethiopia.

Graph 4.2: Major source of working capital Finance



Source: Own survey data 2018

4.1.2 Entrepreneurs Demographic Characteristics

Entrepreneur's characteristics make a difference to the firm's ability and likelihood of accessing external finance (Cassar 2004). Entrepreneurs characteristics considered in this study were Age, Gender and Educational level.

4.1.2.1 Entrepreneur's Age and Access to Credit

Age is an important factor and it is often found that the personal financing preferences of entrepreneurs appear to change according to age (Abdulaziz et al., 2013). Table 4.1 shows a cross tabulation of entrepreneurs age and access to credit from formal financial institutions. The average age of respondents was 31.082 years, with minimum and maximum ages of 19 and 65 years respectively. The largest percentages of respondents were in the age group of 26-30 (36.6%) followed by age group of 18-25 (24.6%).Age group of >40 on the other hand makes up the least number of respondents. Comparing each age group with respect to credit access and no access, respondents within the age group of >40 had the highest percentage of those who were able to access credit from formal financial institutions. Respondents within the age group of 31-35 on the other hand the lowest percentage of those who were able to access credit from formal financial institutions. According to the survey result 79% of the respondents were below the age of 36 which means most of the MSEs entrepreneurs were young peoples and only 23% access to credit from formal financial institutions.

This indicates that owners or managers witholder age are more likely to access credit from formal financial institutions than those with younger age. This implies that the personal financing preferences of owners or managers appear to change according to age and the age of the entrepreneur is a significant determinant of the risk of borrowing. In line with this other researchers also argue that as the age of the owner or manger increases, so does his business experience, practical, wisdom and his income generating capacity. In addition, due to capability of the older entrepreneurs to accumulate assets which are used as collaterals, formal financial institutions perceive them as creditworthy. As a result, they are more likely to access credit from

formal financial institutions than the younger counterpart. This result is consistent with previous study of Anthony et al. (2009) but contrary to the study of Sabopetji and Belete (2013).

Table 4.1 Entrepreneur's age and access to credit from formal financial institutions

Entrepreneur's Age	No Access				Access				Total		
	N°.		%	%	N°.		%		No.		%
18-25	31		78.8	27	8		21.2	17	39		24.6
26-30	37		63.3	33	22		36.7	48	59		36.6
31-35	24		87	21	4		13	9	28		17.2
36-40	14		70.6	12	6		29.4	13	20		12.7
>40	8		58.3	7	6		41.7	13	14		9
Age mean		31				32				31.082	
St.dev		8.3				9.455				8.594	
Total	114		71.6	100	46		28.4	100	160		100

Source: Own survey data 2018

4.1.2.2. Entrepreneur's Gender and Access to Credit

The influence of gender on access to credit was of interest in this study. Diagne (2000) and Fletchiner (2009) argued that gender has an impact on credit access as men are in a better position to secure credit than female this is because unlike female entrepreneurs, male entrepreneurs own assets which can be used as a collateral security. The finding in this study reveals that with regard to gender, the sample was composed of 61.9% male and 38.1% female entrepreneurs (Table 4.2). The percentage of male entrepreneurs within no access and access to credit is 69.9 percent and 30.1 percent respectively. The percentage of female entrepreneurs within no access and access to credit on the other hand is 74.5 percent and 25.5 percent respectively.Comparing the percentage of those with access to credit withmale entrepreneurs (30.12%) and percentage of those with access to credit within female entrepreneurs (25.49%) shows that there was no significant difference between the numbers of males and females with access to credit from formal financial institutions. This implies that formal financial institutions

do not set a difference in lending to MSE operators by gender and females are not different from males in accessing credit from formal financial institutions.

Table 4.2. Cross tabulation of demographic characteristics and access to credit

Characteristics	No access		Access		Total	
	N°	%	N°	%	N°	%
Gender						
Male	69	69.9	30	30.1	99	61.9
Female	45	74.5	16	25.5	61	38.1
Total	114	71.6	46	28.4	160	100

Source: Own survey data 2018

4.1.2.3 Entrepreneur's Educational Level and Access to Credit

A scholar such as Kimuyu and Omit (2000) argues that, as the level of education of entrepreneur increases, the chances to secure credit increases as well. A scholar argue that, as the level of education increases, the ability to prepare and maintain financial records increases and hence increases chances to secure credit. Level of education was also a variable of interest to the researcher .According to the survey result; about 7.5 per cent of the respondents were illiterate, while the rest 92.5 per cent of the respondents were literate of which 20.1 percent had reached primary school, 47 percent secondary school and 25.4 percent TVET/College and above (Table 4.3). With respect to access to credit, 10 percent of those within no formal education, 18.5 percent of those who have reached primary school, 25.4 percent of those within secondary school and 47.1 percent of those within TVET/College had access to credit. It implies that, those with higher level of education had more access to credit from formal financial institutions than those with lower levels or no formal education.

Table 4.3 Educational level and access to credit from formal financial institutions

Educational Level	No access		Access		Total	
	N°	%	N°	%	N°	%
No Formal Education	11	90	1	10	12	7.5
Primary School	26	81.5	6	18.5	32	20.1
Secondary School	56	74.6	19	25.4	75	47

TVET/College and Above	22	52.9	19	47.1	41	25.4
Total	115	71.6	45	28.4	160	100

Source: Own survey data 2018

4.1.3 Firm Level Characteristics

Characteristics of MSEs affect their financial decisions and behavior and ultimately the firm's performance and growth (Abdulaziz et al., 2013). The firm level characteristics considered in this study are possession of fixed asset, age and employment size.

4.1.3.1 Possession of Fixed Asset and Access to Credit

With respect to possession of fixed asset, only 50(31.3 %) of sample MSEs surveyed had fixed asset in possession (Table 4.4). The rest 110(68.7%) of MSEs did not have a fixed asset. Among MSEs who had fixed asset, 19(38.1%) were able to access credit from formal financial institutions while the rest 31(61.9%) did not. On the other hand, among MSEs which did not have fixed asset 26(23.6%) were able to access finance while the rest 84(76.3%) did not.This implies with significant number of MSEs with fixed asset being unable to access credit from formal financial institutions wereas more of MSEs in number were able to access credit without possession of fixed asset, this shows possession of fixed asset does not influence the probability of access to credit from formal financial institutions.

Table 4.4: Possession of fixed asset and status of access to credit

Characteristics		No Access			Access			Total	
		N^{o}	%		N^{o}	%		N^{o}	%
Possession of fixed asset	No	84	76.3	73	26	23.6	57	110	68.7
	Yes	31	61.9	27	19	38.1	43	50	31.3
Total		115	71.6	100	45	28.4	100	160	100

Source: Own survey data 2018

4.1.3.2 Firm Age and Access to Credit

Firm age in this study indicates the operating period of the enterprise in number of years. Table 4.5 indicates that the mean age of MSEs with no access to finance 3.234 yrs and those with

access to finance is 3.6316 yrs with a minimum age of 1 and a maximum of 10 in both groups. This shows that there is not substantial difference between the age of MSEs with access and no access to credit.

