

FINANCING OPTIONS FOR MICRO AND SMALL
ENTERPRISES: BY INVESTIGATING SEMI-FORMAL AND
INFORMAL SOURCES OF FINANCE

(THE CASE OF OROMIA OPERATING IN SEBETA TOWN)

Thesis Submitted to the School of Graduate Studies of Jimma University, In
Partial Fulfillment of the Requirements for Masters of Science Degrees In
Accounting and Finance.

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March, 2013

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STATEMENT OF DECLARATION

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

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ABSTRACT

This study aimed at uncovering the alternative sources of finance for practiced MSEs Operators in Sebeta town. The goal of the research is to provide the country's policy makers, program administrators and developments practitioners with information to make sound policy and program decisions about financial sources and the reduction of financial barriers.

The research process comprised of three distinct phases, such as 149 sample respondents MSEs owners/ operator, 4 experts financial institutions, such as 2 CBE, 2 MFI (OCSSCO) and 2 experts of MSEs Development Agency, in total 6 experts and 149 MSEs owner/ operators in the total 155 sample respondents were used for analysis. Open-and- close- ended questionnaires and interviews also used as methodological tools or as instruments. Simple statistical techniques such as descriptive statistics and explanatory, including tables were used in analyzing and summarizing. Finally based on the major findings, conclusion and recommendations were also forwarded.

The major findings the research revealed that the main sources of finance at start –up and post up for MSEs operators /owners were the equity section of the owners' / operators (own funds).It is also indicated that barriers to accessing finance are largely due to lack of collateral, poor credit record, inadequate business skills and lack of entrepreneurship concept during starting-up, and lack of adequate working and investment capital during post-up stage of MSEs operators. The study also found that on the issue of what role the financial institutions should play in reducing barriers to finance, findings from the research suggested that more risk-taking by financiers, relaxing rigid credit assessment criteria.

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ACRONYMS

MSEs;	micro and small enterprises
CBE:	commercial bank of Ethiopia
MFIs:	microfinance institutions
WC:	working capital
NFFSPs:	Non- formal financial service provides
SZSTMSEDA	Special Zone of Sebeta Town Micro and Small Enterprises Development Agency
NBE:	National Bank Of Ethiopia
CSA:	Central Statistics Authority
OCSSCO:	Oromia Credit and Saving Share Company
FMSEDA:	Federal Micro and Small Enterprises Development Agency
ICA:	Investment Climate Assessment

ACKNOWLEDGEMENS

I owe a huge amount of gratitude to my advisors Dr,Arega seyoun and Ato Eshetu Yadecha to their guidance, expertise, encouragement and willingness and ability to listen. Without you, this research would not have come to an end.

Most importantly I convey a big thanks go to the enumerators, enterprise owners /operators and experters in the study area, for their hospitality and willingness, without these assistance my thesis would not have been materialized.

Last but not least, I would like to thank my family and friends for encouraging me on and for being my greatest supporters.

CHAPTER ONE

1 Introduction

1.1 Background of the Study

Given the huge feasible of Micro and small enterprises sized activity to carry about public, trade and industry development, it is of no disclosure that the performance of MSEs is of all considerable concern to the government of different countries in the world micro and small sized enterprises in both developing and developed countries played the major roles includes among the others ; in motivating job creation, economic growth, poverty alleviation, income generation, catalyzing development in urban and rural area and the general improvement of living standards has been recognized internationally Significant consideration has been paid in the last decade to the problem of poverty-reduction in developing countries. It is generally agreed that the development of micro and small scale enterprises (MSEs) can be a key element in poverty-reduction. However, MSEs generally undertake from a range of problems in their establishment and development (Van Vuuren & Groenewald, 2007).

In this regard, the Ethiopian Government has formulated a National MSEs Development and Promotion Strategy with a major objective of creating long-term employment and providing the basis for medium and large scale enterprises there by facilitating economic growth. Employment in small-scale enterprises develops as a result of new enterprises starting up in business and through growth of existing enterprises. These positive forces are equalizing by the decrease or closing down of other enterprises. These means of modifying are the issues to different services and determinants. Small business runners make transformation and speed up, their position and rational changes in the economy by means of creating and participating to productivity (Herrington & Kew, 2008).

According to Mead and Liedholm (1998) many MSEs promotion development seek to use one or another of these different system of change. Some project seeks to promote new business starts by dealing with the limitation that makes it difficult for people to start new enterprises. Other projects make available support expected by offsetting the forces that cause the presented enterprises to fail, whereas, at a standstill others try to find to help existing business to develop.

The objective would not be easily realized because of many problems and constraint associated with legal and regulatory environments, access to finance, market, business information and premises. Among these problems, we would argue that finance is perhaps the most central. A recent World Bank study found that about 90 per cent of small enterprises surveyed stated that credit was a major constraint to new investment (Parker, Riopelle and Steel, 1995). Despite the growth in business enterprise financial support, access to financial support remains a problem for small enterprises, in particular for economic, social and in developing countries. Until now, widespread research reveals that access to financing is one of several important factors that are critical for business to start-up, continued existence and growth (Mutezo, 2005).

According to, Cook and Nixson (2000) have recently surveyed the literature on finance for many small business operators especially, for MSEs. The researchers examine that most recent research on MSEs is concerned with the developed /industrial countries. There is much less literature on developing third world countries in part because basic data availability is to a large extent not dense. Having access to finance gives for business runners such as, MSEs the chance, to start their businesses, to acquire better technologies for production, for purchasing raw materials and for paying salaries for the workers. Therefore ensuring their competitiveness, however, there is a huge challenge for MSEs globally when it comes to sourcing for initial and expansion capital funds from conventional commercial banks. Despite the numerous factors that challenge to start and to run business for MSEs in both third world and industrial countries, finance has been identified as one of the most important factor.

Abereijo and Fayomi (2005) notes that the majority of commercial bank loans accessible to MSEs are often also restricted to a period far too short to compensate any considerable expenditure. In addition, a bank in many developing countries prefers to lend to the government rather than private sector. It might look like surprising that finance ought to be so important. Potential providers of finance, whether bank or other financial services providers, such as micro finances or small loan providers, are make necessary funds to a business. Lack of funds may be the immediate reason for a business failing to start or to progress. In this sense therefore, we would argue that finance is the "glue" that holds together all the diverse aspects involved in MSEs operators to start-up and development.

The financial systems in every country play a key role in the development and growth of the economy, although the ability to play this role successfully and resourcefully largely depends on the capacity of development of the financial system .The conventional commercial banks which are the main role players in the financial systems almost in each economic activity, have the possibility to drag financial assets together to meet the credit needs of MSEs, however, there is still a huge gap involving delivery capability of the banks and the demanding needs of MSEs noted by Olutunla and Obamuyi (2008).

Another important part of the financial systems missing from each other from the commercial bank are other financial service institutions or micro lenders, which together with commercial banks, supply a large choice of financial products and services to meet the financial need of MSEs, domestic and the community sector. They include; semi-formal and informal sources such as, MFIs, money lenders, Idir and Equib, credit associations and trade credit etc, which all provide additional and alternative financial services. They help in improving the general system-wide access to finance, facilitate short and longer-term financing, and also some of them provide competition for bank deposits, saving, transfer, etc. They serve to improve competition and increase the depth of the financial service, by reducing concentration and providing alternative sources of finance.

Generally, this research aims to make potential MSEs aware of the most important sources before start-up and after start-up the business by considering financial sources to start-up, to run and also to aware the financial limitation that limit access to finance of their businesses. In addition, the study aims to serve as a benchmark or guideline for policy makers and development practitioners involved in ensuring the operation of micro & small business activities with specific reference to accessing finance and also; the goal is to provide the country's policy makers, program administrators and development practitioners with information to make sound policy and program decisions for the reduction of such financial barriers that limits access to finance for MSEs operators.

1.2 Statement of the Problems

Most MSEs in the country fail due to a numerous of reasons namely, lack of education, lack of experience and business background, and most important of all, lack of right to use monetary funds. Owing in the low economic growth, high unemployment and high level of poverty in developing countries becomes a critical solution for the starting and developing of small business (Van Vuuren & Groenewald, 2007). Rabinowitz (2005) confirms the findings that by stating that research conducted in UK-based companies revealed that the reason would be business runners did not become self-employed, was lack of access to finance the biggest concern for most MSEs operators is to obtain capital.

In developing countries, access to appropriate finance is a major limitation for starting and running business operations in MSEs sectors and the largest percentage of small businesses fail due to cash flow problems that arise because they could not manage growth. The most serious problem facing of MSEs sectors have been lack of rising of the required amount of capital transaction to run day-to-day running of the business and to purchase raw materials during the business activities.

Many loan evaluating criteria that is, external and internal factors of the banks and MFIs which need, high collateral requirements, high interest rates , lack of the correct prepared business plan and work plan and short repayment period are among the major problems that make easy access to credit difficult. This implies the financial institutions loan policies have not been conducive and attractive; hence this area is the basic one where attention is considered serious.

The MSEs business runners in most developing countries could not engage in the business activities (to start and to run) lack of capital and financial constraints. Therefore there is gap between the demands of operators of MSEs to finance resources to start –up and to run (post-up) as well as to increase and accessibility of finance to them. The researcher identifies several key research problems, which require investigation. Among these the little is known about the dealing between the financing option of MSEs and barriers that limits access to finance.

The research problem aims to establish an understanding of the most important financial source to an individual taking into consideration starting and running a small business in the MSEs business activities

It is necessary to identify financial limitation issues from the awareness of the small business owner and the institution that provide finance, be they a commercial bank, microfinance institutions (MFIs), informal sources of finances or a government agency that provide financial resources directly or indirectly.

In this study the researcher take up the problems of how finance is related to other aspects of small business. Specifically, the researcher focuses on, which sources of finance is the most important of the business for financial decision of MSEs that of how to raise capital for the business distinguishing between the initial capital and any follow-up capital acquired for expansion or restructuring. The researcher examines these decisions in the context of a small sample of MSEs in Sebeta town. Sebeta's micro and small enterprise sectors forms an important part of the economy.

Generally, the internal finance from MSEs operators are always insufficient to undertake the required level of transaction for running business, hence, the call for this research the researcher to seek which sources of finance fills this finance gap for MSEs operators in sebeta town?

The problems, therefore, arises more precisely, the researcher seek to identify first, which sources of finance lead Sebeta MSEs to borrow, or their own funds sources, to start –up and to run. Second if commercial banks are failed in fulfilling the financial needs of MSEs, are non formal financial services providers also doing the same? Is there a possibility that MSEs are not taking full advantage of the services and products of the non-formal financial providers to improve the common problem of access to finance? It is the objective of this thesis to review the challenges that MSEs face in accessing finance from commercial banks and also investigate other alternative sources for MSEs to access finance such as the non-formal financial service providers for MSEs operators. Are the non-formal financial service providers effective in dealing with issues of financial service toMSEs in Sebeta Town?

The statement is stated as follows:

- Which sources of finance is the most important for MSEs operators in the study area to start -up and running their business (debt or equity)?
- Are commercial banks provide access to finance to MSEs and if no, what are some of the reasons for not providing financial services to MSEs operators?
- Can non-formal financial service providers (non-bank) be alternative sources of financing for MSEs in the study area?
- What are some the measure challenge associated with the provision of finance toMSEs to start and grow?
- What are the changes on their capital after engaged in MSEs business activities?

1.3. Research Questions

The following are the research questions that inform this study

- 1 Which financial sources are the most important to MSEs to start-up and run business in Sebeta town?
- 2 Are commercial banks providing access to finance to MSEs and if no, why not?
- 3 Can non-formal financial service providers be alternative sources of financing for MSEs?
- 4 What are the barriers associated with the provision of finance to MSE business in sebeta town?
- 5 What future role should the finance environment play to reduce barriers to finance?

1.4 Research Objective

1.4.1. General Objective

The primary objective of this research is to investigate the financing option (decision) of MSEs operating in Sebeta town as alternative sources of finances.

1.4.2. Specific Objective

This study on the financing options/ decisions of MSEs operating in Sebeta town assumes the following specific objectives

- ✓ To identify forms or sources of finance those are the most important for MSEs operators to start –up and to running the business.
- ✓ To check whether commercial banks provides access to finance for MSEs or not
- ✓ To investigate non-formal financial service providers (non-bank) as alternative sources of financing for MSEs in the study area.
- ✓ To distinguishes the challenges / barriers associated with the provision of finance to MSEs to start and to run /grow in sebeta town.
- ✓ To know the changes on capital after they engaged in MSEs business operations
- ✓ To make recommendations to the concerned parts of policy makers and financial institutions and other financial service providers.

1.5. Significance of the Study

The study expected to be important for the following reasons:

The Government and other parties involved in the promotion of the development of MSEs use the findings of the study as additional information to address the problems uncovered in the development of MSEs. Academics, consultants and government agencies may therefore use the study as a method of obtaining something for undergraduate students and for further study in the areas of more an advanced levels such as, for graduate studies may find the study relevant for their academic work. Findings of the study can be considered as important additions to the existing knowledge and literature in the area for the public at large.

Generally, contribution of the research is to fill a vacuum in the empirical literature of MSEs activities by presenting reasonable evidence on the financial sources and limitations to start-up and run MSEs in the country. Recommendations have been forwarded on how these financial sources are easily available and also how these barratries should be resolved; finally, new areas of possible future research were identified.

1.6. Scope of the Study

This study was undertaken on 149 MSEs operators and 6 financial experts of in sebeta town, such as 2 experts from CBE, again 2 experts of MFIs and 2 experts of SZSTMSEDA. The result had been generalized if all MSEs had been taken in to account.. The case of the area selected that the town is the central part of Ethiopia which makes appropriate (suitable) opportunities to start or to run different business activities, so that there are many MSEs operators or small business runners. Due to this reasons the researcher selects the town to obtain more information from them during conducting the thesis than other areas and then the study area is limited to Sebeta town.

1.7. Limitation of the Study

Any result of a study can be better if it covers a large size population. But some problems hinder the comprehensiveness of the result of a study that is, there is limited focus or (small sample size), it only limited on Sebeta town MSEs operators/owners. The result of this study cannot serve or represent for other MSEs operators through the country. The MSEs office does not have updated information and hence it affects the results of the study. MSEs suffer greatly Data shortages; it is not only the matter of data shortage but also a question of reliability of data, limited relevant documents; MSEs do not pay attention to documentation of records on various business aspects ;implies that it is hardly possible to get an organized record on financial matters and limited empirical literature.

1.8. Organization of the Thesis

This thesis was organized in to five chapters as follows, chapter one deals with introduction which contains, background of the study, statement of the problem, research questions, research objective, significance, scope and limitation of the study. Chapter two of the study presents review of related literature that discusses the theoretical and empirical literature. Chapter three describes the research designs and methodology used in the study. Chapter four discusses and presents the empirical analysis and results; and the last part i.e chapter five presents summary of major findings, conclusions and recommendations.

CHAPTER TWO

2 Literature Review

2.1. Introduction

MSEs need access to a wide range of sources of finance in most of industrially developed and developing economies. Financial sources form a core factor of production in the resource component of the MSEs business process. Questionably, well-functioning financial sources could facilitate access to finance. Promote MSEs and enable growth-oriented businesses to operate profitably and make significant contributions towards employment and economic stability (Hussain, Millman and Matlay, 2006). The literature has not really dealt satisfactorily with the role of access to finance on a countrywide level for small business and in particular with regard to start-up rates.

The purpose of this literature review, in line with the overall research problem, is to enable the researcher to define the research problem clearly. It contextualizes studies conducted locally and internationally and presents the theoretical support within which the research is done. Relevant documents, journal, reports and articles on financial sources of start-ups and post -up in the MSEs were important to review. Very little research has been conducted regarding financial sources to MSEs starts-up and post -up in countries (micro & small enterprises). According to a recent study, “MSEs in developing countries are possibly the least studied significant economic and social event in the world today (Lingbach, De la Viena & Asel, 2005 in Naude et.al. 2008)

Furthermore, Todting and Wanzenbock (2003, p. 352) as cited in Naude et.al., 2008) argue that in spite of the reasonable role that the rate of MSEs start-ups plays in explaining national variation. According to Bobbie and Mouton (2008), exploratory studies are most typically done to satisfy the researcher’s desire for better understanding.

The review of the literature provides or includes: a general viewpoint on the concepts and definition of MSEs and financial terms, an overview of financial forms with specific reference to the sources of finance for MSEs such as equity or debt , theoretical and empirical framework on finances , sources of finance such as semi-formal, informal and ,etc, the reason why commercial bank (formal banks) difficulty problems of banks financing to MSEs and short coming, demand and finance for MSEs and MSEs access to financial service through non-formal financial service providers.

2.2. Concepts and Definition of MSEs and Financial Terms

2.2.1. Definition of Micro and Small Enterprises

In our country, Ethiopia, micro and small enterprises are given different meanings at different time. The definition given by the (CSA) in using information analysis and that given by Ministry of Trade and Industry in 1997 are basic applicable definition. The Central Statistics Authority (CSA) defines small trade organization that employ less than 10 people engaged in handiwork and internal work sectors are categorized as micro enterprises. In our country, the definition of micro and small trade enterprises definition from time to time by Ministry of Trade and Industry by evaluating the situation of the time. Accordingly, when seen from the development level (standard) and capacity, the following definition is terminal being applicable by the Ministry of Trade and Industry.

Micro trade work enterprises: means trade organization whose capital is not exceeding from Birr 20,000.00 and higher consultancy service organization and other higher technological organization and other higher technological enterprises are not included.

Small business organization: means trade work organization whose minimum paid up capital is not less than Br. 20,000 and not exceeding Br. 500,000 and shall not include higher technological consultancy service and other higher technological institutions

Finance: this comprises the whole range of financial services to the rural, urban and per-urban population at large. Financial services include savings facilities, credit, payment and transfer service

Financing is the process of providing funds for business enterprise. Financing is an important input in every business. It allows for the smooth running of day-to-day operations, asset acquisitions of MSEs Operators, expert recruitments, the development of marketing and distribution channels and to expand their business.

2.2.2 Size of an Enterprise

It is observed that large firms can borrow finance more easily and on better terms than small firms. This is recognized to creditors beliefs that larger firms are less likely to become insolvent theoretically, the relation between size and access to credit is unclear. Firm size could be defined in terms of number of employees, capital or as a combination of the two. Further it is argued that large firms tend to provide more information to lenders than small firms implying that minimum cost is involved in credit management). However, size may be inversely related to the information between insiders and outside investors (Wiwattankantang, 1999:386)

The transaction costs associated with financing may also affect financing choices as transaction costs are most likely a function of scale, with smaller scale financing resulting in relatively higher transaction costs. This could be a function of high transaction costs effectively making some financing options outside the available set of financing choices of the firm. However, market access can also be kept directly in that some financing options are not in the scale range that financiers consider issuing finance (Wald, 1999)

2.2.3. Growth

In this study, enterprise growth, as it is mostly applied to similar studies for developing countries because of serious problem associated with the availability of data, such as a lack of sufficient capital and credit is often a major handicap.

Applying pecking order advice, growing firms place a greater require on the internally generated finances of the firm necessarily, firms with relatively high growth will tend to look outside the firm to finance the growth. Therefore, these firms should look to short-term less protected debt than to longer-term more accessible debt for their financing needs. This lead to firms with relatively higher growth having more leverage (Business Foundation Guide, 2008).

They argue that the agency problem and automatically the costs of financing are reduced if the business runners issues short-term rather than long-term debt. This is in direct contrast to Myers (2007) who argues that conflicts between debt and equity holders are especially serious for assets that give the business operators the option to undertake growth opportunities in the future, resulting in business runners with such growth opportunities having less debt and access to sufficient funds to grow and further develop their activities is a huge challenge faced by many MSEs operators.

