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ASSESSMENT OF ACCESS TO FINANCE AND ITS AVAILABILITY FOR SMEs IN ADDIS ABABA

A Thesis Submitted to the Department of Accounting and Finance of Addis Ababa University in Partial Fulfillment of the Requirements for the Degree of Master of Science in Accounting and Finance

Prepared by

Ayalneh Menberu

GSE/1442/08

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

**May, 2018
Addis Ababa, Ethiopia**

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

Declared by

Ayalneh Menberu Signature_____ Date_____

Confirmed by Advisor

Degefe Duressa. (PhD) Signature_____ Date_____

Certification

This is to certify that Ayalneh Menberu has carried out his research work on the topic entitled “Analysis of Factor Influencing Access to Finance and Its Availability for SMEs in Addis Ababa”.

The work is original in nature and is suitable for the submission for the reward of MSc Degree in Accounting and Finance.

Advisor: Degefe Duressa. (PhD)_____

Place and date of submission: Addis Ababa University, May, 2018

ADDIS ABABA UNIVERSITY
POST GRADUATE STUDIES
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

**ANALYSIS OF FACTOR INFLUENCING ACCESS TO FINANCE AND ITS
AVAILABILITY FOR SMEs IN ADDIS ABABA**

By

Ayalneh Menberu

Approved by the Board of Examiners:

Advisor

Signature

Examiner

Signature

Examiner

Signature

Abstract

This thesis aims at investigating the factors influencing of access to finance and its availability for Small and Medium Scale Enterprises (SMEs) in the Addis Ababa by using both survey and econometric methods. Specifically, the thesis assesses the impact of firm characteristics, collateral requirement, cost of borrowing and awareness of funding opportunity on the accesses to finance and its availability. The study employs mixed methods research approach. The quantitative aspect of the study is based on survey of a randomly selected 204 SMEs owner/manager, shareholders and employee/manager and 50 participants from six banks and seven MFIs employee in Addis Ababa. While the qualitative component employs review of relevant documents related to accesses to finance in Ethiopia. The outcome of a study reveal that firm characteristics, collateral requirement, cost of borrowing and awareness of funding opportunity have a significant relationship with the accesses to finance and its availability. Furthermore, the result from descriptive nature of structured questioner confirmed that all factors in this research have impact on the accesses to finance and its availability. It also revealed that SMEs use their own savings and profit as well as “ekub” as a major source of finance beside banks and MFIs contribution. Having in adequate collateral, lengthy process of loan and high interest rate are discovered as major obstacles to have loan from Banks and MFIs. These findings expected to help both parties SMEs as well as financial source providers in the development of appropriate strategies in filling the gap towards certain mutual benefit on collateral requirement and interest rate that contributes in growth of the nation as well to the economy.

Keywords; factors, SMEs, accesses to finance and its availability, firm characteristics, collateral requirement, cost of borrowing and awareness of funding opportunity

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Acronyms

ATF:	Accesses to Finance and its availability
CBE:	Commercial Bank of Ethiopia
CSA:	Central Statistics Agency
CSA:	Central Statistics Agency
DBE:	Development Bank of Ethiopia
E.F.Y:	Ethiopian Facial Year
E.C :	Ethiopian Calendar
ECA:	Economic Commission for Africa
EEA:	Ethiopian Economic Association
ETB:	Ethiopian Birr
FeMSEDA:	Federal Micro and Small Enterprises Development Agency
GTP:	Growth and Transformation Plan
IFC:	International Financial Corporation
ILO:	International Labour Organization.
IPA:	Innovations for Poverty Action
MFI:	Microfinance Institutions
MoFED:	Ministry of finance and economic development
MoTI:	Ministry of Trade and Industry Sub-Saharan Africa (SSA)
MSEDA:	Micro and Small Enterprise Development Agency
MSEs:	Micro and Small-sized Enterprises
MSMEs:	Micro, Small and Medium-sized Enterprises
PASEDP:	Plan for Accelerated and Sustained Development to End Poverty
ReMSEDA:	Regional Micro and Small Enterprises Development agency
SMEs:	Small and Medium-sized Enterprises
WB:	World Bank

CHAPTER ONE

Introduction

1.1. Background

1.1.1. Background of the Study

Small and Medium sized enterprises (SMEs) have usually been perceived as the dynamic force for sustained economic growth and job creation in developing countries. They play multifaceted role such as boosting competition, innovation, as well as development of human capital and creation of a financial system. With increased urban population dynamics of Sub-Saharan Africa (SSA), the importance of SMEs is also growing. In SSA, given the rapid rural-urban migration and deficiency to absorb this migration, SMEs have become important urban economic activities particularly in providing urban employment. In similar fashion, in cities and towns of Ethiopia, SMEs and the informal sector are the predominant income generating activities and thus they have a significant contribution to local economic development and used as the basic means of survival (Gebre-egziabher and Demeke, 2004).

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

The business entities which categorized under SME sector in Ethiopia is taken as an instrument in bringing about economic transition by effectively using the skill and talent of the people particularly women and youth without demanding high-level training, much capital and sophisticated technology. The Small and Medium Enterprises informal and Small Manufacturing Enterprise sector (SMEs) contributed value added of Birr 8.3 million in 1996.(Gebrehiwot, 2006). Based on the 1992/93 data, this figure constitutes about 3.4% of the GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the same year (Gebrehiwot, 2006).

The development of this sector in Ethiopia is believed to be the major source of employment and income generation for a wider group of the society in general and urban youth in particular. The five-year Growth and Transformation Plan (GTP) of Ethiopia envisages

creating a total of three million micro and small scale enterprises at the end of the plan period (MoFED, 2013)

In the 2015/16 fiscal year alone 190,587 new MSEs were established which gives a job opportunity for about 1.7 million people. This number is decreased by 29.8 % in creation of new MSEs and 40.3% in job creation, when it is compared with previous period. During the fiscal period, MSEs received more than Birr 5.4 billion in loans which was 18 percent lower than a year ago and nearly 1% of the total loan which is dispersed during the fiscal period by all commercial banks. (NBE, 2015/16).

The contraction in the number of new enterprises formation, employment and credit disbursement was attributed to the exclusion of rural enterprises as the Federal Micro and Small Scale Enterprise Development Agency (FeMSEDA) was splited into two, namely Federal Urban Job Creation & Food Security Agency and Federal Small & Medium Manufacturing Industry Development Agency. (NBE, 2015/16).

According to Micro and Small Enterprises (MSEs) Development Strategy of Ethiopia, designed to ensure the sustainability of the development achieved in all economic sectors of the country, the main focus of the government is creating Job opportunities through MSEs development, to reducing unemployment and alleviate poverty and enhancing MSEs to be base for industrial development in the country. In order to achieve these goals and objectives, the Federal Micro and Small enterprises development Agency (FeMSEDA) is the responsible body to support, coordinate and formulate policies and programs (FeMSEDA, 2014).

The probability that a small firm lists financing as a major obstacle (as opposed to moderate, minor or no obstacle) is 39% compared to 36% for medium-sized firms and 32% for large firms small firms mainly borrow funds through the informal financial market, while larger firms obtain funds from the formal market (Beck et al. 2006 cited in El_Said et al. 2013)

Access to finance is key to business development. Investment and innovation are not possible without adequate financing. A difficulty in getting finance is one of the main obstructions to the growth of many businesses, particularly small and medium sized enterprises (SMEs). Therefore, reducing this financing gap in low-income countries should raise the incentive to

create SMEs and consequently improve economic growth and increase job creation. In addition, improving SMEs' access to finance is significantly important in promoting performance and firm productivity (World Bank, 2015).

The financing gap to SMEs in Ethiopia can be attributed to both the demand side and supply side. The demand side has to do more on the characteristics of enterprises that limit their ability to fulfill the criteria for bank loans leading to financial limitations. The supply side could be more related to the banking sector reform and the perceived risks by banks to finance SMEs. In Ethiopia, despite the introduction of banking sector reform in 1994 that led to expansion of the banking industry, SMEs' problem of credit access has persisted implying that changes in the banking sector structure are not sufficient to introduce competition in the banking industry and an improvement in SME credit access (Ashenafi, 2012).

1.1.2. SMEs in Ethiopia

In the case of Ethiopia SMEs definition given by The Ethiopian Ministry of Trade and Industry (MoTI) describe as follows:

Micro Enterprises: are small businesses with total capital investment not exceeding Birr, 20,000 and excluding these enterprises with high technical consultancy and other high-tech establishment.

Small Enterprises: are businesses with a total investment between Birr, 20,000 up to Birr,500,000 and do not include these enterprises with advanced technology and high technical consultancy.

Medium Enterprises: are these business enterprises with a total investment between Birr, 500,000 up to Birr 1 million and including those enterprises that have high technical consultancy and excluding other high-tech establishment.

Therefore, MoTI classifies SMEs based on capital investment and on the bases of establishment. This is important because the sector accounts for large businesses throughout the country so that proper definition and classification is of essence for policymakers in their dealings with SMEs.

Definition of MSEs given by FeMSEDA is described as follows

Micro Enterprises:-

A micro enterprise in the industrial sector (manufacturing, construction and mining) is one which operates with up to five people including the owner and/or has total assets not exceeding Birr 100,000 (approx US\$5,000). Similarly, for activities in the service sector (retailer, transport, hotel, tourism, ICT and maintenance), a micro enterprise is one which operates with up to five people including the owner and/or has total assets not exceeding Birr 50,000 (approx US\$2,500).

Small Enterprises:-

A small enterprise in the industrial sector is one which operates with between 6 to 30 persons and/ or has paid up capital or total assets not exceeding Birr 1.5 million. Similarly, a small service sector enterprise is one that has between 6 and 30 persons and/or has total assets or paid up capital of Birr 500,000

Table 1.1 Definitions of Micro & Small Enterprises

Type of Enterprises	Sector	Man power	Total asset
Micro Enterprise	Industry	≤5	≤birr 100,000
	Service	≤5	≤birr 50,000
Small Enterprise	Industry	6-30	≤birr 1.5 million
	Service	6-30	≤birr 500,000

Source: MSED Strategy, 2011

According to the new Small & Micro Enterprises Development Strategy of Ethiopia (published 2011) the working definition for categorizing private Enterprise is based on capital and Labor.

As we can observe from all definition described by different authors and organizations, the term SME covers a wide range of definitions and measures, varying from country to country and varying between the sources reporting SME statistics. Some of the commonly used criteria are the number of employees, total net assets, sales or annual turnover and investment level. However, the most common basis for definition is the number of employment which operates in the enterprise. (FeMSEDA, 2014)

According to Khrystyna Kushnir(2010),it difficult to adopt a universal SME definition and raise the question of whether it makes sense to strive for what, in the end, might simply be a Procrustean bed. It might make more sense to measure SMEs with a single ruler, e.g. annual sales or turnover and/or number of employees, but tailor the size breakdown to particular conditions in the country of operation.

Therefore according to the above definition given for SMEs and the data gathered from NBE and FeMSEDA SMEs define as enterprise in the industrial sector is one which operates with between 6 to 80 persons and/ or has paid up capital or total assets not exceeding Birr 5 million with a range of 500,000 to 5 million.

The Evolution of SMEs in Ethiopia

The Ethiopian economy, although still highly dominated by the Agricultural Sector in terms employment (80%), its contribution to the GDP (44%) and its share in the export market (80%), is witnessing one of the fastest growing economies in Africa as well as in the world. In its commitment to the socio-economic development of the country, the Government of Ethiopia has given greater focus for the development of the MSEs Sector. In order to realize this, the Government of Ethiopia has designed the first MSEs Development Strategy in 1997. This strategy was intended to create coherence with the other economic sectors and outline duties and responsibilities of all the stakeholders at all level (from Federal to Kebele level).

The revised MSEs Development Strategy was designed in 2011 in order to integrate the development of the sector with the country's 5 year (2003-2007 E.C) Growth and Transformation Plan (GTP), hoped to bring about rapid economic growth and lift up the country to middle income level. The MSEs Development was integrated in the GTP as one of the pillars of the Industrial Development Plan and taken as one of the best tools to implement the country's Industrial Development Strategy. According to revised strategy MSEs are defined on the base of total capital and working labor engaged.(Gebre-egiziabher and Demeke, 2004)

Access to finance is key for small and medium sized enterprises (SMEs) for their growth and innovation.For SMEs the most important direct sources of external financing are credit lines, bank loans and leasing. On the other hand, for innovative, high-growth companies and start-ups, equity financing is essential.

Even if not substantial in total size compared to other financing sources, it has a great potential for growth and employment, because of innovation of beneficiary companies. According to Ethiopian News Agency (ENA). Currently DBE has carried out a structural reengineering to extend loan to Small and Medium Enterprises in the GTP II period. This would help DBE to offer additional financing leasing services to MSME.

Therefore, the Bank would open 175 new branches to cater small and medium enterprises. The Bank has been financing projects as it plans to increase its leasing capacity by 20 percent. DBE has granted 39 billion Birr loan to projects in the GTP I period and plans to raise the amount to 112 billion Birr in the GTP II period. (EEA, 2015).

1.2. Statement of the Problem

In Ethiopia, despite the enormous importance of the SME sector to the national economy with regards to job creation and the alleviation of abject poverty, many of the SMEs are unable to realize their full potential due to the existence of different factors that inhibit their growth and performance. One of the leading factors contributing to the unimpressive growth and performance of the enterprises is limited access to finance (Wolday and Gebrehiwot, 2004).

The EEA Research Brief noted that a total of seventy thousand five hundred (70,500) new MSEs were established in 2011/12 employing eight hundred six thousand three hundred (806,300) people across the country. The performance is below the target set in GTP (EEA, 2015).

The SME sector tends to suffer because SMEs are viewed as a less attractive investment opportunity than many others due to the high levels of uncertainty and risk they are perceived to have. As a result of the SMEs often have a limited track record in raising investment and providing suitable returns to their investors, very limited internal controls and few tangible assets to offer as security; investors are nervous of investing in SMEs as they are concerned about how their funds might be used and the returns that they might get. Hence, the easiest thing for an investor is to decline any opportunity to invest in an SME,

especially when there are so many other investment opportunities available to them.(Ayyagors, et al, 2006)

Improving the availability of finance facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy (by establishing saving and credit institutions) but the need of small scale business for finance became complicated when they grow and involve in innovative activities (BataaGandbold,2008).

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

Numerous studies have discussed that SMEs are financially more constrained than larger firms in both developed and developing countries. In developing economies including Sub-Saharan Africa, SMEs are typically more credit-constrained than large firms, severely affecting their possibilities to grow (Ayyagari et al, 2012).

As sited in Osano and Languitone (2016), only 5 % of the SMEs in Mozambique are financed through banking institutions meaning they use other financing lines for both investment and working capital. Practically many of the SMEs finance their projects through their own funds, family funds, and friends' funds due to a number of difficulties in accessing bank financing.

Based on a survey conducted on April 2010inKenya, found out those players in this sector are dissatisfied with access to finance especially from major financial institutions in Kenya. About 65% of micro, small and medium investors in Kenya, say that they did not receive any financial assistance from financial institutions during difficult economic times. Only 12% said they received financial help with good terms of repayment (Gabriel Kamau Kung'u, 2011). However, According to Berg and Fuchs (2013) the commercial banks in Kenya lend 17.4% of their total bank lending to SMEs.

Despite this emphasis, it is believed that SMEs are the bridge to achieve goals of the government. However, in Ethiopia the funding portion given to this sector is only 1% of the total fund provided as loan. Compared with other country like Kenya and Mozambique it is very low which shows access to finance shouldn't addressed to all SMEs since the portion given only serve limited SMEs. (NBE, 2015/16)

There are a number of challenges SMEs face that prevent them from conducting their businesses effectively and efficiently. Financing is one of the crucial aspects that assist Small and Medium Enterprises (SME) in the process of their development and expansion. Different writers cite various reasons that can affect SMEs to access finance. According to Manasseh (2004), lack of collateral requirements, structure of the financial sector, awareness of funding opportunities, and small business support services are constraints in accessing bank financing. According to Ndungu (2014), the factors affecting credit access by SMEs are number of lending institutions, interest charged on loans, collateral security and literacy levels.

Access to credit by SMEs'in Addis Ababa has not received extensive research. Brehanu Borji and Mesfin Gashu(2015) and Deresse Mersha and Zerihun Ayenew (2017) are among those who have carried out studies touching on accesse to finance for SMEs in dilla town and West Oromia Region respectively. Dereje (2012), and Feten (2010) are some of the researchers who have carried out studies touching on accesses to finance in SMEs growth and its Challenge. Although several have been undertaken that greatly focused on accesses to fiancé and SMEs, they have not been conclusive and should be updated to show the current situation. Therefore, this study investigated the factors influencing access to finance by SMEs in Addis Ababa in order to set some light on how the problem of access to finance should be addressed.

This study is different from earlier other studies in the following respect. First, earlier studies focused on specific functional areas, not on the general constraints of SMEs. Investigating an issue focusing on a general aspect will help to identify the general problem in broader. Second, this study tries to identify factors affecting access to finance both from demand side and supply side that earlier studies mainly focused on the demand side factors.

Along with the above discussed issue and other similar peculiar challenges together with the knowledge gap presented in chapter two necessities to conduct the research.

1.3. Objectives of the Study

1.3.1. General Objective, Hypotheses and Research Question

The general objective of this study is to analyses factors influencing access to finance and its availability for Small and Medium enterprise (SMEs) in Addis Ababa.

1.3.2. Specific Objective

The specific objectives of the study are:

- To evaluate the influence of factors that impedes access to finance.
- To analyses the mechanism that SMEs used in accessing finance
- To assess the possible sources of finance in daily operation of SMEs
- To analyze the availability of common type of financing used by SME and how it is preferred over the others.

1.4. Scope and Limitation of the Study

The study was restricted to the business enterprises with regard on factors influencing access to finance and its availability operating in Addis Ababa which so called SMEs.

Multiple items for each construct were used for collecting information. Despite effort given to amend survey instruments at the time of development the questionnaire few questions perceived differently by the respondents than it was intended. However, corrective actions have been taken by using validity and reliability testing of questionnaires.

The main challenge the researcher encountered in this research was lack of proper documentation of the operating SMEs in Addis Ababa.

The population for the study majorly limited to Addis Ababa this was mainly because of enormous presence of SMEs in the country.

1.5. Significance of the Study

Small and medium scale enterprises (SMEs) are lifeblood of most economies. The study will contribute in many important areas of SMEs studies. Firstly, it advances to a better understanding of how financial source is accessible, secondly, it increases the understanding of how SMEs contribute to overall economic activities and, third, it will pave the way forward for the government, policy makers, entrepreneurs and to the general public at large to understand the different roles of SMEs on transforming the countries development policy from agriculture-led economy to industry-led economy.

This study will also provide literature review for scholars who will wish to study related subject matter in future. The scholars will benefit from the empirical information that will be collected and analyzed.

1.6. Organization of the Thesis

The study is organized in to five chapters. The first chapter states the general introduction of the study. Chapter two presents theoretical and empirical literature review on access to finance and its availability. The third chapter outlines the research methodology. The research results and discussions presented in chapter four. The last chapter draws conclusions and recommendations.

CHAPTER TWO

Review of Related Literature

2.1. Theoretical Literature Review

This chapter demonstrates a review of existing literature based on facts and theories. It is a Theories which are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions.

2.1.1. The Definition and Concept of SME's

Universally agreed definition of SME (business entities) some of the commonly used criteria are the number of employees, value of assets, and value of sales and size of capital or turnover. However, the most common basis of defining SMEs is number of employees (Nugent, 2001). As cited in Mr. Hauser, (2005) small and medium size enterprises are defined by their size. In the European Union SMEs are defined in the Commission Recommendation of May 6, 2003. Concerning to this recommendation an enterprise is regarded as small or medium sized if it has not more than 250 employees, not more than 50 Million Euro turnover resp. a balance sheet total of less than 43 Million Euro and if not more than 25% of the shares of such an enterprise are in the ownership of another enterprise.