Table 4.5: Mean age of MSEs and access to credit

Characteristics	*No access*	*Access*
Age of MSE mean	3.2344	3.6316
St.dev	2.4494	1.84788
Min	1	10
Max	1	10

Source: Own survey data 2018

4.1.3.3. Employment Size and Access to Credit

According to the survey, most of the MSEs (50.7%) have 1-2 employees. Similarly 20.1 percent had >6 employees, 11.2% 5-6 employees and 17.9% 3-4 employees (Table 4.6). Coming to access to credit 55.6 percent of MSEs with >6 employees, 33.3% of those with 5-6 employees, 20.2 percent of those with 3-4 employees and 16.2 percent of those 1-2 employees had access to credit. This indicates that MSEs with large number of employees (size) had better access to credit than MSEs with smaller number of employees (size). We can therefore say that employment size of MSEs affects the probability of access to credit from formal financial institutions.

Table 4.6: Employment size of MSEs and status of access to credit

Employment Size of MSEs	**No access**			**Access**			**Total**	
	Nº	**%**		**Nº**	**%**		**Nº**	**%**
1 to 2	68	83.8	59.1	13	16.2	28.9	81	50.7
3 to 4	21	70.8	18.3	8	29.2	17.8	29	17.9
5 to 6	12	66.7	10.4	6	33.3	13.3	18	11.2
>6	14	44.4	12.2	18	55.6	40	32	20.1
Total	115	71.6	100	45	28.4	100	160	100

Source: Own survey data 2018

4.1.3.4. Business Sector and Access to Credit

The sector in which MSEs are engaged in was also hypothesized to affect access to credit. As indicated in Table 4.7, most of the MSEs surveyed (35.8%) are involved in the trade sector. With respect to access to credit formal financial institutions, MSEs within the construction sector have the highest percentage of access to credit (50%) followed by manufacturing sector (36.4%). MSEs within trade sector have the least percentage of those who had access to credit (18.8%) followed by service (22.6%) and urban agriculture (30.8%). This indicates that MSEs involved in construction sector comparably had more probability of access to credit from formal financial institutions than other sectors. MSEs engaged in trade sector on the other hand had comparably less probability of access to credit from formal financial institutions than other sectors.

Table 4.7: Sector of MSEs and status of access to credit

Sector of MSE	No access		Access		Total	
	No	%	No	%	No	%
Construction	12	50	12	50	24	14.9
Manufacturing	17	63.6	9	36	26	16.4
Urban agriculture	11	69.2	5	31	16	9.7
Service	29	77.4	8	23	37	23.1
Trade	46	81.2	11	19	57	35.8
Total	115	71.6	45	28	160	100

Source: Own survey dat

4.1.4 Institutional Characteristics, Application for Loan and Access to Credit

4.1.4.1 Application for Loan and Access to Credit

With respect to loan application and access to credit, only 73(45.5%) of the total MSEs surveyed applied for loan from formal financial institutions (Table 4.8). The rest 54.5% did not apply for loan and their reasons have been presented in Table. Of those who applied for loan from formal financial institutions, only 45 (62.3%) were successful in obtaining loan. This indicates that most of the MSEs did not apply for loan from formal financial institutions and even from those who applied for loan 28 (37.7%) were rejected.

Table 4.8: Application for loan and access to credit from formal financial institutions

	Did you apply for loan from formal financial institutions?	Did you receive loan from formal financial institutions?

Response	Freq.	Percent	Freq.	Percent
No	87	54.5	28	37.7
Yes	73	45.5	45	62.3
Total	160	100	73	100

Source: Own survey data 2018

Finance is the heart of improvement process for MSEs helping them set up and expand their operations, build up new products, and invest in new staff or production facilities (World Bank, 2008). Growth, access to new technology, access to markets, access to essential resources, are mainly dependent on access to finance. In order to fulfill the aforementioned objectives every entrepreneur is therefore expected to apply for loan unless there are factors hindering him from doing so.

As above mentioned of the total firms in our study, 73 of them applied and 87 did not apply due to different reason. According to (Table 4.9) majority of the firm's (65.8%) did not apply for loan from formal financial because the lending procedure of financial institutions was difficult,(45.2%)of the firms also did not apply because of inflexible loan repayment period of financial institutions, (45.2%) did not apply because of lack of collateral that can pledge to financial institutions,interest rate (35.6), fear of repayment of loan (17.8%) and loan was not needed because they have enough money that can run for their business 15.1%.This indicates that most MSEs did not apply for loan not because the loan was not needed but because of their attitude towards lending procedure of the institution.

Table 4.9 Reason MSEs did not apply for loan from formal financial institutions

Reason the firm did not apply for loan from from formal financial institution	No		Yes		Total
	N°.	%	N°.	%	N°.
The firm did not want to risk (or did not have) collateral	48	54.8	39	45.2	87
The interest rate is high	56	64.4	31	35.6	87
The lending procedure of the institution is difficult	30	34.2	57	65.8	87
The institution has inflexible repayment period	48	54.8	39	45.2	87
Fear of repayment of the loan	72	82.2	15	17.8	87
The loan was not needed	74	84.9	13	15.1	87

Source: Own survey data 2018

On the other hand Table 4.10 summarizes reasons for which the loan application those who applied but did not access loan was rejected. The main reason why their loan application was rejected is because of lack of collateral which represents 69.9 percent of the respondents whose loan application was rejected. The other reasons were favoritism (17.4%), lack of sound financial statement (8.7%) and Sector bias (4.3%).

Table 4.10: Reasons for rejection of loan application by formal financial institutions

Reasons for Rejection of Loan Application	Frequency	Percent
Lack of collateral	20	69.6
Lack of sound financial statement	2	8.7
Sector bias	1	4.3
Other(favoritism)	5	17.4
Total	28	100

Source: Own survey data 2018

4.1.4.2 Institutional characteristics and Access to Credit

The main institutional characteristics considered in this study are interest rate, lending procedure and loan repayment period. These are related to lending policies of financial institutions, their service provision and its effect on MSEs' access to credit. MSEs' attitude towards the lending policy and service provision by formal financial institutions will affect their probability of access to credit since those with negative attitude will be discouraged from loan application and access to credit. Table 4.11 summarizes the major factors that discourage loan application by MSEs to formal financial institutions. Among them, lending procedure (73.9%) was the most common factor that discourages MSEs from applying for loan followed by loan repayment period (68.7%) collateral requirement (64.2%) and interest rate (49.3%). This indicates that lending policies of financial institutions and their state of their lending service and attitude of MSE operators towards these factors discourages loan application and therefore access to credit.

