# Role of Financial Institutions in the Growth of Small and Medium Enterprises in Sokoru 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: Solomon Tesfaye**

**JIMMA UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**
**SCHOOL OF GRADUATE STUDIES**
**DEPARTMENT OF ACCOUNTING AND FINANCE**

**June 1, 2020**
**Jimma**
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# DECLARATION

I, the undersigned, declare that this study entitled “Role of financial institutions in the growth of small and medium enterprises in Sokoru” 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: Solomon tesfaye

Signature: ____________________

Date: ____________________

# CERTIFICATE

This is to certify that this study, “Role of financial institutions in the growth of small and medium enterprises in Sokoru”, undertaken by Solomon tesfaye for the partial fulfillment of Master of Sciences Degree in Accounting and Finance at Jimma University, is an original work and not submitted earlier for any degree either at this University or any other University.

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## Acronyms

| | |
|---|---|
| CAS | Central Statistics Authority |
| ETB | Ethiopian birr ERCA |
| ERCA | Ethiopian Revenue and Custom Authority |
| EC | European Commission |
| LDCS | Least Developing Countries |
| MFIS | Microfinance Institutions |
| OLS | Ordinary Least Square |
| SMEs | Small and Medium Enterprises |
| SD | Standard Deviation |
| UNIDO | United Nation Industrial Development Organization |

## Abstract

Small and medium enterprises (SME's) play a 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 investigate the role of financial institutions, with a particular focus on banks and MFIs, on the growth of SMEs in Ethiopia, particularly in Sokoru by using disaggregated data. Ethiopian government has given due emphasis to SMEs though they are facing various constraints. One of the decisive problems is financial constraint for start-up and operational activities. In order to promote SMEs as engines of growth, it is essential to understand the bottlenecks surrounding SMEs' access to finance. Linear regression model is applied to test the formulated hypotheses and to examine the four variables whether they are affecting the role of financial institutions, with a particular focus on banks and MFIs, on the growth of SMEs and the data was analyzed using descriptive data analysis and inferential analysis technique. 162 sample SMEs selected from Sokoru town, Ethiopia are used for this study. The finding indicated that financial institutions were contributing to SMEs growth. Consequently, the relationship between loans from financial institutions and SMEs growth are positive and statistically significant. Further, it identifies ways of addressing the problems that SMEs face in accessing and settling loans include: flexing terms and conditions, using alternative collateral and credit facilities, refinancing, and postponing maturity period. Finally, the thesis recommends a serious of measures which should be performed by the government and by financial institutions. These include: creation of a level playing field, lowering transactional costs, and commercial banks should reappraise their role by adding some article which is convenient for customer.


**Key words: role, financial institutions, SMEs growth**

# Contents

# CHAPTER ONE
# INTRODUCTION

## 1.1. Background of the study

Small and Medium enterprises (SMEs) and financial institutions are vital contributors to the overall performance of an economy. They do not only provide employment and income opportunities to a large number of people, but also are at the forefront of technological innovations and export diversification. Similarly, financial institutions play an indispensable role in firm's growth and thus industry productivity and economic growth. They provide a sound medium of exchange and facilitate trading, encourage mobilization of resources through savings and allocate resources to activities with highest returns, monitor investments and exert corporate governance, and spreads risks by offering a diversity of financial instruments. Furthermore, they provide financial assistance to fulfill the varied needs of enterprises. A recent report by (Kelley, (2016) 2015/16) highlighted that individuals in Africa display the highest levels of entrepreneurial intention In addition, small businesses are viewed by governments in many developing countries as a panacea to perennial problems of unemployment and poverty. However, promotion of small business development requires understanding of their characteristics and the challenges they face.

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

Although there is no universally agreed definition of SME some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital or turnover. However, the most common basis of defining SMEs is number of employees (Nugent, Small and Medium Enterprises in Korea, 2001).