The SMEs definition is based on the country. World Bank have not published or defined specific definition on the SME. Basically SMEs definition is based on the numbers of workers of the organizations or the annual sales of the organizations. As cited in Tom Gibson H. J. van der Vaart 2008 work, the African Development Bank (AfDB) defines SMEs, as an enterprise which has maximum number of 50 Employees without any requirement Revenues or Turnover.(World Bank, 2015).

According to Wikipedia Small and medium-sized enterprises (SMEs, also small and medium enterprises) or small and medium-sized businesses (SMBs) are businesses whose personnel numbers fall below certain limits. The abbreviation "SME" is used in the European Union and by international organizations such as the World Bank, the United Nations and the World Trade Organization (WTO). Small enterprises outnumber large companies by a wide

margin and also employ many more people. SMEs are also said to be responsible for driving innovation and competition in many economic sector.

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

1. number of employees and
2. Either turnover or balance sheet total.

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

In China an MSME can be an enterprise with 1 to 3000 employees; total assets from ¥ 40 to 400 million and business revenues from ¥10 to 300 million depending on the industry. In case of Japan SME is defined as a firm with employees of 300 or less and capital size of 300 million yen or less in manufacturing, a firm with employees of 100 or less and capital size of 100 million yen or less in wholesale, and a firm with employees of 50-100 or less and capital size of 50 million yen in retail and service sector.

As cited in Bataa Ganbold (2008) in developing countries, number of employees and size of asset or turnover for SME tend to be much smaller compared with their counterparts in developed countries due to their relative size of business entities and economies. For example, in Mongolia, SME are defined as legally registered business entities with employees of 199 or less and with an annual turnover of 1.5 billion togrog (Mongolian currency Unit.) which is approximately 1.3 million US dollar at the time or less respectively. As cited in the Oya et, al (2011) according to data from Financial Access 2010 only 15 countries stated that they use loan size as a proxy for defining an SME. Similar to the definitions based on the number of employees and sales.

2.2. Defining of Access to Finance

Generally speaking, financial inclusion, or broad access to financial services, is defined as an absence of price and non-price barriers in the use of financial services.

Improving access, then, means improving the degree to which financial services are available to all at a fair price. It is easier to measure the use of financial services since data of use can be observed, but use is not always the same as access. Access essentially refers to the supply of services, whereas use is determined by demand as well as supply (BataaGanbold, 2008)

Conferring to Wikipedia Access to finance is the ability of individuals or enterprises to obtain financial services, including credit, deposit, payment, insurance, and other risk management services. Those who involuntarily have no or only limited access to financial services is referred to as the unbanked or under banked, respectively.

Access to finance can be broadly defined as access to financial products (e.g. deposits and loans) and services (e.g. insurance and equity products) at a reasonable cost. Given the widely recognized link between access to finance, growth, income smoothing and poverty reduction, many countries have adopted the goal of universal financial access. (Sushma Narain, 2009).

2.3. Defining of Availability to Finance

The money available to a business for spending in the form of cash, liquid securities and credit lines. Before going into business, an entrepreneur needs to secure sufficient financial resources in order to be able to operate efficiently and sufficiently well to promote success. **SME finance** is the funding of small and medium-sized enterprises, and represents a major function of the general business finance market – in which capital for different types of firms are supplied, acquired, and costed or priced.

Access to finance for small businesses in the start-up and expansion phase of their existence is important, since these firms generate employment, drive innovation, and boost competition in markets (Ellis and Ben, 2017).

2.4. What are the Potential Sources of Finance for SMEs?

In reality there are quite a few potential sources of finance for SMEs. However, many of them have practical problems that may limit their usefulness. Among different sources here are some of the major sources of finance for SME as initial sources or additional capital needed to conduct business.

2.4.1. The SME Owner, Family and Friends

This is potentially a very good source of finance because these investors may be willing to accept a lower return than many other investors as their motivation to invest is not purely

financial. The key limitation is that, for most of us, the finance that we can raise personally, and from friends and family, is somewhat limited. (William, 2016)

2.4.2. The Business Angel

A business angel is a wealthy individual willing to take the risk of investing in SMEs. One limitation is that these individuals are not common and are very often quite particular about what they are prepared to invest in. Once a business angel is interested they can become very useful to the SME, as they will often have great business acumen themselves and are likely to have many useful contacts.

2.4.3. Trade Credit

SMEs, like any company, can take credit from their suppliers. However, this is only short-term and, indeed, if their suppliers are larger companies who have identified them as a potentially risky SME the ability to stretch the credit period may be limited.

2.4.4. Factoring and Invoice Discounting

Both of these sources of finance effectively let a company raise finance against the security of their outstanding receivables. Again, this finance is only short-term and is often more expensive than an overdraft. However, one of the features of these sources of finance is that, as an SME grows, their outstanding receivables will grow and so the amount they can borrow from their factor or from invoice discounting will also grow. Hence, factoring and invoice discounting are two of the very limited number of finance sources which grow automatically as the business grows. (William, 2016)

2.4.5. Leasing

Leasing assets rather than buying them is often very useful for an SME as it avoids the need to raise the capital cost. However, leasing is only really possible on tangible assets such as cars, machines, etc. (William, 2016)

2.4.6. Bank Finance

Banks may be willing to provide an overdraft of some sort and may be willing to lend in the long term where that lending can be secured on major assets such as land and buildings. However, raising medium-term finance to fund operations is often more difficult for SMEs as banks are traditionally rather conservative.

Furthermore, banks will often require personal guarantees from the owner-manager of the SME, which means the owner-manager has to risk his personal wealth in order to fund the company.

2.4.7. The Venture Capitalist

A venture capitalist company is very often a subsidiary of a company that has significant cash holdings that they need to invest. The venture capitalist subsidiary is a high-risk, potentially high-return part of their investment portfolio. (William, 2016)

Venture Capital refers to the provision of capital for growth and expansion to companies with underdeveloped or developing products and revenues at an early stage in their corporate lifecycle. It also refers to the provision of development capital to mature companies at a later stage in their corporate life cycle. Typically, investee companies are unquoted, small to medium sized enterprises. (Regina et.al 2015)

2.4.8. Listing

By achieving a listing on a stock exchange an SME would become a quoted company and, hence, raising finance would become less of an issue. However, before a listing can be considered the company must grow to such a size that a listing is feasible. Many SMEs can never hope to achieve this.

2.4.9. Supply Chain Financing

In supply chain financing (SCF) the finance follows the value as it moves through the supply chain. SCF is relatively new and is different to traditional working capital financing methods, such as factoring or offering settlement discounts, because it promotes collaboration between buyers and sellers in the supply chain. (William, 2016)

Supply chain finance can be defined (EBA 2013) as the use of financial instruments, practices and technologies for optimising the management of the working capital and liquidity tied up in supply chain processes for collaborating business partners. The development of advanced technologies to track and control events in the physical supply chain creates opportunities to automate the initiation of SCF interventions (Enrico, 2015)

2.4.10. Crowd Funding

Crowd funding involves funding a venture by raising finance from a large number of people (the crowd) and is very often achieved over the internet. Crowd funding has grown rapidly and in 2013 it has been estimated that over US\$5bn was raised worldwide through crowd funding. There are now in excess of 500 crowd funding platforms on the internet and over 400 crowds funding campaigns are launched every day.

Finance provided by crowd funding may be invested in the debt or the equity of the ventures seeking the finance. Some crowd funding is done on a ‘keep it all’ basis where any funds raised are kept by the recipient, whereas some is done on an ‘all or nothing basis’ where the recipient only receives the funds if the total required to fund the particular project is raised within a given time frame. The crowd funding platform takes a fee, which is often a percentage of the amount raised.

Crowd funding has the potential to be very beneficial to SMEs. It allows them to contact and appeal directly to investors, who may be willing to take the risk involved in funding the new technologies and innovations, which SMEs are often so good at producing.

Among the sources listed by scholars above only a few sources are available in our country. It may need a research how this funds or sources be workable on our working environment to help SMEs in there need. However this shows that there is untapped market for the source of formal finance which will reduce the constraint of accessing the finance (William, 2016).

Crowdfunding facilitates the raising of capital for a variety of purposes, using numerous variations of the model. Below is a typology of how the operators in the market can potentially be segregated.

Crowdfunding platforms can connect cash–starved creative entrepreneurs with audiences looking to fund creative projects because they are passionate about their ‘substance’, rather than seeking to generate a financial return from them, as well as with investors offering capital on better terms than traditional sources of finance for the sector, such as banks or publishers. Kickstarter, the most successful creative crowdfunding platform, has already generated pledges above \$230 million, and funded over 23,000 creative projects. (Nesta 2012).

2.5. Informal Financial Source

Informal finance is a broad concept that encompasses the wide range of financial activities and services that take place beyond the scope of a country's formalized financial institutions and lie outside financial sector regulations.

The popular view of informal finance is of powerful moneylenders who exploit the poor through usurious interest and unfair seizure of collateral. In fact, informal finance is both extensive and diverse. The informal sector accounts for most of the financial services provided to the non-corporate sector. In addition to family and friends, who provide a large percentage of the loans, informal finance consists of professional money lenders, pawnbrokers, trades people, and associations of acquaintances. (Meghana et al 2008).

2.6. Financial Source Providers for SMEs (where financial source available for SMEs)

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

- **Commercial banks:** banks with a full banking license. Majority state-owned banks are included in this category when they perform a broad set of retail banking functions
- **Cooperatives:** institutions with a mutual ownership structure, including credit unions.
- **Specialized state financial institutions:** specialized financial institutions fully owned by the state or extensions of the government whose main purpose is to lend in support of economic development or to provide savings, payment, and deposit services to the public. This group includes postal banks, government savings banks, small and medium-size enterprise lending facilities, agricultural banks, and development banks.
- **Microfinance institutions:** - financial institutions whose primary business model is to lend to and possibly take deposits from the poor.

2.7. Assumption or Theories on Source of Finance

Theories are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions. The theoretical framework is the structure that can hold or support a theory of a research study. Here are some of the assumptions which can hold or support a theory of a research which is gathered from a book of Access to Finance and Development: Theory and Measurement.

2.7.1. Irrelevance Theorem of Capital Structure

There are a number of theories that attempt to answer the following question. How do owners and managers of enterprises make financing decisions? Modigliani and Miller in 1958 proposed irrelevance theorem of capital structure in an attempt to answer the above question. The theory is of the view that enterprises finance their businesses using internal funds, debt and equity. According to Goya & Frank (2005), when it becomes necessary to use debt and equity, the theory proposes that debt-equity ratio is determined in a manner that it divides cash flows among the different investors. This theory is relevant because it recognizes that business people first considers internal sources to external sources to finance their operations. This characteristic is also common to owners of business in Ethiopia especial in the private business enterprise (Goya & Frank (2005).

2.7.2. Pecking Order Theory

Stewart and Nicolas (1984) proposed the Pecking order theory (Swinnen, Voordeckers & Vandemaele, n. d.). This theory is hinged on asymmetric information and the existence of transaction costs. Pecking order theory assumes that enterprises follow a financing hierarchy and that source of finance is either internal or external. In this case, according to Botta (2014), priority is given to internal funds over external funds. The theory stipulates that enterprises seek external funding only when internal resources are depleted. It follows then that external funds need to be necessary, safer and without control restrictions for the enterprise.

This theory is applicable to SMEs in Ethiopia because it touches on collateral and that business owners in Ethiopia not have a property or other asset that a borrower offers as a way for a lender to secure the loan. Therefore they usually prefer other sources.

It is mainly argued that the more a company has a policy of financial innovation, the more it is likely to use venture capital and to place part of its capital on the financial market. Innovation is understood not only in technology, but also at the managerial level (Meryem Aabi, 2014).

2.7.3. Trade-Off Theory

Trade-off theory on the other hand attempts to explain use of debt financing. According to this proposition, owners of enterprises evaluate the various costs and benefits associated with alternative debt plans. It assumes that an internal solution is preferred so that marginal cost and benefits are balanced. According to the theory, an enterprise sets a target debt-to-value ratio and then gradually moves towards it. This target tries to balance debt tax advantages against costs associated with bankruptcy (Goyal & Frank, 2005).

This theory is not perfect because the debt-to-value ratio is not directly observable and that taxation is more complex than assumed by the theory. In addition, it assumes that bankruptcy costs are deadweight costs and that transaction cost takes a specific form.

2.8. Benefit of SME's

For a country economic growth, employment opportunities & efficient market demand and supply situation SME's plays a vital role, however there are arguments which support and also skeptical on the importance of SMEs for economic development.

The importance of the micro and small enterprises sector in Ethiopia, particularly for the low-income, poor and women groups, is evident from their relatively large presence, share in employment and small capital requirement. These are sufficient reason for governments and other stakeholders in development to be interested in micro and small enterprises. However, in the context of many developing countries, countries in transition in particular including Ethiopia, MSEs are also seen as an emerging private sector, forming the basis for private-sector-led growth. In Ethiopia, at the level of strategy and policy, these roles of MSEs have received recognition. They are seen as means of providing employment, alleviating poverty, ensuring food security, and private sector development (Gebrehiwot and Wolday, 2006).

According to Small Scale Manufacturing Industries survey 2013/14 which is conducted by CSA, there were 116,604 small-scale manufacturing establishments in Ethiopian fiscal year (E.F.Y) 2006 (2013/14). Out of the total, the largest in number, or slightly more than 35

thousand or 30.39 %, were grain mills, 25.4 thousand (21.81 %) manufacturer of food products except grain mill service and manufacturing OF wearing apparel, dressing & dying of fur establishments numbered 18.12 thousand or 15.61 % of the total, respectively. During the stated year, all the establishments combined engaged 1,743,470 people, which is roughly a ratio of 1 to 14.95, i.e., on average 10 small scale manufacturing establishments engaged 150 people. (FeMSEDA, 2014).

2.9. Factors Influencing Accessibility and Availability of Financial Source

The most significant obstacles to SMEs credit access are listed as follows; macroeconomic, SME specific, and bank specific factors. Additional factors are legal framework affecting banks, contractual environment, competition in the SME market, characteristics of SME lending, and Lack of adequate demand (Berg and Fuchs, 2013 as cited in Daniel Kimaiyo 2016).

According to the International Labour Organization (ILO), as in many countries, it appears that enterprises start on a micro, subsistence level and rarely have the opportunity to move beyond two to three employees in size. The constraints facing micro and small enterprises in most developing economies are applicable to Ethiopia:

- Unfavorable legal and regulatory environments and, in some cases, discriminatory regulatory practices;
- Lack of access to markets, finance and business information;
- Lack of business premises (at affordable rent);
- Low ability to acquire skills and managerial expertise;
- Low access to appropriate technology; and
- Poor access to quality business infrastructure.

As cited in Bataa, M et.al (2008), demonstrate that SMEs are usually more credit constrained than other segments of the economy because of the following reasons: (i) financial sector policy distortions; (ii) lack of know-how on the part of banks; (iii) information asymmetries, for example, lack of audited financial statements; and (iv) high risks inherent in lending to SMEs. Detailed discussions on each of these reasons are as follow.

2.9.1. Financial Sector Policy Distortions

Firms' ability to access finance is directly related to the presence of well-functioning financial markets that connect firms to lenders and investors willing to fund their ventures.

In their efforts to respond to market failures, governments have often intervened heavily in financial markets in the following ways, with overall poor results.

Interest Rate Ceilings. Government-mandated, below-market interest rates caps usually cause more problems than they solve and discourage banks from lending to higher-risk borrowers such as SME.

State-Owned Enterprises. In many countries, large state-owned enterprises and government infrastructure projects enjoy preferential access to bank credit, crowding out non-state enterprises, especially SME.

Public Sector Borrowing. Public sector borrowing likewise crowds out credit from financial institutions to the private sector: investing in government securities is a safer bet than investing in unknown SMEs.

Legal and Regulatory Frameworks. Although various promising forms of financing such as leasing, factoring, and venture capital have been introduced in most financial markets, the lack of supportive legislation, regulations, and tax treatment has often restrained their growth.

Weak Judicial and Legal Frameworks and Lack of Property Rights: Governments can increase financial institutions' willingness to provide finance to SME by ensuring that both lenders and borrowers have clearly defined property rights. Stronger creditor rights—stemming, for example, from laws guaranteeing secured creditors' priority in the case of default—allow lenders to reduce the risk of future losses. Securing borrowers' property rights to assets they can pledge as collateral can help borrowers both in accessing finance and in obtaining cheaper and longer-term loans. However, having legal provisions that ensure debtors' and creditors' rights are not sufficient. Their effectiveness depends on strong enforcement of the law. The lack of an effective legal system to enforce laws impedes the development of a deeper credit market.

Some laws exclude movable assets, such as machinery, vehicles, and livestock. As movable assets often account for a greater share of the assets of smaller firms than of larger ones, the impact on access to credit is relatively negative for SME. Laws and registries permitting the

collateral of movable assets can offer greater benefits to small firms. Title to land and real estate is often crucial for providing access to finance for business development.

The lack of enforceable property rights limits the ability of physical assets to generate capital. If property cannot be bought and sold with the confidence that the authorities will uphold the transaction, financial institutions will be reluctant to take on the risk of lending against physical collateral. Poorly defined property rights not only reduce firms' ability to access finance, but also lead to the overall failure of markets to generate dynamic growth. (Bataa, M et.al 2008),

2.9.2. Lack of Suppliers' Know-How

Small Loan Size Relative to Transaction Costs: SME typically require relatively small loans compared with large firms. The transaction costs associated with processing and administering loans are, however, fixed, and banks often find that processing small SME loans is inefficient. They lack the techniques, such as credit scoring, to increase volume and lower costs.

Difficulty in Adopting New Lending Technologies: Experience from the microfinance industry shows that one way to successfully bridge the gap between the demand for and supply of credit is through innovative lending methodologies. Such methodologies include the following: (a) undertaking loan analysis that focuses on prospective clients' ability to pay (cash flow), with less emphasis on collateral; (b) giving loan officers incentives for maintaining high-quality portfolios; (c) introducing appropriate decision-making and control mechanisms supported by management information systems and information technology to help manage and administer the loan portfolio; and (d) providing larger loan amounts and longer terms for well-performing borrowers. (Malhotra et al 2007).

2.9.3. Information Asymmetries

The main information asymmetries that constrain SME access to finance are as follows:

High Cost of Obtaining Credit Information on SMEF or markets to allocate resources efficiently, all market participants must have the same relevant information. This is seldom the case, however, in developing countries, and the resulting market failures can create biases against small firms. Under these circumstances, for banks to obtain information on the creditworthiness of potential SME clients is difficult or costly. If, as a result, lenders perceive

the risks of lending to SME to be greater than they actually are, they will charge higher interest rates or refrain from lending to them altogether. If lenders do charge high interest rates, this increases the risk they are exposed to by discouraging low-risk, low-return borrowers from seeking loans, ultimately discouraging lenders from lending to SME altogether. At the same time, higher interest rates are associated with mainly high-risk projects, a circumstance referred to as adverse selection. (Malhotra et al 2007).

Inconsistent SME Financial Statements and Audits: As SME are often not required to adopt international accounting standards when preparing their financial statements, large discrepancies arise in the ways firms report their financial positions. For example, many firms in developing countries may have two or three sets of books for different audiences. Auditing such statements can be labor- and time-intensive, which raises the cost of loan processing for SME. In addition, even audited financial statements can be unreliable.

Lack of Access to Third Party Information by Providers in the Market place. Lenders' lack of knowledge of their clients and of information on clients' credit profiles and histories reinforce their perception of the high risk involved in lending to SME. One way to overcome the high cost to lenders of directly screening and monitoring clients is through the establishment and use of credit bureaus as third party information providers. (Malhotra et al 2007).

2.9.4. High Risks of SME Operations

SME operations are subject to two major risks. Vulnerability and Turnover.

SME are riskier borrowers than large firms. This is because SME are more vulnerable to market changes and often have inadequate management capabilities because of their smaller size. Lack of demand and shortages of working capital were the two most frequently mentioned underlying causes of these business failures. SME activities are extreme volatile with a large number of them starting up while many others are closing down.

