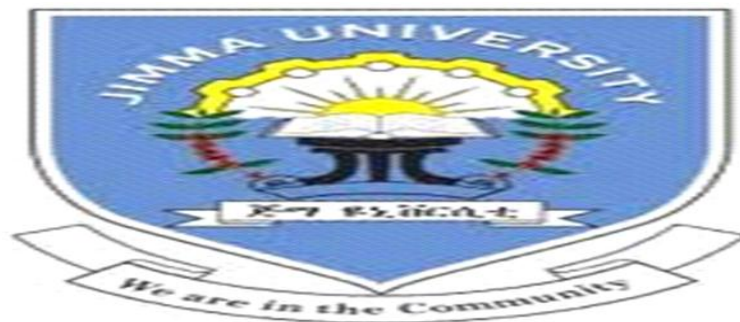*A Study on Sources and Challenges of Finance for Micro and Small Enterprises (The case of Jimma zone Agaro town)*

A Thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirement for the Award of the Degree of Master of Business Administration (MBA)

BY:

YUSUF UMER

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

MBA PROGRAM

MAY 28, 2016

JIMMA, ETHIOPIA

A Study on Sources and Challenges of Finance for Micro and Small Enterprises *(The case of Jimma zone Agaro town)*

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Under the Guidance of

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Ato Hayeleom Nega(MBA)

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CERTIFICATE

This is to certify that the thesis entitles "A Study on Source and Challenges of Finance for Micro and Small Enterprises case of Agaro Town" submitted to Jimma University for the award of Degree of Master of Business Administrations (MBA) and is a record of bonafide research work carried out by Mr.Yusuf Umer Bulo , under our guidance and supervision

Therefore, we hereby declare that no part of this thesis has been submitted to other any university or institutions for the award of any degree or diploma

Main Advisers Name   Date   Signature

Dr. A. Rama   _____   _____

Co-Advisors Name   Date   Signature

Hayeleom Nega (MBA)   _____   _____

DECLARATION

I here declare that this thesis entitled 'A Study on Source and Challenges of Finance for Micro and Small Enterprises in Jimma Zone (The Case of Agaro town)'. Has been carried out by me under the guidance and supervision of Dr Rama and Ato Hayeolem

The thesis is original work and has not been submitted for the award of any degree or diploma to any university or institutions.

Researchers Name   Date   Signature

Yusuf Umer Bulo : _____   _____

ABSTRACT

The purpose of this study is to determine the source and challenges of finance for Micro and Small Enterprises in Agaro Town in Jimma zone, oromia state. The study uses descriptive research design. The study targeted a sample of 227 from a target population of 552 MSEs located in Agaro town. Stratified random sampling was utilized in selecting the respondents for the study. Primary and secondary data was collected from the study respondents using questionnaires and focus group discussion which were scheduled. And analyzed descriptively and presented through figures, tables, percentages, bar charts, pie charts and tabulation to show differences in frequencies. Statistical Package for Social Sciences (SPSS) version 20.0 was used to aid in coding, entry and analysis of quantitative data obtained from the closed ended questions. Binary logistic regression was used to identify major source and challenges or determinants of access to finance .The study revealed out that the key source of finance for MSE was personal saving followed by microfinance institutions which are informal and semiformal source of finance respectively. while the research further revealed out that the major challenges hindering micro and small enterprises from accessing credit facilities to be age of operator, educational status of the operator, business sector, duration of business, type of fixed asset they possessed, number of employee they have, interest rate amount and repayment period. Therefore considering the role of MSEs in employment generation, income generation and poverty alleviation, all stakeholders(government or non-government organizations) have responsibilities to facilitate sufficient access of finance for MSE.

Keywords: **MSE, source and challenge of finance**

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Yusuf Umer

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ACRONYMS

MSE –Micro and small enterprises

OMSEDA- Oromia micro and small enterprise development agency

CSA- Central statistics agency

FMSEDA- Federal micro and small enterprise development agency

MFI- Micro finance institutions

NGO- Non-governmental organizations

GDP- Gross domestic product

NBE-National bank of Ethiopia

MOFED-Ministry of finance and economic development

MOI-Ministry of industry

ILO-International Labor organizations

OTVT- Oromia technical and vocational training

SPSS – Statistical packages for social science

OCSCO---Oromia Credit and Saving Share Company

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

For many years, Micro and Small Enterprises (MSEs) have been a significant feature of many economies (ILO, 2007). Now days, in almost all economies of the world especially in developing countries, MSEs are crucial and are a key factor for sustained growth and development. They are the lifeblood of most economies (Brhane, 2014). MSEs have a tremendous potential in generating employment for the majority of the urban labor force. They are also important sources of income not only for those people who could not find employment in other sectors but also provide cushion to falling incomes of low wage earners (Kefale & Chinnan, 2012).

In Ethiopia, like in other developing countries, MSE has become an increasingly widespread used strategy for fostering socio-economic development of the country in-terms of employment creation, output (contribution to GDP), export promotion, stimulating the development of innovation, and indigenous skills for sound entrepreneurship, decentralization of industries, industrial linkages, and utilization of resources and transfer of technology. More generally, the development of MSEs is seen as accelerating the achievement of wider economic and socio-economic objectives including poverty alleviation especially for less developed countries like Ethiopia.. This could be due to the unique characteristics of the MSE sector: labor intensiveness; suitability to produce more jobs with less capital per job created; utilizes local resources; uses simple and affordable technologies; fosters linkage formation within and among various sectors and its resilience to internal and external Economic shocks (FeMSEDA, 2011).

In recognition of the sector's potential contributions and its constraints, the government has been attempting to create enabling environment for its development and promotions. Among others, issuance of proclamation No 33/1998 to establish the federal micro and small enterprise agency (FeMSEDA), issuance of MSE development strategy in 2011, and amendment of the proclamation by No 104/2011 are the major government efforts made to alleviate the constraints of the sector. In response to the government's efforts, MSE support institutions are proliferating both at federal and regional levels. (FeMSEDA, 2011; CSA, 2011)

Despite the mushrooming of the support institutions, the MSE sector is still confronted with several drawbacks and challenges they have to overcome in order to operate successfully. Major obstacles include access to finance, competition, market access, appropriate technology and access to raw materials. However, peculiar and most critical problems to MSEs are lack of access to financial sources both as initial and as working capital (FeMSEDA, 2011).

Thus, addressing the most constraining factor, i.e., **Sources and challenges** of finances can be considered as tackling the other factors. To deal with this issue one should understand how these enterprises raise finance and what challenge they face at the outset or establishment and in their operation. Hence, this research were conducted to assess the MSEs in Jimma Zone Agaro town with a specific focus on the sources and challenges of finance for the sector

1.2. Statement of the Problem

Though MSEs are recognized as vehicles for economic growth, reduce poverty and unemployment (Zemenu & Mohammed, 2014), most MSEs face critical constraints both at the operation and startup level. Some of these constraints include lack of access to finance, lack of access to premise, lack of infrastructure, lack of training in entrepreneurial and management skills, lack of information on business opportunities, social and cultural facts, in particular deficient entrepreneurial culture and excessive corruption.

Although the government has been taking a series of polices and strategies, most interventionist policies are blanket recommendations regarding MSEs and hence are inappropriate and impractical for some situations. For instance, the national micro credit and saving directive that forces MSEs engaged in priority sectors (manufacturing and enterprise engaged on exportable products) to save 15-20 percent of their loan demand and 25-30 percent for MSEs that are not engaged in priority sub sectors for six months have possessed strong challenges for access to finance on the entrepreneurs (Assefa, Zerfu, & Tekle, 2014).

According to Ethiopian Federal MSE strategy (2011) access to finance is a major bottleneck for the rapid growth and development of MSEs. MSEs are more likely to face liquidity problems as they are considered expensive to be served thus less attractive to formal banks. Lack of finance is the most referred complaint among entrepreneurs in Africa (Bigsten, et al., 2003; Abdullah & Baker, 2000; Russel, 1997; Biggs & Srivastrava, 1996). Such lack of access to financial resources hinders firms from growing to their optimal size (Cabral & Mata, 2003; Elston, 2002; Holtz-Eakin, Joulfaian, & Rosen, 1994).

A study result conducted in Ethiopia by using stratified sampling frame shows credit constraint affects negatively firm growth (Gebreeyesus, 2009). Thus, MSEs generally have gone through a range of problems at startup and while in due course of operation. Among others, finance is the most central and leading problem (Green *et al.,* 2002). Adding to the difficulty, potential finance providers, whether they are formal or informal is also reluctant to commit funds for MSEs perceiving them as an unsound position. This lack of funds may be the reason why MSEs fail to start and progress MSEs were not entitled to be visible and intentionally incentives and enabling environment has long been against them. In the past years, it is not surprise that Sub-Saharan Countries like Ethiopia have not managed to reduce the aggravating poverty and deprivations of their citizens while giving almost no care for how the financial sources of MSEs are obtained (Gebrehiwot and Wolday, 2004).

The long disregard of the sector particularly by government, academicians and politicians in Ethiopia has made the area with untouched research problems to be explored so as to promote the growth dynamics of the sector. Recently, however, there is a move towards understanding the potential of the sector in helping reduce poverty among stake holders (academicians, development practitioners, NGOs, donors, and politicians). In reality, literature on MSEs in Ethiopia especially in Jimma zone Agaro town is very little and most of the available studies were not conducted in line with sources and challenges of finance for micro enterprises Hence, the long disregard of MSEs coupled with implementation problems of policies as well as not available data on the area at the ground inspired the researcher to conduct a research on the source and challenges of finances for MSEs in Jimma Zone Agaro Town oromiya region. Further, this research pursued the issue how MSEs generally raise finance and what challenges they faces and the likelihood of the relationship of the variables with the financial sources and challenges for the sector. It is from this point of view that the researcher was motivated to undertake this study

In line with the above problems, the following research questions were formulated to be answered as a result of the study.

- ❖ What are the sources of finances for MSE?
- ❖ What types of support are provided for MSE ?
- ❖ What are the challenges they face to gain finance?
- ❖ What actions are required to overcome the problem?

1.3 General Objectives of the Study

The overall objectives of the study were to investigate the sources and challenges of finances for MSE in Jimma zone Agaro town.

1.4 Specific Objectives of the Study

- ➢ To identify which type of financial sources are easily obtainable to Mses.
- ➢ To assess the financial difficulties or barriers faced by micro and small enterprises.
- ➢ To identify the support provided for MSE.
- ➢ To identify action needed to overcome it.

1.5 Significance of the Study

Despite the enormous role of MSEs that can play in an economy, little is known about how the sectors' financial sources are generated and what challenges they face. Problems compounding these enterprises should address through appropriate measures for their immense potential as area of employment; home of natural entrepreneurship; benefits of the flexibility and exploitation of sect oral linkage can be maximized. As a cardinal problem, the issue of source and challenges of finance also needs to be addressed. This study has significance to reveal the status of MSEs in Jimma Zone Agaro Town Oromiya Region from the perspective of how the sectors' financial sources are obtained and what challenges they faces.

Therefore, the findings which were obtained as a result of conducting this research have certain areas of significance:-

- ❖ Understanding of the source and challenges of finance for the enterprises. So that policy makers and concerned bodies were informed to overcome the problems.
- ❖ It gives view on the current conditions of MSEs in aspects of source and

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challenges of finance. .

- ❖ It highlights the performance of MSE in Jimma Zone Agaro Town regarding finance.
- ❖ It was served as spring board to other researchers for further investigation.
- ❖ To suggest recommendations that would facilitate the development of MSE and adequate financial sources of the sector
- ❖ In general, this study gives some insight about source and challenges of finance for MSE and may serve as stepping-stone for other studies.

1.6 Scope of the Study

How financial sources were obtained and what challenges were faced, whether it is favorable or unfavorable, is applicable in all sectors and the findings of the research work was fruitful, if it were conducted widely by including a number of sectors. However, due to time and resource constraints the study focus is only one sector i.e., Mses. Even though the concepts of MSEs consists a number of dimensions like marketing, BDSs, success factors, etc., the scope of this paper was delimited to the source and challenges of finance for Mses. The other dimensions were beyond the scope of this paper. Geographically, the study focus is in Jimma Zone Agaro Town at oromiya region.

1.7 Research Limitations and Future Research.

One of the limitations of this thesis is inadequacy of time and scarcity of money so as to carry out a thorough/ detailed research including all the states/regions in the country. The focus of the thesis on single segment of the economy i.e. MSE is another limitation.

Further, the findings of this study can't necessarily represent for other MSE sectors & similar to these businesses in the country, because the sample is not a representation of the entire MSEs in the country. Therefore, the results cannot be taken as uniform to generalize for MSEs those were not part of this study The instruments were developed by the researchers based on the literature & limited to descriptive statistical and binary logistic regression which needs more statistical tests in order to establish a more robust validity and reliability. Thus, the instruments could be further refined to more closely

capture each of the problem areas identified in the literature Finally, this research thesis was not being entirely about MSE instead, it only investigate the Source and challenges of finance for MSE performance. These limitations lead to possible future research directions. This thesis only focused on Source and challenges of finance for MSE performance. So, overall funding arrangement for MSE sector in Ethiopia is remain unknown. Investigating the Source and challenges of finance for MSE through replication of this study using larger samples, broader geographic, longitudinal nationwide needs another area of future research

1.8 Organization of the Study

The studies are organized in five chapters. The first chapter is the introductory part of the study which contains background of the study, statement of the problem, objectives of the study, significance of the study, scope of the study, and organization of the study. The second chapters were devoted to the presentation of literature reviews of related researchers and conceptual framework. The third chapter deals with research methodology of the study which presents the research design, data sources, instruments and procedures of data collection, sampling strategy, data analysis and presentation, the fourth chapter were the analysis and discussion of data collected. The final chapter summarizes, concludes the results obtain from the findings and suggests the necessary recommendations for the study;

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Overview of Micro and Small Enterprises

The definition of micro and small enterprises is still controversial. There is no generally accepted definition of micro and small enterprises. Micro and small enterprises in one country may be small or medium enterprises in the other country. Many developing countries apply based on specific parameters, which include factors such as the number of employees, asset, capital, sales turnover, etc. The definition which is based on the above criterion partially focuses on specific target groups for any preferential treatment of the various actors in the MSE recognizing that, there are no standard definitions of MSE. Thus, the definition of MSE depends on the stage of economic development of the country.

According Bolton Committee (1971), first an "economic" and "statistical" definition of a small firm was formulated. Under the "economic" definition, a firm is said to be small if it meets the following three criteria: relatively small share of their market place, managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and independent, in the sense of not forming part of a large enterprise. On the other hand, the "statistical" definition, the Committee proposed two criteria; size of the small firm sector and its contribution to GDP, employment, exports, etc.; the extent to which the small firm sector's economic contribution has changed over time (Bolton, 1971)

The sect oral classification has also used as criteria to define MSEs by Bolton Committee. Accordingly, firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be

classified as small firm) whereas, firms in the road transport industry are classified as small if they have 5 or fewer vehicles (Bolton,1971).

However, there have been criticisms of the Bolton definitions. This center mainly on the apparent inconsistencies between defining characteristics based on number of employees and those based on managerial approach. In Japan, small-scale industry is defined according to the type of industry, paid-up capital and number of paid employees. Thus, small and medium-scale enterprises are defined as: those in manufacturing with 100 million yen paid up capital and 300 employees, those in wholesale trade with 30 million yen paid-up capital and 100 employees, and those in the retail and service trades with 10 million yen paid-up capital and 50 employees (Ekpenyong, 1992).

European Union (EU) Member States, traditionally have their own definition of what constitutes an SME, for example the traditional definition in Germany had a limit of 250 employees while in Belgium it could have been 100. But now the EU has started to standardize the concept. Its current definition categorizes companies with fewer than 10 employees as "micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium" (Carsamer, 2009).

By contrast, in the United States, when small business is defined by the number of employees, it often refers to those with fewer than 100 employees, while medium-sized business often refers to those with fewer than 500 employees. Canada also defines a small business as one that has fewer than 100 employees (if the business is a goods-producing business) or fewer than 50 employees (if the business is a service-based business), and a medium-sized business as fewer than 500(Carsamer, 2009).

Generally, from the global experiences of the definitions of MSE entails that there is no commonly used definition of MSE across the countries of the world. However, all the definitions have taken the common criteria such as the number of employees, paid up capital, sectorial category, market share and the management entity.

2.2 Micro and Small Enterprises in Ethiopia Context

Similar to the global experience, the definition of MSEs in Ethiopia consist paid up capital and number of employees as criteria except that it categorize the firms as formal and informal. In Ethiopian, the MSE development strategy defines MSEs according to the number of employees and capital (FeMSEDA, 2010). Micro Enterprise under the industry sector (manufacturing, construction and mining) is an enterprise operates with 5 people including the owner and/or their total asset is not exceeding Birr 100,000. Under service sector (retailer, transport, hotel and Tourism, Information Communication Technology (ICT) and maintenance service) Micro enterprise are an enterprise operating with 5 persons including the owner of the enterprise and/or the values of total asset is not exceeding Birr 50,000. Small Enterprises in the industrial sectors are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 100,000 and not exceeding Birr 1.5 million. Similarly, in the service sector, small enterprises are an enterprise operating with 6-30 persons and/or with a paid up capital of total asset Birr 50,000 and not exceeding Birr 500,000 (FMSEDA, 2012).

Table 1. Summary of MSE definition in Ethiopian context

Enterprise	Sector	No of Employee	Amount of Capital
Micro-enterprise	Industry	<5	<ETB 100,000
	Service	<5	<ETB 50,000
Small-enterprise	Industry	6-30	< ETB 1,500,000
	Service	6-30	< ETB 500,000

Source FMSEDA, 2012.

The Ethiopian government has formulated a National MSE Development and Promotion Strategy in 1997, which enlightens a systematic approach to alleviate the problems and promote the growth of MSEs. The overall objective of the strategy is to create an enabling environment for MSEs, with specific objectives to facilitate economic growth; bring equitable development; create long-term jobs; strengthen cooperation between MSEs; provide the basis for medium and large-scale enterprises; promote export; balance preferential treatment between MSEs & bigger enterprises.

The strategy targets support measures and beneficiaries such as small manufacturers in food, textiles, leather, and clothing Metal works, and crafts; self-employment (focus on school leavers, disabled and unemployed youth); start-up and expanding firms (focus on women-owned); small enterprises in nomadic and disaster areas; agro-business and small scale farming and fishing; small builders/contractors; small exporters; as well as small-scale tourism operators (FDRE MoTI, 1997)

On the other hand, Agaro town MSE Development Agency which is one of the jimma Zone town has developed different strategic manuals and policy directives concerning capacity building, financial management, service cluster, level of transition of MSES, scaling up best practices, etc. in the year 2011/2012 for the effective implementation of MSE followed by dissemination of documents and massive training.

