The Role of Financial Institution in the Growth of Small and Medium Enterprises in Bonga Town

A Research Report Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of Master of Sciences Degree in Accounting and Finance

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JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

SCHOOL OF GRADUATE STUDIES

DEPARTMENT OF ACCOUNTING AND FINANCE

July 2020

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DECLARATION

I, the under signed, declare that this study entitled **"The Role of Financial Institution in the Growth of Small and Medium Enterprises in Bonga Town"** is my original work and has not been presented for a degree in any other university, and that all sources of materials used for the study have been duly acknowledged.

Declaredby:	
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Signature:	
Date:	

CERTIFICATE

This is to certify that this study, "**The Role of Financial Institution in the Growth of Small and Medium Enterprises in Bonga Town**", undertaken by **Elisabet yosef** for the partial fulfillment of Master of Sciences Degree in Accounting and Finance at Jimma University, is an original work and not submitted earlier for any degree either at this University or any other University.

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Abstract

The objective of this study was to investigate the role of financial institutions on the growth of small and medium enterprises. To achieve this objective the researcher was used mixed method (both quantitative and qualitative) approach. This study used both descriptive and explanatory research designs. The necessary data for this study was collected from primary sources. In this study, the target population was small and medium enterprises in the Bonga town on different economic activities such as, service, constructions, manufacturing, retailer and urban agriculture. The researcher was use stratified sampling techniques to select sample from the population. The researcher was use multiple OLS regression analysis was used the reason to use OLS the dependent variables of the study are continuous data The researcher was used annual sales as a measure of firm growth as dependent variable because of the difficulty of obtaining realistic information on profits earned. To measure dependent variables the researcher was used the following independent variables such as education level, firm age, firm size, borrowing cost, simplicity, and access to market. The finding, with respect to the relationship between SMEs growth and loans from financial institutions, banks and MFIs, the result of regression analysis showed that there was there was positive relationship between education level, age of business and firm with growth of SMEs and the influence of these variables was significant. SMEs have an obstacle in obtaining access to product and service from financial institutions. Inadequate collateral, difficulty of processes, fear of inability to repay, and high borrowing cost. The recommendation of author it is necessary to include *educated person in the organizations to get technological advantage and finding alternative finance source and financial institutions assist SMEs without strict and unattainable criteria or make the criteria simple and attainable, also at a lower borrowing cost to make their products accessible and available.*

Keywords: Role, Financial institutions, Small and Medium Enterprises (SMEs), Growth.

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List of abbreviations

CSA	Central Statistics Authority
ETB	Ethiopian birr
ERCA	Ethiopian Revenue and Custom Authority
EC	European Commission
LDCs	Least Developing Countries
MFIs	Microfinance Institutions
OLS	Ordinary Least Square
SMEs	Small and Medium Enterprises
S D	Standard Deviation
UNIDO	United Nation Industrial Development Organization

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and Medium enterprises (SMEs) and financial institutions are vital contributors to the general performance of an economy. SMEs play an important role in developing the economy and in creating employment. They are doing not only provide employment and income opportunities to an outsized number of individuals, but also at the forefront of technological innovations and export diversification. Similarly, financial institutions play an important role in firm's growth and thus industry productivity and economic process they supply a sound medium of exchange and facilitate trading, encourage mobilization of resources through savings and allocate resources to activities with highest returns, monitor investments and exert corporate governance, and spreads risks by offering a diversity of monetary instruments. Furthermore, they supply financial assistance to satisfy the numerous needs of enterprises.

Zeller Manfred (2003) broadly defined financial institution as an organization, which may be either for-profit or nonprofit, that takes money from clients and places it in any of a spread of investment vehicles for the benefit of both the client and the organization. Common samples of financial institutions are banks, insurance companies, credit Associations, microfinance, financial and economic firms.

As discussed in Allen and Gale (2008) banks perform various roles in the growth of firms. First, they ameliorate the information problems between investors and borrowers by monitoring the latter and ensuring a proper use of the depositors' funds. Second, they provide inter temporal smoothing of risk. Third, they perform an important role in corporate governance. The relative importance of the different roles of banks varies substantially across countries and times but, banks are always critical to firm growth.

Robinson (1998) defined microfinance as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. According to Ledgerwood (1999) MFIs can offer a variety of products/ services to SMEs. The most prominent services are financial. Banks do not often provide these services to small informal businesses run by the poor as profitable investments.

The term SMEs covers a good range of definitions and measures, varying from country to country and between the sources reporting SME statistics. Although there's no universally agreed definition of SME a number of the commonly used criteria are the amount of employees, value of assets, value of sales and size of capital or turnover. However, the foremost common basis of defining SMEs is number of employees (Nugent, 2001).

The European Commission (EC) defined SMEs largely in term of the number of employees as follows: first, firms with 1 to 9 employees - micro enterprises; second, 10 to 99 employees - small enterprises; third, 100 to 499 employees - medium enterprises. Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria.

In the context of Ethiopia, the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises as: Micro-enterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments. Small Enterprises are business enterprises with a paid-up capital of more than Birr 20,000, but not more than Birr 500,000, but excluding high-tech consultancy firms and other high-tech establishments**.**

Whatever the definition, and regardless of the size of the economy, the growth of SMEs is becoming increasingly crucial to economic growth. The issue of SMEs development ranks high among the priorities of socio-economic development, given the growing need for employment creation and poverty alleviation (Nugent, 2001). Nugent (2001) further noted that there is also an urgent need to create a strong competitive SMEs sector that is able to play a leading role in the development process.

Therefore, access to financial services and institutions is a critical element for SMEs growth. However, there appears to be limited evidence that confirms the contribution of monetary institutions for SMEs growth. To the present end, this study is significantly place as its main focus, the examination of financial institutions role in SMEs growth in Ethiopia, particularly in Bonga town

1.2 Statement of Problem

Obviously, SMEs constitute the backbone of an economy. The SMEs sector plays a vital role in the industrial development of the country. world bank (1994) indicated that industrial development was earlier believed to have occurred because of large enterprises. However, starting in the late 1970s and early 1980s, SMEs have become perceived as the key agent for industrialization. It is recognized that this sector provides not only employment opportunities to an increasing number of people in the country, but it is also an effective means of fighting poverty and income inequality. At the same time, SMEs serve as a training ground for emerging entrepreneurs. It is within this context that SMEs development became focal attention for governmental as well as nongovernmental organizations. This requires bringing the specific needs of the enterprise to the center of the policy-making process, and recognizing that SMEs are to be assisted not because they are small, but because of their capability to be efficient, innovative and able to compete in the local and international markets.

However, as (Albaladej, 2001) noted, in the majority of developing countries, most SMEs' activities are undertaken in the informal sector even though they play a major role in economic growth. They use their own saving, reinvestment of profits, and own labor as the main sources for their development. Despite these, their sustainable growth will largely depend on the capacity of financial institutions to mobilize resources from low valued to high valued and invest in SMEs activities.

Since SMEs' sector does have a very significant role in the Ethiopian economy, the government was striving to create competitive and productive SME sector. It is for this reason that the Ethiopian government develops policy so as to address the constraints and to tap the full potential of the sector. This policy will serve as guidelines to all stakeholders and thus stimulate new enterprises to be established and existing ones to grow and become more competitive. When a company is growing rapidly its current financial resources may be inadequate. Few growing companies are able to finance their expansion plans from cash flow alone. They will therefore need to consider raising finance from other external sources. In support of this, the Ethiopia government, in order to provide adequate supply of financial services to various sectors of the economy, especially to small business, has evolved a wide variety of financial institutions both at the national and regional level as an effective means of fighting poverty and income inequality. Therefore, it is absolutely essential that the financial institutions should contribute for the development of SMEs not only quickly but also at a minimal cost (Ageba and Amha, 2006).

This study differs from previous literature because of the variety of independent variables represented in the database. The growth rate with this paper is defined as growth of annual sales volume. A similar approach has previously been adopted. However in this study includes the role of banks, because mostly accessibility of loan from MFIs benefited the MSEs and banks loan access for medium and large firms. There are some previous related studies on the role of microfinance institutions in the growth of SMEs in different area.

According to kepha and Willy (2013) on the role of micro financial institutions on the growth of SMEs in Kenya: a case study of micro financial institutions in Kisi town, used limited independent variables; provision of credit, training of the entrepreneur, and savings account, in addition that study excludes the role of banks.

As the study of Dana (2014) assess the role of microfinance institutions on the growth of SMEs in Hawassa city. The authors used limited independent variables such as age, level of education, experience of owner/ manager or other member of enterprise and external business environment such as access to finance, market competition, proper training and loan criteria of MFIs. In addition that study excludes the role of banks.

As the study of Oni, et al. (2012) assessed the contribution of micro finance institutions to sustainable growth of small and medium scale enterprises in Nigeria. Their findings exposed that MFIs does and could contribute to the sustainable growth of SMEs in the economy. The study also revealed among others that MFIs services outreach to SMEs at present is poor.

Quaye (2011) investigated the effects of microfinance institution (MFIs) on the growth of small and medium scale enterprises (SMEs) in the Kumasi Metro-polis. The research also explains that (MFIs) have impacted positively on the growth of SMEs. Some of the important contributions of MFIs include; greater access to credit improved and enhanced savings and provision of business, financial and managerial training. Irrespective of the contributions of MFIs to SMEs, there are challenges that affect the activities of both SMEs and MFIs. From the findings of the research clearly reveals that MFIs have a positive effect on the growth of SMEs.

Based on this the purpose of this study were to determine and identify the role the financial institutions in the growth of SMEs and how different variables such as education level ,firm age, firm size, borrowing cost, simplicity and access to market influences the growth of Small and medium enterprises. There is no published material conducted under this topic in Bonga town.

1.3. Research Question

1. What roles do financial institutions, specifically banks and MFIs, play in SMEs growth?
2. Does education level, firm age, firm size, borrowing cost, simplicity and access to market influence on the growth of SMEs?
3. Are the financial institutions products and services, accessible and affordable for the SMEs?
4. How do financial institutions address the problems that SMEs face in the process of accessing and settling loans?

1.4. Objectives of the Study

1.4.1. General Objective

- The broad objectives of the study was to investigate the role of financial institution with a particular focus on the banks and microfinance institutions in growth of small and medium enterprise in Ethiopia, particularly in Bonga town.

1.4.2. Specific Objective

In order to achieve the general objective, researcher develops the following specific objectives:

- To assess the role of financial institution, specifically banks and micro-finances institutions, play in small and medium enterprise growth.
- To find out education level, firm age, firm size, borrowing cost, simplicity and access to market influence on the growth of SMEs
- To investigate financial institutions products and services, accessible and affordable for the SMEs.
- **T**o evaluate the financial institution address the problem that small and medium enterprises face in the process of accessing and setting loan.

1.5. Significance of Study

Generally, this study contributes to the knowledge in many important areas of financial institutions and SMEs studies. Firstly, it advances to a better understanding of functions and roles of financial institutions, secondly, it increases the understanding of how financial institutions influences the development of SMEs and, third, it will pave the way forward for the government, policy makers, financial institutions and to the general public at large to understand the different roles of financial institutions in the enterprises development process.

Currently, the Ethiopian government gives due emphasis to micro, small, and medium enterprises establishment and development. The establishment of these enterprises would eventually lead to the transfer of appropriate technology and its adaption to suit the environment. This requires bringing the specific needs of the enterprises to the center of the policy-making process In Ethiopia, perhaps the most important challenge facing policy makers in industrial development is the financing and technological upgrading of the myriad of SMEs that formed the back bone of industry and provide the bulk of employment and income generation. To this end, the current government of Ethiopia has continued to articulate policy measures and programmer to achieve micro, small, and medium enterprises development, through appropriate alternative funding. The mains sources of funding typically are financial institutions. Therefore, this study is significantly devoted or place as its main focus, the examination of the financial institutions role in SMEs growth.

Finally, this study will also be used as a basis for any future study that will examine the relationship between financial institutions and enterprises and for those who further needs to explore on some other concerns of SMEs.

1.6. Scope of the Study

This research entirely focuses on the role of bank and microfinance in the growth of SMEs, particularly in Bonga town, who are engaged in different economic activities. The total number of small and medium enterprise registered in the town is over 465 out of which the 215 were selected for the research purpose. **In** addition in this study there were nine banks and only MFIs which were working in Bonga town out of them four banks and one MFIs managers/officials were selected. However, due to the constraints, the researcher is forced to limit the study on this small concern.

1.7. Limitation of the Study

Having the above scope, the study is subject to the following limitations.

- Unwillingness of respondent to answer research questions.
- Unavailability of literature and concrete research on the subject made it difficult to better collect information.
- The researcher may be mistaken as an agent or representative because the respondents think that the researcher will misuse the response given by them. Therefore, they sometimes give in correct answer.
- **The following are exit-strategies adopted to tackle the above constraint**

❖ The researcher until wait when the respondents are free to answer questions and give advice not to include their names and address on the questionnaire

❖ The researcher use different articles and journals which is related with study.

❖ The researcher informed about the objectives of the study emphasizing that the data was used only for the academic purpose.

1.8. Organization of the paper

This research report paper is organized in to five chapters. The first chapter presents the introduction part includes background of the study, statements of the problem, objectives of the study, significance of the study, scope of the study. The second chapter shows the literature review while the third chapter contains brief description of the research design. The fourth chapter presents and analyzes the results. Finally, the chapter five presents the conclusions and recommendation of the study respectively

CHAPTER TWO
REVIEW OF RELATED LITERATURE

This chapter has two sections. Section one presents a theoretical review of role of financial institutions and SMEs development, and followed by a review of the relevant empirical studies on financial institutions role in the development of SMEs.

2.1. Theoretical framework

This section briefly sketches different types of financial institutions which have proven effective in providing services to SMEs. These are banks and MFIs. The section opens with an overview of financial institutions. This shows the various products and services that financial institutions have and explain the theoretical role of banks and MFIs to the development of firms. These give an idea on how financial institutions contribute to the development of SMEs. Finally, the concern is to show the nature, importance, measures of growth and constraints of SMEs.

2.1.1. Over view of Financial Institutions

The European Community programmer of policy and action for sustainable development (1993, p.27) recognized the importance of financial institutions by stating that "financial institutions which assume the risk of companies and can exercise considerable influence - in some cases control over investment and management decisions which could be brought into play for the benefit of the environment". On amore practical level, financial institutions interact with the environment in a number of ways:

- as investors: supplying the investment needed to achieve sustainable development;
- as innovators: developing new financial products to encourage sustainable development;
- as value's: pricing risks and estimating returns, for companies, projects and others;
- as powerful stakeholders: as shareholders and lenders they can exercise considerable influence over the management of companies;
- as polluters: while not "dirty" industries, financial institutions do consume
- as victims of environmental change: e.g. from climate change considerable resources;

As (Amina Z. S., 2009)noted the financial sector can have more impact on firms' growth in two ways: firstly, a well-developed financial system allows the firms to have access to financial services, which they are often denied. They need to have access to a large array of financial services, such as saving facilities, payment instruments, credit, and insurance.

Secondly, the financial sector can also contribute to firm's growth indirectly, as a diversified and competitive financial sector plays an important role in economic development generally. Indeed, a well-functioning financial sector contributes to the maintenance of economic stability; it provides a means of payment and makes possible secure financial and commercial transactions; it helps to mobilize domestic and external savings; and it is crucial for the efficient allocation of capital to productive investments.

In order for firms to benefit from economic growth, the SMEs need to have access to products/services which is provided by financial institutions.

The common products that financial institutions provide includes: credit, savings, insurance, credit cards, cash management, and payment services. These points are briefly described each as follows:

Credit: These are borrowed funds with specified terms for repayment. People borrow when there are insufficient accumulated savings to finance a business. They also take into consideration if the return on borrowed funds exceeds the interest rate charged on the loan and if it is advantageous to borrow rather than to postpone the business operations until when it is possible to accumulate sufficient savings (Waterfield and Duval, 1996).

Savings: A financial institution collects funds from the public and places it in financial assets, safekeeping and uses them to make loans to other customers (Waterfield and Duval, 1996).

Insurance: This is one of the services and products that are experimented by financial institutions. The key economic benefits of insurance as risk transfer, indemnification and financial intermediation (Ward, 2000)

Credit cards: These are cards that allow borrowers to have access to a line of credit if and when they need it. This card also used to make purchase assuming the supplier of the goods will accept the credit card or when there is a need for cash (Ledgerwood, 1999)

Payment Services: payment services include checks cashing and checks writing opportunities for clients who retain deposits. In addition to checks cashing and writing privileges, payment services comprise the transfer and remittance of funds from one area to another (Ledgerwood, 1999).

In transferring resource allocation from direct financing to indirect financing as Amina Z. S., (2009) noted financial institutions provide the following five basic services:

- Currency alteration: Buying financial claims denominated in one currency financial claims denominated in another currencies.
- Quantity Divisibility: Financial institutions are capable in producing a broad range of quantity from one dollar to many millions, by gathering from different people
- Liquidity: Easy to liquidate the instruments by buying direct financial claims with low liquidity and issuing indirect financial claims with more liquidity.
- Maturity Flexibility: Creating financial claims with wide range of maturities so as to balance the maturity of different instruments so as to reduce the gap between assets and liabilities.
- Credit Risk Diversification (portfolio investment): By purchasing a broad range of instruments, financial institutions are able to diversify the risk.

The purposes of this section is to present an overview of financial institutions and their products and services the remaining sections briefly reviews role of banks and MFIs on the growth of SMEs respectively.

2.1.1.1. Role of Banks

Private, domestic commercial banking is a relatively recent phenomenon in many developing countries, especially in Africa. From the 1950s through the 1970s, financial systems in many developing countries were predominantly composed of state-owned banks and of branches of foreign-owned commercial banks that provided short-term commercial and trade credit. The state-owned banks promoted economic development priorities through a network of financial institutions such as agricultural banks, development banks, and export banks, while borrowing heavily from multilateral and foreign private banks to support these efforts (Allen and Gale 2008).

Allen and gale (2008) further noted that with the advent of structural adjustment and financial liberalization in the 1980s, private domestic commercial banking expanded rapidly. Many new private banks were founded by large business groups to access funds for their own businesses and corporations. As such, they naturally favored the large accounts of an established clientele. When granting loans to less familiar clients, banks protected themselves with asset (mostly real estate) collateral two to three times the value of the loans. Competition is growing, however, as new banks enter the market under banking laws that allow more freedom of entry and a less repressed regulatory environment. The struggle to survive is forcing many of these banks to look at new markets, including the microfinance market. Understanding the many roles that banks play in the firm's growth is one of the fundamental issues in theoretical economics and finance. The efficiency of the process through which resources are channeled into productive activities is crucial for growth and general welfare. .

As discussed in Allen and Gale (2008) banks perform various roles in the growth of firms. First, they ameliorate the information problems between investors and borrowers by monitoring the latter and ensuring a proper use of the depositors' funds.

Second, they provide inter temporal smoothing of risk. Third, they perform an important role in corporate governance. The relative importance of the different roles of banks varies substantially across countries and times but, banks are always critical to firm growth. Each of these roles is described as follows.