Management Weaknesses: Despite evidence that lack of access to finance constrains many SME, actual effective (or bankable) demand may itself be constrained by weaknesses in firm management and the dossiers their management can present when applying for credit. Programs to increase financing for SME often begin with training and business development services to strengthen firms' management and productivity. However, sole proprietorships,

such as many SME, have few incentives to obtain external audits of their financial statements to improve management and productivity, and such audits are also expensive relative to the size of loans that SME may be seeking. Thus banks often complain that loan applications from SME do not meet their standards. In addition to above mentioned constraints of SME, many literatures reveal other characteristic that SME in developing or emerging countries are more disadvantaged in obtaining external finance than SME in developed countries. Developing countries are more likely to have macroeconomic imbalances that lead to excess demand for available domestic savings as well as institutional weakness that encourage large number of individuals to engage in low productivity informal activity. Furthermore, financial systems in developing countries are often characterized by less deregulation, openness and reform of ownership, governance and supervision. There are persuasive reasons to believe that when the institutional and financial framework in developing countries is weak, the SME will be adversely affected to a much large degree than large firms.

Finally, capital markets do not compensate for deficiencies in the banking sector as they do not have a comparative advantage to deal with opaque and small firms. In effect, capital market financing rests on comparatively high accounting and disclosure requirements which, by definition, opaque SME lack. Thus capital markets are typically not a source of direct funding for SME, given that these firms are unable to issue debt or equity in amounts sufficiently large to attract investors (who prefer liquid issues and are not willing to take too large a share of a single asset) and amortize issuance-related transaction costs (including compliance with complex legal, regulatory, accounting, and disclosure requirements). These factors normally render unfeasible the direct access to capital market financing for SME. (Malhotra et al 2007).

2.10. Empirical Studies Related with SMEs Accesses to Finance

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

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

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

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

Similarly Gabriel (2011), in his study conducted Westland division, Kenya finds that the size and age of the firm, financial characteristics and the business skills that the entrepreneur has; were found to have an influence in accessing funds.

Hezron and Hilario (2016), on their study conducted in Maputo central business district, Mozambique, there is a relationship between the structure of the financial sector and access to finance by SMEs; there is a relationship between awareness of funding and access to finance by SMEs; there is a relationship between collateral requirements and access to finance by SMEs; and there is a relationship between small business support and access to finance by SMEs.

In Fetene (2010) findings Ethiopian small businesses are lagging behind every other sector. Their growth is sluggish, marketability of their product is limited because of quality, competition, lack of market (deficient in place to market their product), the access that they have for input was limited and expensive in put price and their access as well as use of finance is extremely limited.

He also added that only limited number of small business had practice of accessing external loan. In the past twelvemonths only 41% of the total small business on which the research

was conducted had accessed credit and of these businesses 48% indicated the credit has increased and 37% mentioned the debt to asset has decreased.

According to the study conducted by Brehanu and Mesfin (2015), Micro and small enterprise in Dilla Town, has inadequacy of finance when starting and operating the projects. The formal financial institutions have not been able to meet the credit needs of the MSEs because MSEs are not able to fulfill the requirements such as business plan, governance systems, collateral and other accountability issues which are related to business risk management.

According to Hagos, et al (2012), the issue of debt financing for SMEs as a problem is not exclusive to Ethiopia, but one that has dogged many developing countries. Most of debt financing to SMEs by the banking institutions often goes into OECD countries, further proven by a recent IFC Report which states that a very meager 20 percent of SMEs in non-OECD member countries are serviced by the top five leading investment banks. Whilst this figure holds true for non-OECD countries, generally Africa's chunk within the 20% figure stands at almost 5%. It evidently points to a serious challenge that cannot be overlooked.

Other factors also come into play when considering the possibility of extending credit to a customer, such as the financial standing of the borrower. Under a dispensation characterized by coarse accounting procedures that provides little to no relevant information about financial standing becomes a disincentive for lending. Banks would have to resort to the so-called relationship-based lending process, which may be substituted for demands for huge collaterals. On the question of capacity, it is apparent that both lenders in this case banks and borrowers from the SME sector are battling the same challenge, to the extent that banks are not able to establish the definitive terms of credit worthiness within the domestic market. According to their study, the natural inclinations for banks to enter the SME market albeit some reluctance is to push all the attendant risks into higher than average interest rates for borrowers.

On the other study conducted by Selamawit, et.al (2014), 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, possession of fixed asset, employment size of MSEs, perceptions about lending procedure and loan repayment period had statistically significant effects on access to credit from formal financial institutions. In contrast gender of the entrepreneur, firm age, sector and perception about interest rate had no effect on MSEs' access to credit from formal financial institutions.

The difficulties faced by MSEs in accessing credit facilities are attributed to their perceived higher risk profile. Lending institutions regard MSEs as riskier enterprises for a number of reasons which include: uncertain competitive environment; inadequate accounting systems; more unpredictable operating environment in the developing and emerging markets; assets not properly registered; delayed payments for the products and services rendered; less equipped in terms of both human and financial resources to withstand economic resources (Van Aardt & Fatoki, 2012 cited in International Journal of Scientific and Research Publications, Volume 4, Issue 12, December 2014).

As cited in Hagos, Yared Haftay (2012), Eshetu and Mammo (2009, 15) states that, “commercial banks are reluctant to lend small amount of money to small business because the cost of administering the loan exceed the benefit accrued to them.” This shows that banks are not inclined to develop an innovative and systematic approach that minimizes risk and administrative cost to serve the sector.

2.11. Research Gaps

A research gap is defined as a topic or area for which missing or insufficient information limits the ability to reach a conclusion for a question. A research need is defined as a gap that limits the ability of decision-makers (policy-makers, patients, practitioners) from making decisions.

The researcher found on studies conducted in Ethiopia uses different related factors as a measure. None of these studies conducted in Ethiopia checked this four factor; Firm characteristics, Cost of borrowing, Collateral requirements and Awareness of Funding Opportunity (Availability of Finance) with the access to finance and its availability; plus

some of these empirical studies also recommended future studies to be made on this area of the study.

As it can be understood from the review the Lending institutions or financial source providers do not pay attention to make financial sources available for the SMEs. Further there is a lack of credit facilities agencies that are well suited for the all crucial SMEs' sectors.

As can be understood from the literatures there is still a problem that needed to be addressed in accessing finance for SMEs in Ethiopia. With an objective of providing information on the above, this study made an attempt to identify factors that influencing access to finance and its availability for Small and Medium enterprise (SMEs) in Addis Ababa.

To conclude, from the knowledge gap discussion it is understood that more study should be done to have more comprehensive understanding on this topic. Therefore, in this research, objectively selected perception factors to find out their real effect on accesses to finance and its availability

2.12. Conceptual framework of the study

The conceptual framework of this study shows the focus on the factors influencing access to finance by small and medium enterprises. The variables in the conceptual framework are tested as hypotheses to establish the relationships between variables.

The independent variables of this study include the firm's characteristics, collateral requirements, cost of borrowing, and awareness of funding opportunities and the dependent variable is the access to finance and its availability by SMEs. The measures or indicators for access to finance include the amount of financing provided to SMEs as a total funding, and number of SMEs accessing the finance (loans). Figure 1 shows the conceptual framework showing the relationship among variables.

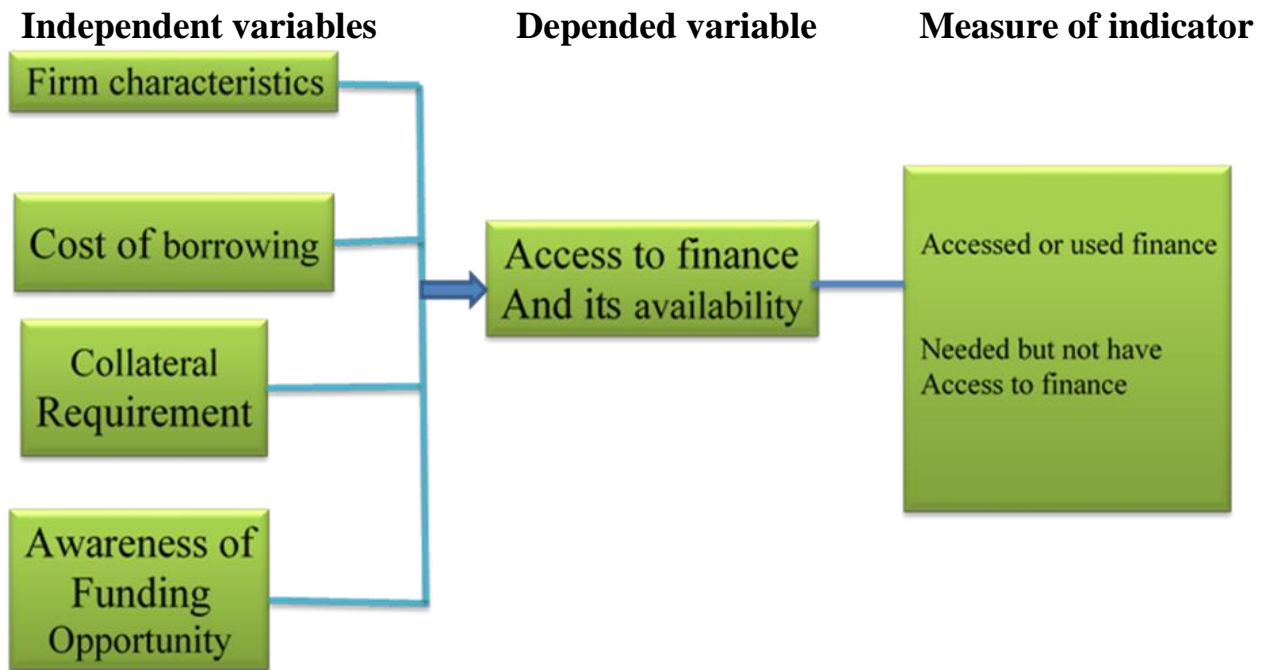


Figure 2.1 Conceptual framework

CHAPTER THREE

Research Approach and Methodology

The chapter organized into three sections. The first part presents the Research question & hypotheses. The second section briefly discusses the nature of the different research approaches. Part three present in detail about the methodology adopted in this research.

3.1. Hypotheses

The purpose of this study is to assess factors influencing access to finance and its availability for Small and Medium enterprise (SMEs) in Addis Ababa. In order to achieve this objective the following hypotheses & research question developed.

Firm Characteristics (FM)

Firm characteristics affect SMEs' ability to access external finance. The size and age of the firm, having business skills and Ability to compile financial records and accounts were identified as important variables under this category. Firm size is one of the most important variables in literature related to access to credit. This was true for both developed as well as developing countries. As this research is focused on small and medium sized firms, it does not seem logical to consider size and age as a determinant of access to finance. However, even among the small and medium-sized enterprises' category, there is still a large variation in the size of the firms.

Numerous studies have discussed that small and medium-sized enterprises are financially more constrained than large firms (Carpenter and Petersen, 2002). Firstly, the small firms are faced with information opacity such as inability 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. Second, smaller firms have fewer assets to offer as collateral. In order to reduce the anticipated risk and moral hazard associated with lending, the banks use collateral as one of the instrument. Berger and Udell (1998) found smaller and younger firms are more likely to face higher cost of financing and at the same time they are required to offer collateral.

Thirdly, there is high risk involved because small firms have high failure rate compared to large firms. For example, Schiffer and Weder (2001) sampled firms across a number of

countries and found that there was a negative relationship between the size of a business and the risk it might pose for a lender. In fact, firm size is a key variable in the analysis of financial restrictions (Beck et al., 2005). Thus, in general, large and small firms do not have equal opportunities in accessing external sources of finance. So while the presence of both large and small firms is important for market competition and, hence, for economic growth, in order to ensure industrial dynamics, firms must have access to financial markets. The firms that are typically most severely affected by the financial markets imperfections are small firms, as their internal information can be rather opaque or, at least, not as public as it is in the case of their larger counterparts. Small firms seeking small loans face higher transaction costs and higher risk premiums since they are more opaque and have less collateral to offer (Beck et al. 2006). Similar results have been found by Beck et al. (2005, and Schiffer and Weder (2001). Schiffer and Weder (2001) confirm that small firms have to confront higher barriers to their financing and growth.

Oliveira and Fortunato (2006) find that small firms face greater financial constraints and that these have a negative impact on their growth. Medium-sized firms face greater financial constraints than large firms. Small firms cannot exploit economies of scale in the same way as large firms can. These authors claim that since young companies have not accumulated sufficient cash flow and are unable to rely on bank financing, they have to depend on the original equity investment of their owners.

Firms' sources of finance change over time. For instance, a firm may start as a family owned business, by using its internal financing sources such as personal savings and family finance. Subsequently, it will then grow to obtain funds from its suppliers. When it has well established a good business track record, developed accounting systems and established a legal identity, it may be able to obtain loans from banks. Therefore, it is worth investigating the firm age. The stage of growth at which the SME is at can have a great impact on its accessibility to finance.

The studies conducted in the past have found that the financing constraints are particularly severe in startup enterprises and relatively young firms (three years old or less). For example, Aryeetey et al (1994) conducted a survey of 133 firms, of which 76 had less than 10 workers, in various industries in Ghana in the early 1990s. They found that only 10 percent of startup firms in Ghana could obtain bank loans but older firms are provided with credit three times

more often than their smaller counterparts. A similar survey was conducted by Levy (1993) in Sri Lanka and Tanzania and reported that 80 percent of firms with 16 or more workers and with 6 or more years in operation are able to access bank loans, compared to the success rate of around 55 percent in the case of smaller firms with 6-15 employees of similar age, and less than 10 percent for firms with 5 or fewer workers, regardless of age.

Bass & Schrooten (2005) concluded that the lack of reliable information leads to comparably high interest rates even if a long term relationship between borrower and bank exists. In a situation like this, having audited financial statements play a major role. Audited financial statements are very useful in accessing credit from financial institutions because they present a picture of the financial performance of a firm. Often, banks require audited financial statements before granting credit. This study attempted to determine how variation in the perception of this factor may influence individual's intention, personal information including financial information to accesses finance. Therefore, the following hypothesis tested.

HPI: FC has positive effect on access to finance and its availability

Collateral Requirements (COLL)

Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003). The security assets should be used to recover the principal in case of default. SMEs in particular provide security in form of properties (houses, the businesses, the car, and anything that could actually bring back the principal) in case of default on loans (Garrett, 2009). Security for loans must actually be capable of being sold under the normal conditions of the market, at a fair market value and also with reasonable promptness. However, in most banks, in order to finance SMEs and to accept loan proposals, the collateral must be 100 % or more, equal to the amount of credit extension or finance product (Mullei and Bokea, 2000).

Moral hazard issues can be reduced by collateral requirements by increasing and adding a potential cost to borrowers when those are not making their best effort.

Sometimes the borrowers extract the funds provided by the lenders for their own personal and private use. Therefore, the collateral requirements when in place can reduce negative consequences that can rise due to an improper utilization of the funds by SMEs. It is evident that most SMEs are denied and discriminated by the lenders in providing financing. This is

because of high risk and for not having adequate resources to provide as collateral (Kihimbo et al. 2012).

According to Innovations for Poverty Action Banks traditionally require that clients provide collateral such as land or real estate to secure their loans. However, many creditworthy SMEs do not have the type of collateral required by commercial lenders and therefore have trouble accessing finance. This means collateral is needed more when SMEs want to process loan or finance. Therefore, the following hypothesis tested:

HP2: COLL has positive effect on access to finance and its availability

Awareness of Funding Opportunities (*Availability of Finance*) (*AWRE*)

The flow of information in the financial market is crucial for both SMEs and financial providers (Falkena et al. 2001). In order for SMEs to identify potential supplier of financial services, they require enough information.

The financial institutions require information to enable them to evaluate the potential risks associated with the SMEs that apply for bank financing and also to access the location where the same SMEs will be operating and its market segments (Othieno, 2010). Information is concerned with awareness of funding opportunities by SMEs. In addition, information asymmetry is that relevant information is not available and known to all players in the financial market (Agostino, 2008). Information asymmetries are actually concerned with the two players in the financial market. In this case, the borrowers know more about their business cases and the bankers may not know more about it on one hand. On the other hand, it entails the lack of timely, accurate, quality, quantity, and complete information regarding the ability of the applicants to repay back the loan and to access financial products from the banking institutions (Bazibu, 2005).

A study by Agostino (2008), conducted on agricultural sector, pointed out that the failure of the current African market is because of the number of the current agricultural credit problems. These problems are associated with the imperfection of the information in the risk presences. The failures of the market mostly occur due to the fact that it is costly to screen credit applicants. Therefore, availability of finance or having awareness to the fund opportunities has a huge contribution in accesses to finance and the following hypothesis tested:

HP3: AWRE has positive effect on access to finance and its availability

Cost of borrowing (CBR)

Cost of borrowing is the amount of money paid in interest on a loan or other debt. In other words, it is what one must spend in order to receive money as a loan and it measured by interest rate.

Interest rates as a cost of the loan have a significant effect on a company's growth plans. They not only affect loan payments, but they also have an impact on an enterprise funding (Ogolla, 2013). High interest rates reduce business earnings which ultimately hinders the business capacity to grow. High interest rates also affect a business cash flow in that one has to set aside more money to repay the loans. This in turn reduces its disposable income hence affecting ability to pay its other creditors (Ndungu, 2016).

Anthony et al (2013) who studied determinants of credit rationing to the private sector in Ghana found out that interest rate has a negative effect on credit allocation. Higher interest rate discourages micro and small enterprises to deepen their financial access Therefore, cost of borrowing tested as follows

HP4: CBR has negative effect on access to finance and its availability

Summary

It is clear from the above arguments that the small firms' access to financing may either come from supply side market failure or demand side market failure. From the supply side, the lending institutions may shy off from SME funding due to fear of default, generally bracketing SME sector as high risk Endeavour or from information asymmetry that happens to be experienced at a higher level in SME sector. On the other hand, the demand side may be due to the entrepreneur lack of proper information, lack of business networking or business skills. Firm's characteristics, Collateral requirements, Awareness of funding opportunities and Cost of borrowing have been highlighted in this research as the main factors that influence SMEs' access to funding and its availability.

3.2. Research Approach

There is no consensus about how to conceptualize the actual undertaking of research. However, there is a tendency to divide research in to three approaches that are quantitative, qualitative and mixed research approach (Creswell, 2003).

This research carried out by investigating the factors influencing of access to finance and its availability for Small and Medium Scale Enterprises (SMEs) in the Addis Ababa, hence

descriptive and inferential research design was used. In order to attain the objective of the study and answer the research questions, the researcher adopted both quantitative and qualitative (Mixed) research approach. The rationale of using a mixed approach is to gather data that could not be obtained by adopting a single method (Creswell, 2003). Hence, the basis of such approach helps to neutralize the limitations of applying a single approach in connection with the qualitative and quantitative nature of the research questions.

3.3. Research Methodology Adopted

To assess factors influencing access to finance and its availability for Small and Medium enterprise (SMEs) in Addis Ababa mixed research approach was applied. The rationale for combining both quantitative and qualitative data is to better understand the research problem by combining both numeric values from quantitative research and the detail of qualitative research to neutralize limitations of applying any of a single approach. Therefore, in this research both forms of data collected simultaneously and integrates the information in the interpretation of the overall results (Creswell, 2003).

3.3.1. Quantitative Aspect of the Study:

The quantitative aspect of the research method intends to obtain data needed to generalize about factors influencing access to finance and its availability for Small and Medium enterprise (SMEs), particularly, in Addis Ababa. To gather data for quantitative aspect of the current study, survey design and documentary analysis were employed to analyze factors influencing access to finance and its availability for Small and Medium enterprise (SMEs). The following section reveals the survey design of this study.

3.3.1.1. Survey design

To obtain data at one point in time from a sample selected relevant for the investigation of factors affecting accesses to finance and its availability for SMEs, this study employed a cross-sectional survey with semi-structured questionnaires, which administered through distributing to sample of SMEs in Addis Ababa.