Whatever the definition, and regardless of the size of the economy, the growth of SMEs is becoming increasingly crucial to economic growth. The issue of SMEs development ranks high among the priorities of socio-economic development, given the growing need for employment creation and poverty alleviation (Nugent, Small and Medium Enterprises in Korea, 2001). Further noted, that there is also an urgent need to create a strong competitive SMEs sector that is able to play a leading role in the development process. In dealing with the development of SMEs, financial institutions are one essential organ. Therefore, access to financial services and institutions is a critical element for SMEs growth. However, there appears to be limited evidence that confirms the contribution of financial institutions for SMEs growth. To this end, this study is significantly place as its main focus, the examination of financial institutions role in SMEs growth in Ethiopia, particularly in Sokoru.

## 1.1. Statement of problem

Generating business idea is one thing but accessing indispensable finance to translate such ideas into reality is another thing. The SMEs sector plays a vital role in the industrial development of the country (World Bank, 1994).Indicated that industrial development was earlier believed to have occurred because of large enterprises However, starting in the late 1970s and early 1980s, SMEs have become perceived as the key agent for industrialization. It is recognized that this sector provides not only employment opportunities to an increasing number of people in the country, but it is also an effective means of fighting poverty and income inequality. At the same time, SMEs serve as a training ground for emerging entrepreneurs. It is within this context that SMEs development became focal attention for governmental as well as nongovernmental organizations. This requires bringing the specific needs of the enterprise to the center of the policy-making process, and recognizing that SMEs are to be assisted not because they are small, but because of their capability to be efficient, innovative and able to compete in the local and international markets. However, as (Albaladejo, 2001) noted, in the majority of developing countries, most SMEs' activities are undertaken in the informal sector even though they play a major role in economic growth. They use their own saving, reinvestment of profits, and own labor as the main sources for their development. Despite these, their sustainable growth was largely depend on the capacity of financial institutions to mobilize resources from low valued to high valued and invest in SMEs activities.

Ethiopian government is doing all its best to support SMEs. Despite its efforts, many research outputs conducted in Ethiopia indicates that access to finance is still the blockage for SMEs. For instance, according to a recent survey by Federal SMEs Development Agency (2013), shortage of finance (42 percent) was principal challenge followed by lack of working premise (28.3 percent) and lack of access to market (18.1 percent) for SMEs in the regional cites. Studies further showed that the problem is more critical in areas that are very far from the capital city; Addis Ababa.

Since SMEs' sector does have a very significant role in the Ethiopian economy, the government was striving to create competitive and productive SME sector. It is for this reason that the Ethiopian government develops policy so as to address the constraints and to tap the full potential of the sector. These policies was serving as guidelines to all stakeholders and thus stimulate new enterprises to be established and existing ones to grow and become more competitive. When accompany is growing rapidly its current financial resources may be inadequate. Few growing companies are able to finance their expansion plans from cash flow alone. They were therefore needed to consider raising finance from other external sources. In support of this, the Ethiopia government, in order to provide adequate supply of financial services to various sectors of the economy, especially to small business, has evolved a wide variety of financial institutions both at the national and regional level as an effective means of fighting poverty and income inequality.

On the other hand, there are few studies that investigated the status of the problem in South west Jimma zone particularly in Sokoru. Though some exist, they focus on general problems of SMEs they are short in depth on many aspects of SMEs, including finance related issues. Therefore, the main purpose of this research is to study problems associated to role of finance in SMEs found in Sokoru. This study is different from earlier other studies in the following respect. First, earlier studies focused on general constraints of SMEs, not on the specific financing issue. Investigating an issue focusing on a particular aspect will help to identify the real problem in depth. Second, this study tries to examine problems related to role of finance from request side and as opposed to earlier studies that focused mainly on the stock side problems. Finally, this study concentrates on South west Jimma zone particularly in Sokoru where there are few studies undertaken. The study contributes to theoretical finance literature by showing the experience in least developed country to the international community. Empirically it will help to identify the specific problems associated to role of finance in SMEs in Sokoru and give possible way outs to solve the blockages.

**Research Questions (RQ)**

The study has developed the following four research questions.

