FACTORS AFFECTING ACCESS TO FINANCE FOR SMALL BUSINESS ENTERPRISES: IN THE CASE OF JIMMA TOWN, ETHIOPIA

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

By: Estifanos Ayele

JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF ACCOUNTING AND FINANCE

July 2020
Jimma, Ethiopia

ACCESS TO FINANCE AND ITS CHALLENGE FOR SMALL BUSINESS ENTERPRISES: IN THE CASE OF JIMMA TOWN, ETHIOPIA

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

By: Estifanos Ayele

Under the guidance of

Main Advisor: Abiy Getahun(Asst. Professor)

Co-advisor: Million G (Asst. Professor)

JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
SCHOOL OF GRADUATE STUDIES
DEPARTMENT OF ACCOUNTING AND FINANCE

July 2020
Jimma, Ethiopia

DECLARATION

I, the undersigned, declare that this study entitled entities “access to finance and its challenge for small business enterprises case of jimma 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.

Declared by:

Name: **Estifanos Ayele** ______________________

Signature: ______________________

Date: ______________________

CERTIFICATE

This is to certify that this study, "Access to finance and its challenge for small business enterprises case of Jimma town**"**, undertaken by **Estifanos Ayele** 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.

Research Advisor:

Mr. Abiy Getahun

Signature: ______________________________

Date: ______________________________

Research Co-advisor:

Mr. Million G

Signature: ______________________________

Date: ______________________________

Abstract

Small business enterprises play very significant role in the economy of any country. They provide employment and improve the standard of living of individuals-both the employers and employees. They are a major source of entrepreneurial skills and innovations; the objective of this study was to assess finance and its factor for small business enterprises in the case of Jimma town. This study was intended to be of great importance to individual entrepreneurs, potential investors, lending institutions, the country, and other researchers. The target population was 2393 small business enterprises operating in Jimma town. The study used stratified random sampling to select respondents from the selected strata out of which 331 respondents were selected. Data was gathered using questionnaires. The data collected were subjected to descriptive research design analysis and ordinal logistic regression analysis. Also, was carried out to establish the relationship between independent and dependent variables. It was then presented in tables and graphs. Findings revealed that lack of availability of information on who is offering credit, increasing collateral requirement by the financial institution, lack of customer satisfaction, and lack of a way of internal finance management such as lack of compiling accounting records, using a traditional way of recording transactions, etc. are some of the biggest hurdles that small business enterprise in Jimma town face in access to finance. In addition to this, the problem was comparatively similar in that of internal and external finance. As a result of this, the researcher suggests the problem of internal finance will be solved by the small business enterprise owners by using modernize ways of managing internal finance and increasing their customer satisfaction.

Keywords: Access to finance, Small business enterprises, Jimma

Acknowledgment

I would like to take this opportunity to acknowledge the help and encouragement of all who have supported and assisted me during this thesis work. Without their guidance and advice, I would have never been able to accomplish the work of this thesis.

First and foremost, I would like to thank God Almighty for giving me the strength, knowledge, ability, and opportunity to undertake this research study and to persevere and complete it satisfactorily. Without His blessings, this achievement would not have been possible.

I would like to thank my advisors Mr. Abiy Getahun (**Asst. Professor**) and Mr. Million Gizaw (**Asst. Professor**) whose help, suggestions, invaluable guidance, and encouragement helped me throughout their dissertation process, this thesis would not have been possible and I would be grateful to the assistance.

I would like to thank all the participants who took part in the interview and surveys conducted as a part of this research for their valuable time and kind assistance. I am also grateful to all my colleagues and friends, for their comments and reviews, which helped enrich this thesis work. Finally, my special thanks go to my family for their love and encouragement.

Table of Contents

DECLARATION i

CERTIFICATE ii

Abstract iii

Acknowledgment iv

List of figure vii

List of table viii

ACRONYMS ix

CHAPTER ONE 1

INTRODUCTION 1

1.1 Background of the study 1

1.2 Statement of the problem 4

1.3 Objective of the study 1

1.4 Hypotheses 1

1.5 Scope of the study 1

1.6 Significance of the study 2

1.7 Limitations of the Study 2

1.8 Organization of the paper 2

CHAPTER TWO 3

LITERATURE REVIEW 3

2.1 Theoretical perspective 3

2.2.1 Source of finance for small business enterprises 3

2.2.2 Access to finance and development 5

2.2.3 Measurement indicators of access to finance 7

2.2.4 Barriers to accessing finance 8

2.2.5 Lowering financial barriers is especially beneficial for small firms 10

2.2.6 What aspect of the financial sector is important for small firms? 10

2.2.7 Determinants and implications of access to finance 12

2.2.8 Banking and non-banking sectors in financing small firms 12

2.2.9 Access to informal finance 13

2.2.10 Microfinance institutions and their role in financing small businesses 13

2.2.11 Government regulation and development of access to finance ... 13
2.2.12 Credits scoring for small businesses ... 14
2.2.13 Role of government facilitating access ... 16
2.2. Empirical studies related to small business enterprise access to finance ... 18
2.3. Research gaps ... 22
2.4. Conceptual framework of the study ... 23
CHAPTER THREE ... 27
RESEARCH DESIGN AND METHODOLOGY ... 27
3.1 Description of Study Area ... 27
3.2. Research Approach and Design ... 27
3.3. Types and Sources of data ... 27
3.4. Target population ... 28
3.5. Method of sampling and determination of sample size ... 28
3.6. Method of data collection ... 30
3.7. Data Analysis techniques and presentation ... 31
3.8. Model specification and description of study variables ... 31
CHAPTER FOUR ... 35
DATA ANALYSIS AND DISCUSSION ... 35
4.1. Descriptive result ... 35
4.2. Pearson correlation analysis between access to finance and its challenge ... 49
4.3. Ordinal logistic regression analysis ... 50
4.4 Summary of findings ... 54
CHAPTER FIVE ... 60
CONCLUSIONS AND RECOMMENDATION ... 60
5.1 Conclusions ... 60
5.2 Recommendations ... 62
BIBLIOGRAPHY ... 64
APPENDIX I ... **Error! Bookmark not defined.**
APPENDIX II ... 68

List of figure

Figure 1 Conceptual framework showing the relationship among variables................................ 26
Figure 2 Business activity of small business enterprise.. 35
Figure 3 start up capital of the business.. 37
Figure 4 current capital of small business enterprise.. 37
Figure 5 the current most pressing problem of the firm 38
Figure 6 firm nature of innovation.. 39
Figure 7 source of finance used by small business enterprise 41
Figure 8 loan request by small business enterprise.. 42
Figure 9 loan requests of small business enterprise... 42
Figure 10 levels of loan or finance availability 43
Figure 11 purpose of loan or finance with the amount.. 45
Figure 12 loan or finance providers with the past two years 46
Figure 13 purpose of loan or finance taken 47
Figure 14 obstacles to getting finance 48
Figure 15 comparison of internal and external finance 48

List of table

Table 1shows the population and sample size 30
Table 2 small business enterprise related to ATF 36
Table 3 indicators of income- generating small business enterprise 40
Table 4 apply for various types of external financing 44
Table 5 external financing need of small business enterprise 45
Table 6 Pearson correlation between access to finance and its challenge 49
Table 7 taste of parallel lines 51
Table 8 Goodness of feet 51
Table 9 pseudo R -square 52

ACRONYMS

ATF	Access to Finance
CBA	close business associates
CSA	Central statistical agency
EEA	Ethiopian Economic Association
FeMSEDA	Federal Micro and Small enterprises development Agency
FF	Family, friends
GDP	Growth Domestic Product
GTP	Growth and Transformation Plan
IFC	International Finance Corporation
MFI	Micro Finance Institution
MoFED	Ministry of Finance and Economic Development
MSEs	Micro and Small-sized Enterprises
NBE	National Bank of Ethiopia
NCR	National Credit Regulator
SEDF	South Asia Enterprise Development Facilities
SSA	Sub-Saharan Africa

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

There is no universally agreed definition of small business enterprises. Some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital or turnover, the capital invested, and the total balance sheet (asset, liability, and capital). According to the Ethiopian Ministry of Trade and Industry (MoTI, no date). Micro, Small, Medium-sized and large enterprises described as Micro Enterprises are small businesses with total capital investment not exceeding Birr, 20,000, and excluding these enterprises with high technical consultancy and other high-tech establishments. Small Enterprises are businesses with a total investment between Birr, 20,000 up to Birr, 500,000, and do not include these enterprises with advanced technology and high technical consultancy. Medium Enterprises are business with a total investment between Birr, 500,000 up to Birr 1 million, and including those enterprises that have high technical consultancy and excluding other high-tech establishments. Therefore, MoTI classifies small business enterprise based on capital investment and the bases of the establishment (MoTI, no date).

Small-Scale businesses are driving forces for economic growth, job creation, and poverty reduction in developing countries. They're a critical means to realize accelerated economic growth and rapid industrialization. Furthermore, the small-scale business has been recognized as a feeder to large- scale industries (Titus *et al.*, 2013). With an increasingly urban population dynamically in Sub-Saharan Africa (SSA), the importance of small business enterprises is also growing. In SSA there was rapid rural-urban migration and deficiency. To absorb this increasing of the urban population, small business enterprises have become important urban economic activities particularly in providing urban employment. Similarly, in cities and towns of Ethiopia, small business enterprises and the informal sector are the predominant income-generating activities and thus they have a significant contribution to local economic development and used as the basic means of survival (Egziabher and Demeke, 2007).

Strong forward and backward linkages between agriculture and other sectors of the economy in the supply of raw materials and, in turn, facilitate the market for the output goods and services and the existence to which small business enterprises make easy the integration very relevant (Bekele and Muchie, 2009).

While pursuing the industrial development efforts, the major objectives and strategies are focused on optimum utilization of resources, creating employment opportunities, and catalyzing the growth of production and exports. In any case, it is now recognized that small businesses are playing an increasingly important role as engines for economic growth and employment in many regions of the world. Therefore, policies and initiatives to develop small businesses and to increase their competitiveness are a priority for these countries (Ogujiuba *et al.*, 2004).

In the 2018/19 fiscal year alone 190,587 new MSEs were established which gives a job opportunity for about 1.7 million people. This number is decreased by 29.8 % in the creation of new MSEs and 40.3% in job creation when it is compared with the previous period. During the fiscal period, MSEs received more than Birr 5.4 billion in loans which were 18 percent lower than a year ago and nearly 1% of the total loan which is dispersed during the fiscal period by all commercial banks. (NBE, 2018/19).

The contraction in the number of new enterprises formation, employment, and credit disbursement was attributed to the exclusion of rural enterprises like the Federal Micro and Small Scale Enterprise Development Agency (FeMSEDA) was split into two, namely Federal Urban Job Creation & Food Security Agency and Federal Small & Medium Manufacturing Industry Development Agency (NBE, 2018/19).

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

Access to finance is the key to business development. Investment and innovation are not possible without adequate financing. Difficulty in getting finance is one of the main obstructions to the growth of many businesses, particularly small business enterprises. The probability that a small firm lists financing as a major obstacle is 39% compared to 36% for medium-sized firms and 32% for large firms small firms mainly borrow funds through the informal financial market, while larger firms obtain funds from the formal market (Titus *et al.*, 2013). Therefore, reducing this financing gap in low-income countries should raise the incentive to create small business enterprises and consequently improve economic growth and increase job creation. Also, improving small business enterprise access to finance is significantly important in promoting performance and firm productivity.

The financing gap of small business enterprises in Ethiopia can be attributed to both the demand side and supply side. The demand side has to do more on the characteristics of enterprises that limit their ability to fulfill the criteria for bank loans leading to financial limitations. The supply side could be more related to the banking sector reform and the perceived risks by banks to finance small business enterprises. In Ethiopia, despite the introduction of banking sector reform in 1994 that directed to the expansion of the banking industry, as soon as small business enterprise' problem of credit access has persisted but changes in the banking sector structure are not sufficient to introduce competition and an improvement in small business enterprise credit access (Fanta *et al.*, 2017).

The paper will evaluate access to finance that these small scale industries are having and the factors that hinder them not to properly raise funds. Investment in any productive sector is very much essential for the growth of industry and increased facilities in obtaining finances can enhance that growth. Finance is needed at the opening phase of a business as well as at the ongoing phases. Some of the well-recognized strengths and importance of small businesses, in developing countries as shown by (Jesmin and Rubayat, 2009).

Many new and considerably attractive commercial ideas have been known to die simply because their originators could not finalize them and banks could not be convinced that they were worth investing in. To fund a business idea as indicated by (Bekele and Muchie, 2009) two major sources can be accessed: internal and external finance. Internal finance is concerned with sourcing funds through savings and those of friends and relatives. However, as the firm grows its financing requirement may go beyond personal savings and other internal financing instrument ability to finance the operation and expansion of the business. The next source is external finance. External funding is based on merit according to the evaluation of financial institutions, which is considered a challenge for small firms by researchers (Haftu *et al.*, 2009).

Despite having enormous contribution in creating job opportunities and building the economy of developing countries, small Business enterprise operation and growth have been determinedly challenged by abundant internal and external factors, to finance their business even a significant number of small business enterprises in different parts of the country have collapsed and goes out of operation as a result of this financial factor. This research, therefore, aims to identify factors that affect access to finance and to identify comparatively as internal or external financing factors affecting more to run the operation of small business enterprises in Jimma town to be recommended as that of internal finance factors will be solved by owners.

1.2 Statement of the problem

In Ethiopia, despite the enormous importance of the small business enterprise sector to the national economy with regards to job creation and the improvement of hopeless poverty, many of the small business enterprises are unable to realize their full potential due to the existence of different factors that inhibit their growth and performance. One of the leading factors that contribute to unimpressive growth and performance of the enterprises is limited access to finance (Gebrehiwot and Wolday, 2006). The Ethiopian Economic Association Research Brief noted that a total of seventy thousand five hundred (70,500) new MSEs were established in 2011/12 employing eight hundred six thousand three hundred (806,300) people across the country. The performance is below the target set in GTP (EEA, 2015). Small business enterprise sector tends to suffer because it is viewed as a less attractive investment opportunity than many others due to high levels of uncertainty and risk. As a result of the small business enterprise often have a limited track record in raising investment and providing suitable returns to their investors, very limited internal controls and few tangible assets to offer as security; investors are nervous of investing in small business as they are concerned about how their funds might be used and returns that might get. Hence, the easiest thing for an investor is to decline any opportunity to invest in a small business, especially when there are so many other investment opportunities available to them. (Ayyagari *et al.*, 2006)

Improving the availability of finance facilities to this sector is one of the incentives that have been proposed for stimulating its growth and the realization of its potential contribution to the economy (by establishing saving and credit institutions) but the need of small scale business for finance became complicated when they grow and involve in innovative activities (Stiglitz and Andrew, 1981). There are several challenges small business enterprise faces that prevent them from conducting their businesses effectively and efficiently. Financing is one of the crucial aspects that assist Small Business Enterprises in the process of their development and expansion.

Challenges of small business enterprise access to finance may come from both the supply-side and demand side. From the supply side, the lending institutions may refuse small business enterprises funding due to fear of nonpayment generally, from information asymmetry grouping small business enterprise sector as high risky enterprise sector. On the other hand, the demand side may be due to the entrepreneur's lack of proper information, lack of business networking, or business skills. Also, firm's, financial and entrepreneurial characteristics have been emphasized in many types of research as the main factors that influence small business enterprises' access to funding. Financing choices of small business enterprise are influenced by the preferences of each firm's entrepreneur and more importantly by the options that are available to them, In what form, from whom, how successfully and at what cost small firms are financed thus depends on a wide range of factors both internal and external to the firm (Mersha and Ayenew, 2017).

Even though all these efforts, many research outputs conducted in Ethiopia indicate that access to finance is still the main for small business enterprises. On the other hand, to our knowledge, few studies investigated the significant factors that determine the financing options of small business enterprises. These concerns about identifying the significant factor and internal or external factors are more dominant. Also specifically, the status of the problem which was identified in Jimma town is rear. As indicated before researchers in Jimma town collateral requirement and availability of finance were significant factors. Though some exist, most of them focus on the general problems of small business enterprises. They are short in-depth and detail on many aspects of small business enterprises, including finance-related issues. As a result, the main objective of this study is access to finance and its challenge for small business enterprises in Jimma town. This study is different from earlier other studies in the following respect. First, earlier studies focused on the general constraints of small business enterprises, not on the specific functional areas. Investigating an issue focusing on a particular aspect will help to identify the real problem in depth. Second, there is a shortage of studies conducted with a specific objective of analyzing the problems of small business enterprises in each town rather than selected major towns in Ethiopia from all over the country. In addition to this stated research is outdated and they do not show clearly either internal or external factor is more dominant. Finally, this study concentrates on specifically in Jimma town where there are few studies undertaken.

Therefore, this study specifically emphasized on investigating those challenges in accessing finance comparatively to recommend that of internal finance because of most challenges in internal finance solved by owners.

Therefore the study wants to answer the following basic research questions:-

1. What are the factors that small business enterprises are facing in accessing finance in Jimma town?

2. What are the possible sources of finance in the daily operation of small business enterprises in Jimma town?

3. What are the measurements taken by the business to minimize internal challenges in accessing finance Jimma town?

1.3 Objective of the study

The general objective was to access finance and its challenge for small business enterprises case of Jimma town

The specific objectives are

- To identify the significant factors influencing small businesses' access to finance.
- To assess the possible sources of finance in the daily operation of small business enterprise
- To identify the measurement taken by the business to minimize internal challenges in accessing finance.

1.4 Hypotheses

1. A good way of managing internal finance positively affect access to finance of small business enterprise in Jimma town
2. Increasing customer satisfaction positively affects access to finance of small business enterprise in Jimma town
3. An increasing need for the collateral requirement by financial institution negatively affects access to finance of small business enterprise in Jimma town
4. Awareness of Funding Opportunities (Availability of Finance) positively affects access to finance of small business enterprise in Jimma town

1.5 Scope of the study

This research entirely focuses on small business enterprises in Jimma town and the challenges they face in the process of accessing finance. Small business enterprises' obstruction in accessing finance was more relative to medium and large enterprises. The population for the study majorly limited to Jimma town was mainly because of the earlier studies focused on the general constraints of small business enterprises, not on the specific functional areas and enormous presence of small business enterprises specifically in the Jimma town but it's done as a country. The population those included in the study was those existed small business enterprise in Jimma town. Even though access to finance can be measured through both the supply side and demand side, the scope of the research is limited to the demand side only. On the other hand, it is to say that the supply side needs further research which is mainly concerned with financing technology of the financial institutions to satisfy their users because of the supply side is broader by itself, in addition, most of the researches don't apply the above points specifically in Jimma town.

1.6 Significance of the study

The study examines access to finance, and the challenges of small business enterprises to provide meaningful insight while transforming small enterprises to medium-sized enterprises in Jimma town. Therefore it believed that the study performed will the result of strengthening the relationship between small business enterprise and banks by specifically identifying the main barriers between them, provide knowledge to small business enterprise as to how they solve internal financing problem, for the researchers who want to conduct further research on similar subjects it shows knowledge gap and covers the way for their new finding.

1.7 Limitations of the Study

The result of this study is believed to be very important. However, in conducting this study, there were some limitations. Some respondents were not willing to respond and the enterprises are very dispersed which makes the study difficult to distribute and collect the questionnaires on the planned periods. The strategies adopted to tackle such constraints were used manpower to collect data and to consider all small enterprises in Jimma town. In addition to this communicate small business enterprise owners in a polite way to get the data needed.