The questionnaires are advantageous whenever the sample size is large enough to make it economical for reasons of time or funds to observe or interview every subject. The questionnaire was prepared and distributed to ensure fair and equitable distribution and

response from the respondents which was expected to give a true or fair representation of the views of the respondents to allow for generalization in the final analysis.

The survey instrument was developed based on those used by Feten (2010) and Daniel Kimaiyo, (2009) and Gabriel Kamau, (2011). The instrument employed a five point Likert scale to measure perception of constructs ranging from strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5).

The questionnaire prepared for SME's has three parts. In part I of the questionnaires there was General information questions about the respondents and its business. Part II contains questions about how financing their firm; Part III Access to Finance And it's Availability Perception about Firm characteristics, Cost of borrowing, Collateral requirements and Awareness of having Funding Opportunity (Availability of Finance). The instrument was developed in Amharic language (Appendix I) for easy of understanding to the respondent. The questionnaire prepared for the banks and micro finance institution has two parts. In part I of the questionnaires there was General information questions about the respondents. Part II contains questions about how financing or funding of SME's. The instrument was developed in English language (Appendix II).

3.3.1.2. Population and Sampling Design

In selecting sample, three factors determine the size of an adequate sample includes: nature of population, types of sampling design and degree of precision desired (Salant and Dillman, 1994). Using a sample that is too large is a waste of resources while using a sample that is too small means getting results that are likely to be lacking in validity. In light of this, to select adequate sample size, the following procedures were employed.

First the population was defined as the business operators in the SMEs sector spread across Addis Ababa. Second Based on NBE 2015-16 annual report there are 8,081 SMEs in Addis Ababa city. Accordingly Federal Small & Medium Manufacturing Industry Development Agency there is 1,869 SME's in Addis Ababa (Appendix III for details). The researcher uses a combination of both which is their capital category between birr 500,000 and 5 million and based on the definition given for SMEs in the research population of 870 SMEs was selected.

Third stratification units were categorized the SME's among ten districts (sub cities); finally SMEs were proportionally selected from each district.

Random sampling technique was employed that draw a portion of a population so that each member of the population has an equal chance of being selected. On the banks & MFIs side the selection also based on random sampling to select employee of banks and micro finance institutions who engaged in the area of study as ingredient for the research. A sample drawn at random is unbiased in the sense that no member of the population has any more chance of being selected than any other member. Under this there is a details discussion about the survey design in respect of population and sampling, instrument design and actual conduct of the survey.

To determine the sample, the following formula provided by Easter by-Smith et al. (1999) was used by the researcher.

$$SS = Z^2 p q \left(\frac{N}{E^2(N-1)} + Z^2 p q \right)$$

Description

- SS = required sample size;
- z = z value at 95 % confidence level (1.96);
- p = the population in the target population estimated to have characteristics being measured (50 %); q = 100 – p = 50 %;
- N = total population;
- E = margin error.

Assume 50 % of the population being measured, the sample size for this study was 267. The sampling method for this population was convenience sampling. It is because it allows the researcher to obtain basic data.

3.3.1.3. Actual Conduct of the Survey

This survey conducted by means of self-administered questionnaire. Because it offers several advantages over alternative methods: respondents answer at their convenience, there is no need to set up interview appointments, surveys are delivered wherever the respondents, home or office.

This survey assumed achieved good response considering the response rate achieved, it was decided not to out for a second round of survey distribution, which would have cost additional time and resources.

3.3.1.4. Definition and Measurement of Variables

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

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

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

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

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

three Key questions under this factor and the average responses to the questions were used.

Cost of borrowing (CBR): the degree to which a person believes that using financing or loan has more cost or not. This variable measured on a five-point scale. There are three Key questions under this factor and the average responses to the questions were used.

Collateral requirements (COLL): Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003). This variable also measured on a five-point scale. There are three Key questions under this factor and the average responses to the questions were used.

Awareness of Funding Opportunity (Availability of Finance) (AWRE): the degree to which a person believes that is there available source of finance and did everybody aware of that. This variable also measured on a five-point scale. There are four Key questions under this factor and the average responses to the questions were used.

3.3.1.5. Assessment of the Data

The data is tested to verify whether the statistical assumptions of factor analysis and logistic regression analysis have been met. The validity and reliability of variables were tested to ensure that items in each constructs produced reliable & consistent results and explained here by how statistical assumption for factor analysis was made.

3.3.1.5.1. Statistical Assumption for Factor Analysis

The purpose of factor analysis is to discover simple patterns of relationships among the variables. The statistical assumptions need to be fulfilled for factor analysis - sample size & factorability are basic. According to Hair et al., (2006), a data matrix that has sufficient correlation can be used to justify the use of factor analysis. Here, 204 usable questionnaires were collected & the total perception included for factor analysis was 13. Factorability examined via correlation matrix & measures of sampling adequacy.

Inter-item correlations (correlation matrix) - The correlation matrix indicates that the data shared common factors and is therefore appropriate for factor analysis. (AppendixIV)

Measures of sampling adequacy- Kaiser-Meyer-Olkin the value of 0.6 is the suggested minimum. If $KMO > 0.6$ the sample is adequate. Here, $KMO = 0.628$; According to Kaiser

and Rice (1974), this testresult is defined as “mediocre” and which indicates that the sample is adequate. Therefore, the data set is appropriate for factor analysis.

Table 3.1. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.628
Bartlett's Test of Sphericity	Approx. Chi-Square	799.541
	Degree of freedom	78
	Significance	.000

Source: survey result & own computation

The **Bartlett's Test of Sphericity**- tests the hypothesis that your correlation matrix is an identity matrix, which would indicate that your variables are unrelated and therefore unsuitable for structure detection. Factor Analysis is valid, if the p-value significant, less than 0.05. Here, $p < \alpha$, therefore, there may be statistically significant interrelationship between variable. The results of the statistical assumptions tests indicated that the data set is appropriate for factor analysis.

3.3.1.5.2. Factor Analysis & Cronabch Alpha Result

Principle component factor analysis is conducted on all of the items that are consistent with the information derived from the literature review. In this context, the word "factor" refers to questions included in the questionnaire, which designated to measure the each constructs and item numbers indicate the sequential order of the question in the questionnaire (Appendix I).

According to Nunnally (1967) & Hair et al. (2006), factor loadings of 0.30 and above are significant. However, the authors also suggest that values greater than ± 0.50 are generally necessary for practical significance.

All three factors of **Firm characteristics** were loaded, which confirmed the validity of the scale. Further Cronbatch alpha of the scale was 0.644, which provided support for scale's reliability.

With regards to **Cost of borrowing variable** all the three were loaded, that also confirmed the validity of the scale. Further Cronbatch alpha of the scale was 0.798 considering the factor which provided support for scale's reliability.

On collateral as a variable all factor were loaded on. Reliability of the scale (Cronbatch alpha value) is 0.695.

For the variable **Awareness of Funding Opportunity (Availability of Finance)** the rest four factors were loaded. However, when these four items run together internal consistency test or Cronbatch alpha become < 0.6 . So, to avoid undesirable effect during analysis last factor dropped and their Cronbach's Alpha 0.614.

3.3.1.5.3. Statistical Assumptions for Logistic Regression

There are numerous statistical tests to determine if the assumption of logistic regression analysis is satisfied.

Outliers: Outliers are defined as observations that are substantially different from the other observations. The outliers in this study are also identified and considered as missing to reduce the effects of their influence on the regression analysis (Hair et al., 2006).

Multicollinearity: it is defined as the extent to which a variable can be explained by other variables in the analysis (Hair et al., 1998). Analyze the magnitude of multicollinearity by considering the size of the VIF. A variance inflation factor (*VIF*) quantifies how much the variance is inflated. But what variance? Recall that we learned previously that the standard errors and hence the variances of the estimated coefficients are inflated when multicollinearity exists. A commonly given rule of thumb is that VIFs of 10 or higher (or equivalently, tolerances of .10 or less) may be reason for concern. Considering the rule of thumb is that if $VIF < 10$ then multicollinearity is low or no multicollinearity. Therefore in this test there is low or no multicollinearity (Appendix V)

3.3.2. Qualitative aspect of the study

To substantiate the data obtained through survey and to get clarification on some issues, structured questioner was prepared and used with banks and MFIs managers/officials was

also used. This form of data collection procedures constitutes the qualitative aspect for the study.

3.3.2.1. Source of Data

In conducting this study, the researcher will make use of both primary data and secondary data.

Primary Data: it will be collected from target group means the owner and/or managers of the business enterprises through Well-designed and semi structured questionnaire.

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

Chapter Four

Research Results and Discussion

This chapter provides analyses and interpretations of the raw data gathered in the course of the study. Then the final section summarizes this chapter.

4.1. Results of the study

This section presents the results and analysis of data collected via questionnaire and document analysis. This was presented in way that wants to see from the SMEs side and from the financial source providers like in this case Banks and MFIs; in the first subsection the survey result presented and in the second subsection the quantitative data result presented. The qualitative data found from different document analysis, and semi-structured questioners with senior managements of financial institutions (Banks and MFIs) and SMEs owners.

4.1.1. Survey result

Survey analysis started with summarizing the demographic profiles of respondents and comparisons are made with SMEs owner, employee/manager and shareholder response with that of Banks and MFIs employee response. Appropriate frequency tables, charts and graphs were inserted for clear illustration. From the data collected, out of the 267 questionnaires administered to SMEs owners, shareholders and employee/manager 235 were filled and returned; and out of the 50 questionnaires that were administered to employees working in the six banks and seven micro finance institutions, all were filled and returned. This represented a response rate of 88% and 100%, respectively. This corroborates Bailey's (2000) assertion that a response rate greater than 50 % is adequate.

The survey instrument was distributed to a total of 267 respondents, among which 235 questionnaires were collected. From these collected questionnaires 21 questionnaires rejected as incomplete, or were not suitable for use in this study. Only 204 were found to be usage questionnaires that filled completely. Based on usable responses only, the response rate was 76.4%.

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

4.1.1.1. Respondents' Profile

Table 4.1. Respondents GENDER with Occupation status

			Occupation status			Total
			EMPLOYEE/MANAGER	OWNER/MANAGER	SHAREHOLDER	
GENDER	FEMALE	Count	13	28	15	56
		% within Occupation status	22.0%	38.9%	20.5%	27.5%
		% of Total	6.4%	13.7%	7.4%	27.5%
	MALE	Count	46	44	58	148
		% within Occupation status	78.0%	61.1%	79.5%	72.5%
		% of Total	22.5%	21.6%	28.4%	72.5%
Total		Count	59	72	73	204
		% within Occupation status	100.0%	100.0%	100.0%	100.0%
		% of Total	28.9%	35.3%	35.8%	100.0%

Source: survey result & own computation

Table 4.1 demonstrated that out of the total respondents 27.5% are female the rest are male owner/managers, employee/manager or shareholder of the SMEs. Over all the researcher observed that the line share of the respondent is owners and shareholders (partner). This indicates that both were pretty good represented in the sample size of this research. As it can observe from the demonstration 71.1% of the SME administered by owners which contributes 13.7% and 7.4% female's owner/manager and shareholder respectively which indicates females are also participant in the SMEs as owner which is encouraging with the aspect of empowering female entrepreneurs'.

With respect to Banks and MFIs as per table 4.3 describes the occupation statutes and gender of our respondent. From the respondent 32% are managers which are 2% are female and the rest are male from the total. 12% of respondents are Employee who works as supervisory level with a composition of 2% female and 10% male. Majority of respondents work as an

officer level 50% of the total respondents out of which 24% female and the rest are male. 6% are clerical staff.

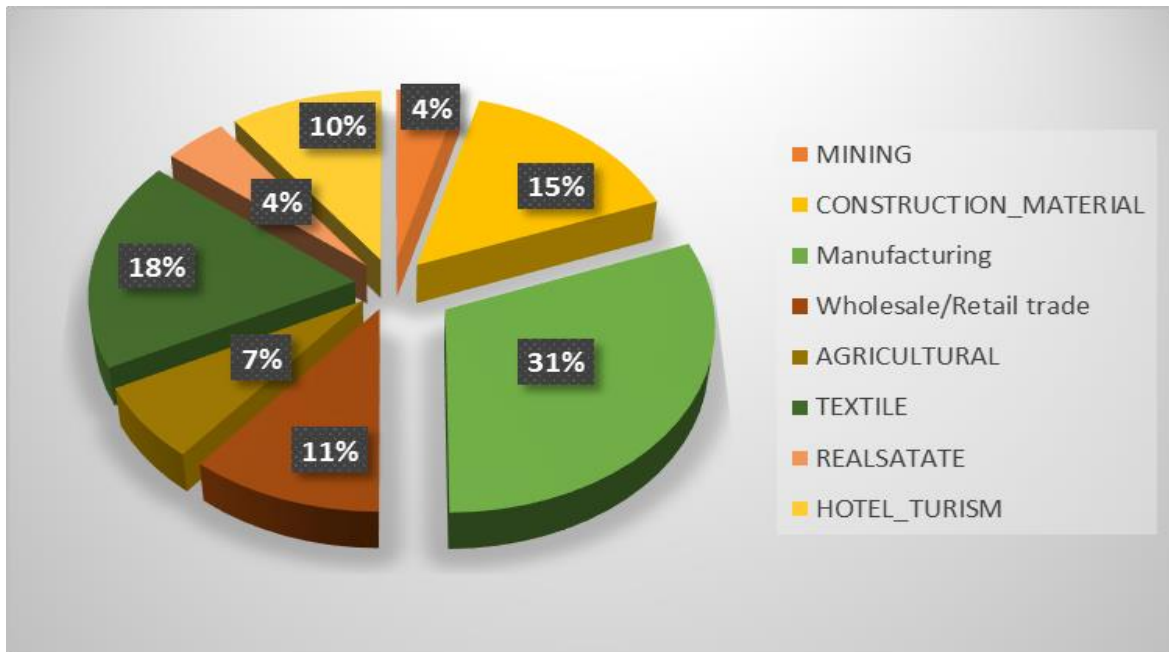
		Occupation status				
		Manager	Supervisory level	Officer	Clerical	
GENDER	FEMALE	Count	1	1	12	0
		% of Total	2.0%	2.0%	24.0%	0.0%
	MALE	Count	15	5	13	3
		% of Total	30.0%	10.0%	26.0%	6.0%
Total		Count	16	6	25	3
		% of Total	32.0%	12.0%	50.0%	6.0%

Source: survey result & own computation

4.1.1.2. Respondents Business Activities

The type of businesses on which the research was conducted were consisting of Mining, construction material producers, Manufacturing which composes of (Metal work industry, wood work industry, molding, soap and detergent, machineries and others), whole sale and retail (Merchandising), Agricultural products, Textile (garment and leather product including bags and footwear), Real estate and Hotels and tourism.. According to Investment office of Addis Ababa summary of Domestic Investment based on their Capital More which is than 500, 000 Birr 44% are engaged in manufacturing sector from the total sector. Among the activities the line share of respondent goes to manufacturing sector which is 31% and the least are Mining and Real estate which has 4% total respondent each. This shows that most of SMEs engaged in manufacturing activities which were pretty good represented in the sample size of this study.

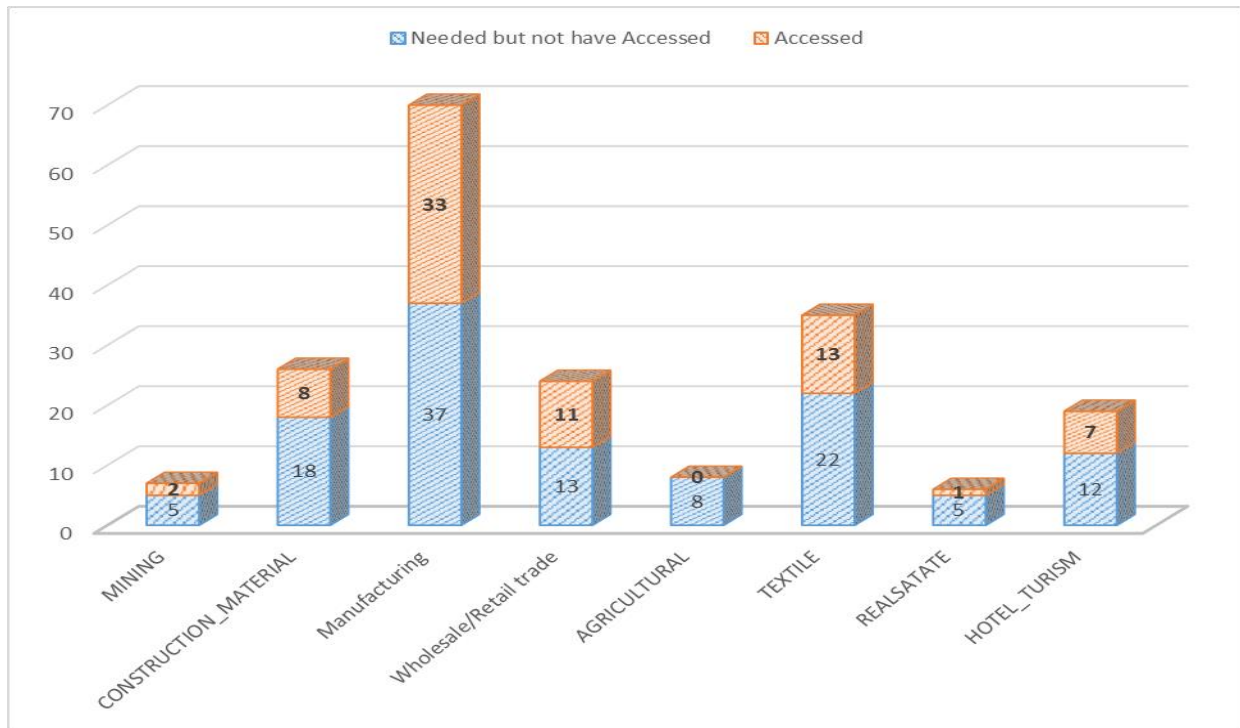
Figure 4.1 Business Activities of SMEs



Source: survey result & own computation

The other factor to see here is which activities has a line share in accessing finance, based finding which presented in figure 4.2 from the total sector 61.5 % of the respondents needs financial accesses but not have accessed the rest have an accesses to finance that shows there is an hindrance in accessing finance. When we come to the most number of business activity that have accessed to finance is manufacturing which counts 33 respondents despite the firms who needs but did not accesses the finance is 37 which is still numbers did not have accessed out waits. In textile activity there are 13 counts that have accessed to finance the rest 22 needs but did not have accesses. In the activities which are engaged in construction material also 8 counts that have accessed to finance the other 18 needs but did not have accesses to finance. In the rest of sectors as you can observe in the figure 4.2 that only 21 counts have accessed to finance the rest 43 needs but did not have accesses which include all the count of agricultural activities did not have an accesses to financial source. As per the findings the manufacturing sector has more chance of accessing finance than the others sectors. Mining sector has an office here in Addis Ababa and the working place is in different place of the country which has ample resource and suitable for mining.

Figure 4.2 Business Activities of SMEs related with ATF



Source: survey result & own computation

Employment Opportunity; Francesco Strobe, (2015) identified, the development of micro, small and medium enterprises (MSMEs) as a key industrial policy direction for creating employment opportunities for millions of Ethiopians.

When we consider the employment opportunity with respect to firm's activity the table 4.2 bellowed described the respondent's responses. Based on the table presented out of 7 counts in mining activity 3 of them has an employee's above 100. Among SMEs which are engaged in construction material the line share of count which is 10 has an employment opportunity from 20 - 50 employment. On manufacturing sector out of a total of 72 counts 35 has also employment opportunity from 20 - 50 employees each. The other sector employment opportunities clearly sowed in the table 4.2 below here and there over all job creation with respect to each sector is annexed. As a result we can observe that the SMEs has huge contribution in employment creation and their efforts to create jobs.