RQ1. What roles do financial institutions, specifically banks and MFIs, play in SMEs growth?
RQ2. What forms of financing are available in financing working capital as well as medium and long-term loan requirements of SMEs?
RQ3. Are the financial institutions products and services, accessible and affordable for the SMEs?
RQ4. How do financial institutions address the problems that SMEs face in the process of accessing and settling loans?

## 1.2. Objectives of the study

### 1.2.1. General objective

The broad objective of this study is to investigate the role of financial institutions, with a particular focus on banks and MFIs, on the growth of SMEs in Ethiopia, particularly in Sokoru by using disaggregated data. The study was focused on the SMEs growth and to investigate the extent to which financial institutions may have contributed to this SMEs growth.

### 1.2.2. Specific objectives

- ✓ To scrutinize the character of financial institution specifically banks and MFIs, play in SMEs growth
- ✓ To scan systems of financing are available in financing working capital as well as medium and long-term loan requirements of SMEs
- ✓ To assess the financial institutions products and services, accessible and affordable for the SMEs

## 1.3. Significance of the study

Until now, there appeared to be no attempt to investigate the role of financial institutions in the promotion of SMEs in Ethiopia. Therefore, this study is the first to provide a comprehensive approach to the understanding of role of financial institutions and will intend to fill the gap in this arena. Generally, this study contributes to the knowledge in many important areas of financial institutions and SMEs studies. Firstly, it advances to a better understanding of functions and roles of financial institutions, secondly, it increases the understanding of how financial institutions influences the development of SMEs and, third, it will pave the way forward for the government, policy makers, financial institutions and to the general public at large to understand the different roles of financial institutions in the enterprises development process. Currently, the Ethiopian government gives due emphasis to micro, small, and medium enterprises establishment and development. The establishment of these enterprises would eventually lead to the transfer of appropriate technology and its adaption to suit the environment. This requires bringing the specific needs of the enterprises to the center of the policy-making process In Ethiopia, perhaps the most important challenge facing policy makers in industrial development is the financing and technological upgrading of the myriad of SMEs that formed the back bone of industry and provide the bulk of employment and income generation. To this end, the current government of Ethiopia has continued to articulate policy measures and program to achieve micro, small, and medium enterprises development, through appropriate alternative funding. The main sources of funding typically are financial institutions. Therefore, this study is significantly devoted or place as its main focus, the examination of the financial institutions role in SMEs growth. Finally, this study will also be used as a basis for any future study that will observe the relationship between financial institutions and enterprises and for those who further needs to explore on some other concerns of SMEs.

## 1.4. Scope of the study

The study was conducted at Sokoru woreda. This is among the places where most SMEs face financial constraints. This research entirely focuses on the role of financial institutions in the growth of SMEs, particularly in Sokoru but, no attempt was made to take any other segment of the country. The current study further limits itself from those other functions of financial institutions. Thus any functions of financial institutions that they play in the other aspect of economic growth of the country were not the concern of this study. Another reason was that the researcher happened to be working within the town, hence; had an advantage in accessing easily primary data that were helpful to this study. It is also worth mention that this research thesis was not being completely about SMEs instead, it only investigate the contribution of financial institution for their growth.

## 1.5. Limitations of the study

The main challenge the researcher encountered in this research was lack of proper documentation of the operating SMEs in Sokoru. Due to lack of conventional definition that distinguishes micro from small, and from medium enterprises; there was a difficulty because those firms that were regarded as SMEs by the city actually included micro, small and medium enterprises. That is why this research also adopted the term 'SMEs' to include small and medium enterprises. Forming clusters that would exclude overlap of the type of business was also a great challenge in this research. Another limitation was time and financial constrains that saw the research reducing the number of respondents to suit the available resources.

## 1.6. Organization of the Paper

This study comprised five Chapters. Chapter one presents background, problem statement, objectives of the research, significance, and scope of the study. Chapter two contains theoretical and empirical review of related literatures, Chapter three deals with the research methodology, Chapter four discussed on data analysis and interpretation. And finally Chapter five comprised summary of findings, Conclusions and recommendations.