2.3 Theoretical Framework on Finance

Financing decisions involve issues like how to raise money in order to start or finance growth. Normally firms have options of choosing debt financing, equity financing or combination of the two. Such decisions are, in fact capital structure issues. Managers in the intent to pursue wealth maximization objective of the firm, should examine set of theories that help them choose the best capital structure. As a result, though the accessible finance theories are found on commercial business, it is preferred to city them as theoretical representation that can help conceptualize MSEs funds formation issues. Moreover, empirical approaches (summarized in Pau Cook, 2000) to study the financing and funds formation of small firms in low-income countries are accessible.

Unfortunately, however, most of the theoretical work on MSEs finances and the behavior of the institutions that lend to small-scale enterprise have been undertaken in industrialized countries, particularly the US and the UK (Chittenden et al, 1996 cited in Paul Cook, 2000:21).

According to God Fred et al,(2000;300) the classical or habitual theory of financing propose there is a exceptional, most advantageous funds formation that maximizes the market value of the firm by minimizing the cost of finance for small firms initially use owner (s) resources, and firm survival depends on obtaining wider sources of finance, which is costly. The rapid growth the firms reduces liquidity as they rely on short-term finance from equity sponsor would result in financial gap there by slowing order approach suggested that firms financing needs are hierarchical, where; they first use internal sources then debt followed by equity (outside).Hence, a larger proportion of this work has tended to concentrate on firms that in terms of size lay towards the upper end of the spectrum where the range of ownership and financing options becomes wider (Paul Cook, 2000:21).

2.3.1. Resource Requirements in Establishing a New Business Startup

Resources are things that the business runners operate to pursue a business opportunity. In broad terms, there are four types of resources that potential business operators will combine to build the business; financial, human, physical and information (Jacobs, 2008).

2.3.2 The Need for Finance

Finance in this case, is the most important factor determining the survival and growth of micro and small enterprises in both developing and developed countries. Decision to start a business or expand an already existing firm involves as implicit decision of how to raise money. Consequently, financing decision is at the center of an operation of MSE. It is indicated that the inability to raise finance is the greatest challenges facing the financing decision of MSEs and is the critical factor in the establishment and growth of such business (Sergeant and Young, 1999 in Gashahun, 2004:13)

Similarly, it is pointed out that micro and small enterprises 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, 1998 in Gebrhiwot and Wolday, 2003:3).

In addition, MSEs are faced with higher transaction costs than larger enterprises to obtain finance (Saito and Villanueva in, 1995 Paul Cook, 2000:4) Moreover, insufficient funding has been made available to finance working capital (Wilson, 1995 in Paul Cook, 2000:4). Some researchers, however, argued that factors such as marketing or technological assistance might be the critical factors in the success or failure of micro and small enterprises (Harper 1998 in Wolday, 2000:74). Yet, despite the contribution of these factors to the development of such enterprises, it should not be overlooked that marketing or technological assistance do require finance In spite of this, MSEs limited accesses to available finance compared to larger organizations have limited their growth and development (Levy, 1998 in Paul Cook, 2000:7).

Marketing involves producing quality product, promotion and making the product available at the consumers' destination. Certainly, such activity requires considerable amount of finance which micro and small enterprises have limited access to it. Some also argued 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 rather than being used to convert a very small number of businesses in to modern capital intensive only (Wolday, 2002;4).

2.3.3. The Financial Needs of an Enterprise

The need for finance is never fixed and is always associated with risk. The finance needs of the enterprise and the sources of finance accessible at a given moment should be resolute in order to make proper financing choice (Bloom & Boessenkool, 2009, p.186).

The authors further declare that in order to establish an enterprise's capital needs, it should be, and the amount of the need for different forms of finance, when the funds will be required, and for how long financing must be accessible. Reasonably, the financing problem of a new enterprise will differ from those of an accessible one. On the same note, the financing options of a corporate will differ from those of MSEs operators' start-up & discussed below.

2.3.4. Financial Structure at Start-up

The structure of funds sourced at star-up results from the associations between the willingness of external financiers to provide finances and the business operators for certain types of financing (Huyghebaert & Van de Gucht, 2007). Prior studies reported that start-up firms in conventional business are mainly financed with equity, their family and friends (Huyghebaert & Van de Gucht, 2007).

2.3.5. Forms of Financing for Small Business Start-up

There are various sources of business financing where the providers have different objectives, potential and limits (Smith & Smith, 2004, p.508). Finance employed by small businesses into three types, namely; **Personal investment**, including personal savings and contributions from family and friend, **Private external finance**, loans, asset finance ,asset-based finance and equity finance; and **Public investment** in the form of enterprise donations, supported financial loans and the public equity finance (Rouse and Jayawarma,2006). Three forms of financing that can be employed by small business, namely debt or equity, obtain resources without borrowing money or raising equity through collection of equity formed from the resources of wealth limited partners.

2.3.5.1. Debt or Equity Financing.

Factors, both internal and external to firms are thought to affect their financing decisions. There are two types of start-up capital; debt and equity as follows:

Debt financing: is a method that involves a loan, the payment of which is only directly related to the sales and profit of the venture. Typically, debt financing requires that some assets (such as a house, plant machine or land) be used as collateral. With debt, one does not have to give up any ownership of one's business, but one has to pay current interest and eventually repay the principal. Several authors suggest that bank financing will depend upon whether the lending can be secured by tangible assets (Berger and Udall, 1998) and by pledging the firms 'assets as collateral or arranging so that a fixed charge is

Directly placed to particular tangible assets of the firm, also reduces adverse selection and moral hazard costs. Business with assets that have greater liquidation having relatively easier excess to finance, and lower costs of financing, leading to these firms having a higher level of debt or outside financing in their capital. The debt capacity of firms that is, the level of safe borrowing or the amount of debt that firms can undertake without serious danger of financing failure.

Some creditors consider MSEs as if they are risky ventures, which involve higher cost of lending. MSEs, too, have developed wrong attitude and perception that lenders are for the well to do firms. The supply of credit is largely influenced by government policy. The imposition of tight monetary policy makes debt financing scarce and expensive. Unavailability of venture capital along with the non-liberalization of the financial system could limit the competitiveness of the financial sector, and resulted in limited financial products (Paul Cook, 2000).

Qualification of owners measured by educational and training achievement could influence the financing decisions. Though the conventional literature is unclear on this issue, it can be argued that those owners who are better educated would find it easier to present a reasonable case for a loan to an outside body.

While the conventional literature is inclusive about the influence of ownership on access to credit, ownership structure, however, could affect a firm financing decision. Agency theory would suggest that business under sole ownership structure prefer lower debt to reduce the risk of their firm (Wiwaltankantang, 1999:376).

Equity financing: does not require collateral and offers the investor some form of ownership position in the venture. Therefore, choosing between debt and equity involves trade-offs for owners with regard to potential profitability, financial risk and voting control (Mutezo, 2005). Given the information asymmetries between the firm and outsiders, firms have a preference for inside financing over outside financing, as the cost for outside capital should be greater for the firm.

Therefore, profitable firms, which have access to retained profits, can use these for firm financing rather than accessing outside sources. There is ample evidence that managers have a preference of internal finance over external source of capital. Average income is one of the indicators of earnings that suppliers of finance looks in to, high income may reflect high growth opportunities implying a high ability to borrow or low need to borrow (Parsed et al., 1998 cited in Green et al., 2002).

2.3.6. Sources of Finance

Financial sources can be discussed categorically in many classifications. Some groups classify them as institutional and non-institutional others in degree of formality of operating within a given financial system. For the purpose of this paper, classified as formal and non-formal sources of finances sources.

2.3.6.1 Formal Finance Sources: 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. In the Ethiopian context, the formal finance sources are commercial banks (private or public owned), Development bank of Ethiopia and construction bank of Ethiopia.

Commercial banks aim to provide service such as deposits mobilization working capital loan extension for enterprises in any economic sector, and feasible projects financing. The provision of the financial service based on short, medium & large

2.3.6.2 Non-Formal Sources of Finances: The non-formal sources are classified as, semi-formal and informal sources. Semi formal sources are those providers of finance that are mostly registered NGO's and MFIs with special charter. The informal sector captures the residual source of finance-money lenders, *Iquibs*, *Idirs*' trade credit, credit associations, and others.

2.3.7 AMSEs Access to Financial Service through Semi- Formal & Informal Sources of Finance

The poor in Ethiopia have low income that leads low investment and more low income. *Access* to institutional credit that contributes to start and to run business, to increase investment is very limited in Ethiopia World Bank (1996) indicated that many of developing countries have established microfinance programs with the explicit goal of reducing poverty by providing small amount of credit to the low income to generate self employment in income earning activities. Microfinance in its various forms has helped to make loan capital more accessible to low income communities. Micro credit service and saving mobilization in Ethiopian were being carried out by microfinance institution, NGOS, government departments; cooperatives. The government took the program to establish a regulatory framework in order to facilitate sound development of MFIs.

They are sponsored by regional governments, local association, and government departments. They are legally registered and started delivering finance services. The informal finance plays a significant role in serving the community. It constitutes 69% percent of borrowers and 61 percent of loans size. The lenders have high loan recovery rate and flexible terms. The MSEs in most of developing countries could not engage on productive activities due to lack of capital and the financial constraints, especially from financial sectors .

There is a gap between the demands of operators of the micro and small enterprises to finance resources to start and to run their business and the accessibility of finance to them. So as to use this opportunity, majority of the MSEs get access to financial service through informal channels such as loan from family or relatives, '*Iquib*', credit associations '*Idir*' and money lenders, trade creditors began to provide small loans in absence of formal financial institution (Juanah, 2005).

For the achievement of an increase in the amount of finance and the financial products available to the MSEs Sector, there should be more financial service providers that are willing to take risk and be more innovative access to credit supplied by micro-lenders are an important source of finance for MSEs. A well diversified financial sector with sound non-formal financial providers are requirements to supporting the expressed development objectives of increased economic growth, greater job creation, and a better standard of living set by the courtiers government. Banks and NFFSP are both key elements of a healthy and stable financial system that complement each other (Juanah, 2005).

2.3.7.1 Semi Formal Sources of finance (MFFs)

Micro finance institution originally was established in the form of rural finance providers. And they have been expanding in Bangladesh and Indonesia. At that point in time, they were united under the standard of "micro finance". Providing cheap credit was at the focus of many of the micro finance institutions. Moreover, such micro finance institutions had shared the promise to serve MSEs that have been excluded from the formal banking sector (Martin et al, 2000). As result, they were, being a financial credit support program, expected to delivery finance for poor groups and firms. MFIs used for the poverty alleviation & credit extension.

The approach is criticized for developing the non-loan repayment culture (Wolday, 2002:8). In support of this, it is indicated that the funding support for MFIs had insignificant development Impact (World Bank report, 1999:11). Similarly, despite

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 combination in the type of financial products delivered regardless of MSEs area of operation.

Besides, the group guarantee schemes, small sized loan attached with short repayment, period has made MFIs service unattractive to urban MSE operators. Moreover, the supply driven lending methodology instead of demand driven methodology has further make worse unattractiveness of their services. Furthermore, it is argued that MFIs despite monopolizing the financial service provision function have become non independent and inefficient they have dialed to understand what MSEs need most (Martin et al, 2001:18). While the need of MSEs is access to credit, Yet, MFIs were supposed to fill in perceived gaps in financial intermediation particularly, the provisions of long-term finance. Their impact, however, appears to be the increase in financial sector part (Martin et al., 2001).

In order to overcome such opponent, MFIs should be more tangible by letter down the poverty alleviation approach and adopting the financial system of viewpoint approach that emphasizes their institutional sustainability (World Bank, 1999:11). In May 2002, although National Bank of Ethiopia issued a new directive to improve the regulatory limits on loan size, repayment period and lending modality, it hardly revise the access to finance. Ownership and membership of MFIs is restricted to Ethiopia and MFIs are restricted not to be engaged in income generating activities. MFIs continued to be stand for poverty reduction by increased in number by providing alternative financial services.

By the end of 2004/03, the number of micro-finance institution (MFIs) that has been operating in Ethiopia has reached 22. (NBE Annual Report, 2003:35).The following list indicate the number and name of MFIs operating in the city, their capital, the saving

mobilization and the support extended both in the form of credit and asset. Wisdom has extended the largest amount of loan in the form of credit and total assets followed by Addis Credit and Saving Institution (NBE annual Report, 2003). Substantial amount of loan extension is in the form of assets than credit, which MSEs has low preference. Moreover, in aggregate MFIs in the town have mobilized small amount of money compared to the demand for it. This could show the limited role of such MFIs in the financial intermediation. Besides, it would be worthwhile to see how institutions could increase the financial market in the urban area (Martin et al., 2001:20).

2.3.7.1.1 Financial Service provisions through MFIs (semi-formal)

Credit Services: According to Ledgerwood (1999) credit can be delivered to individuals or to a group of individuals. Individual lending is based on some form of collateral security. Such form of lending of potential clients by credit checks and character reference and the fashion design of the loan amount and term to client needs. This is giving small loans to the poor people for short period with regular and frequent loan payment. The loan may be made for investment in productive activities, housing or for any purpose that ease the liquidity constraint of the poor. Ultimately the impact on the household will include higher income, more diversified source of income, increased household consumption and better education for the children. Moreover, credit service of MFIs reduces the coverage of the poor on expensive personal and informal.

It also required a significant investment of staff time and energy to establish close relationship with client Group-based lending makes loans to a group of individuals having a common wish to access financial service. This approach is based on the model of rotating savings and credit association. But it provides additional flexibility in loan size and term allowing group members (borrowers) to access credit when needed rather than waiting for their turn (Waterfield and Dural, 1996 cited in Ledgerwood, 1999).

Saving Services the provisions of saving services help the poor to accumulate capital which enhances their capacity for self-investment and to acquire productive assets (Juanah, 2005). Vanderlack and Shreiner (2001) also emphasized the importance of saving stating that “borrowing is riskier than saving “and that saving services help the poor to improve their wellbeing. Ledgerwood (1999) indicated that “low income clients are often unable to access saving services from conventional banks due to a limited branch network or the unwillingness of banks to deal with small amounts of money.

Money Transfer Service: Many transfer service facilitates the free flow of money and subsequently trade and investments. The easy transfer of money from one place to another and from person to person is a very effective instrument in facilitating business between people and places near and far. Thus with banking services that enhance investors and even individual to easily access money, greater income is available among people in area their of consumption level increase (Juanah, 2005).

2.3.7.1.2 Non-Financial Intermediation Services

The non financial intermediation services include services related to financial management and business activities, and social needs. The financial management and business development services includes business training, record keeping, family budget, etc, non-financial services. Qualification of owners measured by educational and training achievement could influence the financing decisions.

2.3.7.2. The Informal Sources

Unlike the formal sources and semi-formal sources (microfinance), the informal sources do not constitute a efficient category. On the other hand, we would include sources such as credit and saving unions, cooperative societies, “*Iquibs*”, moneylenders, friends and relatives, suppliers in this category. Informal sources provide finance to most MSEs operating outside the formal financial system. Informal sources are important source of

initial as well as working capital requirement of MSEs (Martin et al., 2001:30). Getting access to a significant amount of money is more in Informal sources than formal or semi-formal. Credit and saving union 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 institution and members, excluded MSEs (Wolday 2002:6).

Co-operative societies are taking as group formation to reach out by many working institution. In the Ethiopia context, membership in co-operatives has been long politicized and not preferred by many members. Even in the town small business operators are worried about being members of a co-operative, as they referred to its bad experience. It is pointed out that no empirical data so far suggests how MSE operators use multipurpose cooperative as sources of finances for their businesses (Wolday, 2002).

“*Iquibs*” are a broad in Ethiopia; they are system of rotating savings among close friends, relatives or co-workers. In *Iquibs*’ all members pay set amounts in a regular intervals- weekly, bi-weekly or monthly- to a common pool (Wolday, 2002:6) **‘*Idirs*’** are neighborhood(local) institution collecting a specified set of money from their members to pay out a specified sum of money and assistance to a member, at his/her bad times specially at times of suffer . Despite, the need to mobilize resources kept by the **“*Idir*”**, they, so far are not reported that provided loan or assistance to businesses activities.

Money Lenders: money lending covers a wide range of credit arrangements that differ across countries, with interest ranging from zero to as many as 100% a month (Arryeetey in Godfier et al, 2000: 47). Discussions with traders operating at **‘*Merkato*’** has revealed that there are moneylenders both individuals and employees in branches of some government institutions that provide them with finance at about 10% - 15% per month. Due to the high cost of borrowing, MSEs use moneylenders as a last alternative (Nisanke

et al., in Geberhiwot and Wolday 2003:6). Most of the informal moneylenders base their lending on personally knowledge of the borrower.

Friends and relatives are most important alternative source of finance own savings in Ethiopia (Fasika and Daniel, 1997:140). They usually extend finance as non-interest bearing loan based on intimate knowledge and belief of each other.

Trade credit suppliers are a significant source of informal credit in an enhanced credit trading system. They supply either input or cash advance to small business operators. Firms may receive trade credit either as a substitute for or complement to bank credit (Chant et al., in Geberhiwot and Wolday, 2003:11). Trade credit has an attraction quality of not being guaranteed by mortgage assets, which is advantageous for enterprises lacking of collateral assets. Hence, firms could be engaged in credit trade establishing good business relationships or for financing purpose. In the context of Ethiopia, it is reported that practice of providing trade credit exists for either purpose (Geberhiwot and Wolday 2003). The absence of the wide spread of proactive trade credit would limit the financing benefit of the practice. Briefly, informal sources, even though the drive upward or downward are the principal sources of finances reaching to MSE operators.

2.3.8. Difficulties in Sourcing Finance Small Enterprises Start-up

Cassar (2004) in Eben (2008) declare that it has long been known outside debt and equity financing for small firms is difficult to obtain, expensive and often undesirable to personal reasons. In addition, Eben (2008) argues, banks and supporters are generally unconvinced of the success potential of small firms due to wrong information , which in revolve results in high costs in terms of interest rates, ownership (rights) and have power over. Emphasizing the issue of lack of collateral by MSEs business start-ups,

Huyghebaert and Van de Gucht (2007) further state that some of the reasons why MSES business start-ups often have difficulty in accessing finance is lack of prior history and character, high failure risk, and highly concentrated ownership. Financiers have become increasingly interested in understanding the factors associate with the provision of finances to micro-enterprises in developing countries, primarily because credit access has been recognized as an important tool for small business economic development.

2.3.9. Demand for MSEs Finance

According to Ogujiuba, Ohuche and Adenuga (2004) create commercial initiative is one thing but accessing the necessary finance to translate such ideas into practicality is another, there is a need for financing. A key challenge for most MSEs is financing, according to all small firms live under rigid liquidity limitations, therefore making finance a major problem for them. MSEs often prioritize the source of financing from internal (cash flow or MSE's own capital) to external, according to relative availability and (opportunity) cost (Ogujiuba, Ohuche and Adenuga 2004). This is because for most firms, the internal funds are insufficient to undertake the required level of transactions for profitable projects hence the call for external finance to fill the finance gap.

There has been recognition that British small firms suffer from what is termed the „finance gap. In a first-world setting like that in the UK, this situation takes place when a firm has grown to a size where the use of short-term finance is maximized, but the firm is not big enough to access capital-market funds. By contrast, in developing countries a finance gap takes place at even earlier stages of the enterprise's lifecycle (South African bank in a report conducted by the Policy Financial Services and Regulation 2004).

2.3.10. Finance for MSEs

Since bank lending to MSEs Firms is relatively low say about (1% of firms, by ICA Survey in 2008.7) .MSEs tend to depend a lot on retained earnings and their own fund (70% of firms) for financing, this is according to a report conducted Supplier credit is also low, accounting for only a quarter of MSEs financing. They also seek financial assistance from other semi-formal and informal sources that are, the non-formal as financial service providers. Most of MSEs are observed to get funding from personal saving informal lending schemes, money lenders, rotating saving and credit associations and family members. This is complete in survey by USAID (demand survey, 2005) where 24% of the surveyed respondents agreed to use informal finance services.