		Number of Employee					Total
		FROM1_10	FROM 11_20	FROM 21_50	FROM 51_100	ABOVE_100	
Business Activity	MINING	0	0	2	2	3	7
	CONSTRUCTION_MATERIAL	0	6	10	7	3	26
	Manufacturing	2	8	8	35	19	72
	Wholesale/Retail trade	6	8	3	4	4	25
	AGRICULTURAL	1	2	3	1	2	9
	TEXTILE	6	6	11	5	9	37
	REALSATATE	2	0	1	3	0	6
	HOTEL_TURISM	2	9	0	4	4	19
Total		19	39	38	61	44	201

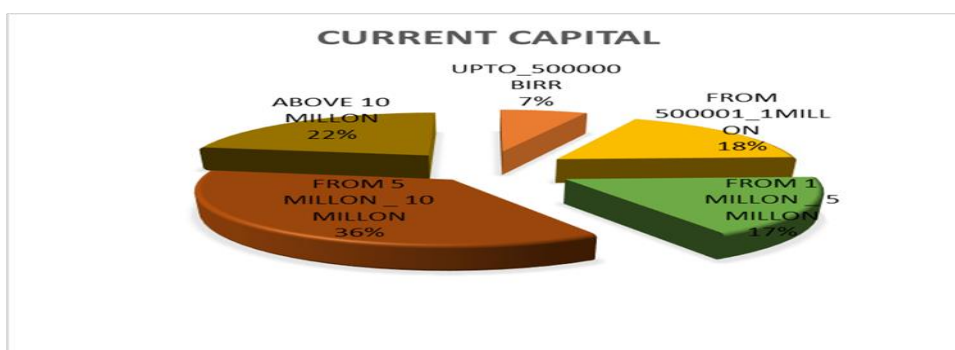
Source: survey result & own computation

4.1.1.3. Respondents of Current capital of the SMEs

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

As per figure 4.3 7% of SMEs current capital is upto_500000 birr, 18% have a capital from 500,001 - 1million birr and 17% falls there capital between 1 million and 5 million. Their capital falls between 5 million to 10 million are 36% the rest 22% have a capital more that 10 million birr. This shows that it was pretty good represented in the sample size of this study.

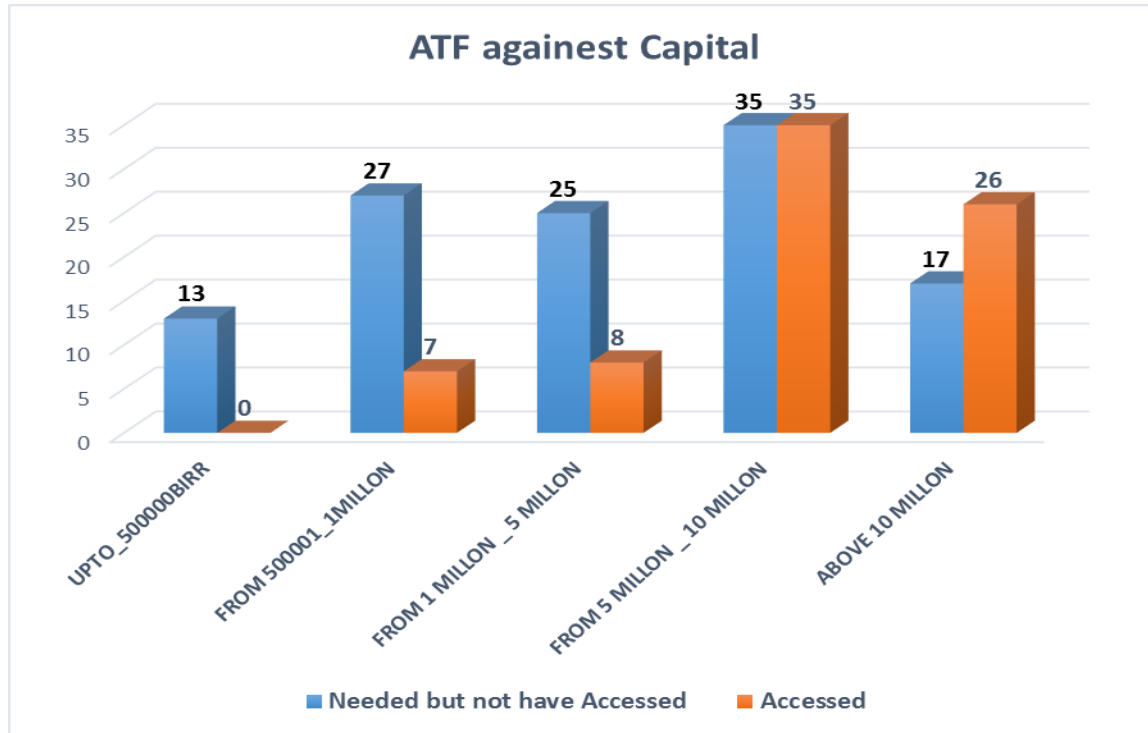
Figure 4.3 Current Capitals of SMEs



Source: survey result & own computation

When we consider their current capital size with respect to accesses to finance the following demonstration clearly show how capital influence accesses to finance.

Figure 4.4 Current Capital of SMEs with respect to ATF

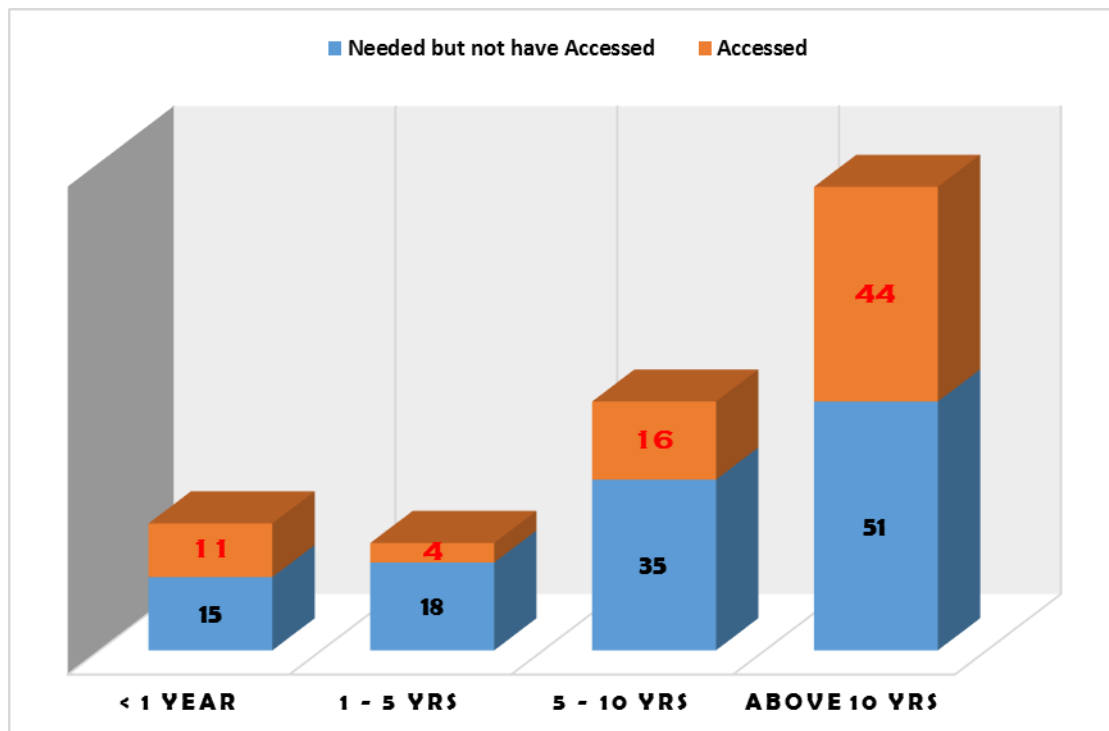


Source: survey result & own computation

When we consider the above figure 4.4 the SMEs which have a capital of birr 500,000 and less have struggle in accessing finance as per the findings none of the SME have accesses the finance. On the category of their capital fall between 500,001 - 1million birr out of 34 in total only 7 have accesses the finance. Accordingly the next category also has a chance to accesses the finance by 8 of SMEs out of a total of 33 counts. When we observe the 5 million to 10 million capital category have an equal count of 35 which have an accesses and needs but not have an accesses to finance. The last category which have a capital of above 10 million showed more of the SMEs have accessed the finance which is 26 and only 17 SMEs did not. This clearly shows that having more capital leads to increase a chance of accessing the finance and capital is strong influential element in accessing finance.

4.1.1.4. Respondents of the SMEs Age (Duration) in the operation

Figure 4.5 Age (Duration) of SMEs with respect to ATF

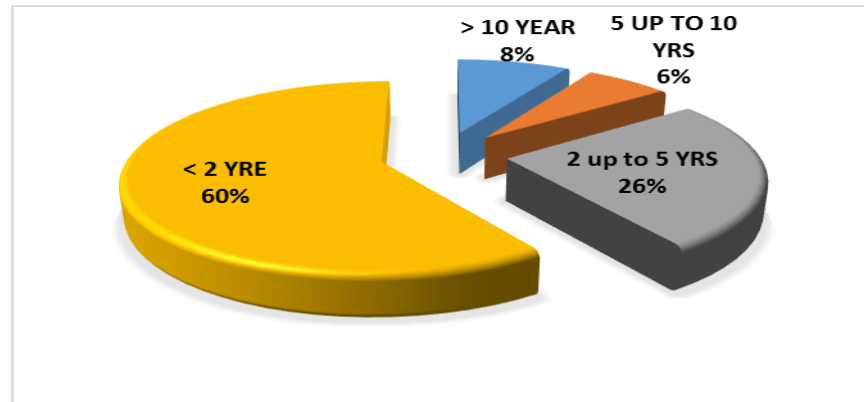


Source: survey result & own computation

Regarding the age of business with respect to ATF, having age less than a year and have accessed the finance is 5.7% from the total respondents which is counted as 11 the rest of 15 count or 7.75% of the total respondents needs but not have an accesses to finance. SMEs whose age is between 1 and 5 2.1% responds that they have accessed however, 18 of them or 9.3% needs bud did not have accesses to finance. 35 count needs but not have an accesses and 16 counts have accessed the finance is a response get from SMEs whose age falls between 5 up to 10 years. SMEs whose age is above 10 years have a better opportunities in accesses the finance based on our respondents 38.7% have a chance to accesses the finance but 61.3% needs but not have accesses. The total number as well as percentage of the respondent response is annexed. Therefore, this result indicate that there duration of time in the operations raises their chance of accessing finance is also increase however, SMEs whose age are infant or small are struggle in accessing the finance.

With regards to Banks and MFIs the question is raised that for a SMEs to have accesses the loans/finance how long the business in the market. Based on their response compute the following figure 4.6.

Figure 4.6 Age (Duration) of SMEs to accesses loan



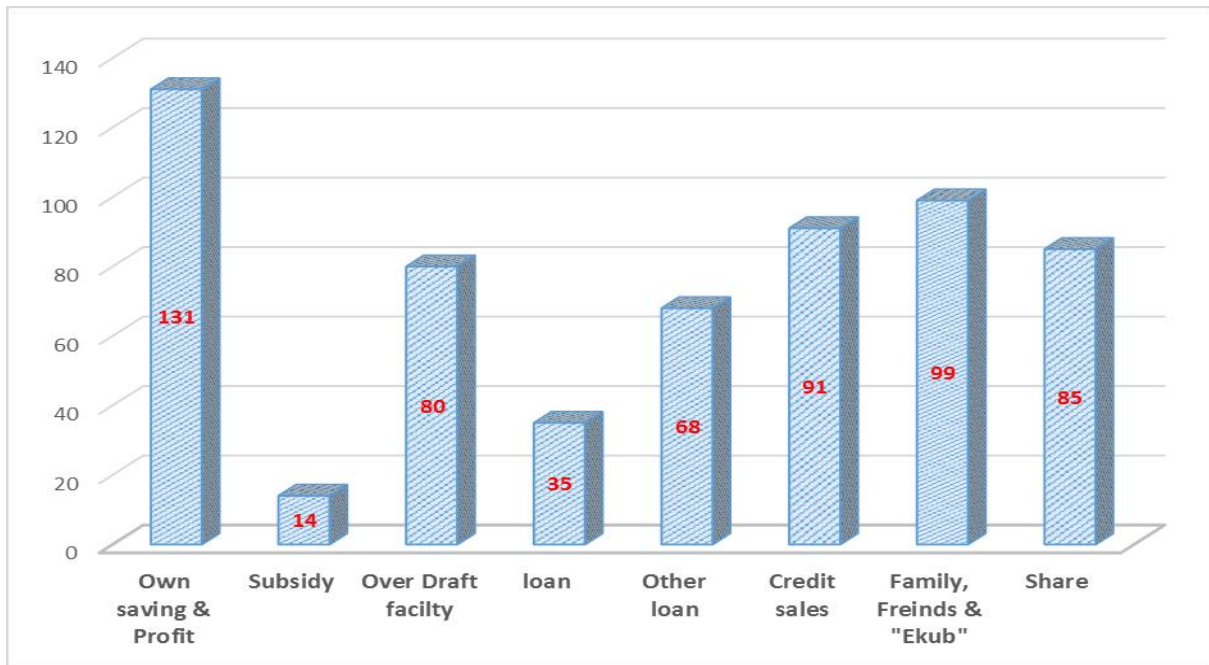
Source: survey result & own computation

According to the figure 60% of respondent's form the total says that it is enough to access the finance if a SMEs has a duration less than two years, 26% responds it is enough to be between 2 up to 5 years and 6% says between 5 up to 10 years only 8% of respondents express it requires to have more than 10 years in the business. This indicates that Banks and MFIs only requires the business to have two years of existence however, most of SMEs did know this fact. Therefore this gab must be addresses by SMEs to have a mutual benefit.

4.1.1.5. Respondents of Source of Finance used by the SMEs

Businesses can use internal funds or external sources to finance their operations, investments, etc. A firm can use one of these two financing sources only or, as is more often the case in practice, a mixture of them. Traditionally, internal funding, i.e. personal savings, retained profit, sales of assets and “Ekub”, is an important means of financing for small businesses. On this part we observe which source of finance SMEs use and which source of finances provided for them by financial source providers (Banks and MFIs).

Figure 4.7 Source of Finance used by the SMEs

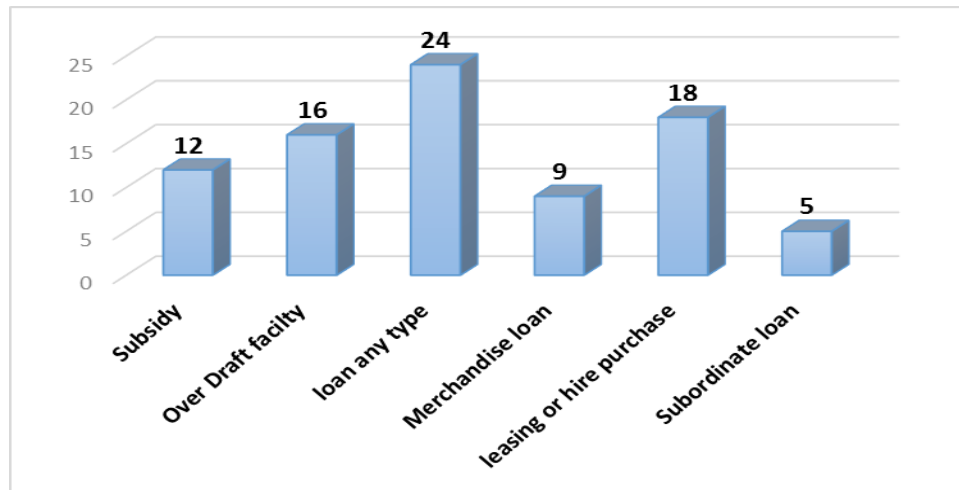


Source: survey result & own computation

This part discussed the source of finance used by SMEs that they know and used so far. Therefore every respondent has a chance of choosing all or one consequently, the result will be interpreted in count of their choice which they use as a means of financial source. Having been saying this the line share of responses goes to own saving and business profit as a source of finance which counts 131, in second place we found that family, friends and “ekub” is counted as 99 response, the third is credit sales that they get from their suppliers counted as 91, in fourth place which has a count of 85 response is used sale of share to be a partner of ownership as a source of finance, having 80 counts of response put using over draft facility in fifth place, others loans has 68 count of response takes the sixth place and loan and subsidy take seventh and eighth with a count of response 35 and 14 respectively. From the discussion above it is possible to comprehend that internal financing is the most popular means of financing small business’s operation which include retaining profit and money from family as well as traditional way of source like “ekub” (Figure 4.7).

On the other hand our respondents of bank and MIFs participants asked that ways of financing that they rendered for SMEs and their response computed as follows.

Figure 4.8 Source of Finance provides by Banks and MFIs

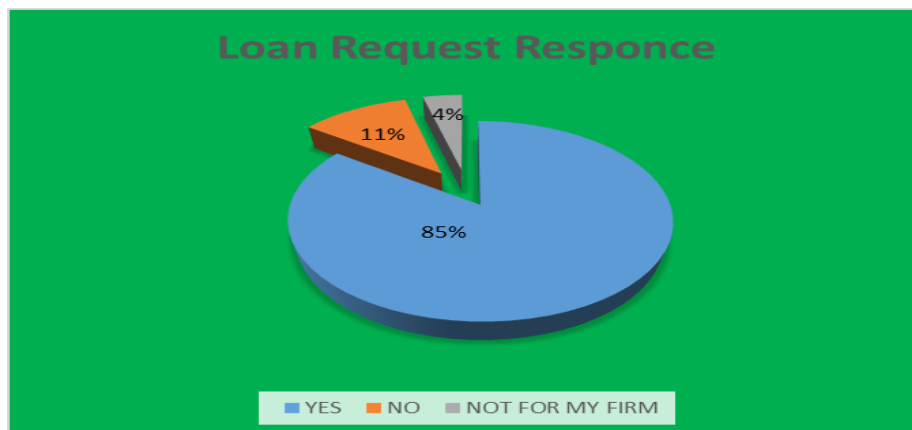


Source: survey result & own computation

Based on the above figure 4.8 the great portion of count goes to loan of any type which provided by Banks and MFIs that counts 24, the next one is leasing and higher purchase with a count of 18 this one is mainly provided by banks. The next source which is mainly given by banks are overdraft facility which has a count of 16 others counted for subsidy, merchandise loan and subordinate loan having a count of 12, 9 and 5 respectively. This indicates that Banks as well as MFIs provides a loan which requires pledges by their nature. Therefore these only satisfy the needs of SMEs which has a proper pledge.

4.1.1.6. Respondents of Loan Request by the SMEs

Figure 4.9 Loan Request by the SMEs

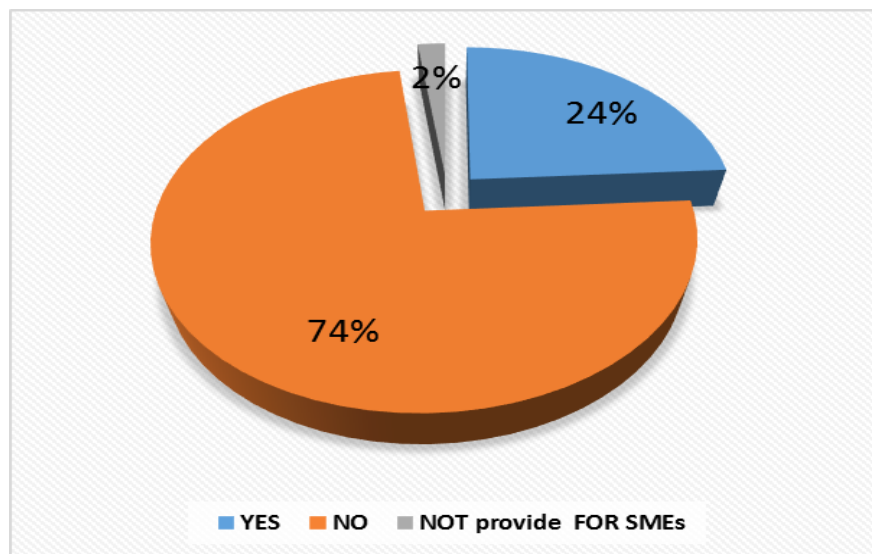


Source: survey result & own computation

Financing helps people start their own small business by providing loans which will be difficult to get from the main banking system. Our SMEs respondent also asked whether they applied there loan request within the past six months. Based on the above figure 4.9 the loan request provided by SMEs to the financial source providers. Among all the respondent 85% applied for loan request to them while 11% did not request loan and the other did use loan at all some of respondent replay that why they did not apply request for loan, it is because of religious issue and the type of activities they engaged did not have an option to have a loan.