2.1.1.2 Role of Banks in corporate governance

Banks can exercise in corporate governance of firms through holding enterprise debt or through ownership rights. Whether banks hold shares or not, they actually have control over firms but the pattern of effective control is different in the two cases. As creditor's banks exercise control over firms using the threat of withdrawing credits; in the case of long-term loans such intervention is obviously less frequent than in the case of short-term loans. Banks also intervene if a firm cannot face its promised payment: during periods of poor financial performance the right to control is transferred from shareholders to creditors (Boot, 2000). As owners, banks may have their representatives on the company board and can influence the selection and the dismissal of management. How efficient banks' role in corporate governance is obviously depends upon the degree of concentration of debt (the size of loans) and of equity claims (the voting rights) (Allen and Gale, 2008).

The most common argument in favor of banks having concentrated stakes (debt and equity) in firms refers to the economies of scale in monitoring managers. Concentrated stake allows overcoming the public good problem of monitoring: banks act as delegate monitors for a large number of small savers (Diamond, 1984). In the world of informational asymmetry between financiers and managers, dispersed security holders contracting directly with borrowers would either free ride on monitoring (because their share of the benefit is small) or would have to repeat monitoring individually, which is costly and useless. Both solutions are inefficient. Consequently, it is argued, delegating monitoring to financial intermediaries contributes to the lowering of the fixed cost of information collection (Allen and Gale 2008).

According to Edwards and Fischer (1994)banks have an additional advantage over other financial intermediaries (such as pension funds or insurance companies) because they have direct access to important information. Firms usually hold their accounts with the banks and thus the latter can directly observe all withdrawals and deposits which permit to assess the firm's financial situation.

Another theoretical argument in favor of bank intermediation underlines the advantages of commitment to long-term relationships (Allen and Gale, 2008). The authors argue that in the situation of incomplete contracts (i.e. when it is impossible to specify all future actions and payments because these are too complex to be described or because managerial decisions are not verifiable) banks help reduce moral hazard between financiers, managers and employees through the creation of the mechanism for long term commitment. Without such commitment implicit contracts between investor, manager and employees may be unsustainable (Allen and Gale, 2008).

Finally, it is argued, in the case of firms with cash flow problems, concentrating firms financial obligations may facilitate coordination and may allow for the reduction of reorganization or liquidation costs (Hoshi et al.,1994)

The Risk Sharing Role of Banks

One of the most important functions of the financial system is to share risk and it is often argued that financial markets are well suited to achieve this aim. Traditional approach financial theory suggests that the main purpose of financial markets is to improve risk sharing through exchanges of risk among individuals at a given point in time. However, this strategy cannot eliminate macroeconomic shocks that affect all assets in a similar way (Allen and Gale, 2008).

Departing from the Traditional approach, Allen and Gale (1997) focus on the inter temporal smoothing of risks that cannot be diversified at a given point in time. They argue that such risks can be averaged over time in a way that reduces their impact on individual welfare through inter-temporal smoothing by banks. This involves banks building up reserves when the returns on the banks' assets are high and running them down when they are low. The banks can thus pay a relatively constant amount each period and do not impose very much risk on depositors.

The Monitoring Role of Banks

The idea that banks exist to reduce the monitoring costs associated with external finance is central to modern theories of financial intermediation. Rather than having multiple lenders collect information about the firm's prospects prior to granting credit and then simultaneously monitor the borrower's actions once an investment has been undertaken, potential investors may find it more efficient to delegate these tasks to a bank, through which they all provide funding to the firm (Diamond, 1984).

This role of banks is particularly important for small-business borrowers, whose small size and relative capacity make funding through public markets a virtual impossibility, and leads naturally into the idea of banks as "relationship lenders." Through their ongoing monitoring efforts, banks build relationships with their customers that give them valuable information about these firms' prospects in the future (Beck, ., 2004).

The Financing Role of Banks

The banking sector, as noted in Allen and Gregory (2005) specifically commercial banks, have several ways to get involved in SMEs financing, ranging from the creation or participation in SMEs finance investment funds, to the creation of a special unit for financing SMEs within the bank. Banking sector services provided to SMEs, take various forms, such as:

- Short term loans;
- Repeated loans, where full repayment of one loan brings access to another, and where the size of the loan depends on the client's cash flow;
- Very small loans or bank overdraft facilities are also appropriate for meeting the day to day financial requirements of small businesses
- Factoring and invoice discounting,
- Long term loans

2.1.1.2. Role of Microfinance institutions

Robinson (1998) defined microfinance as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses.

It is mostly used in developing economies where firms do not have access to other sources of financial assistance. In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self-confidence and the training of members in that group on financial literacy and management (Ledgerwood, 1999).

According to Ledgerwood (1999) MFIs can offer a variety of products/ services to SMEs. The most prominent services are financial. Banks do not often provide these services to small informal businesses run by the poor as profitable investments.

They usually ask for small loans and the banks find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral due to distance. It is by this that the cost to lend a dollar will be very high and also there is no tangible security for the loan. The high lending cost is explained by the transaction cost theory (Christabell, 2009).

As Christabell (2009) the transaction cost can be conceptualized as a non-financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan. The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts.

On the other hand, (Robinson (2003) noted the borrowers cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling thesis work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings. The services provided by MFIs can be categories into four broad different categories (Ledgerwood, 1999):

- Financial intermediation or the provision of financial products and services such as savings, credit, credit cards, and payment systems.
- Social intermediation is the process of building human and social capital needed by sustainable financial intermediation for the poor.
- Enterprise development services or non-financial services that assist micro entrepreneurs include skills development, business training, marketing and technology services, and subsector analysis.
- Social services or non-financial services that focus on advancing the welfare of micro entrepreneurs and this include education, health, nutrition, and literacy training.

2.1.2. Nature and Importance of SMEs in Economic Development

The purpose or goal of any firm is to make profit and growth. A firm is defined as an administrative organization whose legal entity or framework may expand in time with the collection of both tangible and in tangible (resources that are human nature) ((Pensore, 1995).

2.1.2.1. What is an SME?

The issue of what constitutes an SME is a major concern in the literature. Different authors have usually given different definitions to this category of business. Some attempt to use the capital assets while others use number of employees and turnover level. Others define SMEs in terms of their legal status and method of production.

The European Commission (EC) defined SMEs largely in term of the number of employees as follows: first, firms with 1 to 9 employees - micro enterprises; second, 10 to 99 employees - small enterprises; third, 100 to 499 employees - medium enterprises. Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. in effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. However, the EC definition is too all-embracing to be applied to a number of countries.

The UNIDO (1999) also defined SMEs in terms of number of employees by giving different classifications for developed and developing countries. The definition for developed countries is given as follows: Large firms with 500 or more workers; Medium firms with 100-499 workers; and Small firms with 99or less workers. The classification or more workers; Medium firms with 20-99 workers; Small firms with 5-19 workers; and Micro firms with less than 5 workers.

In the context of Ethiopia, the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises as:

• Micro-enterprises are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.

• Small Enterprises are business enterprises with a paid-up capital of more than Birr 20,000, but not more than Birr 500,000, but excluding high-tech consultancy firms and other high-tech establishments.

The Central Statistical Authority (CSA) (2003), for the purposes of its survey on Urban Informal Sector Activity Operators and Small-scale Manufacturing Industries, attached various definitions to enterprises in different sectors.

The CSA based its definitions on the size of employment and extent of automation for small- medium- and large-scale enterprises and used a combination of criteria for defining informal sector operators.

CSA definition of enterprises:

• Large and medium scale manufacturing enterprises have been classified as establishments with more than ten employees using automated machinery.

• SMEs are establishments that engage less than 10 persons using power driven machinery.

• Cottage/handicrafts are household type enterprises located in households or workshops normally using own or family labor and mostly manual rather than automated/mechanical machinery.

The Ethiopian Revenue and Custom Authority (ERCA) also defined enterprises for the tax purpose as enterprises having below ETB 1million annual turnovers as Small enterprises, from ETB 1million to ETB 4 million annual turnovers as medium, and above ETB 4 million annual turnovers as large enterprises.

From the above, it can be understood that the definitions of SMEs in different countries, even across economic sector in the same nation, is different. This may be a result of the fact that most nations have higher economic levels than others. Even though every nation has different definition, SMEs play very important role in its economic activities.

In Least-Developed Countries (LDCs), their role is considered even more important, since they offer the only realistic prospects to increase employment and value added. Many LDCs provide employment opportunities for the majority of population who live under the poverty line. So, SMEs contribute not only economic but also social benefits by reducing crime rate and alleviating poverty (Aung, 2008). They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Nugent, 2001).

Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMEs (Cook and Nixson, 2000). SME development can encourage the process of both inter and intra-regional decentralization and they may well become a countervailing force against the economic power of larger enterprises. More generally, the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Cook and Nixson, 2000).

2.1.2.2. Indicators of Growth

Hoy et al. (1992) stress that a consensus has been reached among academics that sales growth is the best growth measure. It reflects both short and long term changes in the firm and is easily obtained. Furthermore these authors maintain that sales growth is the most common performance indicator among firms themselves.

The growth process as such provides further arguments for advocating sales growth. A growth process is likely to be driven by increased demand for the firm's products or services. That is, sales increases first and thus allow the acquisition of additional resources such as employment or other assets (Ardishvili,et al., 1998). It is also possible to increase sales, by outsourcing the increased sales volume, without acquiring resources or employing additional staff. In this case, only sales would increase. Thus, sales growth has high generality.

On the other hand, there is a widespread interest in the creation of new employment. This makes employment growth. Another important aspect to capture in the process of rationalization; it is possible to replace employees with capital investment.

In other words, there is to some extent an inverse relationship between capital investment and employment growth, as a consequence, assets are another important measure of growth. Measuring growth in terms of assets is often considered problematic in the service sector (Weinzimmer, et al 1998). This appears to be mainly an accounting problem. While intangible assets indeed may expand in a growing service firms, this is not reflected in the firm balance sheet.

There are two basic approaches to measure growth: absolute and relative. Measures of absolute growth examine the actual difference in firm size from one observation to another. Growth rates refers to relative changes in size, that is size changes are related to initial size of the firm typically, by dividing the absolute growth by the initial growth of the firm.

2.1.2.3. General Constraints to SMEs' Growth

Despite the potential role of SMEs to accelerate growth and job creation in developed and developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors.

A set of constraints, which is not intended to be exhaustive, is identified below. Input Constraints: SMEs face a variety of constraints in factor markets (Kayanula and Quartery 2000)

• Debt and Equity: SMEs have limited access to capital markets, locally and internationally, in part because of the perception of higher risk, informational barriers, existence of high collateral to financial institutions, credit rating, accounting and auditing, economies of Scale and the higher costs of intermediation for smaller firms. As a result, SME soften cannot obtain long-term finance in the form of debt and equity.

• Labor Market: An insufficient supply of skilled workers can limit the specialization opportunities, raise costs, and reduce flexibility in managing operations

. • Information and Technology: SMEs have difficulties in gaining access to appropriate technologies and information on available techniques. This limits innovation and SME competitiveness. At the same time, other constraints on capital, and labor, as well as uncertainty surrounding new technologies, restrict incentives to innovation.

• Production inputs: SMEs face constraints in the availability of production inputs. For instance, better quality raw materials are generally exported or are available only to larger firms and their suppliers tend to be oligopolies.

Inadequate infrastructure and weak provision of basic services such as transportation, energy, urban planning and production sites represent particular impediments for SMEs.

• Lending infrastructure: The lending infrastructure includes the information environment, the legal, judicial and bankruptcy environment, and the tax and regulatory environments. All of these elements may directly affect SME credit availability by affecting the extent to which the different lending technologies may be legally and profitably employed. The final element, the regulatory environment, may also restrict SME credit availability indirectly by constraining the potential financial institution structure (Allen and Gregory, 2005).

Output Constraints: Access to domestic and international markets can be constrained by factors that relate to the size of SMEs (Kayanula and Quatery, 2000).

• Domestic Markets: The diminished role of the state in productive activity and renewed private investment has created new opportunities for SMEs. Nonetheless, limited access to public contracts and subcontracts, often because of cumbersome bidding procedures and/or lack of information, inhibit participation in these markets. Also, inefficient distribution channels and their control by larger firms pose important limitations to market access for SMEs.

• International Markets: Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. Limited international marketing experience, poor quality control and product standardization and little access to international partners, however, impede expansion into international markets.

Management Constraints: The lack of economies of scale and competition for one of the most scarce resources, management know-how, place significant constraints on SME development (Gockel and Akoena, 2002).

- Management skills and training: Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries of the region, has a magnified impact on SMEs.
- Consulting Services: The lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for the scale of SMEs. Regulatory Constraints: Although wide ranging structural reforms have improved prospects for enterprise development, many issues remain to be addressed at the firm level (Kayanula and Quartey,2000).
- Taxation & Tariffs: Complicated and inefficient tax codes that include cascading sales taxes and stamp taxes are least favorable to SMEs. At the same time, the tariff and non-tariff barriers which favor larger firms that play a role in policy making are often biased against SMEs (Kayanula and Quartey, 2000).
- Legal: High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs. The absence of antitrust legislation favors larger firms, while the lack of protection for property rights limits SME access to foreign technologies.

- Labor Markets: Inflexible labor codes and other indirect labor costs bear most heavily on SMEs, raising their cost of doing business and depriving them of the flexibility to adapt.

2.2 Empirical review

In spite of the above theoretical recognition of role of financial institutions and their contribution to the development of SMEs, there appears to be limited empirical evidence available and most of them generally focused on challenge of SMEs in access external finance and on role of financial institutions in economic growth. As a result, slight studies had been done on the contribution of financial institutions in the development of SMEs.

Ageba and Amha (2006) presented evidence on the state of micro and small enterprises finance in Ethiopia from a survey of 1000 micro and small enterprises in six major towns conducted by the authors. This thesis deals with the issue of micro and small enterprises finance and is the first empirical work on trade credit in Ethiopia. It suggests a new venue to channel funds to micro and small enterprises by linking support to micro and small enterprises, supplier's credit and bank lending. It shows that friends/relatives, suppliers credit, and Iqub1 are the most important sources of finance in that order. The amount involved (in both stock and flow terms) is also relatively high. Trade credit appears to be used as a substitute for bank loans. Contrary to the common belief that trade credit occurs between people with strong social ties, most micro and small enterprises that granted trade credit and those that received suppliers credit characterized their relation as business only'. More than half of the MSEs that granted trade credit also received suppliers credit whose amount exceeded what they received, suggesting that suppliers credit is being passed on to customers. Supplier's credit thus avails itself as a potential instrument for banks to channel finance to micro and small enterprises to improve their access to modern machinery/equipment/t

As the study of Moshi (2011) investigated in the role of financial institutions on success of small and medium enterprises in Tanzania. A Case Study of Daresalaam region. This study used both quantitative and qualitative techniques in data collection. Both Simple random sampling and purpose sampling technique were employed to select the 105 respondents to represent SMEs and financial institutions respectively. Of the 105 respondents earmarked for interviews, the study managed to cover 88 respondents from SMEs and 7 respondents from financial institutions (2- commercial bank, 2-microfinance and 3-SACCOs) this includes officers and managers. The study utilized both primary and secondary data. The data collected was coded and entered into Microsoft excel. The study found that financial institutions have little influence on SMEs financing because most of SME owners or managers frequently used retained earnings or profit (self-financing) and funds from relatives/friends to finance their business as a source of finance. The study recommends to financial institutions to rigorously market their services to SMEs, which have not subscribed to their services. The study also recommends the relaxation of lending conditions so that SMEs can access loans at affordable interest rates. The study further recommends a future research to be done that shall incorporate a wide range of SMEs, with a bigger sample size

According to Nigussie (2012) investigates on the role of financial institutions in the growth of small and medium enterprises in Addis Ababa. The author adopts a mixed research approach to test the hypothesis and answer research questions. This study employed a cross-sectional survey with semi-structured questionnaires, which administered through distributing to sample of SMEs in Addis Ababa. To select adequate sample size, the following procedures were employed. First the population was defined as the business operators in the SMEs sector spread across Addis Ababa. Second 30,000 enterprises were identified as population units, which were registered both in Addis Ababa Trade and Industry Bureau and Ethiopian Investment Agency. The researcher uses a combination of both Addis Ababa Trade and Industry Bureau, CSA (2003), and UNIDO definitions of SMEs. Third stratification units were categorized among ten districts; finally 170 SMEs were proportionally selected from each district. Random sampling technique was employed that draw a portion of a population so that each member of the population has an equal chance of being selected. The survey instrument contains both open and closed questions. Regarding in-depth interviews descriptive research approach was employed to present outcomes of in-depth interviews with banks and MFIs managers/officials. Finally, to assess the relationship between SMEs growth (i.e. sales growth) and financial resources from financial institutions, regression analysis was used. It was used annual sales as a measure of firm growth as dependent variable because of the difficulty of obtaining realistic information on profits earned sales growth as an indicator of firm growth and it was measured by the growth rate in percentage terms. Hence, the dependent variable includes information of both positive and negative growth. The independent variables include firm's size, firm's age, and internationalization. Results show that financial institutions were contributing to SMEs growth. Consequently, the relationship between loans from financial institutions and SMEs growth are positive and statistically significant. However, the extents of contribution were very low. Further, it identifies ways of addressing the problems that SMEs face in accessing and settling loans include: flexing terms and conditions, using alternative collateral and credit facilities refinancing, and postponing maturity period. Finally, the thesis recommends a serious of measures, which should be performed by the government and by financial institutions. These include: creation of a level playing field, lowering transactional costs, and commercial banks should reappraise their role.

According to Abara and Banti (2017) assessed the role of financial institutions in the Growth of Micro and Small Enterprises in Assosa Zone. This study used both descriptive and explanatory research designs. The major purpose of descriptive research in this study was used describe the role of financial institutions in the growth of SMEs. In addition, the study employed explanatory design in that the relationship between variables in the study are correlated each other. This study employed a cross-sectional survey with semi-structured questionnaires, which are open, and close ended questions administered through distributing to sample of SMEs in Assosa zone. Apart from survey of SMEs and in-depth interviews with banks and MFIs managers/officials, the study used documentary analysis to obtain other facts that may not be obtained through interviews and administering of questionnaire. There were around 140 SMEs in Assosa Zone which have been established from 2005 mainly on different economic activities. Among SMEs, 30 service, 33 constructions, 26 small scale industries, 31 trades and 20 are urban agriculture. To select the sample, stratified sampling method was used. The data was analyzed using descriptive statistics and regression analysis The empirical study elicited four major measuring scales which seem to assess the role of financial institutions in the growth of micro and small enterprises in Assosa zone and these are external financing, size of firms, firms age and current capital. The result shows that financial institutions were contributing to Micro and Small enterprises growth. Consequently, the relationship between loans from financial institutions and Micro and Small enterprises growth are positive and statistically significant. However, the extents of contribution were very low. Further, it identified ways of addressing the problems that Micro and Small enterprises face in accessing and settling loans include: flexing terms and conditions, using alternative collateral and credit facilities, refinancing, and postponing maturity period. Finally, the study recommends a serious of measures which are to be performed by the government and by financial institutions. These include: creation of a level playing field, lowering transactional costs, and commercial banks should reappraise their role. The regression result shows that, the SMEs size (Beta Coefficient 0.228) significantly explain at 99% confidence level determines the sales growth of the SMEs; whereas loan form financial institutions indicated by (beta value of 0.162) and SMEs age (beta value of 0.101) are the least predictors of sales growth of SMEs.