2.4. Theory of Bank

Bank Capital control Model: This model considers the lending behaviors of bank, MSEs to be affected by a capital adequacy requirement. According to T.M Obamuyi (2007), this model, is clearly seen in the relationship between banks and MSEs as the MSEs suffers through a lack of financial assistance.

Capital Limitation Model: The capital limitation model describes the behavior of banks control to give out loans to MSEs because of the limitation of accessible financial resources from banks (T.M Obamuyi; 2007).

The Pecking Order Theory: According to the report by South African reserve bank (2004), first by using internally accessible finances, followed by debt and finally, external equity. This practice is more common in Small firms practice.

2.5. Reason for the Difficulty of Bank Financing To MSEs

Conventional banks in Ethiopia do not have interest in promoting new markets with higher supposed risks (MSEs) and relatively high information costs. As a result, the formal banks purposely avoid the delivery of financial services to MSE operators who might need small loans such as Br 10000, 15000, 20000, etc. (Wolday, 2002).According

to some researcher, high transaction costs and risks associated with small loans, as lack of collateral and historical orientation towards small and large enterprises, continue to restrict micro and small enterprises access to formal credit (Steel in Paul Cook. 2000:19).

Moreover, even if the demand for micro and small enterprise products appeared strong, a lack of credit meant that many micro and small enterprises did not have the capacity to respond and expand production. High interest rates, high transactions costs and administration and culture to MSEs contributed to the problem (Boeh-Ocansey, 1995). The World Bank reported around 90% of MSEs surveyed indicated access to credit was a major limitation to new investment (World Bank in Green et al. 2002:1).

The problem of bank financing to MSEs has been definite for many years in the country with both parties actively responsible for the lack of MSEs financing: MSEs because of their shortfalls in meeting the classic requirements of the banking sector and banks because they could mobilize more resources in order to penetrate the MSEs segment, basically both parties share the hold responsible of the problem as both groups show real weaknesses in their capacity to respect the requirements and practices of the other. Despite the large percentage of MSEs operating in the country, only about 5 percent of them get access to loans from banks despite the fact that 80 percent of them seek financing (CGAP :Access to finance in Nigeria report, 2009).

Moreover, it is explained that formal Banks do not find MSEs attractive clients due to real or perceived risk (Gebrehiwot and Wolday 2003:4). Their capacity, especially their branch networks, is neither extensive nor dense enough to effectively reach MSEs. Furthermore, they lack to develop innovative financial products enough to attract MSEs. It is also pointed out that the formal financial sector has evidenced its failure in serving MSEs. They have seldom benefited the MSE operators irrespective of their massive role in an economy. Reasons of uncertainty about profitability, lack of pro-MSE organizational values could have secured from financing MSEs (Martin et al. 2000:130).

Thus, in general, it appears that there has been much less involvement of the formal financial support to MSEs. It can also be understood that, the loan evaluating criteria have excluded MSEs from being part of the formal financial system. Their exclusion, undoubtedly, would hamper the development of the MSE in the economy that are the mass of the small business and large area of employment. The banks have usually dominated the financial systems, leaving little freedom for MSEs seeking alternative financing to bank loans Hence, a close look at the problem focus on the banks and points to reveals a number of reasons explaining the behavior from the bank. For the purpose of this thesis, these will be categorized under eight major reasons as broad heading.

Poor Macroeconomic Environment: is relatively unstable for a number of factors, high interest rates, unavailability, deficit financing and budgetary deformation, etc, in the economy (Ogjiuba, Ohuche Andadenuga, 2004).

Lack of Infra Structure Facilities: The poor state of infrastructure in developing countries is a key excuse given by many banks for their inability to fund MSEs. According to Olanrewaju (2001), the low performance of public utilities. It is realized that the cost of doing business is high, the ability of the banks to pay their outlay is uncertain.

Internal Structuring Problems of MSEs: the banks aside the external factors are the internal problems exists within the structures of the MSEs themselves and these includes the lack of organization in MSEs, particularly in terms of human resources, accounting, administrative management and control functions (Paul Derreumaux, MSEs financing in Sub-Saharan Africa, page17, 2009). According to Ogjiuba, Ohuche and Adenuga (2004), inadequacy of financial resources to recruit skilled manpower naturally control expansion and limits productivity and growth and the problem of financial indiscipline on the side the MSEs as firms are most likely to divert funds meant for the business in funding other projects are obstacles affecting the bank's lending attitude to the MSEs.

Capacity: this decisive factor is used to assess the management of the business for which loan is to be extended for. As indicators of capacity, conventional banks consider relevant working experience, education.

Collateral: Banks hold title to an asset at least equivalent to the amount of loan to be taken. The purpose of this asset is to enable the banks recover their amount of loan in case of default by the borrower. While assessing the asset that is guarantee as collateral, the banks look at the quality and most of the time prefers an asset that appreciates over time.

Capital: This component of the assessment limitation is used to compare and contrast the capital of the requested loan. The capital of the applicant should be free from any debt hence the of equity type.

Condition: The condition factors include government political and economic situation, policies, and strategies in a given sector. Competitiveness within the sector, profitability of the sector along with its significance for the country is assessed for a loan request process. It is aimed at assessing the business risk associated with the operating environment of the business.

Character: The willingness and relation of the applicant is analyzed to assess the credibility (honesty) of the applicant so that the applicant's loan paying ability is definite. 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 statement (Wolday, 2002:5).

2.6. Bank limitation

Weakness in supervision: this lack of supervision on the parts of banks can be made clear by clear numerous factors such as ,lack of time because of total number of especially different MSEs files to deal with , and the low level of profitability of this

supervision compare to others activities. Due to lack of supervision causes files to get worse that makes bank more unwilling to MSEs (Paul Derreumaux MSEs financing in Sub-Saharan Africa, page17,2009).

Lack of Reference Framework to Manage MSEs: Banking teams according to (Paul Derreumaux MSEs financing in Sub-Saharan Africa, page17, 2009). Lack a specific reference framework based on in-depth experience of MSEs financing. In most cases, banks continue to suffer from a lack of departments specialized in MSEs, a lack of procedures adapted to the limited available financial information and supervision indicators, limited innovation capacities in terms of acceptable guarantees and a total absence of specific training in MSE financing for credit analysts and client advisors. These are all factors that prevent banks from having any greater interest in MSEs.

2.7. Review of Empirical Literature

Research conducted among MSEs in the tourist industry in Gauteng, South Africa, revealed that access to finance was found to be an important need for MSEs operators that was not met by institutional supports (Rabinowitz, 2005).

According to Hurst and Lusardi (2004), possibly the most commonly cited barriers to new business formation is the lack of ability to get the capital necessary to start a business. Assessing start-ups small enterprises is not part of the institutional recall and not part of the skills set of managers in most financial institutions and state that, established financial institutions view informal MSEs, as high risk areas that are poor collateral and high administrative costs. The author's further state that established financial institutions often have rigid financial support supplies for MSEs. These supplies often present barriers for MSEs operators which forces them to source alternative forms of financing.

Early studies on firm growth stemmed as an important issue of the investigation of Gibrat's Law and the testing of the relationship between firm size and growth. Gibrat's

Law, which indicates that firm growth is independent of firm size, has been used as the basis for a number of theoretical formulations (Ozcan, 1995). Have been found that low access to financing & to sources of information.

According to Fdzlan Sufian (2006), the small enterprise has the willingness and superior ability to make decisions, raise capital and assume the risk of failure. In their principal in their principal (Banks agent firms) model indicated those firms face higher transaction costs in getting external funds. This is because information problems cannot access risk. As a result, (external finance provider's especially banks) need sign from small firm owners to assess risk so that they could able to reduce risk of lending to small firms. Further emphasis that identifying credit access barriers could enable policy makers and financiers to take steps to develop and put into practice strategies to support sustainable private enterprise in developing countries

Firms, on the other hand, use collateral to solve agency problems or might be relayed on short-term credit because of the agency problem. This problem could be affected by the ownership structure of the firm. The transaction cost hypothesis explains that the inter-firm transaction costs between the finance supply and demand units decide the financial formation of MSEs absence of well developed communications increase the cost tracing firms, thus resulting in information abnormality (Paul Cook, 2000:27).

In recent years, considering the small business operators (MSEs) have limited access to credit from the formal financial market and recognizing that lack of finance is the major problems informal sector operators to start their business Various studies indicated financial sector development helps economic growth through more efficient resource allocation and productivity growth and access to finance is associated with faster rates of modernization and firm drive. Studies also show that the financial development plays an important role in reducing the impact on external shocks on the domestic economic (Lavine,R, 2009).

Solomon (1996) argued that informal financial lending has been considered as the most important source of finance both in urban and rural poor in Ethiopia

Previously conducted researches on the topic of MSEs access to financial support and service support, points out that both the banks and MSE contributes to the situation, even so, it is still very evident that MSEs are actually faced with the challenge of access to financial In the previous studied research findings indicated that, the work of T. M. Obamuyi, tagged an „exploratory study of loan delinquency among MSEs Enterprises in Ondo state of MSEs. He described his results based the analysis of interview in 2004 with the managers of 9 commercial banks and 115 MSEs. His findings revealed a poor lending practice of banks towards the MSEs due o several factors principal of which are poor credit worthiness, lack of collateral security and the limitation forced on banks' capital by regulation.

CHAPTER THREE

3 Research Design and Methodology

3.1 Research Design

This study was conducted with the objective of financing options for micro and small enterprises in Sebeta town by exploring semi-formal and informal sources of finance as alternative means of financing. The method used in the administration of questionnaires, and which includes, mainly questionnaires on the part of the micro small enterprises owners/operators and interviews on some owners of MSEs and expertise of banks, Micro Finance Institution, that is, Oromia Credit and Saving Share Company(OCSSCO) and Special Zone of Sebeta Town Micro and Small Enterprises Development Agency (SZSTMSEDA). This gave the researcher the opportunity to help them to fill the questionnaire and meet face to face with the respondents. It also allowed for clarification and explanation of questions to respondents before they were answered. The discussions schedule was made up of a series of unstructured free response questions (open-ended) as well as structured fixed responses (closed-ended) questions.

The research methodology was selective as a result of the limited time frame and consists of; target population, sampling size, data collection and data analysis. The study uses the quantitative and qualitative approaches against the background the collected data of the questionnaires from respondents and the interview conducted with respondents respectively for the analyzing purposes. Secondary data from previous literatures that express the financial sources and challenges of MSEs and also overview of detailed survey results conducted. After samples had been identified, self-administered questionnaire was prepared in the forms of three language such as; English, afaan oromo, and amaharic and distributed to the selected respondents in each stratum.

Primary data, the questionnaire was distributed and collected, in addition, interview was conducted with some (selected) of the owners/ operators of MSEs involved in the small business sector in the town, with the experts of financial institution and the agency of MSEs sector that are selected as sample respondents and with the aim of obtaining cross-referencing data and some independent evidence of data, as well as a range of opinions.

3.2. Target Population

According to Wegner (2003), a population is defined as a collection of the entire draw conclusion in practice. A population must be defined in very specific terms to include only those units with characteristics that are relevant to the problem. The respondents were basically MSEs owners, banks, MFIs and SZSTMSEDG. These MSEs were selected from across the various sectors namely manufacturing, agriculture, construction, trading and service among others. Microfinance institutions were also selected from micro loan lenders specially, that is OCSSCO, banks and SZSTMSEDG in Sebeta town. It was chosen because the researcher is a worker in that particular sebeta town and therefore more convenient for the researcher in terms of proximity and time constraint.

3.3 Sample Size

The study involved an estimated population size of about 1307 for MSEs (Annual Report 2003/04). The sample sized was selected by using probability sampling method that is stratified sampling technique. This type of sampling was selected because it provides each item of the population an equal chance of being included in the sample. Accordingly, one hundred ninety seven (197) MSEs were selected and administered with the questionnaire and interviews) and six (6) expert interviews that are, two for MFIs, two for CBE and two for SZSTMSEDA were used by the researcher. 197 MSEs owners /operators were chosen to administer the questionnaires but for interview some of the owners / operators of MSEs randomly selected in sample to support the questionnaires.

3.3.1 Sample Size Determination Technique

In this study a total of 197 MSEs owners / operators have been selected by applying proportionate stratified sampling technique: In proportional stratified sampling, the size of each stratum is proportionate to the population size of the strata when looked at across the entire population. This means that each stratum has the same sampling fraction.

Sample fraction determination formula in proportional sampling technique is:

$$f = n/N \quad \text{Where } f = \text{sample fraction}$$

N= Total population (elements) in the enterprise (1307)

n= Sample size in the total population elements of the enterprise (197) Then
 $f = 197/1307 = 0.15$

Table 3. 1. Shows sample size determination from each stratum

S. N ^o	Type Sectors	No of owners/ operators in each stratum	Ss determination for each stratum $n_x - f n_x$	Sample size proportion allocations
1	Manufacturing	N1 = 182	$N_1 = f n_1$ 0.15×182	28
2	Construction	N2 = 466	$N_2 = f n_2$ $= 0.15 \times 466$	70
3	Service	N3 = 306	$N_3 = f n_3$ $= 0.15 \times 306$	46
4	Trade /merchandising	N4 = 303	$N_4 = f n_4$ 0.15×303	45
5	Agriculture	N5 = 50	$N_5 = f n_5$ $= 0.15 \times 50$	8
	Total	1307		197

Source: Survey Sample Size Determination.

3.4 Sampling Method and Size for Interview Process

Two- phased qualitative exploratory approach was adopted for interview process.

Phase 1: this phase comprised semi-structured interviews with experts from the finance-enabling environment. These organizations were chosen on the basis that each represents a different type of financing institution. The aim of this phase was to determine the views of experts regarding on financial sources and barratries. The purpose of surveying such experts was to help formulate the problem and clarify concepts rather than to develop conclusive evidence (Zikmund, 2003 p, 382).

Phase 2: In this phase, semi-structured in-depth interviews with owners these represents were identified through the expert semi structured interviews of the first phase of the research. The aim of this phase was to gain insight into the sources and how to reduce the financial barriers/ challenges faced by MSEs engaged in the business sector. The majority of respondents were interviewed wherever s/he felt comfortable preferably a quiet place where we were unlikely to be interrupted or destructed.

Table3.2, illustrates the sample size and sampling technique for the two phase of the proposed research. In both phase, judgmental sampling was employed: judgment or purposive sampling is a non-probability sampling technique in which an experienced individual selects the sample based on his/her judgment about some appropriate characteristic required of the sample members.

Table 3. 2: Research phase and corresponding sampling technique

Research phase	Aim of phase	Research method	Data collection method	Sampling technique	Sample size
Phase 1	Experts opinion regarding on sources of finance and their barriers on MSEs start-ups and growth in their sectors of business activities	Expert interview	Semi-structured interviews	Purposive	6experts 2,CBE, 2(MFI) &2,SZST MSEDA
Phase 2	Face-to-face interviews with owners ,managers, and operators of MSEs sectors	In-depth survey assessment		Purposive	Randomly selection

Source: Survey Sample Size Determination.

3.4.1 Interview Process

The types of interviews that were used during each phase are indicated in table 3.2 above. Semi-structured interviews were selected for the first phases of data collection because they are useful as an exploratory technique (Gillham, 2001). According to Welman and Kruger (2005), semi-structured interviews are usually used in explorative research to identify important variables in a particular area, to formulate penetrating questions on them, and to generate hypotheses for further investigation.

Semi-structured interviews were also used in the second phase because these types of interviews allow for the capturing of demographic information. In both phases of the research process prior to conducting the interviews; the researcher repeats the objectives of the interview. Information on the length of the interview was also agreed on in

advance so as to set reasonable expectations. Secrecy of the interviews was further confident.

3.5. Sources of Data

3.5.1 Secondary Sources

Mainly used in this research are secondary data obtained from existing literature (both theory and empirical studies) such as journal articles, research papers, annual/quarterly reports, and manual etc that reflects the challenges that MSEs encounter in gaining access to finance and that also highlights the role of non- formal financial service providers in resolving the problem. The method of data collection focused largely on acquiring on information on MSEs activities of financing and research constructs from sources of internet searches, books and articles related to the study. The secondary data collection covered wide areas relating to the aforementioned constructs and yielded most of theoretical frame work of literature review. This method played a crucial role in refining the problem of this research, identifying the study aims and objectives and successfully designing the questionnaires for the research.

3.5.2 Primary Sources

As it has been stated earlier, there were about 1307 MSE operators currently operating in Sebeta town of these 197 were selected as sample size. The primary data obtained from a survey conducted in Sebeta which is the reference a total of 197 sample respondents (a typical state in terms of the characteristics of MSEs) were surveyed using stratified sampling method and structured questionnaire and interviews that captures data which reflects the sources of finance, challenges, barriers and behavior of MSEs towards commercial banks and non-formal financial services providers regarding access to finance.

A. Questionnaire Development/Designing of Questionnaire; a number of both open-ended and close-ended questions were designed to obtain responses from a sample

population based on: the information on name, gender, age, marital status, educational status, business finance, types & barriers of the business operators

B. Pre-testing of Questionnaire the researcher pre-tested the questionnaire to check; whether the respondents understand the questions and captured the needed information.

C. Administration of Questionnaire: three enumerators recruited and trained for the purpose of gathering the survey data with researcher himself to administer / manage the distributed questionnaires and to conduct interview together. primary data was collected through questionnaire administered to most of (mainly) the owners of MSEs the total of 197 questionnaires were distributed to them but 149 questionnaires were collected/ returned from MSEs operators /owners for analysis purpose and interviews was conducted by randomly selection in this sample to support the questionnaires. The return rate was about 75.63% (149/197) of the total of the sample respondent from the questionnaires.

D. Consultation and interviews Face-to –face semi-structured interviews were conducted. The interview conducted with the experts of two microfinance institution (OCSSCO) in Sebeta town (the institutions that were into micro loan were chosen) and two for commercial bank (CBE) and two for SZSTMSEDA and randomly selection with some owners/ operators who are in MSEs business sectors in the Sebeta town, in total with 6 experts and with some owners/ operators of MSEs. Interview were conducted as follows: identifying questions in advance, making sure interviewees were representative of the group, finding a suitable location for the interview, recording responses and following up on the interview.

3.6 Data Processing and Analysis

Simple statistical techniques such as descriptive statistics and explanatory, including tables were used in analyzing and summarizing the data .Data was analyzed quantitatively against the back ground of the collected data by questionnaires from

respondents because it is characterized by more numerical data and qualitatively against the back the interview conducted with the respondents because it is characterized by more descriptions instead of numerical data and aim to create a common understanding of the subject studied. In addition, an analysis of the results obtained from the conducted Survey is done to make comparison between the existing (the theories put forward about the problem) and the actual fact on the ground; and then also seen why the problem is there and what possible solutions can be employed to tackle the issue.

In analyzing data, for the interview process the researcher used the data analysis smoothed for qualitative studies proposed by Creswell (1998), as cited in Leedy and Ormrod (2005, p150). Using this approach, the researcher went through the data several times, taking the following steps into account. Organizing the data, that is broken down into smaller units in the form of stories, sentences, and individual words, perusing the entire data set several times to get a sense of what it contains as a whole, the researcher jotted down a few memos that suggested possible categories of interpretations, identifying general categories or themes, then classifying each piece of data accordingly and integrating and summarizing the data for the readers of the research.

Generally, the sample size used was 149 sample respondents MSEs operators from questionnaire and interviews and 6 expert's interview were conducted, in the total 155 sample respondents were used for analysis, that is based on the rate of return of total sample respondents 76.35% (155/203) that is 197 MSEs owners and 6 experts

CHAPTER FOUR

4 Data Analysis and Results

The data analysis was based on the responses obtained from only 149 owners/operators of the micro and small scale enterprises in the town and, 2(two) CBE and,2(two) OCSSCO(MFI) and 2 (two) special Zone of Sebeta Town MSEs Development Agency,in total 155 sample respondents were used for analyzing purpose.