On the banks and MFIs side the loan request received by the Banks and MFIs that shown in figure 4.10 describes that 74% of respondents received loan application from SMEs, 24% did not receive loan application and the rest 2% responds that they did not provide loan for SMEs because of risk as the give reason for that. This indicates that Banks and MFIs received loan request application from SMEs frequently.

Figure 4.10 Loan Request received by Banks and MFIs

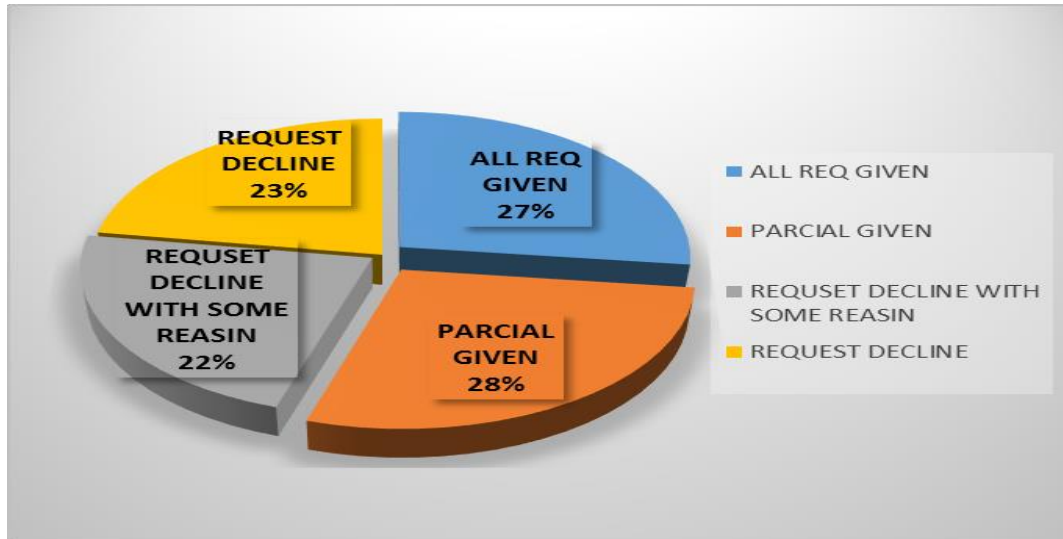


Source: survey result & own computation

Despite their request the other issue is that did the request have an answer on their proposed ways on needs. There response is shown in figure 4.11 below taking only those who applied handed the loan request to financial source providers as a base which is 85% in the above figure 4.7. The response shows that 27% given the loan as their request proposal while 28%

given partial of their request however, 22% responded that their request has declined with some reason the other 23% full decline their loan request by financial source providers.

Figure 4.11 Loan Request Responses SMEs



Source: survey result & own computation

Considering the above both issue from both perspectives both SMEs and Banks & MIFs is almost has same ground of issue which needs to be addressed by them to have a benefit which satisfy both parties.

4.1.1.6. Respondents of the of financial source providers services availability

Survey respondents were also asked whether financial source provider’s services availability showed improvement or not. The response from both side (SMEs and Banks & MFIs) is presented in figure 4.13 below. In SMEs regard, 44% of the respondents indicated that there availability increased. 24% suggested that it was stable during the period while 23% indicates it was decreasing the rest 9% indicate that as they did not know their improvement on the service because of didn’t use any loan or finance from them.

Figure 4.12 Levels of loan/finance availability

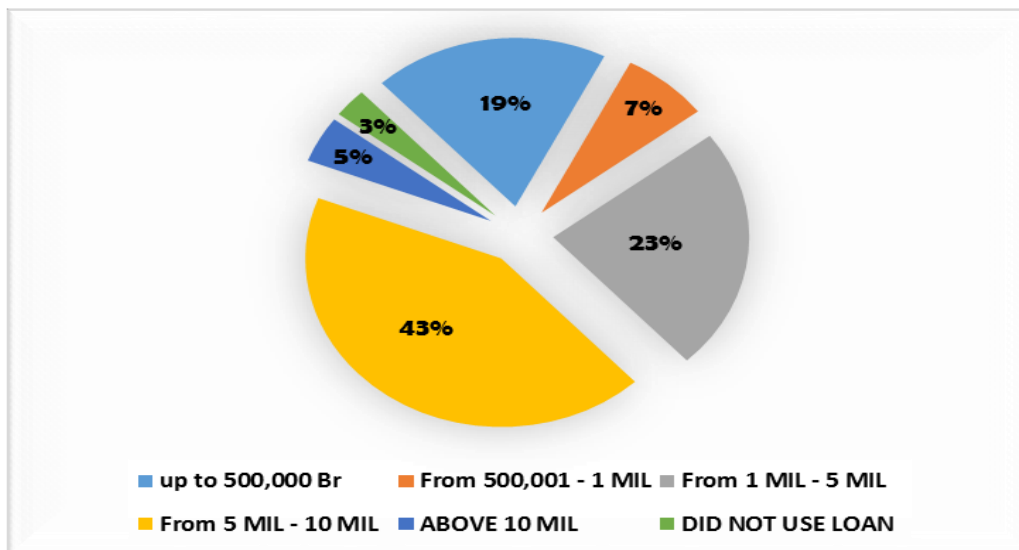


Source: survey result & own computation

In Banks & MFIs regard, 59% of the respondents indicated that there availability increased. 10% suggested that it was stable during the period while 21% indicates it was decreasing the rest 10% indicate that as they did not provide loan/finances to SMEs. This comparisons show that the availability of loan/finance is increasing from the pas times however, this level of increase did not exploited by users as it can be used.

4.1.1.7. Respondents of purpose of loan/finance with the amount

Figure 4.13 Purpose of loan/finance with the amount

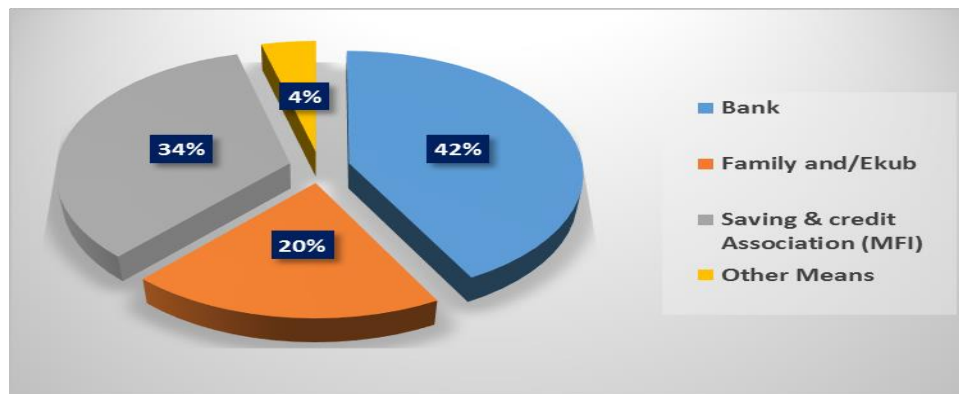


Source: survey result & own computation

Under this issue the respondent asked whether they use any loan/finance during the past two years. As can be seen from figure 4.14, 43% of respondents indicate that they use loan/finance between 5 Million - 10 Million, 23% uses from 1 Million up to 5 Million loans or finance while 19 % use up to 500,000 birr and 7% use with a range of 500.000 to 1 million. Only 5% of respondent use more than 10million birr as loan/finance the rest did not use loan/finance at all.

With regard to the above issue the respondent asked who provide this loan/finance and have a freedom to choose if they get loan or finance from them. Their responses depicted on figure 4.15. As it can be seen from the figure below 42% of the respondents have indicated that loan/ finance is provide by the bank during the past two years. The other portion has taken be MIF which constitute 34%, family or relatives, friends and “ekub” has its own contribution as a source of finance by having 20% the rest 4% use other means of finance during the past two years.

Figure 4.14 loan/finance source of providers for the past two years

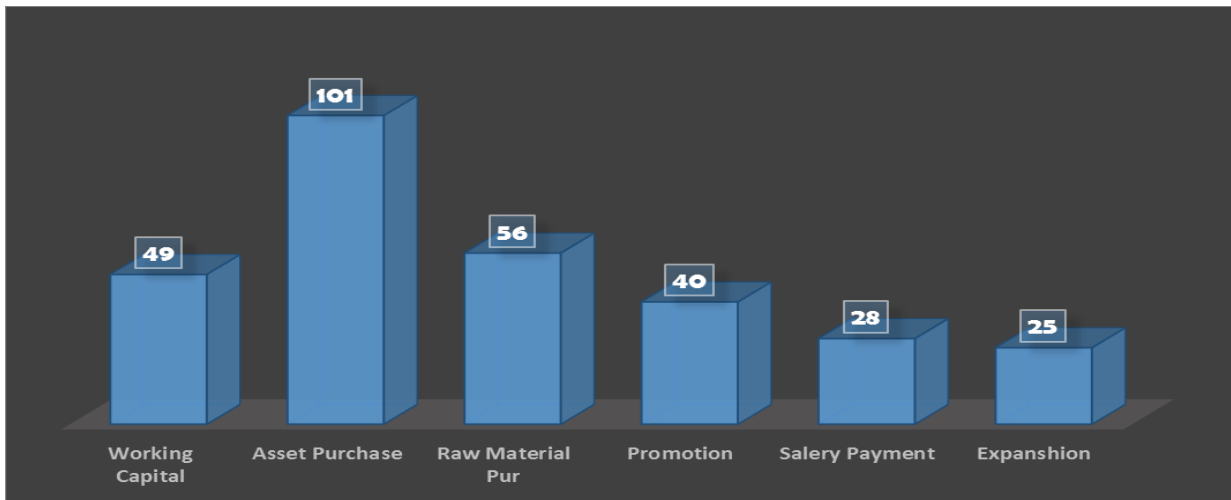


Source: survey result & own computation

4.1.1.8. Respondents on purpose of the loan/finance taken.

Loans provided by those financial source providers which were available to SMEs are mostly term loans and installment loans. The Loan term and size was depending on the purpose of the loan, the capacity of the borrower to pay the loan, and the lending capacity of the institution. A question was forwarded to owners /manager of small businesses to see for what purpose this loan/finance executed and have an autonomy to choose all if they implement for all stated purpose.

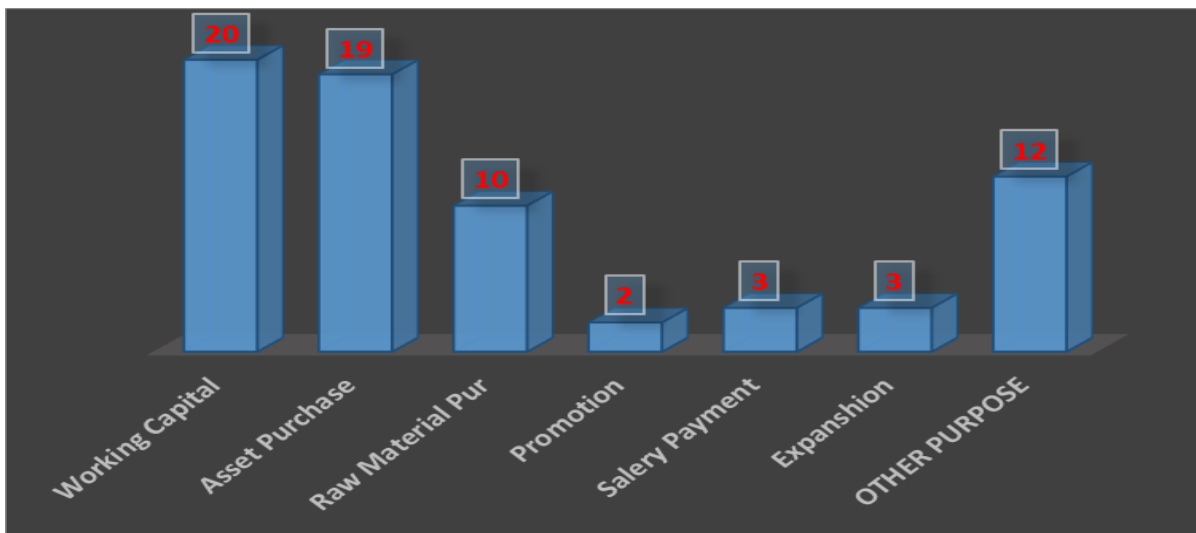
Figure 4.15 purpose of the loan/finance taken



Source: survey result & own computation

As it can be seen from the figure 4.16 significant part of the small business owners (101 counts) indicated that they used the money to acquired plant asset, 56 of them uses for the purpose of purchasing raw material and 49 of them uses it to finance working capital of their business. In addition there were small businesses used the loan for promotions salary payment and expansion of their operation. These indicate that the significant part of the loan was used to finance acquisition of plant assets and working capital of the small businesses.

Figure 4.16 purpose of the loan/finance taken



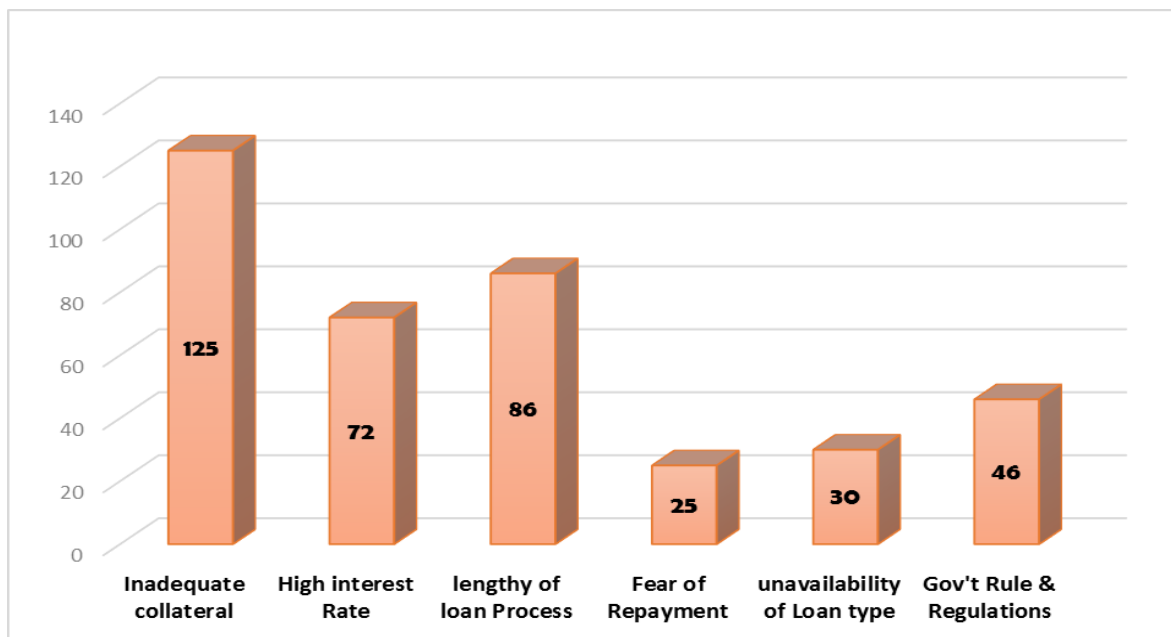
Source: survey result & own computation

According to data gathers from Banks and MFIs on the purpose of loan that they provided for SMEs as a working capital has a majority portion with a count of 20, 19 count registers that they provide for asset or equipment purchase. 12 counts also resisted for the loan that are provided as other purpose like project finance and leasing or higher purchase. In addition there are also loans or finance provided for material purchase, for promotion, for salary payment and also for branch and operation expansion (figure 4.17)

4.1.1.9. Respondents on Obstacles to get loan/finance.

Those who want to have loan/finance for their development incentive in the future were asked to identify the possible problem that constrain them not to access finance and have autonomy to choose all if they face all stated constraints. Accordingly majority of the respondents indicated that insufficient collateral is the basic problem that they will face in accessing the finance which counted as 125. Others responded lengthy of loan process and high interest rate as there hindrance which counted 86 and 72 respectively. In addition the government rule and regulations, unavailability of loan type and fear of repaying the loan are the hindrance indicated by the SMEs owners/managers (figure 4.18).

Figure 4.17 Obstacles to get loan/finance



Source: survey result & own computation

4.1.1.10 Descriptive Statistics factors mentioned in the discussion

The descriptive result showed major factors affecting accesses to finance and its availability. The sections discuss the responses of the respondents regarding the factor as open ended questions to reflect their ideas and concern for. On the SMEs side the question raised for the respondents is what is the most pressing problem your firm is facing currently? Majority of the respondent respond many factors related to the issue raised. The key informants from the SMEs owner indicating following findings High Cost of materials, Stiff competitions and difficulty in finding customers, Access to external financing, Working space limitation (not having adequate space for their production), Rules and regulations of the government, Availability of skilled staff or labour, Power Shortage (poor infrastructure like road, shading, etc) and Foreign currency shortage are mentioned as major challenges affecting their operation currently.

With respect to MFIs and Banks employee the respondents asked to put their thoughts on the question what is the most hindrance that you encounter to provide loan for SMEs? They gave their opinions and by making ranks on the question provided majority count 25 ranked insufficient collateral as major problem and ranked first others placed rules and regulation of the government and lengthy of loan process as second and third places respectively. However in the question provided Appendix II (Q6) also gave same response but they include other reasons that very poor proper documentation, Lack of shade area and no clear policy to finance SMEs.

On our SMEs respondent asked to put their general thoughts on the question whether all the ways of financing are available in our country? And are all ways of financing or prevailing ways of financing are accessible to all?

Scale mid-point of the arithmetic mean of the constructs is equal to 2.5, as the agreement Likert measurement scales (strongly agree, agree, disagree, strongly disagree) was used in this study. The results demonstrated that for the first question 46.1 % are neutral and 33.3% disagree and 10.3% strongly disagree on the issue. 4.4% agree and 5.9 % strongly agree to the issue. This indicates that all ways of financing listed on the questionnaire is not available in

our country therefore we should work on the ways of finance which are not currently available.

Accordingly the result acquire from the respondent for the next general thought is 42.2 % responds that they are neutral and 39.2% disagree and 11.3% strongly disagree on the issue. 6.4% agree and only 1% strongly agrees to the issue. This also indicates that prevailing ways of financing are not accessible to all. Therefore we have to minimize the gab and work to be accessible by all SMEs.

4.2. Discussion

Factors Influencing Accessing to Credit Facilities

The study sought to know the extent to which various factors influenced access to finance and its availability for small and medium enterprises in Addis Ababa. The extent to which the factors influenced access to finance and its availability was measured on a five point Likert scale to measure perception of constructs ranging from strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). The key for interpreting the means recorded is as shown in Table 4.4;

Table 4.4 Means Interpretation Key

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

4.2.1 Firm characteristics and accesses to finance and its availability

Table 4.5 Firm characteristics

Factors Under Consideration	Mean	Std. Deviation
The age of the firm	4.1	0.891
Having business skills	4.2	0.873
Ability to compile financial records and accounts	4.1	0.927
Average	4.1	0.897

The study found out that age of the firm influenced access to finance and its availability to a level of agree (M= 4.1, SD= 0.891) while having business skill influenced access to financing and its availability also with a level of agree (M= 4.2, SD= 0.873). The influence of having ability to compile financial records and accounts also have a level of agree (M= 4.1, SD= 0.927). The standard deviations indicated the extent to which the responses were dispersed from the mean. Overall, Firm characteristics influenced access to finance and its availability to a moderate extent (M= 4.1, SD= 0.897). This confirms the importance firm characteristics which are firm’s age, having adequate business skills and managing proper records of books of account will influence to access external financing. The results are as shown in Table 4.5. These findings are in line with those of (Gabriel, 2011; Deresse et.al, 2017; Daniel, 2009).