According to research carried out by Commission on Legal Empowerment of the Poor in 2006 the private sector in Ethiopian is characterized by high domination of micro and small enterprises of low income groups accounting for the bulk of non-agricultural economic activities and particularly, concentrated in the production and consumption of textiles, food and beverage processing. Moreover, the report of the research has shown that most MSEs are characterized by ease of entry and constitute the bulk of the population at the same time most of them are located in rural areas (Commission on Legal Empowerment of the Poor, 2006).

2.3 Role of MSE for Economic Development

Two schools of thought have emerged as pro-MSE's and anti-MSE's perspectives in the studies of MSE's regarding their role in developing and developed countries. Most donor countries and development agencies share the view of the pro-MSE's that is springing up of such entrepreneurial and innovative ventures help promote economic growth and help reduce the high poverty level in such developing economies (Beck & Demirguc-Kunt, 2004).

The pro-MSE has argued that MSE's enhance competition and entrepreneurship and thus have economy wide benefits in efficiency, innovation and productivity growth. Thus, direct government support of MSE's can help countries reap social benefits. Second, MSE's are generally more productive than large firms but are impeded in their development by failures of financial markets and other institutions for capital and other non-financial assistances.

Thus, pending financial and institutional improvements, direct government support of MSE's can boost economic growth and development. The growth of MSE's boosts employment more than the growth of large firms because MSE's are more labour intensive So subsidizing MSE's may help reduce poverty (Beck & Demirguc-Kunt, 2005). However, the anti-MSE has questioned the efficacy of MSE's in promoting growth and reducing poverty. First, they argue that large enterprises may exploit economies of scale and more easily undertake the fixed costs associated with research and development, boosting productivity. They argue further that some researchers found that small businesses are neither more labor intensive nor better at creating jobs than large firms (Thormi &Yankson, 1985). Moreover, they doubt the crucial role of small businesses and instead emphasize the importance of the business environment facing all firms, big and small. Small businesses create monopoly. They are of the view that if there are low entries and exit barriers, well defined property rights, effective contract enforcement, and access to finance, it will work to promote conducive business environment for all firms and not only small firms (Demirguc-Kunt et al, 2004).

However, scholars attempted to reconcile the above controversies by the flexibility of the business technology and people involves. Levy & Powell (2005) noted that, MSE's are thought to be flexible and innovative organizations that are able to respond quickly to customer and market demands (flexibility). Contrary to what happens in large firms, the production technologies of many manufacturing MSE's may inhibit flexibility (Gupta & Cawthorn, 1996), while Carrie et al. (1994) believe that it is people rather than technology that provides flexibility.

Despite the controversies in efficiency and poverty reduction, literature shows small business plays a vital role in the socio economic and political contribution in both developed and developing nations. Small business contributes to equitable distribution of wealth and decentralization of economic power. A small business requires less capital and they are labor intensive in their nature

2.4 Finance

2.4.1. Meaning of Finance

Business concern needs finance to meet their requirements in the economic world. Any kind of business activity depends on the finance. Hence, it is called as lifeblood of business organization. Whether the business concerns are big or small, they need finance to fulfill their business activities. In the modern world, all the activities are concerned with the economic activities and very particular to earning profit through any venture or activities. The entire business activities are directly related with making profit. Finance may be defined as the art and science of managing money. It includes financial service and financial instruments. Finance also is referred as the provision of money at the time when it is needed. Finance function is the procurement of funds and their effective utilization in business concerns. On the other hand according to the **Wheeler,** "Business finance is that business activity which concerns with the acquisition and conversation of capital funds in meeting financial needs and overall objectives of a business enterprise". According to the **Guthumann and Dougall**, "Business finance can broadly be defined as the activity concerned with planning, raising, controlling, administering of the funds used in the business".

According to the **Encyclopedia of Social Sciences**, "Corporation finance deals with the financial problems of corporate enterprises. These problems include the financial aspects of the promotion of new enterprises and their administration during early development, the accounting problems connected with the distinction between capital and income, the administrative questions created by growth and expansion, and finally, the financial adjustments required for the bolstering up or rehabilitation of a corporation which has come into financial difficulties". (Cited from: file:///H:/definitions -of- finance)

2.4.2. The Need for Finance

It has long been recognized that in developing countries, micro and small enterprises (MSEs) have a dynamic role and serve as engines through which the growth objectives of developing countries can be achieved. MSEs by virtue of their size, capital investment and their capacity to generate greater employment have demonstrated their powerful propellant effect for rapid economic growth in developing countries (ILO, 2008; Lara and Simeon, 2009).

Although, MSEs are major contributors to the gross domestic product (GDP) and employment in economies around the world, their financial needs are underserved, which holds back their growth. Where financing is available, it is usually out of reach because of short payback periods and excessive collateral requirements. Nonbank financing options, such as leasing, are not always available. In many developing economies, certain segments of the population, primarily women, are excluded from business activity, because traditionally they do not own land, which is often the preferred collateral for loans (Sahar, 2010).

Finance is necessary to help MSEs to set up and expand their operations, build up new products, and invest in new staff or production facilities (World Bank, 2008).Availability of finance determines the capacity of an enterprise in a number of ways, especially in choice of technology, access to markets, access to essential resources which in turn greatly influence the viability and success of a business. Securing capital for business start-up or business operation is one of the major obstacles of every entrepreneur, particularly those in the MSE sector (Solomon, 2009).

In the current environment characterized by a reduced availability of credit and tighter Lending standards, the financing needs of MSEs deserve particular attention. In this regard it is important to recall that MSEs in general are more dependent on their personal savings and relatives than larger firms, which have the expertise, experience, and resources to tap the financial markets obviously; a decision to start a business or expand an already existing firm involves an implicit decision of how to raise money. Consequently, financing is at the center of an operation of MSE. For instance, it is indicated that the inability to raise finance is one of the greatest challenges facing the MSEs and is the critical factor in the establishment and growth of such businesses (Sargent and Young , 2004:13).

Similarly, it is pointed out that MSEs need finance to invest in new equipment and machinery, reach out to new markets and products and cope with temporary cash flow shortages as well as to innovate and expand (Fafchamps cited in Gebrehiwot and Wolday, 2003:3). Some argue that capital, being scarce in developing countries, should essentially be deployed in a way that maximizes the creation of new jobs and production of new goods and services [without basically changing the dual nature of the economy] rather than being used to convert a very small number of businesses into modern capital-intensive ones (Ibid, 2004:54). In spite of this, MSEs limited access to available finance compared to larger organizations have limited their growth and development. In addition, MSEs are forced to higher transaction costs than larger enterprises to obtain finance. Moreover, insufficient funding has been made available working capital scarce (Levy, 2000:7).

According to the 1995/96 survey of urban informal activities in Ethiopia, lack of working Capital was among the most pressing problems that small manufacturing industries identified (the others being marketing and shortage of supply of raw materials) as limiting expansion of their business. According to the survey of 1995/96, 50% of the informal sector operations indicated that their main problem in operation was lack of sufficient initial capital. Lack of sufficient capital, particularly at the start of their operations, was also identified as the major problem for about 35% of the small scale manufacturing industries (Gebrehiwot and Wolday, 2004:54).

Some researchers, however, argued that factors such as marketing or technological assistance might be the critical factors in the success or failures of MSEs. Yet, despite the contribution of these factors to the development of such enterprises, it should not be over looked that marketing or technological assistance do require finance. Marketing normally involves producing quality product, promotion and making the product available at the consumers' destination. Undoubtedly, such activity requires considerable amount of finance which MSEs have limited access to it. Technological assistance, too, no matter how it is made available, is not cost free to run. It requires knowledge to operate and maintain, there by requiring finance. Some also argued that capital, being scarce in developing countries should essentially be deployed in a way that maximizes the creation of jobs and production of new goods and services rather than being used to convert a very small number of businesses in to modern capital intensive only (Wolday, 2002:4).

It is generally assumed by policymakers in developing countries that there is either a high unsatisfied demand or a significant potential demand for finance by MSEs' borrowers. It is also assumed that where this does not already exist, it can be created. These assumptions lead to policies that have been described as either 'demand-following finance' or 'supply-leading finance'.

In many developing countries where the MSEs sector is seen to be active, (at least in terms of numbers in relation to the size of the economy) and where one of the biggest constraints to its further development is perceived to be finance, general governmental policy on the development of the financial system may be regarded to be 'demand-following'. What is interesting about this type of 'demand-following' finance is that as a result of market imperfections, the financial system's development does not always automatically follow the growth of the real sector of the economy. In fact, the increased supply of financial services in response to demand may not be at all automatic, flexible or inexpensive in developing countries. Restrictive banking legislation, religious barriers against interest charges and imperfections in the operation of the market mechanism may

dictate an inadequate 'demand-following' response by the financial system (Helmsing and Kolstee, 1993).

In view of these impediments to the 'demand-following' effect, a need is often perceived for intervention in the intermediation process, specifically for the redirection of credit. Intervention entails governments setting up institutions where the private sector is deemed incapable of doing so, pegging deposit and lending rates at levels perceived to be fair to borrowers and savers but not necessarily coinciding with free market levels, rationing credit to different rates under criteria that underlie mainly government priorities (Ibid, 1993).

Financing of MSEs is one of the best ways to provide regular employment to millions of poor people. MSEs are, nowadays, taken as a development vehicle for least developed countries like Ethiopia as clearly stated in the industrial development strategy of the country. Their proliferation apart from creating employment opportunity would help to facilitate capitalist industrialization. A path to development, nonetheless, could not be realized without enabling economic environment and access to finance. Financial sources, in this case, are the most important factor determining the survival and growth of MSEs at the time of establishment and operation in both developing and developed countries. Here in order to be effective the need for finance must be 'demand-following' rather than 'supply-following'. Finance must not be offered by the force of finance providers rather the MSEs must have the initiative to get the money they require. However, this does not mean that the financial system (financial institutions) must be passive.

2.4.3. Sources of Finance
Theoretically, enterprises may use internal and external sources of finance. The former Comprises own savings and retained earnings while the latter includes security finance, Explicit borrowing from formal and informal sources, implicit borrowing in the form of Accounts payable (i.e. trade credit and advances from clients), hire purchases, and lease to- buy contracts. For firms that can't resort to primary and secondary money and capital markets (either because the markets do not exist or the firms are not in a position to

access such markets) (Gebrehiwot and Wolday, 2004:54). For instance, raising funds through securities (bond and equity) issue involves listing requirements that are too stringent for many firms to meet, and is costly.

This leaves explicit (formal or informal) and implicit borrowing. But access to bank loans is virtually absent. The main reasons are their "illegality or partial legality…, lack of proper accounting; small size, therefore high transaction costs for banks; firm mobility, leading to high moral hazard and risk of default from a bank's point of view, and lack of education." Yet, they are generally able to obtain 'venture capital' relatively cheaply partly as a consequence of the absence of a stock market that minimizes the adverse selection and moral hazard problems. Unable to invest their savings in high-return/high-risk investments via an organized market, the only possible forms of such investment for small investors are either "creating one's own enterprise, or financing the enterprises of close friends and relatives whose skills and performance can be monitored" (Fafchamps, 1994:8-9).

According to Chant and Walker (1988), on the other hand, the two crucial sources of funding for working capital of MSEs for example, trade and bank credits are critical sources of funding for working capital. Bank credit typically finances ongoing operations, seasonal or cyclical cash flow shortages, start-up costs for new operations, etc. Trade credit; on the other hand, is given for the purchase of raw materials and other inputs.

In Ethiopia, the potential sources of finance include conventional banks, MFIs, cooperatives, government projects, and other informal lenders, as well as trade credit. Equity finance is limited: although we have not direct evidence, one could reasonably expect much more equity finance to be forthcoming in a situation where equity holders (in partnerships, for example) could liquidate their holdings quickly and with relative ease when they want to (Gebrehiwot and Wolday, 2004:54). Generally finance sources can be discussed categorically in many classifications. Some may classify them as institutional and non-institutional others in degree of formality of operating within a given financial system which can be classified as formal, semi-formal and informal sources of finance.

2.4 .3. 1 Formal Source

Formal sources are providers of finance who are subject to banking laws of the country of operation and are engaged in loan extension to customers and diversified financial intermediation (Tewodros, 2005). Formal credit institutions generally shy away from lending to MSEs. A recent study indicated that in most countries, MSE finance accounted for less than 1 percent of the broad money supply, with the major exceptions being Indonesia and Thailand (about 6 percent each) and Bangladesh (3 percent). It is difficult for micro-enterprises to obtain credit because of their lack of fixed assets, their low volumes of business and their existence on the margins of, or outside, the law (Leleux and Constantinou, 2007:26).

In the Ethiopian context, the formal finance sources are Commercial Banks (private or public owned), Development Bank of Ethiopia, and Construction and Business Bank. Commercial banks aim to provide service such as deposits mobilization, working capital, and loan extension for enterprises operating in any economic sector, and feasible projects financing. The provision of the financial service may be for short, medium and long time horizon. Invariably commercial banks assesses the credit worthiness of the applicant using the traditional five parameters, namely, capacity; collateral; capital; condition; and character

Regardless of the number, nature, and type of loan extension criteria conventional banks are not interested in providing finance to MSEs for they are not only faced with lack of having adequate information, infrastructure but also are not required to finance MSEs in their mission statements. Nor is their capacity, especially their branch network, extensive and dense enough to effectively reach MSEs throughout the country (in rural areas in particular). Moreover, the delivery of financial services to MSEs requires the development of innovative financial products that attract MSE operators, which Ethiopian banks are lacking. Besides, conventional banks in Ethiopia do not have interest in promoting new markets with higher perceived risks (MSEs) and relatively high information costs. As a result, the formal banks deliberately avoid the delivery of financial services to MSE operators who might need small loans such as Br. 10,000, 15,000, 20,000, 30,000 etc (Wolday,2002).

2.4.3.2. Semi-formal sources

Semi-formal sources are those providers of finance that are mostly registered as NGOs and MFIs with special charter. NGOs are no longer involved, at least officially, since the issuance of micro-finance law, Proclamation Number 40/1996, which requires those involved in the provision of micro-finance to be established as share companies (owned only by Ethiopian nationals), prohibiting them from them directly involving themselves in credit and savings activities. The new approach to microfinance has taken root in Ethiopia as could be seen from contents of the proclamation enacted to govern microfinance activities in Ethiopia (Proclamation Number 40/1996). MFIs are mushrooming following the proclamation: in the last years, the micro-finance industry showed remarkable growth in terms of outreach and performance (Gebrehiwot and Wolday, 2004:55-56). MFIs helps people start their own businesses i.e., MSEs, by providing loans which will be difficult to get from the main banking system of Ethiopia.

MFIs originally were established in the form of rural finance providers. And they have been expanding in Bolivia, Bangladesh and Indonesia. At that point in time, they were united under the banner of 'micro-finance'. Proving cheap credit was at the centerpiece of many of the MFIs. Moreover, such MFIs had shared the commitment to serve MSEs that have been excluded from the formal banking sector (Martin *et al.,* 2001:14). As a result, MFIs were, being a subsidized credit support program, expected to deliver finance for needy groups and firms. MFIs used to follow up the poverty approach in the pursuit of credit extension. This approach is criticized for developing the non-loan repayment culture.

Despite the increase in number of the institutions, MFIs in Ethiopia have little impact in developing the country. For they are agricultural oriented and peasantry focused with limited outreach to MSEs and the absence of varieties in the type of financial products delivered regardless of MSEs area of operation (Wolday, 2002). The new financial systems approach emphasizes large-scale outreach to the economically active but poor, both to borrowers who can repay micro loans from household and enterprise income streams, and to savers. This approach focuses on institutional self-sufficiency, because, given the scale of the demand for micro-finance, this is the only possible means to meet

widespread clients' demand for convenient and appropriate financial services (Gebrehiwot and Wolday, 2006).

Besides, the groups guarantee schemes; small sized loan coupled with short repayment period has made MFI's service unattractive to urban MSE operators. Moreover, the supply driven lending methodology instead of demand driven methodology has further exacerbated the unattractiveness of their services (Tewodros Giday, 2005). Furthermore, it is argued that MFIs despite monopolizing (because by default MSEs is Out of reach to formal sources of finance) the financial service provision functions have become non self-reliant and inefficient. They have failed to understand what MSEs need most. While the need of MSEs is access to credit, MFIs stick to the paradigm of cheap credit. Yet, MFIs were supposed to fill in perceived gabs in financial intermediation particularly, the provisions of long-term finance. Their impact, however, appears to be the increase in financial sector segmentation (Martin *et al.,* 2001:20).

In order to overcome such critics, MFIs should be move concrete by letting down the poverty alleviation approach and adopting the financial system perspectives approach that emphasizes their institutional sustainability. In the context of Ethiopia, the objective of almost all MFIs is poverty reduction, mobilizing savings, and extending credit to MSEs. The maximum amount of group loan does not exceed Br. 5,000 and the repayment period does not exceed one year. Though the group methodology waived the need for collateral, it is surrounded by the old paradigm and could not fit individual loan requirement (Tewodros , 2005).

2.4.3.3 Informal sources

Unlike the formal and semi-formal sources, the informal sources do not constitute a neat category.. Informal sources provide finance to most of MSEs operating outside the formal financial system. Informal sources are important source of initial as well as working capital requirement of MSEs. Getting access a significant amount of money is most evident in informal sources than formal or semi-formal sources (Martin *et al.,* 2001:30). Their categories can be

Credit and saving unions: are most often to salary and wage earners pertaining in urban areas, there by excluding the bulk of MSE operators. Although there is a continuous

increase in the number of credit and saving institutions and members, it has entirely excluded MSEs.

Cooperative societies: are taken as group formation to reach out by many working institutions. In the Ethiopian context, membership in cooperatives has been long politicized and not preferred by many members. Even in the metropolis entrepreneurs are anxious of being members of a cooperative, as they referred to its bad experience (Wolday, 2002).

'Iqqub': A study by Dejene Aredo who examines the role and functioning of the *'iqqub'* in Ethiopia. The *'iqqub'* is a type rotating savings association with an element of chance in the awarding of the amount in each cycle. Basic principles and underlying procedures are analyzed in general and for a number of specific cases. The *'iqqub'* is conceived as a form of traditional savings institution: The *'iqqub'* is a form of saving institution in which weekly or monthly payments of a fixed sum are exchanged for the privilege of receiving a large sum at some point in the life of the group.

➤ The *'iqqub'* belongs to the type of traditional financial institutions which are included under the savings associations.

➤ The *'iqqub'* was a saving club combing a bank and lottery.

The *'iqqub'* is widespread in Ethiopia, in many sectors and for many purposes, and said to have originated during the Italian occupation. Its continued spread is explained, among others, by the repressed character of formal institutional credit to the private sector. The *'iqqub'* may involve fairly small amounts, as in predominantly rural areas for consumptive purposes, but may also involve large amounts, as for example among the big traders in Addis Ababa (Helmsing and Kolstee, 1993). Larger *'iqqubs'* are more institutionalized with elaborate by-laws, employ staff, and have sophisticated mechanisms to compensate members for longer waiting times (which indicates non-zero interest rates) and have direct links with the banking system (to deposit receipts and use cheques). These compensatory mechanisms also reduce the importance of the element of chance in the awarding of the lot in any cycle and therefore make the *'iqqub'* potentially more appropriate to finance MSEs credit needs. The design of financial policies and of

MSE financial assistance programmes should take the potential role of indigenous financial institutions such as the '*iqqub*' into account (Ibid, 1993).