4.1 Results of respondents on questionnaires' of MSEs

Research results as obtained from the study, most of them are supported by the theoretical framework of the study, and are presented in this chapter in the form of figure (percentage) and other brief presentations. For the MSEs Sectors it was important to report the results of the research demographically so as to gain better understanding of the owners or managers of enterprises being researched as the core unit of analysis.

4.1.1 General Characteristics of the Sample Respondents

This sections pertains to the demographic profile of the MSEs operators covered in the research. The demographic characteristic of the respondents had been influenced the way they start up and expansion of their business

4.1.1.1 Gender

Table 4.1: Gender Split of MSEs Owners.

Gender	Frequency	Percentage
Males	104	70%
Females	45	30%
Totals	149	100%

Source: Survey data 2012

Males constituted the majority of owners across all the enterprises that were participated. The sample consisted of 70% males and 30% females as presented in the table 4.1 below.

4.1.1.2 Gender and Marital Status Based On the Type of Activities

In terms of owners participation, the construction sector took the largest share i.e., about 40% of the total employment in MSEs in the town. On the other hand, agriculture absorbed the least share by employing only 4% of the total employment in MSE. Finally, the survey data revealed that in the study area the majority of workers engaged in MSEs were not married

As shown in table 4.2 below, in the construction sector the participation of male owners are more as compared to the other sectors. In manufacturing and construction sectors, female owners' participation was less as compared to others

Table.4.2. Gender and Marital Status splits based on the type of activities

Sectors	Male	Female	Total	% age	Single	Married	Total
Agriculture	3	3	6	0.04	1	4	5
Manufacturing	18	4	22	0.15	14	10	24
Construction	57	3	60	0.40	43	12	55
Service	20	13	33	0.22	17	13	30
Trade	16	12	28	0.19	24	11	35
Total			149	100			149

Source: survey data 2012

Under construction, the activities required more labor force compared to the service and trade/merchandising sectors. Indirectly, the sectors did not need huge amount of initial and working capital.

4.1.1.3 Educational Background of respondent (MSEs Operators)

The majority of respondents had a, TVET (certificate /college diploma) qualification, as shown in the table below. This statistics confirms the fact that the majority of respondents (some with formal qualification included here) chose to start their businesses because they could not be absorbed by formal employments.

Table.4.3. Shows Educational Background of MSEs operators

Classifications	Frequency	Percentage
Grade 5-8	22	15%
High School	35	23%
College Diploma	71	48%
Bachelor Degree	21	14%
Total	149	100%

Source: Survey data 2012

4.1.1.4 Age Range

The majority of respondents included in the study fall within 26-35 age range as illustrated in table 4.4 below. The youngest respondents fell within the age range 18-25 years, while the oldest was above 65 years of age

Table 4.4 Shows Classification of Sample respondents by Age

Respondents by sectors		Sample respondents by age				
		18-25	26-35	36-45	46-60	Total
1	Agriculture	1	2	1	0	4
2	Manufacturing	2	8	7	3	20
3	Construction	7	21	19	12	59
4	Service	8	10	9	7	34
5	Trade	5	11	8	5	31
		5				
	Total	23	52	44	27	149

Source: Survey Data, 2012

4.1.2 Information on Pertaining to Business

4.1.2.1 Sample Respondents' Analysis by Formation of Business

As depicted on table 4.6 below from the total respondents about 85 (57%) of the respondents indicated that they were engaged in corporative form of enterprises. 28 (19%) of them were engaged enterprises established in the form of Plc; and another 21 (14%) of and 15(10%) of the respondents confirmed that they were engaged in activities established in the forms of partnership and sole proprietorships, respectively.

While the conventional literature is inclusive about the influence of ownership on access to credit, ownership structure, however, could affect a firm financing decision. Agency theory would suggest that business under sole ownership structure prefer lower debt to reduce the risk of their firm.

Table 4.5 shows MSEs Formation structure of the sample drawn.

Forms the business	Frequency	%age
Sole partnership	15	10%
Partnership	21	14%
PLC	28	19%
Corporation	85	57%
Total	149	100%

Source: Survey Data, 2012

Form of ownership had increasing both the managerial skill of the firm and the capital bases of the same firm depending on how it is formed. In such, company type of business had better chance than sole proprietorship and partnership in terms of internal and external financing (Wiwaltankantang, 1999:376)

4.1.2.2 Position or role of the MSEs Operators in the business.

About 134 (90%) of respondents were owners of MSEs that constituted this research as depicted Table 4.5 below .The responses received were therefore from the actual owners, and not representative

Table 4.6 Position or role in the business.

Positions	Frequency	Percentage
Owner	134	90%
Manager	3	2%
Both	12	8%
Total	149	100 %

Source: Survey data 2012

4.1.2.3. Sample Respondents' Analysis by Activities of /types of Business

The table 4.7 below shows that about 54 (36%) of the owners found engaged in construction activities .36 (24%) and 32 (22%) of them were engaged in service and trade (merchandising) activities respectively. Participating in agriculture and manufacturing is very important for development of the countries because they are the basis for medium and the large size industries/ enterprises the type of activities of the enterprises that sample respondents were engaged.

Table 4.7. Respondents by activities/types of business

Types of Business	Frequency	%age
Agriculture	6	4%
Manufacturing	21	14%
Construction	54	36%

Service	36	24%
Trade	32	22%
Total	149	100%

Source: Survey Data, 2012

As can be observed the table 2.7 above, the largest share of the respondents/MSEs owners were engaged in the construction sectors as compared to the target area/priority of area the strategy of the country. The finance suppliers also support the policy and the strategy of the country. This implies that they prioritize the business/activities that are engaged in primary activities to support the allotted amounts (Strategy FMSEDA, 2003)

4.1.3 Results on Source of Finance at Start & post- up Operations

4.1.3.1. Responses on the Source of Finance at Start up Operations

4.1. 3.1.1. Analysis on equity Vs debt Source of Finance at Start up

As stipulated in table 4.8 below, about 91 (61%) of the sample respondents financed their activities using the equity source of finance to start up their business while debt (39%) of the respondents used debt as sources of financing to start up their businesses.

Table 4.8 Shows respondents' on source of finance for start-up operation

Source of Finance	Frequency	Percentage %
Equity(own funds)	91	61%
Debt(loop or credit)	58	39%
Total	149	100%

Source: Survey Data, 2012

Other research findings indicated that start-up firms in established business are largely financed with equity, or trade credit, their family and friends (Huyghebaert & Van de Gucht, 2007). As can be observed in the above table 4.8, the finding shows that, the main source of finance at start-up business operation in the study area was equity financing. The theories of Equity financing does not require collateral (security) and offers the financier some form of ownership position in the business enterprise. Therefore, choosing between debt and equity involves replacement for owners with regard to potential profitability, financial risk and voting control (Mutezo, 2005).

4.1.3.1.2 Analysis of Semi-formal vs Informal Source of Finance of at Stat-up

As depicted in the table 4.9 below, about 44% of the total sample respondents start their business by financing from semi formal sources of finances and about 56% of them obtained loans from informal sources of finances.

Thus, it is indicated in the findings that informal sources of finances such as, from family & relatives, trade credit, money lenders, credit association I ddir and Iquib constituted the major sources of financing at start -up operation for MSEs operators in the study area.

Table 4.9 Respondents’ source of finance to start business

Sources	Frequency	Percentage
Semiformal sources:		
MFI(OCSSCO)	66	44%
Informal sources:		
Credit association	29	20%
Iddir	6	4.%
Iquib	10	7%
From family & relatives	31	20%
Trade credit	4	3%
Money lenders	3	2 %
Total	149	100%

Source: Survey Data, 2012

This finding is in line with the theoretical and empirical literature that is the informal finance plays a significant role in serving the community. Majority of the MSE get access to financial service through informal channels. There is a gap between the demands of operators of the micro and small enterprises to finance resources to start-up and to grow the accessibility of finance to them. So as to use this opportunity, loan from family or relatives, ‘*Iquib*’, ‘*Idir*’ and money lenders, traders began to provide small loans in the absence of loan from formal financial institution. It constitutes 69% percent of borrowers and 61 percent of loans size. The lenders have high loan recovery rate and flexible terms (Juanah, 2005).

4.1.3.1.3 Reasons of MSEs operators not to apply loan to banks at start- up.

Table 4.10 below shows that about 92 (62%) of MSEs operators indicated that the main reasons for them not to apply for bank loans was due to many loan evaluation criteria used by bank..And about 31 (21%) of the respondents indicated that they did not apply for bank loans at start-up because of collateral requirements of banks. some 26 (17%) of the operators revealed that the primary reasons for them not to utilize banks loans was due to many rule and regulation followed by respective the banks.

Table 4.10 Reasons for MSEs Operators not to apply for loans to bank at start-up operations

Reasons	Frequency	(%)age
Many loan evaluation criteria (internal and external factors)	92	62%
Unrealistic collateral requirements	31	21%
Excessive rule and regulation	26	17%
Non-availability and Location	0	0%
Total	149	100%

Source: *Survey Data, 2012*

According to some researcher finding, lack of collateral, high transaction costs and risks associated with small loans, and historical orientation towards small scale enterprises, continue to restrict micro and small enterprises access to formal credit (Steel in Paul Cook. 2000:19). In addition, Back, T and R, Levine,(2003), suggest that bank financing will depend upon whether the lending can be secured by tangible assets.

The finding from this research, the loan evaluating criteria that is, internal and external factors have been excluded MSEs from being part of the formal financial system. Their exclusion, certainly, would hinder to engage in the activities of the business and the development of the MSE in the economy that are the mass of MSEs and large service.

4.1.3.1.4 Benefits of having savings for MSE at start-up operation

Table 4.10 below revealed that 70 (47%) of the respondents indicated that it increases the chance of getting the debt source of financing, and 43 (28%) of the respondents confirmed that having saving help to have sufficient initial capital and 20 (15%) Of them reported that having initial saving help the owners to improve their living standard

Table 4 .11 Effects of Increasing in Saving

Benefits	Frequency	Percentage
To have sufficient initial capital	43	28%
To borrow from bank	5	3%
Saving is less risky than borrowing	11	7%
To access debt financing from MFI	70	47%
To improve their living standard	20	15%
Total	149	100%

Source: *Survey Data, 2012*

Thus, the findings from this research show that the majority of the respondents cited that having initial saving helps the operators/ owners of MSEs to access debt financing from MFI. Followed by to have sufficient initial capital for MSEs operation. This is according to the strategy of MSEs Development Agency of the country having initial saving is the prerequisite to look debt financing (1997).

4.1.3.2 Responses on Sources of Finance at Post –up operation

4.1.3.2.1 Responses on changes of income after post –up operations

As indicated in table 4.12 below, the firm’s ability to obtain internal sources of financing increase as income/ capital of operators grow. This is confirmed by 56 (38%) of the MSEs operators in the study area. Another 45(30%) of the operators revealed that having increased income/ capital during the course of the business would enable them to invest in profitable business On the other hand, 26(17%) of the operators indicated that the increased income/ capital in their business allow them to have more working capital. The remaining 15(10%) and 7(5%) of the MSEs operators indicated that the increased income in their business would help them to access debt financing and reduce liquidity constraints respectively.

According to the findings from this research, the majority of the respondents indicated that the internal financing is increased due to the earning of the business after post –up or after engaging in MSEs business activities, followed by having ability to invest in profitable business due to increased income/ capital in their business are the two major findings after engaging in MSEs business activities

Table 4.12 Effects of changes on income

Effects	Sample Respondents	percentage
It enables to invest in profitable business	45	30%
Reduce liquidity constraints	7	5%
Internal financing is increase	56	38%
debt financing is increase	15	10%
To have more working capital	26	17%
Total	149	100%

Sources: Survey Data, 2012

Average income is one of the indicators of earnings that suppliers of finance looks in to, high income may reflect high growth opportunities implying a high ability to borrow or low need to borrow (Parsed et al., cited in Green et al., 2002)

4.1.3.2 Responses on financial difficulties after post- up

Table 4.13 below shows that about 63 (42%) of the total sample respondents were lacking sufficient investment capital to purchase productive assets and lack of enough working capital to run day to day activities from loans. On the other hand 62 (41 %) of MSEs operators indicated that they lack of sufficient working capital to run their businesses. Some others, about 17(12%) and 7(5%) of the respondents revealed that repayment problems and lack of collateral limits access to finances from banks respectively.

Table 4.13 Shows reasons why the MSEs facing financial problem

Reasons	Frequency	% age
lack of sufficient working capital from MFI	62	41%
Lack of sufficient investment capital	63	42%
Repayment problems	17	12%
Lack of collateral that limits access to finances from banks	7	5%
Total	149	100%

Source: Survey Data, 2012

From this findings, the two major financial problems faced by operators / owners of MSEs business activities (after post up) have been lack of sufficient investment capital and lack of sufficient working capital from MFI as cited by majority of the respondents.

4.1.4.3 Respondent's response to address financial problems at post-up

The table 4.14 below shows that (33%) of the MSEs operators solve their financial difficulty using family or own funds; and 25% of the operators employed retained profit to address financial problems . This is from the equity section of finance in total 58%.

From debt section, 1.3% from formal bank, from MFIs 15% (semi- formal sources) and 8% from NGO (semi- formal sources) and 18.7% from informal sources of finance. In total 1.3% from formal debt section, 23% from semi-formal debt section and 18.7% from informal debt section of financing source.

Table 4.14 sources of finances, which address financial problems at post- up

Sources of Finances	Frequency	Percentage
Equity:		
Family or own fund	49	33%
Retained profit	37	25%
Debt:		
Bank loan(formal)	2	1.3%
MFI (OCSSCO) semi formal	22	15%
NGO assistance(semiformal)	11	8%
Informal source of finance:		
Credit association	9	6%
Trade credit	7	4.6%
Equip	8	5.4%
Edirr	4	2.7%
Total	149	100%

Source, survey data, 2012

The finding from this research shows that the majority of sources of finance at post up business cited from the equity section of the finance were to address the financial problems that is about 58% and about 41.7% from debt section of semi-formal and informal source of the finance was to address the financial problems and only 1.3% from formal bank to address financial problems.

Since banks lending to MSEs was 1.3%, still it is very small. So the empirical literature supports the research findings that the majority of MSEs tend to depend a lot on retained earnings and their own fund (70% of firms) and 1% from bank for financing; this is according to a report conducted (by ICA Survey in 2008.7).

4.1.4 Results from Respondents responses through questionnaires on financial barrier

4.1.4.1 The following 4.16 table shows the responses from MSEs questions that seek to address research question

A) What barriers did you experience in accessing capital to start your business from MFIs?

Table 4.15 Barriers Experienced In Sources of Start –Up Capital from (OCSSCO)

Barriers in sources of start-up capital	Frequency	Percentage
Communication problems	0	
Lack of sufficient initial capital and saving culture	83	56%
Poor credit record	11	7%
Lack of business skills and entrepreneurship concept	52	35%
Lack of attitude and interest	3	2%
Total	149	100%

Source: Survey Data, 2012

Lack of sufficient initial capital and saving culture was mentioned by 56% of the respondents as main barrier of sourcing starting –up financing. About 35% of the respondents cited lack of business skills and entrepreneurship concept. The communication between financiers and owners and lack of attitude and interest did not seem to be the barriers experienced in sources of start –up capital).

The World Bank reported that around 90% of MSEs surveyed indicated that access to credit was a major barrier to new investment (World Bank in Green et al. 2002:1)

The findings from this research show that; lack of initial capital and saving culture was cited by the majority of respondents as the major barriers experienced in sourcing start-up capital. This was followed by lack of business skills and entrepreneurship concept. The communication between financiers and owners and lack of attitude and interest did not seem to be serious barriers experienced in accessing sources of start –up capital

B, If you applied for financial assistance to development finance institution and your application was rejected, what were the reasons for rejection?

Table 4.16 Reasons for application rejection

Reasons for application rejection	Frequency	Percentage
lack of experience	31	21%
Lack of available raw materials	7	5%
Lack market	22	15%
Poorly designed business plan	89	59%
Character of the MSEs operators	0	0%
Total	149	100

Source: *Survey Data, 2012*

From the table 4.16 above about 59% of the total respondents revealed that the reason provided by regarding loan rejection was a poorly designed business plan, about 21% lack of experience, 15%, market record and 5% Lack of available raw materials and none of reason character of the MSEs Operators. Character of the MSEs Operators did not seem to be the reasons for application rejection The character of the MSEs did not seem to be the reason in sourcing financing as none of the respondents cited it as the reason for loan rejection. The finding from this research reported that the primary reason given for loan rejection cited by the majority of respondents were poorly designed business plan

C, what are the main barriers for further development of your business?

Table 4.17 Depict the Barriers justifying Further Development

Factors affecting growth of MSEs	Frequency	percentage
Insufficient support from local authorities	25	17%
Difficulty in accessing credit	99	66%
Lack of clear government MSEs program	0	0%
Lack of market information	0	0%
Lack of qualified human resources	25	17%
Total	149	100%

Source: *Survey Data, 2012*

As shown from the above table 4.17 about 66% of the respondents said that the major barrier to the growth and development of their business is the challenge they face accessing credit, also 17% of them confirmed that they suffer from a lack of qualified human resources ,

a number of other respondents attributed this barrier to inadequate support from local authorities and lack of clear government program and lack of market information did not seem to be the major factors affecting growth of MSEs in study area.

D, what measures should be taken at government level to support further development of your business?

As table 4.18 indicates, 40% of the total respondents suggest that a major factor that will facilitate the growth of their personal business and other businesses in general is better access to financing (i.e. creation of MSEs funds, etc)

Table 4.18 Factors that will enhance further development of the business.

Factors for growth & development of MSEs	Frequency	Percentage
Facilitate access to financing (creation of MSEs funds, etc)	60	40%
Decrease the amount of taxes	8	5%
Many reports to different organizations	8	5%
Give priority to women-entrepreneurs	0	0%
Help to create “business facilities” or “technology access	44	30%
Support innovative technology	29	20%
Total	149	100%

Sources: Survey Data, 2012

In addition, majority of the respondents replied that the quality that helps to create business facilities and technology access where the businesses can growth especially at the initial stages of the sectors (enterprises

4.2 Results Obtained From Interviews of the sample respondents.

4.2.1 Responses from CBE, OCSSCO and SZSTMSEDA to Research Question#4

In addressing research question no 4 from the financiers view point, lack of collateral was mostly cited as the barrier associated with the provision of finance for MSEs at start-ups. In emphasizing this issue of lack of collateral, one respondent stated that “applicants with inadequate security are generally rejected”. Lack of experience in general business management and understanding of the market and access to market were also stated as some of the barriers associated with the provision of finance to MSEs.

When asked what barriers are associated with the provision of finances MSEs to grow specifically to involve in the profitable business, lack working capital and investment capital was also cited as the most frequently. Added to this was lack of related experience and skills with currently engaged in business, inadequate market access, appropriate work place and risk involved in some business sectors

4.2.2 Interview conducted with MSEs, CBE, OCSSCO and SZSTMSEDA to Research Question#5

4.2.2.1 Responses from owners' of MSEs point of view

In addressing research question #5, on the issue of what role the finance-enabling environment should play in reducing barriers to finance, the majority of respondents felt that they do not do much in reducing barriers to finance, except offering financial products which is in any case their business. on the issue of what role the financial institutions should play in reducing barriers to finance, the majority of respondents suggested that more risk-taking by financiers, relaxing rigid credit assessment criteria

When asked what future role financiers should play in reducing barriers to finance, most of the respondents indicated the need for training in specific working activities based on each sectors engagements and basic business and bookkeeping skills and general business management (entrepreneurship concepts). Some indicated that the current requirement for loan approval was too suggested that they be relaxed. Some of respondent indicated that lending should exclude collateral but focus more on commitment by members

4.2.2.2 Responses from CBE,OCSSCO and SZSTMSEDA point of view

In addressing research question #5 from the financier's point of view, the majority of respondents stated that financial institutions do offer training to potential MSEs operators in order to prepare them for business environment and its management

Regarding the future role that financial institutions can play in reducing barriers to finance, some respondents brought up the issue of financial supports (funds) for start-up entities to share risk and to build the skills of the applicants. They said that this is the most crucial point where they need the help of the government and other sponsors.