1.8 Organization of the paper

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

CHAPTER TWO

LITERATURE REVIEW

The previous chapter presents the background of small business enterprises and the objective of the paper, which is to evaluate access to finance and its challenge in small business enterprises. This chapter presents the theoretical literature including the definition of small business enterprises' empirical evidence on access to finance and its challenge in small and medium business enterprise and research gap.

2.1 Theoretical perspective

2.2.1 Source of finance for small business enterprises

When implementing a new business concept and expanding or financing operation, only one definition captures the real essence of capital: “It takes money to make money.” From the hopeful entrepreneur designing a new office furniture product in a home office to an executive of a multinational corporation looking to increase foreign distribution channels for new product introductions, beginning any new business concept requires capital, or money, as a basis to execute the business plan (Tage *et al.*, 2007) Before a business sells its first product or delivers a service to the market, it needs financial resources for product development, sales, marketing and promotional efforts, administrative support, the company’s formation, and countless other serious business functions.

Capital is not only perceived as just the amount of “cash on hand” but rather the number of financial resources available to support the execution of a business plan. While financial resources come in countless forms, types, and structures, two main basic types of financial resources are available to most businesses: debt and equity. As indicated by(Tage *et al.*, 2007) for small-scale business enterprises source initial or additional capital needed to conduct business can be i. Family, friends, and close business associates (FF and CBAs) have been one of the primary capital sources to launch new business concepts since the beginning of time and will most likely continue to fill this role in the future.

This is the main source of finance in Ethiopia and any other developing country (Gebrehiwot and Wolday, 2006). The range of capital raising options from FF and CBAs stretches from the founders of a business tapping their creditworthiness or resources (savings, home equity, or credit cards) to Mom and Dad or a trusted business associate stepping up with the needed seed money to launch the company. Generally, this type of capital tends to be for lower dollar amounts, geared toward equity as opposed to debt (given the uncertain nature of the business and higher risks present in terms of generating cash flow) and provided to closely-held and/or family-operated businesses.

ii. As indicated by(Tage *et al.*, 2007) in the business world, a large number of private capital sources are available and include such sources as venture capitalists (VCs), investment bankers, angels, or white knights, and similar types of private investment groups. Private capital sources come in various shapes, sizes, and forms, but all tend to gravitate towards a common set of criteria: The dollar size of the capital commitment is generally much larger and these groups tend to be more risk-based capital sources and look for higher returns from equity driven transactions.

iii. Debt capital sources including banks, leasing companies, government-backed programs (microfinance in our country's context), asset-based lenders, factoring companies. For almost any debt-based need, some type of lender is readily available in the market. These groups, similar to private sources, tend to look for a common set of characteristics when extending capital in the form of debt: Security of some sort — an asset or personal guarantee, for example, must be present and Debt providers tend to look for more stable business environments where a company has been in business for an extended period and has a proven track record.

iv. A company generates positive internal cash flow and reinvests this asset internally as needed.

v. A company utilizes creative forms of unsecured financing from vendors, partners, customers, and so on to provide a real source of capital.

vi. A company looks for gifts. Governments, universities, and nonprofit organizations have resources available in the form of grants, low-interest rate loans (with limited downside risk), incentive credits, and so on, which are intended to be used for special interests or purposes. The general idea is to provide this capital to an organization that will use it in the best interest of the general public. (Tage *et al.*, 2007) In today's business world where consumers credit and other types of credits being offered by banking sectors in developed and developing countries, it is amusing to see the small scale business, change agent, suffer from lack of access to finance in this country. As known an important role of banks is to provide relationship lending services that help resolve problems in providing external finance to information obscure small business enterprises (Udell and Berger, 2001). However, many factors may affect the banking system's ability to provide credit to small businesses.

Banking industry consolidation creates large banks that may be oriented toward transaction lending and providing capital market services to large corporate clients. These institutions are also often headquartered at great distances from small business customers and may have difficulty processing locally-based, and often less quantitative, relationship information (Udell and Berger, 2001). The issue of credit availability to small firms has garnered world-wide concern recently. Models of equilibrium credit rationing that point to moral hazard and adverse selection problems (Stiglitz and Andrew, 1981) suggest that small firms may be particularly helpless because they are often so information was unclear. That is, the informational wedge between insiders and outsiders tends to be more discriminating for small companies, which makes the provision of external finance particularly challenging.

Small firms with opportunities to invest in positive net present value projects may be blocked from doing so because potential providers of external finance cannot readily verify that the firm has access to a quality project (adverse selection problem) or ensure that the funds will not be diverted to fund an alternative project (moral hazard problem) (Udell and Berger, 2001). It is important to clarify from the outset that the researchers focus here on the vast majority of small firms whose access to external finance is nearly entirely limited to internal financing and FF&CBAs.

In our country's context recently micro finances are institutions handling the micro and small business sector (Ayyagari *et al.*, 2007) These are firms with very high growth potential, often in knowledge-intensive high tech industries, who principally access the banks and other financial institutions for early-phase financing. Because these high-risk firms generally require large injections of external funding relative to insider financing, have little in the way of tangible assets that may be pledged as collateral, and are subject to significant moral hazard opportunities to change projects, they are ill-suited for bank financing and thus tend to have low levels of leverage (Udell and Berger, 2001).

2.2.2 Access to finance and development

Finance is at the core of the development process (World Bank, 2019). Backed by solid empirical evidence, development practitioners are becoming increasingly convinced that efficient, well-functioning financial systems are crucial in channeling funds to the most productive uses and in allocating risks to those who can best bear them, thus boosting economic growth improving opportunities and income distribution and reducing poverty. This is the reason why the World Bank and other international institutions are awarding the Microfinance and other financial institutions, for their good deed in developing countries. In the World Bank's report published in 2008, it is indicated that improving access and building an inclusive financial system is a goal that is relevant to economies, at all levels of development.

The challenge of better access means making financial services available to all, thereby spreading equality of opportunities and tapping the full potential in an economy. But as per the researcher's perception, the challenge is greater than ensuring that as many businesses or firms or individuals as possible access to basic financial service. The challenge of access to finance in developing countries includes where, who, when and under what condition that business are accessing credit. This means on the other hand low of the land, the policies and procedures of the institution providing credit service matter. This article of World Bank indicates, what the researcher strongly supports that the challenges are as much about enhancing the quality and reach of credit, savings payments, insurance, and other risk management products (World Bank, 2019).

Here, even though, it is very challenging if not impossible to apply the credit facilities developed countries are using the modern technology-oriented instrument; we can make use of the traditional finance-oriented instruments by blending them with the modern engineered financial facilities Most theoreticians have long reasoned that financial market frictions can be the critical mechanism for generating present income inequality or poverty traps (this idea is supported by the World Bank too) without inclusive financial system poor individual and small enterprises need to rely on their wealth or internal resources to invest in their education, become entrepreneurs or take advantage of promising growth opportunities (Ayyagari *et al.*, 2007). A more effective and sustainable development approach would directly address financial market imperfections, without causing adverse incentive effects.

Most retribution policies create a disincentive to work and save although the economic magnitude of the disincentive effect is subjected to intense debate. As (Ayyagari *et al.*, 2007) argues this tension vanish when focusing on financial sector reforms. Reducing financial market imperfections to expand individual opportunities creates a positive not negative incentive effect. Even though those arguments are very consistent with modern development theories yet emphasizing to put financial sector reforms that promote financial inclusion is at the core of the development agenda.

2.2.3 Measurement indicators of access to finance

As per the report produced by World Bank (2008), financial inclusion or broad access to financial service is defined as an absence of price or non-price barriers in the use of financial services. But this does not mean that all firms should be able to borrow an unlimited amount at the prime lending rate or transmit funds access the world instantaneously. Besides the report specifies that, even if service providers are keenly competitive and employ the best financial technology, prices and interest rates charged and the size of loans and insurance coverage on offer in a market economy will necessarily depend on the creditworthiness of the customers. Improving access means improving the degree to which financial services are available to all at a fair price. It is easier to measure the use of financial services, since users can be observed, but the use is not always the same as access.

Therefore accesses indicate that the supply of their financial facilities on the other hand use indicates both the supply and demand side of the market. These means to access is the availability of financial institutions in the market whereas the use is whether the financial facilities are being accessed properly by the users (World Bank, 2019). The World Bank's report (2019) under the title "Finance for all" indicates that wealthy customers in advanced financial systems will choose not to use some financial services. Some moderately prosperous customer's especially ordinary individuals or households may not have and wish to borrow money; even if offered a loan at a favorable interest rate. World Bank measured access to credit with census data on the number and characteristics of households that have a bank like a financial institution.

The report indicates that in the absence of census data, one would at least like to have survey-based measures that represent five of the whole population and important subgroups again collecting information about the types of financial service they are consuming, in what quality and at what price as well as complementary data on other characteristics of the household that might affect or be affected by their service. One basic method that (Bekele and Muchie, 2009) have used to measure access to finance is target group surveys. The aforementioned authors in their research conducted in India, Colombia, and México give insight into the information that can be obtained from such survey instruments beyond simple measures of use of financial service. As per the finding household, surveys are necessary to obtain detailed information on who uses financial services from which types of institutions including informal ones (Beck *et al.*, 2013). Complete loan and deposit account data though surveys of bank regulators for a crosssection of countries and documents the large variation in those indicators across countries. This was made through the computation of GDP per capita. On the other hand access to finance can be measured as to the outreach of banks and financial institutions. Ethiopian microfinance institutions have reached over 1.8 million borrowers, representing an outstanding loan portfolio of birr 3.1 billion (AEMFI, 2009). Similarly, indicators of financial use show a positive but imperfect correlation with indicators of financial depth such as credit to the private sector divided by GDP (World Bank, 2019). This correlation shows that access is a distinct division; financial systems can become deep without delivery access to all.

2.2.4 Barriers to accessing finance

Understanding only the actual use of financial services, not complete by itself but access across its different dimensions is important too. Collecting indicators of and briers to access and comparing them to usage and other country characteristics will enable researchers and policymakers to close the gap. The quantity and quality of access are important. Barriers identified as main by (Haftu *et al.*, 2009) as Ethiopia's small business enterprise access to finance are religion, the problem of forming group, high-interest rate, and the willingness to receive loans from the financial institution (owner-managers are a pessimist) are the basic. The World Bank's report (2008) indicates that service may be available but may not be customized to different needs, or points of delivery may be too few or delivery may take a long time.

The study of (Beck *et al.*, 2013) sponsored by the World Bank, indicated that barriers as availability of location minimum account and loan balances account fees, fees associated with payment documentation requirements, and processing ties are found to vary significantly both across banks and across countries. Indicators of access barriers are also found to be negatively correlated with the actual use of financial services, confirming that these barriers can exclude individuals from using bank services. Geographic access is the most important finding (Beck *et al.*, 2013). As an example, they have compared Ethiopia where one branch of the bank is for 100,000 people, and in Spain, 1 branch is for 1000 people. They recommended technology as a solution to this problem which did not take into account the capacity of banks and the risk that these banks will face when making use of for example ATM.

The other basic barrier is the lack of documentation in most developing countries like Ethiopia to have a bank account, an individual is required to have at least three documents, identity card/passport, wage slip, recommendation letter proof of domicile. Given a high degree of informalities in these developing countries, only a small portion of the population can produce most of this document (Beck *et al.*, 2013). In addition to the above-mentioned barriers, the affordability barrier is one that needs emphasis. The study indicates that in most developing countries, the cost of giving a checking account is very high. In Cameron for example an individual needs to have $ 700 to open a checking account, which is above to average per capita GDP of the country (Beck *et al.*, 2013). Lack of appropriate products and services for small scale enterprises is another important barrier to access financial service. As per the world bank's report (World Bank, 2019), the main problem in delivering credit is linked to risk management and high transaction cost of processing, monitoring, and enforcing small loans, which increase the break-even interest rate for these loans. The risk includes those arising out of information asymmetries. These asymmetries can result from the adverse selection that is the inability of the lender to distinguish between high and low-risk borrowers or from moral hazard, that is the tendency form some borrowers to divert sources to projects that reduce their likely hood of being able to repay the loan and the inability of the lender to detect and prevent such behavior. (Udell and Berger, 2001) argued that the differences in the financial institution structure and lending infrastructure may significantly affect the availability of funds to different types of Small business enterprises. However, small business enterprises need finance to undertake productive investment to expand their business to introduce new products to market the products as well as to loop up with temporary financial problems. But most of the small businesses in Ethiopia face challenges from banks and other financial institutions in accessing finance.

Most of the recent works of small businesses access to finance focuses on the comparative advantage of different types of financial institutions in using transactions lending approaches, based on hard quantitative data that may be observed and verified at above the time of the credit originations versus relationship lending approaches based significantly on soft qualitative information gathered through contract over time with the small businesses and often with its owner and members of the local community. (Udell and Berger, 2015) found that large institutions have comparative advantages in relationship lending to in information unclear small businesses based on soft information. Most commercial banks are so reluctant to provide loans to small businesses because of the high risk and supervision cost associated with this type of investment. (Bekele and Muchie, 2009) identified in Bangladesh that banks are shy to lend to small business activities, as they do not consider them as attractive and profitable undertakings.

And small businesses are considered high-risk borrowers because of the nature of their operation, low capitalization, and insufficient assets to be used as collateral.

Here in Ethiopia access to finance by small business more on suppliers credit, equipment leasing (Gebrehiwot and Wolday, 2006) but the problem is aggravated because of the nonexistence of international institutions that facilitate the access to finance for example small business Department of International Finance Corporation(IFC), a World Bank group. For example, IFC has extended the small and medium scale businesses financing facilities to Bangladesh through South Asia Enterprise Development Facilities (SEDF) along with the local states of the country. IFC provides not the only fund for small business but also term loans, leasing industrial hire purchase, for asset acquisition, business expansion, overdraft (OD), revolving credit, Factoring, letter of credit, etc.

2.2.5 Lowering financial barriers is especially beneficial for small firms

Finance does not just raise aggregate firm performance uniformly; it also transforms that structure of the economy by affecting different types of firms in different ways. Small and new businesses have more difficulty to obtain external finance than others. As financial access conditions improve in an economy, those that were formerly shut out have an opportunity to expand. Survey findings suggest that financing obstacles show much on small business enterprises specifically. (Beck *et al.*, 2013) find that financial constraints reduce firm growth by 6% points, on average large firm, but by 10% points on average for large but by 10% of firms in the case of small firms. While lack of financial access tends to hurt small firms the most in countries with underlying weaknesses in their institutional environment, empirical evidence also suggests the small firms benefit disproportionately interims of seeing their constraints relaxed as financial systems develop (Beck *et al.*, 2013)

2.2.6 What aspect of the financial sector is important for small firms?

As indicated before business organizations can access finance from different areas. Making credit from banks and other intermediaries that provide debt finance more widely accessible calls for two complementary approaches. On the other hand, the modern trend to transaction lending, weather-based on assets, or an automated credit appraisal such as credit registries. On the other hand neglect of relationships, lending can mean that a large part of the market is underserved where infrastructures are weak and economic activity more informal.

(World Bank, 2019) in its report recommend the role of foreign banks in improving access but because of political reasons and other basic reasons, including the low of the land, foreign banks are not allowed to enter into the financial market of developing counties. There are good reasons for thinking that each has its sphere of comparative advantage (Allen and Gale, 2000). As per the finding banks can effective in financing ventures not firms in the sector where there is little dispute over the sector prospects and where firms can rely upon paying back loans provided they maintain cost control and production efficiency. Debt financing is the other major external financing instrument that firms of all size use. Diverse technologies are employed for reaching different types of clients in contrasting environments especially where clients do not have conventional collateral or where the collection of collateral is not secured.

(Udell and Berger, 2001) have pointed out between transaction lending based primarily on “hard” quantitative data (such as a credible set of borrower’s financial accounts) or secured on assets and relationship lending, based significantly on “soft” quantitative information. On the other hand (Udell and Berger, 2001) pointed out that because of the time and effort evolved in understanding the borrower's business and financial needs. Relationship leading is costly for the lender and therefore requires either high spreads or large volumes to be viable. If the customer’s creditworthiness is hard to evaluate then there may be no alternative to relationship lending.

A point that must be provided emphasis is that relationship lending is at the core of the banking business continuing to give banks a comparative advantage over markets and nonbank financial institutions, even in a developed country. World bank report of the year 2019, in “Finance for all” booklet indicates that credit networks that employ sustain a form of social capital through relationship lending have long been observed in different parts of the world. These networks are often characterized by a common ethnicity of the participants although ethnic group membership does not automatically convey membership in the credit market. Biggs and Shah (2006) described credit networks observed in the response to enterprise surveys in sample African countries in the year 1990s. They showed that a common ethnicity greatly increases the likelihood of a trade credit relationship between any two firms and the lengthy specific relationship history between the two firms involved in the credit transaction is not required: network membership seems to be sufficient.

2.2.7 Determinants and implications of access to finance

Firms indeed finance their operations and growth in many different ways. Their financing choices are influenced by the preferences of each firm's entrepreneurs and more important by the option that is available to them, World Bank's report (Finance for all, policies and pitfalls in extending access) indicates that in what form, from whom, how successfully and at what cost small firms are financed thus depends on a wide range of factors both internal and external to the firm. As per the report financial resources available to the firm's entrepreneurs and other insiders are of course important, which is strongly supported by the pecking order theory)(Menberu, 2018). But this internal financing instrument has limitations concerning the newly being established business, where there is no internally generated net income also to businesses who have started operation and incurred loss during the startup period, will have no choice.

Not only are those the basis for most startups but they can lever themselves with external finance, that is, finance from outsiders. But given information and agency problems, external financing also depends on the firm entrepreneurs' own ability to project a credible financial proposal, their willingness to share control, the nature of their business plan, and the uncertainty and risks involved in implementing it. Factors external to the firm matter a lot too, which includes the economic conditions, financial environment, and other macro-economic factors (Menberu, 2018). Moreover, the world business environment survey by (Beck *et al.*, 2013) made on 10,000 firms in 80 countries indicates that the basic constraints of development in business are corruption, legal, and finance. Of these three basics financing constraints lead to the greatest reduction in firm growth.

2.2.8 Banking and non-banking sectors in financing small firms

Small businesses like the repayment schedule that banks provide in Ethiopia (Haftu et al., 2009), bankers are not interested in providing loan to small business because of the loan immateriality which increases the transaction cost banks incur and high mortality rate of small businesses (Ogujiuba *et al.*, 2004). The type of fund that a business organization raise can be publically placed bonds and term loan from financial institution manly banks. Term loans are better in many ways to form the public placement since public placement needs a well-structured financial market, which is unthinkable in our country's current situation and form the viewpoint of business small in size and newly being established. The other main advantage of term loan than public placement is that they can easily be negotiated for rearrangement at the time of financial incapability to pay back. Also, their transaction cost is by far less than that of the publically paced bonds. This basic role is in the hand of banks and financial institutions in our countries context.

2.2.9 Access to informal finance

Informal financing instruments are dominant more in Ethiopia where more of the traditional way of living is practical. To be sure, informal financial services still do represent a significant part of the financial dealings of poor people, especially but not only in developing countries, although reliable quantization on this point is not readily available (Rutherford, 1998) In Ethiopia formal finance has not yet superseded in formal largely because the current working practices of formal financial intermediaries are not adapted to providing service in small packets at a cost that makes them affordable to the poor. Technology- financial and physical – as well as improved overall infrastructure, can help bring costs down to realistic levels, but only if the management of formal institutions chooses to focus on the potential for doing profitable business and read to accept risk (Haftu *et al.*, 2009)

2.2.10 Microfinance institutions and their role in financing small businesses

These days the number of microfinance- the institution has grown at a rate that is said to be good. Most microcredit movement and literature have focused on production credit movement and have focused on production credit for household enterprise or microenterprises. But even if lack of financing is fundamentally the only constraint for poor micro-enterprise as it asserted by Muhammad Yunus, founder of Grameen Bank and winner of the 2006 Nobel peace prize, they do also face numerous practical challenges.