As the study of Azeref and Gelagil (2018) role of financial institution on the Growth of Small and medium enterprises:-The Case in North Shewa Zone, Amhara Region, Ethiopia. The primary aim of this study is to examine the role of financial institutions in SMEs growth. To achieve this objective a mixed method (both quantitative and qualitative) were adopted. The sampling frame for the planned research was 815 small and medium enterprises out of the total population of 11,244 SMEs, which were registered in north Shewa zone. Stratified random sampling technique was used in selecting SMEs. This sampling technique enables the researchers to generalize their findings and make inferences from a sample, thus enabling one to draw conclusions about a population. Finally, 102 SMEs were proportionally selected from each business activities. The necessary data for this study were collected from primary sources. The primary data were obtained through questioner, which contains open and closed ended questions. A structured questionnaire designed to collect the required data for this study on a likert type scale. The 5-point rating scale of strongly agree, agree, I have no idea, disagree and strongly agree. Data from the respondents was tabulated for descriptive purpose, analyzed, and translated into useful information using the statistical package for social sciences (SPSS).Dependent variables in this study are the variables, which are used to measure the growth of small and medium enterprises such as sales volume. This is because growth in sales reflects both short term & long-term changes in a firm & it easy to obtain. The independent variables that affect growth are: simplicity of criteria, Duration of loan, Size of Loan, Borrowing cost, Savings account, Training and assistance and Follow up and supervision. Therefore, the study identifies size of loan, lower borrowing cost and saving account has positive relationship with growth of small and medium enterprise and the influence of these variables significant. On the other hand there was positive relationship between duration of loan was, simplicity of criteria, follow up & supervision and growth of SMEs. But the influence is relatively insignificance. The study recommends that the government and financial intuitions to make credit available and affordable to SMEs reducing the traditional barriers to SMEs financing, make financial intuitions products & services without unattainable criteria and at lower borrowing cost, setup mechanisms of training for SMEs before and after the loan. The study also recommends that make saving account easily accessible facilitated with technology for their growth

.According to Chakebo (2014) investigated on the role of microfinance institutions in the growth of micro and small enterprises in Hawassa city South Ethiopia. In this study both quantitative and qualitative approach (mixed approach) was used. To obtain data at one point in time from a sample selected relevant for the investigation of microfinance institutions role on SMEs Growth, used by descriptive analysis methods. This study with structured questionnaires and administered through distributing to sample of MSEs in Hawassa. The population participated in the survey has been selected by using stratified sampling methods. In this section the descriptive research design was able to use all ways of data collection methods. Among some of the ways of collecting data were questionnaires and interviews and the source of data were primary source of data. The primary data was collected through open ended and structured questionnaires and structured interview. The response variable is the growth of SMEs peroxide by sale turnover and it is measured by both the controlling variables and external business environments such as age, level of education, experience of owner/ manager or other member of enterprise and external business environment such as access to finance, market competition, proper training and loan criteria of MFIs. In order to assess the contribution of microfinance institutions in the development of MSEs, the data analyzed by using the statistic like descriptive analysis, logistic regression model and model goodness of fitted. The loan criteria inversely related with growth of SMEs. Participation of female in enterprise less than male and manufacturing sector was growing faster than other economic sector. The policies and support programs that aim at promoting the need of SMEs. Thus, the needs were finance, available loan criteria and access to market for the enterprise.

Quaye (2011) investigated the effects of microfinance institution (MFIs) on the growth of small and medium scale enterprises (SMEs) in the Kumasi Metropolis. He examined detailed profile of SMEs in the Kumasi Metropolis of the Ghanaian economy, the contribution of (MFIs) to entrepreneurial development, the challenges encountered by SMEs in reaching credit and the rate of credit utilization by SMEs. An analysis of the profile of (SMEs) reveals that most (SMEs) are at their Micro stage since they absorb less than six people and the sector is greatly dominated by the commerce sub-sector. The research also explains that (MFIs) have impacted positively on the growth of SMEs. Some of the important contributions of MFIs include; greater access to credit improved and enhanced savings and provision of business, financial and managerial training. Irrespective of the contributions of MFIs to SMEs, there are challenges that affect the activities of both SMEs and MFIs. More pronounced among these is the cumbersome process associated with meeting up credit demands of collateral security. The MFIs on the other hand, are faced with challenges relating to credit misappropriation, moral hazards and non-disclosure of the relevant facts of their businesses. From the findings, the research clearly reveals that MFIs have a positive effect on the growth of SMEs. In other to attain and maintain a sustained and accelerated growth in the operations of SMEs, credits should be client-targeted and not product-oriented. Extensive monitoring activities should be provided for clients who are granted loans

As the study of Oni, et al. (2012) assessed the contribution of micro finance institutions to sustainable growth of small and medium scale enterprises in Nigeria. Their findings exposed that MFIs does and could contribute to the sustainable growth of SMEs in the economy. The study also revealed among others that MFIs services outreach to SMEs at present is poor.

According to the study of Paul (2014) on the role of micro-finance institutions to the growth of micro and small enterprises (Mse) conducted in Thika, Kenya (Empirical Review of Non-financial Factors). In order to achieve the study objective, a cross-sectional survey was carried that analyzed both secondary and primary data. Through random sampling technique, two hundred and eighty five MSEs and sixteen MFIs were selected. Data collection was done using questionnaires and interview schedules to the different respondents after the data was collected it was entered and cleaned before being analyzed using the statistical packages for social sciences software (SPSS windows version 13.0).The findings are presented using both tabular and graphical presentation. Statistics in the study demonstrate that MFIs offer services to customers (MSEs) had contributed growth which has been rapid over the years. Majority of businesses in Thika Municipality (56.8 percent) were owned by married people. Default rate was high while MFI loan was second main source of capital (38.6percent) contrary to Oketch (1995). The main reason for their saving was for expansion of and growth of business the same sentiments echoed by Jagongo (2009). Finally, 76.9 percent business was initiated with capital less than ten thousand Kenyan shillings. This low seed capital explains why MSEs have stagnant growth. Finally the businesses that received MFI services reported growth in sale, revenue and number of employees employed. The study recommended that government should set policy regarded essential in improving loan repayment period and loan amount. From research it is clear that there exists a large unexploited saving mobilization and utilization potential.

According to Kepha and Willy (2013, the role of micro financial institutions on the growth of SMEs in Kenya: a case study of micro financial institutions in Kisi town. An exploratory research design was be used in conducting study. The nature of research necessitates the use of qualitative and quantities techniques. The Population of this study constituted of 100enterpreneursin Kisi Town. The researcher used primary sources to collect data for this study due to its nearness to truth and ease for control over errors. A structured questionnaire was used to collect the data from the respondents; the questionnaires were administered by the researcher. Primary data collected was coded and analyzed with the help of the Statistical Package for Social Sciences (SPSS). The results were presented using tables for ease of understanding. The purpose of the research will be to determine how each independent variables (credit provision, training, market information and interest rates) and interactions on the growth of small-scale enterprises in the Municipality. (Dependent variable).The findings revealed that most of the respondents in this study reported that their business had expanded and their house hold income had increased significantly as a result of having taken microfinance loans. On availability of training from financial institutions, the study found that 42% of the respondent had moderate increase of sales volume after training from financial institutions, 28% of the respondent had high increase of sales volume after trainings, 14% had an increase of sales volume after training and 6% of the respondent said there was no change of sales volume after training from the financial institutions. The study revealed that on the growth based on the number of employees, employees were found to be an indicator of growth of the entrepreneur. The study recommends that the MFIs should make credit accessible and available to enhance growth and development of Small and medium enterprises through increased profitability and sales volume. T he study also recommends for mechanisms of training where all SMEs should be trained before advanced with loans and after to enhance growth and reduce rates of default. The study recommends further on cheaper and easily accessible savings account facilitated with technology for ease accessibility and technologically friendly services line mobile banking.

Olu (2009) noted that the MFIs are evident tools for entrepreneurship development due to the various services they offer and the role they performs towards the development of the economy. This research study investigates the impact of microfinance on entrepreneurial development of small scale enterprises that craving for growth and development in Nigeria. The researcher used questionnaire as an instrument of primary data collection. The study centers on two broad variables; the dependent variable which is entrepreneurial development and the independent variable which is MFIs. The study reveals that there is a significant difference in the development of firms which uses MFIs and those who do not use them; and there is a significant effect of MFIs activities in predicting entrepreneurial productivity.

2.3 RESEARCH GAP

Most studies conducted on the role of financial institutions either exclude role of bank or include role of bank and MFI in the growth of SMEs as indicated above in different world countries as per the knowledge of the researcher and those all studies focused on overdone variables repetitively except the variable which is education level and access to market solely used by (Chakebo, 2014) in Hawassa city but it exclude the role banks so the researcher was fill the gap of the previous research done by adding the role of bank with existing variables.

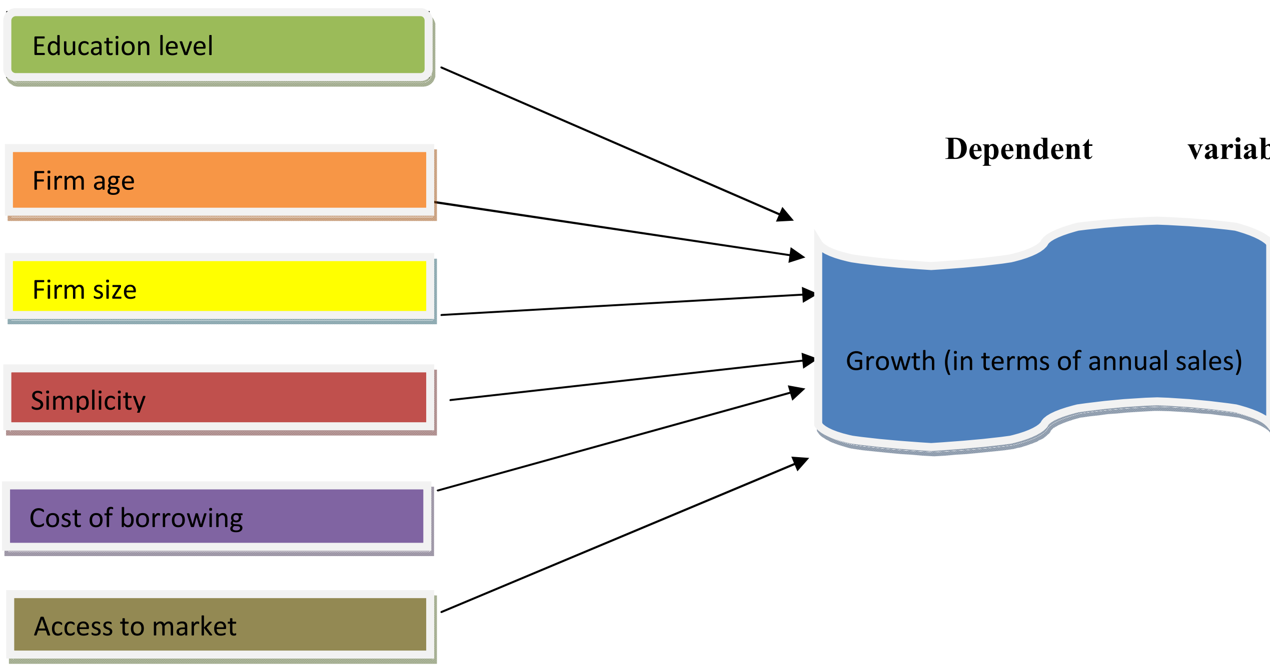
According to Chakebo (2014) investigated on the role of microfinance institutions in the growth of micro and small enterprises in Hawassa city South Ethiopia. The variables as age, level of education, experience of owner/ manager or other member of enterprise and external business environment such as access to finance, market competition, and proper training and loan criteria of MFIs. Olu (2009) on the other hand focuses on the role of MFIs in entrepreneurial development by ignoring the other institutions which are proven effective in providing services to SMEs. According to (Kepha & Willy, 2013) regarding the role of micro financial institutions on the growth of SMEs in Kenya: a case study of micro financial institutions in Kisi town. The purpose of the research will be to determine how each independent variables (credit provision, training, market information and interest rates) and interactions on the growth of small-scale enterprises in the Municipality (Dependent variable). Further, previous studies only focus on role of financial institutions by ignoring bank.

Finally, to the knowledge of the researcher role of financial institution in the growth of SMEs has not been studied in Bonga town and there is a lack of empirical evidence. Therefore, this study will examine researcher role of financial institution in the growth of SMEs in Bonga to provide empirical evidence of this gap.

Conceptual frame work

Independent variables

Dependent variables



CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

The purpose of this chapter is to present the research methodology adopted in the study. The chapter is arranged as follows. Section one research approaches and design are presented and in section two data type and source presented. Then, section three presents the research sampling designs and finally data analysis method.

3.1 Research Approach and Design

This section introduces the fundamental elements of research approaches. The three common approaches to conducting research are quantitative, qualitative, and mixed methods. Researchers typically select the quantitative approach to respond to research questions requiring numerical data, the qualitative approach for research questions requiring textural data, and the mixed methods approach for research questions requiring both numerical and textural data (Carrie, 2007).

The primary aim of this study is to examine the role of financial institutions in SMEs growth. To achieve this objective the researcher was used mixed method (both quantitative and qualitative) approach. The main reason of using such approach is to alleviate the limitations of quantitative and qualitative research approaches and to gather data that could not be obtained by adopting a single method. The goal for researchers using the mixed methods approach is to draw from the strengths and minimize the weaknesses of the quantitative and qualitative research approaches (Carrie, 2007).

This study used both descriptive and explanatory research designs. The major purpose of descriptive research in this study was used describe the role of financial institutions in the growth of SMEs. In addition, the study employed explanatory design in that the relationship between variables in the study are correlated each other.

3.2 Data Types and Source

The study is cross-sectional in the sense that relevant data are collected at one point in time. The necessary data for this study was collected from primary sources. The primary data has obtained through questionnaires and interviews. Data that has been collected from first-hand-experience is known as primary data. Primary data has not been published yet and is more reliable, authentic and objective.

Primary data has not been changed or altered by human beings; therefore its validity is greater than secondary data.

3.3 Sampling Design

3.3.1. Target population

In research methods, population is the entire aggregation of items from which samples can be drawn. Using a sample that is too large is a waste of resources while using a sample that is to small means getting results that are likely to be lacking in validity. In this study, the target population was small and medium enterprises in the Bonga town on different economic activities such as, 147 service, 51 constructions, 98 manufacturing, 65 retailers and 104 urban agricultures. The total inhabitants of 465 enterprises from different activities were taken as target population for this study (Micro and Small Enterprises Development Agency annual reports).

3.3.2. Sampling technique

Stratified random sampling is a sampling procedure that subsamples are drawn within different strata; each stratum is more or less equal on some characteristic. This technique is preferred because it is used to assist in minimizing bias when dealing with the population. With this technique, the sampling frame can be organized into relatively homogeneous groups (strata) before selecting elements for the sample. This step increases the probability that the final sample would be representative in terms of the stratified groups (Janet, 2006).The firms would be stratified into a number of non-overlapping subpopulations or strata and sample items are selected from each stratum. The reason to apply this sampling technique is to obtain a representative sample (C.R. Kothari, 1990) accordingly; the firm population in town would be stratified based on their activities. The activities that these firms undertaking are: service, manufacturing, constructions, retail and urban agriculture. Finally the researcher takes sample by using simple random techniques.

3.3.3 Sample size

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

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

In which “e” is the level of precision i.e e=5% 0.05 level of significance.

so $n= 465/ (1+465(0.05)^2) =215.02\approx215$

Therefore, out of 465 respondents the researcher selected 215 SEMs randomly as a sample on proportional basis follows:

Activities (strata)	(no of firms)	Sample size taken proportionately.
Service	147/465*215	68
Retailer	65/465*215	30
Manufacturing	98/465*215	45
Construction	51/465*215	23
Urban Agriculture	104/465*215	49
Total	465	**215**

3.4 Data collection instrument

In order to collect sufficient data that can answer the research questions, researcher designed two surveys; the first was a questionnaire to get quantified results. The second survey was interviews aimed to collect data from banks and microfinance managers.

The necessary data for this study was collected from primary sources. The primary data has obtained through questionnaires and interviews..

Questionnaire is, the most used and abused survey instrument (Osuala, 2005). Questionnaires are advantageous whenever the sample size is large enough to make it economical for reasons of time or funds to observe or interview every subject. The greatest difficulty with questionnaires that are distributed to the subjects or potential respondents is the probable bias, which exists when less than the total number in the sample actually responds to the questionnaires. The questionnaire was prepared and distributed to ensure fair and equitable distribution and response from the respondents which was expected to give a true or fair representation of the views of the respondents to allow for generalization in the final analysis

The survey instrument contains both open and closed questions. The open questions give the respondent freedom to decide the aspect, detail and length of his/her answer. It enables the respondents to give a more adequate presentation of his/her particular case and convey flexibility in his/her choice. The closed questions on the other hand are designed to keep the questionnaire to a reasonable length and this encourages response and validity in terms of the representativeness of the returns. It minimizes the risk of misinterpretation unlike the former. It also permits easier tabulation and interpretation for the researcher. The questionnaire designed in two main sections. The first section is SMEs respondent's profile. The second section possesses the questions relating to the subject matter of the inquiry.

As a research method, the interview is a conversation carried out with the definite aim of obtaining certain information. It is designed to gather valid and reliable information through the responses of the interviewee to a planned sequence of questions through the responses of the interviewee to a planned sequence of questions. Unstructured interview, which is highly favored for its flexibility and detailed clarification (Wimmer and Joseph, 2006) has been used for the study in order to have some explanations on role of financial institutions in SMEs development and their products and services. There were nine banks and one MFIs which were working in Bonga town out of them four banks and one MFIs managers/officials were selected through judgmental sampling technique. To substantiate the data obtained through in-depth interviews with banks and MFIs managers/officials.

3.5 Method of Data Analysis and Presentation

After collecting all required data the researcher was used analyzed using both descriptive and inferential statistical, so as to draw meaningful inferences about the problem under investigation. Quantitative data is analyzed by using descriptive statistics such as frequency, mean and percentage and inferential statistics, central tendency was used to give meaningful conclusions for the data that was analyzed in descriptive statistics. Qualitative data that would be obtained from the interviews with banks and MFIs managers/officials is also be interpreted and discussed in text explanations in words.

Finally, to assess the relationship between SMEs growth i.e. sales growth) and financial resources from financial institutions, multiple OLS regression analysis was used the reason to use multiple OLS the independent variables are more than one and the dependent variables of the study are continuous data .

3.6 MODEL SPECIFICATION

To estimate the impact of financial institutions; banks and MFIs on the growth of SMEs, the following general empirical research model is developed

GR = (AGE, EDU, SZE, CST, SIM, MKT,)……………………………. (i)

Equation

GRit = (α0 + β1EDUit + β2AGEit + β3SZEit + β4CSTit + β5SIMit +β6MKTit + μ) ……………….(ii)

Where:

GRit: annual sales volume of firm i at time t.

AGEit: age of firm i at time t.

EDUit: education level of firm i at time t.

SZEit: firm size i at time t.

CSTit: borrowing cost i at time t

SIMit: simplicity of loan criteria MFIs i at time t

MKTit: access to market i at time t

μ: error term or residual in the model.

α: intercept of the regression line. From β1 to β6: are parameters or coefficients of the independent variables estimated.

Table 3.2 Summary of Variables with their Measurement.