4.3. By conducting interview and addressing the questions are registered, workplace and record keeping influences debt financing decisions financiers' point of view

When asked, is the business registration in trade and industry bureau influences the credit financing? The majority of the respondents said that firms, registration of the firm could be taken as a symptom of creditability (character in view of the financiers). The firms that registered in trade and industry bureau have more access to credit finance than the firm not registered.

When asked, do you think having financial record in the business affect the credit financing? The majority of the respondents said that financial record keeping Suppliers of finances might view financial record keeping as an indication to have a sound financial management by the firm. Besides, it could be taken as indicator of the transparency on part of the business; therefore, they could use it as basis to assess some sort of information about the credit worthiness of the debt-requesting firm.

When asked, is the working premise of the business holding influences the debt financing decision? the majority of the respondents said that, working premise holding of the business one that decides the external financing is lenders consider in extending loan is the tangible asset under the possession of the business. Therefore, it could be expected that owners with own working premise holdings have chance for debt financing than those who rented. The empirical evidence suggests in consistent with theoretical arguments between asset structure and leverage.

Finding from the research the majority of the respondents said that working premise, financial record keeping and registration of the firms influence credit financing. This implies that all are very important to increase or obtain credit access from external finance in addition to internal sources of finances in order to start and run business.

4.4. Secondary Data Analysis

The researcher used secondary data from the annual report of Sebeta MSEs development agency. The sample period covers from 1996 through 2003. There are 1307 operators of MSEs that engaged indifferent business actives as shown.

Table s 4.19 shows lists of sectors with their initial and working

	Sector	No Of enterprises	Sex			Capital	
			Male	Female	Total	Initial capital	working capital
1996	Agriculture	-	-	-	-	-	-
	Manufacturing	-	-	-	-	-	-

	Construction	2	24	-	24	2000	550,000
	Service	-	-	-	-	-	-
	Trade	-	-	-	-	-	-
	Total	2	24	-	24	2000	550,000
1997	Agriculture	-	-	-	-	-	-
	Manufacturing	1	3	-	3	1000	30000
	Construction	2	27	-	27	1200	85000
	Service	2	6	4	10	1600	25000
	Trade	-	-	-	-	-	-
	Total	5	36	4	40	3800	140,000
1998	Agriculture	1	3	1	4	1000	100000
	Manufacturing	1	6	-	6	1000	50000
	Construction	3	13	4	17	9900	448681.37
	Service	-	-	-	-	-	-
	Trade	1	-	3	3	1500	32000
	Total	6	22	8	30	13,400	630,681.37
1999	Agriculture	-	-	-	-	-	-
	Manufacturing	1	3	-	3	1000	9950
	Construction	8	30	10	40	12200	1925849.8 2
	Service	1	3	-	3	2500	15000
	Trade	2	2	3	5	3000	45316
	Total	12	38	13	51	18,700	1,996,115. 82

2000	Agriculture	1	4	1	5	1000	15000
	Manufacturing	7	15	7	22	17600	1,161,050.39
	Construction	14	117	7	124	1,218,834.73	5,510,065
	Service	16	44	14	58	28800	514623.15
	Trade	21	27	38	65	40950	257394
	Total	59	207	67	274	1,307,184.73	7,458,132.54
2001	Agriculture	2	5	4	9	5800	34481
	Manufacture	7	17	9	26	17000	256584.66
	Construction	12	72	10	82	26700	1281302.14
	Service	23	27	33	60	48700	611521
	Trade	23	18	53	71	48200	300870.50
	Total	67	139	109	248	146,400	2,484,759.30
2002	Agriculture	5	6	10	16	29500	140899
	Manufacturing	11	34	8	42	53600	272501
	Construction	13	89	6	95	54100	778551
	Service	26	64	37	101	60950	373786
	Trade	26	38	50	88	82200	478763
	Total	81	231	111	342	280,350	2,044,500
2003	Agriculture	6	12	11	23	53600	10694
	Manufacture	13	56	4	60	39700	327096
	Construction	2	10	3	13	7400	73674

	Service	35	71	66	137	87800	366038
	Trade	17	24	41	65	68100	257343
	Total	73	173	125	298	256,600	1,131,115

Source; Annual reports of SZSTMSSED

Table 4.20 .Shows That The Summary of Lists Of Sectors With Their Initial & Current Capital In Sebeta Town Currently

	Sectors	Total M&F	Capital					
			Initial capital	Initial Cap / Operators in Br	Cent s	Working capital	increase in Wc / operators	C nt
1	Agriculture	51	90,900	1782	35	351,344	6889	10
2	Manufacturing	182	130,900	719	23	2,107,182	11577	92
3	Construction	466	1,332,334	2859	08	10,653,122	22860	77
4	Service	307	230,350		32	1,905,957		32

				750			6208	
5	Trade	301	243,950	810	46	1,371,686	4557	09
	<i>Total</i>		2028434	6921	44	16689291	52092	20

Source; Annual report 2004 of SZSTMSEDA

The above summarized data in the table 4.21 shows that changes on their capital:

In Agriculture sectors the working capital increases from 1782.35 to 6889.10 per operator, in Construction sectors, the working capital increases from 2859.08 to 22860.77 per operator, in the Manufacturing sectors the working capital increases from 719.23 to 11577.92 per operator, in Service sector the working capital increases from 750.32 to 6208.32, per operator and the last, in trade sectors the working capital increases from 810.46 to 4557.09 per operator. When these changes compared with the sectors each other's per individual operator the construction sectors have more capital than the other sectors and followed by manufacturing sectors.

CHAPTER FIVE

5 Summaries, Conclusions and Recommendations

5.1 Summary of the Major Findings

Micro and small Enterprise is expanded in any developing countries as one of unemployment reduction tools (as one of job creation). In Ethiopia, micro and small enterprises is expanding time to time or year to year starting from 1996.

The main objective of MSE in the national strategy Framework is to create enabling environment for micro and small enterprises. It is expected that hundreds and thousands of MSEs will themselves be responsible for operation, growth and progress of their enterprises

The purpose of this thesis has been to review the sources of finances that are the most important for MSEs, challenging problem of MSEs access to finance from the established commercial banks in MSEs in Sebeta ,to investigate if there are other alternative financing options available to MSEs such as the non-formal financial service providers, to identify the barriers of financing provisions that limits the access of finances for MSEs owners / operators and changes of their capital after engaging in the business/ operation .

Access to finance helps the micro and small enterprises to start up the business, to diversify (expansion/growth) and increase income and ease their liquidity constraints. To achieve these objectives, the study attempted to find answers for the research objective, research question. A questionnaire distributed, filled and collected from sample respondent of MSEs Operators / owners and an interview were also conducted with these MSEs Operators / owners, CBE, MFI (OCSSCO) and SZSTMSEDA

Based on the analysis of the data collected from the questionnaire, interview and relevant documents the following the major findings were made.

In the study, it was found out that the ownership on choice of finance influence as the decision corporative formation of business has more of access to debt financing than sole proprietorship and partnership.

It was identified that the activities of the business engaged in can affect the financing decision. That means, the business that is engaged in primary activities, such as agriculture, manufacturing needs more capital than the other activities. It was found that the stage of MSE operators can determine the financing decision at start up and post up business.

Debt financing, especially semi-formal and informal source of financing decreased at post up when compared to start up financing. This is because repayment problems at start up business can affect to take loans at growth stage

The participation of all business sectors are different according to the formation, types/activities, the capital requirements to start the business, for example the business that engaged under primary activities such as manufacturing and agriculture require more capital than other business activities.

From gender point of, it was found that female participation was less in agriculture, construction and manufacturing but more participation in services and trade/merchandising has been observed. The initial capital requirements for construction sector were less as compared to the other sectors to start the business.

From accessibility of sources of finance, it was found that Oromia Credit and Savings Share Company (OCSSCO) can give more services for micro and small enterprises from other semiformal micro finances that is financial and nonfinancial services, such as saving, credit and money transfer and nonfinancial such as business training, training in bookkeeping etc.

It was found that the main sources of finance is equity for both at start up and growth stage of business for micro and small enterprise operators and informal sources of finance is more significant than semi-formal sources of finance for micro and small enterprise operators at start- up stage business.

On the issue of what role the financial institutions should play in reducing barriers to finance, the findings suggested that more risk-taking by financiers, relaxing rigid credit assessment criteria

It was revealed that the external sources of finance from semiformal and informal sources were less at growth stage/post up business as compared to at start up stage. This may be due to the increment of internal fiancé(income) or the repayment problems at start up business, but the involvements of formal sources somewhat increased

The main Barriers for further development of the MSEs business revealed that difficulty in accessing credit, insufficient support from local authorities and lack of qualified human resources

Measures should be taken at government level to support further development of business found that, facilitate access to financing (creation of MSEs Funds, etc), help to create “business facilities” or “technology access and support innovative technology were the major findings.

Finding from the research the majority of the respondents said that working premise, financial record keeping and registration of the firms influence credit financing. This implies that all are very important to increase or obtain credit access from external finance in addition to internal sources of finances in order to start and run business.

5.2 Conclusions

The gathered data and observations from this analysis lead to the following conclusions

The research was conducted to discover the financing options of MSEs operators / owners with specific reference to starting and running their business in Sebeta town.

The research and surveys indicated that MSEs Scale firms are not favored by the Commercial banks in the provision of adequate loan facilities. This situation is as a result of both external and internal factors affecting both banks and MSEs.

The existence of NFFSPs that offer a wide range of financial services and perform transactions that are needed for the economy and a well-developed NFFSPs system can play a major role in achieving the developmental goals for MSEs operators in Sebeta

town. However, these institutions are not really helping the MSEs because they are also not as developed as found in regions in the countries where they provide support to the banking system in the provision of funding for businesses especially MSEs operators.

The MFIs and informal sources of finance is important tool/ an alternative means of financing through which it gives power to the micro and small business operators. The OCSSCO and other informal financial sources wanted to see sustainable financial services available to those who don't have access to formal financial resources. That is important in achieving this objective and is being promoted to be commercially workable through an appropriate policy and regulatory framework. From this, guidelines have been developed for microfinance institutions and other micro finance service providers.

In addition, it is obvious that MSEs require more than financial support, they also need leadership and management skills development. Most importantly, the government has to improve the conditions and infrastructural inadequacy hindering the commercial banks from starting the business activities and in the growth and development of the MSEs Sector in Sebeta town.

In recent years, considering the MSEs have limited access to credit from formal financial market and from other informal or semi-formal financial sources, such as from various MFIs recognizing that lack of finance is the major problems of MSEs operators to start their business and to run /expand their business,

Lack of initial, working and investment capital and lack of loan funds and facilities are among the barriers faced by micro enterprises sectors that are lack of working capital to run their business day- to day activities and lack of investment capital to purchase machineries and equipment. Therefore, lack of credit is a significant and sometimes binding constraints limiting investment in productivity, enhancing technology and inputs.

Providing diversified products (non-financial) and financial services help (important) to fit micro and small enterprise operators need. In the study, it was identified that the micro

and small enterprise institution provide non-financial service and financial service especially from town administration of Sebeta town MSE institution provide non-financial service such as business training (general business idea), skill training related to finance and entrepreneurship concepts etc. are important in improving the effectiveness' of the financial service to micro a small enterprises operators.

There are many formal and semiformal sources of financing especially Oromia Credit and Savings Share Company was the only MFI that give financial services for MSEs for the purpose of this thesis and better non-financial services such as training in record keeping, marketing and entrepreneurship. However, they are less flexible in scheduling loan repayments for the micro and small enterprises. This implies that the repayment period is very short that means principal and interest for the loan takers.

To involve directly in operation start- up business first participate in different project (government or private project) and save money to start up business without looking into debt financing by their own capital because saving is the primary determining factors to look into debt financing and it is a prerequisite for loan taking procedures servicing from MFIs. Training and advisory services have been given to MSEs to be cost effective during the operation of the business for post up business is the base for debt financing.

At start- up business the main problems were lack of enough initial capital, entrepreneurship concepts and basic business concepts. At post-up /growth business the main problems identified were lack of enough working capital and investment capital. Access to finance remains major problem of the MSEs in the town and most of MSEs have relied entirely on their own savings and money borrowed from friends and relatives.

The condition for MSEs lending are usually difficult to meet especially the collateral requirements, that is many loan evaluation criteria requirements, for loan takers from

formal bank and also there are difficulties of loan taking from MFI because of by lacking the correct business and work plan from operators of MSEs

Presented alternative sources of finances in thesis were launched by MFI, informal sources of finances, NGOs and aids agencies. The programmers' have been grown in recent years but the small size of loans remains insufficient for SMEs. The problem seems to accessibility of financial institutions rather than availability of funds. The activity MSEs is engaged in important indicative types of business. For, the policy aims to support MSEs operating in specified activities.

The premise holding, the registration and record keeping of the business was as measure of collateral so that enables to understand whether those MSEs owning (having) the working premise, the registration and record keeping would be influenced to choose credit financing than those rented and not having registration in trade and industry bureau

and the correct prepared financial record (record keeping) to look in to credit financing, especially to take loan from MFIs.

The main Barriers for further development of the MSEs business runners/ operators are difficulty in such accessing credit. This is due to many loan evaluating criteria/ loan policy for those financial service providers, such as; credit service agency, MFIs and other financial service providers, insufficient support from local authorities, implies that there is no sufficient supporters/ sponsors that provides various support to MSEs operators in the country and finally lack of qualified human resources, this is very important for further development of MSEs operators in the country, but there are less number of qualified human resources that motivate MSEs operators to develop further in the study area.

Factors that enhance further development of the businesses are facilitating access to financing (creation of MSEs funds), implies that the revision of lending and financing policies of the country are very important for further growth to accommodate the

majority of the country in accordance with the fact that the country is developing and by helping / supporting business facilities and innovative technology that enhance/ increase to further development of MSEs operators in study area.

5.3 Recommendations

The findings of the research revealed that there is a clear challenge of MSEs been limited in their credit to access from formal bank, due to many loan evaluation criteria that is external and internal factors and inadequate capital incident; therefore, the government should formulate policies that will sustain commercial banks to reduce their regulation, defensive and operations which discourage borrowing and offer more credit facilities for MSEs. Since micro enterprises have very limited access to finance from conventional banks, specialized financing system should be developed to facilitate credit access to the micro and small enterprises that would increase their business activities to start and to expand in productivity and income generating activity.

Microfinance institutions and other micro finance service providers have played a great role especially in providing alternative sources of finances for MSEs operators in study

areas. MSEs Operators are, however facing problems of lack of sufficient initial and working capital and investment capital. Therefore, it is recommended that the banks should encourage the formation of cooperatives of MSEs operators, so that a number of beneficiaries that are engaged in similar business can collectively enjoy their services and hence a reduction in operating cost as well as a reduction in the possibility for borrowers to default.

There is also a need to establish more microfinance institutions and other institutions that provide more financial service, especially in urban areas so as to further promote and develop the MSEs operators capacity that is needed for transforming the areas and accelerating economic growth

In addition, the development of the non- financial services providers should be encouraged and supported as a combination of both the commercial banks and the NFFSPs will go a long way in aiding the development of the MSEs sector.

The institution that provide / supply the financial resources, training and material lease should be expanded for the operators of the enterprises. Facilitating initial capital would be advised by savings to finance external sources of finance; especially from MFIs.

Continuous training is required to be given for startup MSE to the operators to develop the concepts of savings and to start the business without look in to debt financing. Skill development for enough business management/entrepreneurship concepts and accounting skills also very necessary to be given for MSEs operator at start up business,. The skill and technical training should be given to MSEs operators (owners) to develop production and quality of production. In order to overcome the problems faced by growth stage business/post up business the micro finance institutions loan provision should be increased in working and investment capital to run in profitable business.

5.4 Future research (work) recommendations

Future research in this field should be carried out in discovering how NFFSPs can be developed in the town so they can support in providing the too much needed assistance that they are recognized to offer, especially in the country.

It is necessary to rethink the issue of MSEs operators in study area. Therefore there is a need for future research to understand the strength and weakness of MSEs operators business activity in the sectors, and account for reasons why MSEs operators have not, in larger numbers expanded beyond small scale phase.

A comparative study is required to assess the similarities and differences in financial limitations between the various economic activities in the study area .such a study would help in outlining a relevant policy framework that suits the specific needs of particular sectors.

There is a need for research to determine how the incorporations MSEs business activities with specific discipline in the process of educating MSEs business operators/runners impacts on the development not only of the basic the options of financial sources but also skills, attitudes and entrepreneurial values.

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Gafii walii ghalaa waa'ee saalaa, uumurii

(□□□□□ □□□ □□ □□□ □□□)

1. Saala (□□)

Dhiira (□□□)

Durba (□□)

Kanhin fune /hin herume

kanfu'ee/ kan herumte

□□□□ /□□□□)

□□□□/ □□□□

2. Uumurii (□□□)

20-25

26-35

36-45

46-60

I. Gaafii sadarka barumsaa fi lenjii

(□□□□□□ □□□□ □□□□□ □□□□)

3. Sadarka barumasaa (□□□□□□ □□□)

Kutaa 5-8

sadarka olaanaa

(□□□□)

2□ □□□

Dippiloomaa kolleejjii (□□□ □□□□)

Digirii (□□□□)

4. Hojii osoo hincalqabin dura muxxannoo qabdaa?

(□□ □□□□□□/□ □□□ □□□ □□□ □□□/□)

Eyyee (□□)

lakki (□□□□□□)

5. Eyyee hojettee waggaa meeqaafi?

(□□ □□□□/□ □□□ □□□ □□□ □□□/□)

Eyyee (□□)

lakki (□□□□□□)

6. Eeyyee hojettee hojii kee taana lual fakkataa?

(□□ □□□/□ □□□□/□ □□ □□□□□ □□)

Eyyee (□□) Lakki (□□□□□)

7. Hojitti otoo hingalin dura leenjii fudhateeta?

(□□ □□ □□□□□□/□ □□□ □□□□ □□□□□/□□)

Eyyee (□□) Lakki (□□□□□)

8. Eeyyee hojette leenjii maalii?

(□□ □□□/□ □□ □□□□ □□□□) -----

9. Eeyyee hojettee leenjii walfakkatu dha?

(□□ □□□/□ □□□□□ □□□□ □□)

Eyyee (□□) Lakki (□□□□□)

10. Eerga hojjitti galtee booda leenjii fudhatetaa

Eyyee (□□) Lakki (□□□□□)

11. Eeyyee hojette leenjii akkamii

(□□ □□□/□ □□ □□□□ □□□□)

II. Gaafii walgalaa waa’ee hojii (business)

12. Wagga kam kan hojii caalqabdee?

(□□ □□□□□□/□□□ □□□ □□□□ □□ □□)-----

13. Maqan daldala kee biiroo daldalaa fi Indusitriiffi galma'eera?

(□□□ □□□□ □□□□□ □□□□□ □□□□□□)

Eeyyee (□□) Lakki (□□□□□)

14. Maqaan hundee fama hojii kee maal?

(□□ □□□□ □/□□ □□□ □□□ □□□□□/□)

- Itti gafatamansa kan murta'e
(□□□□□ □□□□□ □□□ □□□□)
- Shirkinaa
(□□□□)
- Nalda gamtaa
(□□□□ □□ □□□□)
- Dhunfaa
(□□□)

15. Maqaan daldala kee maal keessatti argama?

(□□ □□□□ □□ □□□ □□□□□□/□)

Qoonna manufakicheriniigii

(□□□□) (□□□□□□□□□)

Daldala Ijarsaa

(□□□□) (□□□□□□□□)

Tajajila

(□□□□□□□)

16. Namoota meeqatu hojeta kee keesati argama?

(□□□□ □□□ □□□ □□ □□□ □□□ □□□□□)-----

17. Mana ti keesatti hojettu akkam?

Dhunfa (□□□)

Kiraa (□□□)

18. Gaalii ati ji'ati argatu meegaa

(□□□ □□□/□ □□□ □□)-----

III. Gaafi walgala waa'ee madda finaansii

19. Yeroo calqabdee kaapitalaa meeqan calqabde

(□□□□□ □□ □□□ □□□□/□ □□□□ □□ □□ □□□□□□/□□)-----

20. Hojii osoo hincalqabni duraa amala ousannaa qabdaa?

(□□ □□□ □□□□□□ □□□ □□□□ □□□ □□□/□)

Eeyyee (□□)

Lakki (□□□□□)

21. Eeyyee hojette madda kamii?

(□□ □□□/□ □□□)-----

22. Lakki hojette maliifi

(□□□□□ □□/□ □□□)

Fe'ii ahabuu

(□□□□ □□□)

Hojii uumuu beeku dhisuu

(□□□ □□□ □□□ □□□)

Amala ousannaa dhabuu

23 Yeroo hojitti galte maddi kapitalaa kee inni guddan isa kam?

(Y ^ " <eØ KS Óvf /KS ES ` ¼Ñ" ²w U" B I /g= ¾f—' < ' ' <)

- Qabeenya Dhunfaa (¾ÓM)
- Liqaa (wÉ`)

24.Yeraoo hositti galtee liqaa Bankii irraa fudhateofaa?