2.2.11 Government regulation and development of access to finance

It is known that regulation government imposes on the economy has got two broad effects: positive and negative. Here history and research revealed that access to finance has both the two effects aforementioned. One experiment is that in the year 1977 to 1990 the Indian government has imposed policy indicating that commercial banks are allowed to open one new branch in a district that already had a bank presence only after it opened four branches in areas without a bank present. This policy led to the opening of 30,000 new rural branches over this period. (Burgess and Rohinde, 2005)have indicated in their finding that this branching regulation resulted in the fast development of nonagricultural products, products, poverty decline faster, while the opposite was true before and after this period of regulation. This regulation might harm some commercial banks.

2.2.12 Credits scoring for small businesses

Credit ratings are intended as a relative assessment of expected loss. They are not intended to capture a particular default probability over a particular horizon. A simple inspection of the data indicates that within a rating category; default rates rise and fall over time, and sometimes quite significantly. Credit scoring is the process of assigning a single quantitative measure, or score, to a potential borrower representing an estimate of the borrower's future loan performance. While credit scores have been used for some time in the underwriting of consumer loans and residential mortgages, this technology has been routinely applied to commercial credit only since the mid-1990s. This is because commercial loans were thought to be too heterogeneous and documentation not sufficiently standardized either within or across institutions (Rutherford, 1998).

However, credit analysts ultimately determined that the personal credit history of small business owners is highly predictive of the loan repayment prospects of their businesses. Thus, personal information is obtained from a credit bureau and then augmented with basic business-specific data to predict repayment. (NCR, 2011) presents an overview of the history and application of credit scoring techniques to small business loan portfolios. The introduction of credit scoring may have profound effects on small business credit markets, including borrower-lender interactions, loan pricing, loan risk, and credit availability. First, credit scoring allows lenders to underwrite and monitor small business loans without actually meeting the borrower. This development contrasts with the perceived importance of a local bank borrower relationship for small business lending (Udell and Berger, 2001).

In fact, because of scoring systems, borrowers can obtain unsecured credit from distant lenders through direct marketing channels. Indeed, empirical evidence suggests that the distance between small firms and their lenders has increased in recent years and that credit scoring increases the probability that a large banking organization will make small business loans in certain areas (NCR, 2011).

Small business credit scoring may affect the price of credit, although the direction of any change may depend on how a lender uses the technology. While credit scoring is a less-expensive way of underwriting loans (providing downward price pressures), it is not always used as a substitute technology. Indeed, if a lender generates credit scores to complement its usual underwriting approach, total costs may increase (providing upward price pressures). Furthermore, depending on the lender's perception of the quality of the information set, borrower risk may change.

Empirical evidence by (Udell and Berger, 2001) suggests that the net effect of small business credit scoring is higher average loan prices, especially for those lenders using the technology as a complement to traditional underwriting. The authors also find that the loans funded by scoring institutions are classified as higher risk, on average, consistent with increased lending to riskier marginal borrowers.

Credit scoring should increase credit availability for small businesses. Cheaper or better information about the repayment prospects of a small business applicant makes it more likely that a lender will price the loan based on expected risk, rather than denying the loan out of fear of charging too little. Empirical studies have found a positive relationship between small business credit scoring and credit availability (Udell and Berger, 2005). In Ethiopia, it is only banks and financial institutions who, rate their customers by using their benchmarks. Lack of this independent institution has contributed towards the gap of access to credit. One way in which most banks and other financial institutions evaluate credit risk is through the use of credit scoring. It involves the numerical evaluation of each applicant.

An applicant receives a score based on his or her answers to a simple set of questions. This score is then evaluated according to a predetermined standard; it is level relative to the standard determining whether credit should be extended. The major advantage of credit scoring is that it is inexpensive and easy to perform. The techniques used for constructing credit scoring indexes rage form the simple approach of adding up the default rate associated with the answers given to each question to sophisticated evaluation using multiple discriminate analyses (MDA). MDA is a statistical technique for calculating the appropriate importance to assign each question used to evaluate the applicant. Edward Altman in his model, 1961, blended the multiple discriminate analyses and the traditional ratio analysis to score credit which he called Z score model. Credit registries are important tools for the expansion of transactions based lending technology (Powell *et al.*, 2004).

Credit registries ease for the lender the routine task of verifying aspects of the repayment record the routine sometimes the outstanding indebtedness) of the applicant's borrowers and increase the cost of delinquency; thereby reducing moral hazard. These also help in building data in building database helpful in the financial market. The use of credit scoring for small business lending often based on data collected for credit registry purposes in growing in developing countries as well (Powell *et al.*, 2004), although it has a year to reach many countries: this is banking at what is currently a very active frontier. The more financial data that financial institutions have in credit register, the more useful it is in selecting out the risky borrowers without reducing overall access to credit.

It is not only the lenders, who will benefit from the credit registry as per the study conducted by (Powell *et al.*, 2004) in Argentina, but the credit information sharing also benefits stockholders including the borrowers. On the other hand Brown, (Gebrehiwot and Wolday, 2006) find out a positive association between the quality of the credit registry and the ease of external financing, in their study made across 24 transaction economies. While public credit registries may have some potential advantages such as the power to compel lenders to share positive information the experience in Ethiopia is almost nil. This means the financial institution considers this information as the greatest role but nothing has yet been carried out to have such an environment.

2.2.13 Role of government facilitating access

World Bank in its report (2019) pointed out that given the evidence financial access varies widely around the world and the expanding access remains an important challenge even in advanced economies, it is not enough to say that the markets will provide. Market failure related to information gaps the need for coordination on collective action and concentrations of power means that government everywhere has an extensive role in supporting regulating and sometimes directly intervening in the provision of financial services. But one has to bear in mind that not all government action is quality effective, however, and some policies can be counterproductive. Complex systems responses can make will intentioned policies misfire, so successful policy design must be context-specific.

Governance issues are important: policy success can depend on institutional quality. Measures that are effective in environments that already enjoy strong institutions may fail elsewhere, at some time, a well-functioning financial system itself is likely to contribute to strengthening national governance. Researchers (Burgess and Rohinde, 2005) have tried to identify specific policies to facilitate financial access indicated government can achieve additional impact in the short to medium terms by taking action specifically directed at facilitating financial market activity that helps access. Beyond the overall legal structure and its protections, an important practical question is that extents to which contract enforcement in finance need to be supplemented by specific laws restricting and classifying and thereby offering more reliable protection to; certain types of financial business more generally (World Bank, 2019)

In Ethiopia where access to credit is rated to be very low, the government has got the role in creating credit registries, or the private sector can play a greater role in forming credit registries. Even where the operation and ownership registry is left to the private sector, government actions strongly influence the ability of registries to function. The rapidly evolving technologies based on the internet (e-finance) and cell phone (mobile phones or m-finance) can be powerful engines of access (World Bank, 2019). But lack of legal clarity may impede the adaption of these technologies. Regulations are required to be designed by the government to fever disadvantaged groups in the economy. (World Bank, 2019) policies to promote competition in the banking system can help restrain the exercise of market power that could be damaging to access and Procedural regulation has also its contribution.

The contracting of credit often associated with systemic banking crises hits the poor as well as the rich-sometimes more so- and the poor are less able to bear losses (Avevor, 2016). Here an important point that should not be forgotten is that regulation can fever the economy and harm the economy too. For example, as indicated Both, (Assefa *et al.*, 2014) have addressed this issue concerning banking. They collected detailed information about the powers and conduct of bank supervisors in over 150 countries from 1997to 2001. Based on regression analysis linking measures of national regulatory style to financial access and other economic outcomes at the individual firm level, the authors concluded that relying too much on discretionary powers given to government officials to keep the banking system safe sound and efficient may be misguided. In the process of expanding access, it is important to build a long term institution.

The emphasis in recent literature on the importance institutions – the “rule of the game” for economic development and the parallel role these intuitions are thought to play in financial development suggests that the mechanisms of finance are at the heart of the complex process that leads to accelerated economic growth in a way that is still far from being fully understood (World Bank, 2019). As such, adjusting the institution in the direction that helps improve the functioning of finance is likely to be a highly effective pro-growth strategy, and the government’s role was is very vital. Here the strategy is long term but the short term on which the long term relay is not being provided emphasis. In other words building, these institutions is typically a long term and diffuse endeavor and it necessarily involves a key role government. Government is the natural many cases only provide some of the key organizations that support good institutions such as efficient: speedy and fair courts.

The government may also need to provide some or all of the needed registries of credit information, liens, and property ownership. According to (Green, 2003) cited in the World Bank's report government involvement in creating a credit guarantee company is often rationalized by the obscuration that small and medium scale enterprises commonly do not have the kinds of collateral that bankers require. Means gave that financial markets are not perfectly efficient; a decision by the government to step in where private financiers have not formal it profitable to do so need not necessarily involve subsidy and fiscal outlay- although typically it does.

2.2. Empirical studies related to small business enterprise access to finance

Some related studies are conducted by different researchers in different countries. The aim of this study was focused on access to finance and its challenge for Small Business enterprises. A recent World Bank study on small business enterprises, which in Ethiopia are estimated to have reached 800,000 up until 2019, found that financing was a key constraint to job creation and growth. According to (Gurmessa *et al.*, 2017), Lack of access to credit facilities is almost universally indicated as a key problem for small and micro-enterprises. In most cases, even where credit is available mainly through banks, the entrepreneurs may lack freedom of choice because the banks' lending conditions may force the purchase of heavy, immovable equipment that can serve as collateral for the bank. Credit constraints operate in a variety of ways in Kenya where undeveloped capital market forces entrepreneurs to rely on self-financing or borrowing from friends and relatives. Lack of access to long-term credit for micro, small, and medium enterprise forces them to rely on high-cost short term finance.

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

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

(Gan and Hu, 2015), on their study conducted in Maputo central business district, Mozambique, there is a relationship between the structure of the financial sector and access to finance by SMEs; there is a relationship between awareness of funding and access to finance by SMEs; there is a relationship between collateral requirements and access to finance by SMEs, and there is a relationship between small business support and access to finance by SMEs.

In (World Bank, 2019) Ethiopian small businesses are lagging behind every other sector. Their growth is sluggish, marketability of their product is limited because of quality, competition, lack of market (deficient in place to market their product), the access that they have for input was limited and expensive input price and their access, as well as the use of finance, is extremely limited. It also added that only a limited number of small businesses had a practice of accessing external loans. In the past twelve months, only 41% of the total small business on which the research was conducted had accessed credit and of these businesses, 48% indicated the credit has increased and 37% mentioned the debt to the asset has decreased.

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

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

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

The other study conducted by (Kebede, 2014), concludes that the major source of startup finance and also working capital is its savings. The major source of credit for startup on the other hand is family and friends followed by microfinance and 'Equip'. The major source of credit for working capital is also informal financial institutions. Age of the entrepreneur, educational level of the entrepreneur, possession of the fixed asset, employment size of MSEs, perceptions about the lending procedure, and loan repayment period had statistically significant effects on access to credit from formal financial institutions. In contrast, the gender of the entrepreneur, firm age, sector, and perception about interest rate did not affect MSEs' access to credit from formal financial institutions.

The difficulties faced by MSEs in accessing credit facilities are attributed to their perceived higher risk profile. Lending institutions regard MSEs as riskier enterprises for several reasons which include: uncertain competitive environment; inadequate accounting systems; the more unpredictable operating environment in the developing and emerging markets; assets not properly registered; delayed payments for the products and services rendered; less equipped in terms of both human and financial resources to withstand economic resources as sited by (Ogoi, 2017).

As sited (Bekele and Muchie, 2009) states that "commercial banks are reluctant to lend small amounts of money to small business because of the cost of administering the loan exceed the benefit accrued to them." This shows that banks are not inclined to develop an innovative and systematic approach that minimizes risk and administrative costs to serve the sector. As sited by (Dagne, 2017) The major challenges are lack of financial access, business training opportunity, access to technology, access to market information, access to infrastructure, access to raw material, and access to the market. According to (Menberu, 2018) Awareness of Funding Opportunity (Availability of Finance*)* influences access to finance to a great extent followed by firm characteristics and collateral requirements, and the cost of borrowing influenced access to finance negatively.

One of the most critical problems faced by MSEs understudy is the lack of adequate finance from formal sources. The major reasons mentioned by MSEs for not taking credit from formal Banks and MFIs include Lack of collateral, difficulty to form a group, and forced saving required by MFIs. Further, the process of securing loans from banks and MFIs is procedural and officious in Ethiopia. Most of the banks have a very strict requirement that seeks elaborate details of the various aspects of the borrowing company and about the project. The procedure of MFIs is also not attractive to the debtor as most of them require long loan processing time even to get a very small credit. The high-interest rate and service charge by MFIs is also another discouraging factor mentioned by a significant number of respondents. In addition, though lease financing was introduced almost 20 years ago. it is not widely known to almost all MSEs understudy at least at awareness level (Mersha and Ayenew, 2017).

The owners of Small Business enterprises that enter into the business through micro and small enterprise office have got better support in different aspects like training, working premises, access to credit, and market linkage than that of those owners enter into the business by themselves. Furthermore, the result revealed that, from those owners who enter into the business by themselves, those who are the member of the chamber of commerce have got support from the office which is market linkage. But, most of them are not the member of the chamber due to lack of awareness about the office, lack of knowledge about the importance of being the member of the chamber and also due to having a bad image for the office. Most of them understood that being the member of the chamber is to pay membership fee without having any importance so that, they don’t want to be a member of the chamber. Regarding alleviating the challenge, those owners who enter into the business through micro and small enterprise office are in a better position in alleviating the challenge due to the supports which are provided by the office(Dagne, 2017).

2.3. Research gaps

A research gap is defined as a topic or area for which missing or insufficient information limits the ability to conclude a question. The researcher found on studies conducted in Ethiopia uses different related factors as a measure. Collateral requirements and availability of finance are identified by other researchers as an effect on access to finance. But, none of these studies conducted in Ethiopia checked all this two-factor; customer satisfaction and way of managing their internal finance with access to finance; plus some of these empirical studies also recommended future studies to be made on this area of the study. The financing gap too small business enterprises in Ethiopia can be attributed to both the demand side and supply side. The demand side has to do more on the characteristics of enterprises that limit their ability to fulfill the criteria for bank loans leading to financial limitations. The supply side could be more related to the banking sector reform and the perceived risks by banks to finance SMEs. In Ethiopia, despite the introduction of banking sector reform in 1994 that led to the expansion of the banking industry, SMEs' problem of credit access has persisted implying that changes in the banking sector structure per se are not sufficient to introduce competition in the banking industry and an improvement in SME credit access (Ashenafi, 2012).

The main objective of this study was to examine the major challenges that influence women micro and small enterprise due to lack of awareness about the office, lack of knowledge about the importance of being a member of the chamber, and also due to having a bad image for the office. Most of them understood that being the member of the chamber is to pay membership fee without having any importance so that, they don't want to be a member of the chamber. Regarding alleviating the challenge, those owners who enter into the business through micro and small enterprise office are in a better position in alleviating the challenge due to the supports which are provided by the office. (Dagne, 2017) As can be understood from the review the Lending institutions or financial source providers do not pay attention to make financial sources available for the small business enterprise. Further, there is a lack of credit facilities agencies that are well suited for all crucial small business enterprise' sectors.

As can be understood from the literature there is still a problem that needed to be addressed in accessing finance for small business enterprises in Ethiopia and also not determine the dominant problem as it is internal or external finance. To provide information on the above, this study attempted to identify access to finance and its challenge for small business enterprises in Jimma

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

2.4. Conceptual framework of the study

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

Way of management internal finance

Financial management practice mainly the fixed assets management practice, accounting information systems, and practice, financial reporting analysis practice, and working capital management practice affect the profitability of small scale enterprises and hence, management of such enterprises is advised to take these factors in the account to assure the long-term survival of such enterprises (Yohanes *et al.*, 2020). Small businesses have no adequate financial management skills and further training, most small businesses do not engage in financial planning, analysis, and control; do not set short and long term financial objectives; do not analyze the trend in sales, cost, and profit. So, as far as small businesses have no plan most of them unable to compare their financial plan with their financial performances. Besides, the fact that small businesses don't engage in the analysis of their sales, costs, and profit small firms do not have an idea of how to increase sales, minimized costs, and maximizing profit. The result under accounting records and financial statement preparation indicated that a significant majority of owners of small businesses do not maintain book account and financial statements because of a lack of awareness and knowledge. Similarly, lack of follow up and inability to maintain qualified accountants also other factors. Given these, small businesses do not easily determine their financial successes and failures periodically. Further, users do not get access to timely and adequate financial information for decision makings (Dinka, 2017). As a result of this small scale, business is not profitable, hence their working capital may decrease which means an impact on internal finance and audited financial statements are very useful in accessing credit from financial institutions because they present a picture of the financial performance of a firm. Therefore, the following hypothesis tested.

- A good way of managing internal finance positively affect access to finance of small business enterprise in Jimma town

Customer satisfaction

Customer satisfaction is one of the keystone concepts in strategic marketing and it is also very important for a firm's development as a result of this businessmen pay great attention to its measurement and management (MoTI, no date). Marketing stress is a process that is concerned with improving business performance through the delivery of long-term customer satisfaction. Satisfied customers are more likely to be loyal and loyal customers are more profitable (Yeung and Ennew, 2001). Therefore if a firm is more profitable it better to expand its business by financing its internal finance. Therefore, the following hypothesis tested.

- Increasing customer satisfaction positively affects access to finance of small business enterprises in Jimma town.

Collateral Requirements (COLL)

Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003). The security assets should be used to recover the principal in case of default. Small business enterprises in particular provide security in form of properties (houses, the businesses, the car, and anything that could bring back the principal) in case of default on loans (Gurmessa *et al.*, 2017). Security for loans must be capable of being sold under the normal conditions of the market, at fair market value, and also with reasonable promptness. However, in most banks, to finance small business enterprises and to accept loan proposals, the collateral must be 100 % or more, equal to the amount of credit extension or finance product (Mullei and Bokea, 2000).

Moral hazard issues can be reduced by collateral requirements by increasing and adding a potential cost to borrowers when those are not making their best effort. Sometimes the borrowers extract the funds provided by the lenders for their own personal and private use. Therefore, the collateral requirements when in place can reduce negative consequences that can arise due to improper utilization of the funds by the small business enterprise. Most small business enterprises are denied and discriminated by lenders in providing financing. This is because of high risk and for not having adequate resources to provide as collateral (Scholar and Chowdhury, 2017).

According to Innovations for Poverty Action Banks traditionally require that clients provide collateral such as land or real estate to secure their loans. However, many creditworthy small business enterprises do not have the type of collateral required by commercial lenders and therefore have trouble accessing finance. This means collateral is needed more when small business enterprises want to process loans or finance. The reverse is true if the need for collateral by financial institutions is decreasing. Therefore, the following hypothesis tested.

- An increasing need for the collateral requirement by financial institutions negatively affects access to finance of small business enterprises in Jimma town.

Awareness of Funding Opportunities (AWRE)

The flow of information in the financial market is crucial for both small business enterprises and financial providers (Falkena *et al.*, 2001). For small business enterprises to identify a potential supplier of financial services, they require enough information.