4.2.2 Influence of collateral requirements on accesses to finance and its availability

Table 4.6 Collateral requirements

Factors Under Consideration	Mean	Std. Deviation
Not having Types of collateral required	4.0	0.966
collateral is a mandatory requirement in accessing finance	3.9	0.879
SMEs very worried about collateral in accessing finance	4.1	0.960
Average	4.0	0.935

According to table 4.6 access to finance and its availability influenced by not having type of collateral required with a level of agree having (M= 4.0, SD= 0.966) while those who look collateral as a mandatory requirement in accessing the finance is agreed by also having (M= 3.9, SD= 0.879) and so did SMEs very worried about collateral (M= 4.1, SD= 0.960). Overall, collateral requirements influenced access to credit facilities to an agreed level (M= 4.0, SD= 0.935). This implies that access to finance was highly limited by strict collateral requirements.

It is obvious that most SMEs are denied and discriminated by the lenders in provision of financing because of high risk and for not having adequate resources to provide as collateral. Furthermore, in descriptive question raised the key informants support this result. Most of them were saying that lack adequate collateral was considered as a significant barrier that

affected them to access finance. These findings are in line with those of (Matavire et al 2013, Mullei and Bokea, 2000; Hezronet,al, 2016; Brehanu et.al 2015; Deresse et.al, 2017; Selamawit et.al, 2014; Fetene, 2010; Eshetu and Mamo, 2009).

4.2.3 Effect of awareness of funding opportunity on accesses to finance & its availability

Table 4.7 Awareness of having Funding Opportunity (Availability of Finance)

Factors Under Consideration	Mean	Std. Deviation
Availability of information on who is offering credit facilities	3.3	0.687
Performance of Commercial Banks and micro finances	4.1	0.629
There is an Accessible ways of financing for SME	3.1	0.960
Past experience in obtaining loan finance successfully	4.1	0.919
Average	3.6	0.799

Based on the result shown in table 4.7 that the availability of information on who is offering credit facilities influenced access finance and its availability only to a neutral level (M= 3.3, SD= 0.687). The other factory which has a neutral mean in influencing accesses to finance and its availability is accessible ways of financing for SMEs with (M= 3.13, SD= 0.960). The factor with the more influence was performance of Commercial Banks and micro finances and Past experience in obtaining loan with a M= 4.1, and SD= 0.629 & SD=0.919 respectively. Aggregately all factor together have an influence in access to finance and its availability with a level of agree (M= 3.6, SD= 0.799).

The flow of information in the financial market is crucial for both SMEs and financial providers (Falkena et al., 2001). This also supported by the information gathered from Banks and MFIs by describing that most of the SMEs who has an information to access loan and applied there request 62% has reply there request either on full or partial amount. This infers that availability of information is essential in creating awareness of fund opportunities to both the financial source provides and the SMEs. These results are support of the findings of the study conducted by (Kinyanjui, 2006, Hezronet,al, 2016; Selamawit et.al, 2014;).

4.2.4 Effect of Cost of Borrowing on accesses to finance and its availability

Table 4.8 Cost of borrowing

Factors Under Consideration	Mean	Std. Deviation
charged higher interest rate by banks and MFI	4.1	0.991
Lack of reputation and contact in the banking market	3.9	0.886
Lack of information and knowledge in method or ways of financing	3.9	0.911
Average	3.9	0.929

On the extent to which cost of borrowing influenced access to finance and its availability, the study found out that the influence of high interest rate charged banks and MFI was to a level of agree with (M= 4.1, SD= 0.991). Lack of reputation and contact in the banking market influenced access to finance to a level of agree (M= 3.9, SD= 0.886). Lack of information and knowledge in method or ways of financing had an influence to a level of agree with (M= 3.9, SD= 0.911). Generally, factors under cost of borrowing also influenced access to finance and its availability with agree result having (M= 3.9, SD= 0.929). The results are as shown in Table 4.7.

It is obvious that high cost of borrowing makes difficult to access finance furthermore the respondents mentioned high interest rate as a cause for their default of repayment and hindrance to access finance from lending institutions. If SMEs is being provided with a reliable and affordable cost of borrowing (interest rate), it will recognize the usefulness positively and this could be one good motivation to access finance. These findings reflect those of a study carried out by (Mwangi and Bwisa, 2013, Ndungu, 2016; Anthony et al 2013; Fetene, 2010).

CHAPTER FIVE

Conclusion and Recommendation

This section presents the conclusion and recommendations. In this chapter the major findings of the study are summarized, conclusion will be drawn and recommendations as well as suggestions for other studies will be made

5.1 Conclusion

Small and Medium Scale Enterprises play an important role in the Economic Development of both developed and developing nations. The SMEs create temporary and permanent employment opportunities for about 4.2 million citizens in the past four years of the GTP implementation period. Of these job opportunities, about 40% of the beneficiaries were women (FeMSEDA, 2015). However, the SMEs are confronted with challenges of access to finance.

A simple random sampling method was used to select the SMEs. Both descriptive and Binary logistic were used in the analysis of the relevant data. The analyses was done using descriptive statistics including frequency tables and Binary logistic analysis to examine factors influencing access to finance and its availability on the SMEs in Addis Ababa.

The results of the study revealed that as time in the operations grows for SMEs their chance of accessing finance is also increase however, SMEs whose age are infant or small are struggle in accessing the finance. When their capital also grows chance of accessing the finance also increase. Business activity wise SMEs contributed their own role on ever sectors. However, most of SMEs are engaged in manufacturing sector. SMEs have no proper accounting records and documentation as revealed by banks and MFIs which makes loan process lengthy. It also revealed that SMEs use their own savings and profit as well as “ekub” as a major source of finance beside banks and MFIs contribution. Having in adequate collateral, lengthy process of loan and high interest rate are discovered as major obstacles to have loan from Banks and MFIs.

Access to finance is one of the key obstacles of SMEs in operating there business. Identifying the major factors influencing of access to finance is therefore quite crucial. The study result shows that there is a significant relationship between accesses to finance and its

availability and the influencing perception elements: Firm characteristics, Cost of borrowing, Collateral requirements and Awareness of Funding Opportunity (Availability of Finance). Therefore, Hypotheses 1, 2, 3, and 4 were all supported. As per this research result these perception factors are important factor when SMEs consider accessing the finance. From the study findings, this study concludes that Awareness of Funding Opportunity (Availability of Finance) influences access to finance to a great extent followed by firm characteristics and collateral requirements and cost of borrowing influenced access to finance negatively.

5.2 Recommendation

The financing of small and medium enterprises (SMEs) has been a topic of keen interest in recent years because of the key role that SMEs play in economic development and their potentially important contribution to economic diversification and employment (Ayyagari et al., 2007 cited in Berg and Fuchs, 2013).

SMEs are a major source of entrepreneurial skills and innovations. This is determined by the agility to create jobs, contribute to industrialization and boost national economic output. The country's quest for industrialization and have a Strategic Pillars of the first Growth and Transformation Plan (GTP I) as to Creating conditions for the industry to play key role in the economy using SMEs are a potential source for economic development.

Government has to establish an agreement either loan or finance with banks and microfinance institution by providing funds/finance which only serve to finance small & medium enterprises (SMEs) by creating a control mechanism through national bank to avoided miss use of funds. Banks and microfinance institution should also use the fund for the intended purpose only.

Therefore, Establishment of a well-funded National Credit Guarantee fund that will assist for credit facilities from the banks and other financial institutions will help reduce the excessive demand for collateral security which most SMEs did not acquire a pledge that used as collateral. In addition, it has been observed that their own living houses, land, and equipment were provided as security; such financial source providers could have develop an arrangement which is important for the SMEs in accessing fund where one SME could even act as a guarantor for another.

There is not enough number of funding programs and financial schemes to assist SMEs; majority of SMEs are not aware of funding programs and financial schemes provided by the government and private sector. The study recommends that SMEs should be sensitized about funding programs and financial schemes provided by the government and private sector put in place funding programs and financial schemes to assist SMEs. At the same time these SMEs need to establish linkages with their partners in the business and with the financial source providers that could help them build their knowledge and exchange of information on financial services available.

One of the fundamental financial practices for any organization is keeping books and records. It is vitally important for protecting the organization's assets, and for managing and reporting on its financial activities. There is a felt need for the SMEs also to improve on their provision of information by proper book keeping coupled with the auditing of their accounts which help them to accesses finance.

The rate of interest charged by different financial providers ought to be evaluated and harmonized especially our MFIs. Because of high interest rate charged and length of loan process some of the SMEs could depend heavily on informal borrowing this should be discouraged through trainings and awareness. Over all the government through national bank must prepares a harmonized interest rate specifically to this issue which benefit both parties SMEs as well as financial source providers.

Trainings and capacity building programs for SMEs to improve their financial literacy and management capacity are also necessary. Hence, the government and concerned body needs to exert much effort towards providing seminar, workshop, training and coordinating the resources to work on providing technical and management trainings for SMEs owners on how to run a successful small business.

Most importantly, our government should make concerted efforts to continue upgrading the infrastructural facilities to meet up with the standard that help everyone in equal phase.

Generally, the above practices should be adopted to minimize the problems associated with access to finance for SMEs in Addis Ababa.

5.3. Suggestions for Further Study

The study recommends further research in the following areas;

- A similar research should be done covering other regions as this research only covered SMES in Addis Ababa.
- A kind of interest rate was applied on SMEs that help access to finance?
- Policy that implemented to access loan/finance from financial institutions with minimum requirement of security / collateral.

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Appendix I Survey Questionnaire for SMEs in Amharic version

አዲስአበባዩኒቨርሲቲ
የቢዝነስናኢኮኖሚክስፋኩልቲ

አካውንቲንግናፋይናንስትምህርትክፍል
የአነስተኛናመካከለኛድርጅት/ተቋማት/ የጥናትመጠይቅ

የተከበሩየጥናቱተሳታፊ

የዚህጥናትርዕስ“ANALYSIS OF FACTOR INFLUENCING ACCESS TO FINANCE AND ITS AVAILABILITY FOR SMEs IN ADDIS ABABA” ነው።

አጥኝው**አያልነህመንበሩ**ሲባልበአሁኑጊዜበአዲስአበባዩኒቨርሲቲውስጥበአካውንቲንግናፋይናንስ
ድህረምረቃተማሪነው።

የጥናቱዋናአላማበአዲስአበባየገንዘብተቋማትየገንዘብማግኛአማራጭመገኛእናተደራሽነትንሚናማወቅ
ነው። ይህንንላማድረግመረጃበዕጣከተመረጡባንክቤቶችናየብድርናቁጠባ/microfinance/
ተቋማትበፊትለፊትየጥያቄናመልስእናበዕጣለተመረጡአነስተኛናመካከለኛድርጅት/ተቋማት/
መጠይቅበመበተንናበመሠብሰብይሆናል።

በዚህመጠይቅላይመሳተፍሙሉበሙሉበፈቃደኝነትላይየተመሠረተነው።
መጠይቁየተሳታፊውንማንነትሳይለይይመዘግብናጥብቅበሆነሚስጥርነትይጠበቃል።
የያንዳንዱተሳታፊመልሶችበአጥኝውጽሁፍላይየመላሹማንነትተገልጸአይቀመጥም።

ለበለጠማብራሪደያእባክዎንአጥኝውበሚቀጥለውአድራሻያግኙት፤

ስልክ: +251-911-461740

ኢ ሚይል: henlaya5@gmail.com

ክፍል 1 - አጠቃላይ የመላሹ መረጃ

ስለእርስዎ

1. ፆታ: ሴት ወንድ

2. የስራሁኔታ: ተቀጣሪ/ስራአስኪያ

ባለሀብት/ስራአ

ባለአ

ክፍል 2 - አጠቃላይ የስራው መረጃ

ጠቅላላ ስለ ቢዝነሱ መረጃ

3. የድርጅቶች ዋና ዋና እንቅስቃሴዎች ምንድን ናቸው?

- Mining.....
- Construction Materials
- Manufacturing
- Wholesale or retail trade.....
- Agricultural
- Textile
- Real estate.....
- Hotel and tourism.....

ሌላ አገልግሎት ከሆነ ቢገለጹት _____

4. በአሁኑ ሰዓት በአማካይ በድርጅቱ ውስጥ ምን ያህል ቋሚና ጊዜያዊ ሰራተኞች አሉ?

ከ1-10 ከ11-20 ከ21-50 ከ51-100 ከ100

5. በአሁኑ ሰዓት የድርጅቱ የሀብት መጠን (capital) ምን ያህል ደርሶል?

እስከ-ብር500,000 ከ-ብር 500,000 - 1,000,000

ከ-ብር 1,000,001 - 5,000,000 ከ-ብር 5,000,001 - 10,000,000

ከ-ብር 10,000,000 በላይ

6. ድርጅቱ በዚህ የስራ ዘርፍ ላይ ለምን ያህል ጊዜ ቆይቷል?

ከአንድ አምስት ወር 1-5 ዓመት 5-10 ዓመት ከ 10 ዓመት

7. የገንዘብ እጥረት በድርጅቱ ላይ ያስከተለው ችግር ምንድን ነው?

ስለ የገንዘብ ማግኛ አይነቶች

8. በድርጅቶች አወቃቀር መሠረት ተጨማሪ የገንዘብ ፍላጎት በውስጥ ውጭ እና በውጭ የገንዘብ ማሟያ ዘርፍ ሊገኝ ይችላል? እርሶ/ድርጅቶች ባለፉት ጊዜያት እነዚህን የማሟያ ዘርፍ ተጠቅሟል?

አዎተጠቅሜአለሁ እፈልጋለሁተጠቅሜአለውቅ
 አገልግሎቱለኔድርጅትየሚሰጥአልነበረም

9. ከሚከተሉት የገንዘብ ማግኛ መንገዶች መካከል የሚውቁዎቸውን ድርጅቶች የተገለገሉባቸው ካሉ ምልክት ያድርጉ
- የራስ ገንዘብ ምንጭ(የድርጅቱ ቁጠባ ናትርፍ)
 - ድጋሚ (ከህዝባዊ ድርጅቶች ሊሆኑ ይችላሉ).....
 - ተንቀሳቃሽ የባንክ ብድር.....
 - የባንክ ብድር (ከተንቀሳቃሽ ብድር ውጭ ያሉትን).....
 - የዱቤ ክፍያ.....
 - ሌላ የብድር አይነት (ከእህትድርጅትወይምከባለአክሲዮኖች).....
 - የዱቤ እቃ ግዥ
 - ከቤተሰብ ከወዳጆች ከዘመዶች ከእቁብ ከሌላ አይነት መንገድ
 - አክሲዮን በመሸጥ ወይም ሌሎችን ገንዘብ ያላቸውን ባለድሻ በማድረግ.....
 - ሌሎች ካሉ _____

10. ከላይ ከተዘረዘሩት የገንዘብ ማግኛ አይነቶች ውስጥ ባለፉት 6 ወራት ውስጥ ለአንድ አገልግሎት ጥያቄ አቅርበው ያውቃሉ
 አዎ አላውቅም አገልግሎቱለኔድርጅትየሚሰጥአልነበረም

11. መልሶ አዎ ከሆነላ ቀረቡት ጥያቄ ምን አይነት ምላሽ ነበረዎት
- የተጠየቁትን በሙሉ ተሰቶኛል
 - ከተጠየቁት የተወሰነው ተሰቶኛል
 - የተጠየቁት በሆነ ምክንያት ውድቅ ተደርጓል.....
 - የተጠየቁት ውድቅ ተደርጓል

12. መልሱ ለ10ኛ ጥቃቄ አላውቅም ከሆነ ምክንያቱን ይግልጹልን

13. አጠቃላይ ስለ ብድር እና ብድር ሠጪ ድርጅቶች ስለሚሠጡዎቸው አገልግሎት ተደራሽነት ምን ይላሉ?

ጩም[ል ቀንሷል የተረጋጋነው ምንም ብድር አልተጠቀም

14. ባለፉት ሁለት ዓመታት ማንኛውን አይነት ብድር/ ፋየናንስ ተጠቅመው /ወስደው/ ያውቃሉ? ከሆነ ምን ያህል ነበረ?

እስከ 500,000	<input type="checkbox"/>	ከ500,000 እስከ 1,000,000	<input type="checkbox"/>
ከ1,000,001 እስከ 5,000,000	<input type="checkbox"/>	ከ5,000,001 እስከ 10,000,000	<input type="checkbox"/>
ከ10,000,000 ብር በላይ	<input type="checkbox"/>	ምንም አይነት ብድር አላገኘንም	<input type="checkbox"/>

15. ይህንን ብድር የሰጠው አካል ማንነብር (ከአንድ በላይ መምረጥ ይችላሉ)?

- ባንክ.....
- የቤተሰብ አባል.....
- ጥቃቅን እና አነስተኛ ብድር ተቋም.....
- ሌላካለ

16. ይህን የወሰዱትን ብድር ለምን ተግባር አዋሉት (ከአንድ በላይ መምረጥ ይችላሉ)?

- ለስራ ማስኬጃ.....
- መሬት ህንፃ መሰሪያ ለመግዛት.....
- ለምርት አገልግሎት የሚውሉ ጥሬ እቃዎችን ለመግዛት.....
- ለማስታወቂያ አገልግሎት.....
- ለሰራተኛ ማጎልበቻ እና ክፍያ.....
- ለስራ ማስፋፊያ

➤ ሌላ ካለ.....

17. ብድር ለማግኘት ወይም ተጨማሪ የገንዘብ አቅም ለማግኘት ከሚያገዱ ምክንያቶች ውስጥ የትኛው በጣም ተፅዕኖ ፈጣሪ ሆኖ አግኝተውታል(ከአንድ በላይ መምረጥ ይችላሉ)?

- በቁያልሆነዎስትና አለመኖር.....
- ወለዱ ብዙ ስለሆነ.....
- ብድሩን ለማግኘት ሂደቱ ከባድና ውስብስብ ስለሆነ
-
- ብድርን ላለመለስ ያለፍራቻ.....
- የብድር አገልግሎት አይነቶች አለመኖር.....
- የመንግስት ህግና መተዳደሪያ ደንብ
- ሌላ ካለ.....

ክፍል - ሦስት Access To Finance And it's Availability Perception

እባክዎ ዕርሶን ስምምነት በቀረቡት አረፍተኛ ስራዎች መሠረት ከታች ከተጠቀሱት አማራጮች ውስጥ በመምረጥ ይግለፁልኝ። አማራጮቹ ከ1-5 የቀረቡ ሲሆን 1= በጣም አልሰማም (በአ), 2= አልሰማም (አ), 3= ገለልተኛ አድሎዊነት የሌለው (ገ), 4= እስማማለሁ (እ) and 5 = በጣም እስማማለሁ (በእ).