Table 4.11 Respondents attitude towards factors that affect access to credit

Factors that discourage loan application	No		Yes		Total
	No.	%	No.	%	No.
Collateral requirement	57	35.8	103	64.2	160

Interest rate	81	50.7	79	49.3	160
The lending procedure	42	26.1	118	73.9	160
Loan repayment period	42	31.3	110	68.7	160

Source: Own survey data 2018

4.2 Model Output

4.2.1 Multicollinearity diagnosis

Prior to running the logistic regression model, both the continuous and discrete explanatory variables were checked for the existence of multi-collinearity problem. The problem arises when at least one of the independent variables is a linear combination of the others. The existence of multi-collinearity might cause the estimated regression coefficients to have the wrong signs and smaller t-ratios that might lead to wrong conclusions. In this study, Variance Inflation Factor (VIF) was used to test the presence of multi-collinearity.

The technique of variance inflation factor (VIF) was employed to detect the problem of multi-collinearity among the continuous variables. According to Gujarati (2004), VIF can be defined as: VIF (xi) = $1/1\text{-}R_i^2$

Where, R_i^2 is the square of multiple correlation coefficients that results when one explanatory variable (Xi) is regressed against all other explanatory variables. The larger the value of VIF (xi) the more "troublesome" or collinear the variable Xi is. As a rule of thumb, if the VIF of a variable exceeds 10, there is a multi-collinearity problem. In this study, there is no value greater than 10 (*Appendix1*) and therefore no multi-collinearity problem.

4.2.2 Determinants of MSEs' Access to Formal Sources of Credit

The binary logit model was used to identify the major determinants of MSEs' access to formal sources of finance. In the logit model analysis, we emphasize on considering the combined effect of variables between MSEs' that are formal credit users and non-users in the study area. The emphasis therefore, is on analyzing the variables together. By considering the variables simultaneously, we are able to incorporate important information about their relationship.

Logistic regression assumes that P(Y=1) is the probability of the event occurring. The dependent variable was therefore coded accordingly. The result of the binary regression variable i.e the probability of being P(Y=1). The variables that were found to be significant at 5 percent or less have been indicated with (*) and (**).

Entrepreneur's age (age category of 31-35), educational level of the entrepreneur (no formal education), employment size of MSEs (1 to 2), lending procedure were found to be significant in determining MSEs access to formal financial institutions. On the other hand, entrepreneur's age (age categories 18-25, 26-30 and 36-40), entrepreneur's gender, educational level of the entrepreneur (primary school, secondary school), possession of fixed asset, employment size (3-4, 5-6), MSE sector, interest rate and loan repayment period of financial institutions were found to be insignificant in determining the probability of MSEs access to credit from formal financial institutions. Below is a summary of the results of the logistic regression model.

Table 4.12: Result of Logistic regression estimation

Variables	Coefficient	Wald statistics	Significance level	Odds ratio
Entrepreneur Characteristics				
Entrepreneur's age(reference >40)		-	-	
18-25	-.870	.855	.355	.419
26-30	-.412	.227	.633	.663
31-35	-2.256	4.470	**.034****	.105
36-40	-1.006	.969	.325	.366
Gender	.346	.338	.561	1.414
Educational Level(reference TVET/College and above)		-	-	
No formal education	-2.901	4.867	**.027****	.055
Primary school	-1.030	1.741	.187	.357
Secondary school	-.665	1.207	.272	.514
Firm level Characteristics				
Possession of fixed asset	.672	.810	**.**194	1.958
Employment Size(reference > 6)		-	-	

1-2	-1.968	7.219	**.007***	.140
3-4	-1.138	2.031	.154	.321
5-6	-.841	.995	.319	.431
Sector(reference Manufacturing)		-	-	
Construction	.677	.677	.410	1.968
Urban agriculture	.833	.725	.395	2.301
Service	-.390	.219	.640	.677
Trade	-.435	.275	.600	.647
Institutional characteristics				
Interest rate	-.223	.170	.680	.800
Lending procedure	-1.454	6.128	**.013****	.234
Loan repayment period	-.534	.295	.179	.680

Source: Own survey data 2018

*** Indicates 1 percent level of significance, ** Indicates 5 percent level of significance**

4.2.3 Interpretation of the Result of the Model

Lending procedure

The variable lending procedure has a negative and statistically significant relationship with MSEs' access to credit from formal financial institutions at 5% level of significance. With an odds ratio of 0.234, MSE operators who have a negative attitude about lending procedure are 0.234 times less likely to access credit from formal financial institutions than those who do not. Therefore the hypothesis that "*lending procedureof financial institutions negatively affects MSEs' access to finance*" is accepted. This result is consistent with a study by Green (2003).

To get formal loans entrepreneurs are expected to pass through different processes, which are time-taking, what is displayed in form of prescribed minimum loan amounts, complicate application procedures and give restrictions on credit for specific purposes, cumbersome and sometimes difficult to understand. Rather they prefer to take loan from the informal credit institutions for the sake of ease even if it charges higher interest rates. Schmidt and Kropp (1987) pointed out that in most cases the access problem especially among formal financial institutions, is often created because lending policies. When terms of payment, required security and the

provision of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access (Schmidt and Kropp, 1987)

Age of entrepreneurs

Assuming all other factors remain constant, the variable entrepreneur's age has a positive and statistically significant effect on MSE's access to credit from formal financial institutions at 5% level of significance. Taking Entrepreneur's age of >40 as a reference, we can see that the odds ratio for entrepreneurs between the age of 31-35 is 0 .105. This indicates that entrepreneurs between the ages of 31-35 are 0 .105 times less likely to access credit from formal financial institutions than those with age of >40. Therefore the hypothesis that "*MSEs run by older operators tend to have more access to finance than those run by younger ones*" is accepted. This result is consistent with previous study of Anthony et al. (2013) but contrary to the study of Sabopetji and Belete (2009).

The personal financing preferences of entrepreneurs appear to change according to age and the age of the entrepreneur is a significant determinant of the risk of borrowing. This implies that as the age of an entrepreneur increases, so does his business experience, practical, wisdom and his income generating capacity (Swain, 2001).This can partly explained by the fact that older entrepreneurs tend to possess more work experience, higher levels of education, wealth, social capital and more experience with the credit market. In addition, due to capability of the older entrepreneurs to accumulate assets which are used as collaterals, formal financial institutions perceive them as creditworthy. As a result, they are more likely to access credit from formal financial institutions than the younger entrepreneurs.

Educational level of the MSE operators

Assuming all other factors remain constant, educational level of the MSE operators or managers has a positive and statistically significant effect on MSEs' access to credit from formal financial institutions at 5% level of significance. Taking higher level of education as a reference

(TVET/College and above) we can see that the odds ratios for no formal education is 0.055. This indicates that compared to MSE operators or mangers who have attended TVET/College and above, those with no formal education are 0.055 times less likely to get credit from formal financial institutions at the given level of significance. Therefore the hypothesis that "*MSE operators with higher education have more access to finance than those with lower or no education*" is accepted. This result is consistent with previous studies of Omboi and Priscilla (2011), Coleman, (2007), Charles (2009) but contrary to Tsegaye's(2013).