The financial institutions require information to enable them to evaluate the potential risks associated with the small business enterprises that apply for bank financing and also to access the location where the same small business enterprises will be operating and its market segments (Ndungu, 2016). Information is concerned with awareness of funding opportunities by small business enterprises. Also, information asymmetry is that relevant information is not available and known to all players in the financial market (Menberu, 2018). Information asymmetries are concerned with the two players in the financial market. In this case, the borrowers know more about their business cases and the bankers may not know more about it on one hand. On the other hand, it entails the lack of timely, accurate, quality, quantity, and complete information regarding the ability of the applicants to repay the loan and to access financial products from the banking institutions (Manasseh, 2004).

A study by (Menberu, 2018), conducted in the agricultural sector, pointed out that the failure of the current African market is because of the number of current agricultural credit problems. These problems are associated with the imperfection of the information in the risk presences. The failures of the market mostly occur since it is costly to screen credit applicants. Therefore, availability of finance or having the awareness of the fund opportunities has a huge contribution in accesses to finance and the following hypothesis tested:

The independent variables of this study include the availability of information on finance, collateral requirement, and awareness of funding opportunity, customer satisfaction, and way of managing their internal finance and the dependent variable is the access to finance and its challenge by small business enterprises. The measures or indicators for access to finance include the amount of financing provided to SMEs as total funding, the availability of internal finance, and the number of SMEs accessing the finance (loans). Therefore, the following hypothesis tested.

- Awareness of Funding Opportunities (Availability of Finance) positively affects access to finance of small business enterprises in Jimma town.

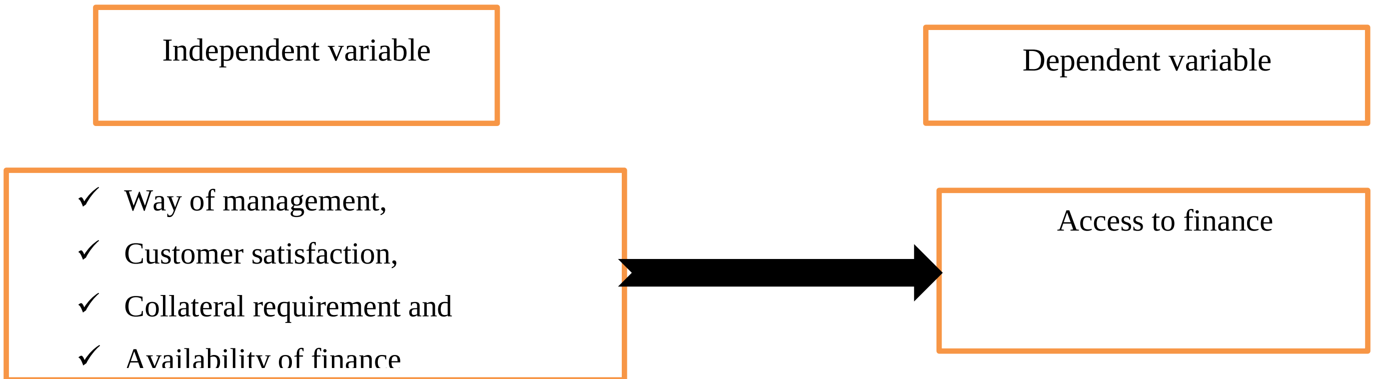

Figure 1 Conceptual framework showing the relationship among variables

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

This section aims to express the procedural structure used in attaining the declared purpose of the survey and also clarifies the study hypotheses assumed. The main points discussed in this section were study plan, type and basis of the information, population explanation, sample size, nature of sampling, sampling methods and explanation of the alternative information-gathering tools, and technique of facts evaluation.

3.1 Description of Study Area

The study area-Jimma is located in the Oromia National Regional State, Southwest Ethiopia. Jimma town is the capital and administrative center of the Zone and is located at a distance of 350 km away from the capital of Ethiopia- Addis Ababa. The study area is situated between 1689 and 3018 m.a.s.l (meter above sea level) and receives an average rainfall between 1200 and 2400mm per annum. The maximum and minimum annual temperature of the area is 28.8 and 11.8 OC, respectively (CSA, 2018).

3.2. Research Approach and Design

The aim of this study is access to finance and its challenge for small business enterprises in the case of Jimma town. To achieve this objective descriptive and explanatory type of research design with a mixed approach, more quantitative was employed. To obtain data at one point in time from a sample selected relevant for the investigation of factors affect access to finance of small business enterprise, used by descriptive analysis methods. Quantitative research is a method in which researcher investigated a sample from a larger study population which was used to produce information that can be completed to wider society and the information was offered in statistical numbers and tables. Also: this type of research method helps the researcher to receive first-hand data that claim for building knowledge.

3.3. Types and Sources of data

To achieve the objective of the study the researcher used primary data sources. Primary sources include the actual information received from individuals directly concerning the problem of the study. It also includes observed social phenomena and facts that may be discovered. Primary data has not been changed or altered by human beings; therefore its validity is greater than secondary data. The primary data was collected from the Jimma town of small business owners.

3.4. Target population

As per the information obtained from Jimma town trade and industry office, and small business enterprise agency (2020), the total number of small business enterprises registered with Jimma Town is 2393 with a member of 14653 people. The target population would have been drawn from all small business enterprises in Jimma town. The businesses in operation are mainly in manufacturing, construction, trade, service, urban agriculture, animal husbandry, and mining, and energy.

3.5. Method of sampling and determination of sample size

The three criteria to determine the appropriate sample size are the level of precision, the level of confidence or risk, and the degree of variability in the attributes being measured. A critical component of sample size formulas is the estimation of variance in the primary variables of interest in the study. When estimating the variance of categorical (proportional) variable) (Krejcie and Morgan, 1970) recommended that researchers should use 0.50 as an estimate of the population proportion. This proportion will result in the maximization of variance, which will also produce the maximum sample size. Therefore, the required sample size is given as:

$n_0 = \frac{t^2 \mathrm{pq}}{d^2}$……………………………………………………………….1

Where *t* is a value for the selected alpha level (The alpha level indicates the level of risk the researcher is willing to take that true Margin of error may exceed the acceptable margin of error) and (p) (*q*) is an estimate of variance = 0.25 to produce maximum possible sample size. Where *d* is an acceptable margin of error for proportion being estimated (error researcher is willing to take).

Therefore, for a population of size *N*, the required initial sample size is *no* However, since this sample size *now* exceeds 5% of the population (*N* * 0.05 =*a*), (Cochran, 1977) correction formula should be used to calculate the final sample size. These calculations are as follows:

$n = \frac{no}{1+ \mathrm{no/N}}$ ……………………………………………………………….2

Where: *N* is the population size, no is the required initial sample size according to Cochran's formula and n_1 is the required sample size if the initial sample is greater than 5% of the population. Therefore, the minimum sample size employed should be $n_{1.}$ For this study, the sample size $n_1$is was selected using Simple Random Sampling (SRS).The same as that of the seven stratum population proportion.

$n_1 = \frac{n(N1)}{N}$, $n_2 = \frac{n(N2)}{N}$, $n_3 = \frac{n(N3)}{N}$, $n_4 = \frac{n(N4)}{N}$, $n_5 = \frac{n(N5)}{N}$, $n_6 = \frac{n(N6)}{N}$,and $n_7 = \frac{n(N7)}{N}$, (Sample size determination of seven strata proportion

n_1= sample size from strata one (manufacturing), n_2-= sample size from strata two (Construction), n_3 = sample size from strata three (trade), n_4=sample size from strata four (service),n_5=sample size from strata five(urban agriculture) ,n_6=sample size from strata six (animal husbandry)and n_7=sample size from strata seven(mining and energy)

N_1= total Population size in strata one, N_2= total population size in strata two, N_3=total population size of strata three, N_4=total population size of strata four, N_5= total population size of strata five, N_6=total population of strata six and N_7=total population of seven strata

The researcher was used the most frequently chosen confidence value 95% (1.96) from the z distribution table). A larger value for the quantity p (1 - q) results in a larger sample size. Note that the largest value of p (1 - q) occurs when p =0.50, that the sample size is sufficient to obtain the desired margin of error. It is also recommended to use a panel data value of *p*= 0.5. The study would have used a stratified random sampling technique to select the sample.

$$n_0 = \frac{1.96^2(0.5)(0.5)}{0.05^2}=384$$

Since the population was heterogeneous, to address each respondent and to collect real information the researcher taken participants who have know-how on the area and this reduces time and cost. The researcher used the correction method as the best sample size determination. Considering the population correction factor, the sample size was as follows:

$$n= \frac{384}{1+(384)/2393}=330.901 \approx 331$$

Sample size determination was taken as for enterprises proportional allocation from seven of each stratum.

$n_1 = \frac{n(N1)}{N} = \frac{331(434)}{2393}$=60.031≈60, $n_2 = \frac{n(N2)}{N} = \frac{331(57)}{2393}$=7.884≈8, $n_3 = \frac{n(N3)}{N} = \frac{331(893)}{2393}$=123.52≈123, $n_4 = \frac{n(N4)}{N} = \frac{331(779)}{2393}$=107.751≈108, $n_5 = \frac{n(N5)}{N} = \frac{331(134)}{2393}$=18.535 ≈ 19,
$n_6 = \frac{n(N6)}{N} = \frac{331(79)}{2393}$=10.927≈11 and $n_7 = \frac{n(N7)}{N} = \frac{331(17)}{2393}$=2.351≈2

The study would group the population into strata. From each stratum, the study used simple random sampling to select 331 respondents. This sampling design would have been used because the population of study would have not homogenous and was to be sub-divided into sub-units namely manufacturing, construction, trade, service, urban agriculture, animal husbandry, and mining and energy.

Table 1 shows the population and sample size

Type of business	Total population	Sample size(n)
Manufacturing	434	60
Construction	57	9
Trade	893	123
Service	779	108
Urban Agriculture	134	19
Animal husbandry	79	11
Mining and energy	17	2
Total	2393	331

Source: Jimma town trade and industry office, small business enterprise agency (2020)

(C.R.kothari, 2004) recommends stratified random sampling because it is accurate, easily accessible, divisible into relevant strata and it enhances better comparison; hence representation across strata. Another advantage of stratified random sampling is its ability to ensure the inclusion of sub-groups, which would otherwise be omitted entirely by other sampling methods because of their small number in the population by using a random sampling technique the researcher reaches each of small business owners.

3.6. Method of data collection

The data were collected through structured questionnaires. The questionnaire is the most used and preserved survey instrument (Osuala, 2001). 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 responds to the questionnaires. The questionnaire was prepared and distributed to ensure fair and equitable distribution and response from the respondents which were expected to give a true or fair representation of the views of the respondents to allow for generalization in the final analysis.

3.7. Data Analysis techniques and presentation

The raw data collected through questionnaires (close-ended) were carefully cleaned, coded, and entered into a computer for processing by using the SPSS version 20.0. Quantitative data were analyzed through the use of descriptive statistical techniques such as percentages, arithmetic means, and standard deviations. Quantitative data were analyzed through the use of descriptive statistical techniques such as percentages and frequency.

3.8. Model specification and description of study variables

Since the data used for the study were categorical, the most appropriate statistical method was determined. It has been examined whether the obtained data meet the assumptions of the applied method. Ordinal logistic regression analysis was used in the study. The study has a model and the established model increases the originality and uniqueness of the study in terms of putting out and interpreting the results of the work. (Mc Cullagh, 1980), is a model in which the observable dependent variable Y has j = 0, 1, 2... K ordered scales. It is a method used to explain the relationship between variables when the dependent variable is categorical. This method is also categorized among consecutive categories, from low to high values. Ordinal Logistic Regression Method cannot be used when the ranking of categories is close (Menard, 2001). This method can be constructed as an ordinal category logistic regression model, a continuous rate model, and a proportional odds model (Hosmer and Lemeshow, 2000)). After modeling, the model needs to be statistically evaluated and tested (Cokluk, 2010). Statistics related to the test of the significance of the model, Chi-square statistic, −2LogL statistic, Hosmer, and Lemeshow. A Block Chi-square statistic is used. Logit, complementary LogLog, Negative LogLog, Probit, Cauchit functions are used to configure the Ordinal Logistic Regression model. It was determined that it is appropriate to use the Logistic Regression Method in the study because the application subject was determined as access to finance. This method can be examined in three different groups depending on the nature of the dependent variable: binary, ordinal, multinomial logistic regression. The reason for using the logistic regression is that the function is highly mathematically flexible, easy to use, and can be interpreted meaningfully in terms of the results (Alpar, 2011). Moreover, it is possible that the independent variables can be used without the need for important assumptions such as multivariate normal distribution and homogeneity of variance and covariance of known groups (Akın and Şenturk, 2012). The Ordinal Logistic

Regression Method was used because of the order of access to finance in the study and the dependency variable due to assumptions.

The characteristics of the ordinal logistic regression model are as follows (Chen and Hughes, 2004) Dependent variable Y is an unobserved, latent variable (reorder able) ordered and grouped categorical variant. However, it is not certain whether the categorical of the ordinal variable are separated by equal intervals. Ordinal logistic regression analysis uses the link function to explain the effects on the explanatory ordinal categorical variable, without the normality and homogeneity assumption of variances. The ordinal logistic regression model assumes that the relationship between the explanatory variable and the ordered categorical variable is categorically independent since the ordered categorical variable of the regression coefficient is not tied to the categorical. In the ordinal logistic regression model let π $(x) = E$ (y $x) = P\{y = 1\ x\}$ Where x; vector $\{X_1, X_2, .. X_k\}$ of independent variables is expressed as; (O'Connell, 2006: 105; Frank & Harrell, 2001: 568).

$$\pi\,(x) = \frac{exp\ (\beta 0+\beta 1x1+\ \beta 2x2+\cdots..+\ \beta kXk)}{1+exp\ (\beta 0+\beta 1x1+\ \beta 2x2+\cdots..+\ \beta kXk)} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

$$\pi\,(x)=\frac{1}{1+exp[-(\beta 0+\beta 1x1+\ \beta 2x2+\cdots..+\ \beta kXk)]}$$

π (x): The possibility of observing the phenomenon being examined,

β0= When the arguments take a value of zero, the value of the dependent variable is fixed with another expression,

β1 = the regression coefficients of the independent variables,

x = Dependent variables.

Assumptions of Logistic Regression

The validity of inferences drawn from modern statistical modeling techniques depends on the assumptions of the statistical model being satisfied. To valid the analysis, the model should satisfy the following assumptions.

i. It does not need a linear relationship between the dependent and independent variables.

ii. The error terms need to be independent. Logistic regression requires each observation to be independent. That is, the data-points should not be from any dependent samples design, e.g., before-after measurements, or matched pairings. Also, the model should have little or no multicollinearity. However, there is the option to include the interaction effects of categorical variables in the analysis and the model. If multicollinearity is present centering the variables might fix, i.e. deducting the mean of each variable. If this does not lower the multicollinearity a factor analysis with orthogonally rotated factors should be done before the logistic regression is estimated.

iii. Logistic regression assumes linearity of independent variables and log odds; it requires that the independent variables are linearly related to the log odds. Otherwise, the logistic regression underestimates the strength of the relationship and rejects the relationship easily, that is being not significant (not rejecting the null hypothesis) where it should be significant. A solution to this problem is the categorization of the independent variables. That is transforming metric variables to ordinal level and then including them in the logistic regression model. Another approach would be to use discriminant analysis, if the assumptions of homoscedasticity, multivariate normality, and no multicollinearity are met.

iv. Logistic regression requires quite large sample sizes. Because in the case of small sample size maximum likelihood estimates are less powerful than ordinary least squares (e.g., simple linear regression, multiple linear regression). The application of the ordinal logistic regression model depends on the provision of large dependent variables and model assumptions. In particular, the assumption of parallel curves, which is one of these hypotheses, must be achieved. This assumption implies that the categories belonging to the dependent variable are parallel to each other. Hence, it is known as the parallel truth hypothesis and this tests the suitability of all the categories with the same parameter. When this assumption is not fulfilled; for example, if there are categories with few subjects, then they can be combined and also when the assumption for Binary or Multinomial Logistic Regression Analysis is not met, then it can be used as an alternative (Sümbüloğlu and Akdağ, 2007). Tests such as Wald Ki-Square test, likelihood ratio test, Brant Wald test are used to check the validity of the assumption of parallel curves. If the hypothesis of the parallel curves is zero and the alternative hypothesis is formed as:-

H0: Relevant regression coefficients are the same in all categories of the dependent variable.

H1: Relevant regression coefficients are different in all categories of the dependent variable.

One of the statistical tests of the application of the model to be created is the statistic which shows whether the model represents the data well. The zero and alternative hypotheses testing the general validity of the model:

H0: Does not represent model data well.

H1: Model represents the data well.

For the model to be valid, the alternative hypothesis must be accepted (Kalaycı, 2010).

The dependent variable represents access to finance of small business enterprise that is measured in terms of change in access to finance. Taking the calculated access to finance for small business enterprise are classified into five categories i.e., access to finance:- poor, average, neutral, effective and very effective classification and represented in the model by 0 for poorly accessed,1 for averagely accessed, 2 for neutral, 3 for effectively accessed and 4 for very effectively accessed of small business enterprise.

The independent variables that are critically examined in this study were

1, way of management of internal finance that is measured through the ability to record their business separately from the owner, they are of business skills that influence business performance and the ability to compile financial records

2, customer satisfaction to increase internal finance measured through the level of demand their business, the level of satisfaction their customer on their product and service quality of the business and on the introducing new products

3, Collateral requirement by financial institutions measured through weather not needing collateral in receiving credit, on weather collateral is not mandatory and the level of small business enterprise owners not worried about the collateral requirement

4, Awareness of Funding Opportunities (Availability of Finance) measured by determining the availability of credit on who is offering, accessibility of finance for small business enterprise, and whether an experience is preferable or not.

In this ordinal logistic regression model choice model, each observation is treated as ordered or it can be (poor, average, neutral, effective, and very effective).

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1. Descriptive result

Appropriate frequency tables, charts, and graphs were inserted for a clear illustration. From the data collected, out of the 331 questionnaires administered to small business enterprises, 297 were filled and returned. This represented a response rate of 89.7%. This corroborates Bailey's (2000) assertion that a response rate greater than 50 % is adequate. The survey instrument was distributed to a total of 331 respondents, among which 297 questionnaires were collected. From these collected questionnaires 14 questionnaires were rejected as incomplete or were not suitable for use in this study. Only 283 were found to be using questionnaires that filled. Based on usable responses only, the response rate was 85.49%.