\	Measurement	Expected sign
β0 **β1… β6 (parameter)**	Coefficients	
Growth as sales volume (dependent)	Measured by annual sales volume	

Education level independent)	Measured by SMEs owners, manager and sales person education level i.e. less than diploma, diploma ,bachelor degree and masters and above	+
Firm age (independent)	Measured by the number of years the business in operation	. +
Firm size	Measured by number of employees existed in SMEs	+
Simplicity	Measured by criteria that need by financial institutions	+
Borrowing cost (independent)	Measured by the cost which is paid by the borrower to get the loan	-
Access to market (independent)	Measured by 1=access 2=no access	-

3.7 Definition of Variables

3.7.1 Dependent variable

It will be use annual sales as a measure of firm growth as dependent variable because of the difficulty of obtaining realistic information on profits earned. This conforms to the studies by Wijewardena and Cooray (1995); Wijewardena et al. (1999); and Esra (2003), which have used sales growth as a key indicator of small business success and growth. It was measured by the growth rate in percentage terms

3.7.2 Independent Variables

Education level: The education and experience of the entrepreneur in terms of knowledge, skills, behaviors and attitudes contribute to increased or decreased access to debt finance (Reginald and Millicent, 2014). Past research has found a positive relationship between higher educational qualifications and business access to debt finance (Dunkelberg and Cooper, 1982; Johnson, 1993; Kozan, et al., 2006). The level of education has an influence on the motivation of an entrepreneur in terms of finding alternative finance sources; building finance networks; and planning for long term finance solutions for the enterprise (Smallbone and Wyer, 2000). Furthermore, education helps to enhance the enthusiasm, exploratory skills, communication abilities and foresight of entrepreneurs and ensure the enterprise exists as a going concern (Dobbs and Hamilton, 2007). It also enhances the skills that collectively have a positive effect in the growth of small and medium enterprise.

HI: There is a positive association between enterprise growth and firm education level.

Firm of age: - included in the model because, younger firms, would grow rapidly due to innovative ideas and dynamic management. On the other hand, older firms may achieve stronger growth because of their experience**.**

H2: There is a positive association between the SMEs growth and age of firm

Firm Size: Cassar (2004) concluded that the "larger" small firms are, the more they rely on long-term debt and external financing, including bank loans. This is consistent with Storey (1994) who found that in the case of SMEs, the owner–manager's personal savings are more important as a source of funds during the start-up stage than outside finance such as loans and overdrafts from banks. From another angle, the extent to which firm size can impact the availability of finance to the firm was measured by Petersen and Rajan (1994). They argued that as firms grow, they develop a greater ability to enlarge the circle of banks from which they can borrow. They then provided evidence that firms dealing with multiple banks and credit institutions are nearly twice as large as those with only one bank. Martin and Daniel (2013) suggested that the reason for the effect of size of the business on the ability to access finance is that larger firms are likely to have collaterals that act as a security in securing finances. Another reason is that large size in itself provides information to lenders that the firm is able to meet the needs of other constituencies and thus is able to grow in size. The employment size of SMs holders in terms of the number of employees including family members are mentioned accordingly. MSEs with larger employment size are more likely to access credit from formal financial institutions than MSEs with smaller employment size.

H3: There is a positive relationship between SMEs growth and firm size

Cost of borrowing (CBR): is the amount of money paid in interest on a loan or other debt. In other words, it is what one must spend in order to receive money as a loan and it measured by interest rate. Interest rates as a cost of the loan have a significant effect on a company's growth plans. They not only affect loan payments, but they also have an impact on an enterprise funding (Ogolla, 2013). High interest rates reduce business earnings which ultimately hinders the business capacity to grow. High interest rates also affect a business cash flow in that one has to set aside more money to repay the loans. This in turn reduces its disposable income hence affecting ability to pay its other creditors (Ndungu, 2016). Anthony, et al (2013) who studied determinants of credit rationing to the private sector in Ghana found out that interest rate has a negative effect on credit allocation. Higher interest rate discourages micro and small enterprises to deepen their financial access

H4: There is negative relationship between SMEs growth and borrowings cost

Simplicity of criteria: -Determined by different processes which is time taking, and difficult to understand. Accessibility to credit affects financial performance of Small enterprises positively. The easier it is to access credit, the higher the financial performance of the Small and medium enterprises small and medium enterprises, especially in assisting the businesses to repay back their loans in order to get more credit in future.

H5: There is positive association between SMEs growth and simplicity of loan criteria MFIs

Access to market:- describes the possibility of an enterprise to sell their goods and services across borders and enter in to a foreign market. It difficult to enter foreign market for small and medium enterprise these is affect the growth of small and medium enterprises.

H6: There is negative association between SMEs growth and access to market

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

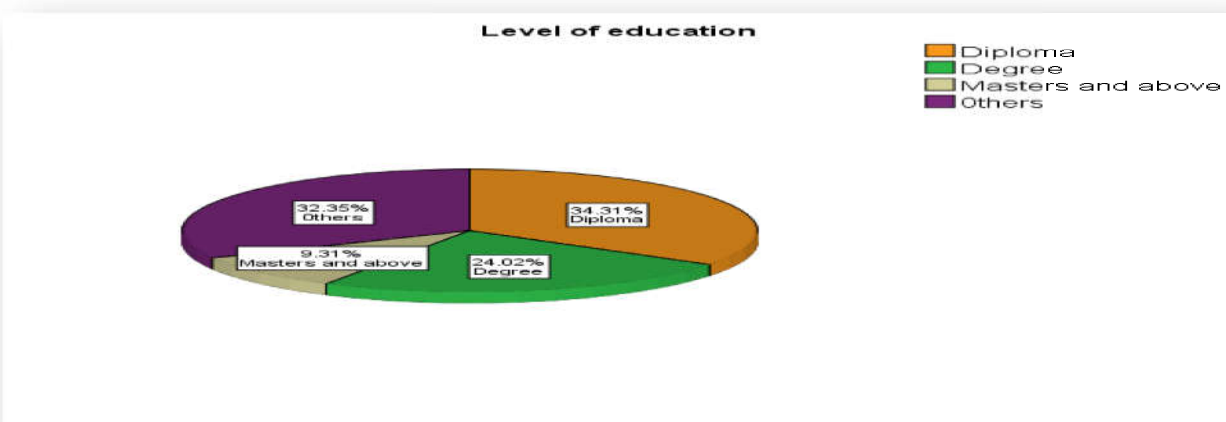
This chapter provides analyses and interpretations of the raw data gathered in the course of the study. Then the final section summarizes this chapter

4.1 Respondents' Profile

The data were collected from 204 owners, managers and sales person of micro and small sized firms out of a sample size of 215 SMEs which were operating in Bonga town. These owners, managers and sales person and their businesses were stratified selected from the register of Micro and Small Enterprises Development Agency. A response rate of 94.8 percent was achieved. Those who chose not to participate typically gave reasons such as they were too busy or they never participate in surveys. All the survey respondents were located in Bonga town. Therefore, the demographic characteristics of respondents were discussed in the following ways

About 24.02 percent of survey respondents had bachelor degree, while 34.31percent hold Diploma, 32.35 percent hold less than diploma, and 9.31 percent had a Master Degree or above in a particular profession (figure 4.1.). Therefore, education is estimated to increase the skill of the enterprises to cope up with problems and confiscate opportunities for firm growth and innovation

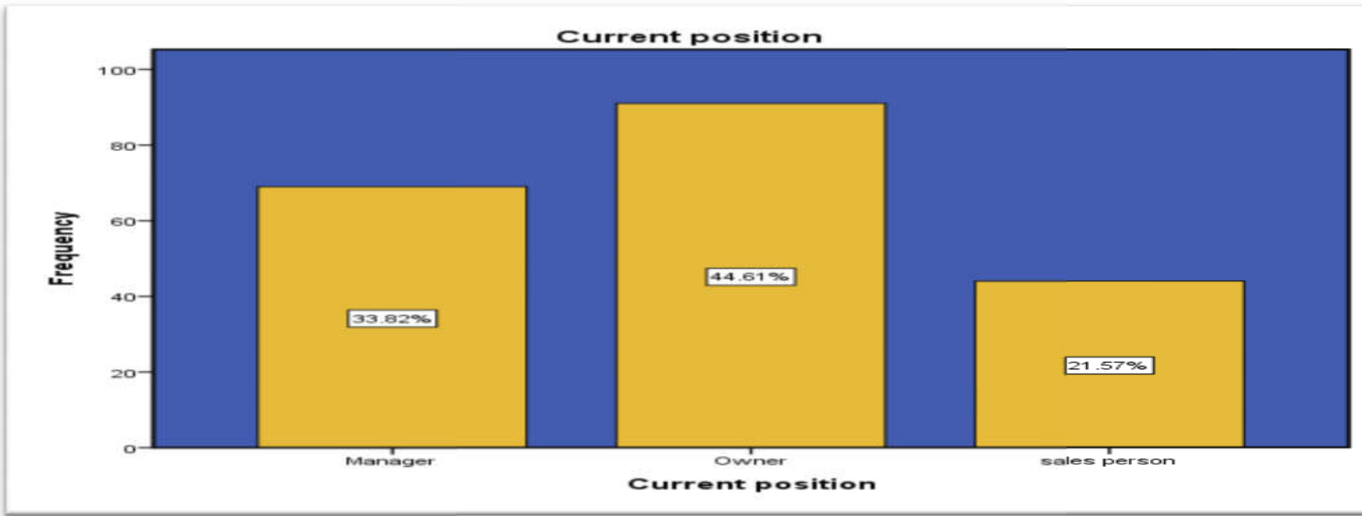
Figure 4.1 level of education



Source: survey result & own computation

According to current position, 33.82 percent of the survey respondents were managers while 44.61 percent and 21.57 percent of the respondents were owners and sales persons respectively. Hence, the enterprise in the town administration leads by owner.

Figure 4.2 current position of enterprise



Source: survey result & own computation

In terms of year of experience, 45.9 percent of the survey respondents had 1 to 5 years of work experience while 26.8 percent had 5 to 10 years of experience. The rest had less than 1 year and more than 10 years of experience 22.0 and 4.9 percent respectively.

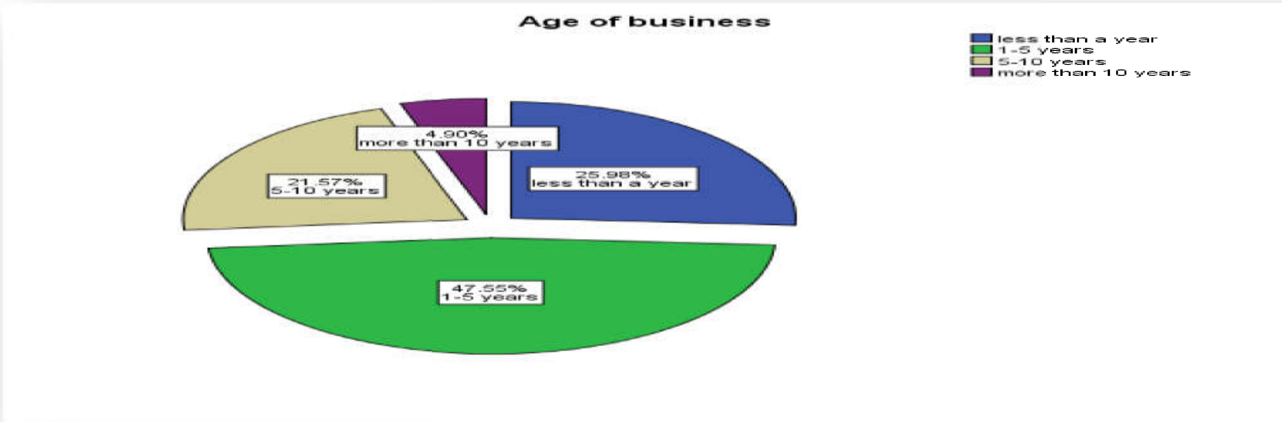
Table 4.1 respondents by year of work experience

Respondent's by year of Work Experience			
Work experience		Frequency	Percent
Valid	less than a year	46	22.0
	1-5 years	94	45.9
	5-10 years	55	26.8
	more than 10 years	10	4.9
	Total	204	99.5

Source: survey result & own computation

Regarding the age of business, 47.55 percent of survey respondents' firms were between one and five years old while 25.98 percent indicated that their businesses existed less than a year. The rest are from five about ten years and more than 10 years 21.57percent and 5.65 percent respectively (figure 4.3).

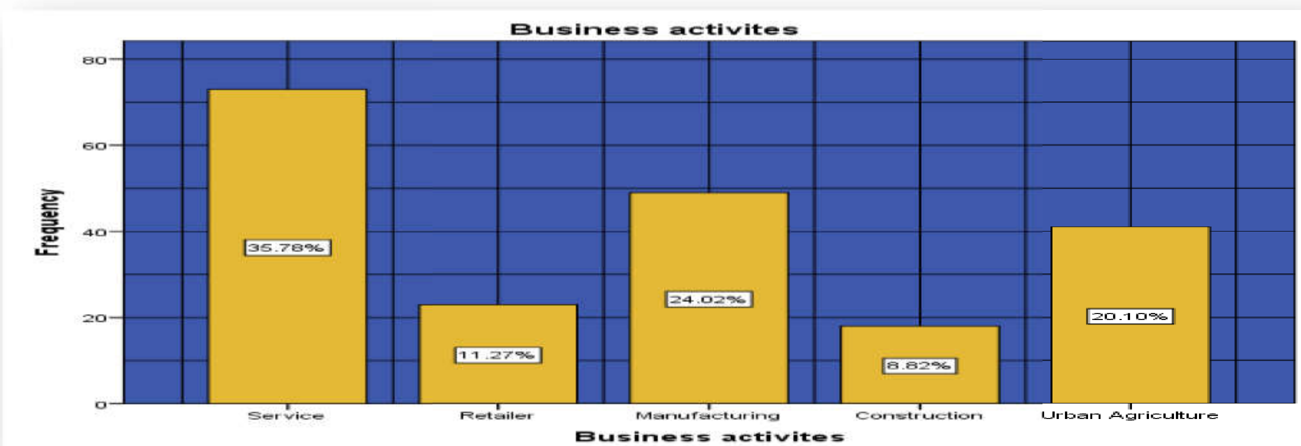
Figure 4.3 Age of business firm



Source: survey result & own computation

In terms of business activities, about 35.78 percent, 24.02 percent, 20.10 percent, 8.82 percent and 11.27of survey respondents were services, manufacturing, urban agriculture, construction and retailer respectively (figure 4.4). Thus, the service sector has been consists of majority enterprise in the town administration as well as these sector growing faster than another.

Figure 4.4 Business activates



Source: survey result & own computation

As to forms of business ownership, 47.3 and 32.2 percent of survey respondents were partnership and sole proprietors respectively. The rest were private limited companies (Plc) (table 4.2). It demonstrated that micro and small enterprises especially partnership were target to create job for labor force which seek job opportunity and the back bone economic growth as well as the base for industrial expansion in the country

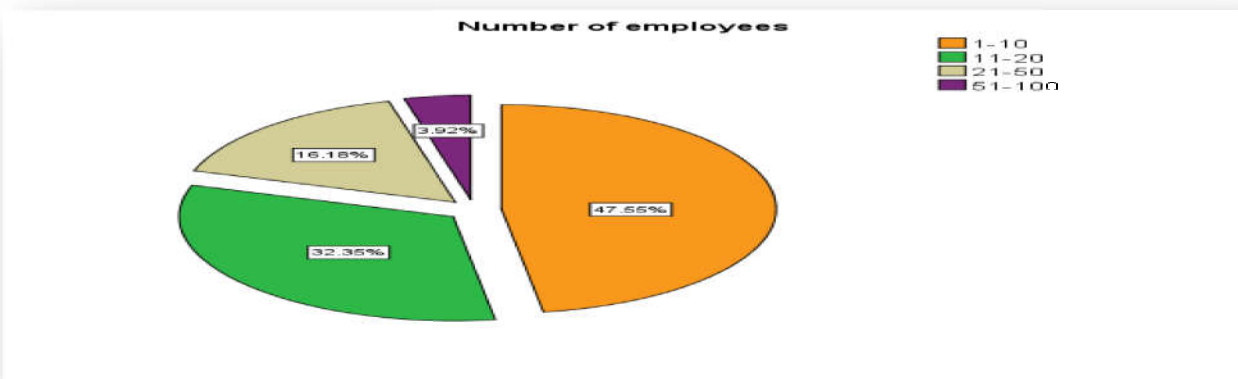
Table 4.2 Business ownership form

Business ownership form			
Form of ownership		Frequency	Percent
Valid	sole proprietorship	67	32.2
	Partnership	97	47.3
	Private limited company	41	20.0
	Total	204	99.5

Source: survey result & own computation

According to the data presented in figure 4.5, about 47.55percent of business surveyed had between less than ten employees while 32.35 percent had eleven and twenty employees and16.18 percent between twenty one and fifty, from fifty one up to one hundred 3.92 percent

Figure 4.5 Number of employees existed in enterprise



Source: survey result & own computation

Almost 43.4 percent of SMEs faced some degree of market competition while 27.3 percent had no market competition in their sector and the rest 24.4 percent and 4.4 percent indicates strong competition and severe competitions respectively (table 4.3).

Table 4.3 Business level by market competition

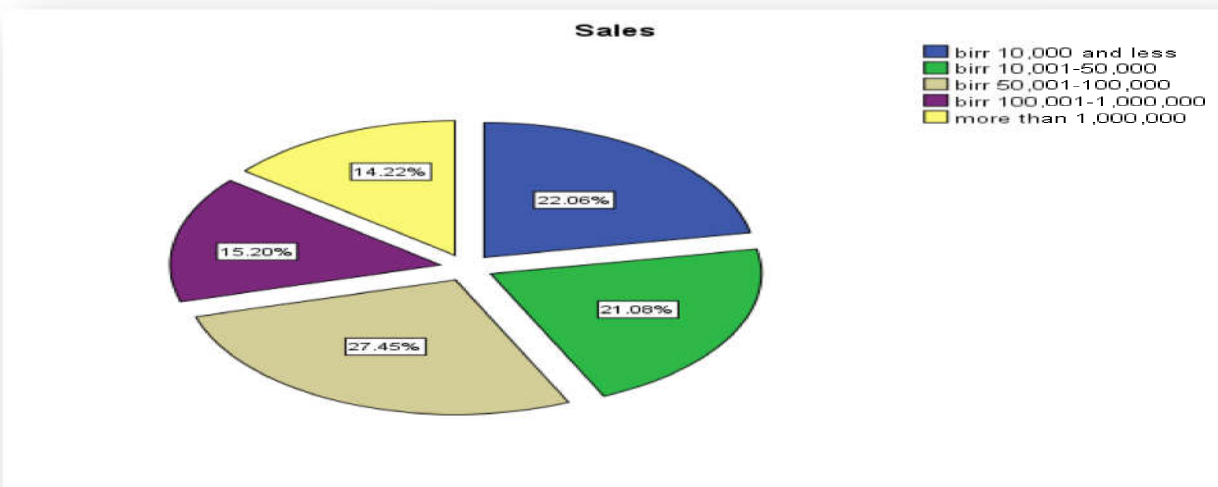
Business by level of market competition

Degree of market competition		Frequency	Percent
Valid	No competition	57	27.3
	Moderate competition	89	43.4
	Strong competition	50	24.4
	severe competition	9	4.4
	Total	204	99.5

Source: survey result & own computation

In terms of annual turnover, during the 20010/11 fiscal year, 22.06 percent of survey respondents had total sales of birr10, 000 or less. About 21.08 percent, 27.45 percent, 15.20 percent, and 14.22 percent of SME survey respondents had total annual sales of birr 10,001 to birr 50.000, birr 500,001 to birr 100,000, birr 100.001to one million birr, and above one million birr respectively (figure 4.6)

Figure 4.6 Annual sales of enterprise



Source: survey result & own computation

According to the data presented in table 4.4, about 86.3 percent of survey respondents sold their products/services in the domestic market. However, the firms participating in export trade had low proportion of export to total sales.