(uY ^ " <eØ uUfÑvKf Ñ²? Ýv" j wÉ` " eÅHM/hM)

Eeyyee (>) Lakk (> ÅÅKU)

23Lakki hojefee maalif?

(> ÅÅKU "Mj /i)

- Liqaa xiqaaif gatii guddaa baasuu
(Kf"i wÉ` w²< " B eKJ')
- Qaabeehya dhabataa wabii waan gaafatuuf
(sT > "w[f Kª ef" eKT >ÖÅp)
- Danbii (seera) cimaa kan qabuuf)
(ÝS Ö" uLÃ QÓ" Å"w eKT >ÖÅp)
- Caasaafi bakka

(በአሠራርና በቦታ ምክንያት)

25. Liqaa fudhachuuf miyirofinansii fi warra kan bira gaafattettaa?

(wÉ` KS `` <eÉ` `` Å > 'e} -" Ønp" wÉ` } sU HÅ^a M/hM) ?

Eeyyee (>) Lakki (> ÅÅKU)

26. Eeyye hojettee bakka akkamitti fudhachuu bar bada?

(> "M_i /g= Ÿ¼f-'' < } sU KS `` <wÉ` fðMÒKI /g=) ?

- Waldaa finansii miyikiroo xixiqaa
(Ÿ> 'e} -" Ønp" wÅ` " I Öv } sU) ?
- Edlr Eqvbi
°É` °I w

Liqaa warra keenan irraa

wÉ` ŸT >WÖ<f

- Warra irraa fi fira irraa
- Ÿu?} cw" Ÿ²S É

27 Lakki hojette sababa mallif?

- Karoora hojii fi karoora daldalaa dhabuudhan
(¾" ÓÉ" ¾Y ^ °pÉ)
- Yeyoon kan falifinsaa gaba aawaanta'ee
(i òÁ'' < u> ß ` Ñ?'' <eØ eKJ' / u¾'' \)
- Sababa sodaaf
(uS ò ^ f /uò ^ %)

- Hinarganu jechuudhan
(> "Ñ~U > K")

28 Erga hojitti galtee booda Qusannoo qabdaa?

Y ^ " <eØ YÑvI /g= u%L I Öv > KI /g=

- Eeyyee (>) lakki (> ããKU)

29. Qusannoan kee yoo dabala deeme jijirama maal fida?

(¾> " } / ^ I Öv YÚ S [U" K" <Ø ÁS xM)

- Dandheetii Investiimentii dhunfaa.dabala
(የራሳችን እንቨስትመንት ይጨምራል)
- Qaabeenya gaarii ta'ee bita chuuf
(Ø\ Gwf KS Ó³f KY ^)
- Liqaa caalaa qusannoon Kisaraa irraa bilisa waan fa'ee
(YwÉ` ' I Öv" Yÿ=X^ 'í eKJ')
- Hojii ademstifun keenyaa ba'ata.
Y ^ T eÿ=ÁÍ < " ãu³M

ANNEX A

JIMMA UNIVERSITY

FACULTY OF BUSINESS AND ECONOMICS

MSC IN ACCOUNTING AND FINANCE

AnnexA: Questionnaire to be filled by MSEs operators/owners.

Dear Respondent

This is the research survey on financing option/ decision for MSEs Operators; by investigating non formal financial service providers as means of alternative sources of financing .In partial fulfillment of the requirements for the degree of master of science accounting and finance (Msc) at the Jimma University College of Business and Economic.

By responding to this questionnaire you will be contributing towards a positive intervention in the fields of all MSEs Sectors. Be assured that all information provided will be treated in the exactly confidence

Responding to the questionnaire may not take you more than 25 minutes of your time. The research is aimed at uncovering the financial sources of emerging MSEs in Sebeta town. By finding out the financial sources that influence start -up and expand business operators / owners in MSEs Sectors, this research can make potential operators / small business runners aware of the importance of considering these sources finance in the start -up and expand their business.

In trying to gain better understanding of the sources of finance experienced by emerging Sebeta MSEs operators in different sectors, your participation in this regarded is needed and greatly appreciated. Thank you

Demographic information

Instruction

Tick the appropriate box or give explanation to open ended questions

I General

Male	
Female	

1. Gender

2. Marital status

Single	
Married	

3. Which age group do you belong?

20- 25	
26-35	
36- 45	
46-60	
Above 65	

II Education and Training

4. What is your educational back ground?

Grade 5-8	
High School	
College Diploma	
Bachelor Degree	
Above bachelor	

5. If your answer to Q5 is yes, was experience related to the business you are doing currently?

Yes	
No	

6. Do you take any training before starting up your business?

Yes	
No	

7. If your answer to question 6 is yes, state type of training

8. If your answer Q7 yes, is the training related to the business you are currently engaged in?

Yes	
No	

9. Do you take any training after starting up your business?

Yes	
No	

10. If the answer to question 10 is yes, state the type of training -----

III general information about business

11. What is your position/role in the business?

Owner	
Manager	
Both	

12. Is your business registered with trade and industry bureau?

Yes	
No	

13. What is the form of your business?

Privet Limited company	
Corporative	
Partnership -	
Sole partnership	
Others	

14. Which type of activity are you engaged in?

Agriculture	
-------------	--

Manufacturing	
Construction	
Service	
Trade (merchandising	

15. What is total number of people working in your business?-----

Iv. General Information about the Sources of Finance

17. Do you have personal saving or before start your business?

Yes	
No	

18. If the answer Q17 IS yes specify the sources of your income _____

19. If the Q18 answer is No why?

Lack of work interest	
Lack of business and entrepreneurship concepts	
Lack of saving culture	

20. What is your main source of capital at start?

Equity (family or Owned	
Debt	

21. Did you ever applied for loans to bank at startup operation ?

Yes	
No	

22. If the answer to question, Q 21 no, why specify the reasons

Reasons	
Many loan evaluation criteria (internal and external factors)	
Unrealistic collateral requirements	
Excessive rule and regulation	
Non-availability and Location	

Total	
-------	--

23. Do you apply for loans to semiformal and informal sources of finances at start –up operation?

Yes	
No	

24. If the answer is yes to which of the following have you applied

Sources	
<i>Semiformal sources:</i>	
MFI(OCSSCO)	
<i>Informal sources:</i>	
Credit association	
Iddir	
Iquib	
From family & relatives	
Trade credit	
Money lenders	

25. The answer Q 24 is no, what barriers did you experience in sourcing capital (to taking loans from micro finance institutions) to start your business?

Communication problems	
Lack sufficient initial and saving culture	
Poor credit record (poor business plan and work plan)	
Lack of business skills entrepreneurship concept	
Lack of attitude and interest	
Other (please explain below)	

26. Have you get financial sources from informal sources of finances at start up the business?

Yes	
No	

28. Do have personal saving after you engaged this business?

Yes	
No	

29. What is effect if yours saving culture is increases?

To have sufficient initial capital	
To borrow from bank	
To access debt financing	
Saving is less risk than borrowing	
To improve living standard	
Other (please explain below)	

30. If your income increasing what is the effect /chances on your business?

It enables to invest in profitable business	
Reduce liquidity constraints	
Internal financing is increase	
Debt financing is increase	
To have more working capital	
Other (please explain below)	

31. Do you face any financial problems/Difficulties post start up?

Yes	
No	

32. If your answer to question 31 is yes, specify the reasons

Reasons	
lack of sufficient working capital from MFI	
Lack of sufficient investment capital	
Repayment problems	
Lack of collateral that limits access to finances from banks	
Total	

33. If the answer Q no 31 is yes, to which of the following have you applied to address the financial difficulty/problems

Sources of finances	
<i>Equity:</i>	
<i>Family or own fund</i>	
<i>Retained profit</i>	
Debt:	
<i>Bank loan(formal)</i>	
<i>MFI (OCSSCO) semi formal</i>	
<i>NGO assistance(semiformal)</i>	
Informal source of finance:	
<i>Credit association</i>	
<i>Trade credit</i>	
<i>Equip</i>	
<i>Edirr</i>	
<i>Total</i>	

34. How do you address the financial problems at post -up?

35 If you applied for financial assistance to a bank or development finance institution and your application was rejected, what were the reasons for rejection?

Lack of experience	
Poor credit record	
Lack of collateral	
Poorly designed business plan	
Character of the entrepreneur	
Other (please explain below)	

If answered other, please explain

36. What are the main barriers for further development of your business?

Factors affecting growth of SMEs	Responses
Insufficient support from local authorities	
Lack of qualified human resources	
Lack of clear government SMES program	
Lack of market information	
Difficulty access to credit	

38. What measures should be taken at government level to support the creation and further development of your business?

Factors for growth & development of SMEs	Responses
Facilitate access to financing (creation of MSEs funds, etc)	
Decrease the amount of taxes	
many reports to different organizations	
Give priority to women-entrepreneurs	
Help to create "business facilities.	
Support innovative technology	

Annex B
JIMMA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MSC IN ACCOUNTING AND FINANCE

Annex B: interview conducted with MSEs Owners/ operators

Dear Respondent

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In trying to gain better understanding of the sources of finance experienced by emerging Sebeta MSEs operators in different sectors, your participation in this regarded is needed and greatly appreciated.

Interview
(Information Pertaining to your Business)

1. How much was the capital at start up initial capital? -----

2. Are Your Capital / returns increases after post up?

3. Did you keep any financial record?

yes	
No,	

4. Are Registered, Workplace and Record Keeping Influences debt financing Decision?

The fluencies debt financing Decision	Yes	no
Is the business registration in trade and industry bureau influences the debt financing?		
Are the working places of the business holding in influences the debt financing decision?		
Having financial record in the business affects the debt financing?		

5 If The Question No- Is Yes How They Influences Explain For Each-----

Please note that the following three questions are open-ended. Kindly provide as much information as you can

6 What financial sources were the most important to you when you started-up and posted -up your business?

7. What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance except for offering financial products? -----

8. What future role should the finance-enabling environment play to reduce the barriers to finance?-----

9 what are the main problems of that limits the access of financing for MSEs operators at start up and post up?-----

Annex C
JIMMA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MSC IN ACCOUNTING AND FINANCE

Annex C: interview conducted with employee of a commercial bank, microfinance institution (OCSSCO) And Special Zone Sebeta MSEs Development Agency

Dear Respondent

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Interview Questionnaires: employee of a commercial bank, microfinance institution (OCSSCO) And Special Zone Sebeta MSEs Development Agency

Instruction

Give the appropriate explanation to open ended questions for the Following
The questions below are open-ended. Please fill in as much as possible

1. What is the name of your -----

2. What are the responsibilities of the post you are occupying?

3 What are the barriers associated with the provision of finance to MSEs start- up
and to grow? -----

4. What are the barriers associated with the provision of finance to MSEs to grow,
specifically to involve in the profitable business? -----

5. What role does the financial environment (e.g. banks and development finance
institutions) play in reducing barriers to finance except for offering financial
products?-----

6. What future role should the finance-enabling environment play to reduce the
barriers to finance? -----

--

**7. Is the business registration in trade and industry bureau influences the
debt financing?**

8. Do you think having financial record in the business affect the debt financing?

9. Is the working premise of the business holding in influences the debt financing decision

10. If you have any other comments or inputs pertain in to financing sources to start and to grow in Sebeta town in the sectors they engaged in, kindly write them down

11 What are the primary criteria to take loan from your institutions, especially from micro lenders institutions?-----

Gafii walii ghalaa waa'ee saalaa, uumurii

(□□□□□ □□□ □□ □□□ □□□)

1. Saala (□□)

Dhiira (□□□)

Durba (□□)

Kanhin fune /hin herume

kanfu'ee/ kan herumte

□□□□ /□□□□)

□□□□/ □□□□

2. Uumurii (□□□)

20-25

26-35

36-45

46-60

I. Gaafii sadarka barumsaa fi lenjii

(□□□□□□□ □□□□ □□□□□□ □□□□)

3. Sadarka barumasaa (□□□□□□□ □□□)

Kutaa 5-8

sadarka olaanaa

(□□□□)

2□ □□□

Dippiloomaa kolleejjii (□□□□ □□□□)

Digirii (□□□□)

4. Hojii osoo hincalqabin dura muxxannoo qabdaa?

(□□ □□□□□□□/□ □□□ □□□ □□□ □□□□/□)

Eyyee (□□)

lakki (□□□□□□)

5. Eyyee hojettee waggaa meeqaafi?

(□□ □□□□/□ □□□ □□□ □□□ □□□□/□)

Eyyee (□□)

lakki (□□□□□□)

6. Eeyyee hojettee hojii kee taana lual fakkataa?

(□□ □□□/□ □□□□/□ □□ □□□□□ □□)

Eyyee (□□) Lakki (□□□□□)

7. Hojitti otoo hingalin dura leenjii fudhateeta?

(□□ □□ □□□□□□/□ □□□ □□□□ □□□□□/□□)

Eyyee (□□) Lakki (□□□□□)

8. Eeyyee hojette leenjii maalii?

(□□ □□□/□ □□ □□□□ □□□□) -----

9. Eeyyee hojettee leenjii walfakkatu dha?

(□□ □□□/□ □□□□□ □□□□ □□)

Eyyee (□□) Lakki (□□□□□)

10. Eerga hojjitti galtee booda leenjii fudhatetaa

Eyyee (□□) Lakki (□□□□□)

11. Eeyyee hojette leenjii akkamii

(□□ □□□/□ □□ □□□□ □□□□)

II. Gaafii walgalaa waa'ee hojii (business)

12. Wagga kam kan hojii caalqabdee?

(□□ □□□□□□/□□□ □□□ □□□□ □□ □□)-----

13. Maqan daldala kee biiroo daldalaa fi Indusitriiffi galma'eera?

(□□□ □□□□ □□□□□ □□□□□ □□□□□□)

Eeyyee (□□) Lakki (□□□□□)

14. Maqaan hundeeffama hojii kee maal?

(□□ □□□□ □/□□ □□□ □□□ □□□□□□/□)

- Itti gafatamansa kan murta'e
(□□□□□ □□□□□ □□□ □□□□□)
- Shirkinaa
(□□□□□)
- Nalda gamtaa
(□□□□□ □□ □□□□□)
- Dhunfaa
(□□□□)

15. Maqaan daldala kee maal keessatti argama?

(□□ □□□□ □□ □□□ □□□□□□□/□)

Qoonna manufakicheriniigii

(□□□□) (□□□□□□□□□□)

Daldala Ijarsaa

(□□□□) (□□□□□□□□□□)

Tajajila

(□□□□□□□□)

16. Namoota meeqatu hojeta kee keesati argama?

(□□□□ □□□ □□□ □□ □□□ □□□ □□□□□)-----

17. Mana ti keesatti hojettu akkam?

Dhunfa (□□□)

Kiraa (□□□)

18. Gaalii ati ji'ati argatu meegaa

(□□□ □□□/□ □□□ □□)-----

III. Gaafi walgala waa'ee madda finaansii

19. Yeroo calqabdee kaapitalaa meeqan calqabde

(□□□□□ □□ □□□ □□□□/□ □□□□ □□ □□ □□□□□□/□□)-----

20. Hojii osoo hincalqabni duraa amala ousannaa qabdaa?

(□□ □□□ □□□□□□ □□□ □□□□ □□□ □□□/□)

Eeyyee (□□)

Lakki (□□□□□)

21. Eeyyee hojette madda kamii?

(□□ □□□/□ □□□)-----

22. Lakki hojette maliifi

(□□□□□ □□/□ □□□)

Fe'ii ahabuu

(□□□□ □□□)

Hojii uumuu beeku dhisuu

(□□□ □□□ □□□ □□□)

Amala ousannaa dhabuu

23 Yeroo hojitti galte maddi kapitalaa kee inni guddan isa kam?

(Y ^ " <eØ KS Óvf /KS ES ` ¼Ñ" ²w U" B I /g=) ¾f—' < ' ' < >)

- Qabeenya Dhunfaa (¾ÓM)
- Liqaa (wÉ`)

24.Yeraoo hositti galtee liqaa Bankii irraa fudhateofaa?

(uY ^ " <eØ uUfÑvKf Ñ²? Ýv" i wÉ` " eÅHM/hM)

Eeyyee (>) Lakk (> ÅÅKU)

23Lakki hojefee maalif?

(> ÅÅKU "Mj /i)

- Liqaa xiqaaif gatii guddaa baasuu
(Kf"i wÉ` w²< " B eKJ')
- Qaabeehya dhabataa wabii waan gaafatuuf
(sT > "w[f Kª ef" eKT >ÖÅp)
- Danbii (seera) cimaa kan qabuuf)
(ÝS Ö" uLÃ QÓ" Å"w eKT >ÖÅp)
- Caasaafi bakka

(በአሠራርና በቦታ ምክንያት)

25. Liqaa fudhachuuf miyirofinansii fi warra kan bira gaafattettaa?

(wÉ` KS ` <eÉ ` ` Å > 'e} -" Ønp" wÉ` } sU HÅ^a M/hM) ?

Eeyyee (>) Lakki (> ÅÅKU)

26. Eeyye hojettee bakka akkamitti fudhachuu bar bada?

(> "M_i /g= Ÿ¼f- " < } sU KS ` <wÉ` f ðMÒKI /g=) ?

- Waldaa finansii miyikiroo xixiqaa
(Ÿ > 'e} -" Ønp" wÅ` " I Öv } sU) ?
- Edlr Eqvbi
°É` °I w

Liqaa warra keenan irraa

wÉ` ŸT >WÖ<f

- Warra irraa fi fira irraa
- Ÿu?} cw" Ÿ²S É

27 Lakki hojette sababa mallif?

- Karoora hojii fi karoora daldalaa dhabuudhan
(¾" ÓÉ" ¾Y ^ °pÉ)
- Yeyoon kan falifinsaa gaba aawaanta'ee
(i ðÁ` < u> ß ` Ñ?` ` <eØ eKJ' / u¾` \)
- Sababa sodaaf
(uS ð ^ f /uð ^ %)

- Hinarganu jechuudhan
(> "Ñ~U > K")

28 Erga hojitti galtee booda Qusannoo qabdaa?

Y ^ " <eØ YÑvI /g= u%L I Öv > KI /g=

- Eeyyee (>) lakki (> ããKU)

29. Qusannoan kee yoo dabala deeme jijirama maal fida?

(¾> " } / ^ I Öv YÚ S [U" K" <Ø ÁS xM)

- Dandheetii Investiimentii dhunfaa.dabala
(የራሳችን እንቨስትመንት ይጨምራል)
- Qaabeenya gaarii ta'ee bita chuuf
(Ø\ Gwf KS Ó³f KY ^)
- Liqaa caalaa qusannoon Kisaraa irraa bilisa waan fa'ee
(YwÉ` ' I Öv" Yÿ=X^ 'í eKJ')
- Hojii ademstifun keenyaa ba'ata.
Y ^ T eÿ=ÁÍ < " ãu³M

ANNEX A
JIMMA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MSC IN ACCOUNTING AND FINANCE

AnnexA: Questionnaire to be filled by MSEs operators/owners.