4.1.1. Respondents Business Activities

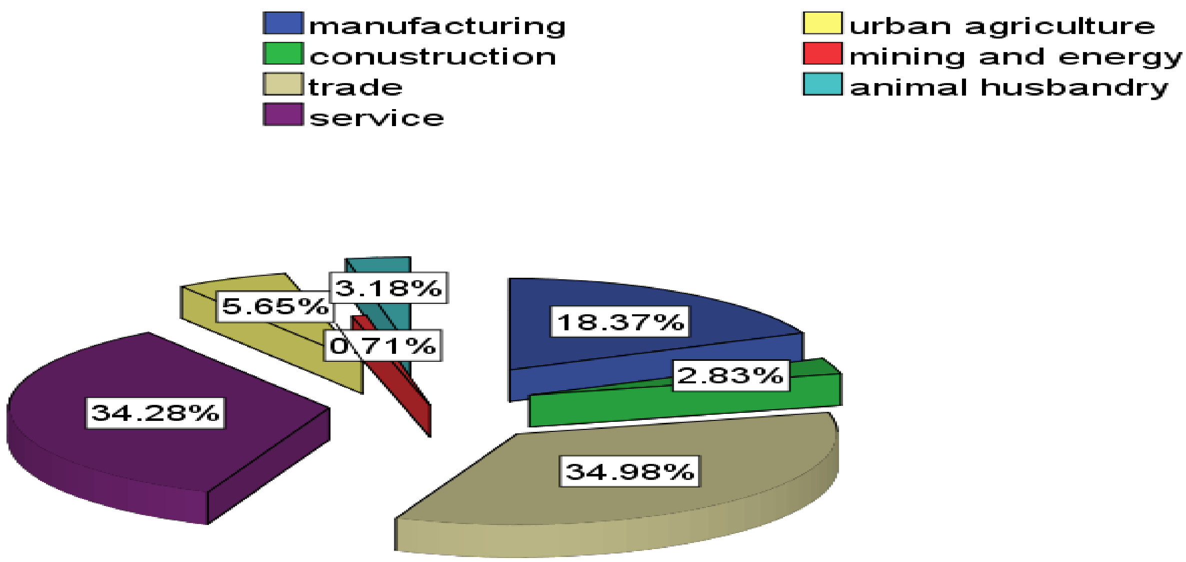

Figure 2 Business activity of the small business enterprise

Source: SPSS Output from Survey Data, 2020

The type of businesses on which the research was conducted were consisting of Mining and energy, construction, Manufacturing which composes of (Metalwork industry, woodwork industry, machinery, and others), retail (trade), urban agricultural, service business and animal husbandry. Among the activities, the line share of respondents goes to the trade sector and service sector which is 34.98% and 34.28 respectively and the least are Mining and energy which has 0.71%. This shows that most of the Small business enterprises in Jimma town engaged in service and trade activities.

Table 2 small business enterprise related to ATF

			access to finance					
			poor	average	nuetral	effective	very effective	total
	manufacturing	Count	14	17	2	17	2	52
		%	4.9%	6.0%	0.7%	6.0%	0.7%	18.4%
	conustruction	Count	2	3	0	3	0	8
		%	0.7%	1.1%	0.0%	1.1%	0.0%	2.8%
	trade	Count	32	29	11	24	3	99
		%	11.3%	10.2%	3.9%	8.5%	1.1%	35.0%
	service	Count	35	39	4	12	7	97
		%	12.4%	13.8%	1.4%	4.2%	2.5%	34.3%
	urban agriculture	Count	1	5	3	7	0	16
		%	0.4%	1.8%	1.1%	2.5%	0.0%	5.7%
	mining and energy	Count	0	1	0	1	0	2
		%	0.0%		0.0%	0.4%	0.0%	0.7%
	animal husbandry	Count	2	2	1	4	0	9
		%	0.7%	0.7%	0.4%	1.4%	0.0%	3.2%
Total		Count	86	96	21	68	12	283
		%	30.4%	33.9%	7.4%	24.0%	4.2%	100.0%

Source: SPSS Output from Survey Data, 2020

The other factor to see here is which activities have a line share in accessing finance, based on finding which presented in Table 2 from the total sector 30.4 % of the respondents need financial accesses but poor in accessing finance that means they have not accessed finance and 33.9% of the total respondent averagely accessed to say no they access to part of needed finance. In another side from the total respondent, 24% needs finance access and they have got most of the finance (effectively) accessed and 4.2% were accessing (very effectively) all in all from what they have a need and also the rest of 7.4% are neutral those who not give the response. This shows there is a hindrance to accessing finance that means above 50% need finance and have not accessed finance.

__4.1.3. Respondents of startup capital of the small business enterprise__

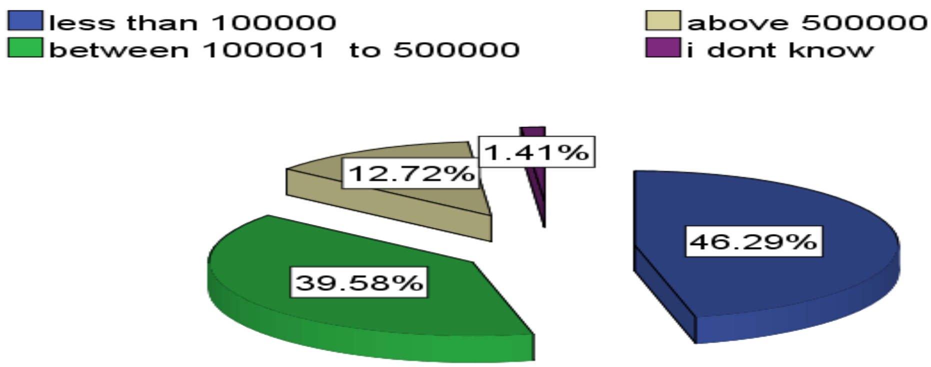

Figure 3 start-up capital of the business

Source: SPSS Output from Survey Data, 2020

As per figure 3, 46.29% of small business enterprises start their business with less than birr 100,000, 39.58% have started their business between the capital of birr 100,001 – 500,000, 12.72% falls there startup capital above 500,000 and the rest 1.41% have not responded about their startup capital. As per the finding, most of the small business enterprises start their business with a capital of less than birr 100,000. This implies that most of the small business enterprises were not access finance as they need hence most of them starting their business with low capital.

4.1.4. Respondents of Current capital of the small business enterprise

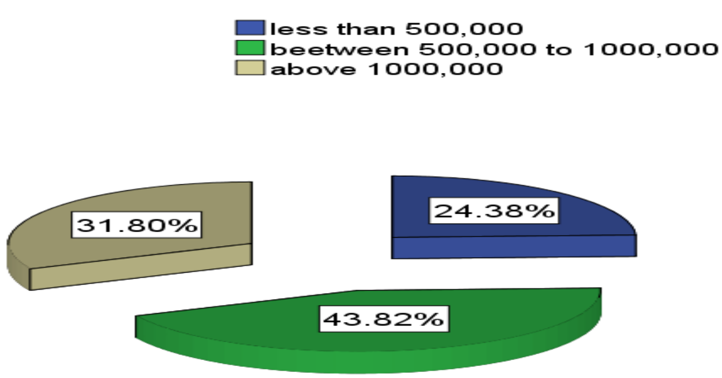

Figure 4 current capital of the small business enterprise

Source: SPSS Output from Survey Data, 2020

As per figure 4, 24.38% of small business enterprise current capital is up to birr 500,000, 43.82% have capital from 500,001 - 1millon birr, and the remaining 31.80% have current capital more than one million. When we consider their current capital size concerning accesses to finance how the start-up financing capital influences the growth of small business enterprises.

4.1.5 Companies' most pressing problem

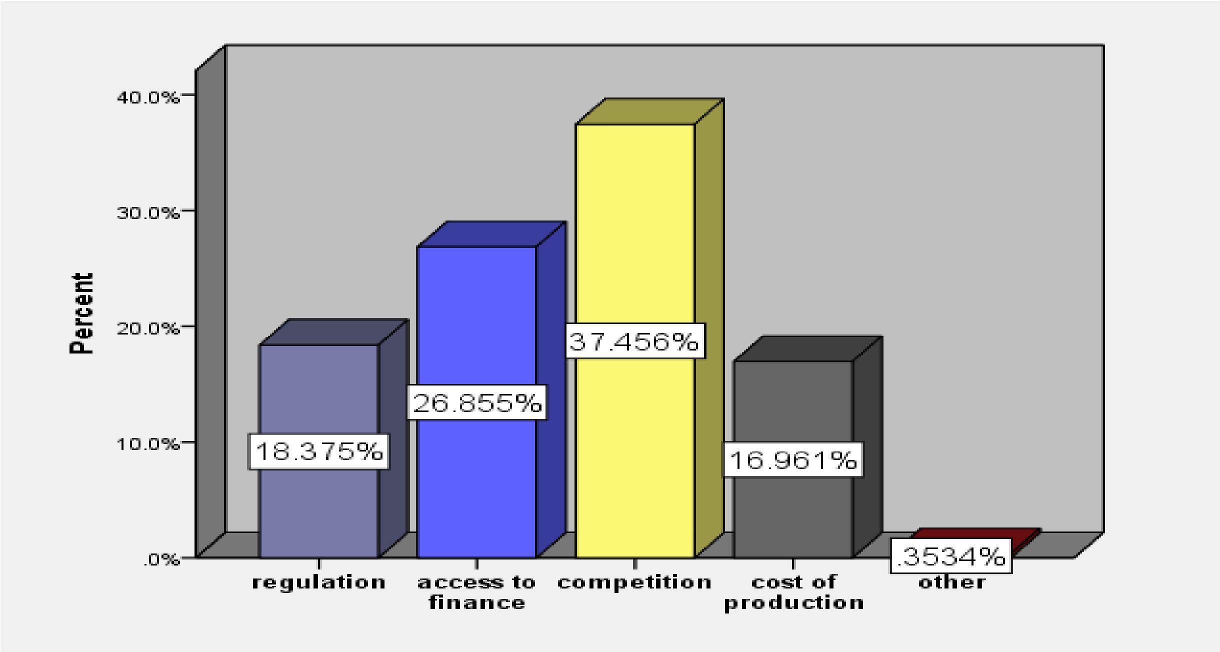

Figure 5 the current most pressing problem of the firm

Source: SPSS Output from Survey Data, 2020

The result of the study indicated that 37.456% of the small business operators replied as difficult to compete with their competitors. These, as replied by the small business owners, were because of a lack of demand for their product as a result of customers not satisfied by their product and place to market their product. The other basic reason was the similarity of products produced by small businesses. The luck of the market for products is higher in manufacturing enterprise. The second most pressing problem for managers of small businesses was access to finance (indicated by 26.855% of the total respondents). This problem was aggravated by the lack of the market for small businesses' output. Around 18.375% of respondents indicated that the regulation problem is the main problem they are facing. Also to the above-mentioned problem around 16.961% from the whole respondent mentioned the cost of production. Finally, 0.3534% of small business enterprises listed some other issues as the most pressing problem for their company; for example, issues such as luck of on-time delivery of raw material, non-payment, or late-paying customers and awareness of the customer.

4.1.6 Innovation and growth

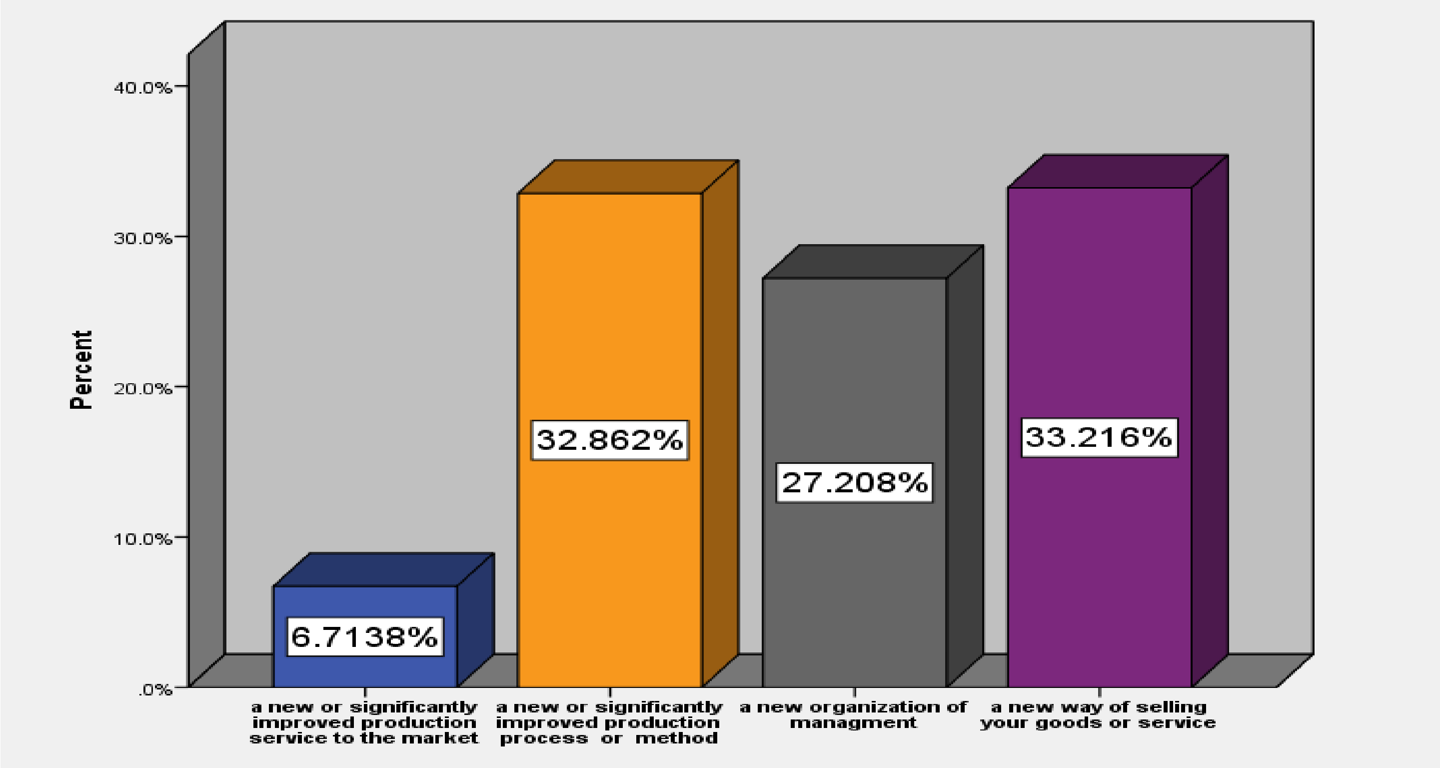

Figure 6 firm nature of innovation

Source: SPSS Output from Survey Data, 2020

As indicated in figure 6 the number of small business engaged in innovating new way of selling their product are more. Around 33.216% of the total respondents indicated that they have introduced a new way of selling their product to the market means for example through bazaars, around 32.862% of them replayed that they have introduced a new way of the significantly improved production process or method and the rest of 27.208 and 6.7138 indicate a new organization of management and a new or significantly improved production service to the market respectively. Involvement in innovation, as measured by these four acting categories, was high in these small business enterprises and enterprises need to have money in the process of improving itself and meeting the need of its customer. Focusing only on innovations in bringing new or significantly improved production processes or methods to the market has its impact on the need for finance since innovation needs money and resources. In most of the sectors in this study, the most popular type of innovative activity was linked to bringing new production processes or methods to market proceed by a new way of selling goods and services, while a new product service was the least popular.

4.1.7 Income generation indicators

To make use of internal financing instruments a business must be profitable and to be profitable the entity has to minimize its cost and increase its revenue as well. A significant part of the business organization's expenses are labor cost, material, and energy cost, and other expenses; and it was identified that the cost of production has increased in general without a proportionate increment in their revenue. By taking into consideration the past 12 month's operation small business managers and owners were requested to indicate whether the cost of material, interest, labor cost, and gross profits have increased or not.

Table 3 indicators of income-generating small business enterprise

	Labor cost		Material and energy cost		Interest expense		Gross profit	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Increase	162	57.2	210	74.2	154	54.4	18	6.4
Remain un changed	121	42.8	72	25.4	119	42	135	47.7
Decrease	-	-	1	0.4	10	3.5	130	45.9
Total	283	100	283	100	283	100	283	100

Source: SPSS Output from Survey Data, 2020

As shown in table 3 below 45.9% of the total enterprise indicated that their gross profit has decreased and 74.2% of the total respondents have indicated that material cost and energy cost of their business have increased. Also, 57.2% of the total respondents have responded that labor cost has increased. Disaggregating the data by sector, in all sectors under consideration the cost of input has increased. More than 50% of small business enterprises answered that input costs had increased in the past twelve months, and only 6.4% of the total respondents have responded that gross profit showed increment. Only a minority of respondents replied that costs had decreased: there is no decrease in labor costs and 0.4% replied decrease in material and energy costs. The reason for the decrease in gross profit is that the small businesses faced an increase in material and energy costs as well as an increase in labor cost without increasing the selling price in proportion to the increase in selling price. Therefore the increase in input price has seriously affected the profitability of these businesses. The increase in input price and decrease in profitability of the small businesses eroded the internal financing on which the small businesses are relying heavily.

Small business owners were also asked to evaluate their interest expenses; 42% of the total respondents could answer that their interest expenses had remained unchanged, 3.5 of the respondent were answered decrease and around 54.4% replied it has increased.

4.1.8. Respondents of Source of Finance used by the small business enterprise

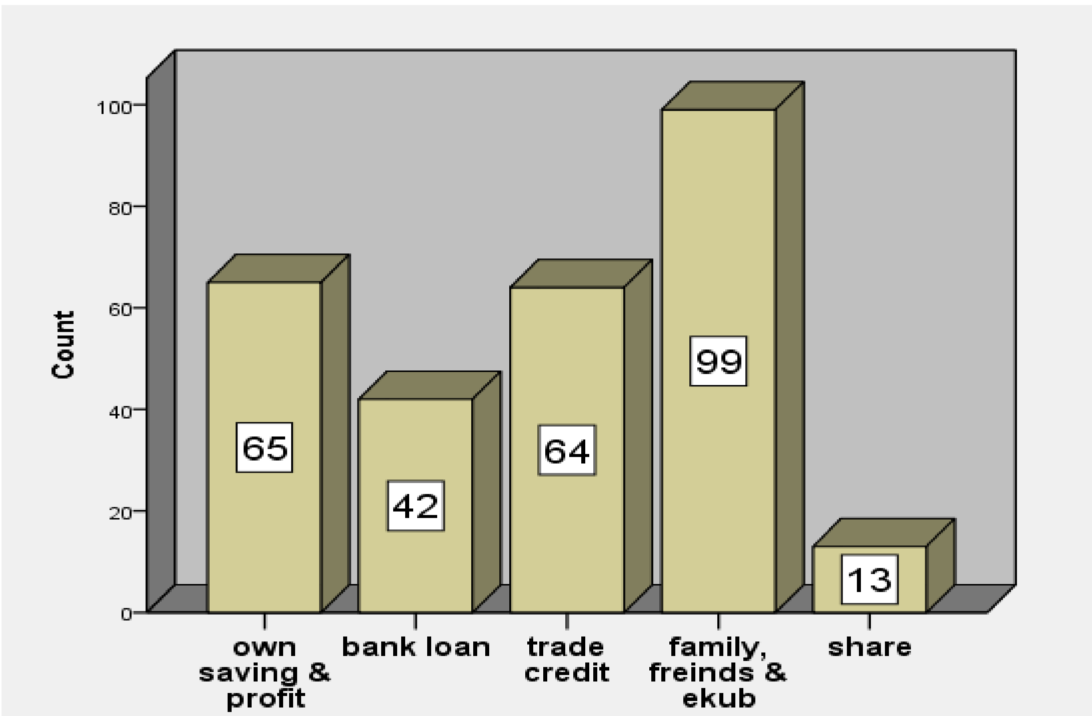

Figure 7 source of finance used by small business enterprise

Source: SPSS Output from Survey Data, 2020

This part discussed the source of finance used by small business enterprises that they know and used so far. Therefore every respondent has a chance of choosing all or one consequently; their result will be interpreted in the count of their choice which they use as a means of financial source. Have been saying this the line share of responses goes to the family, friend and "Ekub" as a source of finance which counts 99, in second place we found that own saving and business profit is counted as 65 response, the third is credit sales that they get from their suppliers counted as 64, in fourth place which has a count of 42 response were indicated to the bank loan and the rest of 13 were answered as they get from the selling of share. From the discussion above it is possible to comprehend that internal financing is the most popular means of financing small businesses ' operations which include retaining profit and money from family as well as the traditional way of source like “Ekub” (Figure 7).