Table 4.4 SMEs export sales

SMEs by export to total sales ratio in 2009/10 fiscal year

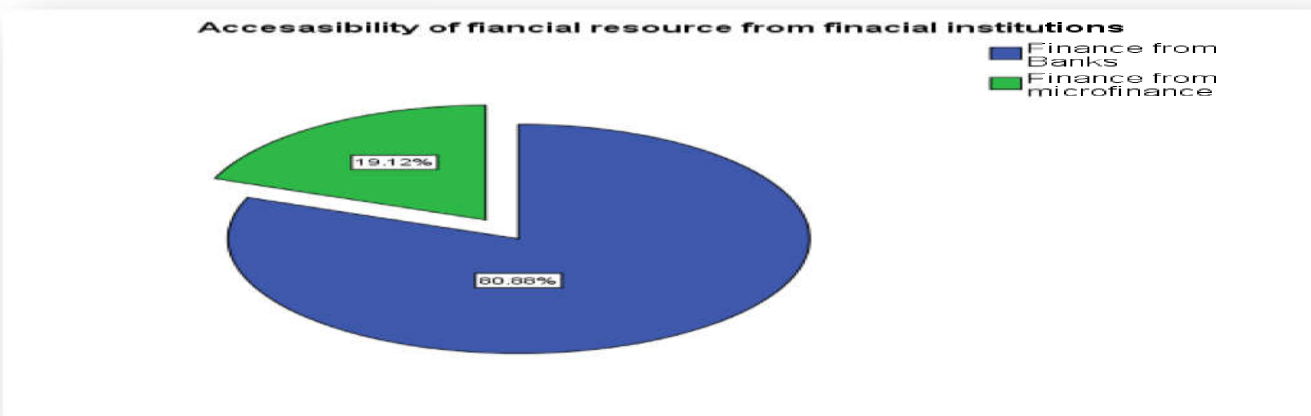
Export to total sales ratio	Frequency	Percent
No	177	86.3
1-10%	14	6.8
11-20%	12	5.9
21-50%	1	.5
Total	204	99.5

Source: survey result & own computation

4.2 Role of Financial institutions in the Growth of SMEs

To capture information regarding the relative importance of financial institutions i.e. Banks and microfinance in SMEs growth, survey respondents were asked about the accessibility of bank and microfinance products and services. About 80.88 percent of survey respondents had access to financial resources from microfinance. The rest had access to financial resources from banks

Figure 4.7 Accessibility of financial resource from financial institutions



Source: survey result & own computation

To investigate the real accessibility of loans whether from banks or microfinance, SMEs that had access to financial resources were asked whether they ever applied and received bank loan. SMEs applied received loans from whether from Banks and microfinance about 86.3 percent of survey respondents applied and received loans from financial institutions. However, the rest 13.2 percent don’t applied and received loans from any financial institutions i.e. banks and microfinance (table 4.5).

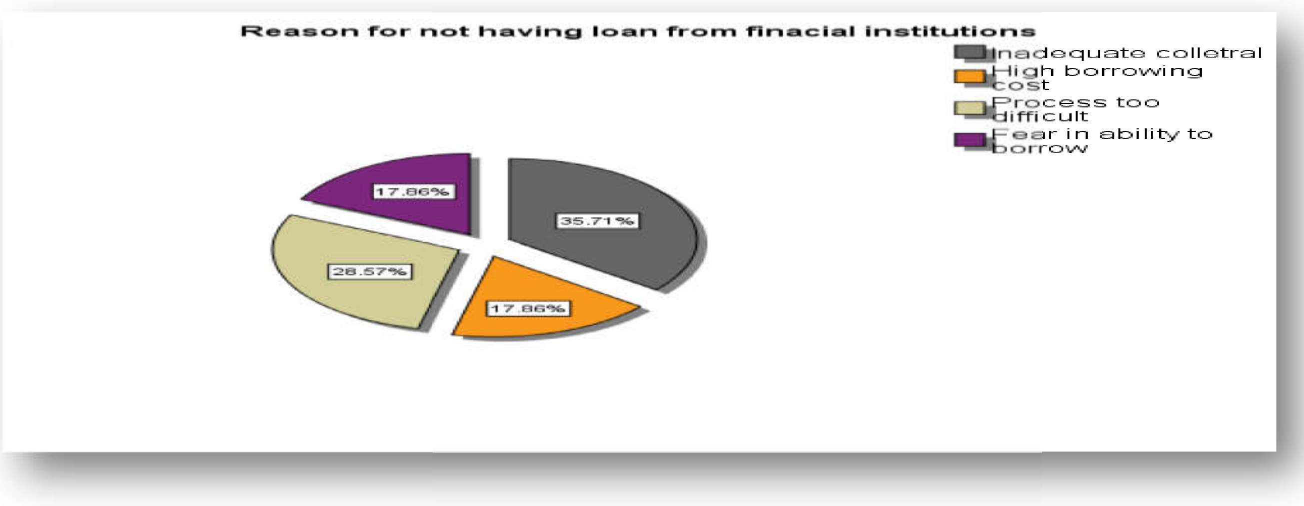
Table 4.5 Loans applied and received

Loans applied and received			
Loan received		Frequency	Percent
Valid	Yes	177	86.3
	No	27	13.2
	Total	204	99.5

Source: survey result & own computation

In order to investigate factors for inaccessibility of bank loans, survey respondents were asked to indicate the reasons. As presented in figure 4.8, some SMEs were discouraged from applying by high collateral requirement (35.71 percent), difficulty of processes involved (28.57 percent), high cost of borrowing (17.86 percent) while 17.86 percent indicates fear of repayment ability.

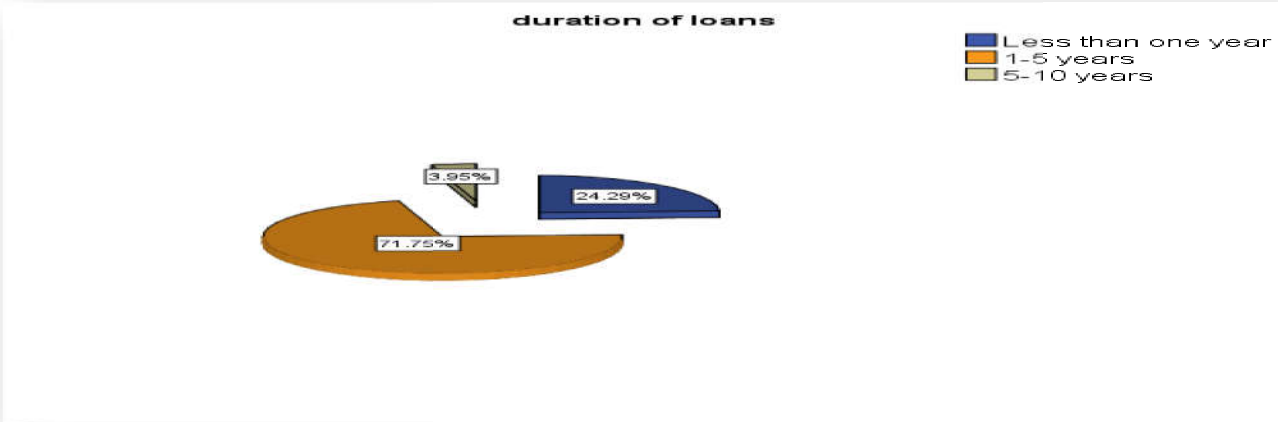
Figure 4.8 Reason for not having loan from financial institutions



Source: survey result & own computation

SMEs that applied and received loans were also asked about terms of credit (i.e. maturity period) involved in relation to banks and microfinance loans. This is to distinguish whether the loan was used for short term working capital needs to finance operating activities (24.29 percent),about 71.25 percent of survey respondents for financing of medium and 3.95 percent of survey respondents long term financing requirement.

Figure 4.9 Duration of loans



Source: survey result & own computation

In terms of adequacy of time to repay loans to the financial institutions about 59.9 percent of respondent survey indicates that enough time was given by financial institutions. However, 40.1 percent it's not enough the time was given by financial institutions.

Table 4.6 Time given to repay loan to financial institutions

		Frequency	Percent
Valid	Yes	106	59.9
	No	71	40.1
	Total	177	100.0

Source: survey result & own computation

The use of collateral/guarantee to secure loans was also quite common among all types of lenders (except informal sources such as iqub, friends and relatives) with noticeable differences in the extent of coverage. Looking at table 4.7, it can be noted that the criteria in granting bank loans were based on various types of securities/guarantee. About 50.8 percent of survey respondents which have access to loans whether from Bank or Micro-finance indicated that enterprises must have fixed asset (collaterals) and 27.7 percent indicated that enterprises must present business plan. The rest of survey respondents pointed out that enterprises must present third party guarantee as collateral.

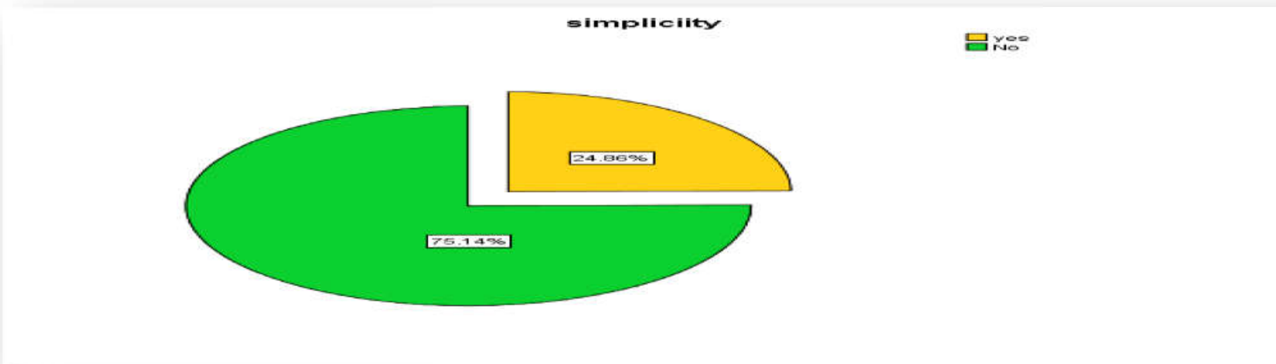
Table 4.7 Loan criteria needed to get loans from financial institutions

	Loans criteria		
		Frequency	Percent
Valid	Collateral	90	50.8
	business plan	49	27.7
	third person guarantees	38	21.5
	Total	177	100.0

Source: survey result & own computation

As table 4.16 presents, 75.14 percent of survey respondents indicated that bank loans criteria were not easy to meet. Those who said it was easy constitute 24.86 percent.

Figure 4.10 Simplicity



Source: survey result & own computation

About 73.4 percent of survey respondents that had access to loans had received adequate funds from either banks or Microfinance. The rest balance indicated that bank loans were inadequate for financing of operating activities as well as for investing activities.

Table 4.8 Adequacy of financial institutions loans to SMEs

	Adequacy of financial institutions loans		
Adequacy		Frequency	Percent
Valid	Yes	130	73.4
	No	47	26.6
	Total	177	100.0

Source: survey result & own computation

Loans provided by those financial source providers which were available to SMEs are mostly term loans and installment loans. The Loan term and size was depending on the purpose of the loan, the capacity of the borrower to pay the loan, and the lending capacity of the institution. A question was forwarded to owners /manager of small businesses to see for what purpose this loan/finance executed and have an autonomy to choose all if they implement for all stated purpose. Looking at table 4.9, about 50.8 percent of survey's respondents indicates use loans for purchasing of input/raw materials while, 32.2 percent indicates purchase of long lived asset and the rest 16.9 percent indicates payment of loans.

Table 4.9 Purpose of loans received from financial institutions

purpose loan received from financial institution			
Purpose of loan		Frequency	Percent
Valid	Purchase of input/Raw material	90	50.8
	Purchase of long lived asset like machinery, business building	57	32.2
	Payment of loans	30	16.9
	Total	177	100.0

Source: survey result & own computation

As table 4.10 presents, 71.2 percent of survey respondents indicated that pay higher inters rate for receiving loans from financial institutions. Those who said it was small interest rate constitute 28.8 percent.

Table 4.10 cost borrowing paid to the financial institutions

cost borrowing paid to the financial institutions			
Cost borrowing		Frequency	Percent
Valid	Yes	126	71.2
	No	51	28.8
	Total	177	100.0

Source: survey result & own computation

According to the data presented in table 4.11, about 56.5 percent of the survey respondents, small business charge higher interest in bank than microfinance. However, the other said it is not high for small business charged by bank.

Table 4.11 small business charge higher interest in bank than large business

Small Business Charge Higher Interest In Bank than large business			
Interest charged to small business		Frequency	Percent
Valid	Yes	100	56.5
	No	77	43.5
	Total	177	100.0

Source: survey result & own computation

Regarding of the data presented in table 4.12, about 69.5 percent of survey respondents after getting loan change of employment rate in organizations. But, 30.5 percent there is no change employment rate after getting loans from bank or microfinance.

Table 4.12 Change of Employment Rate after getting loan

Change of Employment Rate After Getting Loan			
Change of employment rate		Frequency	Percent
Valid	Yes	123	69.5
	No	54	30.5
	Total	177	100.0

Source: survey result & own computation

As table presents, 4.13, about 44.1 percent of survey respondents a business that have large number of employs reputable to get loan. However, 55.9 percent indicates a business that has large number employs not reputable to get loan.

Table 4.13 Large number employs in business reputable to get loan

Large Number Employs in Business Reputable to Get Loan			
Large number of employs reputable to get loan		Frequency	Percent
Valid	Yes	78	44.1
	No	99	55.9
	Total	177	100.0

Source: survey result & own computation

In terms of influence of educational level to the growth SMEs about 57.1 percent of survey respondents indicate that there is education level influence to SMEs growth. The rest 42.9 percent are not influence to SMEs growth (table 4.14).

Table 4.14 Influence of educational level to the growth of SMEs

Influence of educational level to the growth of SMEs			
Influence of education		Frequency	Percent
Valid	Yes	101	57.1
	No	76	42.9
	Total	177	100.0

Source: survey result & own computation

As regarding of (table 4.15) presents 56.5 Percent of survey respondents indicate that financial institutions provide training for SMEs .However, 43.5 percent of survey did not get training from financial institutions

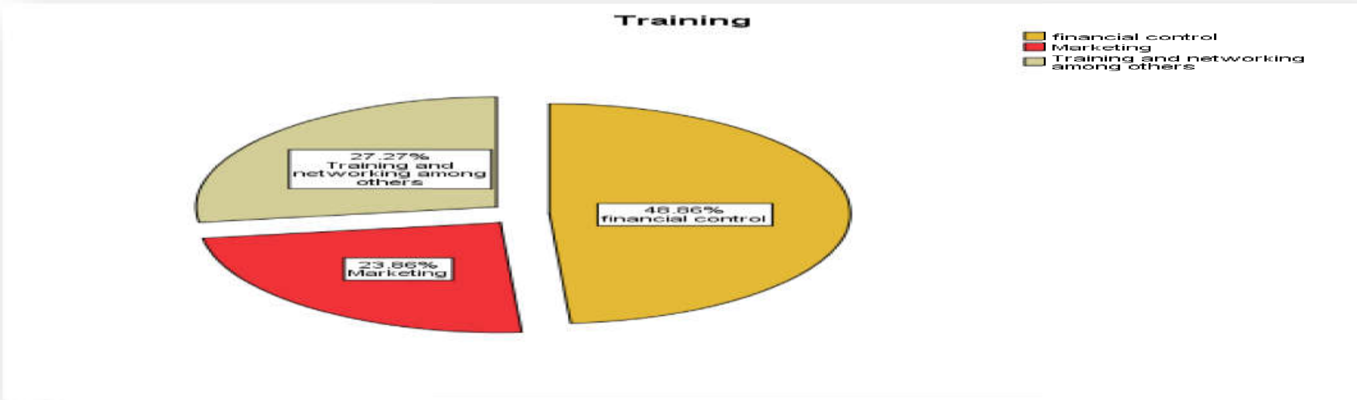
Table 4.15 Financial institutions provide training

Financial institutions provide training			
Training		Frequency	Percent
Valid	yes	100	56.5
	No	77	43.5
	Total	177	100
L			

Source: survey result & own computation

In terms of importance training about 48.86 percent of survey respondents indicate that trainings makes financial control,27.27 percent shows trainings and networking among others and 23.86 percent indicate training importance for Marketing.

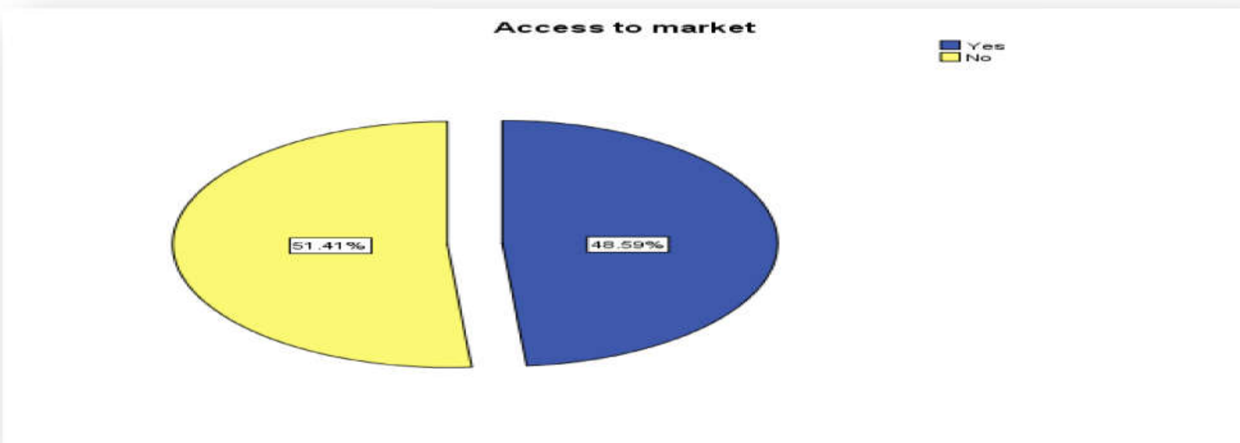
Figure 4.11 Trainings makes for SMEs.



Source: survey result & own computation

As regarding to (figure 4.12), 51.41percent of survey respondents indicate get market access from financial institutions. However, 48.59 percent does not get market access either banks or micro finance

Figure 4.12 Access to market



Source: survey result & own computation

Among the 177 SMEs which actually applied and received banks loans, 21.5 percent had difficulties in paying back the loan while the remaining 78.5 percent did not face any problem in paying back the borrowed funds (table 4.16).