Employed by institutional financiers as a proxy for human capital, the educational background of the MSE operators is often positively related to the firm's usage of leverage (Coleman, 2007). As for the demand side, Storey (1994) asserts that higher levels of education provide entrepreneurs with greater confidence in dealing with bankers and other funders when applying for loans.

Irwin and Scott (2010) also assert that firstly, more educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less educated entrepreneurs. Secondly, the educated entrepreneurs have the skills to manage the other functions of the business such as finance, marketing, human resources and these skills results to high performance of the business which helps those firms to access finance without any difficulty. The third reason stems from the supply side, where the bankers value higher education level of the owner/manager in the loan approval process as an important criterion (Irwin and Scott, 2010).

In this respect, education increases a person's ability to access information and skills. The information and skills are important in formulating projects which can attract credit from financial institutions. Enterprises with more educated owners can be expected to have more access to institutional credit than enterprises with less educated owners. This is because less educated owners tend to have difficulty with application procedures and expect to be rejected. Furthermore, better educated managers are more likely to have managerial skills in finance, marketing, production and international business that would lead to the firm's growth.

We can therefore say that Level of education is a major factor that affects MSEs' access to credit from formal financial institutions. This probably is either because a higher education means that entrepreneurs are more articulate and more likely therefore to persuade the formal financial institutions that they have a viable proposition or because financial institutions value entrepreneurs with higher education.

Employment Size of MSEs

Assuming all other factors remain constant, employment size is another factor that has a positive and significant effect on MSEs' access to credit from formal financial institutions at 1% level of significance. Taking MSEs with employment size of >6 as a reference, the odds ratio for MSEs with employment size of 1-2 is 0.140. This means that compared to MSEs with >6 employees, MSEs with 1-2 employees are 0.140 times less likely to access credit from formal financial institutions. Therefore the hypothesis that "*MSEs with larger employment size have more access to finance that those with smaller employment size*" is accepted. This result is consistent with previous studies of Cassar (2004), Gebru(2009), Honhyan(2009).

A World Bank survey confirms that large firms everywhere generally have more access to bank credit than small firms (Cull et al., 2005). Formal sector credit is out of reach for smaller enterprises and compared to large firms, smaller firms face a relative disadvantage to raise finance from formal institutions such as banks because they are considered to have higher financial risk (Gebru, 2009). Small firms face with information opacity such as being unable to provide financial information. When the firm is small, most of the time it is owned and operated by the entrepreneur himself and there is no such legal requirement to regularly report financial information and many firms do not maintain audited financial accounts.

Possession of Fixed Asset

The firm level characteristicspossession of fixed asset was hypothesized to have significanteffect on access to credit from formal financial institutions with positive perception about possession of fixed asset thought to affect decision of the lenders to give credit to MSE operators and owner

mangers.Yet according to the survey among MSEs who owned fixed asset only one third of the firms were able to access credit, This implies that possession of fixed asset does not influence the probability of access to credit from formal financial institutions**.**

Gender of the MSE operators

According to the survey, the variable related to entrepreneur characteristics Gender had no significant effect on access to credit from formal financial institutions. Gender was hypothesized to have an effect on access to credit from formal financial institutions with males thought to having more access than females. Yet there was no significant difference between the numbers of males and females with access to credit from formal financial institutions. This implies that formal financial institutions do not set a difference in lending to MSE operators by gender and females are not different from males in accessing credit from formal financial institutions.

Age of the MSE

The firm level characteristics age did not have significant effect on access to credit from formal financial institutions. Age **of** the MSEwas hypothesized to have an effect on access to credit from formal financial institutions with older MSEs thought to have more access to finance than younger ones. However according to the survey the firm level characteristics age did not have significant effect on firms access to credit with mean age of 3.23 years for those with no access and mean age of 3.63 years for those with access. This implies that contrary to other studies that indicate that older MSEs have better access to finance from formal financial institutions, operating period or age of the enterprise does not create a difference with respect to access to credit from formal financial institutions.

Sector MSEs engaged

The firm level characteristics sector also did not have a significant effect on MSEs access to credit from formal financial institutions. It was hypothesized that MSEs in the manufacturing sector would have better access to credit from formal financial institutions than other sectors. Yet, although there is a positive relationship between sector and access to credit it is not significant. This implies that financial institutions do not discriminate between sectors when

giving loans. Besides, since the overall percentage of MSEs with fixed asset is low, the presence of tangible assets which is more often associated with the manufacturing sector is not in the sample MSEs surveyed and therefore does not contribute to better access to credit of the manufacturing sector

Interest rate

The institutional characteristics interest rate was hypothesized to have significant effect on access to credit from formal financial institutions with negative perception about interest rate thought to affect decision by MSE operators and owner mangers to apply for loan. Yet according to the survey, interest rate did not have significant effect on access to credit from formal financial institutions. The explanation could be that since the maximum amount of interest rate charged by the main microfinance institution in Addis Ababa is 10% and because there are MSEs which previously received credit with less interest rate; it is not perceived as a barrier for access to credit.

Table 4.13: Summary of Hypothesis tests

	Hypothesis	**Result**	**Sig. Level**
1	Male operated MSEs have more access to finance than female operated MSEs.	Not Supported	0.56
2	MSEs run by older operator tend to have more access to finance than those run by younger ones.	**Supported**	**0.05**
3	MSE operators with higher education have more access to finance than those with lower or no education.	**Supported**	**0.05**
4	MSEs which possess fixed asset are more likely to have access to finance than those which do not.	Not Supported	0.19
5	MSEs engaged in the manufacturing sector have more access to finance than MSEs engaged in the other sectors.	Not Supported	0.72
6	MSEs that are older have more access to finance to than MSEs that are young.	Not Supported	0.41

7	MSEs with larger employment size have more access to finance that those with smaller employment size.	**Supported**	**0.01**
8	Interest rate of financial institutions negatively affects MSEs' access to finance.	Not Supported	0.68
9	Lending procedures of financial institutions negatively affect MSEs' access to finance.	**Supported**	**0.05**
10	*Loan repayment period of financial institutions negatively affects MSEs' access to finance.*	Not Supported	0.17

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

The aim of this study was to investigate determinants of access to finance for MSEs in Bole sub city. Random sampling was used in order to select 160 sample MSEs. Primary data was then collected from MSE operators and owner managers by using structured questionnaire. Both descriptive and binary logistic regression was then used to analyze data that generated through cross sectional study.

The study was focused on entrepreneur 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 formal financial institutions.

Descriptive statistics result indicates that for the largest percentage of sample MSEs surveyed (44%), their source of initial or startup finance was own savings followed by Friends and family indicating that that informal financial institutions serve as the major source of finance for MSEs in Bole sub-city.

Although much of the sample MSE were males (61%) there was only a very small difference between the percentage of male entrepreneurs with access to credit (30.12%) and the percentage

of female entrepreneurs with access to credit (25.49%). This implies that that gender does not have an effect on MSEs' access to credit from formal financial institutions. The same thing applies to age of the entrepreneur. The mean age of respondents was 31.082 years, with minimum and maximum ages of 19 and 65 years respectively. There is almost no difference between the mean age of those who were able to access credit from formal financial institutions and those who did not indicating that age of the entrepreneur does not have an effect on MSEs' access to credit from formal financial institutions.