Dear Respondent

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you

Thank

Demographic information

Instruction

Tick the appropriate box or give explanation to open ended questions

I General

Male	
Female	

1. Gender

2. Marital status

Single	
Married	

3. Which age group do you belong?

20- 25	
26-35	
36- 45	
46-60	
Above 65	

II Education and Training

4. What is your educational back ground?

Grade 5-8	
High School	
College Diploma	
Bachelor Degree	
Above bachelor	

5. If your answer to Q5 is yes, was experience related to the business you are doing currently?

Yes	
No	

6. Do you take any training before starting up your business?

Yes	
No	

7. If your answer to question 6 is yes, state type of training

8. If your answer Q7 yes, is the training related to the business you are currently engaged in?

Yes	
No	

9. Do you take any training after starting up your business?

Yes	
No	

10. If the answer to question 10 is yes, state the type of training -----

III general information about business

11. What is your position/role in the business?

Owner	
Manager	
Both	

12. Is your business registered with trade and industry bureau?

Yes	
No	

13. What is the form of your business?

Privet Limited company	
Corporative	
Partnership -	
Sole partnership	
Others	

14. Which type of activity are you engaged in?

Agriculture	
Manufacturing	

Construction	
Service	
Trade (merchandising	

15. What is total number of people working in your business?-----

Iv. General Information about the Sources of Finance

17. Do you have personal saving or before start your business?

Yes	
No	

18. If the answer Q17 IS yes specify the sources of your income_____

19. If the Q18 answer is No why?

Lack of work interest	
Lack of business and entrepreneurship concepts	
Lack of saving culture	

20. What is your main source of capital at start?

Equity (family or Owned	
Debt	

21. Did you ever applied for loans to bank at startup operation ?

Yes	
No	

22. If the answer to question, Q 21 no, why specify the reasons

Reasons	
Many loan evaluation criteria (internal and external factors)	
Unrealistic collateral requirements	
Excessive rule and regulation	
Non-availability and Location	
Total	

23. Do you apply for loans to semiformal and informal sources of finances at start –up operation?

Yes	
No	

24. If the answer is yes to which of the following have you applied

Sources	
<i>Semiformal sources:</i>	
MFI(OCSSCO)	
<i>Informal sources:</i>	
Credit association	
Iddir	
Iquib	
From family & relatives	
Trade credit	
Money lenders	

25. The answer Q 24 is no, what barriers did you experience in sourcing capital (to taking loans from micro finance institutions) to start your business?

Communication problems	
Lack sufficient initial and saving culture	
Poor credit record (poor business plan and work plan)	
Lack of business skills entrepreneurship concept	
Lack of attitude and interest	
Other (please explain below)	

26. Have you get financial sources from informal sources of finances at start up the business?

Yes	
No	

28. Do have personal saving after you engaged this business?

Yes	
No	

29. What is effect if yours saving culture is increases?

To have sufficient initial capital	
To borrow from bank	
To access debt financing	
Saving is less risk than borrowing	
To improve living standard	
Other (please explain below)	

30. If your income increasing what is the effect /chances on your business?

It enables to invest in profitable business	
Reduce liquidity constraints	
Internal financing is increase	
Debt financing is increase	
To have more working capital	
Other (please explain below)	

31. Do you face any financial problems/Difficulties post start up?

Yes	
No	

32. If your answer to question 31 is yes, specify the reasons

Reasons	
lack of sufficient working capital from MFI	
Lack of sufficient investment capital	
Repayment problems	
Lack of collateral that limits access to finances from banks	
Total	

33. If the answer Q no 31 is yes, to which of the following have you applied to address the financial difficulty/problems

Sources of finances	
<i>Equity:</i>	
<i>Family or own fund</i>	
<i>Retained profit</i>	
Debt:	
<i>Bank loan(formal)</i>	
<i>MFI (OCSSCO) semi formal</i>	
<i>NGO assistance(semiformal)</i>	
Informal source of finance:	
<i>Credit association</i>	
<i>Trade credit</i>	
<i>Equib</i>	
<i>Edirr</i>	
<i>Total</i>	

34. How do you address the financial problems at post -up?

35 If you applied for financial assistance to a bank or development finance institution and your application was rejected, what were the reasons for rejection?

Lack of experience	
Poor credit record	
Lack of collateral	
Poorly designed business plan	
Character of the entrepreneur	
Other (please explain below)	

If answered other, please explain

36. What are the main barriers for further development of your business?

Factors affecting growth of SMEs	Responses
Insufficient support from local authorities	
Lack of qualified human resources	
Lack of clear government SMES program	
Lack of market information	
Difficulty access to credit	

38. What measures should be taken at government level to support the creation and further development of your business?

Factors for growth & development of SMEs	Responses
Facilitate access to financing (creation of MSEs funds, etc)	
Decrease the amount of taxes	
many reports to different organizations	
Give priority to women-entrepreneurs	
Help to create "business facilities.	
Support innovative technology	

Annex B
JIMMA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MSC IN ACCOUNTING AND FINANCE

Annex B: interview conducted with MSEs Owners/ operators

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Interview

(Information Pertaining to your Business)

1. How much was the capital at start up initial capital? -----

 2. Are Your Capital / returns increases after post up?

3. Did you keep any financial record?

yes	
No,	

4. Are Registered, Workplace and Record Keeping Influences debt financing Decision?

The fluencies debt financing Decision	Yes	no
Is the business registration in trade and industry bureau influences the debt financing?		
Are the working places of the business holding in influences the debt financing decision?		
Having financial record in the business affects the debt financing?		

5 If The Question No- Is Yes How They Influences Explain For Each-----

Please note that the following three questions are open-ended. Kindly provide as much information as you can

6 What financial sources were the most important to you when you started-up and posted -up your business?

7. What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance except for offering financial products? -----

8. What future role should the finance-enabling environment play to reduce the barriers to finance?-----

*9 what are the main problems of that limits the access of financing for MSEs operators at start up and post up?-----

-----*

Annex C
JIMMA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MSC IN ACCOUNTING AND FINANCE

Annex c; interview conducted with employee of a commercial bank, microfinance institution (OCSSCO) And Special Zone Sebeta MSEs Development Agency

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Interview Questionnaires: employee of a commercial bank, microfinance institution (OCSSCO) And Special Zone Sebeta MSEs Development Agency

Instruction

Give the appropriate explanation to open ended questions for the Following
The questions below are open-ended. Please fill in as much as possible

1. What is the name of your -----

2. What are the responsibilities of the post you are occupying?

3 What are the barriers associated with the provision of finance to MSEs start- up
and to grow? -----

4. What are the barriers associated with the provision of finance to MSEs to grow,
specifically to involve in the profitable business? -----

5. What role does the financial environment (e.g. banks and development finance
institutions) pay in reducing barriers to finance except for offering financial
products?-----

6. What future role should the finance-enabling environment play to reduce the
barriers to finance? -----

**7. Is the business registration in trade and industry bureau influences the
debt financing?**

8. Do you think having financial record in the business affect the debt financing?

9. Is the working premise of the business holding in influences the debt financing decision

10. If you have any other comments or inputs pertain in to financing sources to start and to grow in Sebeta town in the sectors they engaged in, kindly write them down

11 What are the primary criteria to taGafii walii ghalaa waa'ee saalaa, uumurii

(□□□□□ □□□ □□ □□□ □□□)

1. Saala (□□)

Dhiira (□□□)

Durba (□□)

Kanhin fune /hin herume

kanfu'ee/ kan herumte

□□□□ /□□□□)

□□□□/ □□□□

2. Uumurii (□□□)

20-25

26-35

36-45

46-60

I. Gaafii sadarka barumsaa fi lenjii

□□□□□□ □□□□ □□□□□ □□□□)

3. Sadarka barumasaa (□□□□□□ □□□)

Kutaa 5-8 □ sadarka olaanaa □

(□□□) □ 2□ □□□ □

Dippiloomaa kolleejjii (□□□ □□□□) □

Digirii (□□□)□

4. Hojii osoo hincalqabin dura muxxannoo qabdaa?

(□□ □□□□□□/□ □□□ □□□ □□□ □□□/□)

Eyyee (□□) □ lakki (□□□□□) □

5. Eyyee hojettee waggaa meeqaafi?

(□□ □□□/□ □□□ □□□ □□□ □□□/□)

Eyyee (□□) □ lakki (□□□□□) □

6. Eeyyee hojettee hojii kee taana lual fakkataa?

(□□ □□□/□ □□□□/□ □□ □□□□□ □□)

Eyyee (□□)□ Lakki (□□□□□)□

7. Hojitti otoo hingalin dura leenjii fudhateeta?

(□□ □□ □□□□□□/□ □□□ □□□□ □□□□□/□□)

Eyyee (□□)□ Lakki (□□□□□)□

8. Eeyyee hojette leenjii maalii?

(□□ □□□/□ □□ □□□□ □□□□) -----

9. Eeyyee hojettee leenjii walfakkatu dha?

(□□ □□□/□ □□□□□ □□□□ □□)

Eyyee (□□) Lakki (□□□□□)

10. Eerga hojjitti galtee booda leenjii fudhatetaa

Eyyee (□□) Lakki (□□□□□)

11. Eeyyee hojette leenjii akkamii

(□□ □□□/□ □□ □□□□ □□□□)

II. Gaafii walgalaa waa'ee hojii (business)

12. Wagga kam kan hojii caalqabdee?

(□□ □□□□□□□/□□□ □□□ □□□□ □□ □□)-----

13. Maqan daldala kee biiroo daldalaa fi Indusitriiffi galma'eera?

(□□□ □□□□ □□□□□ □□□□□ □□□□□□)

Eyyee (□□) Lakki (□□□□□)

14. Maqaan hundee fama hojii kee maal?

(□□ □□□□ □/□□ □□□ □□□ □□□□□/□)

- Itti gafatamansa kan murta'e

(□□□□□ □□□□□ □□□ □□□□)

- Shirkinaa

(□□□□)

- Nalda gamtaa
(□□□□ □□ □□□□)
- Dhunfaa
(□□□)

15. Maqaan daldala kee maal keessatti argama?

(□□ □□□□ □□ □□□ □□□□□□/□)

Qoonna manufakicheriniigii

(□□□) (□□□□□□□□)

Daldala Ijarsaa

(□□□) (□□□□□□□)

Tajajila

(□□□□□□)

16. Namoota meeqatu hojeta kee keesati argama?

(□□□□ □□□ □□□ □□ □□□ □□□ □□□□□)-----

17. Mana ti keesatti hojettu akkam?

Dhunfa (□□□) Kiraa (□□□)

18. Gaalii ati ji'ati argatu meegaa

(□□□ □□□/□ □□□ □□)-----

III. Gaafi walgala waa'ee madda finaansii

19. Yeroo calqabdee kaapitalaa meeqan calqabde

(□□□□□ □□ □□□ □□□□/□ □□□□ □□ □□ □□□□□□/□□)-----

20. Hojii osoo hincalqabni duraa amala ousannaa qabdaa?

(□□ □□□ □□□□□□ □□□ □□□□ □□□ □□□/□)

Eeyyee (□□) Lakki (□□□□□)

21. Eeyyee hojette madda kamii?

(□□ □□□/□ □□□)-----

22. Lakki hojette maliifi

(□□□□□ □□/□ □□□)

Fe'ii ahabuu

(□□□□ □□□)

Hojii uumuu beeku dhisuu

(□□□ □□□ □□□ □□□)

Amala ousannaa dhabuu

23 Yeroo hojitti galte maddi kapitalaa kee inni guddan isa kam?

(Y ^ ' ' <eØ KS Óvf /KS ĘS ` ¼Ñ" 2w U" B I/g=) ¼f-'' < ' ' >

- Qabeenya Dhunfaa (¼ÓM)
- Liqaa (wÉ`)

24.Yeraoo hositti galtee liqaa Bankii irraa fudhateofaa?

(uY ^ ' ' <eØ uUfÑvKf Ñ²? Ýv" j wÉ` ' ' eÅHM/hM)

Eeyyee (>) Lakk (> ÅÅKU)

23. Lakki hojefee maalif?

(> $\tilde{A}\tilde{A}KU$ "M_i /i)

- Liqaa xiqaaif gatii guddaa baasuu
(Kf"i wÉ` w²< " B eKJ')
- Qaabeehya dhabataa wabii waan gaafatuuf
(sT > "w[f K^a ef" eKT >ÖÃp)
- Danbii (seera) cimaa kan qabuuf
(ÿS Ö" uLÃ QÓ" Å" w eKT >ÖÃp)
- Caasaafi bakka
(በአሠራርና በቦታ ምክንያት)

25. Liqaa fudhachuuf miyirofinansii fi warra kan bira gaafattettaa?

(wÉ` KS " <eÉ " Å > 'e} -" Ønp" wÉ` } sU H^a M/hM) ?

Eeyyee (>) Lakki (> $\tilde{A}\tilde{A}KU$)

26. Eeyye hojettee bakka akkamitti fudhachuu bar bada?

(> "M_i /g= ÿ¾f- " < } sU KS " <wÉ` f ðMÒKI /g=) ?

- Waldaa finansii miyikiroo xixiqaa
(ÿ > 'e} -" Ønp" wÅ` " I Öv } sU) ?
- Edlr Eqvbi
°É` °I w

Liqaa warra keenan irraa

wÉ` ÿT >WÖ<f

- Warra irraa fi fira irraa

- ህግግ ርዕስ ማረጋገጫ

27 ለሰው ግብይት ምክንያት ማረጋገጫ?

- ለሰው ግብይት ምክንያት ማረጋገጫ
(ግብይት ማረጋገጫ ለሰው ግብይት)
- ለሰው ግብይት ምክንያት ማረጋገጫ
(ግብይት ማረጋገጫ ለሰው ግብይት)
- ለሰው ግብይት ምክንያት ማረጋገጫ
(ግብይት ማረጋገጫ ለሰው ግብይት)
- ለሰው ግብይት ምክንያት ማረጋገጫ
(ግብይት ማረጋገጫ ለሰው ግብይት)

28 ለሰው ግብይት ምክንያት ማረጋገጫ ማረጋገጫ?

ግብይት ማረጋገጫ ለሰው ግብይት ማረጋገጫ

- ለሰው ግብይት ምክንያት ማረጋገጫ ለሰው ግብይት ምክንያት ማረጋገጫ

29. ለሰው ግብይት ምክንያት ማረጋገጫ ማረጋገጫ ማረጋገጫ?

(ግብይት ማረጋገጫ ለሰው ግብይት ማረጋገጫ)

- ለሰው ግብይት ምክንያት ማረጋገጫ ማረጋገጫ
(ግብይት ማረጋገጫ ለሰው ግብይት ማረጋገጫ)
- ለሰው ግብይት ምክንያት ማረጋገጫ ማረጋገጫ
(ግብይት ማረጋገጫ ለሰው ግብይት ማረጋገጫ)
- ለሰው ግብይት ምክንያት ማረጋገጫ ማረጋገጫ
(ግብይት ማረጋገጫ ለሰው ግብይት ማረጋገጫ)
- ለሰው ግብይት ምክንያት ማረጋገጫ ማረጋገጫ
(ግብይት ማረጋገጫ ለሰው ግብይት ማረጋገጫ)

ANNEX A
JIMMA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MSC IN ACCOUNTING AND FINANCE

AnnexA: Questionnaire to be filled by MSEs operators/owners.

Dear Respondent

This is the research survey on financing option/ decision for MSEs Operators; by investigating non formal financial service providers as means of alternative sources of financing .In partial fulfillment of the requirements for the degree of master of science accounting and finance (Msc) at the Jimma University College of Business and Economic.

By responding to this questionnaire you will be contributing towards a positive intervention in the fields of all MSEs Sectors. Be assured that all information provided will be treated in the exactly confidence

Responding to the questionnaire may not take you more than 25 minutes of your time. The research is aimed at uncovering the financial sources of emerging MSEs in Sebeta town. By finding out the financial sources that influence start -up and expand business operators / owners in MSEs Sectors, this research can make potential operators / small business runners aware of the importance of considering these sources finance in the start -up and expand their business.

In trying to gain better understanding of the sources of finance experienced by emerging Sebeta MSEs operators in different sectors, your participation in this regarded is needed and greatly appreciated.

you

Thank

Demographic information

Instruction

Tick the appropriate box or give explanation to open ended questions

I General

Male	
Female	

1. Gender

2. Marital status

Single	
Married	

3. Which age group do you belong?

20- 25	
26-35	
36- 45	
46-60	
Above 65	

II Education and Training

4. What is your educational back ground?

Grade 5-8	
High School	
College Diploma	
Bachelor Degree	
Above bachelor	

5. If your answer to Q5 is yes, was experience related to the business you are doing currently?

Yes	
No	

6. Do you take any training before starting up your business?

Yes	
No	

7. If your answer to question 6 is yes, state type of training

8. If your answer Q7 yes, is the training related to the business you are currently engaged in?

Yes	
No	

9. Do you take any training after starting up your business?

Yes	
No	

10. If the answer to question 10 is yes, state the type of training -----

III general information about business

11. What is your position/role in the business?

Owner	
Manager	
Both	

12. Is your business registered with trade and industry bureau?

Yes	
No	

13. What is the form of your business?

Private Limited company	
Corporative	
Partnership -	
Sole partnership	
Others	

14. Which type of activity are you engaged in?

Agriculture	
Manufacturing	

Construction	
Service	
Trade (merchandising	

15. What is total number of people working in your business?-----

Iv. General Information about the Sources of Finance

17. Do you have personal saving or before start your business?

Yes	
No	

18. If the answer Q17 IS yes specify the sources of your income_____

19. If the Q18 answer is No why?

Lack of work interest	
Lack of business and entrepreneurship concepts	
Lack of saving culture	

20. What is your main source of capital at start?

Equity (family or Owned	
Debt	

21. Did you ever applied for loans to bank at startup operation ?

Yes	
No	

22. If the answer to question, Q 21 no, why specify the reasons

Reasons	
Many loan evaluation criteria (internal and external factors)	
Unrealistic collateral requirements	
Excessive rule and regulation	
Non-availability and Location	
Total	

23. Do you apply for loans to semiformal and informal sources of finances at start –up operation?

Yes	
No	

24. If the answer is yes to which of the following have you applied

Sources	
<i>Semiformal sources:</i>	
MFI(OCSSCO)	
<i>Informal sources:</i>	
Credit association	
Iddir	
Iquib	
From family & relatives	
Trade credit	
Money lenders	

25. The answer Q 24 is no, what barriers did you experience in sourcing capital (to taking loans from micro finance institutions) to start your business?