'*Idirs*': are indigenous institutions collecting a specified set of money from their members to pay out a specified lump sum of money and assistance to a member, at his/her bad times especially at times of mourn. Despite the need to mobilize resources kept by the '*idir*', they, so far, are not reported that they provided loan or assistance to business activities (Tewodros , 2005).

Money-lenders: covers a wide range of credit arrangements that differ across countries, with interest ranging from zero to as many as 100% a month (Aryeetey 2000:47). , MSEs use money-lenders as a last resort. Most of the informal moneylenders base their lending disciplines on a firsthand knowledge of the borrower (Gebrehiwot and Wolday, 2003:6).

Own savings , relatives , and friends: are the most important alternative sources of finance to MSEs in developing countries like Ethiopia. They usually extend finance as non-interest bearing loan based on intimate knowledge and trust of each other, making the need security in the form of collateral or guarantee low (Fasika and Daniel, 1997).

Trade credit suppliers: are significant sources of informal credit in an enhanced credit rating system. Trade credit refers to loans suppliers extend to their customers in connection with product sales. They supply either input or cash advances to MSE operators. Enterprises may receive trade credit either as a substitute for or complement to bank credit. Trade credit has attraction feature of not being guaranteed by mortgage able assets, which is advantageous for enterprises lacking collateralizable assets. Enterprises could resort to trade credit both as a means of financing purchases (i.e., receive trade credit from suppliers) and promoting sales (i.e., grant trade credit to customers). Extending trade credit to customers may be important in sealing deals as well as become and remain competitive as it represents better terms of sales compared to requiring payment in advance or up front (sales promotion motive). Hence, enterprises could be engaged in trade credit for establishing good business relationships or for financing purpose. In the context of Ethiopia, it is reported that the practice of providing trade credit exists for either purpose (Gebrehiwot and Wolday, 2004:63). However, trade credit suppliers are unwilling to extend trade credits, the only option left for these enterprises is

to depend on personal funds or turn to friends and relatives. This limits the amount of funds available for working capital and reinvestments in productive capacities like high use operating equipment and facility refurbishments.

2.4.4. Determinants of Access to Finance

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

The formal financial institutions in Ethiopia have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. The main sources of startup and expansion finance or funds for most MSEs in Ethiopia are personal savings followed by iqub/idir, family and friends/relatives. Nevertheless, the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs (Admasu 2012).. Generally, different literature reveals that the main major determinants that affect access to finance of MSE fall under Entrepreneur characteristics, Firm level characteristics and Institutional characteristics.

2.4. 4.1. Entrepreneur Level Characteristics

The personal characteristics of the owner-manager make a difference to the firm's ability and likelihood of accessing external finance (Irwin & Scott, 2010; Cassar, 2004). Vos et al., (2007) found that younger owner– managers tend to use more bank overdrafts and loans, credit cards, own savings, and family sources than older owners who appear to be more dependent on retained profits. Mijid (2009) found higher loan denial rates and lower loan application rates among female entrepreneurs. Coleman (2007) also provided evidence of credit discrimination against female entrepreneurs as they were more frequently charged higher interest rates and asked to pledge additional collateral in order for loans to be granted. Explanations given in the literature for differences between men

and women entrepreneurs with respect to access to finance can be categorized into discrimination, abilities and preferences, and competition (Harrison & Mason, 2007).

A study by Bates (1990) examining the impact of owner–manager's personal characteristics on SME longevity across a wide sample of SMEs owned– managed by men across the US between 1976 and 1986 concluded that owner–managers who had higher levels of education were more likely to retain their firms operating throughout the period of study. He further emphasized that the level of education of entrepreneurs is a major determinant of banking loans amounts offered to SMEs. As for the demand side, Storey (1994) asserts that higher levels of education provide entrepreneurs with greater confidence in dealing with bankers and other funders when applying for loans.

2.4.4.2 Firm Level Characteristics

According to Mabhungu et al. (2011), formality, value of assets, business sector, operating period, financial performance and size are all important factors in determining micro and small enterprises' access to finance. Financial institutions are more likely to approve loans to firms that are able to provide collateral and to those firms that have established long term relationships with lenders. Due to the existence of asymmetric information, banks base their lending decisions on the amount of collateral available. Collateral reduces the problem of uncertainty, since the lender can theoretically recover some, or all, of his loan in the event of default. Moreover, the borrowers will find it costly to put valuable collateral if they intend to default with the proceeds of the loan, because they will lose their collateral. Thus, the collateral requirement can also help to weed out rogues from honest borrowers, leaving only those bona-fide applicants who fully intend to repay the loan.

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

Klapper et al. (2002), suggest that younger enterprises (those established less than four years), are more reliant on informal financing and far less on bank financing. This is supported by different authors (Quartey ,2003; Cassar,2004; Storey,1994). From another angle, the extent to which firm size can impact the availability of finance to the firm was measured by Petersen and Rajan (1994). They argued that as firms grow, they develop a greater ability to enlarge the circle of banks from which they can borrow. They then provided evidence that firms dealing with multiple banks and credit institutions are nearly twice as large as those with only one bank. Martin and Daniel (2013) suggested that the reason for the effect of size of the business on the ability to access finance is that larger firms are likely to have collaterals that act as a security in securing finances. The effect of industry classification on the capital structure of Ghanaian SMEs was examined by Abor (2007).The results of the study revealed some differences in the funding preferences of the Ghanaian SMEs across industries. SMEs in the agriculture sector and medical industries rely more on long-term and short-term debt than their counterparts in manufacturing. Abor (2007) further concluded that short-term credit is more used in wholesale and retail trade sectors compared with manufacturing SMEs, whereas construction, hotel and hospitality, and mining industries appear to depend more on long-term finance and less on short-term debt. Abor (2007) found that SMEs in the agricultural sector exhibit the highest capital structure and asset structure or collateral value, while the wholesale and retail trade industry has the lowest debt ratio and asset structure.

2.4.4 .3 Institutional Level Characteristics

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

Whenever interest rate rises up, investment will eventually fall, this is because with higher interest rate the possibility of making profit out of investment is very low, hence high interest rate reduces the marginal efficiency of capital. On the contrary, bank

charges interest to investors out of which certain percentage will be paid to savers as deposit rate. At higher deposit rate saving will be attractive and similarly banks will extend more loans, but investors will reject further loans as interest rises (Sacerdot,2005) revealed that the type of financial institution and its policy will often determine the access. What is displayed in form of prescribed minimum loan amounts, complicate application procedures and give restrictions on credit for specific purposes. Where credit duration, terms of payment, required security and the provisions of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access.. The length of the loan maturity period required by the borrower may also influence the bank's credit rationing behavior. The longer the loan maturity period, the greater the risk of loan recovery due to the riskier nature of long term investments, hence the higher will be the likelihood that the borrower will be credit rationed

2.5 Conceptual Framework of the Study

A conceptual framework is a product of qualitative process of theorization which interlinks concept that together provides a comprehensive understanding of a phenomenon or phenomena (Jabareen, 2009). The concepts that constitute a conceptual framework support one another, articulate their respective phenomena, and establish a framework-specific philosophy that defines relationships

Figure 2.1 conceptual frame work of the study

Source: own compiled from reviewed literature
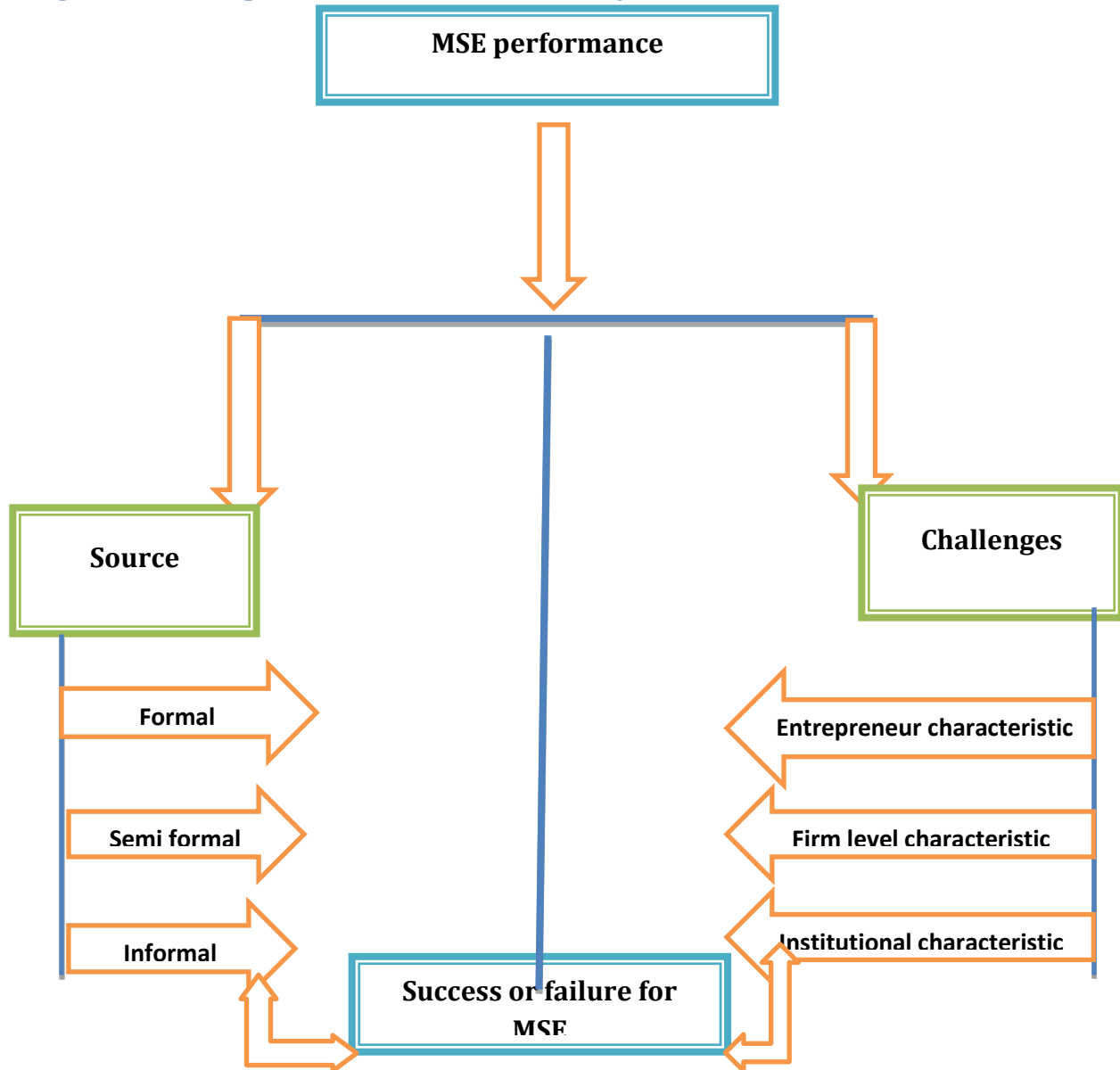
2.6 Empirical Reviews

Ethiopia had a long experience of poor macroeconomic policies, economic mismanagement, protracted war, internal instability and recurrent drought are the main causes of the direct situation the country is now in today. The socialist regime which followed a centrally planned economic system since 1974 introduced excessive government interventions and controls that were responsible to hamper the development of small business throughout the country. As the socialist Derg regime implemented extensive nationalization of private property, the previously existing private sector almost came to a complete halt due various ideological complexities. After the change of government in Ethiopia in 1991, several policies were formulated and regulations promulgated relating to diverse social, economic and political issues.

The most important policy and institutional reforms which include the support for those in extreme need and the provision of enabling environment for private sector development. To enhance the development of private sector, the government has formulated a National MSE Development and Promotion Strategy in 1997, which aims to use an approach to alleviate the problems of unemployment and promote the growth of MSEs. Despite the contribution to employment and economic growth this day, most MSEs face critical constraints both at the operation and startup level. According to research report of Commission on Legal Empowerment of the Poor(2006), some of these constraints include lack of access to finance, lack of access to premise, lack of infrastructure, lack of training in Entrepreneurial and management skills, lack of information on business opportunities, social and cultural facts, in particular deficient entrepreneurial culture and excessive corruption., Lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector.

Most micro and small enterprises are highly risky ventures involving excessive administrative costs and lack the experience in dealing with financial institutions and do not have a track record of credit worthiness with banks. Since most banking institutions are reluctant to provide small enterprises with loan and credits, most MSEs are unable to secure collateral requirements. As a result of absence in financing, the creation of new enterprises and the growth and survival of existing ones will be impeded (Commission on Legal Empowerment of the Poor. 2006). According To Wolday and Gebrehiwot (2006), more than 93 percent of MSEs replied that they did not apply for bank loans for the reasons they considered themselves as discouraged potential borrowers, need credit but are discouraged from applying by the perceived or real high collateral requirement, high cost of borrowing, difficulty of processes, ineligibility, or concern about their repayment ability and uninformed (i.e. not aware of the facility, or where and how to apply, etc.).

The study done by Admasu.Abera (2012), the main sources of startup and expansion finance or funds for most MSEs are personal savings followed by *iqub/idir*, family and friends/relatives. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases this problems may be the inability of many operators to meet formal financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from informal sources. According to Minster of Urban Development and Construction, (2013), the study also identified a number of challenges and constraints hindering the growth of MSEs in Selected Major Cities of Ethiopia. These challenges were manifested in terms of capital, technology and employment growth trends. Enterprises from the regional cites indicated that shortage of finance (42 percent) to expand their business was their principal challenge, followed by lack of working premise (28.3 percent); and lack of access to market or absence of linkage to market. The study also showed that lack of access to land has been one of the most crucial bottlenecks (26.4 percent) in Addis Ababa, problem of finance (25.6 percent) and access to market

(25.1 percent) were among the strong factors inhibiting the growth of these enterprises in the capital. The findings of Mulu (2007) also indicate that banks and MFIs do not seem to support MSE expansion. Due to this 85 percent of the respondents have never received credit from these formal sources. The availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks appear more appealing for MSEs. Hence, firms with better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster.

In reality, literature on MSEs in Ethiopia especially in Jimma zone Agaro town is very little and most of the available studies were not conducted in line with sources and challenges of finance for micro enterprises. However, this research were tried to assess sources and challenges of finance for MSEs by targeting and deeply investigating those operators are engaged in manufacturing, construction, services, trade and urban agriculture activities in Jimma zone   Agaro town

2.7 Operational Definitions of the study

Micro and Small Scale Enterprises (MSEs) are lifeblood of most economies. To be successful this and other business sectors, finance plays a major role in any aspect of business operation. As far as micro and small enterprises (MSEs) are concerned as part of business enterprises, they need finance to start up, expand, diversify and for working capital of the business firms. Without finance, no one business enterprise can achieve its objectives. Finance is the backbone of any business enterprise (Mckernan and Chen, 2005) including for MSEs

Finance is necessary to help MSEs to set up and expand their operations, build up new products, and invest in new staff or production facilities (World Bank, 2008).Availability of finance determines the capacity of resources which in turn greatly influence the viability and success of a business. Securing capital for business start-up or business operation is one of the major obstacles of every entrepreneur, particularly those in the MSE sector (Solomon, 2009) .Access to financing is recognized as the leading obstacle to

small businesses growth in Ethiopia, alike most other developing and under-developed countries. Small businesses, in most cases, manage to start a business with resources from informal sector, but find it extremely difficult to survive and expand without further financial assistance from the institutional lenders (Fetene, 2010). The formal financial institutions in Ethiopia have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. The main sources of startup and expansion finance or funds for most MSEs in Ethiopia are personal savings followed by iqub/idir, family and friends/relatives. Nevertheless, the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs (Admasu 2012).

Therefore based on the above literature the main intent of this research is only concerned with financial source and challenges, from this perspectives in order to set up and expand their operations from which financial source(formal, semiformal and informal) MSE needs finance and to determine whether age of operator ,educational level of the operator ,the fixed asset enterprise possess, duration of business, number of employee , business sector, amount of interest rate, repayment period, lending procedure and availability of information are the determinant/challenges to access finance Generally, MSE performance is success if and only if the above source of finance can support enterprises to set up and expand their operations, build up new products, and invest in new staff or production facilities without more concerning on the above determinant variables of access to finance . And it is failure if the financial sources of finance are stricken on the variable mentioned above **Performance**: are the overall activities and operations performed by Mses Operators in strengthening their enterprises As Walker and Brown (2004), small business performance can be measured by financial and non-financial criteria such as increases in profit or turnover and/or increased numbers of employees and autonomy, job satisfaction or the ability to balance work and family responsibilities respectively .

Generally, from the above mentioned reviewed literature the researcher conclude that even though there is no commonly used definition of MSE across the countries of the world. However, all the definitions have taken the common criteria such as the number of employees, paid up capital, sectorial category, market share and the management entity. Despite the controversies in efficiency and poverty reduction, literature shows small business plays a vital role in the socio economic and political contribution in both developed and developing nations. Small business contributes to equitable distribution of wealth and decentralization of economic power. A small business requires less capital and they are labor intensive in their nature

Although, MSEs are major contributors to the gross domestic product (GDP) and employment in economies around the world, their financial needs are underserved, which determines the capacity of an enterprise in a number of ways, especially in choice of technology, access to markets, access to essential resources which in turn greatly influence the viability and success of a business. Securing capital for business start-up or business operation. Generally based on degree of formality of operating within a given financial system financial source can be classified as formal, semi-formal and informal sources of finance. Meanwhile the main major determinants that affect access to finance of MSE fall under Entrepreneur characteristics, Firm level characteristics and Institutional characteristics.

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1. Description of the Study area

Agaro (or **Haggaro**) is a town and separate woreda in south-western Ethiopia. Located in the Jimma Zone of the Oromia Region at a distance of 396 km from Addis Ababa was founded in 1818E.C .Its astronomical location is 7°51′N 36°35′E, and an elevation of 1560 meters above sea level . Agaro is one of the reform towns in the region and has a city administration, municipality and six Kebelles. The town has an Integrated Development Plan which was prepared in 2005

Agaro was the capital of the former Kingdom of Gomma, until Gomma was conquered by Dejazmach Besha Abuye in 1886. By 1958, the settlement was one of 27 places in Ethiopia ranked as a First Class Township. Fitawrari Gebre Kristos, started coffee plantations in the 1950s on land he inherited from his grandfather Fitawrari Wossen. Fitawrari Besha could employ up to 400 workers during high harvest season. After the Ethiopian revolution, Gebre Kristos abandoned his plantation and retired to Addis Ababa; his plantation was nationalized by the Land Nationalization Proclamation of March 1975 (cited from: file:///H:/ Agaro background)

3.2. Research Design

It is acknowledged that several options are available in social research but the choice of approach depends largely on the objectives of the study. The study employed a descriptive research design. According to Seiliger and Shohamy (1997), descriptive study is helpful when a researcher wants to look into a phenomenon or a process in its natural Contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting. Thus, descriptive study was favored to understand how MSEs are generated their financial sources and what challenges they face..