MSE operators and owner managers who have reached TVET/College and above had much more access to credit from formal financial institutions than those who have reached primary school and those with no formal education. This indicates that MSE operators and owner managers with higher level of education had more access to credit than those with lower levels or no formal education.

According to the survey, MSEs with >6 employees had the highest percentage (39.5%) of access to credit from formal financial institutions indicating that MSEs with higher employment size do have better access to credit from formal financial institutions than those with lower employment size.

The percentage distribution of MSEs with access to credit from formal financial institutions is evenly distributed across all sectors indicating that the sector in which MSEs are engaged in does not have a pronounced effect on their access to credit from formal financial institutions.Possession of fixed asset does not influence the probability of access to credit from formal financial institutions. With significant number of those with fixed asset being unable to access credit from formal financial institutions.

Among major factors that are perceived by MSEs affecting their decision for applying for loan from formal financial institutions them, lending procedure (73.9%) was the most common factor followed by loan repayment period and collateral requirement.

The results of the binary logistics model also indicates that educational level of the entrepreneur,age of entrepreneur, employment size of MSEs, and perceptions about lending

procedure and had statistically significant effects on access to credit from formal financial institutions. In contrast gender of the entrepreneur, firm age, possession of fixed asset, perception about interest rate and loan repayment period had no effect on MSEs' access to credit from formal financial institutions.

The probability of access to credit from formal financial institutions increased as the level of education increased with entrepreneurs who have reached TVET/College being 2.8 times 18.18 times more likely to access credit than those who have reached primary level and those with no formal education respectively. MSEs with employment higher employment size were also more likely to access credit from formal financial institutions with MSEs having more than 6 employees 7.14 times more likely to access credit from formal financial institutions compared to MSEs that have 1-2 employees.

The results of thebinary logistics model indicate thatMSEs run by entrepreneurs above the age 40 years are 9.52 times more likely to access credit from formal financial institutions than those between the age of 31-35 years.

The attitudes of MSE operators or managers towards lending procedures were also found to significantly affect their decision to apply for loan from formal financial institutions. MSE operators or managers with negative attitude about lending procedures of formal financial institutions were 0.234 times less likely to access credit from formal financial institutions than those who did not.

The perception of MSE operators and owner managers towards lending procedures were found to significantly affect their decision to apply for loan from formal financial institutions. MSE operators and owner managers because of their negative perception about lending procedures were found to be less likely to apply for loan and therefore access credit from formal financial institutions.

5.2 Conclusion

Access to finance is one of the key obstacles of MSEs not only when starting the business project but also whenoperating. Identifying the major determinants of access to finance is therefore quite crucial. The results of the binary logistics model indicate thatMSEs run by entrepreneurs above the age 40 years are 9.52 times more likely to access credit from formal financial institutions than those between the age of 31-35 years. The probability of access to credit from formal financial institutions also increased as the level of education increased with entrepreneurs who have reached TVET/College being 18.18 times more likely to access credit from formal financial institutions than those with no formal education. MSEs with higher employment size were also more likely to access credit from formal financial institutions with MSEs having more than 6 employees 7.14 times more likely to access credit from formal financial institutions compared to MSEs that have 1-2 employees.

The attitude of MSE operators or managers towards lending procedures was also found to significantly affect their decision to apply for loan from formal financial institutions. MSE operators or managers with negative attitude about lending procedures of formal financial institutions were 0.234 less likely to access credit from formal financial institutions than those who did not.

Taking the findings, the study concludes that the major source of startup finance and also working capital is own savings. The major source of credit for startup on the other hand is family and friends followed by microfinance and ‘equb’. The major source of credit for working capital is also informal financial institutions. Age of the entrepreneur, educational level of the entrepreneur, employment size of MSEs, and perceptions about lending procedure had statistically significant effects on access to credit from formal financial institutions. In contrast gender of the entrepreneur, possession of fixed asset, firm age, sector and perception about loan repayment and interest rate had no effect on MSEs’ access to credit from formal financial institutions.

5.3 Recommendation

In spite of the enormous importance of the micro, small and medium enterprises (MSME) sector to the Ethiopian economy with regards to job creation and the alleviation of abject poverty, the sector is facing financial challenges, which impeded its role in the economy. There are various factors that affect access to finance of MSEs. Recognizing their heterogeneity and devising policies and support programs to alleviate these problems is quite important. Appropriate understanding of these factors is therefore important in order to solve financial needs of MSEs and help them prosper and achieve their objectives in creating employment and alleviating poverty. It will also help the government and nongovernmental organizations to formulate policies and strategies that work towards meeting the financial needs of MSEs. On the basis of the findings and conclusions reached, the following recommendations have been forwarded.

Age of the entrepreneur has a significant effect on MSE access to credit. It is therefore important to encourage young MSE operators to participate in credit market and compensate their lack of experience with pertinent training and by follow up of proper implementing "Youngers rotation fund".

Educational level of entrepreneurs has enormous effect on access to credit from formal financial institutions. Concerned bodies of both the government and non-governmental institutions should work to create awareness and facilitate the provision of additional training for those with lower educational level (i.e primary school and those with no formal education). Additional training in business plan development and loan request procedures will be important. Addis Ababa city MSE development office and Bole sub city MSE development agency should therefore work in this regard.

Growth in number of employees is a one of the indicators of MSEs growth and in order to grow MSEs should have adequate access to finance. MSEs with lower employment size are less likely to access finance from formal financial institutions and unless mechanisms of better access to finance are no devised these MSEs will find it very difficult to grow. Although most of the MSEs with the lowest employment size are largely found in the trade sector, they are distributed all over the sectors. Even though the current policy of the government emphasizes the support

provided to manufacturing and construction access to credit is still limited for these sectors. Considering the potential for large employment opportunities within these sectors, proper implementation of current policies and alleviating pitfalls in provision of finance to these and all the other sectors should be thoroughly considered.

Lending procedure of financial institutions is one of the major factors that affect decision of MSE operators and owner managers to apply for loan. The government in collaboration with financial institutions should therefore work to solve this problem and ease lending procedure.

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Appendix 1

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Age of the owner/operator	.872	1.147
	Gender of the owner/operator	.763	1.310
	Educational Level of the owner/operator	.914	1.094
	Age of MSE	.826	1.211
	Employement Size of MSE	.689	1.451
	Sector of MSE	.540	1.851
	Possesion of Fixed Asset	.745	1.342

	Interest rate	.843	1.187
	Duration of loan repayment	.870	1.150
	Lending procedure	.833	1.201

Appendix 2

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Department of Accounting andFinancePost graduateProgram

Dear respondent,

I am a graduate student of MSc in Accounting and Finance inAddis Ababa University. Currently, I am undertaking a research entitled ***'Determinants of Access to Finance in Micro and Small Enterprises in Bole sub-city'***. You are one of the respondents selected to participate on this study. Please assist me in giving correct and complete information to present a representative finding on the current status of ***'Determinants of Access to Finance in Micro and Small Enterprises in Bole sub-city'***. Your participation is entirely voluntary and the questionnaire is completely anonymous. Finally, I confirm you that the information that you share me will be kept confidential and only used for the academic purpose. No individual's responses will be identified as such and the identity of persons responding will not be published or released to anyone. All information will be used for academic purposes only. Thank you in advance for your kind cooperation and dedicating your time.