Communication problems	
Lack sufficient initial and saving culture	
Poor credit record (poor business plan and work plan)	
Lack of business skills entrepreneurship concept	
Lack of attitude and interest	
Other (please explain below)	

26. Have you get financial sources from informal sources of finances at start up the business?

Yes	
No	

28. Do have personal saving after you engaged this business?

Yes	
No	

29. What is effect if yours saving culture is increases?

To have sufficient initial capital	
To borrow from bank	
To access debt financing	
Saving is less risk than borrowing	
To improve living standard	
Other (please explain below)	

30. If your income increasing what is the effect /chances on your business?

It enables to invest in profitable business	
Reduce liquidity constraints	
Internal financing is increase	
Debt financing is increase	
To have more working capital	
Other (please explain below)	

31. Do you face any financial problems/Difficulties post start up?

Yes	
No	

32. If your answer to question 31 is yes, specify the reasons

Reasons	
lack of sufficient working capital from MFI	
Lack of sufficient investment capital	
Repayment problems	
Lack of collateral that limits access to finances from banks	
Total	

33. If the answer Q no 31 is yes, to which of the following have you applied to address the financial difficulty/problems

Sources of finances	
<i>Equity:</i>	
<i>Family or own fund</i>	
<i>Retained profit</i>	
Debt:	
<i>Bank loan(formal)</i>	
<i>MFI (OCSSCO) semi formal</i>	
<i>NGO assistance(semiformal)</i>	
Informal source of finance:	
<i>Credit association</i>	
<i>Trade credit</i>	
<i>Equib</i>	
<i>Edirr</i>	
<i>Total</i>	

34. How do you address the financial problems at post -up?

35 If you applied for financial assistance to a bank or development finance institution and your application was rejected, what were the reasons for rejection?

Lack of experience	
Poor credit record	
Lack of collateral	
Poorly designed business plan	
Character of the entrepreneur	
Other (please explain below)	

If answered other, please explain

36. What are the main barriers for further development of your business?

Factors affecting growth of SMEs	Responses
Insufficient support from local authorities	
Lack of qualified human resources	
Lack of clear government SMES program	
Lack of market information	
Difficulty access to credit	

38. What measures should be taken at government level to support the creation and further development of your business?

Factors for growth & development of SMEs	Responses
Facilitate access to financing (creation of MSEs funds, etc)	
Decrease the amount of taxes	
many reports to different organizations	
Give priority to women-entrepreneurs	
Help to create "business facilities.	
Support innovative technology	

Annex B

JIMMA UNIVERSITY

FACULTY OF BUSINESS AND ECONOMICS

MSC IN ACCOUNTING AND FINANCE

Annex B: interview conducted with MSEs Owners/ operators

Dear Respondent

This is the research survey on financing option/ decision for MSEs Operators; by investigating non formal financial service providers as means of alternative sources of financing .In partial fulfillment of the requirements for the degree of Master Science in Accounting and Finance (Msc) at the Jmma College of Business and Economic.

By responding to this questionnaire you will be contributing towards a positive intervention in the fields of all MSEs Sectors. Be assured that all information provided will be treated in the strictest confidence

Responding to the questionnaire may not take you more than 25 minutes of your time. The research is aimed at uncovering the financial sources of emerging MSEs in Sebeta town. By finding out the financial sources that influence start -up and expand business operators / owners in MSEs Sectors, this research can make potential operators / small business runners aware of the importance of considering these sources finance in the start -up and expand their business.

In trying to gain better understanding of the sources of finance experienced by emerging Sebeta MSEs operators in different sectors, your participation in this regarded is needed and greatly appreciated.

Interview

(Information Pertaining to your Business)

1. How much was the capital at start up initial capital? -----

2. Are Your Capital / returns increases after post up?

3. Did you keep any financial record?

yes	
No,	

4. Are Registered, Workplace and Record Keeping Influences debt financing Decision?

The fluencies debt financing Decision	Yes	no
Is the business registration in trade and industry bureau influences the debt financing?		
Are the working places of the business holding in influences the debt financing decision?		
Having financial record in the business affects the debt financing?		

5 If The Question No- Is Yes How They Influences Explain For Each-----

Please note that the following three questions are open-ended. Kindly provide as much information as you can

6 What financial sources were the most important to you when you started-up and posted -up your business?

7. What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance except for offering financial products? -----

8. What future role should the finance-enabling environment play to reduce the barriers to finance?-----

*9 what are the main problems of that limits the access of financing for MSEs operators at start up and post up?-----

-----*

Annex C

JIMMA UNIVERSITY

FACULTY OF BUSINESS AND ECONOMICS

MSC IN ACCOUNTING AND FINANCE

Annex c; interview conducted with employee of a commercial bank, microfinance institution (OCSSCO) And Special Zone Sebeta MSEs Development Agency

Dear Respondent

This is the research survey on financing option/ decision for MSEs Operators; by investigating non formal financial service providers as means of alternative sources of financing .In partial fulfillment of the requirements for the degree of Master Science in Accounting and Ffinance (Msc) at the Jmma College of Business and Economic.

MSEs Operators in different sectors, your participation in this regarded is needed and greatly appreciated. By responding to this questionnaire you will be contributing towards

a positive intervention in the fields of all MSEs Sectors. Be assured that all information provided will be treated in the strictest confidence

Responding to the questionnaire may not take you more than 25 minutes of your time. The research is aimed at uncovering the financial sources of emerging MSEs in Sebeta town. By finding out the financial sources that influence start -up and expand business operators / owners in MSEs Sectors, this research can make potential operators / small business runners aware of the importance of considering these sources finance in the start -up and expand their business.

In trying to gain better understanding of the sources of finance experienced by emerging Sebeta MSEs operators in different sectors, your participation in this regarded is needed and greatly appreciated.

Interview Questionnaires: employee of a commercial bank, microfinance institution (OCSSCO) And Special Zone Sebeta MSEs Development Agency

Instruction

**Give the appropriate explanation to open ended questions for the Following
The questions below are open-ended. Please fill in as much as possible**

1. What is the name of your -----

2. What are the responsibilities of the post you are occupying?

3 What are the barriers associated with the provision of finance to MSEs start- up and to grow? -----

4. What are the barriers associated with the provision of finance to MSEs to grow, specifically to involve in the profitable business? -----

5. What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance except for offering financial products?-----

6. What future role should the finance-enabling environment play to reduce the barriers to finance? -----

--

7. Is the business registration in trade and industry bureau influences the debt financing?

8. Do you think having financial record in the business affect the debt financing?

9. Is the working premise of the business holding in influences the debt financing decision

10. If you have any other comments or inputs pertain in to financing sources to start and to grow in Sebeta town in the sectors they engaged in, kindly write them down

.....
.....
.....
.....

11 What are the primary criteria to take loan from your institutions, especially from micro lenders institutions?-----

.....
.....

ke loan from your institutions, especially from micro lenders institutions?-----

.....
.....
.....

III odefannoo walii gala waa'ee hojii daldalaa.

□□□□□ □□□ □□ □□□ □□□ □□□□ □□□□□□

1 Bakka hojii kanatti gahee hojii ati qadu maalii?

□□□ □□ □□ □□□□ □□□ □□□ □□□ □□□

1 Abbaa

qabeenyaa _____

□□□ □□□□ -----

Manageera _____

□□□□

Lamaanu _____

□□□□ -----

2 Waqqaa kan kana hojii caalaqabdee

□□ □□□ □□□□ □□ □□ □□□□□ /□

3 Mqqan daldala kee Biroo Daldalaa fi Industriiti galma eeraa?

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Eeyyee (□□)-----

Lakki (□□□□□) -----

4 Maqaan hundee fama hojiin daldala kee maala dha?

- Sabab meeshaa dhaabbii human olii akka wabitti gaafatuuf

□□□ □□□ □□ □□□□ □□ □□□ □□□□□□

Sababaseeraa fi ittiinbulmati baankii bayateef

- □□□□ □□□ □□□ □□□□□□

Sababa carraanbaabkii dhibamuufi bakkaan

□□□ □□□□□□ □□□□□□□ □□□ □□□□□

6 Yeroo caalabaa hojii daldalaatti galtee dhaabbasa maykino faayinaasii xixiiqqaa fi warra kan biro madda galii faayinaasii (liqaa fudhachuuf gaafateefa?

□□□□ □□□ □□□ □□□ □□□□□□ □□ / □□□□□□□□□ / □□
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Eyyee (□□)

Lakiee (□□□□□)

7 Deebiin kee inni gaaffii jahaffan Eeyyee yoo jette warra armaan gadatti barreefaman keesaa warra kamtu irraa caalaa liqaa ykn tajajila biraa argachu dandeesa

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Garafuul aduratti guddatuuf akk asadarka mootummatti gargarsa maal akka barbaaadu armaan gadi barreefaman keesaa waantoota gurduddaa ta'en jettee yaadu addaan baasii filii

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Carraa fayinaansii argachuu babalisuu

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Gargasaaf gara waldaalee adda addaafi barreesuu.

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Dubartootaf carraa hojii dursa keennuu

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fayadama ammayeesaa babalisu hojii daldalaa

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Fayadama ammayeesaa babalissuu hojii daladala

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Fayadama hojii jijiran amayee saa fidy babalissuu

9 yoo amali qusannaa kee dabala deeme hojii daldala kee irratti jijirama kallii fidaa?

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Kaapital ka'umsa gaha ta'e qabachuuf nugargara

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Liqaa bankii irraa fudhachuuf nugargara

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Qusannaan liqaa irra waan balaaf hinsaxi lamneef

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Sadarkan jireenya keenyaa akka faya'uuf nugargara.\

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kan biro yoo jirate akkaataa armaan gadditti ibs:

10 Yoo galiin daldala hojii kaa dabala yoodeeme daladala kee irratti jjirama maalii fidaa?

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Gara hojii bu'aa qabeesa investmeentit ce'uf

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kanafeii ofi irraa qabnu hir'suuf nugargara

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Carraan liqaa fudhachuu keenya nidabala

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Hojii adeemstu irra caalatti argachuuf nugargara

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kanbiroo yoo jirate armaan gadditti barreesi

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11 Erga hojitti galtee booda rakkini fiynaasii siqunamee beekaa?

Eeyyee

Lakki

12 Deebiin gaaffii 11 Eeyyee yoo ta'e sababa isaa ibsi 911 □ □ □ □ □ □ □

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Sababni isaan	
Hojii adeemsfitu qusannaa irraa □ □ □ □ □ □ □ □ □ □	Akka gahatti walda liqaafi dhabuu □ □ □ □ □ □ □ □ □ □ □ □ □ □ □ □
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ANNEX A
JIMMA UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
MSC IN ACCOUNTING AND FINANCE

Annex A: Questionnaire to be filled by MSEs operators/owners.

Dear Respondent

This is the research survey on financing option/ decision for MSEs Operators; by investigating non formal financial service providers as means of alternative sources of financing .In partial fulfillment of the requirements for the degree of master of science accounting and finance (Msc) at the Jimma University College of Business and Economic.

By responding to this questionnaire you will be contributing towards a positive intervention in the fields of all MSEs Sectors. Be assured that all information provided will be treated in the exactly confidence

Responding to the questionnaire may not take you more than 25 minutes of your time. The research is aimed at uncovering the financial sources of emerging MSEs in Sebeta town. By finding out the financial sources that influence start -up and expand business operators / owners in MSEs Sectors, this research can make potential operators / small business runners aware of the importance of considering these sources finance in the start -up and expand their business.

In trying to gain better understanding of the sources of finance experienced by emerging Sebeta MSEs operators in different sectors, your participation in this regarded is needed and greatly appreciated.

Thank you

Demographic information

Instruction

Tick the appropriate box or give explanation to open ended questions

I General

1. Gender

Male	
Female	

2. Marital status

Single	
Married	

3. Which age group do you belong?

20- 25	
26-35	
36- 45	
46-60	
Above 65	

II Education and Training

4. What is your educational back ground?

Grade 5-8	
High School	
College Diploma	
Bachelor Degree	
Above bachelor	

5. If your answer to Q5 is yes, was experience related to the business you are doing currently?

Yes	
No	

6. Do you take any training before starting up your business?

Yes	
No	

7. If your answer to question 6 is yes, state type of training

8. If your answer Q7 yes, is the training related to the business you are currently engaged in?

Yes	
No	

9. Do you take any training after starting up your business?

Yes	
No	

10. If the answer to question 10 is yes, state the type of training -----

III general information about business

11. What is your position/role in the business?

Owner	
Manager	
Both	

12. Is your business registered with trade and industry bureau?

Yes	
No	

13. What is the form of your business?

Limited company	
Corporative	
Partnership -	
Sole partnership	
Others	

14. Which type of activity are you engaged in?

Agriculture	
Manufacturing	
Construction	
Service	
Trade (merchandising	

15. What is total number of people working in your business?-----

Iv. General Information about the Sources of Finance 17. Do you have personal saving or before start your business?

Yes	
No	

18. If the answer Q17 IS yes specify the sources of your income _____

19. If the Q18 answer is No why?

Lack of work interest	
Lack of business and entrepreneurship concepts	
Lack of saving culture	

20. What is your main source of capital at start?

Equity (family or Owned)	
Debt	

21. Did you ever applied to loan able formal financial institution at startup?

Yes	
No	

22. If the answer to question, Q 21 NO, why specify the reasons

Reasons	
Many loan evaluation criteria (internal and external factors)	
Unrealistic collateral requirements	
Excessive rule and regulation	
Non-availability and Location	
Total	

23. Do you apply loans to loan able semiformal and informal sources of finances?

Yes	
No	

24. If the answer is yes to which of the following have you applied

Sources	
Semiformal sources:	
MFI(OCSSCO)	
Informal sources:	
Credit association	
Iddir	
Iquib	
From family & relatives	
Trade credit	
Money lenders	

25. The answer is No Q 24, why specify the reason

Lack of business plan and work plan	
Due to short period of time for repayment	
Fear of inability to repay	
not available	

26. Have you get financial sources from informal sources of finances at start up the business?

Yes	
No	

28. Do have personal saving after you engaged this business?

Yes	
No	

29. What is effect if yours saving culture is increases?

It increases the capacity of self investment	
To acquire productive asset	
Having more working capital to run the business	
Saving is less risk than borrowing	
Others	

30. If your income increasing what is the effect /chances on your business?

It enables to invest in profitable business	
Reduce liquidity constraints	
Internal financing is increase	
External financing is increase	

31. Do you face any financial problems/Difficulties post start up?

Yes	
No	

32. If your answer to question 28 is yes, specify them?

33. If your answer Q-32 question is no, why?

34. How do you address the financial problems at post

Sources of finances	
Equity:	
<i>Family or own fund</i>	
Retained profit	
Debt:	
Bank loan(formal)	
MFI (OCSSCO) semi formal	
NGO assistance(semiformal)	
Informal source of finance:	
<i>Credit association</i>	
<i>Trade credit</i>	
<i>Equib</i>	
<i>Edirr</i>	
Total	

35. What barriers did you experience in sourcing capital to start your business?

Communication problems	
Lack of raw materials	
Lack of market	
Lack of business skills concept	
Other (please explain below)	
Lack of saving culture	
Lack of entrepreneurship concept	

36 If you applied for financial assistance to a bank or development finance institution and your application was rejected, what were the reasons for rejection?

Lack of experience	
Poor credit record	
Lack of collateral	
Poorly designed business plan	
Character of the entrepreneur	
Other (please explain below)	

If answered other, please explain

37 What are the main barriers for further development of your business?

Factors affecting growth of SMEs	Responses
Low purchasing power of the population	
Insufficient support from local authorities	
Procedural difficulties in starting a company	
Lack of qualified human resources	
Lack of clear government SMES program	
Lack of market information	
Difficulty access to credit	

38. What measures should be taken at government level to support the creation and further development of your business?

Factors for growth & development of SMEs	Responses
Facilitate access to financing (creation of MSEs funds, etc)	
Decrease the amount of taxes	
many reports to different organizations	
Give priority to women-entrepreneurs	
Help to create “business incubators” or “technology parks”	
Support innovative technological companies	

Annex B

JIMMA UNIVERSITY

FACULTY OF BUSINESS AND ECONOMICS

MSC IN ACCOUNTING AND FINANCE

Annex B: interview conducted with MSEs Owners/ operators

Dear Respondent

This is the research survey on financing option/ decision for MSEs Operators; by investigating non formal financial service providers as means of alternative sources of financing .In partial fulfillment of the requirements for the degree of Master Science in Accounting and Finance (Msc) at the Jmma College of Business and Economic.

By responding to this questionnaire you will be contributing towards a positive intervention in the fields of all MSEs Sectors. Be assured that all information provided will be treated in the strictest confidence

Responding to the questionnaire may not take you more than 25 minutes of your time. The research is aimed at uncovering the financial sources of emerging MSEs in Sebeta town. By finding out the financial sources that influence start -up and expand business operators / owners in MSEs Sectors, this research can make potential operators / small business runners aware of the importance of considering these sources finance in the start -up and expand their business.

In trying to gain better understanding of the sources of finance experienced by emerging Sebeta MSEs operators in different sectors, your participation in this regarded is needed and greatly appreciated.

Interview

(Information Pertaining to your Business)

1. How much was the capital at start up initial capital? -----

2. Are Your Capital / returns increases after post up? _____

3. Did you keep any financial record?

yes	
No,	

4. Are Registered, Workplace and Record Keeping Influences debt financing Decision?

The fluencies debt financing Decision	Yes	no
Is the business registration in trade and industry bureau influences the debt financing?		
Are the working places of the business holding in influences the debt financing decision?		
Having financial record in the business affects the debt financing?		

5 If The Question No- Is Yes How They Influences Explain For Each-----

Please note that the following three questions are open-ended. Kindly provide as much information as you can

6 What financial sources were the most important to you when you started-up and posted -up your business?

7. What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance except for offering financial products? ---

8. What future role should the finance-enabling environment play to reduce the barriers to finance?-----

9 what are the main problems of that limits the access of financing for MSEs operators at start up and post up?-----

Annex C

JIMMA UNIVERSITY

FACULTY OF BUSINESS AND ECONOMICS

MSC IN ACCOUNTING AND FINANCE

Annex c; interview conducted with employee of a commercial bank, microfinance institution (OCSSCO) And Special Zone Sebeta MSEs Development Agency

Dear Respondent

This is the research survey on financing option/ decision for MSEs Operators; by investigating non formal financial service providers as means of alternative sources of financing .In partial fulfillment of the requirements for the degree of Master Science in Accounting and Ffinance (Msc) at the Jmma College of Business and Economic.

MSEs Operators in different sectors, your participation in this regarded is needed and greatly appreciated. By responding to this questionnaire you will be contributing towards a positive intervention in the fields of all MSEs Sectors. Be assured that all information provided will be treated in the strictest confidence

Responding to the questionnaire may not take you more than 25 minutes of your time. The research is aimed at uncovering the financial sources of emerging MSEs in Sebeta town. By finding out the financial sources that influence start -up and expand business operators / owners in MSEs Sectors, this research can make potential operators / small business runners aware of the importance of considering these sources finance in the start -up and expand their business.

In trying to gain better understanding of the sources of finance experienced by emerging Sebeta MSEs operators in different sectors, your participation in this regarded is needed and greatly appreciated.

Interview Questionnaires: employee of a commercial bank, microfinance institution (OCSSCO) And Special Zone Sebeta MSEs Development Agency

Instruction

Give the appropriate explanation to open ended questions for the Following

The questions below are open-ended. Please fill in as much as possible

1. What is the name of your -----

2. What are the responsibilities of the post you are occupying?

3 What are the barriers associated with the provision of finance to MSEs start- up and to grow? -----

4. What are the barriers associated with the provision of finance to MSEs to grow, specifically to involve in the profitable business? -----

5. What role does the financial environment (e.g. banks and development finance institutions) play in reducing barriers to finance except for offering financial products?----

6. What future role should the finance-enabling environment play to reduce the barriers to finance? -----

7. Is the business registration in trade and industry bureau influences the debt financing?

8. Do you think having financial record in the business affect the debt financing?

9. Is the working premise of the business holding in influences the debt financing decision

10. If you have any other comments or inputs pertain in to financing sources to start and to grow in Sebeta town in the sectors they engaged in, kindly write them down

11 What are the primary criteria to take loan from your institutions, especially from micro lenders institutions?-----