3.3. Research Approach

Being a descriptive design, the research uses a mixed type of research in which both qualitative and quantitative approaches were employed. This is done mainly to strengthen the finding of the study through triangulating the results to be obtained using both approaches

3.4. Target Population of the Study

The target population was drawn from all micro and small enterprises in Jimma Zone, Agaro Town Oromiya region. Currently the total micro and small enterprises registered and operating in Agaro Town MSE (2007) are 552. How many are operating in manufacturing, services, trade, construction, & agriculture sector in the town is shown as follow

Table 2. Target population study

S.N	Sector	Population	Male	Female	Total
1	Manufacturing	67	101	124	225
2	Constructions	33	89	35	124
3	Agriculture	86	170	331	501
4	Service	166	284	345	629
5	Trade	200	358	355	713
Total		552	1002	1190	2192

Source Agaro town MSE Office 2007 E.C

3.5 Sampling and Sampling Techniques

This section discusses how the sample size was arrived at and the sampling techniques used

3.5.1. Sampling Size

From the currently operating MSEs, 552 enterprises in the town, a representative sample was selected. To keep the representativeness and enhance the reliability of the findings of the sample size the researcher used Kothari (2004) formula which determines the sample size by specifying 5% margins of error. The sample size required for this research was determined using the following formula:

If $N \geq 10,000$, then Sample size n = Z²*p*q/d²
If $N < 10,000$, then sample size f (n) = n/(1 + n/N)

Where, n = the desired sample size,

Z = standard normal variable at 95% confidence level, which is 1.96,

P = the proportion or estimated characteristics of the target population with respect to proportion to sample size (0.5),

q = the difference of total percentage of population with estimated characteristics of target population = 1 - p = 1- 0.5 = 0.5, and

d= level of statistical significance sets (5%) margin of error (0.05)

Therefore, the sample size for the population greater than 10,000 would be:

$$n = Z^2*p*q/d^2$$

$$n = (1.96)^2* (0.5) * (0.5) / (0.05)^2$$

$$= (3.8416*0.25) / 0.0025$$

$$= 0.9604 / 0.0025$$

$$= 384.16 \approx 384 \text{ this implies that, n = 384 for } N \geq 10,000$$

Since, the sample population is 552 which is less than 10,000. So the researcher planned to use the second formula which is f (n) = n/(1 + n/N) to determine the sample size where n = 384, and N = 552.

$$= 384 / (1 + 384/552.)$$
$$= 384 / (1 + 0.69565)$$
$$= 384/1.69565$$
$$226,46 = 227 \quad \text{So, f (n) = 227}$$

3.5.2. Sample Techniques

The research employs proportional stratified random sampling method for the study. For the study, 227 MSE were taken from the total 552 MSEs as a sample size and proportionally distributed among five sectors of the MSE. The strata's used was MSE sectors (i.e. construction, manufacturing, agriculture, trade and services) in which the MSEs are organized. Using list of MSEs collected from the five sectors, simple random sampling technique is used in selecting the sample MSE within the strata.. Within the selected MSE, purposive sampling method was used for the selection of one respondent that reports on behave of the selected MSE based on the position and the duration that respondent stayed in the enterprises. One respondent is taken from one MSE at a time for increase the involvement of the number of MSEs in the study. MSEs involved in the sample had minimum of one year experience in which they are operating.

Table 3: List of MSE sector in sample size selected

No	Name	Number of MSES	Sample Size selected
1	Manufacturing	67	28
2	Constructions	33	14
3	Agriculture	86	35.
4	Service	166	68.
5	Trade	200	82
	Total	**552**	**227**

Source: own manipulations 2008

Therefore, **28** manufacturing, **14** construction, **35** Agriculture, **68** services and **82** trades MSEs were selected. After having such samples from each stratum, the researcher randomly selected to have a desired number of samples for each stratum. The other population comprises the government officials who have a direct connection With MSEs in Agaro Town. Focus group discussions were conducted with representatives from the sector based on purposive sampling. Therefore, the sampling strategies used to secure respondents for questionnaire and conducting focus group discussion was probability and non-probability sampling techniques respectively

3.6. Data Sources and Gathering Tools

In the study, the approaches used for attaining the objectives were by analyzing the available documents on the subject (secondary sources) and primary data. Therefore, the sources of primary data were gathered from MSEs in Agaro town and government officials in Agaro town that have a direct interest in the sector.

Secondary sources on the other hand, relevant documents was collected from printed materials and books; reports and the like drawn from the CSA, Federal, Oromia, Zone and Agaro Micro and Small Enterprises Development Agencies. The works of other

researchers and publications (mainly, journals, thesis, and online resources) and Internet were also used.

Meanwhile two data collection instruments were used to gather relevant data for the purpose of the Study. These are questionnaire which was prepared in Likert scale format and was been selected due to it enables respondents to understand and answer the questions easily The other data collection method was focus group prepared to the government officials in Agaro Town that have a direct interest in the sector, .

3.7 Data Analysis and Presentations

Once the raw data was on hand, quantitative and qualitative methods of data analysis were used. With the quantitative data collected through the questionnaire a descriptive statistical analysis method was used. Descriptive research involves gathering data that describes events and then organizes, tabulates, and describes the phenomena. To process the data from different angles, the researcher were used all the necessary data, and finally the raw data was organized and grouped on the basis of common characteristics. As a result, the data obtained via the questionnaire was tallied and the frequencies were converted into percentages. Tabulation methods, description of facts based on statistical analysis like latest version of SPSS (Statistical Package for Social Science), percentages, graphs with explanations, binary logistic regressions were used and lastly interpreted after considering all relevant factors and presented through the use of statistical techniques such as bar charts, pie charts, percentages and frequency counts

3.8 Model Specification

In this study Logistic regression model is used to examine the relationship between the independent variables and dependent variable (Source and challenges to finance versus Mses Performance). The justification for using model is its simplicity of calculation and that its probability lies between 0 and 1(two categories). (Gujarati, 2004).Hosmer and Lemeshew (1989) pointed out that the logistic distribution has got advantage over the others in the analysis of outcome variable in that it is extremely flexible and easily used model from mathematical point of view and results in a meaningful interpretation.

Hence, the logistic model selected for this study was

The odd (MSEPer=1) = β0+ β1Psaving (1) + β2Mfinance (1) + β3Mfinance (2) + β4Opeage(2) + β5Opedu(1) – β6Fasset(1) – β7Nemployee(1)— β8Bsector(1) – β9DENT(1) – β10Irate(1) – β11Rept (1)

Where MSE Performance is a dependent variable and the independent variables in the regression analysis are

Psaving= Personal saving

Mfinance = Micro finance institutions

 OPeage= Age of operator

OPedu =Educational level of the operator

Fasset=Possession of fixed assets

Nemployee= Number of employee or size

Bsector=Business sector

DENT= Duration of business

Irate= Interest rate

Rept= Repayment period

β1 - β10 = vector of Coefficients

β0= intercept

3.9 Validity and Reliability

The researcher has selected participants randomly so that characteristics had the probability of being equally distributed and recruits large sample to account or compare these outcomes. The researcher was used the same instrument for pre-test and post-test measures. To guard against this, the researcher conducted pilot studies to establish trust and respect with the participants. With regard to the focus group discussion, rapport between the researcher and subjects had been created; hence, a more cooperative atmosphere, which increases the validity of the subjects' responses. Such kind of rapport improves the level of trust between the researcher and subjects, which, in turn, increases the validity of answers received

CHAPTER FOUR

4. ANALYSIS AND INTERPRETATION OF DATA

4.1 Introduction

The sources used to this study were both primary data and secondary sources. The Primary data were collected directly from MSEs in Jimma Zone Agaro town and government Officials who have direct interest in the sector, The researcher gathered data by distributing Questionnaires to MSEs (see appendix 1 and 2 in English and Afan Oromo version respectively) and focus group discussion with government officials was conducted (see appendix 3).

There were 227 MSEs covered in this analysis; these enterprises are engaged in different developmental oriented sectors which include Manufacturing, construction, Trade Service and Agriculture, Out of 227 questionnaires circulated 216 sample MSEs or 95% were returned and filled appropriately and the remaining 5% respondents were not returned properly.

In this chapter, data collected from 216 MSE operators operating in the Agaro town administration was presented, analyzed, and interpreted. First, it discusses how the MSEs in the study area emerged; followed by examination of MSE policy framework and involvement of supportive agencies; the demographic, business and financial characteristics of the sample respondents**;**, support to the MSEs; and other critical factors that such as main reason that motivate them and challenges they face Finally, the result of binary logistic regression analysis that was used to identify the source and challenges of finance that affect MSE performance was presented

4.2. How MSES in the Study area Emerged & Progressed

In many developing countries, including Ethiopia, the MSE development programs are viewed as a key policy strategy to embrace the MSE sector (Belay, 2012). The major objectives of the establishment of MSE development agency is to encourage, coordinate and assist institution that provide support to the development and promotion of MSEs in the country at large. In order to achieve this objective, it focuses on providing supportive services such as provision of training for trainer's, prototype development and dissemination, information and consultancy services, facilitation of marketing and technological database to stakeholders which in turn provide similar activities to the targeted MSEs (FeMSEDA, 2011).

Accordingly, Agaro MSE development agency has got a legal jurisdiction of organizing, providing license, facilitation of startup capital for MSEs, consolidating data of unemployment in the town, monitoring and evaluation of ongoing activities of organized MSEs, awareness creation and provision of training for MSE. In line with this, Agaro MSE development agency has been organized 1068 MSEs with total number of 3692 members. Out of these, only 951 (89 percent) MSEs were started operation with total numbers of 3284 members during the period. This implies that not all of the MSEs which are organized and get licensed are engaged in operational activities. The summary of five year performance report in organizing and licensing MSEs in Agaro town administration was clearly explained by the table below

Table 4.0

No	Year	Organized Mse				Mse started Operation in the same year				
		No MSE	Male	Female	Total	No MSE	Male	Female	Total	%
1	2003	55	101	57	158	40	86	50	136	72
2	2004	101	214	130	344	75	170	98	268	74
3	2005	163	301	198	499	137	262	177	439	82
4	2006	400	791	606	1397	370	669	583	1252	92
5	2007	349	691	603	1294	331	604	585	1189	95
	Total	**1068**	**2098**	**1594**	**3692**	**951**	**1791**	**1493**	**3284**	

Source Annual report of Mse from 2003—2007

 When we see how the MSEs in the study area emerged from the above table, it is found that the number of MSE that were organized and involved in operational activities is increasing from time to time. It also shows that the numbers of MSEs that are becoming operational (active) is also increasing from 72 percent of 2003 to 95 percent of 2007.

The result of this study would probably due to massive social mobilization (awareness creation) conducted on the unique contribution and importance of MSEs in the development of the economy in the country in general and Agaro town administration in particular. This reveals that the MSE sector plays pivotal roles in bringing about economic transition through creating opportunities in using existing human and natural resources. Particularly, the sector has played crucial role in a quick remedy for the decreasing unemployment problems in the country in general and Agaro town in particular

4.3. MSE Policy & Involvement of MSE Support Agencies

An analyses of enabling environments for enterprise development could be done at micro-level (individual, house hold and enterprise); micro-level (support providing institutions and networks); and macro-level (national level) (Belay, 2012). The significance of the enabling environment, especially in terms of the macro-economic

context in which MSEs operate is critical for the expansion of productive enterprises. A legal and regulatory framework that creates conducive environment is crucial for the promotion, growth and development of MSEs in general and entrepreneurs in particular. For instance, after the reform period in 1991, several policy and regulations were promulgated. These frame works relates to the: adoption of market economy; decentralization of power and the formulation of regional states; privatization programme; issuance of proclamation No. 40/96, which regulates the business of microfinance in the country; the issuance of proclamation No. 33/98 to provide for the establishment of the federal MSE development agency; issuance of the national MSE development strategy in 2004 and amendments made in 2011; issuance of proclamation No. 139/2011 article 54/1 to provide support for MSEs development at regional level, and MSE development and promotion regulation of 008/2011 are some of the policy reforms done to create enabling environment for the promotion and development of MSEs in Ethiopia.

The rationale for supporting MSEs as part of public policy intervention is that small enterprises development need is an integral element of overall economic and industrial development. Small enterprises can only prosper within healthy and conducive overall policy framework. This includes an encouragement of entrepreneurship through facilitating the startup of business ventures, transparent and simple regulatory regimes, subsidized loan programs, free consulting services, special procurement policies, market reservation schemes and policies that focus on removing constraints to MSE development were special privileges to be done for MSE (MTI, 2012). In other words, a favorable operating environment for MSEs needs to be ensured. Accordingly, in 2011 MSE development council is established at federal, regional and town administration level that encompasses nine ministers that is chaired by ministry of urban development and construction (FeMSEDA, 2011). But, Oromia national regional state has increased the number of support institution at the town level from 9 to 15 by regulation No. 139/2011 of MSE development support regulation.

Although, it seems an improvement in increasing the number of members to the MSE council, it is difficult to get and manage these sectors at spot to solve the immediate problems of the MSEs. Moreover, there are some sectors missed form the MSE council and some sectors included whose responsibilities and contributions are not visible for MSE promotion and developments in the town in the number of MSE council at the town administration level

Table 4.1 Response rate

Characteristics	Variable	Frequency	Percentage
Response rate	Completed and returned	216	95.15
	Not returned	11	4.84
	Total	227	100

Regarding the response rate of the respondents from the total 227 questionnaires were distributed among these 216(95.15%) questionnaires were returned and answered correctly and returned , the remaining 11(4.84%) questions are not returned by the respondents correctly. Therefore the analysis and interpretations of 216 respondents were discussed under here as followed.

4.4 Demography of the Respondents

In order to know the sex, age, educational and marital status of the MSE, the researcher has asked respondents and the response has been presented in the following table

Table 4.2 Demographic characterizations

1. Sex	Number	Percentage
Male	143	66.80
Female	73	33.20
Total	216	100
2. Age		
18-24	29	13.4
25-34	104	48.1
35-44	56	25.9
45-55	22	10.2
>55	5	2.3
Total	**216**	100
3. Educations		
Elementary	78	36.1
Secondary	22	10.2
TVT	58	26.9
Diploma	48	22.2
Degree	10	4.6
Total	**216**	**100**
4. Marital status		
Married	102	47.22
Single	114	52.78
Total	**216**	**100**

Source: Survey result 2016

The table above revealed that 66.20% of the selected sample populations were males and the rest 33.80% were females. This implied that most of the owners of MSEs were found to be males, hence, the involvement of female owners were limited (almost half of the male owners). Even if there is a clear message to encourage females in the mission statement of Agaro Micro and Small Enterprises Development Agency; but the involvement of females is still poor and it needs close and proper attention towards them. MSEs are assumed to be the basis for medium and large industries, this strategy will not meet the ultimate goal in the absence of females, where they are half of the population

The sample MSEs are operated by relatively young operators, ranging from 25-34 years of age (48.1%), followed by 35-44 years of age (25.9%). Here the table 4.1 above also shows that 13.4% of the sample respondents are between 18-24 years old and 10.2% are between 45-55 and the remaining 2.3% are above 55 years old. Almost 87.4 percent of the sample respondents fall below an age of 45 years indicating that it is the younger part of the population that are actively organized and operating as MSE than those found in the older age. They are probably those who can easily understand any guidance provided to them by the support institutions

As the table 4.2.above clearly shows that most of the sample respondents were single (52.78%), followed by married (47.2%). this implied that MSEs have no more financial sources, because they have no at least two families, i.e., the husband and wife side. And as if peoples begin to be married, they have the probability of good saving habit there by financing their own MSEs properly. Similarly, they will be good in synergy and the chance of having collateral increases. But, this does not mean that married owners are overlooked, because those owners may have more dependents and in turn it may consumes the retained earnings of MSEs

The educational background of the respondents ranges from below high school to first degree. Almost 36.1 percent of the respondents are below high school that can read and write, whereas 10.2 percent of the respondents were high school complete 26.9% of the respondents were TVET graduate, 22.2%of the respondents were Diploma graduate,. The remaining 4.6 percent have first degree holders.

The study also shows that about 46.3 percent of the respondents range from below high school to high school complete. The participation of TVET and Diploma graduate in MSEs was 49.1 percent of the total respondents. This implied that it is almost pointing to the direction of the government strategy that encourages graduates to be organized in MSE. The result of this study was in line study conducted by Goedhuys and Sleuwagen (2000) that argue higher education not only raises enterprise performance, but also increases outside options such as wage employment. Lower education and vocational training significantly influenced the likelihood of being entrepreneurs rather than wage employees

4.5 Business Characterizations of the Respondents

In order to know the **business sector, legal forms, duration, size, motivation, challenges and fixed asset of MSE**, the researcher has asked respondents and the response has been presented in the following table

Table 4.3 Business Characterizations

1. **business sector**	Number	Percentage
Manufacturing	26	12.04
Constructions	14	6.48
Trade	78	36.11
Service	64	26.63
Agriculture	34	15.74
Total	**216**	100
2. Legal form		
Sole proprietorship	60	27.8
Partnership	107	49.5
Cooperative	49	22.7
Total	**216**	**100**
3. Size of business		
<5	60	27.8
6-10	107	49.5
11-15	49	22.7
Total	216	100

4. Durations of business

<2	16	7.4
2-4	142	65.7
5-7	48	22.2
8-10	10	4.6
>10	0	0
Total	216	100

5. Motivation to start

Skill	78	36.1
Family/Friend	35	16.2
Entrepreneurship	91	42.1
No choices	12	5.6
Total	216	100

6. Challenges to start

Lack of capital	94	43.5
Shortage of raw material	72	33.3
Bureaucracy	50	23.1
Total	216	100

7. Fixed asset

Land	11	5.5
Vehicle	9	4.2
House	76	35.2
Other	120	55.2
Total	216	100

Source: Survey result 2016

The major business sectors in which the respondents are organized were the trade sector (36.11%) followed by service sector (29.63%) and with the lowest number of MSEs in Constructions sector (6.48%). Urban agriculture sector constitute 15.74 percent of sample respondents whereas the Manufacturing sector accounts for 12.04 percent sample operators. The proportions of MSEs in all sectors are not uniform for all sectors and particularly low in constructions, manufacturing and urban agriculture sector respectively which was the main stay of the country.