4.1.9. Respondents of Loan Request by the small business enterprise

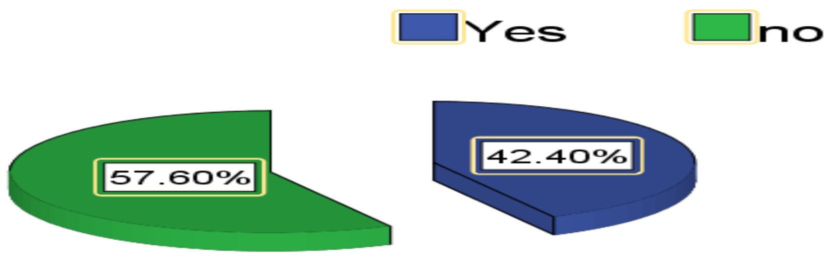

Figure 8 loan request by small business enterprise

Source: SPSS Output from Survey Data, 2020

Financing helps people start their own small business by providing loans which will be difficult to get from the main banking system. Our small business respondents also asked whether they applied their loan requests within the past six months. Based on the above figure 8 the loan request provided by small business enterprises to the financial source providers. Among all the respondent 57.60% applied for the loan request to them while 42.40% did not request a loan and the other did use loan at all some of the respondent replays that why they did not apply request for a loan, it is because of the type of activities they engaged did not have an option to have a loan. Despite their request, the other issue is that did the request have an answer on their proposed ways on needs.

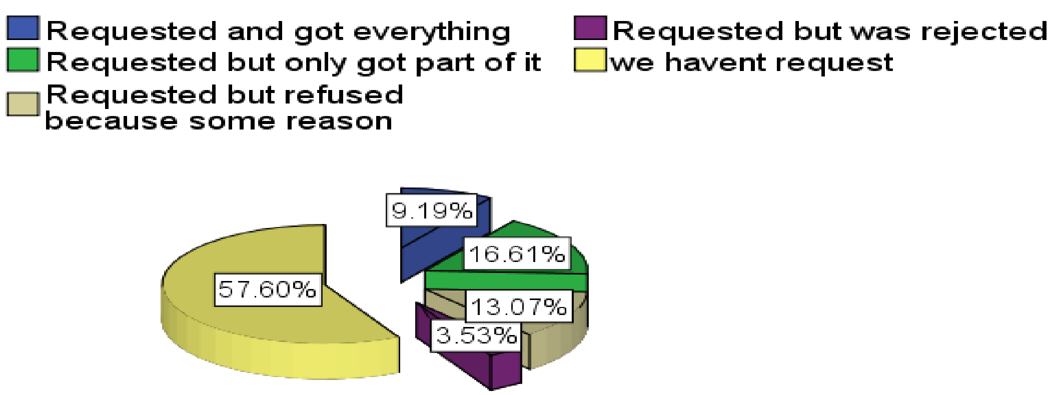

Figure 9 loan requests of small business enterprise

Source: SPSS Output from Survey Data, 2020

As shown in figure 9 below taking only those who applied handed the loan request to financial source providers as a base which is 42.4% in the above figure 4.11 and as you have seen figure below 57.6% were not request loans. The response shows that from 42.4% that of 9.19% given the loan as their request proposal while 16.61% given part of their request however, 13.07% responded that there request has declined with some reason the other 3.53% full decline there loan request by financial source providers.

4.1.10. Respondents of the financial source providers services availability

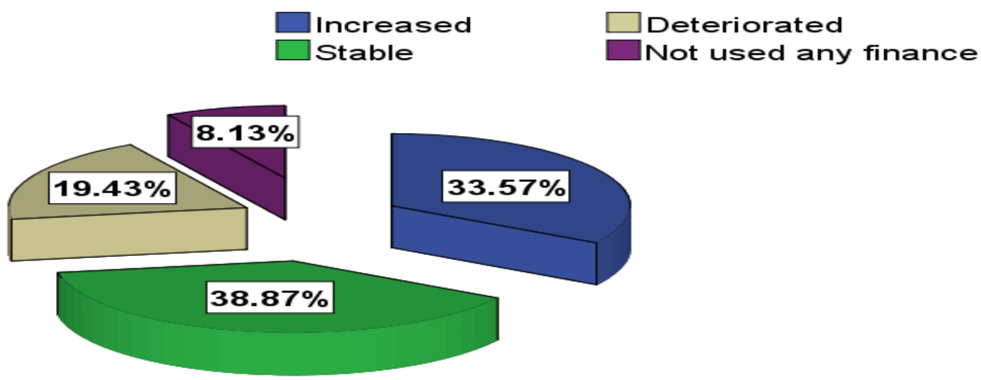

Figure 10 levels of loan or finance availability

Source: SPSS Output from Survey Data, 2020

Survey respondents were also asked whether financial source provider's services availability showed improvement or not. The response from the small business enterprises is presented in figure 10. In small business enterprise regard, 44% of the respondents indicated that their availability increased. 24% suggested that it was stable during the period while 23% indicates it was decreasing the rest 9% indicate that as they did not know their improvement in the service because of didn't use any loan or finance from them.

4.1.11. Applying for various types of external financing

In this section, the researcher has tried to identify whether loans from different external parties improved, deteriorated, or remained unchanged. According to the response collected from the small business enterprise owners, 53.4% indicated that access to loans from banks remained unchanged, 21.2% of the whole respondents indicated that access to loans from banks has shown an increase, and 25.4% of the respondent indicates a decrease. On the other hand access to Ekub has shown improvement as per the owners 54.8% of the respondent has indicated that the access they had to Ekub and other instrument has improved. Yet still, a significant number of respondents have approved that the access they had to loan from friends and family has shown improvement (43.8%)

Table 4 apply for various types of external financing

	Bank loan		Trade credit		Relatives family		Ekub and another financing instrument	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Increase	60	21.2	96	33.9	124	43.8	155	54.8
Remained un changed	151	53.4	152	53.7	125	44.2	113	39,9
Decrease	72	25.4	35	12.4	34	12	15	5.3
Total	283	100	283	100	283	100	283	100

Source: SPSS Output from Survey Data, 2020

4.1.12 External financing need

Need for external finance increase as the internal financing instruments diminish (where there is a need for finance). It was manifested that internal financing small businesses heavily rely on was washed out by the increase in input price. Therefore external finance is the alternative with which these small businesses are left with. Working capital and fixed investments were the significant forces that required small businesses need for external finance. 48.1% of the total respondents have indicated that the need for working capital has increased and 47.3% of the 283 small businesses have displayed that the fixed investment including the acquisition of plant assets and other fixed investment needs has increased. On the other hand, 26.1% of the small businesses responded as the need for inventory and working capital investment has remained unchanged, while 25.8 of them have replied as no impact on their need for external financing. External financing needs for inventories and working capital and fixed investment appear to have somewhat increased which is in line with the development of the small business as indicated in the above section by looking at the change in the capital of the small businesses. Insufficient availability of internal funds, which was probably related to the decline in profit, had also increased the small businesses' external financing needs over the preceding twelve months.

Table 5 external financing need of small business enterprise

	Fixed investment		Working capital		Interest expense	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
Increase	134	47.3	136	48.1	63	22.3
Remained un changed	67	23.7	74	26.1	97	34.3
No impact	82	29.0	73	25.8	123	43.5
Total	283	100	283	100	283	100

Source: SPSS Output from Survey Data, 2020

In general, as tried to display in table 5 fixed investment and working capital were regarded by small businesses in all branches of economic activity taken into account as the most relevant factors for their increased need for external financing during the previous twelve months.

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

Under this issue, the respondent asked whether they use any loan/finance during the past two years. As can be seen from figure 11, 42.76% of respondents indicate that they use loan/finance between up 500,000, 31.45% uses from 500,000 up to 1 Million loans or finance while 19 % use up to 500,000 birr and 12.1% have did not use loan/finance at all. Between 1 million to 5 million, above 10 million, between 5, million and 10 million take a loan as proportional 4.59% each.

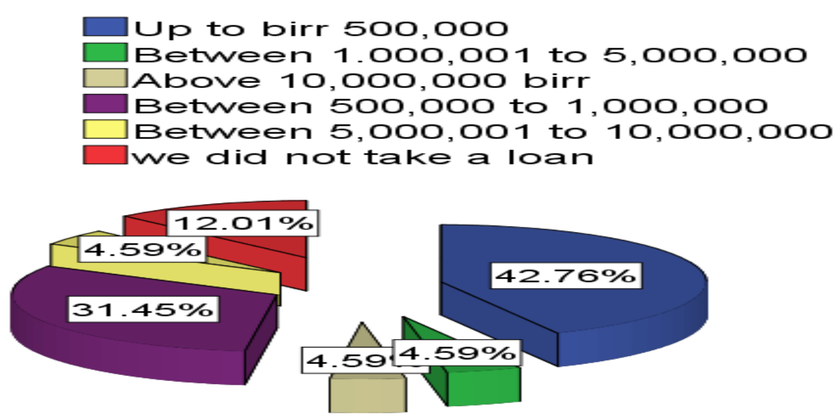

Figure 11 purpose of loan or finance with the amount

Source: SPSS Output from Survey Data, 2020

Concerning the above issue, the respondent asked who provide this loan/finance and have the freedom to choose if they get loans or finance from them and their responses depicted in figure 11. As can be seen from figure 12 below 37.81% of the respondents have indicated that loan/ finance is provided by family or relatives, friends, and "Ekub" during the past two years. The other portion has taken be MIF which constitutes 20.14%, from a bank and other sources of finance by having 16.61% and 15.55 respectively. The rest 9.89% have not used any finance from external during the past two years.

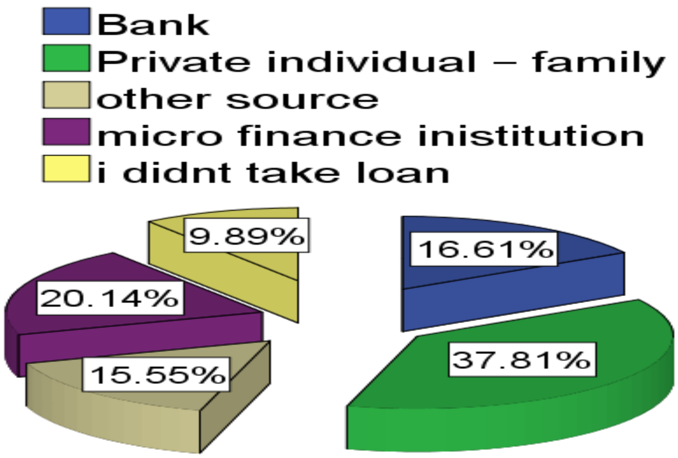

Figure 12 loan or finance providers with the past two years

Source: SPSS Output from Survey Data, 2020

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

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

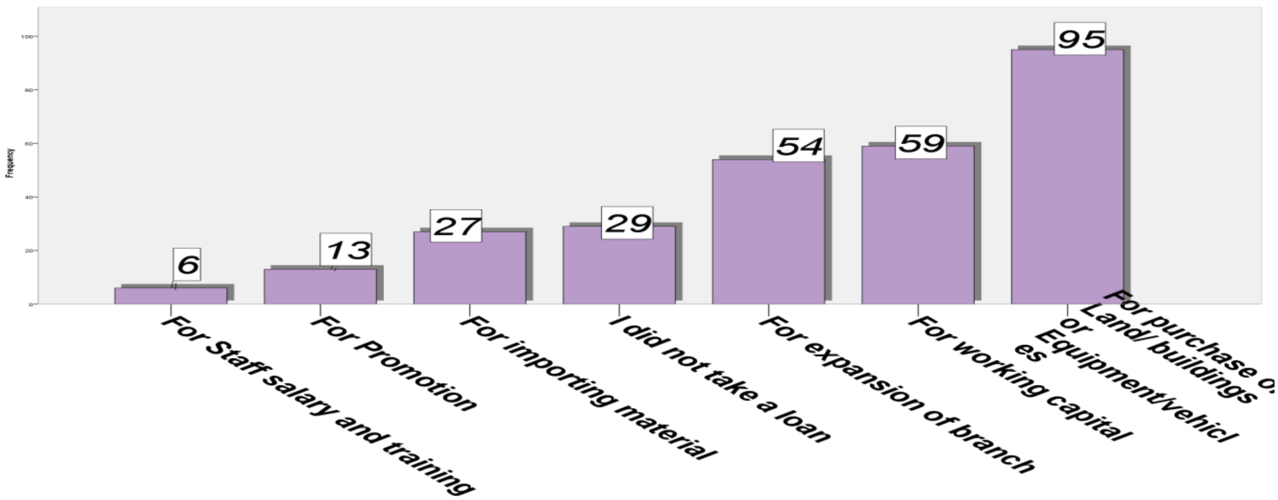

Figure 13 purpose of loan or finance taken

Source: SPSS Output from Survey Data, 2020

As can be seen from figure 13 significant part of the small business owners (95 counts) indicated that they used the money to the acquired fixed asset (plant asset) 59 of them uses it to finance working capital and 54 for expansion branch. Besides, there were small businesses used the loan for promotions salary payment, for importing material and for staff salary and training. These indicate that the significant part of the loan was used to finance the acquisition of plant assets and the working capital of the small businesses.

4.1.15. Respondents on obstacles to getting loan/finance.

Those who want to have loan/finance for their development incentive in the future were asked to identify the possible problem that constrains them not to access finance and have the autonomy to choose all if they face all stated constraints. Accordingly, the majority of the respondents indicated that insufficient collateral is the basic problem that they will face in accessing the finance which counted as 113. Others responded high-interest rate and the difficulty of the loan process as there hindrance which counted 75 and 28 respectively. Also the government rule and regulations, unavailability of loan type, and fear of repaying the loan are the hindrances indicated by the small business enterprise owners (figure 14).

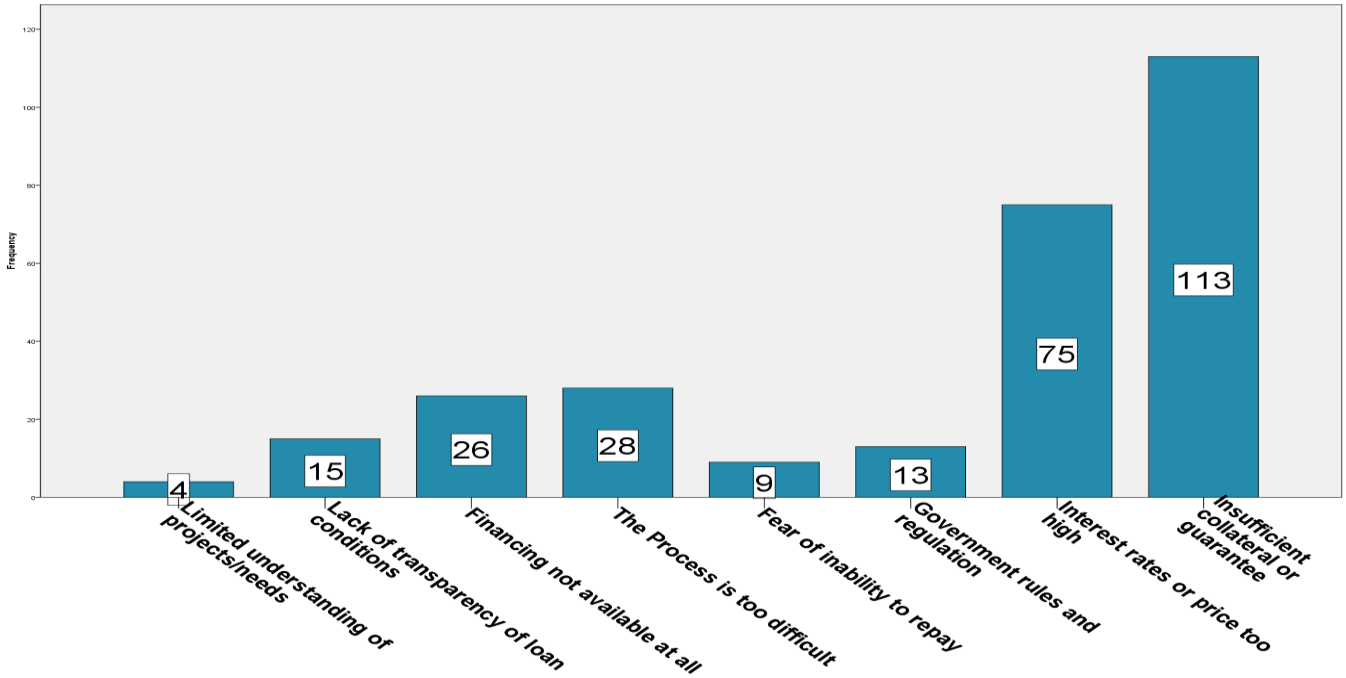

Figure 14 obstacles to getting finance

Source: SPSS Output from Survey Data, 2020

4.1.16 Respondents view on comparison external and internal of challenges

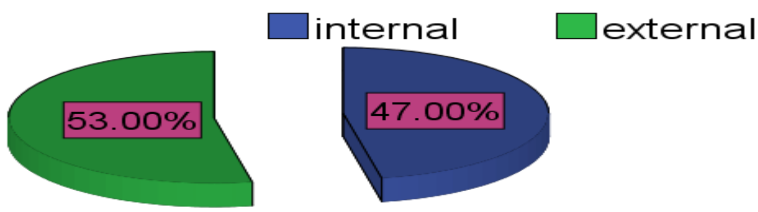

Figure 15 comparison of internal and external finance

Source: SPSS Output from Survey Data, 2020

Internal financing problem is more solved than external b/c of internal financing is get from customers that mean when the demand of our product increases it also increases but the is as the name implies external needs further requirement. Based on the above figure 15 both external and internal financing problems are almost equal. Among all the respondent 53% applied for external problem request to them while 47% internal problem. This implies that both internal and external problems were the challenge of small business enterprises in Jimma town. As the respondent explanation, the internal problem was lack of demand, from daily income expending for their personal use, lack of financial record, and also the external problem was the requirement of collateral, lack of availability of information and this type of problem is the problem of small business enterprise in Jimma town.

4.2. Pearson correlation analysis between access to finance and its challenge

Pearson correlation analysis was performed for this study to determine the linear relationship that exists between the independent variables and access to finance (dependent variables) and also to see the relationship that exists in the dependent variable themselves. The results are presented in Table 6 below

Table 6 Pearson correlation between access to finance and its challenge

Correlations

		access to finance	way of management	customer satisfaction	collateral requirement	avaliability of finance
access to finance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	283				
way of management	Pearson Correlation	.750**	1			
	Sig. (2-tailed)	.000				
	N	283	283			
customer satisfaction	Pearson Correlation	.752**	.730**	1		
	Sig. (2-tailed)	.000	.000			
	N	283	283	283		
collateral requirement	Pearson Correlation	.780**	.817**	.794**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	283	283	283	283	
avaliability of finance	Pearson Correlation	.701**	.660**	.658**	.747**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	283	283	283	283	283

Source: - SPSS Output from Survey Data, 2020

As can be seen from the table all the four challenges were significantly correlated with access to finance. The challenge that was highly correlated with access to finance was a collateral requirement (correlation coefficient = 0.780) followed by customer satisfaction (correlation coefficient = 0.752), way of management (correlation coefficient = 0.750), and finally, the availability of finance was found to be a challenge that was least correlated with access to finance (with correlation coefficient = 0.701). This result shows that collateral requirement is the dominant and most challenging as perceived by owners of small business enterprises in Jimma town followed by customer satisfaction, and way of management. On the other hand, the availability of finance is the least challenge as perceived by owners of small business enterprises in Jimma town but it is significant enough to correlate with access to finance and hence challenging to get finance. Generally as the level of reducing these challenges the more that have access to finance.