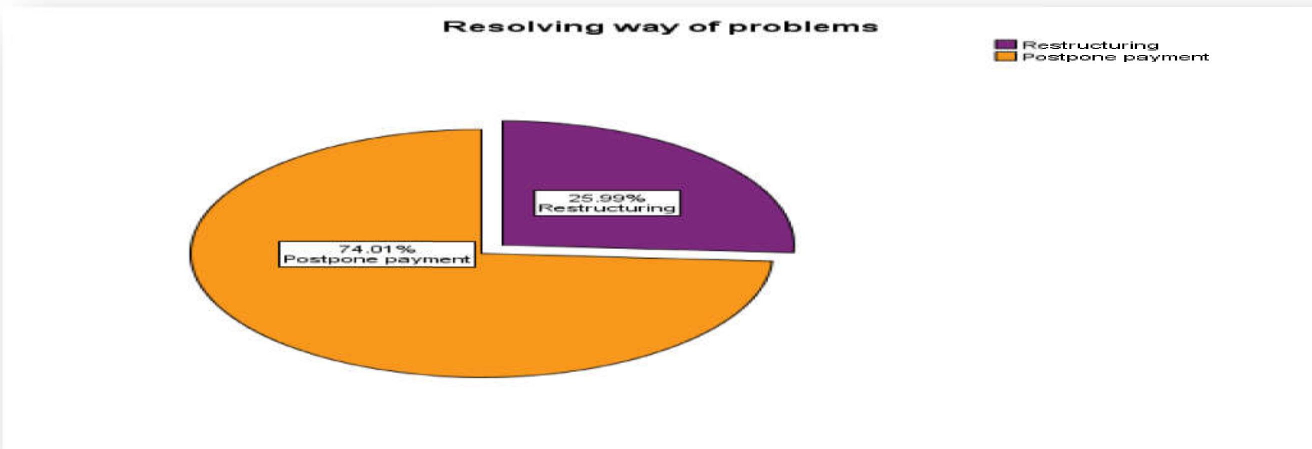
Table 4.16 Loan pay back problems face by SMEs

loan pay back problems			
Pay back problems		Frequency	Percent
Valid	Yes	38	21.5
	No	139	78.5
	Total	177	100.0

Source: survey result & own computation

In terms of resolving way of loan pay back problems about 74.01 percent of survey of respondents indicate the financial institutions provide postpone payment, while 25.9 percent restructuring.

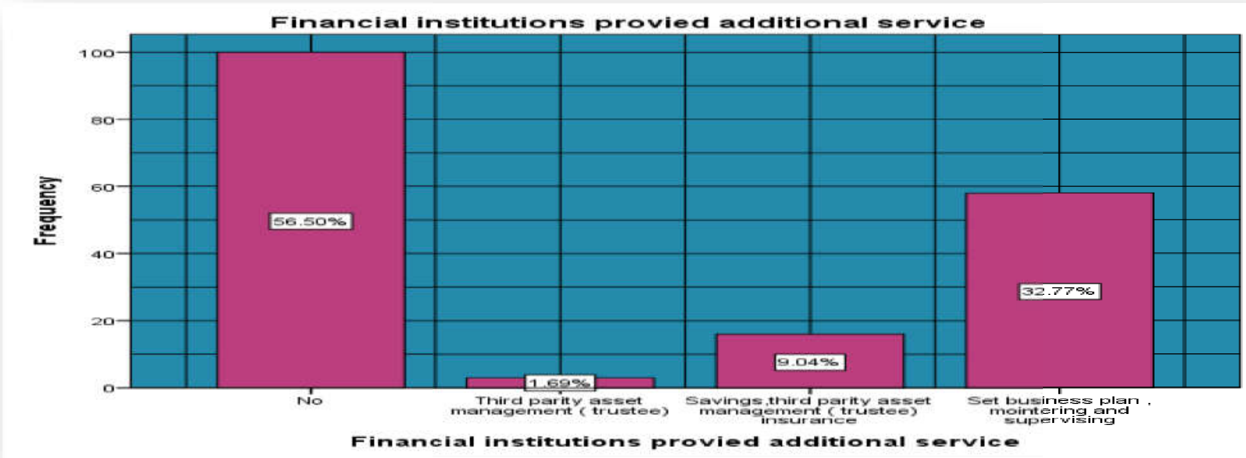
Figure 4.13 Resolving way of problems



Source: survey result & own computation

Survey respondents were also asked about the additional product/services apart from financial services offered by MFIs. In this regard, 32.77 percent of the respondents indicated that MFIs help them in setting up their business plans and control their business activities. About 9.04 percent indicated that saving, insurance and asset management were additional products/services provided by MFIs. The remaining 56.5 percent complained that MFIs had no additional products/services.

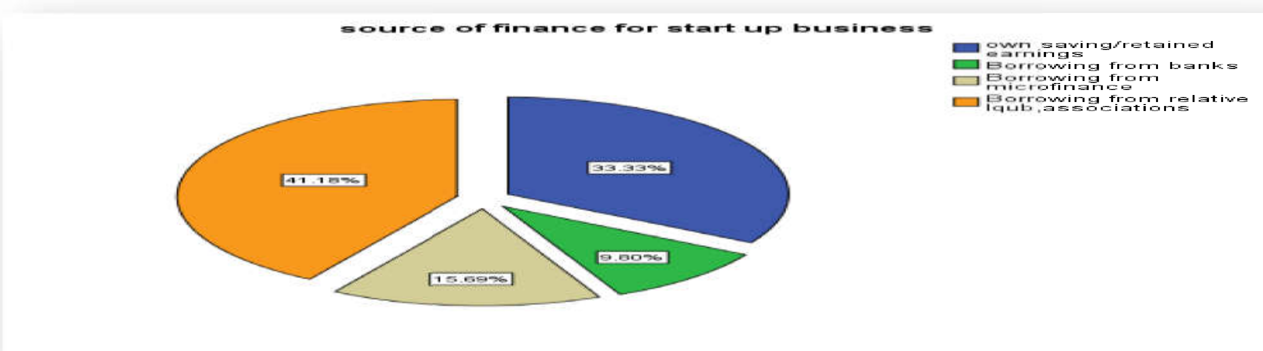
Figure 4.14 Financial institutions provied additional service



Source: survey result & own computation

Businesses can use internal funds or external sources to finance their operations, investments, etc. A firm can use one of these two financing sources only or, as is more often the case in practice, a mixture of them. Traditionally, internal funding, i.e. personal savings, retained profit, sales of assets and "Ekub", is an important means of financing for small businesses. On this part we observe which source of working capital requirement figure 4.15 about 41.18 percent of survey respondents get finance from relative i.e. Iqub,33.33 percent use finance for start business for their own saving or retained earnings while ,get finance from Banks and microfinance institutions 9.8 and 15.69 percent respectively

Figure 4.15 Source of finance for start up business



Source: survey result & own computation

Tests for the Classical Linear Regression Model (CLRM) Assumptions

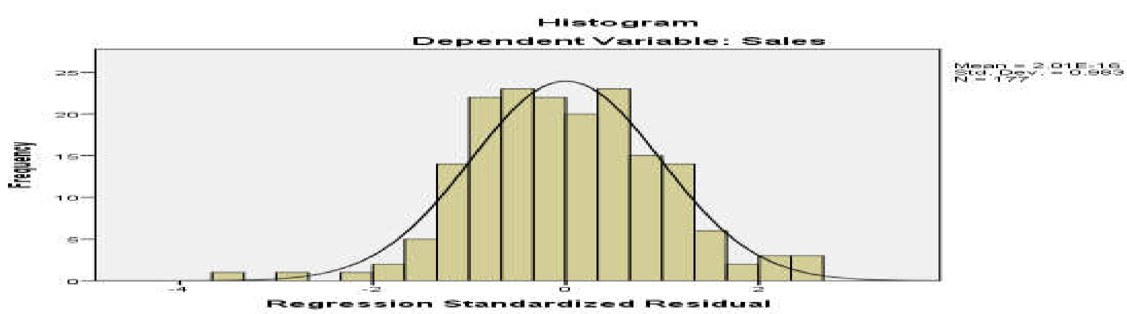
Different tests were run to make the data ready for analysis and to get reliable output from the research. These tests were intended to check whether the CLRM assumptions, i.e. the OLS assumptions, are fulfilled when the explanatory variables are regressed against the dependent variables.

Normality of data

According to Gujarati (1995) before running regression analysis, it should be noted that there are four classic assumptions in undertaking the regression analysis and one of them is normality of data. Therefore, normality test becomes relevant. Chris Brooks (2008) also noted that in order to conduct hypothesis test about the model parameter, the normality assumption must be fulfilled. The normality assumption is about the mean of the residuals is zero. Therefore, the researcher used graphical methods of testing the normality of data as shown below.

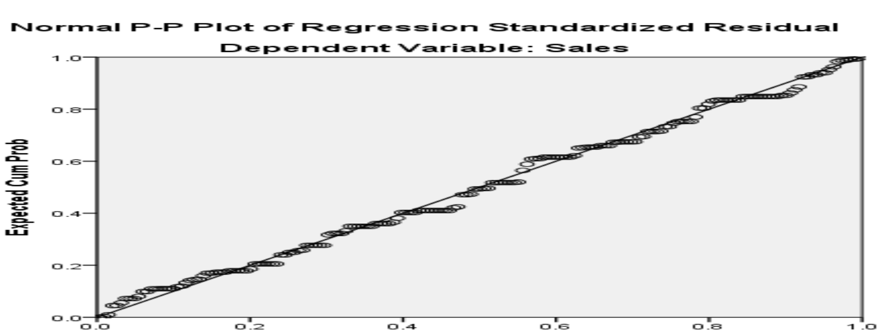
From figure 4.16 below, it can be noted that the distribution is normal curve, indicating that the data confirms to the normality assumption. In addition, the normal probability plots were used to test the normality of data as shown below in figure 4.16 and figure 4.17

Figure 4.16 histogram



Source: SPSS regression output

If the residuals are normally distributed around its mean of zero the histogram is a bell shaped. The shape of the histogram as shown above in figure 4.16 revealed that the residuals are normally distributed around its mean of zero.



Source: SPSS regression output

Test for Multi –collnerity

Multi-collnerity: it is defined as the extent to which a variable can be explained by other variables in the analysis (Hair et al., 1998). Analyze the magnitude of multicollnerity by considering the size of the VIF. A variance inflation factor (VIF) quantifies how much the variance is inflated. But what variance? Recall that we learned previously that the standard errors and hence the variances of the estimated coefficients are inflated when multi-collnerity exists. A commonly given rule of thumb is that VIFs of 10 or higher (or equivalently, tolerances of .10 or less) may be reason for concern. Considering the rule of thumb is that if VIF < 10 then multi-collnerity is low or no multi-collnerity. Therefore in this test there is low or no multi-collnerity. (Table 4.17)

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Level of education	.906	1.104
	Age of business	.811	1.234
	Number of employees	.732	1.367
	Simplicity	.171	5.848
	cost borrowing interst rate	.170	5.868
	Access to market	.805	1.242

a. Dependent Variable: Sales

Source: SPSS regression output

Test for hetroskedastic

The other important assumption for classical linear regression model is that the disturbances appearing in the population regression are homoscedastic that means the variance of the error term is consistent. If errors don not have a constant variance (not homoscedastic), they are said to be Hetroskedastic Chris Brooks (2008).

For the test of the presence of hetroskedasticity, the researcher used white test and is based on the following null hypothesis and its respective alternative.

H0: There is no hetroskedasticity

H1: There is hetroskedasticity

To test the presence of hetroskedasticity, the residual sum of squares for each observation have been calculated and regressed against the independent variables. The results obtained are as follows

Table 4.18 White test regression

Model Summery				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.824[a]	.678	.642	0.63195

Source: SPSS regression output

Table 4.19 Chi Square calculated and tabulated

test	t-statistics X2 calculated =nR2	X2 (5% sig. level) X2α(p), where p=xi+1
White's test	11.826	18.307

Source: SPSS regression output

The results from the table 4.18 and 4.19 above show that X2 square value obtained through calculation is less than the value of Chi square value from the table at 5% significant level. According to white test if the value of chi square calculated is greater than the chi square tabulated at a given significant level, we have to reject the Ho of no hetroskedasticity otherwise we fail to reject it and accept the alternative that is there exists hetroskedasticity. The t-statistics value (chi square calculated) from table 4.19 above is 11.826 which is less than chi square tabulated at 5% significant level, 18.307. Hence 11.826 is less than 18.307 so that we fail to reject the null hypothesis of no hetroskedasticity. In this case it is indicated that there is no evidence for the existence of hetroskedasticity.

Test for Autocorrelation

The Durbin-Watson Statistics (D-W stat.) from the regression result before analysis shows that 1.89 which is approaching to 2 and hence no evidence for the presence of autocorrelation. Of course autocorrelation test will be invalid with the presence of lagged variable so tested without the lagged variable and result for DW stat. In addition the following distribution figure for residuals shows no pattern in residuals implies that there is no autocorrelation (table 4.20).

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.824[a]	.678	.642	0.63195	1.892
a. Predictors: (Constant), Level of education, Age of business, Number of employees ,cost borrowing , Loans criteria Access to market					
b. Dependent Variable: Sales					

Source: SPSS regression output

Regression Results

This section employs econometric analysis to ascertain the role of financial institutions. Although statistical computation has been used, the compelling reason for using a regression technique is that it estimates the impact of each explanatory variable after allowing variations in the dependent variables. The regression is the result of questionnaire results of dependent variable & independent variables. In this section the researchers' tries to analyzing the impact of each independent variable on the dependent variable (table 4.21)

Model Summery

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.824[a]	.678	.642	0.63195

a. Predictors: (Constant), Level of education, Age of business, Number of employees ,cost borrowing , Loans criteria Access to market

b. Dependent Variable: Sales

ANOVA[a (]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	70.302	6	11.717	11.368	.000[b]
	Residual	175.223	170	1.031		
	Total	254.525	176			

a. Predictors: (Constant), Level of education, Age of business, Number of employees ,cost borrowing , Loans criteria Access to market

b. Dependent Variable: Sales

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.145	1.681		-.681	.497
	Level of education	.250	.074	.236	3.369	.001
	Age of business	.255	.118	.157	2.161	.032
	Firm size	.346	.121	.224	2.856	.005
	Simplicity	.785	.519	.255	1.514	.132
	Cost borrowing	.529	.567	.180	.933	.352
	Access to market	.306	.270	.115	1.134	.258

a. Dependent Variable: Sales

Source: SPSS regression output

The ANOVA table above shows that the F value is significant at p=0.000 when the six variables are entered together. The model explains the relationship between the independent variables and the dependent variable, moreover this model is significant and use three independent are predictors. The main purpose of observing the adjusted value of R square is to apprehend the best model that can explain growth of SMEs. It is noted from the regression result that the adjusted R square in the second model is 0.642. This indicates the model is the best to explain growth of SMEs. Which means on average 64.2 % of the change in sales as measured by growth can be explained by the variables in the model.

Education level: As can be seen from the table, education level has a positive significant contribution on the growth of SMEs the variables included in this model. Education level explains the variation of the growth of SMEs with a coefficient of or beta value of 0.236 which is statistically significant at 5% level of significance. This means holding other variables constant for a unit change of their education level is a 23.6% change (growth) in SMEs. In addition, the t value and p value support its statistical significance. According to 2-t rule of thumb the t-value should be greater than 2 to be statistically significant. Here its t-value is 3.369 which are much greater than 2. The P value in the above table, which is 0.001, it is less than 0.05. These two tests support the statistical significance of the on the growth of SMEs.

Age of business: As can be seen from the table the coefficient or beta value of age of business has a positive significant contribution on the growth SMEs. In addition, the t-value and p-value support this argument. Which means t-value is 2.161 which is greater than 2. As the p-value indicated it is 0.032 which is less than 0.05. These two tests support that the age of business is statistically significant.

Number of employees: The regression result indicates that has number of employees a positive significant contribution on the growth SMEs in additions to the educations level and age of business. Number of employees explains the variation of growth of SMEs with beta value of 0.224, which is positive, also the t-value 2.856 which is greater than 2, which is the rule of thumb to test statistical significance using t-value. Moreover, p value is 0.005 less than 0.05. Although number of employees associates with SMEs growth positively, it is significant based on t and p values

Simplicity of criteria: The result indicates that simplicity of criteria has a positive insignificant contribution on the growth SMEs. Simplicity of criteria explains the variation of growth of SMEs with beta value of 0.255, which is positive but insignificant, also the t-value 1.514which is less than 2, which is the rule of thumb to test statistical insignificance using t-value. Moreover, p value is 0.132greater than 0.05. Although simplicity of criteria associates with SMEs growth positively, it is insignificant based on t and p values

Cost of borrowing: The result indicates that, cost of borrowing has Banks and MFIs a positive effect on the growth of SMEs. Cost of borrowing explains the variation of growth of SMEs with beta value of 0.180, which is positive but insignificant, also the t-value 0.933 which is by less than 2, which is the rule of thumb to test statistical significance using t-value. Moreover p-value is greater than 0.05. Although cost of borrowing associates with SMEs growth positively, it is insignificant based on t and p values.

Accessibility of market: As it is seen from the regression result, though insignificant, it has a positive contribution to the growth of SMEs. Accessibility explains the variation of the SMEs growth with a coefficient or beta value of 0.115 which is statistically insignificant at 5% level of significance. In addition, the t-value and p-value support its statistical insignificance. The t-value is 1.134 which is less than 2, which is used a t-test for statistical significance according to rule of thumb of 2-t. By the same token the p-value is 0.258 which is much greater than 0.05. Thus, there is an insignificant impact on the growth SMEs.

4.3 In-depth interview Results

In addition to survey of SMEs managers and/or owners and sales persons, the researcher conducted in-depth interview with bank and MFIs' managers and/or officials. The outcomes of the in-depth interviews are presented in two sections. The first section shows banks' products and services package available to SMEs while the second section presents MFIs' products and services package provided to SMEs.

4.3.1. Bank products and services

In depth-interviews were conducted with bank officials and /or managers. According to the outcomes of the interviews, banks offer financial as well as non financial products and services to SMEs.

The first important service of banks was mobilizing deposits from the public and business community. Depending upon the nature of deposits (current/demand deposit, saving deposit, fixed deposit, recurring deposit, miscellaneous deposits), funds deposited with banks also earn interest. Thus, deposits with the banks grow along with the interest earned.

The second important function of banks was grant loans and advances. Such loans and advances are given to fulfill the financing requirement of the business community. The rate of interest charged on loans and advances varies depending upon the purpose, period and the mode of repayment.

The borrower may withdraw and repaid the entire amount in lump sum or in installments. An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances was to meet the day to day requirements of business. Besides the primary functions of accepting deposits and lending money, banks were performing a number of secondary functions.

These include: issuing letters of credit, demand drafts and pay orders, transferring money from one place to another, and other transactional products such as currency alteration, liquidity, quantity divisibility, and maturity flexibility and collecting and supplying business information.

Apart from these two main activities, banks were also rendering a number of auxiliary services. These services supplement the main activities of the banks. They broadly fall under two categories: agency services and general utility services. Agency services are those services which were rendered by banks as agents of their customers. They include: collection and payment of money, and payment of checks and bills on behalf of the customers, if so instructed; acting as a trustee or executor; acting as agents or correspondents on behalf of customers for other banks and financial institutions at home and abroad.

General utility services are those services which are rendered by banks not only to the customers but also to the general public. These are available to the public on payment of a fee or charge. They include: safe-keeping of valuables in safe deposit locker; supplying trade information and statistical data useful to customers; and acting as a referee regarding the financial status of customers.