Enelefew Berhanu

Instructions

- No need of writing your name
- Indicate your answers with a check mark (√) in the appropriate block or column.

1. Entrepreneur characteristics:

1.1 Age_____

1.2 Gender
A. Female □ B. Male □

1.3 What is the highest level of education completed by the owner/operator? _____
A. No formal education□ B. Primary school □ C. Secondary school □ D. TVET/College and above□

2. Firm characteristics

2.1 What is the age of your firm? _____

2.2 How many employees do you have at this time?

A.1-2 □ B. 3-4□ C.5-6□ D.>6 □

2. 3 In which sector is the firm involved?

A. Manufacturing□ B. Construction□ C. Urban-Agriculture□ D. Service□ E. Trading□

2.4 The premises you are currently working in is?

A. Own □ B. Rented □ C. Family (rented) □ D. Family (free) □ E. Other_____

2.5 Does the firm have any fixed asset (House, Land, Vehicle etc)?

A. Yes□ B. No□

2.6 If 2.5 is yes what type of fixed asset does the firm possess?

A. House □ B. Land □ C. Vehicle □ D. _____

2.7 Comparing the amount of fixed asset possessed by the firm at the time of establishment and now, the amount of fixed asset has:

A. Increased B. Decreased

3. Source of finance and Institutional Characteristics

3.1 What is your major source of your initial finance? (Multiple answers is possible)

A. Banks □ B. MFI □ C. Money lenders □ D. Own savings □ E. Friends/family □ F. Equib □ G. Other_____

3.2 What is your major source of working capital?

A. Banks □ B. MFI □ C. Money lenders □ D. Own savings □ E. Friends/family □ F. Equib □ G. Other_____

3.3 Did you apply for loan from formal financial institutions within the last 3 years?

A. Yes □ B. No □ (if No, skip to question3.7)

3.4 If Q3.3is yes, which formal financial institution did you apply to?

A. Banks □ B. MFI □ C. Other_____

3.5 Did you receive any loans from formal financial institutions within the last 3 years?

A. Yes □ (, please fill out the questions below) B. No □ (if No, skip to Q 3.6)

Name of the institution	Value of the loan	Value of interest rate	Repayment system (daily, monthly, annually)	For how long will stay the loan	Purpose of the loan
1.Bank					
2.MFI					
3.Other					

3.6Why did the formal institution reject your loan application?

Bank	**MFI**	**Other_____**
1.Lack of collateral □ 2. Lack of sound financial statement □ 3. Poor repayment history □ 4. Sector bias □ 5. Risky venture □ 6. Others _____	1.Lack of collateral □ 2. Lack of sound financial statement □ 3. Poor repayment history □ 4. Sector bias □ 5. Risky venture □ 6. Others_____	1.Lack of collateral □ 2. Lack of sound financial statement □ 3. Poor repayment history □ 4. Sector bias □ 5. Risky venture □ 6. Others _____

3.7 Why the firm did not apply for loan? (Multiple answers is possible)

The reason the firm did not apply for loan from formal financial institutions	**Yes**	**No**
1. The firm did not want to risk its collateral (house, any asset)		
2. The interest rate is high		
3. The lending procedure of the institution is difficult (too much paper work)		
4. The institution has inflexible repayment period		
5. Fear of repayment the loan		
6. The loan was not needed		
7. Other_____		

3.8 If the firm did apply, would the formal financial institution have accepted the application?

A. Yes □ B. No□

3.9 Did you apply for loan from informal financial institutions within the last 3 years?

A. Yes □ B. No □ (please skip to question3.12)

3.10 If Q3.8 is yes, which informal financial institution did you apply?

A. Equb □ B. Family/Friend's □ C.Money lenders□ D. Others_____

3.11 Did you receive any loans from informal financial institutions within the last 3 years?

A. Yes □ (, please fill out the questions below) B. No □(if No skip to Q 3.13)

Name of the institution	Value of the loan	Value of interest rate	Repayment system	For how long will stay the loan	Purpose of the loan
1.Equib					
2.Family/Friend					
3. _____					

3.12 If Q3.11 is No, why did the informal financial institution reject your loan application?

Money Lenders	**Family/ friends**	**Others_____**
1.Lack of collateral □ 2. Lack of sound financial statement □ 3. Poor repayment history □ 4. Sector bias □ 5. Risky venture □ 6. Others_____	1.Lack of collateral □ 2. Lack of sound financial statement □ 3. Poor repayment history □ 4. Sector bias □ 5. Risky venture □ 6. Others_____	1.Lack of collateral □ 2. Lack of sound financial statement □ 3. Poor repayment history □ 4. Sector bias □ 5. Risky venture □ 6. Others _____

3.13 Why the firm did not apply for loan? (Multiple answers is possible)

The reason why the firm did not apply for loan from informal financial institutions	**Yes**	**No**
1. The firm did not want to risk its collateral (house, any asset)		
2. The interest rate is high		
3. The lending procedure of the institution is difficult (too much paper work)		
4. The institution has inflexible repayment period		

5. Fear of repayment the loan		
6. The loan was not needed		
7. Other_____		

3.14 If you had been certain that informal money lenders would approve your application, would you apply?
A. Yes □ B. No □

3.15 Which of the aspect would you like to be improved by financial institutions so that the firm will apply for loan? (Multiple answers is possible)

Aspects you would like financial institutions to improve so that the firm could apply for loan	**Yes**	**No**
1. Collateral requirements □		
2. Interest rate □		
3. Duration of the loan and Repayment systems (Daily, monthly, annually...) □		
5. Lending procedure □		
6. Other_____		

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መግቢያ

ውድ የጥናቱ ተሳታፊዎች፡-

እኔ በአዲስ አበባ ዩኒቨርስቲ የአካውንቲንግ እና ፋይናንስ የድህረ ምረቃ ተመራቂ ተማሪ ስሆን፤ በአሁን ሰዓት የመመረቂያ ፅሁፌን በማዘጋጀት ላይ እገኛለሁ፡፡ የጥናቱ ርዕስም **"በቦሌ ክፍለከተማ የሚገኙ የጥቃቅንና አነስተኛ የንግድ ተቋማት ከፋይናንስ አቅርቦት ጋር በተያያዘ ያሉባቸውን ተግዳሮቶችን"** ይመለከታል፡፡ እርስዎም በዚህ ጥናት እንዲሳተፉ ተመርጠዋል፡፡ እርስዎ የሚሰጡትን ትክክለኛውን መረጃ ለጥናቱ ውጤታማነት በጣም አስፈላጊ መሆኑን በመገንዘብ መጠይቁን በጥንቃቄ እንዲሞሉ