The correlation result presented in Table 6 also shows that there was a significant positive correlation between the four independent variables. The highest correlation was found between the way of management & collateral requirement (0.817) followed by customer satisfaction and collateral requirement (0.794), collateral requirement with the availability of finance (0.747), way of management with customer satisfaction (0.730), way of management with the availability of finance (0.660) and customer satisfaction with availability of finance (0.658) This result indicates in controlling this problem will bring a significant change in accessing finance. By using logistic regression analysis and the ordinal logit model, the determination of access to finance and its challenge for small business enterprises is examined. The modeling is conducted with the aid of the logit link function. Previously, it was stated that there are some assumptions for using an ordered logit model. Here, the assumption of parallelism must first be achieved. Therefore, the suitability of this assumption should be initially tested. The parameters for parallelism hypothesis were specified for the statistical values to pass over a line for all categories of the dependent variable. One of the most important assumptions in the ordinal logistic regression model is the assumption of parallel curves. According to this assumption, it can be defined as a method that tests the variables under the assumption that the determined regression coefficients are equal in all the categories of the ordered categorical variable. That is, the relationship between independent variables and dependent variables does not change according to the categories of the dependent variable. This hypothesis was tested by Chi-square test, the assumption of parallelism ($p > 0.05$) was provided as statistically significant and the null hypothesis was accepted. In other words, if the significance of this test is greater than 0.05, it means that the parameter estimation values, the dependent variable passes over all of the categories on the same line. This means that the H_0 hypothesis is accepted and the H_1 hypothesis is rejected.

4.3. Ordinal logistic regression analysis

The modeling is conducted with the aid of the logit link function. Previously, it was stated that there are some assumptions for using an ordered logit model. Here, the assumption of parallelism must first be achieved. Therefore, the suitability of this assumption should be initially tested. The parameters for parallelism hypothesis were specified for the statistical values to pass over a line for all categories of the dependent variable. One of the most important assumptions in the ordinal logistic regression model is the assumption of parallel curves. According to this assumption, it can be defined as a method that tests the variables under the assumption that the determined regression coefficients are different in all the categories of the ordered categorical variable. That is, the relationship between independent variables and dependent variables are change according to the categories of the dependent variable. This hypothesis was tested by the Chi-square test, the assumption of parallelism ($p < 0.05$) was provided as statistically significant and the alternative hypothesis was accepted. In other words, the significance of this test was less than 0.05; it means that for the parameter estimation values, the dependent variable passes over all the categories on the different lines. This means that the H_1 hypothesis is accepted and the H_0 hypothesis is rejected.

Table 7 taste of parallel lines

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Null Hypothesis	378.992			
General	.000	378.992	144	.000

Source: - SPSS Output from Survey Data, 2020

The fit-goodness test of the model is given in Table 3 using Pearson Chi-square and deviation statistics. As shown in Table 8, the model's suitability is determined using the difference between the observed and expected values of the model. Therefore, it was assumed that the model agreed with the assumption that $p < 0.05$ as statistically significant and that the alternative hypothesis was accepted.

Table 8 Goodness of feet

	Chi-Square	Df	Sig.
Pearson	5283.571	820	.000
Deviance	362.198	820	1.000
Link function: Logit.			

Source: - SPSS Output from Survey Data, 2020

In Table 9, the R2 values of the model are calculated; showing how many percent of the dependent variable is explained by the independent variables. As we have seen in this study dependent variable is explained by the independent variables79.7%. This means that the regression line gives a good fit to the observed data. In this model, there are 4 independent variables way of management, collateral requirement, customer satisfaction, availability of finance, are found and the probability of these variables are examined. These probability values are the values of the Wald test to determine whether the parameters are meaningful.

Table 9 pseudo R -square

Cox and Snell	.748
Nagelkerke	.797
McFadden	.493
Link function: Logit.	

Source:- SPSS Output from Survey Data, 2020

According to the ordinal logistic regression analysis in the table 10 below reference category was determined as the last category for each independent variable, and the interpretations were made accordingly. Two categories of the threshold values calculated in the model are significant. In addition, when the independent variables explaining the expressions of access to finance small business enterprises, was found that a meaningful relationship exists for all categories of way management internal finance and all categories of customer satisfaction. When the value of each of these significant variables increases by 1 unit, it is observed that the predicted rate of the dependent variable will also increase.

Way of management internal finance

Way of management internal finance of small business enterprise was measured through as the business recording separately the business from the owner, business skills that influence business performance and the ability to compile financial records were hypothesized to be a positive effect that as a way of managing internal finance increases accessing to finance of the firm also increase. From the model result, firms' way of management has a positive and significant effect on access to finance at 1 %(0.000). In other words, it can be said that those strongly disagree as their business enterprise have a good way of managing internal finance 0.000000000157 times less access finance than those disagree, neutral, agree and strongly agree.

Customer satisfaction

Customer satisfaction of small business enterprises was measured through the level of demand of their business, on the satisfaction of customers on the product and service quality of the business, and depending on the newly produced product. It was hypothesized to be a positive and significant effect that means as customer satisfaction increases small business enterprise internal finance also increases. The model also results from customer satisfaction has a positive significant effect on access to finance at 1 %(0.001). Other things kept constant as customer satisfaction of the small business enterprise decrease by 1 unit access to finance also decrease by 0.00466. In other words, it can be said that those strongly agree as their business enterprise has satisfied their customers one time more access finance than those agree, neutral, disagree, and strongly disagree. This implies that with those their customers well satisfied have more accessed than unsatisfied.

Collateral requirement

The collateral requirement of the business enterprise was measured through weather not needing collateral in receiving credit, by identity whether collateral is not mandatory and the level of small business enterprise owners not worried about the collateral requirement and hypothesized to be a positive effect that as no needing of collateral requirement increasing access to finance also increase. The model also results in no need for collateral by a financial institution are a positive effect on access to finance. Other things kept constant no needing of collateral by financial institution increases by one unit access to finance also increase by 0.575. In other words, those strongly agree on small business enterprises owner as decrease need for the collateral requirement by financial institutions more access 0.575 than those agree and others.

Availability of finance (awareness of funding opportunity)

Awareness of funding opportunity measured by determining the availability of credit on who is offering, accessibility of finance for small business enterprise, and weather past experience is preferable or not and availability of finance is hypothesized as a positive effect on access to finance. The result also implies positive effect and when the availability of finance increases by one unit with keeping of other things constant access to finance is increase by 0.7889.

Table 10 parameter estimate

		Estimate	Std. Error	Wald	D f	p	Exponential B Values	95% Confidence Interval	
								Lower Bound	Upper Bound
Threshold	[finance = 0]	-33.473	2.455	185.924	1	.000	0.0000000000000029	-38.284	-28.661
	[finance = 1]	-29.649	2.412	151.042	1	.000	0.0000000000001329	-34.377	-24.921
	[finance = 2]	-28.470	2.393	141.522	1	.000	0.000000000000432	-33.160	-23.779
	[finance = 3]	-23.320	2.267	105.802	1	.000	0.0000000000745	-27.763	-18.876
Location	[wayofmgt=.00]	-22.573	1.118	407.898	1	.000	0.000000000157	-24.764	-20.382
	[wayofmgt=.33]	-23.426	.948	610.970	1	.000	0.0000000000670	-25.283	-21.568
	[wayofmgt=.67]	-22.078	.844	683.893	1	.000	0.000000000258	-23.733	-20.423
	[wayofmgt=1.00]	-20.965	.896	547.803	1	.000	0.000000000785	-22.721	-19.209
	[wayofmgt=1.33]	-23.646	2.265	109.004	1	.000	0.00000000005378	-28.085	-19.207
	[wayofmgt=1.67]	-20.984	1.589	174.360	1	.000	0.00000000077	-24.098	-17.869
	[wayofmgt=2.00]	-20.405	1.064	368.135	1	.000	0.00000000137	-22.490	-18.321
	[wayofmgt=2.33]	-21.569	1.178	335.262	1	.000	0.000000000429	-23.878	-19.261
	[wayofmgt=2.67]	-18.598	1.322	197.919	1	.000	0.00000000837	-21.189	-16.007
	[wayofmgt=3.00]	-20.601	.829	617.316	1	.000	0.00000000113	-22.226	-18.976
	[wayofmgt=3.33]	-20.461	.771	703.906	1	.000	0.000000001299	-21.973	-18.950
	[wayofmgt=3.67]	-21.138	.000	.	1	.	0.00000000066	-21.138	-21.138
	[wayofmgt=4.00]	0	.	.	0	.	1	.	.
	[cussat=.00]	-7.968	1.680	22.492	1	.000	0.000346	-11.261	-4.675
	[cussat=.33]	-6.855	1.594	18.492	1	.000	0.001054	-9.979	-3.730
	[cussat=.67]	-5.181	1.514	11.715	1	.001	0.00562	-8.147	-2.214

	[cussat=1.00]	-5.310	1.516	12.270	1	.000	0.00494	-8.281	-2.339
	[cussat=1.33]	-6.172	1.585	15.169	1	.000	0.002087	-9.278	-3.066
	[cussat=1.67]	-6.686	1.862	12.892	1	.000	0.001248	-10.335	-3.036
	[cussat=2.00]	-5.368	1.609	11.127	1	.001	0.00466	-8.522	-2.214
	[cussat=2.33]	-5.788	1.637	12.510	1	.000	0.00306	-8.996	-2.581
	[cussat=2.67]	-5.134	1.844	7.756	1	.005	0.00589	-8.747	-1.521
	[cussat=3.00]	-5.231	1.557	11.286	1	.001	0.005348	-8.283	-2.179
	[cussat=3.33]	-4.704	1.492	9.936	1	.002	0.00905	-7.628	-1.779
	[cussat=3.67]	-4.025	1.548	6.761	1	.009	0.01786	-7.058	-.991
	[cussat=4.00]	0	.	.	0	.	1	.	.
	[collateral=.00]	-3.747	3.881	.932	1	.334	0.023588	-11.354	3.859
	[collateral=.33]	-4.274	3.774	1.283	1	.257	0.0139	-11.671	3.123
	[collateral=.67]	-3.836	3.770	1.035	1	.309	0.021579	-11.225	3.553
	[collateral=1.00]	-3.915	3.827	1.047	1	.306	0.01994	-11.415	3.585
	[collateral=1.33]	-4.467	3.949	1.280	1	.258	0.01148	-12.206	3.272
	[collateral=1.67]	-4.663	3.825	1.487	1	.223	0.00943	-12.159	2.833
	[collateral=2.00]	-2.791	3.797	.540	1	.462	0.06135	-10.232	4.650
	[collateral=2.33]	-1.876	3.741	.251	1	.616	0.1532	-9.209	5.457
	[collateral=2.67]	-2.425	3.888	.389	1	.533	0.088478	-10.046	5.197
	[collateral=3.00]	-.849	3.745	.051	1	.821	0.4278	-8.190	6.492
	[collateral=3.33]	-.730	3.688	.039	1	.843	0.4819	-7.957	6.498
	[collateral=3.67]	-.552	3.733	.022	1	.882	0.57579	-7.870	6.765
	[collateral=4.00]	0	.	.	0	.	1	.	.
	[avaliablity=.00]	-1.513	3.045	.247	1	.619	0.2202	-7.481	4.455
	[avaliablity=.33]	-1.727	3.004	.330	1	.565	0.1778	-7.615	4.161
	[avaliablity=.67]	-1.043	2.976	.123	1	.726	0.352	-6.875	4.789

	[avaliablity=1.00]	-1.929	2.978	.420	1	.517	0.145	-7.765	3.907
	[avaliablity=1.33]	-.231	3.018	.006	1	.939	0.7937	-6.146	5.685
	[avaliablity=1.67]	-.680	3.022	.051	1	.822	0.506	-6.604	5.243
	[avaliablity=2.00]	-.797	3.018	.070	1	.792	0.4506	-6.712	5.117
	[avaliablity=2.33]	-.912	3.023	.091	1	.763	0.4017	-6.838	5.013
	[avaliablity=2.67]	-.804	3.082	.068	1	.794	0.4475	-6.846	5.237
	[avaliablity=3.00]	-.669	2.945	.052	1	.820	0.5122	-6.441	5.103
	[avaliablity=3.33]	-.099	2.946	.001	1	.973	0.9057	-5.872	5.675
	[avaliablity=3.67]	-.237	2.949	.006	1	.936	0.78899	-6.017	5.543
	[avaliablity=4.00]	0	.	.	0	.	.1	.	.
Link function: Logit.									

4.4 Summary of findings

Access to finance is crucial for the growth of small businesses. It helps to foster entrepreneurship, competition, and innovation. Nevertheless, there was no study made whether these types of business sectors had sufficient access to finance specifically in regional towns.

This study was conducted to examine the effect of 331 survey questionnaires were distributed to respondents, out of which 297 were collected by the researcher and among 297 questionnaires collected 14 of them were not usable due to incomplete data, and hence 283 questionnaires with a complete data were used for analysis.

In detail, the study examined small businesses: past, current, and future states: their financial situation, growth, innovative activities and need for external financing, use of financial instruments, distinguishing between the use of internal funds and external sources of finance, experiences of applying for various types of external financing and reasons why they have not applied for such types of financing use of loans as a source of financing: the popularity of loans and the most popular providers, size and purpose of taking out recent loans perceptions about the availability of various types of external financing, and their views about changes in terms and their preferences and expectations for future financing. In addition to this, that of ways of management, customer satisfaction, collateral requirement, and availability of finance was what impact access to finance.

The main findings of the research are:

Being one of the basic sectors that would have been contributed a lot to the GDP of the country not counting the employment opportunity that they create for the citizens, Ethiopian small businesses are cover behind every other sector. Their growth is slow, marketability of their product is limited because of quality, competition, lack of market (deficient in place to market their product), finance access that they have for input was limited and expensive input price, as well as the use of finance is extremely limited.

By comparing the initial capital of the small businesses taken into account with the current capital of these businesses it is possible to conclude the businesses have changed. The number of small businesses that had an initial capital of birr less than 100,000 was 46.29% and those who had 100,000 to 500,000 were 39.58%. On the other hand, when looking at the current capital, the number of small businesses having the capital of birr less than 500,000 are only 24.38% and those who reported as their current capital was between 500,000 to 1000,000 are 43.82 which were greater those who have reported this range as initial capital. At least two out of three small businesses have innovated in the previous twelve months which consist of introducing new product or service to the market, using a new way of selling their product and new production process.

Material and energy cost, labor cost had increased as indicated by most of the small businesses asked as income-generating indicators. most of the owner of small business enterprises come back with an increase in the cost of input 62.% averagely and around 45.9% implied that the gross margin of their operation is decreased which was mainly because of an increase in the input price. The second most pressing problem, next to the market that this small business facing was access to finance. The increase in the cost of raw material, labor, and energy cost forced them to increase their need for external financing. Also, the basic and first-rated problem these firms faced is that they cannot find customers easily therefore the product or their output cannot be sold and it was not being converted to cash to make use of it. This result in a slowdown in inventory turnover and fund to be tied up which in turn increase the need small businesses have for external finance. Similar to this result, the survey by (Mohammed *et al.*, 2015) and(Mersha and Ayenew, 2017) also put lack of adequate finance as the first critical problem of small business enterprises. Further, about 41 percent of the cottage/handicraft manufacturing establishment in the 2002 CSA survey in Ethiopia indicated lack of capital as the major problem. This implies in spite of the wide expansion of financial institutions and the increase in number of colleges and universities that teach how to use limited financial resources more efficiently, lack of finance is still a serious problem.

As indicated by the owners of small businesses, the most popular form of financing that small business using were internal financing, which as indicated above was eroded by the increase in input price and as a result reduced profitability. The other popular financing instrument that small businesses practiced were spontaneous financing instruments, which is for a very short period and relatively smaller in amount. Most small businesses are not applying for bank financing because of the possible rejection of the results and requirements of banks. The other main financing source for small businesses is microfinance which was reported as improved in the last twelve month. In addition to the above-mentioned problems, because of expansion resulting, even though sluggish, the need for restructuring their business, acquisition of the fixed asset and working capital financing small business were forced these businesses seek for external financing.

Factors that hinder accessing finance from the existing formal financial institution as listed by the owners of the small business enterprise were loan covenants and information requirement of the financial institutions, availability of loan size, their firm's sales and profitability, level of cost of financing, the willingness of businesses to provide sales on account, financial institutions willingness to provide a loan, the firm's capital, the economy of the country and availability of costless financing instrument that can easily be accessed. Accordingly, the majority of the respondents indicated that insufficient collateral is the basic problem that they will face in accessing the finance which counted as 113. Others responded high-interest rate and the difficulty of the loan process as there hindrance which counted 75 and 28 respectively. Also the government rule and regulations, unavailability of loan type, and fear of repaying the loan are the hindrances indicated by the small business enterprise owners.

Less than 500,000 birr was a recent loan amount that most small businesses have borrowed mainly from family or friends and microfinance institutions. The other most popular loan providers were trade creditors. This most recent loan was used to purchase the fixed assets and to finance the working capital of the businesses. It was also for promotion and staff training. But when the small businesses grow the need for finance will become larger and complicated for micro finances to handle.

The preference of small businesses indicates more in microfinance than banks and the reason was indicated as loan size, interest rate, and period. Around 58% of the total small businesses replied that their preference was microfinance and private individuals since these institutions did not require collateral for loan provision, simple procedures, and easy to fulfill and one can find them in Kebeles. Because of cost of financing (interest and other transaction costs), around 25% of the small businesses have to borrow from banks. The other finding of this research is both internal and external finance is averagely equal challenged. Internal problem is challenged as a result of decreasing demand of their product poor way of managing their internal finance and external finance is as a result of lack availability of information and increasing the need of collateral by the financial institution. By using the ordinal logistic regression analysis was revealed as a positive and significant relationship between way of management, customer satisfaction, and availability of information and not need of collateral requirement with access to finance.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATION

5.1 Conclusions

Small businesses are considered to have a crucial role in an economy and are a key source of economic growth, dynamism, and flexibility and can adapt quickly to changing market demand and supply situations. They are also deemed to generate employment, help to diversify economic activities, and make a significant contribution to export and trade. It is not questionable that small business sectors do have high relevance to developing countries like Ethiopia considering the small domestic market, weak and narrow-based economy against the volatile global environment.

However, an inadequacy in accessing finance is one of the key obstacles of small business growth not only when starting the business project but also when operating. Access to finance provides a range of instruments and information to help improve the survival rates, productivity, and competitiveness of small businesses and to address market failures and gaps in the supply of finance through public and public-private initiatives.

In addition to the above-mentioned constraints of lack of access to finance for small business, the other basic findings of this research are the small businesses were extremely challenged by access to market, which in turn hinder this business, not sale their output and generate revenue which was considered as the main source internal financing instrument. After manufacturing products and their product has to be sold to untie the fund to make use of the fund for further operation. But because of the lack of a market place to sale the product the business were unable to market their product and generate revenue. Most of the small businesses use internal financing as a basic funding instrument; if these businesses can not convert their products to revenue from anywhere is the internal financing instrument and as a result, the mortality rate of this business will become high.

The past and present trends of the small business indicate that the small business enterprise is challenged to access finance when needed and the amount needed because of the long and tight procedure of financing institutions.