Regarding the mode of financial assistance, the outcomes of interviews with bank managers/officials reveals that banks offer short term financial assistance by way of short term loans, cash credit, and overdraft facility. A cash credit is an arrangement whereby the bank agrees to lend money to the borrower up to a certain limit. The amount is credited to the account of the customer. The borrower draws the money as and when they needs.

Apart from granting cash credit and short term loans, banks also grant short term financial assistance by overdraft facility. Overdraft facility is the result of an agreement with the bank by which a current account holder is allowed to withdraw a specified amount over and above the credit balance in their account. This facility is made available to current account holders who operate their account through checks. The customer is permitted to withdraw the amount as and when they need it and to repay it through deposits in their account as and when it is convenient to them. By granting these short term financial assistances, banks help the business community in financing working capital.

In addition to the above short term financial assistances, the outcomes revealed that banks grant intermediate and long term loans. Bank term loans (both lump sum and installments) had been the main mode of finance for medium and long term financing. This is in line with the traditionally important role of commercial banks

4.3.2. Microfinance institutions' products and services

In depth-interviews were also conducted with MFIs officials and/or managers. The outcomes of the interviews regarding the MFIs products and services show that MFIs also provide financial as well as non financial services. MFIs typically provide variety financial services (loans, savings, cash management, insurance, and payment facilities) which are crucial for SMEs growth.

Loans provided by MFIs that were available to SMEs are term loans and installment loans. The Loan term and size was depending on the purpose of the loan, the capacity of the borrower to pay the loan, and the lending capacity of the institution.

Savings and saving mobilization are other financial services provided by MFIs. MFIs provide two types of savings products: voluntary and compulsory saving facilities. Compulsory saving may have an advantage of developing saving culture among borrowers and used as collateral for loan. Enterprises were also used this savings as one of the instruments for arrears settlement. Cash collections, savings mobilization activities, and loan disbursements were made both at center or branches level.

MFIs also provided some supplementary services to SMEs such as accepting contracting document (between SMEs and their customers) for granting loans, refinancing future potential SMEs projects, and act as trustee.

Apart from financial services, MFIs also provide non-financial services to SMEs. The major non-financial services include setting up business plans, counseling, marketing, bookkeeping, monitoring, and experience sharing among clients. Business development training about marketing, record keeping, and pricing was delivered for every client. Association of Ethiopian Microfinance Institutions also provides experience-sharing forums by preparing workshops, panels, and publicizing bulletin, occasional thesis s and other materials.

4.4 Discussion

The purpose of this section is to address each research questions achieving the overall objective of the study using data presented in the preceding section. Hence, the results obtained under different methods are jointly analyzed to address each research questions. The first question raised for the respondents is what roles do financial institutions, specifically banks and MFIs, play in SMEs growth?

Data obtained from SMEs survey and in-depth interview with financial institution managers/ officials was used to address this research question

As noted in chapter two, a well-developed financial institution allows the firms to have access to financial services as well as non financial services, which they are often denied (Amina, 2009). The efficiency of the process through which resources are channeled into productive activities is crucial for growth. Banks and MFIs are one part of this process.

Banks, as Allen and Gale (2008) noted, have historically been viewed as playing a good role in firm's growth for two reasons. One is that they perform a critical role in facilitating payments. The other is that they have long played an important role in channeling credit to households and businesses. Commercial banks, as well as other intermediaries, provide services in screening and monitoring borrowers; and by developing expertise as well as diversifying across many borrowers, banks reduce the costs of supplying credit. Thus, in their role as lenders, banks are often not merely buying someone's debt; rather, they are providing significant financial services associated with extending credit to their customers. And to the extent that investors want to hold bank liabilities, banks can fund borrowers directly.

Examination of the results in respect of role of financial institutions (bank and microfinance) in the growth of SMEs demonstrated the following outcomes. Firstly, banks provided both short and long term financial resources to SMEs for working capital as well as investment financing requirements. About 19.2 percent of SMEs had access to and received financial services from banks (figure 4.7). This seems to support the view that SMEs use banks as one source of finance (Hoshi, 1990).This enables the SMEs to finance urgently needed expenditures. As Edwards and Fischer (1994) noted, borrowing from banks has many advantages to the business community than other sources. First, finance is available for a definite period; hence it is not a permanent burden. Second, banks keep the financial operations of their clients secret. Third, banks do not interfere in the internal affairs of the borrowing concern; hence the management retains the control of the company. As shown in figure 4.15 banks finance to start business.

Generally, banks were helping the development of SMEs directly as well as indirectly. First, banks allowed the SMEs to have financial services such as saving facilities, payment instruments, credit and other transactional products. Second, the banking sector also contributed to SME's growth indirectly as Diamond (1984) noted, by reducing monitoring and transactional costs associated with external finance, and improving risk sharing through exchanges of risk among individuals at a given point in time.

Apart from banks, MFIs were also proven effective in providing services to SMEs. Securing financial services is the main target for the establishment MFIs. MFIs do not only grant financial services but also provided them with some non financial services. These non financial services are meant to feed the SME with the necessary business skills to better run the venture (Ledgerwood, 1999).

MFIs are assets to the developing and transition countries (Ledgerwood, 1999). The services they provide are tailored to meet the needs and aspirations of the local inhabitants and emphases are towards the poor. The products and services put forth to the community are not solutions by themselves to the numerous problems affecting the poor. Instead, they only provide a plat-form for those who were considered not fit to meet bank requirements. SMEs were very much affected by these constraints and MFIs are towards bridging the gap. Microfinance is only a portion of what is needed to boost enterprises which are incapable of getting the necessary assistance from commercial banks. They develop new markets, increases income, create and accumulate assets and promote a culture of entrepreneurship (Albaladejo, 2001).

The rest, 80.80 percent (figure 4.7) of SMEs had access to and received financial service from microfinance. It is supposed that access to loan facilitates MSEs to overcome their liquidity limitations and accept some investments such as the enhancement of technological inputs thus chief to a boost in production (Robinson, 2003).

The financial services distributed by microfinance institutions were lending and savings. The kinds of credit supplied by microfinance take two forms such as term loans and repayment loans. Loan term or maturity period and size were depending on the purpose of the loan, the ability of the borrower to pay the loan, and the lending capability of the institution. It is consideration that credit enhances growth of SMEs.

Microfinance also brings voluntary and compulsory saving activities. Compulsory/especially 20% pre-loan) saving may have a merit of rising saving habits between SMEs. Microfinance institutions also attempts to bring demand-driven pecuniary products that address the required customers in different activities.

Secondly, it was also interesting that bank and microfinance loans were used for the payment of previous loans, which is in support of the refinancing role of financial institutions (table 4.9). This means of financing is commonly used by firms when the cost of previous borrowed funds is higher than the current interest rate (Edwards and Fischer, 1994).Thirdly, apart from financial services, financial institutions also offered nonfinancial services to SMEs. The major non-financial services supplied by financial institutions were training about 56.5 % of respondents' trainee, setting up business plan and monitoring and supervisions, consulting services, and experience sharing gathering (table 4.15), 51.41percent respondent get market access from financial institutions (figure 4.12), and Sometimes MFIs also provides third party asset management (act as trustee), insurance and other transactional facilities (figure 4.14).

From the above discussion, one can deduce that financial institutions played different role in different stages of SMEs development. At the founding stage, they were provided startup capital and consulting in founding procedures. In the growth stage, financial management and long term capital for expansion of business, financial institutions were also providing fund for expansion of production capacity, development of new products and transformation of core business at the maturity and transformation stage.

The second question raises for respondents is does different variables influence on the growth of SMEs**?** The growth of micro and small enterprise influenced by various factor of financing ability of financial institutions especially in bank and microfinance in Bonga town such as education level, age of business, firm size ,duration of loans, cost of borrowing and access to market.

❖ **Education Level**

In terms of influence of educational level to the growth SMEs about 57.1 percent of survey respondents indicate that there is education level influence to SMEs growth. The level of education has an influence on the motivation of an entrepreneur in terms of finding alternative finance sources; building finance networks; and planning for long term finance solutions for the enterprise (Smallbone and Wyer, 2000). From the regression result (table 4.21), education level has a positive significant contribution on the growth of SMEs the variables included in this model.

❖ **Age of Business**

Regarding the age of business, 47.55 percent of survey respondents' firms were between one and five years old while 25.98 percent indicated that their businesses existed less than a year. The rest are from five about ten years and more than 10 years 21.57percent and 5.65 percent respectively (figure 4.3). Younger firms would grow rapidly due to innovative ideas and dynamic management. On the other hand, older firms may achieve stronger growth because of their experience. From the regression result (table 4.21), the coefficient or beta value of age of business has a positive significant contribution on the growth SMEs.

- **Firm Size**

Regarding of the data presented in table 4.12, about 69.5 percent of survey respondents after getting loan change of employment rate in organizations. As table presents, 4.13, about 44.1 percent of survey respondents a business that have large number of employs reputable to get loan. Cassar (2004) concluded that the "larger" small firms are, the more they rely on long-term debt and external financing, including bank loans. The regression result indicates that has number of employees a positive significant contribution on the growth SMEs in additions to the educations level and age of business (table 4.21).

- **Simplicity of Criteria**

As table 4.16 presents, 75.14 percent of survey respondents indicated that bank loans criteria were not easy to meet. Determined by different processes which is time taking, and difficult to understand. Accessibility to credit affects financial performance of Small enterprises positively. The easier it is to access credit, the higher the financial performance of the Small and medium enterprises. From the regression result simplicity of criteria associates with SMEs growth positively, it is insignificant based on t and p values (table 4.21).

- **Cost of Borrowing**

As table 4.10 presents, 71.2 percent of survey respondents indicated that pay higher inters rate for receiving loans from financial institutions. Cost of borrowing is the amount of money paid in interest on a loan or other debt. In other words, it is what one must spend in order to receive money as a loan and it measured by interest rate. Interest rates as a cost of the loan have a significant effect on a company's growth plans. They not only affect loan payments, but they also have an impact on an enterprise funding (Ogolla, 2013). High interest rates reduce business earnings which ultimately hinders the business capacity to grow. High interest rates also affect a business cash flow in that one has to set aside more money to repay the loans. This in turn reduces its disposable income hence affecting ability to pay its other creditors (Ndungu, 2016).From the regression result (table 4.21), cost of borrowing associates with SMEs growth positively; it is insignificant based on t and p values.

❖ **Access to Market**

As regarding to (figure 4.12), 51.41 percent of survey respondents indicate get market access from financial institutions. It difficult to enter foreign market for small and medium enterprise these is affect the growth of small and medium enterprises As it is seen from the regression result, though insignificant, it has a positive contribution to the growth of SMEs(4.21).

The third question raised to the respondents Are the financial institutions products and services, accessible and affordable for the SMEs?

Several parameters were used in this study to assess the accessibility and affordability of financial institutions, specifically banks and MFIs' funds. These include criteria used to offer the loan, simplicity of loan criteria, adequacy of loan amount being provided, and timeliness of disbursement. As Olu (2009) noted, loans that are inadequate to finance the intended activity are likely to be diverted into uses with lower outlays, more so in case of borrowers lacking own funds to fill the gap. Again rapid disbursal of funds allows borrowers to grasp immediate opportunities. Similarly, a mismatch of the maturity period (hence the repayment cycle/frequency) with the gestation period of the activity financed by the loan may lead to delinquency and/or client desertion. The transaction costs also affect the accessibility and affordability of funds such as cost of forming a group, cost of negotiating with the lender, cost of filling thesis work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings (Ledgerwood, 1999).

Examination of results in respect to accessibility and affordability revealed the following outcomes. Firstly, about 13.2 percent of SMEs survey respondents indicate that the financial institutions loans were inaccessible and unaffordable (table 4.5). The possible explanations for inaccessibility and unaffordability of FIs loans as presented in figure 4.8. First it may be considered as discouraging potential borrowers (i.e. firms that need credit but were discouraged from applying by perceived or real high collateral requirement (35.71 percent), difficulty of processes involved and worsen terms and conditions (28.57 percent), high cost of borrowing (17.87 percent), or fear of repayment ability (17.87 percent)). Second it may be considered as uninformed i.e. not aware of the facility, or where and how to apply. About 73.4 percent indicates that financial institutions loans were inadequate for financing of operating activities as well as for investing activities (table 4.8)

Secondly, securing financial resources was also determined by the stage or level of business development. Businesses that are viewed as growing had it easy to get a loan (Beck, et al, 2004). But in the context of Ethiopia, as outcomes of interviews with bank managers and/or officials reveals that the main criteria to offer loans were the ability to pay back and to meet the established requirements.

The fourth questions raised for respondents is how do financial institutions address the problems that SMEs face in the process of accessing and settling loans ?

In Ethiopia, the potential sources of finance include banks, MFIs, cooperatives, government projects, semi-formal & informal lenders, as well as trade credit (Ageba and Ahma, 2006). But, having access to some of the sources was a major constraint to SMEs. High collateral and transactional costs, inadequate supply of finance, forms of finance, liquidity, and long and difficult application process were some of the problems that SMEs face in accessing funds. Information asymmetry between loan provider and loan receiver was also other constraints that hindering SMEs growth. Finance helps firms overcome liquidity constraints and thus improve resource allocation in the economy (Rajan and Zingales, 1998). Allen and Gregory (2005) noted the higher financing obstacles that SMEs report match not only anecdotal evidence from both developed and developing countries; they also confirm theory's predictions. In a world with fixed transaction costs and information asymmetries, small firms with demand for smaller loans face higher transaction costs and face higher risk premiums since they are typically more opaque and have less collateral to offer. (Beck et al (2004) finds that the higher financing obstacles faced by SMEs indeed translates into slower growth. There were many reasons why the SMEs do not have access to financial services; specifically there were two important problems. First, the smaller firm has no collateral. Second, dealing with small transactions was costly to financial institutions. Financial institutions, specifically banks and MFIs, addressed some of the constraints that SMEs face in accessing funds. First, MFIs tried to overcome these two constraints in many ways: Group lending, cooperative, and individual based lending schemes. These were improving repayment incentives and transactional costs, and also build support networks and educate borrowers. These alternative collateral and credit facilities will prominently enhance SMEs growth by ways of easing SMEs' financing constraints and on increasing their access to formal sources of external finance (Christabell, 2009).

Second, to mitigate financial distress that comes from the mismatching of cash inflows and out flows (loan maturity period), financial institutions were flexing loan terms and conditions/requirements and postpone the payment date. The more time a firms get, the less likely the firm is to experience problems of meeting short-term obligations. Thus, the probability that a firm will avoid financial distress can be enhanced through flexing and postpone payment date (Waterfield and Duval, 1996). Third, financial institutions, specifically MFIs, were provided consultancy and training to equip SMEs in the area of business skills, book keeping, production, and financial management. As noted in Kayanula and Quartey (2000) training will enhance skills of employees', flexibility in managing the operations, and reduce costs. Fourth, financial institutions were ameliorated the information problems through their monitoring effort and supply of valuable information. Credit availability to enterprises, but especially to SMEs, depends on the infrastructure that supports financial transactions, including the legal system and the information environment. Commercial laws that effectively assign and protect property rights and their efficient enforcement are crucial for financial transactions (Beck et al., 2004). Allen and Gale (2008) have also shown the positive effect that information has on credit availability to SMEs

CHAPTER FIVE
CONCLUSION AND RECOMMENDATIONS

The purpose of this last chapter is to summarize the whole thesis and highlight implications and future research directions. Accordingly, section one presents an overview of the thesis and its major findings. The second section discuss on recommendations.

5.1 CONCLUSION

The thesis began with an elaboration of financial institutions role in general and to SMEs in particular. It was noted that access to financial institutions products and services is a crucial element for the development of SMEs. Thus their sustainable growth will largely depend on the capacity of financial institutions to mobilize resources from low valued to high valued and invest in SMEs activities.

The thesis reviewed literature on the theoretical recognition and empirical evidence of the role of financial institutions in enterprises growth, particularly in SMEs growth. The review highlighted overall role of financial institutions. This shows the various roles that financial institutions, particularly, banks and MFIs, play in the development of SMEs. With regard to banks, the literature review revealed the banks role in ameliorating information problems and monitoring investments, inter-temporal smoothing of risk, corporate governance, and financing working capital and investment requirements. In respect of MFIs, the literature review showed that MFIs were established to fill the gap existed between commercial banks and poor or small business entrepreneurs and then increased the amount of undertaken productive projects. Apart from this the review revealed MFIs products and services package available to enterprises such as financial services, social intermediation or non financial services and enterprises development services.

Further, the literature review showed the nature and importance of SMEs in economic development and employment. The review indicated the different definition of SMEs across nation and business categories. Concerning the definition it was pointed out that there is no single demarcation line to categorize enterprises as micro, small, medium and large. Even though every nation has different definition, SMEs play important role in its economic activities. In Ethiopia, their role is considered even more importance in achieving sustainable economic development. And also the review revealed growth indicators/measures and then, sales as the best growth measure.

Apart from nature and importance of SMEs, the literature review highlighted the general constraints to SMEs growth. The review showed the input, output, regulation and management constraints.

The review of empirical evidence revealed that in spite of their limitedness, financial institutions potentially shape key aspects of firm dynamics, such as size and growth, and then economic growth. Further, in the empirical evidence it was indicated that the previous studies merely focused on the role of microfinance institutions, but focused on the both microfinance and bank role in the growth of SMEs. Finally, in the context of Ethiopia, especially in Bonga there is some survey not reliable and compressive study to examine the role of financial institutions in SMEs growth. Based on this gap it led to the recently research questions.

It was recommended that focusing on the mission for solution of a problem and research philosophy, a research method could be depend on quantitative, qualitative or mixed approach. In general, it was famous that the use of particular approach in evaluating a given event is possible to yield restricted outcomes. Thus, the recent study composed both qualitative and quantitative research approaches to obtain the advantage of a mixed method approach. Whereas the quantitative feature were survey (quantitative data), the qualitative feature utilized semi-structure interviews with MFIs managers/officials. With respect to survey, structured questionnaire was circulated between stratified sample selected MSEs in Bonga and a response rate 94.8 percent was accomplished. The survey instrument contained both open and close ended questions.

On the other hand, semi-structure interviews with bank and microfinance institutions managers/officials were performed at various times in their home office in order to have some explanations on the subjects that were raised. As the results of the study joined with information gathered from SMEs and managers /officials of banks and micro-finance institutions were together utilized in analyzing the role of financial institutions in SMEs growth. Finally, the consequences and investigation reflect the subsequent main findings.

Financial institution has shown an encouraging growth in its growth and outreach. The number of borrowers, average loan size has increased in a remarkable way. However, SMEs have an obstacle in obtaining access to product and service from financial institutions i.e. bank and microfinance. Inadequate collateral, difficulty of processes, fear of inability to repay, and high borrowing cost were frequently mentioned reasons by SMEs for inaccessibility of financial institutions products and services.

Even though they had limited access to financial institutions resources, SMEs were received both short term and long term loans. Thus SMEs were used bank or microfinance institutions as one source of financing for initial capital requirements. Not surprisingly, either microfinance or bank loans were also used not only for operation requirement but also for settlement of previous loans. Similarly, banks were typically provided a variety of additional financial services such as cash management, saving and payment, third party asset management (trustee), insurance and other transactional products. Besides providing financial services, FIs also provided social intermediation, non financial services, and enterprise development services. . However such contributions of financial as well as non financial services were found to be by far lower than the SMEs demand.