The study result shows that the strategy of the national and local government policy is not an encouraging and attractive in attracting individuals to those sector.. This is probably due to the fact that those sectors are capital intensive and also requires infrastructural developed land that the town administration cannot afford. This also constrains the performance and development of MSEs in the study area

Based on the above table, 4.3, 27.8% respondents were operated as private owners (sole proprietorships), 49.5% as joint ownership (partnerships), and the remaining 22.7% were as cooperatives. This is a positive step to MSEs indicating that the practice of pooling of capital by a group of individuals as a way to overcome the problems at start-up and while in due course operation. However, it does not mean that joint ownership and cooperatives have an absolute advantage over sole proprietorship

Regarding the business size of operator table 4.3 above showed that 49.5 % the largest sample population which represents 6-10 workers, 27.8 % of respondents replied that they have less than five workers, and the remaining 22.7 % of respondents replied that 11-15 workers . Here most sample MSEs have employed many workers and this is a sign of participating/employing more workers; and this is good to the economy of Ethiopia at large and strength of this sector in particular. This implied that even if In Ethiopia, CSA defines MSEs as having employees not exceeding 10 people. In the study 156 (72.2%) samples which have employees from 6-15 and the rest 60 (27.8%) sample enterprises have less than five employees.

The above tables 4.3 revealed that from the total respondents of the operator 65% stay in business ranging from 2-4 years, 22.2 percent ranging from 5-7 years, 7.4 percent less than two years and the remaining 4.6 percent of the respondents were ranging from 8-10 years, the result indicate that the majority of the respondents were operating their business below four years which further indicate the infancy of the operators which need further support in all dimensions.

The above table 4.3 revealed out that from the reason that motivate respondents to start their business 42.1% replied as entrepreneurship , 36.1% were as skill, 16.2% were as parents/relatives and the remaining, 5.6 % were as had no alternative choice. The trend to begin businesses by entrepreneurship and skill in this business may be encouraging because those owners have an experience in different dimensions of the business and could be helpful in their current and/or future businesses opportunities. A least percentage or about 5.6% of MSEs were replied that they did not have any choice Other than joining this business or taking as a last resort.

Regarding the challenge they face at startup of business one of the major causes of business failure is the lack of sufficient capital at start-up. This highlights reason for why many MSEs fail to continue trading after the initial years of set-up.. People starting MSEs are generally believed to face numerous difficulties. Hence, lack of Capital (43.5%), input access constraints (raw material and spare parts) (33.3%), and obstacles from government rules and regulations (23.1%), were the major problems at start-up (table 4.5 above).

Besides the above major problems at start-up, some sample respondents also replied that they faced other numerous problems like lack of working premise, lack of market and market linkage, and infrastructural problems

Many sample MSE owners in Agaro town (43.5%) rise lack of capital as a major problem (see table 4.3). The survey also indicated that the main financial sources for start-up and expansion or working capital of MSEs came from **personal savings, micro finance institution specifically OCSCO and family support, respectively (see** graph 4. 1). This situation can be a constraint for MSE Owners wishing to mobilize adequate capital to begin and expand their businesses. Owners find it very difficult to access credit from

banks due to lack of collaterals such as cars and/or residential houses or land titles that can be deposited to get loan from commercial banks. On the other hand, the loans provided by MFIs are small with a short Repayment period and high interest rates. The price and availability of inputs is variable (changes) from time to time and which is not affordable by most Mses. MSE operators require space in which to operate, and physical facilities to conduct their businesses whether this is providing a service, producing a product or trading. They require physical protection against unlawful behavior of others, but also protection in the sense of having legal mechanisms available which help to improve the conduct of businesses (example, protection against unfair competition), and incentives to prompt the start of the business concerning the rules and regulations of the government. These stated above problems resulted in limited growth and survival of MSEs or to the malfunction of their businesses.

As the above table 4.3 shows that regarding the type of fixed asset the operator were possessed 35.19%, 5.09% and 4.17% have house, land and vehicle respectively. The remaining percent which are more than half of the above total 55.56% have possessed other resource. This implied that most of the asset that the respondents of the operator had not serve as collateral of gaining finance to start and expand their business which further can affect their overall performance.

4.6 Financial Characterizations of the Respondents

Source of Initial startup capital

The initial sources of capital/finance/ can be raised from multiple sources. A business can use internal or external funds to finance their operations and investments based on the accessibility or availability of the alternative sources of capital. A firm can use one of the two financing sources or both of them.. Accordingly, operators of MSE were asked their source of finance. The result of this analysis and discussion was indicated by the following Bar charts

Graph 4.1 Source of Initial startup capitals

Initial startup capital

micro finance	friends	Saving	family	NGO
30.56	2.778	31.94	26.85	7.870
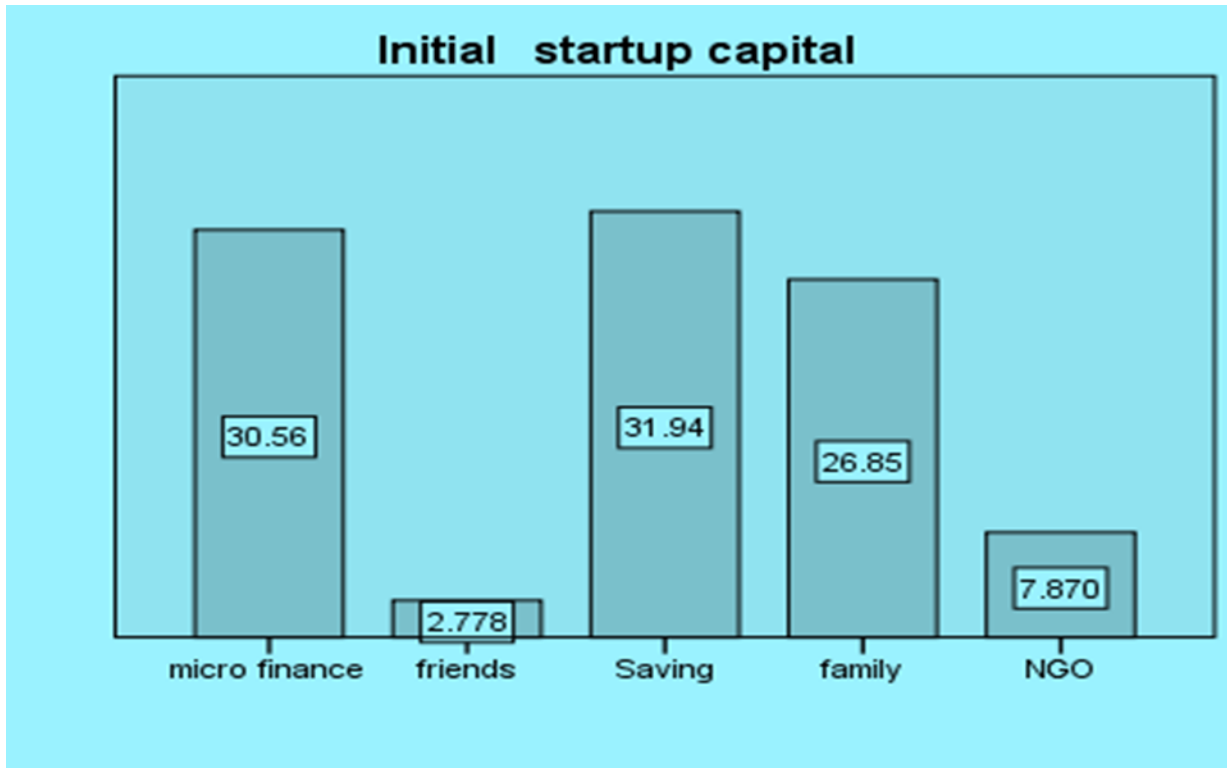
Source: Own Computation from survey result 2016

The result of the study indicated that (69)31.94% MSEs have generated their initial capital/ finance from themselves/own capital or personal saving. It doesn't mean that their own capital is ample rather due to absence of access to finance from external sources at the right time they were only relying only on their own capital Using these sources of capital / fund/, MSE operators have been starting their business by purchasing raw materials and other necessary inputs thereby expanding, diversifying, and promoting their business in the town in particular in the country in general.

As per to the respondents of the study of MSEs/, (66)30.6% number of MSEs have got their initial capital from Oromia Credit and Saving share Company (OCSCO) microfinance institution Agaro branch. On top of this, some respondents replied that since most of MSEs are financially weak /absence of collateral, many of the financial

institutions (creditors) were not willing to lend MSEs. As a result, they lacked access to finance from other sources. So, the only alternative they did was to use their own capital. Microfinance and own capital/finance/ are not the only possible sources of finance rather there are also other sources. Some MSEs have got/ rose/ finance from their families, friends and NGO. As per the respondents, (58)26.9% of MSEs obtained from their families (father, mother, sister, brother) whereas (6)2.8 percent from friends, other related bodies. The remaining (17)7.9% number of MSEs' capital were generated from donation. This indicates that MSE initial source of finance did not depend on formal source of finance because these sources are not willing to lend MSE due to absence or lack of collateral on the specified period.

 Generally the above   graph 4.1 implied that the financial sources or loans received by MSEs are carried out by MFIs (30.6%).and 7.9% by donations or semiformal sources of finance. On the others category., the MSEs are receiving loans of 26.9%,2.8% 31.9% from families, friends and personal saving or informal source finance respectively Formal sources of finance i.e., banks are refrained from providing finances to MSEs in Agaro town even after establishment or in due course of operation. This narrow source of finance may be the reason why businesses fail to establish and progress in the study area. This result is consistent with previous studies by (Anthony et al., 2013; Mabhungu et al., 2011; Odit and Gobardhun 2011 and Wu et al., 2008) and, Ermias, 2011, Brhane Tadesse, 2014)

Main Problems of MSE to access finance

In order to know the main obstacle to access to finance, the researcher has asked respondents and the response has been presented in the following graph

Graph 4.2 Main Problems of MSE to access finance

Main obstacle to access finance

| bureacruacy | collateral | fear of risk | information |
| 11.48 | 49.18 | 15.57 | 23.77 |
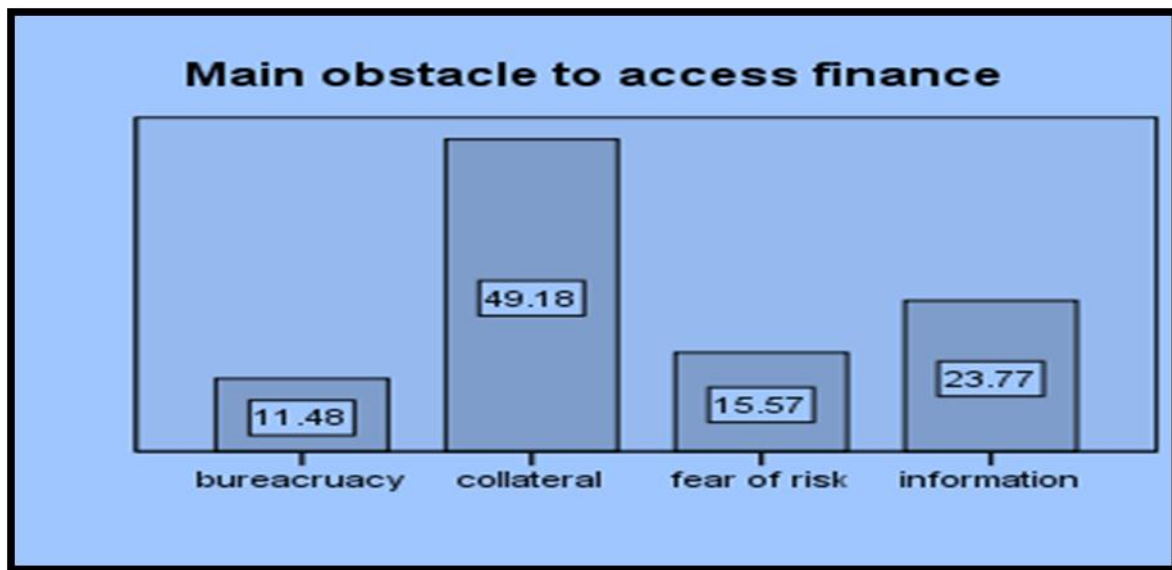
<div align="center">Source, Own Computations from survey result 2016</div>

As anyone can understand from the above graph 4.2 49.18% of MSEs' operators main obstacle to access finance were due lack of collateral. This implied that many MSE owners have been out of access to finance due to lack of sufficient collateral. Large banks and other most financial institutions were not willing to lend money for MSEs.; because these banks and most financial institutions do not have confidence on MSEs in repaying the loan on the specified period. In order to minimize this risk, they mostly ask collateral as pledge. While, 23.77% of the respondents stated that this lack of finance has been happened due to lack of clear information on how to get/access/ to finance. What it means is that there is lack of know-how and orientation on how to search the possible sources of finance. Some (11.48%) of respondents elaborated that bureaucracy of financial institutions has been found their main financial problem. MSE owners have asked to complete many bureaucratic activities and should force to wait long time to get the money.

On the other hand, few (15.57%) respondents stated that fear of risk by MSE owners have been found as the main financial problem. This means that some MSE owners didn't take loan from credit providers due to fear of risk on their business. As a result, some MSEs have been looking out of the access to finance. This result is consistent with previous studies by Ermias, 2011, and Brhane Tadesse, 2014) Most of the sample respondents replied that the collateral required by institutions especially by banks was beyond their capacity and their business. Due to this they force to use other semiformal and informal Sources which are costly and risky than the formal sources of finance

The Major Financial Challenges/Difficulties in their Order of Priority

It is very important to identify and analyze why certain businesses fail, so that we can learn from their mistakes and take guidance from the successful ones. Many enterprises fail because of some common causes that many owners ignore the financial difficulties of their businesses. Many MSEs fail because managers/owners do not integrate accounting and accounting practices to a reasonable level in their business. By failing to do so, they suffer from the lack of financial control and consequently cash flow problems force the businesses to fail.

The sample MSEs were replied about their financial challenges/difficulties by their order of priority. Thus, the inability to expand operations, lack of proper credit facilities, and price escalation (boom) of raw materials are the major financial difficulties/challenges in their order of priority. Although the prior difficulties were taken the largest percentage, still some sample MSEs were responded others like inability to finance existing operations, lack of trained man-power of cashier and finance officer, improper utilization of existing capital, lower contribution of money by members

Amount of loan, the time it takes and ranges of capital

In order to know the amount of loan they received, average time delay in weeks and capital ranges the researcher has asked respondents and the response has been presented in the following table

Table 4.4 Financial Characterizations

1. loan amount	Number	Percentage
Sufficient	103	47
Insufficient	113	53
Total	216	100
2. Time it takes		
1 week	4	1.9
1-2 week	73	33.7
2-4 week	75	34.8
>4week	64	29.6
Total	**216**	**100**
3. range of capital		
Below 50,000 Birr	135	62.5
50,001-100,000 Birr	42	19.4
100,001-500,000 Birr	27	12.5
500,001-1,500,000 Birr	12	5.5
Total	**216**	**100**

Source, Survey result 2016

As we can see from the above table, 4.4 the majority (53%) of respondents stated that their loan size has been found insufficient as per their perception. Whereas, the remaining (47%) of respondents' perception about the loan size they had taken was sufficient. This indicates the amount of money requested by borrowers is much greater than the money given /released/ to the operators of the respondents.. There is imbalance between the demand and supply of loan. There is high demand and low supply of money/ a few amount of money for credit/.

Regarding time it takes to receive a loan as it is clearly seen from the above table 4.4 that 34.7% of MSE owner borrowers have been waiting around two to four week ,33.8% one to two week to get the money from credit providers; such as from microfinance and other possible external financial sources. Whereas, 29.6% and 1.9% of the respondents stated that they waited more than four and one weeks to get the money respectively This result is consistent with previous studies by Wu et al., 2008 ,Ermias,2011, and Brhane Tadesse,2014)

Therefore, many MSEs have faced the problem of access to finance; because credit providers are limited in number and amount of money they provided to the operators were not sufficient.. this implied that there was loan restriction stated by credit providers; and they couldn't release the money as per the request of borrowers and at the time they needs If this is the case, this could hinder Mses.' growth, expansion, diversification and development.

With respect to the amount of capital with which MSE were operating, it is categorized into four groups on the basis of the definition adopted by FeMSEDA of 2011. The result of the study also showed that, 62.5 percent of the respondents were reported that they own capital of less than 50,000 birr whereas 19.4 percent of the respondents reported as they have a capital of between 50,001 to 100,000 birr. The remaining 18 percent of MSE have total capital of above 100,001 birr. The study also reveals that it is only 18 percent of MSEs that was operating as small enterprises based on the definition that adopts the amount of MSE capital indicating that the remaining MSEs (82%) of them are operating at the micro enterprise level of MSE stages of growth From this we can understand that most MSEs were started their operations from scratch using relatively small start-up capital and doing the same thing currently because there is little capital improvement. The accumulated initial as well as working capital is necessary for the proper and/or smooth running of their businesses.

4.7 Support Characterizations of the Respondents

Training provided for MSE before and after start up business

In order to know the training provided for MSE before and after start up business, the researcher has asked respondents and the response has been presented in the following graph

Graph 4.3 training provided for MSE before and after start up business
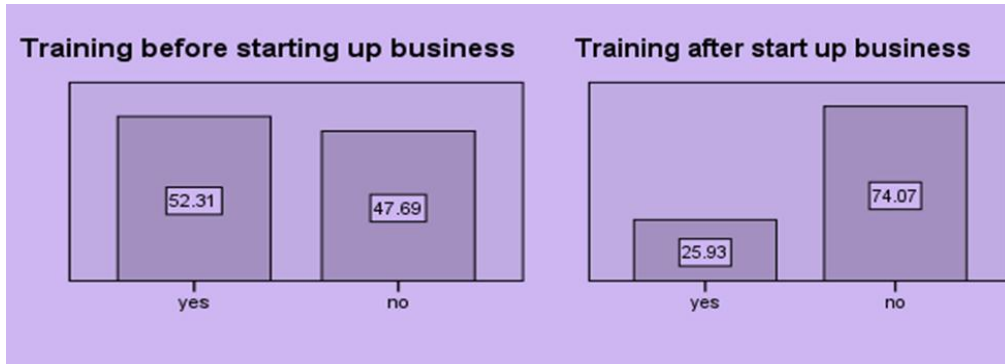
Source Own Computation from survey result 2016

Training applies to any transfer of knowledge, skills or an attitude which is organized to prepare people for more productive activities, or to change their working environment. Unlike formal educational programs, short-term skill training, directly or indirectly, affects the performance of MSE operators (Gebrehiwot and Wolday 2004:32).