እጠይቃለሁ፡፡ ተሳትፎዎ በእርስዎ በጎ በፈቃደኝነት ላይ የተመሰረተ ነው፡፡ በመጨረሻም የሚሰጡት መረጃ ሚስጥራዊነቱ የተጠበቀና ለዚህ ጥናት ዓላማ ብቻ እንደሚውል አረጋግጣለሁ፡፡ የማንኛውም መልስ ሰጪ ማንነት በማንኛውም መልኩ የማይታተምና የማይሰራጭ ይሆናል፡፡ ሁሉም መረጃዎች ለትምህርታዊ ዓላማ ብቻ ይውላሉ፡፡ ጊዜዎን ሰውተው ስለሚያደርጉልኝ ትብብር በቅድሚያ አመሰግናለሁ፡፡

እንለፈው ብርሃኑ

ማሳሰቢያ -በመጠይቁ ላይ ስመ መግ ፍ አያስፈልግም፡ ፡

-መልስዎትን በሳጥኑ ውስጥ የእርማት ምልክት (✓) ያስቀምጡ፡ ፡

ክፍል አንድ: አጠቃላይ መረጃ

1.1 እድሜ.....

1.2 ፆታ

ሀ. ሴት □ ለ. ወንድ □

1.3 የንግድ ተቋሙ/ ድርጅቱ ባለቤት ከፍተኛ የትምህርት ደረጃ

ሀ. ያልተማረ □ ለ. አንደኛ ደረጃ □ ሐ. ሁለተኛ ደረጃ □ መ. ቲቪቲ/ኮሌጅ □

ሠ. ዲግሪ እና ከዛ በላይ □

ክፍል ሁለት: (ከየንግድ ተቋም/ / ኢንተርፕራይዝ) ጋር የተያያዙ ጉዳዮች

2.1 የንግድ ተቋሙ/ድርጅቱ ከተመሰረተ ምን ያህል ጊዜ ሆነው? .....

2.2 የንግድ ተቋሙ /ድርጅቱ በአሁኑ ሰዓት ስንት ሰራተኞች አሉት?

ሀ. ከ 1-6 □ ለ. ከ 2-4 ሐ.ከ 5-6 መ. ከ 6 በላይ □

2.3 የተሰማሩበት የስራ መስክ ምንድነው?

ሀ. ማኒፋክቸሪንግ □ ለ. ኮንስትራክሽን □ ሐ. የከተማ ግብርና □መ. አገልግሎት □ ሠ. ንግድ □

2.4 የስራ ቦታው፡

ሀ. የግል □ ለ. በኪራይ የተገኘ □ ሓ. የቤተሰብ □ መ. ሌላ.....

2.5 የንግድ ተቋሙ/ድርጅቱ ቃሚ ንብረት/ቶች አሉት (ቤት/የመስርያ ቦታ፣መሬት፣መኪና፣የመሳሰሉ)?

ሀ. አዎ □ ለ. አይደለም □

2.6 የ2.5 መልስዎ አዎ ከሆነ የቢዝነስ ተቃሙ/ድርጅቱ ምን ዓይነት ቃሚ ንብረት/ቶች አሉት?(ከአንድ በላይ ምርጫ መምረጥ ይቻላል)

ሀ. ቤት/የመስርያ ቦታ □ ለ. መሬት □ ሐ.መኪና□ መ. ሌላ.....

2.7 የንግድ ተቋሙ/ድርጅቱ ሲመሰረት ከነበረው ቃሚ ንብረት/ቶች አንዓር አሁን ያሉት የቃሚ ንብረት/ቶች መጠን፡

ሀ. ጨምሯል□ ለ. ቀንሷል□

ክፍል ሶስት: የፋይናንስ ምንጭ እና ከአበዳሪ ተቃማት ጋር የተያያዙ ጉዳዮች

3.1 የንግድ ተቋሙ/ድርጅቱ ሲመሰረት ዋነኛ የገንዘብ ምንጩ ከየት ነበር? (ከአንድ በላይ ምርጫ መምረጥ ይቻላል)

ሀ. ባንክ □ ለ. ማይክሮ ፋይናንስ □ ሐ. የገንዘብ/ አራጣ አበዳሪዎች □

መ. ከግል ቁጠባ □ ሠ. ጓደኛ /ቤተሰብ □ ረ. እቁብ □ ሰ. ሌላ.....

3.2 የንግድ ተቋሙ ለመንቀሳቀሻ የሚጠቀምበት ገንዘብ ምንጩ ከየት ነዉ?

ሀ. ባንክ □ ለ. ማይክሮ ፋይናንስ □ ሐ. የገንዘብ/ አራጣ አበዳሪዎች □

መ. ከግል ቁጠባ □ ሠ. ጓደኛ /ቤተሰብ □ ረ. እቁብ □ ሰ. ሌላ.....

3.3 ባለፉት 3 ዓመታት ውስጥ ከመደበኛ የፋይናንስ ተቋማት ብድር ጠይቀዋል?

ሀ. አዎ □ ለ. አይደለም □ (መልሶ አይደለም ከሆነ ወደ 3.7 ይሂዱ)

3.4. ለ 3.2 የሰጡት መልስ አዎ ከሆነ ወደየትኛው የፋይናንስ ተቃም ነው ብድር ለመጠየቅ የሄዱት?

ሀ.ባንክ □ ለ. ማይክሮፋይናንስ □ ሐ. ሌላ.....

3.5 ባለፉት ሶስት አመታት ውስጥ ከፋይናንስ ተቋማት ብድር ጠይቀው አግኝተዋል?

ሀ.አዎ (የሚከተለው ሰንጠረዝ ውስጥ ያሉትን ጥያቄዎች ይመልሱ)

ለ. አይደለም (ወደ 3.6 ይሂዱ)

የፋይናንስ ተቋሙ ስም	የብድሩ መጠን	የወለድ ምጣኔ	የአከፋፈል ሁኔታ (በየቀኑ. በወር. በአመት)	ብድር መመለሻ ጊዜ	ብድሩን የወሰዱበት ምክንያት
ሀ. ባንክ					
ለ.ማይክሮፋይናንስ					
ሐ.ሌላ.....					

3.6. የ3.5 መልስዎ **<u>አይደለም</u>** ከሆነ የፋይናንስ ተቃሙ ብድር ለምን ከለከሉት?