The growth even though sluggish, innovative nature of small business (to meet the unique need of customers and in search for market), forced the small business owner-operators to have a higher need for finance that could not be handled by internal (Because of low sales volume and lower gross margin as a result of high input price) and external financing instruments (luck of willingness and tight procedure). The price of raw material including energy and labor cost has increased, which in turn aggravated the need for the working capital financing and under some circumstances force them not to produce as much demanded output as possible for the market. The assessment has shown that there exists a massive demand for financing of working capital and fixed investment and also restructuring the business. For the ambition of expansion, the need for finance had shown tremendous increment. In general, the insufficient availability of the internal funds (the popular financing instrument) and the need for expansion as planned by small businesses increased the need for external finance.

The main internal financing instrument includes retained profit was highly affected by the change in input price and low price at which the products were sold. The dominant external financing were loan form microfinance, trade credit, and other spontaneous financing instruments. The study indicated that most of the small businesses were not willing to apply to formal financial institutions specifically banks because of the possible rejection and lack of appropriate collateral that banks require them to pledge. As to the availability of external finance small businesses have displayed that trade credit availability has increased during the past twelve months which cannot be used to finance fixed investment. The mechanism taken by small business enterprise in order to minimize internal financing challenges promoting their products and producing new product with innovative way to attract customer in addition to these as they have used new market area to sold their product as a result of most small business enterprises internal finance is revenue.

As per the funding of the study, the following were the basic aspects that hinder the small businesses not to access finance

1. No recording separately the business from the owner
2. Lack of business skill
3. Lack of ability to compile financial records
4. Lack of demand
5. The increasing need for collateral by the financial institution
6. Lack of available information on who is offering credit
7. lack of credit history with the financial institution

5.2 Recommendations

Fundamentally, there is insufficient access to finance for small businesses. Affordable and appropriate finance enables the business to operate efficiently and grow. It facilitates business start-ups, ensures that business can finance potentially viable investments, enabling them to expand operations to meet demand, provides funds for business to innovate, generating new technologies and new, more productive ways of operating, allocates resources in the economy to their most productive use, funds business growth, creating employment and wealth. To resolve this basic problem that contributed a significant role in the sluggish growth of small businesses, access to finance, the following possible actions are recommended to be taken by the government bodies as well as the small business owners operators.

I. In the Short term

Small-business owners are recommended to take action on the following basic issues

- ➢ To control investment in fixed capital a small business owner advised considering whether:

• All equipment held is needed

• Plant or vehicles could be leased instead of bought

- ➢ To control internal finance of the business raw material price control and recording data
- separately recording from the owner
- use modernizing way of compile financial records and accounts
- buying at best prices
- ➢ Concerning the work in progress, to prevent additional finance required in the process of rework and rejection from customers
- improving productivity
- Better quality control at an early stage to prevent further investment in rejects and waste.

To strengthen the capacity of microfinance institutions to let them handle not only micro businesses but also small and medium-sized business too since the small business will not remain small they grow and micro-business does become a small business and the need for such finance will grow as it was also tried to be assessed in the analysis. The city administration has a database indicating the name, address, and type of business they are engaged in. Including relevant data about the financial position, achievements of small businesses, and the credit history with the microfinance or other institutions in the database may assist the city administration. This database can be helpful as a credit registry or can be used to construct a credit registry to let banks and other financial institutions provide funds for such businesses. Taking immediate action against the market place for small business that assists them to sale their product to speed up inventory turnover.

II. In the long term

In the long term, the government is recommended to take action against the financial system of the country. Fostering conducive environment for the development of a well-regulated financial market and creating a competitive financial environment. The development of the stock market and bond market in the country of the medium and large scale businesses is shifting the financing instruments to raise funds. On the other hand, the markets for banks fall and this fall in the market will most probable force banks to innovate and search for other markets. To compensate for the fall in market commercial banks will come down to small businesses. Therefore, action needs to be taken in creating conducive environment for financial market development.

Generally to minimize this problem advertise to increase demand, identifying accessible ways of financing, borrow from micro-industry office, etc.

BIBLIOGRAPHY

(NCR), N. C. R. (2011) *LITERATURE REVIEW ON SMALL AND MEDIUM ENTERPRISES ' ACCESS TO CREDIT AND SUPPORT IN SOUTH AFRICA*.

AEMFI (2009) *Ethiopia : Macroeconomic and Social Indicators Continued ...*.

Akın, B. H. and Şenturk, E. (2012) 'Determination of the Happiness Levels of Individuals by Ordinal Logistic Regression Analysis. Oneri Journal, 10', pp. 183-193.

Alpar, R. (2011) 'Applied Multivariate Statistical Methods (3rd ed.). Ankara: Detay Press.'

Assefa, B. *et al.* (2014) *IDENTIFYING KEY SUCCESS FACTORS AND CONSTRAINTS IN ETHIOPIA ' S MSE DEVELOPMENT : AN EXPLORATORY RESEARCH By Berihu Assefa , Abebaw Zerfu , and Addis Ababa , Ethiopia October 2014*.

Avevor, E. E. (2016) 'CHALLENGES FACED BY SMEs WHEN ACCESSING FUND FROM FINANCIAL'.

Ayyagari, M. *et al.* (2006) 'How Important Are Financing Constraints? The Role ofFinance in the Business Environment.', Working Pa.

Ayyagari, M. *et al.* (2007) 'Small and Medium Enterprises Across Small Business Economics', 29, pp. 415–434.

Beck, T. *et al.* (2013) 'Beck, Thorsten, Aslı Demirgüç-Kunt, and Maria Soledad Martinez Peria. 2007. "Banking Services for Everyone? Barriers to Bank Access and Use around the World." Policy Research Working Paper 4079, World Bank, Washington, DC.', 4079.

Bekele, E. and Muchie, M. (2009) '"Promoting micro, small and medium Enterprises (MSMEs) for sustainable rural Livelihood" Development, Innovation and International Political Economy Research, Working Paper No. 11, Aalborg University, Denmark', (11).

Borji(Dr.), B. and Gashu, M. (2015) 'Factors Affecting Access to Finance With Reference To Micro and Small Enterprise InDilla Town, Ethiopia'.

Burgess, R. and Rohinde, P. (2005) '"Can Rural Banks Reduce Poverty? Evidence from the Indian Social Banking Experiment."', *American Economic Review*, 95(3), pp. 780–95.

C.R.kothari (2004) *research Methodology*.

Chen, C. K. and Hughes, J. (2004) 'Using Ordinal Regression Model to Analyze Student Satisfaction Questionnaires. Association for Institutional Research, 1', pp. 1–13.

Cochran, W. G. (1977) 'Sampling Techniques , 3rd Edition'.

Cokluk, O. (2010) 'Logistic Regression: Concept and Application.

http://files.eric.ed.gov/fulltext/EJ919857.pdf', p. 919857.
CSA (2018) 'Ethiopian Statistical Abstract. Federal Democratic Republic of Ethiopia. Central Statistical Agency (CSA), Addis Ababa, Ethiopia.'
Dagne, Z. L. (2017) 'Challenges Facing Women Micro and Small scale Business Enterprise Owners in Jimma Town (Comparative study , Women enter in to the business by themselves and through Micro and small business enterprise office)', 7(6), pp. 647–653.
Dinka, S. T. (2017) 'Assessment of Financial Management Practices : A Case Study on Small Businesses in Sokoru District , Ethiopia', 8(19), pp. 18–29.
Egziabher, T. G. and Demeke, M. (2007) 'Micro Enterprises in Smalltowns , Amhara Region , Ethiopia ':, (January 2007), pp. 79–111.
Falkena, H. *et al.* (2001) 'SMEs access to finance in South Africa - a supply side regulatory review . Pretoria, South Africa: Policy Board for Financial Services and Regulation.'
Fanta, A. B. *et al.* (2017) 'Small business performance : Does access to', (05).
FeMSEDA (2014) *FACTORS AFFECTING CUSTOMER SATISFACTION : IN CASE OF DEBRE BERHAN HOTELS , ETHIOPIA BY DEPARTMENT OF MANAGEMENT MBA PROGRAM COLLAGE OF BUSINESS AND ECONOMICES*.
Gabriel, K. K. (2011) 'Factors influencing SMEs access to finance: A case study of Westland Division, Kenya'.
Gan, C. and Hu, B. (2015) '" An empirical analysis of credit accessibilty of small and medium sized enterprises in Vietnam " An empirical analysis of credit accessibilty of small and medium sized enterprises in Vietnam'.
Gebrehiwot, A. and Wolday, A. (2006) *Eastern Africa Social Science Research Review*.
Gitman, L. J. (2003) 'The principles of managerial finance (7th ed.). New York: Pearson Education Inc.'
Gurmessa, N. E. *et al.* (2017) 'Smallholder s ' Access to a nd Demand for Credit and Influencing Factors : Policy and Research Implications for Ethiopia', 4(3), pp. 48–60.
Haftu, B. *et al.* (2009) 'Financial needs of micro and small enterprise (MSE) Operators in Ethiopia; Occasional Paper No. 24, Addis Ababa, Ethiopia', (24).
Hagos and Haftay, Y. (2012) 'Small and Meduim Enterprise in Ethiopia: The Challenges and Prospects', p. 2012.
Hosmer, D. W. and Lemeshow, S. (2000) 'Applied Logistic Regression (2nd ed.). New York,

NY: A Wiley-Interscience Publication. https://doi.org/10.1002/0471722146'.
Jane Anne Wangui, G. *et al.* (2014) 'Challenges Facing Micro and Small Enterprises in Accessing Credit Facilities in KangemiHarambee Market in Nairobi City County, Kenya'.
Jesmin and Rubayat (2009) 'FINANCING THE SMALL SCALE INDUSTRIES IN BANGLADESH : THE MUCH-TALKED ABOUT , BUT LESS IMPLEMENTED ISSUE', 16(1).
Kalaycı, Ş. (2010) 'SPSS Applied Multivariate Statistical Techniques (5th ed.). Ankara: Asil Publication.'
Kebede, S. N. (2014) 'Determinants of Micro and Small Enterprises ' Access to Finance', 4(21), pp. 90–104.
Krejcie, R. V and Morgan, D. W. (1970) 'ACTIVITIES', 38, pp. 607–610.
Manasseh, P. N. (2004) *A text book of business finance (3rd ed.). Nairobi: McMore Accounting Books.*
Mc Cullagh, P. (1980) 'Regression Models for Ordinal Data. Journal of the Royal Statistical Society, 42', pp. 109–142.
Menard, S. (2001) 'Applied Logistic Regression Analysis (2nd ed.). London: Sage Publications.'
Menberu, A. (2018) 'Journal of Banking and Finance, the Happy Story of Small Business Financing, Finance'.
Mersha, D. and Ayenew, Z. (2017) 'Determinants of Access to Formal Financial Sources of Micro and Small Enterprises (MSEs) in West Oromia', 6(5), pp. 100–110. doi: 10.11648/j.ijber.20170605.13.
Mohammed, O. B. *et al.* (2015) 'Survey of Urban Micro and Enterprise in Ethiopia. Ethiopia-Canada Cooperation Office, Addis Ababa, Ethiopia'.
MoTI (no date) *Total Quality Management & Business Excellen, Total Quality Management*. Taylor & Francis. doi: 10.1080/14783363.2018.1504621.
Mullei, A. and Bokea, A. (2000) 'Micro and small enterprises in Kenya: agenda for improving the policy environment. Nairobi : I.C.E.G', p. 2000.
Ndungu, C. W. (2016) 'FACTORS AFFECTING CREDIT ACCESS AMONG SMALL AND MEDIUM ENTERPRISES IN MURANG ' A COUNTY'.
Ogoi, H. J. (2017) 'Strategies for Accessing Credit by Small and Medium Enterprises : A Case Study of Kakamega Town , Kenya', 7(6), pp. 429–448. doi: 10.6007/IJARBSS/v7-i6/3000.

Ogujiuba, K. K. *et al.* (2004) ‘Credit Availability to Small and Medium Scale Enterprises in Nigeria: Importance of New Capital Base for Banks – Background and Issues, University Abakaliki-Nigeria’.

Osuala, E. C. (2001) *Introduction to Research Methodology. Africana-Fep Publishers Ltd., Onitsha.*

Powell, A. *et al.* (2004) ‘“Improving Credit Information, Bank Regulation, and Supervision: On the Role and Design of Public Credit Registries.”’, *Policy Research Working Paper,* 3443.

Rutherford, S. (1998) ‘“The Savings of the Poor: Improving Financial Services in Bangladesh.” Journal of International Development’, 10(1), pp. 1–15.

Scholar, T. and Chowdhury, M. (2017) ‘Factors Affecting Access to Finance of Small and Medium Enterprises (SMEs) of Bangladesh’, 2, pp. 55–68.

Stiglitz, J. and Andrew, W. (1981) ‘“Credit Rationing in Markets with Imperfect Information.”’, 71(3), pp. 393–410.

Sümbüloğlu, K. and Akdağ, B. (2007) ‘Regression Methods and Correlation Analysis . Ankara: Hatipoğlu Publication.’

Tage, C. *et al.* (2007) ‘small business financial management Ket, Indiana’,.

Titus, O. *et al.* (2013) ‘Relevance of Small and Medium Enterprises in the Nigerian Economy : A Benchmarking Analysis’, *International Journal of Management Science,* 1(5), pp. 167–177.

Udell, G. F. and Berger, A. N. (2001) ‘The ability of banks to lend to informationally Opaque small business’.

World Bank (2019) ‘“Finance for all? Policies and Pitfalls in Expanding Access,” Washington D.C, World Bank.’

Yeung, M. and Ennew, C. (2001) ‘Measuring the impact of customer satisfaction on profitability : A sectoral analysis’, (October). doi: 10.1057/palgrave.jt.5740038.

Yohanes, D. *et al.* (2020) ‘Effect of Financial Management Practices on profitability of Small-Scale Effect of Financial Management Practices on Profitability of Small-Scale Enterprise : Case Study Hawassa City Administration , Ethiopia’, (June 2018). doi: 10.9790/487X-2006023945.

APPENDIX II

Jimma University

Faculty of Business and Economics

Department of Accounting and Finance

Postgraduate Program

Dear Sir or Madam this questionnaire is designed to conduct survey research on challenges that worsen the small and medium businesses' access to finance. The researcher does believe that the outcome of the research helps provide short term as well as long term solutions for the challenges that these small business enterprises are facing. The data your business is providing will not be used for a purpose other than intended and indicated here the questionnaire, so the researcher wants you to be honest and truthful in replaying the question in the questionnaire. Thank you very much for your time and cooperation.

With best regards

1. What type of business is your business?

(a) Manufacturing (f) Urban Agriculture

(b) Construction (g) Animal husbandry

(c) Trade (h) Mining and energy

(d) Service (i) Other ___________________________

(e) Urban Agriculture

2. For how long your business was in the market

(a) Less than one year (b)Between 1 to 5

(c) Between 6 to 10 (d) More than 10

3. What was your startup capital?

(a) Less than birr 100,000 (b) Between 100,000 to 500,000

(c) Above 500,000 (d) I do not know

4. What is the current capital of your business?

(a) Less than birr 500,000 (b) Between 500,000 to 1000,000

(c) Above 1000,000 (d) I do not know

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

____

____

____

____

6. During the last 12 months have you introduced?

(a) A new or significantly improved production service to the market

(b) A new or significantly improved production process or method

(c) A new organization of management

(d) A new way of selling your goods or services

7. The following are indicators of income generation of your firm. Please tell me whether the following indicators have increased, remained unchanged or decreased over the past 6 months in your company

	Increased	***Remained unchanged***	***Decreased***
Labor cost			
Material and energy cost			
Interest expenses			
Mark up			

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

(a) poor (b) average (c) neutral (d) effective (e) very effective

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

(a) Internal funds (b) Gants or subsidized bank loan

(c) Bank overdraft, credit line (d) Bank loan

(e) Trade credit (f) other traditional financing instruments (Idir, Equb, from family and friends)

(g) Leasing (h) other spontaneous financing instruments

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

(a) Yes (b) No

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

(a) Requested and got everything

(b) Requested but only got part of it

(c) Requested but refused because some reason

(d) Requested but was rejected

(e) we haven’t request

12. If your answer is no for the above question could you please indicate the reason? (14)

_________________________ ______________________

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

(a) Increased (b) Stable (c) Deteriorated (D) Not use any finance

14. From each of the following types of external financing please tell me if your needs increased, remained unchanged or decreased over the past 12 months

	Increased	***Remained unchanged***	***Decreased***
Bank loans			
Trade credit			
A loan from relatives family etc			
Equip and other traditional financing instruments			

15. For which of the following items, would you say that they have increased, decreased, or had not to impact your firm's needs for external financing over the past 6 months?

	Item Increased	***Decreased***	***No impact***
Fixed investment			
Inventories and working capital			
Restructuring or some other			

Financing got

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

(a) Up to birr 500,000 (d) Between 500,000 to 1,000,000

(b) Between 1.000,001 to 5,000,000 (e) Between 5,000,001 to 10,000,000

(c) Above 10,000,000 birrs (f) we did not take a loan

17. Who provided you this last loan?

(a) Bank

(b) Private individual – family or friend

(c) Microfinance institutions

(d) Other sources (e.g., government-related sources)

18. For what purpose did you use this last loan?

(a) For working capital (b) For purchase of Land/ buildings or Equipment/vehicles

(c) For importing material (d) For Promotion

(e) Staff salary and training (f) For the expansion of branch (g) Other.

19. What do you see as the most important limiting factor for not having access to financial resources?

(a) Insufficient collateral or guarantee (b) Interest rates or price too high

(c) Government rules and regulation (d) Fear of inability to repay

(e)The Process is too difficult (f) Financing not available at all

(g) Lack of transparency of loan conditions (h)Limited understanding of projects/needs

20, which one is dominantly challenged you in accessing finance

A, internal B, external

21. What problem do you face in internal financing as well as in external finance?

____

____

____

22. What mechanism do you take in order to minimize your financing problem?

____

____

____

23, from which direction facing problem is solved internal or external

____

____

____

Part –II accessibility and availability Perception

Please indicate your level of Agreement on the following statements by ticking the appropriate number using the key given below. Circle a number from 1 to 5 that represents your extent of agreement, where 0= Strongly Disagree (SD), 1= Disagree (D), 2= Neutral (N), 3= Agree (A) and 4 = Strongly Agree (SA).

In ACCESS TO FINANCE your firm ability affected by	**SD**	**D**	**N**	**A**	**SA**
Way of management their internal finance					
1.you have use the principle of separate recording the owner from the business	0	1	2	3	4
2. Have business skills that will influence business performance positively and hence access to finance	0	1	2	3	4

3. have ability to compile financial records and accounts	0	1	2	3	4
Customer satisfaction					
4. your business have a good level of demand	0	1	2	3	4
5. your customer may have satisfied with the quality of your product	0	1	2	3	4
6. you have introducing new product for your customer to increase internal finance	0	1	2	3	4
Collateral requirements					
7. Not having Types of collateral required makes not difficult to access finance	0	1	2	3	4
8. collateral is not mandatory requirement in accessing finance	0	1	2	3	4
9. small business enterprise not worried about collateral in accessing finance	0	1	2	3	4
Awareness of having Funding Opportunity (Availability of Finance)					
10. There is available of information on who is offering credit facilities	0	1	2	3	4
12. There is accessible ways of financing for Small business enterprise	0	1	2	3	4
13. Past experience is not preferable in obtaining loan finance successfully	0	1	2	3	4