Here sample MSEs Operators 113 or 52.61% of the sample respondents have taken training and the rest 103 or 47.69% did not take any training before starting-up the current business as the graph 4.3 above showed. As training is the commonly and widely used instrument to promote MSEs, attempt should be made to make it demand-led or 'one size fits all' approach will not be effective. If training is simply given to all MSEs the same, the value of the training will be questioned. Therefore, the training given to MSE owners/operators should be continuously monitored and evaluated or the need must be assessed periodically

Once the MSEs have been established, owners/operators must get appropriate training. Hence, when we see the training after starting-up the business, it decreased almost by half from 113 or 52.61% before starting-up the business to 56 or 25.9% and the rest 160 or 74.1%   (graph 4.3.) did not take any training. Actually, this must not be the case because the main problem or the actual difficulties encounters at the time of running the business/operation. So, in order to prepare for further investment or to graduate to medium and large industries the training dimension and quality must be increased. Once MSEs are established they need continuous follow up and the training must also goes parallels

The Types of Training Opportunity Gained so Far

In the sample survey, this open ended question were asked about the training opportunity/ types gained so far. Therefore, most sample MSEs were responded that the training gained so far were skill training, skill upgrading, financial management, marketing management, and entrepreneurship. Some sample MSEs were also responded that they gained training like policy and strategy of Ethiopia, strategy and globalization, sanitation, climate change, quality improvement, and raw materials utilization. By attending such types of trainings and by combining to their own skills or experiences the MSEs must prepare for next step or being as a basis for medium and large industries

Working premises of the enterprises and their rental payment

In order to know the working premises of MSE and the amount of they paid**,** the researcher has asked respondents and the response has been presented in the following g**raph**

Graph 4.4 Working premises of the enterprises and their rental payment

Source Own Computation from survey result 2016

One of the desires of most participants in MSEs is to save on costs and this includes saving on rental; for them higher disposable income now is more important than a better quality premises. They therefore, prefer to operate either from homes or from other rent free locations even if it means violation of existing regulations (Sethuraman, 1997).

Significant proportions 52.78% are operating their businesses in rented premises, 16.20% in government buildings (no payment at all till now even if it is seated on the strategy), 31.02% their families premises. From this one can understand that most MSEs are working at rented premises and high rental charges have impeded the success of many MSEs as some charges are higher than the capacity to pay. In order to begin borrowing from formal financial sources and the like the sector must begin to own working premises. At the same time the price of monthly rent is increasing and not confident enough to continue at this rented working premise because the owners of rented working

premise may change their ideas. Owners also complained that expansion of the town has led to increased demand for business premises, which means that some MSEs have been pushed away from the business (profitable) area of the sub-town to the peripherals. This has increased costs and resulted in poor sales and negative cash flows, thus minimizing the chance of their performance

Regarding the payment of rent the respondents state that 79.2%, paid from 100-300 birr, per month, 10.5% from 501 to 1000 birr and the remaining 9.6^paid from 301 to 500 birr per month

The result show that the operator incur extra cost of rental which is another burden on them adding to the shortage of finance they have they pay from the small amount of capital they have to the rental which further affect the performance of the MSE

Government Support towards finance

In order to know the **government support towards providing finance** , the researcher has asked respondents and the response has been presented in the following graph

Graph 4.5 Government Support towards finance
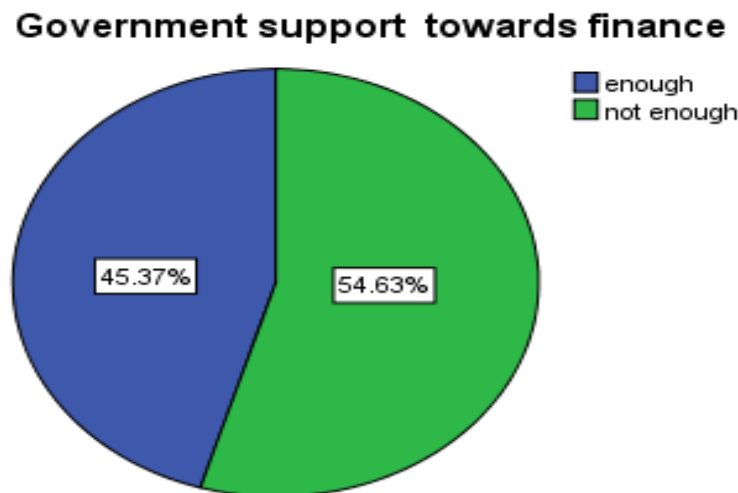
Source Own Computation from survey result 2016

The study further sought the opinion of the respondent on whether the government was doing enough to support the micro and small enterprises in accessing credit facilities in the town. The study found out that 45.37% of the respondents felt that the government

was doing enough while 54.63% felt it was not doing enough in helping the micro and small enterprises in accessing credit facilities which shows the government have to be do on it in order to enhance the performance of those operator which are the backbone for the equal distribution of wealth among the nations.

MSE Performance

In order to know the **weather financial source and challenges affects the performance of MSE,** the researcher has asked respondents and the response has been presented in the following graph

Graph 4.6 MSE Performance
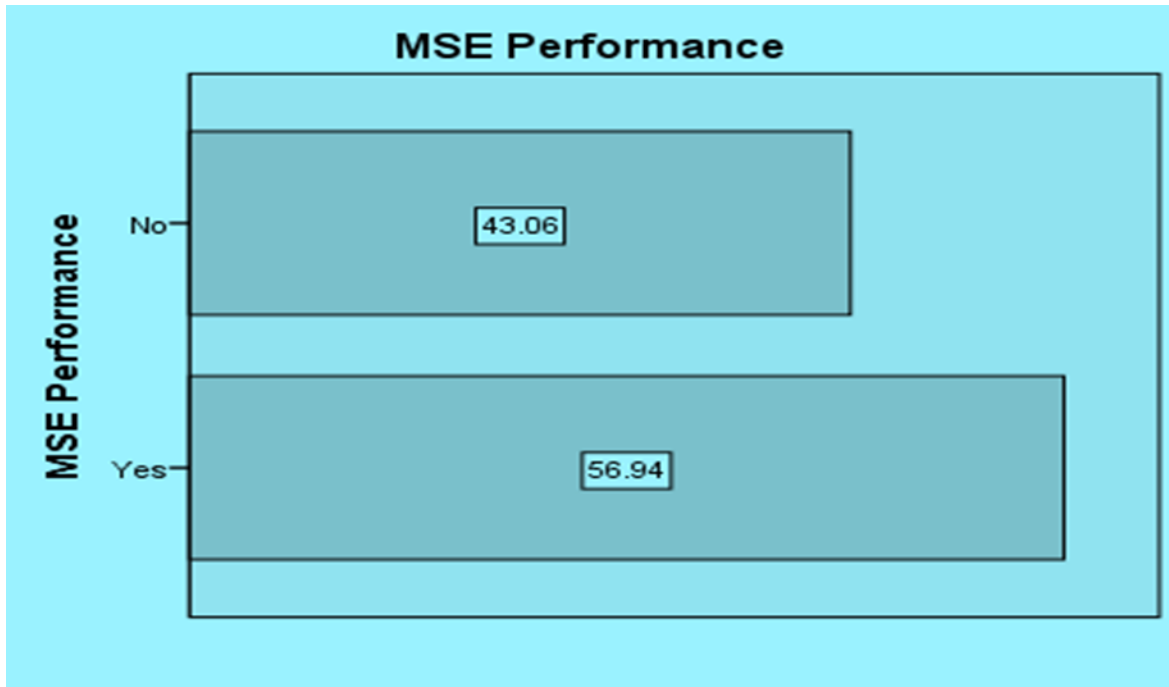
Source Own Computation from survey result 2016

Moreover, the result of the study shows 56.94%) of the respondents reported that their business performance is affected by financial source and its challenges whereas the remaining 43.06%) of the respondents reported their business performance is not only affected by financial source and its challenges rather it with combination of other factor. This indicates that the performance MSE in the study area is very highly affected by financial source and its challenges and implied that there was no a high chance of performance of MSE to the next stage

4.8 Source and Challenges of Finance Characterizations

Source of finance for MSE

The initial sources of capital/finance/ can be raised from multiple sources. A business can use broadly known either internal or external funds to finance their operations and investments based on the accessibility or availability of the alternative sources of capital. A firm can use one of the two financing sources or both of them.. Accordingly, operators of MSE were asked their source of finance. The result of this analysis and discussion is indicated by the following table

Table 4.5 source of finance for MSE

sources	response rate						
	Excellent	Good	Average	Poor	Very poor		
Commercial bank	0(0.0%)	0(0.0%)	0(0.0%)	24(11.1%)	192(88.9%)	216/100%)	Formal source
Development bank	0(0.0%)	0(0.0%)	0(0.0%)	24(11.1%)	192(88.9%)	216(100%)	
Microfinance	34(15.7%)	115(53.2%)	67(31%)	0(0.0%)	0(0.0%)	216/100%)	Semiformal source
NGO	14(6.5%)	70(32.4%)	103(47.7%)	23(10.6%)	6(2.8%)	216(100%)	
Credit and Saving Union	0(0.0%)	0(0.0%)	0(0.0%)	12(5.6%)	204(94.4%)	216(100%)	Informal source
Cooperative societies	0(0.0%)	0(0.0%)	0(0.0%)	12(5.6%)	204(94.4%)	216(100%)	
Money Lenders	0(0.0%)	0(0.0%)	0(0.0%)	12(5.6%)	204(94.4%)	216/100%)	
Personnel saving	17(7.9%)	123(56.9%)	23(10.6%)	30(13.9%)	23(10.6%)	216(100%)	
Friends and family support	32(14.8%)	173(80.1%)	6(2.8%)	3(1.4%)	2(0.9%)	216/100%)	
Trade credit supplier	0(0.0%)	0(0.0%)	10(4.6%)	32(14.8%)	174(80.6%)	216(100%)	
Iqqub	20(9.3%)	97(44.9%)	27(12.5%)	59(27.3%)	13(6%)	216/100%)	
Idris	8(3.7%)	44(20.4%)	28(13%)	89(41.2%)	47(21.8%)	216(100%)	

Source survey result 2016

The above tables 4.5 revealed out that from the three types of financial source to start and expand the business the operator of the respondents' rate formal source of finance such as commercial bank and developmental bank were as poor and very poor with the percentage of 33.3 and 66.7 percent respectively. Regarding semi-formal source of finance respondents of operator rate microfinance institution 53.2%, 31 % and 15.7% as good, average and excellent respectively. whereas they rated donation from different

organizations average ,good, poor, excellent and very poor with percentages of 47.7%,32.4%,10.6%,6.5% and 2.8% respectively the result show also that from the informal source finance credit and saving union, cooperative societies and money lenders were rated as 94.4% as a very poor and the remaining 4.6% as poor of financial source. The respondent also responds to other informal source of finance like personal saving, family and friends support, trade credit supplier, iqub and idirs as follow.

Regarding personal saving they were rated as good, poor and excellent with percentages of 56.9%, 13.9% and 7.9% respectively and the remaining 10.2% was rated as average and very poor each of them as source of finance. Whereas the operator respondents that concerning family and friends support as source of finance they were rated from highest score of 80.1%,14.8%2.8%,1.4% and to the least score of .9% as good excellent ,average, poor and very poor respectively. The result of the research also show that trade credit supplier as very poor of 80.6%,poor of 14% and the remaining 4.6% as good as source of finance for them.

Regarding iqub the operator were rated from highest score of 44.9%, 27.3%12.5%, 9.3% and to the least score of .6% as good, poor, average, excellent and very poor respectively. The last not the least informal source are idirs which the respondents were rated as poor, very poor, good, average and excellent with the percentages of 41.2%,21.8%,20.4%,13% and 3.7% respectively

Generally this implied that the financial sources for MSEs before and after due operations of business in the research area was carried out by informal and semiformal sources of finance such as microfinance institutions ,donations from different organizations, personal saving ,family and friends support ,iqub and idirs respectively. On the others category formal sources of finance that is banks was refrained from providing finances to MSEs in Agaro town even after establishment or in due course of operation. This narrow source of finance can deteriorate performance of MSE in the study areas.. This result is consistent with previous studies by (Anthony et al., 2013; Mabhungu et al., 2011; Odit and Gobardhun 2011 , Wu et al., 2008) and, Ermias,2011, Brhane Tadesse,2014)

Table 4.6 Challenges of access to finance for MSE

In order to know the main obstacle to access to finance, the researcher has asked respondents and the response has been presented in the following table

Challenges	Response			Remark
	No	Yes	Total	
Age	100(46.3%)	116(53.7%)	216(100%)	Entrepreneur level
Education	79(36.6%)	137(63.4%)	216(100%)	
Sex	86(39.8%)	130(60.2%)	216(100%)	
Fixed asset possession	58(26.9%)	158(73.1%)	216(100%)	Firm level
Number of employee	91(42.1%)	125(57.9%)	216(100%)	
Business sector	69(31.9%)	147(68.1%)	216(100%)	
Duration of business	65(30.1%)	151(69.9%)	216(100%)	
Interest rate	58(26.9%)	158(73.1%)	216(100%)	Institutional level
Lending procedure	74(34.3%)	142(65.7%)	216(100%)	
Repayment period	65(30.1%)	151(69.9%)	216(100%)	
Availability of information	77(35.6%)	139(64.4%)	216(100%)	

Source survey result 2016

The above tables 4.6 revealed out that the main barriers that MSE operators were facing in order of priority from the highest to the least while searching for access to finance in order to enhance their productivity .The result show that the respondents response that fixed asset possession and interest rate, duration of enterprises in the business, and repayment or maturity period of the loan, business sector of the enterprises engaged in, lending procedure of the loan, availability of information to gain access to finance, education status of the operator, sex of the operators ,number of employee enterprises have and age of the operators are the most barriers to access to finance with percentages of 73.1%,69.9%,68.1%,65.7%,64.4%,63.4%,60.2%,57.9% and 53.7% respectively which further indicate the performance of MSE This implied that fixed asset possession which served as collateral and interest rate of the loan was the most obstacle access finance whereas age of operator and number of employees enterprise had was the least obstacle to access to finance.

4.9. Relational Data (Cross Tabulation)

Demographic, business and financial characterization provides the researcher better information than a single characteristics of the respondents. This type of relational data would also help in comparing of different factors that affect the performance of MSEs in the study areas. Such variables includes: business sector with legal form, duration of business ,initial startup capital ,ranges of capital; loan amount and time it takes , MSE capital against their member, of the respondents along with different variables, and others relevant variables are discussed under this section

Table 4.7 Business sectors and legal form of MSE cross tabulations

Business Sector	Legal form of business			Total
	Sole proprietorship	Partnership	cooperative	
Manufacturing	4 (1.9%)	16 (7.4%)	6(2.8%)	26(12%)
Constructions	4(1.9%)	3(1.4%)	7(3.2%)	14(6.5%)
Trade	23(10.6%)	37(17.1%)	18(8.3%)	78(36.1%)
Service	14(6.5%)	36(16.7%)	14(6.5%)	64(29.6%)
Agriculture	15(6.9%)	15(6.9%)	4(1.9%)	34(15.7%)
Total	60(27.8%)	107(49.5%)	49(22.7%)	216(100.0%)

 Source survey result 2016

The above table of 4.7 cross tabulation of legal form of MSEs across the sectors in which enterprises are organized, it is found that all of the sectors except constructions   sector have more share of partnership form of business.. The result of the study reveals that it is only construction sector with only 1.4% that is share forms of partnership types of the business. The result of the study also shows that the MSE organized in to the agricultural sector are working with 6.9%,of   sole proprietorship and partnership each and the remaining only1.9% are operated with corporation types of business.

 Whereas The MSE organized in to the service sector are working with 6.5%, 16.7%, and 6.5% by sole proprietorship, partnership and corporations   respectively. Regarding the legal form of trade 10.6%, 17.1% and 8.3% are absorbed by sole proprietorship, partnership and corporations respectively. Therefore the study shows that from the above three legal form of business partnership are leading other with 49.5%, preceding sole proprietorship and corporation with an average of 27.7% and 22.7% respectively. This is a positive step to MSEs indicating that the practice of pooling of capital by a group of individuals as a way to overcome the problems at start-up and while in due course operation.

Table 4.8 Business sectors and duration of the business cross tabulations

Business Sector	Duration of business				Total
	<2	2-4	5-7	8-10	
Manufacturing	2 (0.9%)	16 (7.4%)	8(3.7%)	0(0.0%)	26(12.0%)
Constructions	4(1.9%)	7(3.2%)	2(0.9%)	1(0.5%)	14(6.5%)
Trade	5(2.3%)	49(22.7%)	17(7.9%)	7(3.2%)	78(36.1%)
Service	1(0.5%)	54(25%)	8(3.7%)	1(0.5%)	64(29.6%)
Agriculture	4(1.9%)	16(7.4%)	13(6.0%)	1(0.5%)	34(15.7%)
Total	16(7.4%)	142(65.7%)	48(222%)	10(4.6%)	216(100.0%)

 Source survey result 2016

The above cross tabulation of business sector with number of year they operate their business reveal that from the total respondents of the operator of manufacturing 16/26= 61%,,constructions 7/14= 50%, trade 49/78=62%, service 54/64=84%,agriculture 16/34=47, and total of 142/216= 65.7% of the respondents stay in business ranging from 2-4 years, respectively, the result indicate that the majority of the respondents were operating their business below four years which further indicate the infancy of the operators which need further support in all dimensions

Table 4.9 Business sectors and source of initial startup capital for MSE cross tabulations

Business Sector	Source of initial startup capital					Total
	Micro finance	Friends	Saving	Family	NGO	
Manufacturing	8(3.7%)	0(0.0%)	10(4.6%)	5(2.3%)	3(1.4%)	26(12%)
Constructions	4(1.9%)	0(0.0%)	7(3.2%)	2(0.9%)	1(0.5)	14(6.5%)
Trade	20(9.3%)	2(0.9%)	26(12%)	22(10.2%)	8(3.7%)	78(36.1%)
Service	22(10.2%)	4(1.9%)	18(8.3%)	16(7.4%)	4(1.9%)	64(29.6%)
Agriculture	12(5.6%)	0(0.0%)	8(3.7%)	13(6.0%)	1(0.5%)	34(15.7%)
Total	66(30.6%)	6(2.8%)	69(31.9%)	58(26.9%)	17(7.9%)	216(100.0%)

Source survey result 2016

Concerning the startup capital of the MSE operator with the business sector the above table shows that manufacturing source of startup capital are microfinance institutions, saving, family support and donations of different organization with percentages of 4.6%, 3.7%2.3% and 1.4% respectively

Whereas the services sector raises their initial capital with percentages of 10.2%, 8.3%, 7.4%and 1.9% from personal saving, microfinance institutions, family support and donations of different organizations and friends support each respectively

4.10 Table Business sectors and range of capital for MSE cross tab

Business Sector	Range of capital				Total
	Below 50,000	50,001-100,000	100,001 - 500,000	500,001-1,500,000	
Manufacturing	12(5.5%)	5(2.3%)	8 (3.8%)	1(0.5)	26(12%)
Constructions	5(2.3%)	3(1.4%)	5(2.4 %)	1(0.5)	14(6.5%)
Trade	45(20.8)	13(6.0%)	16(7.5 %)	4(1.8)	78(36.1%)
Service	33(11.2)	9(4.2%)	17(7.9 %)	5(2.3)	64(29.6%)
Agriculture	17(7.9)	5(2.3%)	11(5.1 %)	1(0.5)	34(5.7)
Total	135(62.5%)	42(19.4%)	27(12.5%)	12(5.5%)	216(100)

Source survey result 2016

When capital of MSEs was compared against sectors of MSEs, the result of the study shows that all of the sectors of MSEs are running their business with total capital of below 50,000 birr which percentages of more than half that 62.5%. This constrains the performance of the MSE in the study area. The study result shows that 19.4 percent of the respondents in all sectors are running their business with capital ranging from 50,001 to 100,000. The implication of the result of the study is that the 12.5 percent are working with capital ranging from 100,001 to 500,000 which indicates small amount and the remaining 5.5 % of the respondents have ranging capital of 500,001 to 1,500,000   which further indicate operator capital are found at the range of infant enterprises growth stage

Table 4.11 loan amount and period it takes to receive a loan by MSE cross tab

Loan amount	Period it takes to receive				Total
	one week	one to two week	two to four week	>four week	
Sufficient	2(0.9%)	5(2.3%)	62(28.8%)	34(15.8%)	104(47.9%)
Insufficient	2(0.9%)	67 (31.2%)	13(6.0%)	30(14.0%)	112(52.1)
Total	4(1.9%)	72(33.5%)	75(34.9%)	64(29.8%)	216(100%)

Source survey result 2016

When we look at the sufficiency of the loan amount /size against the period it takes to receive for the MSEs , the study shows that 112(52.1%) of the respondents are not happy with the size or amount of loan released to them whereas the remaining 104(47.9%) of the respondents are not complaining the sufficiency of the loan amount released for them Parallel to this in order to receive a loan that is insufficient it is clearly seen from the above table 4.11 that 34.7% of MSE owner borrowers have been waiting around two to four week ,33.8% one to two week to get the money from credit providers; such as from microfinance and other possible external financial sources. Whereas, 29.6% and 1.9% of the respondents stated that they waited from greater than four and one weeks to get the money respectively This implied that more percent the respondents are not happy by MFI loan term or loan size or both Therefore, many MSEs have faced the problem of access to finance; the result of this study is also in line with Abdullah and Baker's (2000) findings that lack of credit as one of the major factors affecting the success of small firms.