ባንክ	ማይክሮፋይናንስ	ሌላ
ሀ. ማስያዣ ስለሌለኝ □	ሀ.ማስያዣስለሌለኝ □	ሀ.ማስያዣ ስለሌለኝ □

ለ. አጥጋቢ የፋይናንስ ስቴትመንት ስለሌለኝ □ ሐ. ከዚህ በፊት የተበደርኩትን መመለስ ባለመቻሌ □ መ. በተሰማራሁበት የስራ መስክ ምክንያት □ ሠ. ሌላ.....	ለ. አጥጋቢ የፋይናንስ ስቴትመንት ስለሌለኝ □ ሐ. ከዚህ በፊት የተበደርኩትን መመለስ ባለመቻሌ □ መ. በተሰማራሁበት የስራ መስክ ምክንያት □ ሠ. ሌላ.....	ለ. አጥጋቢ የፋይናንስ ስቴትመንት ስለሌለኝ □ ሐ. ከዚህ በፊት የተበደርኩትን መመለስ ባለመቻሌ □ መ. በተሰማራሁበት የስራ መስክ ምክንያት □ ሠ. ሌላ.....

3.7 ለ 3.3 መልስዎ **<u>አይደለም</u>** ከሆነ የንግድ ተቋሙ ከአበዳሪ መደነኛየፋይናንስ ተቋማት ብድር ለምን አልጠየቀም? (ከአንድ በላይ ምርጫ መምረጥ ይቻላል)

የንግድ ተቋሙ ከመደነኛ የፋይናንስ ተቋማት ብድር ያልጠየቀበት ምክንያት?	**አዎ**	**አይደለም**
ሀ. የቢዝነስ ተቋሙ ቋሚ ንብረቶችን እንደማስያዣ መጠቀም ስላልፈለገ		
ለ. የወለድ ምጣኔ ከፍተኛ ስለሆነ		
ሐ. የፋይናንስ ድርጅቱ የብድር አሰጣጥ ሂደት ውስብስብ እና ከባድ ስለሆነ		
መ. የፋይናንስ ተቋሙ በቂና የሚመች የብድር መክፈያ ጊዜ ስለሌለው		
ሠ. ብድሩ ያለመመለስ ስጋት ስለገባን		
ረ. ብድር ስላልፈለግን		
ሰ. ሌላ.....		

3.8 የቢዝነስ ተቓሙ የብድር ጥያቄ አቅርቦ ቢሆን ኖሮ አበዳሪ የፋይናንስ ተቃሙ ብድር ይሰጠን ነበር ብለው ያስባሉ?

ሀ. አዎ □ ለ. አይደለም □

3.9 ባለፉት 3 ዓመታት ውስጥ **ከኢ-መደበኛ** የፋይናንስ ተቋማት ብድር ጠይቀዋል?

ሀ. አዎ □ ለ. አይደለም □ (መልሶ አይደለም ከሆነ ወደ 3.12 ይሂዱ)

3.10. ለ 3.2 የሰጡት መልስ **አዎ** ከሆነ ወደየትኛው የፋይናንስ ተቃም ነው ብድር ለመጠየቅ የሄዱት?

ሀ. እቁብ □ ለ. ጓደኛ /ቤተሰብ □ ሐ. ገንዘብ/ አራጣ አበዳሪዎች □ ሰ. ሌላ.....

3.11 ባለፉት ሶስት አመታት ውስጥ **ከኢ-መደበኛ** የፋይናንስ ተቋማት ብድር ጠይቀው አግኝተዋል?

ሀ.አዎ (የሚከተለው ሰንጠረዝ ውስጥ ያሉትን ጥያቄዎች ይመልሱ)

ለ. አይደለም (ወደ 3.12 ይሂዱ)

የፋይናንስ ተቋሙ ስም	**የብድሩ መጠን**	**የወለድ**	**የአከፋፈል ሁኔታ**	**ብድር**	**ብድሩን የወሰዱበት**

		ምጣኔ	(በየቀኑ. በወር. በአመት)	መመለሻ ጊዜ	ምክንያት
ሀ. እቁብ					
ለ. ጓደኛ /ቤተሰብ					
ሓ.ሌላ.....					

3.12. የ3.11 መልስዎ <u>አይደለም</u> ከሆነ የፋይናንስ ተቃሙ ብድር ለምን ከለከሎት?

እቁብ	ገንዘብ/ አራጣ አበዳሪዎች	ሌላ.....
ሀ. ማስያዣ ስለሌለኝ □ ለ. አጥጋቢ የፋይናንስ ስቴትመንት ስለሌለኝ □ ሓ. ከዚህ በፊት የተበደርኩትን መመለስ ባለመቻሌ □ መ. በተሰማራሁበት የስራ መስክ ምክንያት □ ሠ. ሌላ.....	ሀ.ማስያዣ ስለሌለኝ □ ለ. አጥጋቢ የፋይናንስ ስቴትመንት ስለሌለኝ □ ሓ. ከዚህ በፊት የተበደርኩትን መመለስ ባለመቻሌ □ መ. በተሰማራሁበት የስራ መስክ ምክንያት □ ሠ. ሌላ.....	ሀ.ማስያዣ ስለሌለኝ □ ለ. አጥጋቢ የፋይናንስ ስቴትመንት ስለሌለኝ □ ሓ. ከዚህ በፊት የተበደርኩትን መመለስ ባለመቻሌ □ መ. በተሰማራሁበት የስራ መስክ ምክንያት □ ሠ. ሌላ.....

3.13 ለ3.9 መልስዎ <u>አይደለም</u> ከሆነ የንግድ ተቋሙ ከአበዳሪ **ኢመደበኛ** የፋይናንስ ተቋማት ብድር ለምን አልጠየቀም?

የንግድ ተቋሙ ከኢመደነኛ የፋይናንስ ተቋማት ብድር ያልጠየቀበት ምክንያት?	አዎ	አይደለም
ሀ. የቢዝነስ ተቋሙ ቋሚ ንብረቶችን እንደማስያዣ መጠቀም ስለፈለገ		
ለ. የወለድ ምጣኔ ከፍተኛ ስለሆነ		
ሓ. የፋይናንስ ተቋሙ የብድር አሰጣጥ ሂደት ውስብስብ እና ከባድ ስለሆነ		
መ. የፋይናንስ ተቋሙ በቂና የሚመች የብድር መክፈያ ጊዜ ስለሌለው		
ሠ. ብድሩ ያለመመለስ ስጋት ስለገባን		
ረ. ብድር ስላልፈለግን		
ሰ. ሌላ.....		

3.14 ከሚከተሉት የትኛው/ኞቹ ብድር በመጠየቅ ዉሳኔዎ ላይ ተጽኖ የሚሳድሩ እናበአበዳሪ መደበኛ የፋይናንስ ተቃማት እንዲሻሻሉ የሚፈልጉዋቸዉ ጉዳዮች ናቸዉ?

ብድር በመጠየቅ ዉሳኔዎ ላይ ተጽኖ የሚሳድሩ ጉዳዮች	አዎ	አይደለም
ሀ. ቋሚ ንብረትን እንደማስያዣ መጠየቅ		
ለ. የወለድ ምጣኔ		
ሐ. ብድር የመመለሳ ግዜ		
መ. የብድር አሰጣጥ ስርዓት		
ሠ. ሌላ		