የገንዘብፍላጎትአማራጭምንጮችለመጠቀም ተፅዕኖ የምንድረግበት ምክኒያቶች	በአ	አ	ገ	እ	በእ
Firm characteristics (የድርጅቱ የስራ ባህሪ)					
1. ድርጅቱ በስራ ላይ የቆየበት ጊዜ (ዕድሜ)	1	2	3	4	5
2. ያለን የስራ ችሎታ እና ተፅዕኖ ፈጣሪነት ብደር ላለማግኘት ሊረዳን ይችላል	1	2	3	4	5
3. የድርጅት ሂሳብና መጃዎችን በአግባቡና በስርዓት መያዝ ብደር ላለማግኘት ተፅዕኖ ያሳድራል	1	2	3	4	5
Cost of borrowing (የመበደሪያ ዋጋ ውድነት)					
4. በብደር ሰጪ ተቆማት ጥቃቅንናአነስተኛኢንተርፕራይዞችከፍትኛ ወለድ ይጠየቃሉ ትላልቅ ተቆማት ከሚጠየቁት አንተፃር	1	2	3	4	5
5. ብደር ሰጪ ተቆማት ጋር ግንኙነት አለመፍጠር እና በተደጋጋሚ ፍላጎትን አለማሳየት ብደር ላለማግኘት ትልቅ ተፅዕኖ ያሳድራል	1	2	3	4	5
6. የገንዘብ ፍላጎት አማራጭ ምንጮች ላይ ያለን መረጃ እና ዕውቀት ማነስ በከፍተኛ ወለድ እንድንበደር ያደርገናል	1	2	3	4	5
Collateral requirements(የመበደሪያ ዋስትና)					
7. የምንጠየቀው የዋስትና አይነት ብደር ላለማግኘት ትልቅ ተፅዕኖ ያሳድርብናል	1	2	3	4	5
8. ዋስትና (collateral) ብደር ላለማግኘት ብቸኛውና ዋነኛው አማራጭ ነው	1	2	3	4	5
9. የምንጠየቀው የዋስትና አይነት ቢኖረንም በሌላ ምክኒያት ብደር ማግኘት አልቻልንም	1	2	3	4	5
Awareness of having Funding Opportunity (ስለብድር ወይም ተጨማሪ የገንዘብ አቀርቦት ያለን መረጃ)					
10. መረጃ በበቂ ሁኔታ አለ(ይገኛል)የትኛውብድርአይነትበየትኛውተቋምእንደሚሰጥ	1	2	3	4	5
11. የብድር ሰጪዎች ወቅታዊ አቋም (Performance) ብደር ላለማግኘት ይረዳል	1	2	3	4	5
12. የገንዘብፍላጎትአማራጭምንጮችለሁሉም SMEs ተደራሽመሆን	1	2	3	4	5
13. ከዚህ በፊት በተሳካ ሁኔታ ብድር የወሰድንበት ልምድ ብደር ላለማግኘት ይረዳል	1	2	3	4	5
General (ሁሉን አቀፍ)					
14. ሁሉንም አይነት የገንዘብ ፍላጎት አማራጭች ምንጮች ወይም እየተሰራባቸው	1	2	3	4	5

ያሉት የሁሉም በእኩል መልኩ ተደራሽ ናቸው					
15. የገንዘብ ፍላጎት አማራጭ ምንጮችን መጠቀም ከመጥፎ ጎን ይልቅ በጎ ጎን ያመዝናል	1	2	3	4	5

18. የገንዘብ ምንጮችን ለማግኘት ያሉትን አስተያየት ይጻፉ

Appendix I Survey Questionnaire for SMEs in English version
ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE MSC PROGRAM
SURVEY QUESTIONNAIRE

Dear Participants

The name of the researcher is AYALNEH MENBERU, who is currently Msc student in department of Accounting and Finance at Addis Ababa University. The aim of this project is to assess FACTOR INFLUENCING ACCESS TO FINANCE AND ITS AVAILABILITY FOR SMEs IN ADDIS ABABA. The information collected from this survey questionnaire will be used to build a better means of entrepreneurs in finding financial sources for their business. The researcher do believe that the outcome of the research will be helpful in providing short term as well as long term solution for the challenges that these enterprises are facing.

The participation in this survey is totally voluntary. The investigator respectfully requests your kind cooperation in answering the whole question as frankly as possible, regardless of whether or not you have requested financial sources. Your response is anonymously and strict confidentiality will be maintained. Your participation in this survey is greatly appreciated.

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

Tel. (mobile): +251-911-461740

E-mail: henlaya5@gmail.com

Part I - General Information of the Respondent

About You

1. Gender: Female Male
2. Occupation: Employee/manager Owner/manager share holder

Part I - General information on the business

3. What is the main activity of your company?

- Mining.....
- Construction Materials
- Manufacturing
- Wholesale or retail trade.....
- Agricultural
- Textile
- Real estate
- Hotel and tourism.....
- Other services _____

4. How many employees does your company currently employ in full time or part time at all locations or branches of your firm?

- From 1 employee to 10 employees
- From 11 employee to 50 employees
- From 51 employees to 250 employees.....
- More than 250 employees

5. Where your business capital does falls currently?

- Less than birr 500,000 Between 500,000 to 1,000,000
- Between 1,000,001 to 5,000,000 Between 5,000,001 to 10,000,000
- Above 10,000,000 birr

6. How long the business in the market? (Duration of business existence)

- More than 10 years Between 5 and 10 Between 2 and 5 years
- Less than 2 years

7. What is currently the most pressing problem your firm is facing currently?

Financing of the firm



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

Used/accessed needed but not have accesses Instrument is not applicable

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

- Internal funds.....
- Grants or subsidized bank loan (Involving Support from Public Sources).
- Bank overdraft, credit line or credit cards overdraft.....
- Bank loan (excluding overdraft).....
- Trade credit.....
- Other loan (e.g. from a related company or shareholders).....
- Leasing or hire-purchase or factoring.....
- Debt securities issued.....
- Subordinated loans, participation loans or similar financing instruments.....
- Equity issuance or external equity investors.....
- Other _____

10. For each of the above ways of financing, could you please indicate whether you applied for them over the past 6 months,

Yes No Instrument is not applicable to my firm

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

- Requested and got everything
- Requested but only got part of it
- Requested but refused because some reason
- Requested but was rejected

12. If your answer is no for the above question could you please indicate the reason?

13. For each ways of financing, what would you say about their availability?

Increased Stable Deteriorated Not used any finance

Financing got

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

- | | | | |
|--------------------------------|--------------------------|---------------------------------|--------------------------|
| Up to birr 500,000 | <input type="checkbox"/> | Between 500,000 to 1,000,000 | <input type="checkbox"/> |
| Between 1,000,001 to 5,000,000 | <input type="checkbox"/> | Between 5,000,001 to 10,000,000 | <input type="checkbox"/> |
| Above 10,000,000 birr | <input type="checkbox"/> | we did not take a loan | <input type="checkbox"/> |

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

- Bank.....
- Private individual – family or friend.....
- Microfinance institutions
- Other sources (e.g., government-related sources).....

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

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

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

- Insufficient collateral or guarantee.....
- Interest rates or price too high.....
- Government rules and regulation
- Fear of inability to repay.....
- The Process is too difficult.....
- Financing not available at all.....
- Lack of transparency of loan conditions
- Limited understanding of projects/needs.....
- Other.....

Part –III accessibility and availability Perception

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

In ACCESS TO FINANCE your firm ability affected by	SD	D	N	A	SA
Firm characteristics					
1. The age of the firm affects its ability to access funds	1	2	3	4	5
2. Having business skills will influence business performance and hence access to finance	1	2	3	4	5
3. Ability to compile financial records and accounts affects its ability to access funds	1	2	3	4	5
Cost of borrowing					
4. Small businesses are usually charged higher interest rate by banks than large firms	1	2	3	4	5
5. Lack of reputation and contact in the banking market make it hard to borrow money from the banks	1	2	3	4	5
6. Lack of information and knowledge in method or ways of financing makes to borrow hard.	1	2	3	4	5
Collateral requirements					
7. Not having Types of collateral required makes difficult to access finance	1	2	3	4	5
8. collateral is a mandatory requirement in accessing finance	1	2	3	4	5
9. SMEs very worried about collateral in accessing finance	1	2	3	4	5
Awareness of having Funding Opportunity (Availability of Finance)					
10. There is Available of information on who is offering credit facilities	1	2	3	4	5
11. Performance of Commercial Banks and micro finances	1	2	3	4	5
12. There is an Accessible of ways of financing for SME	1	2	3	4	5
13. Past experience in obtaining loan finance successfully	1	2	3	4	5
General thoughts about Access to finance and its availability					
14. All ways of financing are available in our country	1	2	3	4	5
15. All ways of financing or prevailing ways of financing are accessible to all	1	2	3	4	5

18. Give any comment or suggestion on how to improve the accesses and availability of financial source _____

Appendix II Survey Questionnaire for Banks & MFIs

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

Dear Participants

The name of the researcher is AYALNEH MENBERU, who is currently Msc student in department of Accounting and Finance at Addis Ababa University. The aim of this project is to **ANALYSIS OF FACTOR INFLUENCING ACCESS TO FINANCE AND ITS AVAILABILITY FOR SMEs IN ADDIS ABABA**. The information collected from this survey questionnaire will be used to build a better means of finding financial sources for their business. The researcher do believe that the outcome of the research will be helpful in providing short term as well as long term solution for the challenges that these enterprises are facing.

The participation in this survey is totally voluntary. The investigator respectfully requests your kind cooperation in answering the whole question as frankly as possible, regardless of whether or not you have requested financial sources. Your response is anonymously and strict confidentiality will be maintained. Your participation in this survey is greatly appreciated.

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

Tel. (mobile): +251-911-461740

E-mail: henlaya5@gmail.com

Part I - General Information of the Respondent

About You

1. Gender: Female Male
2. Status: Manager Supervisory level Officer level Clerk

Part II - General Information of the Respondent

3. For a SMEs to have a loan or finance how long the business should be in the market?
More than 10 years Between 5 and 10 Between 2 and 5 years

Less than 2 years

4. What is currently the most pressing problem you face in providing loan or finance to SMEs?

Financing to the firm

5. With respect to the financing structure, did the bank/microfinance give financing for SME'S who has a capital of 500,000 birr and more in the past?

Give Not given for SME'S we did not give

6. Can you indicate the type of financing that you render among the following ways of financing? (You can tick more than one option)

- Grants or subsidized bank loan (Involving Support from Public Sources).
- Bank overdraft, credit line or credit cards overdraft.....
- Loan (excluding overdraft).....
- Merchandize loan
- Leasing or hire-purchase or factoring.....
- Subordinated loans, participation loans or similar financing instruments.....
- Other _____

7. For each of the above ways of financing, did you receives application from SMEs over the past 6 months,

No Yes Instrument is not given for SME's

8. If your answer is yes for the above question could you please indicate the financing you give

- Received and give requested amount
- Received but only give part of it
- Received but refused because some reason
- All was rejected

9. If your answer is No for the above question could you please state the reason?

10. For each ways of financing, what would you say about their availability?

Increased Stable Deteriorated Not available for SMEs

Financing that you provide

11. For what reason this last loan provided for? (You can tick more than one option)

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

12. What do you see as the most important limiting factor for SMEs in access to financial resources? Put your rank also in the box provided

- Insufficient collateral or guarantee.....
- Interest rates or price too high.....
- Government rules and regulation
- Fear of inability to repay.....
- The Process of Loan is too difficult.....
- Lack of transparency of loan conditions
- Limited understanding of projects/needs.....
- Other _____

13. Give any comment or suggestion on how to improve the accesses to finance and its availability _____

Appendix III Number of SMEs by region and by sector

Summary of Domestic SME's By Region and Investment Status (Their current Capital More Than 500, 000 ET.Birr) at October 13, 2017)

Sector	Total No of SME's	Investment Status
አሜሪ	1,513	Operational
አዲስ አበባ	1,869	Operational
ሀረር	37	Operational
ሰማሌ	75	Operational
ቤኒሻንጉል ጉምዝ	14	Operational
ትግራይ	3,911	Operational
አረቦታ	1,409	Operational
ደቡብ	2,916	Operational
ድሬዳዋ	146	Operational
ጋምቤላ	42	Operational
Grand Total	11,932	

Source: FeMSEDA, 2015

Summary of Domestic Investment Projects By Sector and Investment Status (In Addis Ababa Region Their Capital More Than 500, 000 ET.Birr) Since March 02, 1992 - October 13, 2017

Sector	Total No of Projects	Pre-Implementation	Implementation	Operation			
		No of Projects	No of Projects	No of Projects	Capital in '000' Birr	Perm Empl.	Temp Empl.
Agriculture, hunting and forestry	193	175	11	7	30,330	191	2
Fishing	3	3					
Mining	146	128	13	5	30,728	195	75
Manufacturing	8,698	7,738	413	547	5,726,388	26,527	6,638
Electricity (Generation, Transmission and Distribution)	8	8					
Education	599	497	38	64	1,415,726	6,043	1,045
Health and social work	434	341	66	27	503,824	1,779	716
Hotels (Including Resort Hotels, Motels and Lodges) and	1,202	1,125	65	12	195,779	741	248
Tour Operation, Transport and Communication	763	406	146	211	1,039,995	2,680	1,305
Real estate, Machinery and Equipment Rental and Consultancy	19,353	18,006	87	1,260	8,000,910	11,761	6,424
Construction Contracting Including Water Well Drilling	7,127	6,708	88	331	2,575,329	12,734	9,705
Other community, social and personal service activities	472	458	4	10	20,806	164	28
Wholesale, retail trade & repair service	68	62	3	3	10,240	104	0
Grand Total	39,066	35,655	934	2,477	19,550,054	62,919	26,186

Source: Addis Ababa investment office, 2017

Appendix V Total Variance Explained and Multicoliniarity

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.643	.277		2.322	.021		
FC1	.020	.024	.036	.806	.421	.735	1.361
FC2	.062	.033	.113	1.903	.059	.415	2.413
FC3	.049	.029	.095	1.688	.093	.464	2.156
CB1	.049	.025	.098	1.963	.051	.586	1.707
CB2	.042	.035	.078	1.215	.226	.360	2.780
CB3	.018	.035	.034	.520	.604	.347	2.881
C1	.014	.022	.029	.647	.518	.755	1.324
C2	-.055	.024	-.098	-2.276	.024	.788	1.268
C3	-.051	.024	-.101	-2.088	.038	.630	1.588
AW1	.011	.036	.016	.311	.756	.591	1.692
AW2	-.229	.019	-.702	-11.812	.000	.416	2.404
AW3	-.016	.025	-.033	-.669	.504	.616	1.624
AW4	-.043	.023	-.080	-1.837	.068	.766	1.306

a. Dependent Variable: ATF

Appendix VI Different Frequency Tables

Business Activity vs ATF					
			ATF		Total
			0	1	
Business Activity	MINING	Count	5	2	7
		% within ATF	4.2%	2.7%	3.6%
		% of Total	2.6%	1.0%	3.6%
	CONSTRUCTION_MATERIAL	Count	18	8	26
		% within ATF	15.0%	10.7%	13.3%
		% of Total	9.2%	4.1%	13.3%
	Manufacturing	Count	37	33	70
		% within ATF	30.8%	44.0%	35.9%
		% of Total	19.0%	16.9%	35.9%
	Wholesale/Retail trade	Count	13	11	24
		% within ATF	10.8%	14.7%	12.3%
		% of Total	6.7%	5.6%	12.3%
	AGRICULTURAL	Count	8	0	8
		% within ATF	6.7%	0.0%	4.1%
		% of Total	4.1%	0.0%	4.1%
	TEXTILE	Count	22	13	35
		% within ATF	18.3%	17.3%	17.9%
		% of Total	11.3%	6.7%	17.9%
	REALSATATE	Count	5	1	6
		% within ATF	4.2%	1.3%	3.1%
		% of Total	2.6%	.5%	3.1%
	HOTEL_TURISM	Count	12	7	19
		% within ATF	10.0%	9.3%	9.7%
		% of Total	6.2%	3.6%	9.7%
Total	Count	120	75	195	
	% within ATF	100.0%	100.0%	100.0%	
	% of Total	61.5%	38.5%	100.0%	

Source: survey result & own computation

ATF with respect to Duration of Business							
			Duration of Business				Total
			LESS THAN 1 YEAR	1 UP TO 5 YRS	5 UP TO 10 YRS	ABOVE 10 YRS	
ATF	0	Count	15	18	35	51	119
		% within Duration of Business	57.7%	81.8%	68.6%	53.7%	61.3%
		% of Total	7.7%	9.3%	18.0%	26.3%	61.3%
	1	Count	11	4	16	44	75
		% within Duration of Business	42.3%	18.2%	31.4%	46.3%	38.7%
		% of Total	5.7%	2.1%	8.2%	22.7%	38.7%
Total		Count	26	22	51	95	194
		% within Duration of Business	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	13.4%	11.3%	26.3%	49.0%	100.0%

Source: survey result & own computation

ATF with respect to Capital								
			Capital					Total
			UPTO_500000 BIRR	FROM 500001_1 MILLON	FROM 1_5 MILLON	FROM 5_10 MILLON	ABOVE 10 MILLON	
ATF	0	Count	13	27	25	35	17	117
		% within Capital	100.0%	79.4%	75.8%	50.0%	39.5%	60.6%
	1	Count	0	7	8	35	26	76
		% within Capital	0.0%	20.6%	24.2%	50.0%	60.5%	39.4%
Total		Count	13	34	33	70	43	193
		% within Capital	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: survey result & own computation

Business Activity with respect to Number of Employee Crosstabulation								
		Number of Employee					Total	
		FROM1_10	FROM11_20	FROM21_50	FROM51_100	ABOVE_100		
Business Activity	MINING	Count	0	0	2	2	3	7
		% within Number of Employee	0.0%	0.0%	5.3%	3.3%	6.8%	3.5%
		% of Total	0.0%	0.0%	1.0%	1.0%	1.5%	3.5%
	CONSTRUCTION_MATERIAL	Count	0	6	10	7	3	26
		% within Number of Employee	0.0%	15.4%	26.3%	11.5%	6.8%	12.9%
		% of Total	0.0%	3.0%	5.0%	3.5%	1.5%	12.9%
	Manufacturing	Count	2	8	8	35	19	72
		% within Number of Employee	10.5%	20.5%	21.1%	57.4%	43.2%	35.8%
		% of Total	1.0%	4.0%	4.0%	17.4%	9.5%	35.8%
	Wholesale/Retail trade	Count	6	8	3	4	4	25
		% within Number of Employee	31.6%	20.5%	7.9%	6.6%	9.1%	12.4%
		% of Total	3.0%	4.0%	1.5%	2.0%	2.0%	12.4%
	AGRICULTURAL	Count	1	2	3	1	2	9
		% within Number of Employee	5.3%	5.1%	7.9%	1.6%	4.5%	4.5%
		% of Total	.5%	1.0%	1.5%	.5%	1.0%	4.5%
	TEXTILE	Count	6	6	11	5	9	37
		% within Number of Employee	31.6%	15.4%	28.9%	8.2%	20.5%	18.4%
		% of Total	3.0%	3.0%	5.5%	2.5%	4.5%	18.4%
	REALSATATE	Count	2	0	1	3	0	6
		% within Number of Employee	10.5%	0.0%	2.6%	4.9%	0.0%	3.0%
		% of Total	1.0%	0.0%	.5%	1.5%	0.0%	3.0%
	HOTEL_TURISM	Count	2	9	0	4	4	19
		% within Number of Employee	10.5%	23.1%	0.0%	6.6%	9.1%	9.5%
		% of Total	1.0%	4.5%	0.0%	2.0%	2.0%	9.5%
Total	Count	19	39	38	61	44	201	
	% within Number of Employee	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
	% of Total	9.5%	19.4%	18.9%	30.3%	21.9%	100.0%	

Source: survey result & own computation

General thoughts on Q 14					
		Frequency	Percent	Valid Percent	Cumulative Percent
	Strongly Disagree	21	10.3	10.3	10.3
	Disagree	68	33.3	33.3	43.6
	Neutral	94	46.1	46.1	89.7
	Agree	9	4.4	4.4	94.1
	Strongly Agree	12	5.9	5.9	100.0
	Total	204	100.0	100.0	

Source: survey result & own computation

General thoughts on Q 15					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly Disagree	23	11.3	11.3	11.3
	Disagree	80	39.2	39.2	50.5
	Neutral	86	42.2	42.2	92.6
	Agree	13	6.4	6.4	99.0
	Strongly Agree	2	1.0	1.0	100.0
	Total	204	100.0	100.0	

Source: survey result & own computation