4.10 Results of Focus Group Discussion

A focus group discussion was conducted with the officials of OCSCO, TVT and Micro and Small Enterprise Development Agency in Agaro town, and it is summarized as follows

Three Major Problems of MSEs in the Order of Priority

The responses gained from sample respondents was the major problems of MSEs in order of priority as poor market and market information, lack of working capital, and price increment or shortage of supply of raw materials. However, the participants of the group focus discussion said as all over dependency to government, insufficient credit facility, and working premise problems are the most once.

Here most owners are demanding all business activities such as marketing, sales, promotion, etc. must be done by government and this perception leads to dependency of individuals. Practically and to sake of the economy it is difficult to fulfill all business activities of enterprises by government alone. Besides, especially in the past years there are biases that can limit the capacity of the sector to create new employment opportunities, foster technological innovation, and produce wealth. The narrow source of finance is the reason why businesses fail to establish and progress i.e., the credit facilities is not as needed because of collateral requirement, short period of repayment coupled with small amount of money, etc. Most MSEs are working at rented premises and high rental charges have impeded the success of many MSEs as some charges are higher than the capacity to pay

Types of Training Given to Micro and Small Enterprises

The participants of the group focus discussion said the following training types were given till now. Those are financial management, skill training, skill upgrading, marketing management, entrepreneurship, technical training, accounting, business management and planning advice, and improved market information and access, policy and strategy of Ethiopia, strategy and globalization, sanitation, climate change, quality improvement, and raw materials utilization.

Recommendations to Overcome the Financial Difficulty of MSEs

Business Development Services BDSs are designed to help MSEs overcome barriers to increased profitability by improving their productivity and access to high value markets. The services include training, consultancy and advisory services, marketing assistance, information, business linkage promotion, and linkages to finance and financial services. By accessing to BDSs offered or coordinated by government the MSEs must take the advantage to overcome the financial difficulties.

Maintaining good record and financial control over different activities like cash flow, inventory, receivables, customers' data, sales, and cost so that they have a good data base over all financial concerns. By keeping good financial record the MSEs will expand the probability of getting loans from external sources like banks. Similarly, MSEs must utilize their own as well as external sources of finance economically. Financial services, particularly credit, are not always appropriate for all people at all times and the mix of debt with capital financing must give due attention before they receive a loan (proper utilization of existing capital).

What Should the Financial Institutions do to Help MSE Overcome the Financial Difficulty?

Commercial and non-commercial banks, MFIs, etc., must be adequate to support MSE growth. MFIs were born because formal sources (banks) are not always willing to accommodate very small business loan requests or compensate for individuals whose credit may not be perfect. Because of this and social responsibility, MFIs must be serious

enough or give due attention to the advancement of loans to MSEs. In line with this, the credit advanced to MSEs must be enough for starting and/or expanding businesses and the repayment period must be adjusted by continuous discussions with MSEs. MFIs must also be concerned about the impact of excessive interest rates, abusive lending practices, and over-indebtedness on poor borrowers. The effective translation of an institution's social mission into practice in line with accepted social values that relate to serving larger numbers of poor and excluded people; improving the quality and appropriateness of financial services; creating benefits for clients; and improving social responsibility of MFIs. Most MFIs have a social mission that they see as more basic than their financial objective, or at least co equal with it. Traditionally, formal financial institutions have not provided financial services, such as loans to clients with little or no cash income. Banks actually incur substantial costs to manage a client account, regardless of how small the sums of money involved. In addition to commercial banks, these of state banks, development banks, savings banks, and non-bank financial institutions must give special attention to MSEs so that the economic growth of Ethiopia will have a strong base. However, they have proved reluctant to adopt social missions and due to their high costs of operation often can't deliver services to poor MSE. Even if it is risky the participants of focus group discussion forwarded that instead of using collateral to assure repayment; the formal financial institutions lenders must harness social pressure within the borrower's community. If MSEs exploits at least two external sources of finance besides others like their own retained earnings and families no question they will be succeeded

4.11. Results of the logistic Regression Analysis

In this study binary Logistic regression model is used to examine the relationship between the independent variables and dependent variable (MSE performance versus source and challenges of finance). The justification for using binary Logistic regression model is its simplicity of calculation and that its probability lies between 0 and 1(two categories). (Gujarati, 2004).Hosmer and Lemeshew (1989) pointed out that the logistic distribution has got advantage over the others in the analysis of dichotomous outcome variable in that it is extremely flexible and easily used model from mathematical point of view and results in a meaningful interpretation. Hence, the logistic model has been selected for this study and the result of the study regarding source of finance and its challenges to MSE operators that could affect their overall performance were presented as follow

Table 4.12 logistic regression analysis results of source of finance for MSEs
 Source

Variable	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I.for EXP(B)	
							Lower	Upper
Psaving(reference excellent)						.		
Psaving (good)	201.9	1.029	.000	1	1.000	000	.000	
Psaving(average)	2.093	.875	5.724	1	**.017**	8.107	1.460	45.027
Psaving(poor)	-291	.945	.095	1	758	748	117	4.762
Psaving (very poor)	1.202	880	1.864	1	172	3.326	593	18.66
Mfinance(reference excellent)								
Mfinance(good)	6.773	1.073	39.874	1	.000	873.768	106.763	7151.050
Mfinance(average)	4.616	.774	35.584	1	.000	101.041	22.176	460.368
Constant	-5.205	1.104	22.214	1	.000	.005		

.   Source Own Computation from survey result 2016

According to above table 4.12 the variable personal saving and micro financial source has a significant effect on the performance of MSE at 5% level significance   The odds of MSE Performance access to get finance that were from average Personal saving level were 8.107 times higher than the odds of MSE Performance access to get finance who were from excellent Personal saving level.   Similarly The odds of MSE Performance access to get finance that were from good micro finance level were 873.768 times higher than the odds of MSE Performance access to get finance who were from excellent finance level and similarly the odds of MSE Performance access to get finance that were from average micro finance level were 101.041 times higher than the odds of MSE Performance access to get finance who were from excellent finance level

From the regression results described on table 4.12 above, the following regression equation was

Log odds (Performance= 1) = B0+ B1x Psaving (1)+ B2x Psaving(2) + B3x Psaving(3) + B4x Psaving(4)+ B5x Mfinance(1) + B6x Mfinance(2) or, with the actual values of the regression coefficients,

Log odds (Performance= 1) = -5.205+ -201.977x Psaving (1)+ 2.093x Psaving (2) + -0.291x Psaving (3) + 1.202x Psaving (4) + 6.773x Mfinance(1) + 4.616x Mfinance(2--- **equation one**

Table 4.13 Regression analysis results of entrepreneur level challenges to   access finance

Variable	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I.for EXP(B) Lower	Upper
Opeage>45 refernce		.						
18-24	.1.754	.1.098	2.553	1	**.110**	5.778	.672	49.682
25-34	1.517	307	24.477	1	**.000**	4.559	2.499	8.314
35-44	.425	. 958	197	1	**.657**	1.529	.234	10.00
Education reference above TVT								
Primary	.870	.315	7.608	1	**.006**	2.386	1.286	4.428
Secondary	.310	.673	.213	1	.645	1.364	.365	

.   Source Own Computation from survey result 2016

According to above table 4.13 the variable operator ages has statistically significant effect on the performance of MSE. Taking operator age of >45 as a reference, the odds for operator between the age of 25-34 is 4.559 times than >45. This indicates that operators between the ages of 25-34 are 4.559 times less likely to access to get finance than those with age of >45. This result is consistent with previous study of Anthony et al (2013) but contrary to the study of Sabopetji and Belete (2009) and similarly education level of the operator has statistically significant effect on the performance of MSE. Taking higher level of education as a reference (TVET/College and above) the odds for elementary   education is 2.386. This indicates that compared to MSE operators or mangers who have attended TVET/College and above, those with elementary education are 2.386 times less likely to access to get finance at the given level of significance. This result is consistent with previous studies of (Omboi and Priscilla,2011; Coleman, 2007; Charles, 2009) but contrary to (Tsehaye, 2013).Irwin and Scott(2010)

From the regression results described on table 4.13 above, the following regression

Formulated Log odds (Performance= 1) = B0+ B1x Opeage(1)+ B2x education(1) Or, with the actual values of the regression coefficients,

Log odds (Performance= 1) = -1.350 + 1.517x Opeage(2)+ 0.870x education(1) ---- **equation two**

Table 4.14 Regression analysis results of firm level challenges to access finance

	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I.for EXP(B) Lower	Upper
Fasset(1)	-1.447	.491	8.697	1	.003	.235	.090	615
Bsector(1)	-1.128	.414	7.438	1	.006	.324	144	.728
Duration(1)	-1.568	.424	13.695	1	**.000**	.208	.091	.478
Nemployee(1)	-1.213	.345	12.374	1	.000	.297		
Constant	1.261	.269	21.947	1	.000	3.528		

Source Own Computation from survey result 2016.

According to survey result, the variable possession of fixed asset has statistically significant effect on MSE performance at 5% level of significance. With an odds of 23.5% (odd = 0.235), MSEs which have fixed asset are 0.235 times more likely to access finance than MSEs which do not have. This result is consistent with previous studies by (Anthony et al., 2013; Mabhungu et al., 2011; Odit and Gobardhun 2011 and Wu et al., 2008) and is contrary to a study by (Tsehaye, 2013).

Similarly another variable which is business sector and duration of business has a significant effect on MSE' performance access to finance at 5% level of significance with an odd of 0.324 (32.4%) times more likely to business sector have a role to access a finance than the business sector have not role to access to get finance and duration of the business has also significant effect on MSE' performance access to finance at 5% level of significance with an odd of 0.208 (20.8%) times more likely to durations of business have a role to access a finance than durations of business have not role to access a

finance. This result contradict with previous studies of (Selamawit ,Aregawi and Nigus, 2014,)

Another variables are employment size that has a significant effect on MSE.' performance access to finance at 5% level of significance Taking MSEs with employment size of <5 as a reference, the odds for MSEs with employment size of 6-10 is 0.297 than <5. This means that compared to MSEs with <5 employees, MSEs with 6-10 employees are 0.297/29.7% times more likely to access to get finance than <5. This result is consistent with previous studies of (Cassar, 2004; Gebru, 2009; Honhyan, 2009).A World Bank survey confirms that large firms everywhere generally have more access to bank credit than small firms (Cull et al., 2005)..

From the regression results described on table 4.14 above, the following regression equation was formulated

Log odds (Performance= 1) = B0+ B1x Fasset(1)+ B2x Nemployee(1)+ B3x Bsector(1)+ B4x duration (1) Or with the actual values of the regression coefficients,

Log odds (Performance= 1) = 1.261 -1.447 x Fasset(1) -1.213x Nemployee(1) -1.128x Bsector(1) -1.568x duration (1) ---------------**equation three**

Table 4.15 Regression analysis results of institutional level challenges to access finance

	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I.for EXP(B)	
							Lower	Upper
Irate(1)	-1.672	0.431	15.023	1	**0.000**	0.188	0.081	0.438
Repayment(1)	-1.784	0.409	19.028	1	**0.000**	0.168	0.075	0.374
Constant	0.513	0.183	7.883	1	0.005	1.670		

Source Own Computation from survey result 2016.

The above table 4.15 implied that the variable interest rate has significant effect on MSE performance access to finance at 5% level of significance. the odds of MSE Performance access to get finance are 18.8% (odd = 0.188) times less likely interest rate have a role to access a finance than interest rate have not role to access a finance .This result contradict with previous studies of (Selamawit ,Aregawi and Nigus, 2014, and Similarly the variable repayment period of a loan has a significant effect on MSE performance access to finance at 5% level of significance   The odds of MSE Performance access to get finance are 16.8% (odd = 0.168) times less likely of repayment period of loan have a role to access a finance than of repayment period of loan have a role not to access a finance. This result is consistent with previous studies by (Bhende 2003 and Wenner 2000).

From the regression results described on table 4.15 above, the following regression equation was formulated

Log odds (Performance= 1) = B0+ B1x Irate (1) + B2x Repayment (1) or, with the actual values of the regression coefficients,

Log odds (Performance= 1) = 0.513 -1.672x Irate (1) -1.784x Rep (1) ---------**equation four**

Table 4.16 Summary regression analysis results of sources and   challenges to access finance

	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I.for EXP(B) Lower	Upper
Psaving (good)	2.093	.875	5.724	1	**.017**	8.107	1.460	45.027
Mfinance (good)	6.314	1.298	23.651	1	.000	552.100	43.346	7032.137
Mfinance (average)	2.951	1.078	7.491	1	.006	19.122	2.311	158.221
Opeage (25-34)	1.517	.307	24.477	1	**.000**	4.559	2.499	8.314
Edu (elementary)	.870	.315	7.608	1	**.006**	2.386	1.286	4.428
Fasset	-1.447	.491	8.697	1	.003	.235	.090	.615
Nemployee(6-10)	-1.213	.345	12.374	1	**.000**	.297	.151	.584
Bsector (1)	-1.128	.414	7.438	1	**.006**	.324	.144	.728
duration(1)	-1.568	.424	13.695	1	**.000**	.208	.091	.478
Irate(1)	-1.672	0.431	15.023	1	**0.000**	0.188	0.081	0.438
Repayment(1)	-1.784	0.409	19.028	1	**0.000**	0.168	0.075	0.374
Constant	-3.636	1.326	7.523	1	.006	.026		

 Source Own Computation from survey result 2016

Based on the summary regression results described on equation one, two, three and four or table 4.17   above, the following regression model was formulated.

The odd (MSEPer=1) = -3.6 + 2.0Psaving (1) + 6.3Mfinance (1) + 2.9Mfinance (2) + 1.5 Opeage(2)+ .87 Opedu(1) – 1.4 Fasset(1) –1.2 Nemployee(1)—1.1Bsector(1) – 1.5 DENT(1) – 1.6 Irate(1) – 1.7 Rept (1)

Where

MSEPer= Micro and Small Enterprises Performances

Psaving= Personal saving

Mfinance = Micro finance institutions

 OPeage= Age of operator

OPedu =Educational level of the operator

Fasset=Possession of fixed assets

Nemployee= Number of employee or size

Bsector=Business sector

DENT= Duration of business

Irate= Interest rate

Rept= Inflexible loan repayment period

$\beta 1 - \beta 10$ = Coefficients

The result of the regression analysis imply that personal saving contribute more for the performance of MSE followed by microfinance institutions as source of finance from informal and semiformal source of finance respectively On the other hand the regression analysis further indicate that operator age, durations of business, interest rate and repayment period were the most challenging factors followed by fixed asset possession, educational status and business sector from entrepreneurial ,firm and institutional challenging factors that affect performance of MSE in terms of accessing finance in the study area

CHAPTER FIVE

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary

This study was guided by the main objective of investigating the source and challenges of finance for MSEs in the Agaro town administration. Both qualitative and quantitative data from both primary and secondary sources were collected and analyzed. Statistical Package for Social Science (SPSS version 20.0) was used to analyze the quantitative data After the discussion and analysis of the data presented in chapter four, the following findings are drawn and summarized below

The study shows that 66.20% of the owners of MSEs were found to be males, hence, the involvement of female owners were limited (almost half of the male owners) and with Almost 87.4 percent of the sample respondents fall below an age of 45 years indicating that it is the younger part of the population that are actively organized and operating as MSE than those found in the older age

The study also shows that all most half (49.1) percent of the respondents educational background were TVET and Diploma graduate followed by about 46.3 percent of the respondents range from below high school to high school complete.

Access to credit is the major bottleneck for MSE development. The capital with which the respondents are operating is very small as compared to the prevailing market condition. The majority (62.5 percent) of the respondents are operating their business with capital less than 50,000 birr. Access to financial services is limited and only 30.6 percent of the MSE operators received loan from MFI. Because of this, there is difficulty of gaining economies of scale operation for MSE operators in the study area

The study also shows that there is concentration of MSEs in limited economic areas such as trade and service sectors while ignoring other potential economic activities such as

constructions, manufacturing and urban agriculture sector which was the main focus of the country and half (49.5%) of them were organized by form of partnership

The study further showed that business environment in terms of work premises is not conducive for the majority of the respondents. 52.78 percent of the respondents are operating in rented house of individual with monthly payment of 100 to 300 hundred birr each.

.The study also show that most sample respondents were taken different types of trainings like financial management, skill training, skill upgrading, marketing management, entrepreneurship, and technical training, etc. before starting the business however 74.1 percent of the respondents were not take training after starting the business.