Concerning with financial products and services, the result of in depth interviews with banks managers and officials revealed that banks also rendering a number of auxiliary services such as agency and general utility services. Regards the forms of financial assistance, banks offered short term loans, cash credit, and over draft facility to finance SMEs working capital requirements. Similarly, banks also offered medium and long term financial assistance by way of term loans. This is in line with the traditional role of commercial banks. In general, although limited provision of banks products and services, banks help the SMEs development and growth. Apart from banks, MFIs played significant role in SMEs development process. In the context of Ethiopia, MFIs were established to broaden access to financial services for poor and small enterprises. MFIs provided both term loan and installment loans. It was shown that access to MFIs enabled SMEs, particularly small enterprises that are underserved by banks, to overcome financing constraints and thereby accelerating their growth rate. In addition, MFIs also support the development of SMEs through training in book keeping and manpower development, business control and monitoring, and by providing available business as well as others relevant information

Further, financial institutions addressed some of the problems that SMEs face in the process of accessing and settling of loans. Sometimes FIs flexing loan terms and conditions/requirements to enhance SMEs access to FIs financial resources and postponed loan maturity period to overcome SMEs financial distress.

Finally, with respect to the relationship between SMEs growth and loans from financial institutions, banks and MFIs, the result of regression analysis showed that there was there was positive relationship between cost of borrowing, simplicity of criteria and access to market with growth of SMEs. But the influence is relatively insignificance. On the other hand education level, age of business and firm size has positive relationship with growth of small and medium enterprise and the influence of these variables was significant.

5.2 Recommendations

The SMEs, for it to be the major axle of economic growth and development of the country, must be adequately financed. Financial institutions need to strengthen their accessibility of products and services for them.

- ✓ Micro-finance institutions played significant role in SMEs development process. In the context of Ethiopia, MFIs were established to broaden access to financial services for poor and small enterprises. It is necessary to reappraise the role of commercial banks in Ethiopia, which have been the traditional intermediaries between saving households and investing firms. These may include support small and poor business. The move away should be encouraged by regulators.
- ✓ In order to promote the development and growth of SMEs the institutional biases should be reduced so as to include the small business into the system. This will enable them to get access to the financial institutions especially banks', products and services
- ✓ Financial institutions should develop wide range financial as well as non financial products/services to the needs of SMEs
- ✓ It is necessary to include educated person in the organizations to get technological advantage and finding alternative finance source
- ✓ The study recommends that small and medium enterprise working together and sharing experience with older firm to younger firm.
- ✓ The study recommends that financial institutions assist SMEs without strict and unattainable criteria or make the criteria simple and attainable, also at a lower borrowing cost to make their products accessible and available.
- ✓ Eliminating institutional biases and lowering transactions costs are necessary, but not sufficient steps to promote SMEs. In cases where SMEs do not have access to the necessary inputs because of the failure of the market to provide them, the Banks and MFIs can promote the provision of services and information that fill these gaps.
- ✓ SMEs have an obstacle in obtaining access to product and service from financial institutions i.e. bank and microfinance these are inadequate collateral. So the study recommends that financial institutions require collateral depending on enterprise capacity.
- ✓ It is recommendation of this study that Small and medium scale business entrepreneurs should constantly engage in capacity building, training, research and development.

- ✓ The study recommended that SMEs, proper financial records should be kept and clear accounting standards should be adopted in order to ensure their competencies in managing and sustaining SMEs development
- ✓ The study recommended that financial institutions provide flexing loan terms and conditions/requirements and postpone the payment date.

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Appendix 1 - SMEs survey instrument (English version)

Jimma University

Colleague of Business and Economics

Department of Accounting and Finance

Small and Medium Enterprises (SME's) Survey Questionnaire

Dear Participant

This project is entitled "**Role of financial institutions in the growth of small and medium enterprises in Bonga tow**n". The investigator is Elisabet Yosef who is currently an MSc (in accounting and finance) student at the Jimmy University.

The aim of this project is to investigate the long run relationship between financial institutions and Small and Medium Enterprises growth in Ethiopia, particularly in Bonga town. To supplement the data obtained from selected banks and microfinance institutions by means of face-to-face interviews, the investigator seeks to gather relevant information from randomly selected SMEs in Bonga town using a self administered questionnaire.

Participation in this project is completely voluntary Survey results will be recorded anonymously and strict confidentiality will be maintained. Individual responses will not be identified in the investigator's MSc thesis.

For further information, please contact Elisabet Yosef by the following address:

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Section I: Background information

1. What is your level of education

Diploma
Others
Bachelor degree
Masters or above
Please specify………………………………

2. What is your current position in the company

Manager
Others
Owner/manager
Sales person
Please specify……………………………………………………………

3. How long have you been working in this position

Less than one year
5-10years
1-5years
More than 10 years

4. What is your main business activity

Manufacturing
Services
Trade
Construction
Agriculture
Others
Please specify…………………………..

5. Your business is:

Sole proprietorship
Private Limited company
Partnership
Others
Please specify…………………

6. How long has your organization been in business?

Less than one year
1-5 years
5-10years
More than 10 years

7. How many employees (both permanent and temporary) work for your enterprise in 2009/10 fiscal year?

1-10 ☐ 51-100 ☐

11-20 ☐ More than100 employees ☐

21-50 ☐

8. Please indicate roughly the average sales of your business in 2009/10 fiscal year severe competition

Birr 10,000 or less ☐ Birr 100,001 – Birr 1,000,000 ☐

Birr 10,001 – Birr 50,000 ☐ Birr 1,000,001 or more ☐

Birr 50,001 – Birr 100,000 ☐

9. Please indicate the average export to total sales ratio of your business in 2009/10 fiscal yea

1-10% ☐ More than50% ☐

11-20% ☐ Unknown ☐

21-50% ☐

Section III: Role of financial institutions in Small and Medium Enterprises growth

10. Does your organization have access to financial resources from financial institutions needed for developing your business?

Yes ☐ No ☐

11. what terms of credit (i.e. maturity period) often do you repay your loan received from financial institutions

Less than 1year ☐ 5-10 years ☐

1-5 years ☐ More than 10 years ☐

12. Was the time given to repay the loan enough for you? (Please tick appropriate answer)

Yes ☐ No ☐

13. What criteria do the financial institutions use to offer loans (multiple answers are possible)?

Collateral ☐ Third person guarantee ☐

Business plan ☐ Others ☐

Please specify……………………….…

14. Are the criterion(s) for obtaining your services easily met by the SMEs?(Please tick

Yes ☐ No ☐

15. Do financial institutions give adequate fund needed for your business?

Yes ☐ No ☐

16. Loans received from financial institutions are most commonly used for

Purchase of inputs/raw materials ☐ Payment of loans ☐

Others ☐

Purchase long lived assets like ☐

machinery, business building ☐

Please specify…………………..…………………………..

17. What do you think about the interest rates for loans? Are they too high (Please tick appropriate answer)

Yes ☐ No ☐

18. Is small business are usually charged higher interest rate by bank than large firms?

Yes ☐ No ☐

19. Is there any increase of employment rate after you have been given a loan?

Yes No

20. Have a large numbers of employees business is reputable to get loan compare with that small number of employees?

Yes ☐ No ☐

21. Does influence the education level of entrepreneur to the growth of SMEs ?

Yes ☐ No ☐

22. Does a financial institutions give training to the SMEs

Yes ☐ No ☐

23. What are the importances of training for your organizations?

Financial control ☐

Marketing ☐

Training and networking among others

24. Does financial institutions give market opportunity to SMEs

Yes ☐ No ☐

25. Over the last 3 years how was the level of market competition in the area that your business is engaged in

No competition2009/10 fiscal year ☐

Moderate competition ☐

Strong competition ☐

Severe competition ☐

26. Have you ever had any problems in paying back the loan to microfinance institutions?

Yes ☐ No ☐

27. If the answer for question No. 26 is yes, what has happened to resolve them (multiple answers are possible

Restructuring ☐ Post pone payment date ☐

Removal of interest payment ☐

Others please specify…………………………………………………………………………

....

....

28. What do you think the reasons for not having access to financial resources (multiple answers are possible)?

Inadequate collateral ☐ High borrowing cost ☐

No need for credit ☐ Process too difficult ☐

Fear of inability to repay ☐

Others ☐

29. What is the role of banks in your business growth?

………………………………………………………………………………………………………

30. What is the role of microfinance institutions in your business growth?

………………………………………………………………………………………………………

31. Please indicate the impact of lack of finance on your business growth

………………………………………………………………………………………………………

32. Please indicate the role of banks and microfinance institutions which have not been covered by the questions so far

………………………………………………………………………………………………………

33. Do you or can you conclude that banks and microfinance institutions have helped you in developing your business? Explain how

………………………………………………………………………………………………………

………………………………………………………………………………………………………

Appendix 2 - SMEs Survey instrument (Amharic Version)

ጀማ ዩኒቨርሲቲ

የቢዝነስና ኢኮኖሚክስ ፋኩልቲ

አካውንቲንግና ፋይናንስ ትምህርት ክፍል

የአነስተኛና መካከለኛ ድርጅት /ተቋማት /የጥናት መጠይቅ

የተከበሩ የጥናቱ ተሳታፊ

የዚህ ጥናት ርዕስ "Role of financial institutions in the growth of small and medium enterprises in Bonga" ነው።አጥኚዋ ኤልሳቤት ዮሴፍ ሲትባል በአሁኑ ጊዜ በጅማ ዩኒቨርሲቲ ውስጥ በአካውንቲንግና ፋይናንስ የድህረ ምረቃት ተማሪ ናት።

የጥናቱ ዋና አላማ በንጋ የገንዘብ ተቋማት በድርጅቶች እድገት ላይ ያላቸውን ሚና ማወቅ ነው።ይህንን ለማድረግ መረጃ በዕጣ ከተመረጡ ባንክ ቤቶች እና የብድር እና ቁጠባ /microfinance/ ተቋማት በፊት ለፊት የጥያቄ እና መልስ እና በዕጣ ለተመረጡ አነስተኛና እና መካከለኛ ድርጅት/ተቋማት/ መጠይቅ በመበተንና በመሠብሠብ ይሆናል።

በዚህም ጠይቅ ላይ መሳተፍ ሙሉ በሙሉ በፈቃደኝነት ላይ የተመሠረተ ነው።መጠይቁ የተሳታፊውን ማንነት ሳይለይ ይመዘግብ እና ጥብቅ በሆነ ሚስጥርነት ይጠበቃል።የያንዳንዱ ተሳታፊ መልሶች በአጥኚው ጽሁፍ ላይ የመላሹ ማንነት ተገልጾ አይቀመጥም።

ለተጨማሪ መረጃ ኤልሳቤት ዮሴፍን በሚከተለው አድራሻ ማግኘት ይችላሉ

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ክፍል አንድ :የርስዎና የድርጅቱ ጠቅላላ ሁኔታ

በተሰጡት የምርጫ ሳጥኞች ምልክት ያስቀምጡ።

1) የርስዎ የትምህርት ደረጃ

ዲፕሎማ

ዲግሪ

ማስተርስ እና ከዚያ በላይ

ሌሎች(በክዎንይግለጿቸው)**..**

2) በድርጅቱ ውስጥ ያለዎት የስራ ድርሻ

ስራአስኪያጅ

ባለሀብት/ስራአስኪያጅ

የሽያጭ ሰራተኛ

ሌሎች (በክዎንይግለጿቸው) **..**

...

3) በዚህ የስራ ክፍል ላይ ለምን ያህል ጊዜ አገልግለዋል?

ከአንድ አመት በታች

1-5 ዓመት

5-10 ዓመት

ከ 10 ዓመትበላይ

4) የድርጅቱ ዋና የስራ እንቅስቃሴ ምንድ ነው?

ማምረት

ንግድ

እርሻ

አገልግሎት

ግንባታ

ሌሎች (እባክዎ ይግለጿቸው)...

5) የድርጅቱ የባለቤትነት ሁኔታ

በአንድ ግለሰብ ባለቤትነት የተያዘ

ከአንድ በላይ ባለሀብቶች ያሉት (ሽርክና)

ሀላፊነቱ የተወሰነ የግል ማህብር(plc)

ሌሎች (እባክዎ ይግለፃቸው)..

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

ከአንድ አምት በታች

1-5 ዓመት

5-10 ዓመት

ከ 10 ዓመት በላይ

7) በ2011የበጀትዓመትበአማካይበድርጅቱውስጥምንያህልቋሚናጊዜያዊሰራተኞችአሉ?

1-10 11-20

21-50 51-100

8) በአማካይ ለአለፉት ሦስት ዓመታት የገበያ ውድድር/ፉክክር ምን ይመስላል?

ፉክክር የለም

መካከለኛ ፉክክር

ጠንካራ ፉክክር

በጣም ጠንካራ ፉክክር

9) በ 2011 የበጀት ዓመት በአማካይ ድርጅቱ ምን ያህል ሽያጭ ነበረው?

ብር10,000 ወይም በታች

ብር 10,001 – 50,000

ብር 50,001 – 100,000

ብር 100,001 – 1,000,000

ብር 1,000,001 ወይምበላይ

10) በ 2011 የበጀት ዓመት በአማካይ ድርጅቱ ወደ ውጭ ሀገር የሸጣቸው/የላካቸው/ ከአጠቃላይ ሽያጭ ጋር ሲነጻጸር በመቶኛ ሲሠላ ምን ያህል ይሆናል **?**

1-10% ከ50% በላይ

11-20% የለም/አይታወቅም

21-50%

የፋይናንስ ተቋማት በድርጅቶች ዕድገት ላይ ያላቸው ሚና

11) ድርጅቱ ከፋይናንስ ተቋማት የገንዘብ ብድር የማግኘት ዕድል አለው?

አዎ ☐ የለውም ☐

12) ለጥያቄ ቁጥር 11 መልስዎ 'የለም' ከሆነ፤ ምክንያቱ ምን ይሆናል ብለው ያስባሉ (ከአንድበላይ መምረጥ ይችላሉ)

በቂ ያልሆነ ዋስትናያለመኖር ☐

ብድርያ ለመፈለግ ☐

ብድሩን ለመመለስ ያለፍራቻ ☐

ወለዱ ብዙስለሆነ ☐

ብድር ለማግኘት ሂደቱከባድስለሆነ ☐

ሌሎች (እባክዎይግለጿቸው)...

13) ለጥያቄ ቁጥር 11 መልስዎ 'አዎ' ከሆነ፤ ድርጅቱ ለማሳደግ የገንዘብ ብድር ተጠይቆ ያውቃል?

አዎየለም ☐ ☐

14) ለጥያቄ ቁጥር 13 መልስዎ 'አዎ' ከሆነ፤ ድርጅቱ በቅርብ ጊዜ የተበደራቸው ብድሮች ለምን ያህል ጊዜ ቆይታ/የብድርጊዜ/ አላቸው?

15) ከአንድ አምት በታች ☐

1-5 ዓመት ☐

5-10 ዓመት ☐

ከ 10 ዓመትበላይ ☐

16) የፋይናንስ ተቋማት የገንዘብ ብድር ለመስጠትምንምንዓይነትመስፈርቶች ይጠይቃሉ (ከአንድ በላይመምረጥይችላሉ)?

የዋስትና ማስያዥያ ☐

የስራ ዕቅድ (business plan) ☐

ዋስ/ተያዥ ☐

ሌሎች (እባክዎ ይግለጿቸው)..

17) የፋይናንስ ተቀማት ብድር ለማበደር የሚጠይቋቸውመስፈርቶችቀላልናቸው?

አዎ ☐ አይደሉም ☐

18) ድርጅቱ የሚጠይቀውን/የሚያስፈልገውን/ ያህል ገንዘብ ያበድራሉ?

አዎ ☐ የለም ☐

19) ድርጅቱ የፋይናንስ ተቋማት የተበደረውን ገንዘብ አብዛኛውን ጊዜ ለምን ያውለዋል?

የፈጀታ ዕቃና ግብዓትለመግዛት ☐

ለረጅም ጊዜ የሚያገለግሉ ሀብቶችንለመግዛትለምሳሌ፡- የንግድ ቤት፤ማሽኖች ☐

ቀደም ሲል የነበሩ ብድሮችን ለመክፈል ☐

ሌሎች (እባክዎይግለጿቸው).......................................

20) ሰለ ወለድ ምን ያስባሉ ማለትም የፋይናንስ ተቀማት የምያስከፍሉት ከፍያ ከፍተኛ ነው**?**

አዎ ☐ አይደለም ☐

21) ትንንሽ ድርጅቾች ከፍተኛ ወለድ ይከፍላሉ ከ ትልልቅ ድርጅቾች አንጻር **?**

አዎ ☐ አይደለም ☐

22) የትምህርት ደረጃ ለደረጅቶ አስተዋጾ አለው

አዎ ☐ አይደለም ☐

23) የፋይናንስ ተቋማት ለ ድርጅቱ የተለያዩ ልምምዶችን ይሰጣሉ

አዎ ☐ አይደለም ☐

24) ለጥያቄ ቁጥር መልስ አዎ ከሆነ ምንድ ነው ጥቅሙ ልምምድ ለ ድርጅቱ

የፋይናንስ ጉዳዮችን ለመቆጣጠር ☐

ሰለ ገብያ ሁኔታ ☐

ለእርስ በእርስ የእውቀት ሽግግር ☐

25) የፋይናንስ ተቋማት ለ ድርጅቱ የገብያ ትስስር የፈጥራሉ

አዎ ☐ አይደለም ☐

26) ድርጅቱ የተበደረውንገንዘብ በሚከፍልበት ወቅት ችግር አጋጥሞትያውቃል?

አዎ ☐ አያውቅም ☐

27) ለጥያቄ ቁጥር 19 መለስዎ 'አዎ' ከሆነ፤ባክዎን ችግሮችን ይግለጡ?

………

28) ለጥያቄቁጥር 19 መለስዎ 'አዎ' ከሆነ፤ችግሮችን ለመፍታት ባንክ ቤቶች ምን የመፍትሄ አማራጭ ይሠጣሉ (ከአንድ በላይ መምረጥይችላሉ)?

የብድር ማስተካከያ/ሥረዛ ☐

የመክፈያ ጊዜን ማራዘም ☐

ወለድ የመተው ☐

ሌሎች (እባክዎ ይግለጿቸው)…………………………………………………….

29) ለድርጅቱ ዕድገት ባንክቤቶች ምንምን ዓይነት ሚና ተጫውተው ያውቃል?

……

…………………………………………………………

30) በድርጅቱ ዕድገትውስጥየብድርናቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ምንምን ዓይነት ሚና ተጫውተው ያውቃሉ?

……

…………………………………………………………………

31) የገንዘብ እጥረት በድርጅቱ ላይ ያስከተለው ችግር ምንድን ነው?

……

…………………………………………………………

32) በርስዎ እይታ ባንክ ቤቶች እና የብድር ና ቁጠባ ተቋማት ለድርጅቱ እድገት እረድተውታል ብለውያስባሉ? ያብራሩ

`Appendix 3 - In-depth interviews questions

1. What bundle of financial institution products/services delivered to SMEs?
2. What are the tools, techniques or modes employed in financial institutions for financing of SME's?

3. Does your organization have special products/ services design for SMEs? How?
4. Are your products/services really as accessible and as effective in catering for the specific needs of SME's?
    A. Term
    B. Duration
    C. Adequacy
    D. Cost (time and many)
    E. Simplicity
    F. Criteria
5. Discuss modalities for the resolution of the problems encountered by SME's in accessing financial institutions products and service
6. Is there any cooperation between microfinance institutions and commercial banks in financing SME's?