The result of the study indicate that the majority(65.7%) of the respondents were operating their business below four years with accommodating more than half (52.3%) of them have less than ten employees which further indicate the infancy of the operators which need further support in all dimensions

The study indicates that lack of adequate capital is the main problem of businesses at start-up followed by input access constraints and obstacles from government rules and regulations. The study also shows that the main financial sources for start-up and expansion or working capital of MSEs come from personal savings and family support. Owners find it very difficult to access credit from banks due to lack of collaterals and the loans provided by MFIs are small with a short repayment period and high interest rates. Similar to the start-up MSEs face numerous problems after start-up like poor market and market information, lack of working capital, and price or shortage of supply of raw materials are the most once. However, the participants of the group focus discussion said as all over dependency to government, insufficient credit facility, and working premise problems are the most common problems. Specifically, most sample MSEs had mentioned the financial difficulties/challenges in the order of priority as inability to expand operations, lack of proper credit facilities, and price escalation (boom) of raw materials Moreover, the result of the study shows 56.94%) of the respondents reported that their business performance is affected by financial source and its challenges

Finally the regression result of the study implied that the financial sources for MSEs before and after due operations of business in the research area was carried out by informal and semiformal sources of finance such as personal saving and microfinance institutions that is OCSCO of Agaro branch Mean while fixed asset possession which served as collateral and interest rate of the loan was the most obstacle to access finance whereas age of operator and number of employees enterprise had was the least obstacle to access to finance.

5.2 Conclusions

Access to finance is one of the key obstacles of MSE not only when starting the business project but also when operating. Identifying the major source and challenges of access to finance is therefore quite crucial. The results of the binary logistics model indicate that MSE initial source of finance for their operations was from their own personal saving and OCSCO (microfinance institutions) of Jimma zone Agaro branch as well as the challenges they faced while accessing for finance were determined by their age, education level, fixed asset possession, business sector, duration of business, number of employee they had, interest rate and repayment period of the loan

Taking the findings, the study concludes that the major source of startup finance and also working Capital is own savings and microfinance institutions which can also determine as informal and semiformal financial institutions. Parallel to this Age of the entrepreneur, educational level of the entrepreneur, possession of fixed asset, employment size of MSEs, business sector, durations of business, interest rate and loan repayment period had statistically significant effects on access to financial source. In contrast gender of the entrepreneur, lending procedures, availability of information's, had no effect on MSE access to financial source.

5.3 Recommendation

After a detailed investigation has made on the research title of source and challenges to finance for MSEs, the researcher would like to forward the following constructive policy recommendations that were to be undertaken by all concerned stakeholders

- ➢ Although personal savings are one of the means of accumulation of capital, often savings alone cannot be sufficient for establishing and expanding business operations, thus, there is a need for creating lines of credit by government in collaboration with financial institutions should work to solve this problem
- ➢ The National Bank of Ethiopia with a collaboration of Developmental Bank of Ethiopia should organize and integrate departments that build and support the capacity of Microfinance Institutions thereby to increase the capacity of lending for MSE
- ➢ Microfinance and other institutions should provide facilitates of supply of finance and lease machine for MSEs and encourage them to save and to be users of credit facilities
- ➢ At the same time the government should support other semiformal and informal financial source association to reduce the risk and motivating MSEs for group savings are also important.
- ➢ MFI operating in Agaro has to improve their service deliver to their customer up to public expectations required from them. Also, the distribution of MFI loan has to be uniform as much as possible throughout the sector and MFI has to provide sufficient loan size with optimal loan term. There is urgent need for those MFIs operating in the town to reconsider their loan applicant screening and disbursement procedures so as to attract more MSE operators as their clients.
- ➢ The requirement for collateral is hampering many MSEs from taking loans and financing operators in the MSE sector do not have fixed asset, it is quite important

to seek alternative means of guarantees such as strengthening the practice of using salaries of employed people and municipality as a guarantee

➤ Generally, in order to address the problem of credits, financial institutions, the federal and regional governments and donors as well as NGOs can assist in creating lines of credit and special windows for assisting developmental oriented MSE. . .

➤ Business Training Centers for capacity building should be established in Regions, zones, Wereda and kebele levels. In collaboration with surrounding stakeholders in order to satisfy the training interest of MSE.

➤ Market linkages in sub-contracting should be expanded in all the MSE sectors

➤ MSE development agency and municipal services should undertake detailed study on the suitability of the location and the sufficiency of the size with nature and type of business before constructing the premises for MSE..

➤ MSE development agency has to work on heavy and unhealthy competitions that are being observed in service and trade sectors by minimizing through diversification of the MSEs into other potential sectors of manufacturing, urban agriculture and construction.

➤ MSE development agency and concerned stakeholders should separate or rank MSE by their growth in order to support their interest accordingly.

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JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS

MBA PROGRAM

Survey Questionnaire: To Study 'Financial Sources and challenges of Micro and Small Enterprises in Jimma Zone (The Case of Agaro town)'. The main purpose of the study is to investigate how MSEs get financial sources and the challenges they face during searching finance. The result of the study will be significant to Policy makers and finance suppliers. It may also be beneficial to those who are interested to make further study on the subject. Thus, your free will and cooperation in giving the Reliable information is very important. Filling out questionnaire may not take much of your time. Any information provided will only be used for academic purpose. As a result, it will be kept confidential and utmost anonymity.

General Instructions:

1. Your participation is voluntary.

2. I guarantee you that your responses will not influence your present and future employment with the enterprise.

3. Writing your and enterprise's name is not necessary.

4. Giving more than one response is allowed, if necessary.

5. Please simply tick (□) on the appropriate box or give an explanation to open ended quest

I Personal Information

1. Gender   Male ☐   Female ☐

2. Which Age group do you belong

-18-24 ☐   - 35-44 ☐

25-34 ☐   - 45-55 ☐   above 55 ☐

3. Marital Status
   - Married ☐   - Divorces ☐
   - Single ☐   - Other ☐

4. What is your educational status?
   - Primary ☐ - TVT ☐   - Degree ☐
   - Secondary ☐- Diploma ☐   - Other ☐

II Business information's

5. In which developmental sector of MSE did you engaged?
   - Manufacturing ☐ - trade ☐   - Agricultures ☐
   - Construction ☐ - services ☐

6. What are the size of your business including temporary employee?
   - <5 employee ☐   - 6-10 employees ☐
   - 11-15 employees ☐ -

7. How long did you do this activities (durations of the business)
   - less than 2 years ☐   - 5-7 years ☐
   - 2 years ☐   8- 10 years ☐

8. What is the legal form of your business
   - Sole proprietorship ☐   - cooperatives ☐
   - Partnership ☐   - other ☐

9. What is your reason for getting into this business
   - Skill ☐   - Apparent ship practices ☐
   - Parent / relatives ☐   - I had no alternatives ☐

10. What is the major problem of your business at start up?

    - lack of capital ☐   - bureaucracy of rules & regulation ☐

- input   shortage   ☐   other   ☐

11. How is the working premise of your business held up?

- Owned   ☐   - family   ☐   other   ☐

- Rented   ☐   - Government   ☐

12. If your answer for the questions 11 Is Rented How Much Is It?

- 100-300   ☐   - 501-1000   ☐   -1501-2000   ☐

- 301-500   ☐   -1001-1500   ☐   -Above 2000   ☐

13. What do you think the major   problem of   your business please identify three major problem in order of priority

1. _____

2. _____

3. _____

14. What type of fixed Asset you have?

-Land ☐   - vehicles   ☐   - house   ☐ - other   ☐

15. Did you take   any training before starting up business?

- Yes   ☐   - No   ☐

16. If your answer is yes – specify it

1._____

2._____

3._____

17. Did you take any training after start up business?

- Yes   ☐   - No   ☐

18. If your answer is   yes specify it

1._____

2._____

3._____

III Financial Information

19. From where did you get initial   startup capital?

- Personal saving   ☐ - Friends   ☐   - MFI   ☐ - Other   ☐

- Family /Related   ☐ - Iqub   ☐   - legal bank ☐   - NGO   ☐

20. Could you please specify the range of your capital in Ethiopian Birr?

Below 50,000 Birr

50,001-100,000 Birr

100,001-500,000 Birr

500,001-1,500,000 Birr

Above 1,500,000 Birr

21. Have you ever received a loan?

   - Yes ☐   - No ☐

22. If your answer for questions 26 is yes, from which of the following did you receive?

   - Large bank ☐   - Cooperatives ☐   - Other ☐

   - MFI ☐   - Money lenders ☐   -NGO ☐

23 if your answer for questions 26 is no specify your reason

   - Absence of Collateral ☐   - fear of risk ☐

   - Bureaucracy ☐   lack of info how to get ☐

24. The loan amount/ size released for MSE are

   - Sufficient ☐   - insufficient ☐

25. How long it take to you to receive the loan?

One week ☐   One to two week ☐

Two to four week ☐   >four week ☐

26. Government support regarding financing to MSE is?

Enough ☐   Not enough ☐

32. If your answer for questions 32 is not enough what do you think the solution specify it?

1. _____

2. _____

3. _____

27. Could you please specify the major financial challenge in their order of priority ?

_____

_____

28. From the following Source of finance   which do you use to get loan before and after you organize?

Source	Excellent	Good	Fair	Poor	Very poor
1.Formal Source					
Commercial bank					
Developmental Bank of Ethiopia					
Construction and Business Bank					
2.Semi-Formal Source					
Micro finance					
NGO					
3. Informal Source					
Credit and Saving Union					
Cooperative Societies					
Money Lenders					
Personal saving					
Friends and family support					
Trade credit Supplier					
Iqqub					
Idirs					

29. from the following factors which influence you not to access sufficient credit?

Element	No Extent 1	Small Extent 2	Moderate Extent 3	Great Extent 4	Very great Extent 5
1.Entreprenuer Characteristics					
Age					
Education					
Sex					
2.Firm Characteristics					
Fixed Asset possessions					
Number of employee					
Sector of business					
Duration of business					
3.Institutional Characteristics					
Interest rate					
Lending procedures					
Repayment period					
Availability of information					

30 Is financial sources and challenges determined in questions 28 and 29   are affect the performance of your business?

Yes-------------

No -----------------

Afan Oromo Versions

Gaaffilee Qorrannoo madda fi rakkolee faayinaasii waldaleen IMX Godina Jimma Magaalaa Agarroo qaban ilaaluuf qopha'ee.

 Kaayyoon ijoo qorannoo Kan madda fi rakkolee faayinasii waldalee maayikiroo fi Xixxiqqaa qaban addan baasuu dha. Bu'an qoranichaa kanas seeraa tumatootaa, dhaabillee dhiheessa faayinasii akkasumasa qamoolee adda addaa qoranoo biro gaggeessuuf barbadaniif akka galteettii fayyaduu danda'a. kanafuu, oddeeffannon keessaan murteessaa fi hojii qorannoo kana qofaf kan ooluu ta'uu isaa hubachuun soda fi qussanna tokko malee akka yaada keessaan laataan isiin gaafadha.

Qajeelfama Waligala:

1. Hirmanna keessaan fedhii irraatti hunda'a.

2. Deebiin keessaan qamaa birootiif dabarfamee kan hin laatamanee ta'uu issin ibsa..

3. Maqaa keessaan fi kan walda barreesuun hin barbachisuu .

4. Yoo barbachisaa ta'ee argamee deebii tokko ol laachuun ni danda'ama ,.

5. Iddoo deebiif qopha'ee keessaatti mallatoo (x) tuqun deebisa

I.   Odeeffannoo Dhunfaa

1. Salaa Dhiraa ☐   dubara   ☐
2. Umri 18-24 ☐   25-34   ☐
                35-44 ☐   45-55   ☐   55 ol ☐

3-Haala fuudhaa fi   heerumaa

 kan fuudhe/te   ☐   Kan hin fuudhin/heerumini   ☐

 Kan hikee/te   ☐   kana biro   ☐

4-Sadarkaa barumsaa

Sadarkaa 1^{ffaa} ☐   diploomaa ☐

Sadarkaa 2^{ffaa} ☐   digirii ☐

Ogumaa fi tekinikaa ☐   kan biro ☐

I.   Odeefannoo bussinasii

5.Gosa seektara hojii kam irratti bobate?

Oomishaa/ Manufaktarinigii ☐   Daldala ☐

    IJaarsa ☐   Tajaajila ☐

    Qonnaa ☐

6 Waldichi   hojjatoota dhabbii fi yeroo meeqaa qaba?

<5 ☐   11-15 ☐

6-10 ☐

7 Hojii   kana   keessaa wagga meeqa turtan ?

Waggaa 2 gadii ☐   5-7 ☐

Waggaa lamaa ☐   8-10 ☐   >10 ☐

8 Waldichii Gosa   bizinasicha kaamiin gurma'ee?

Dhuunfaa ☐   Walda Hojii Gamtaa ☐

Sharikumma/ Partineraship ☐   kan biro ☐

9. Sababani   waldaa akka gurmooftuu sii kakaase   maalii ?

Ogummaa ☐   leenjii hojii ummachuu ☐

Maatii ☐   filanno waan dhabeef ☐

10 Yerooo jalqabaa gurmooftu rakkon simuudate   maalii?

Hanqina   mallaaqaa ☐   Hanqina   mi'a dheedii (INPUT) ☐

-Hojjmata baada manneen motummaa ☐   kan biro ☐

11 Iddoo   hojii Oomishaa fi Gurgurtaa kan akkamitti   argate?

kan dhuunfa ☐   kiraayii ☐

Maatir ☐   Mootummm ☐   kanbiro ☐

12 Gaffii 11^{ffaa} deebin kee kiraayii yoo ta'e ji'attii qarshii hangam kaffalta ?

  100-300 ☐   501-1000 ☐

300-500 ☐ 1001- 1500 ☐

1501-2000 ☐ >2000 ☐

13 Qabeenya dhaabbataa arman gadii kan keessaa kam qabda?

Lafa ☐ konkolaataa ☐

Mana ☐ kan biro ☐

14. Hojii kana jalqabuu kee dura leenjii fudhattee jirta?

Eeyyen ☐ Miti ☐

18.Gaafii 17^{ffaa} deebin kee eyyeen yoo ta'e gosa leenjii fudhate ibsi

1. …………………………………
2. …………………………………
3. …………………………………..

15 Erga hojii jalqabdee booda leenjii fudhattee jirta?

Eyyeen ☐ miti ☐

16 Gaafiin 19^{ffaa} deebin kee Eyyeen yoo ta'e gosa leenji fudhattee ibsii

1. …………………………………
2. …………………………………
3. …………………………………..

17 Rakkoon cimaa hojii kee keeessaatti sii muudate sadi akkaata ulfina isaanitin ibsi

1^{ffaa} _____

2^{ffaa} _____

3^{ffaa} _____

II.   Odeeffannoo faayinasii

18 Hojii kan jalqabuuf kaapitala jalqaba eessaa argatte ?

Qusannaa dhuunfa ☐   hiriyootaa   ☐   WALQO ☐

Maatii   ☐   ikubii   ☐   Bank   ☐

dhaabiilee miti mootuummaaa   ☐   Kan biro ☐

19 Hangi kaapitala keessaanii kanneen arman gadii keessaa kam keessaattii ramadama?

  Birr 50,000 gadii

Birr 50,001-100,000

Birr 100,001-500,000

Birr 500,001-1,500,000

Birr 1,500,000 olii

20 kanan   dura waldan keessaan liqii fudhatee   beeka ?

  Eyyeen ☐   Miti   ☐

21 Gaafii **26ffaa** deebiin kee eyyeen yoo ta'e eenyuu irraa?

  Bankii   ☐   WALQO   ☐

  Waldaa hojii   gamtaa ☐   Dhaabilee miti mootummaa ☐

  Liqeessitooota mallaqa ☐   Kan biro   ☐

22 Gaafii **26** ffaa deebiin kee Miti yoo ta'e sababan isaa mali?

Bureaucracy   ☐   Hanqina Wabumma   ☐

Balaa   sodaachu   ☐   Odeeffaannoo dhabu   ☐

23 liiqii yeroo gaafattu hanga gaafatte ni argata?

  Eyyeen ☐   Miti   ☐

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24 Liqii   gaafatte   argachuuf   hangam   siti fudhata?

Torbee tokkoo ☐   Torbee Tokkoo hanga lamaa   ☐

Torbee 2-4   ☐   Torbee afuri ol   ☐

25 Deegarsii   mootummman gama faayinastiin isiinif godha jiru maal fakkata?

  Gahadhaa ☐   Gaha Miti   ☐

26. Gaffii 31 ffaa deebin kee gaha miti   yoo ta'e furman isaa maal ta'a jete yaada
ibsii

  1. _____
  2. _____
  3. _____

27.Rakoolee   faayinasitiin   walqabatanii jiran akkaata sadarka(Ulfina) isaanitii ibsi

  1. ……………………..
  2. ………………………
  3. ……………………..

28. Maddotaa faayinasii arman gadii keessaa yeroo gurmii fi gurmii booda kamittii fayyadamtuu?

Maddotaa Faayinasii	Baayee gariidha	Gaariidha	Gidduu Galleessa	Dadhaba	Baayee Dadhaba
.Formal Source					
Bankootaa Daldala Mootummaa fi Dhunfalee					
Baankii Misoomaa					
.Semi-Formal Source		`			
Dhabbilee Faayinasii Xixxiqqaa					
Dhabbilee Miti Mootummaa (NGO)					
Informal Source					
uuniyeeni Qusanna fi Liqii					
Waldalee Hojii Gamtaa					
Liqeesitoota Mallaqaa					
Qusanna Dhunfaa					
Deggarsaa Maaatii fi Hiriyoota					
Trade credit Supplier					
Ikubi					
Idirii					

29. Qaphxilee arman gadii keessaa waldaan keessan akka Faayinasii gahaa hin arganee kan taasisee kami ?

Qaphxilee	Bakka hin qabu	Bakka murasa qaba	Bakka Giddu galeessa	Bakka guddaa qaba	Bakka Baayee gudda
Entreprenuer Characteristics					
Umrii					
Salaa					
Sadarka barumsaa					
Firm Characteristics					
Qaabeenya dhabbata					
Hang hojjatota					
Gosa/seektara hojii					
Turmaata hojii					
Institutional Characteristics					
Dhala liqii					
Tartiba liqii Ittin kenamu					
Yeroo liqiin itti deebi'u					
Haala arganoo odeeffaano					

30 Maddolee fayinasii fi dhimmoleen faayinasii gaha akka hin arganee taasisaan gaffilee 28 fi 29 irraattii   dhihatan guddina walda keessaanii irraatti dhibba qabu?

Eeyee-------------

Miti -----------------

APPENDIX 3 FOCUS GROUP GUIDELINES

The focus group discussion will conduct aim at 'Sources and challenges of finance for Micro and Small Enterprises in Jimma zone (The Case of Agaro town)' and will focus on the following points.

1. What do you think the major problems of micro and small enterprises? Identify three major problems in the order of priority.

2. What types of training are given to micro and small enterprises so far?

3. Could you please identify incentives given to micro and small enterprises; and how your agency help micro and small enterprises solve or minimize their problems?

4. What do you recommend to overcome the financial difficulty of MSEs?

5. What should the financial institutions do to help micro and small enterprises overcome the financial difficulty?

6. Any remark that you would like to add.