# CHAPTER TWO
## REVIEW OF RELATED LITERATURE

## 2.1 Introduction

This chapter reviews the theoretical and empirical literature on the role of financial institutions in the growth of SMEs. This review of the literature establishes the framework for the current study and provides the deficiencies of the previous studies, which in turn, help in clearly identifying the gap in the literature and formulating research questions for the study. The review has three sections. Section one presents a theoretical review of role of financial institutions and SMEs development. This is followed by a review of the relevant empirical studies on financial institutions role in the development of SMEs. Finally, conclusions and knowledge gaps are presented in section three.

## 2.2. Theoretical Review

This section briefly sketches different types of financial institutions which have proven effective in providing services to SMEs. These are banks and MFIs. The section opens with an overview of financial institutions. This shows the various products and services that financial institutions have and explain the theoretical role of banks and MFIs to the development of firms. These give an idea on how financial institutions contribute to the development of SMEs. Finally, the concern is to show the nature, importance, measures of growth and constraints of SMEs. Small and medium enterprises (SMEs) are a special focus of the government, given that they comprise the largest share of total enterprises and employment in the nonagricultural sectors. In recognition of the important role SMEs have to play in creating income and employment opportunities and reducing poverty, the government drafted its first small and medium Enterprise Development Strategy in 1997. Finance plays a vital role in small business survival and growth (Chan, S. H., and Lin, J. J., 2013) and the lack of which is the major cause of failure of such types of businesses. Access to finance is determined by macro-level and firm-level factors. At macro-level, access is determined by the legal and business environment and the efficiency of the banking system (Ardic, O. P., Mylenko, N., and Saltane,, 2012). Besides, (McNamara, A., Murro, P., and Donohoe, S. O., 2016) report that SME debt is higher in countries with more efficient bankruptcy environments in terms of debt recovery and in countries with less stringent regulatory environments by way of lower capital regulatory requirements for banks. Market structure also plays a role in such a manner that small businesses are less likely to access credit in a market dominated by large banking institutions (Cole, R., and Sokolyk, T., 2016) and in some cases by community banks (Jagtiani, J., Kotliar, I., and Maingi, R. Q., 2016). Similarly, rural banking institutions and state banks are found to promote regional entrepreneurial activity and facilitate small business development (Hasan, I., Kobeissi, N., Wang, H., and Zhou, M., 2015).

They contribute significantly to the provision of productive employment opportunities, the generation of income and, eventually, the reduction of poverty  Small and Medium enterprises (SMEs) and financial institutions are vital contributors to the overall performance of an economy (OCDE, 2014). SMEs play a crucial role in developing the economy and in creating employment. They do not only provide employment and income opportunities to a large number of people, but also are at the forefront of technological innovations and export diversification. Similarly, financial institutions play an indispensable role in firm's growth and thus industry productivity and economic growth. They provide a sound medium of exchange and facilitate trading, encourage mobilization of resources through savings and allocate resources to activities with highest returns, monitor investments and exert corporate governance, and spreads risks by offering a diversity of financial instruments. Furthermore, they provide financial assistance to fulfill the varied needs of enterprises.

According to the definition of the strategy, micro enterprises are business enterprises with a paid-up capital of less than 20,000 birr, and excluding high tech consultancy firms and other technology establishments. Small enterprises are those business enterprises with a paid-up capital of above 20,000 birr and not exceeding 500,000 birr, and excluding high tech consultancy firms and other technology establishments. Large and medium enterprises, by default, are those with more than 500,000 birr in paid-up capital.

According to the Central Statistical Authority (CSA) survey, there are almost 570,000 SMEs in Ethiopia, 99.4 percent of which are micro-enterprises with fewer than ten employees, accounting for 88.2 percent of private sector employment. The micro enterprises are very small. On average, they employ one and a half workers (this includes the owner and perhaps one occasional helper), and earn an annual operating surplus of 1,300 birr. Sole proprietors operated 82 percent of urban enterprises. Of the total 12 employment in these urban micro-enterprises, family members accounted for 60 percent. Beyond family members, apprentices constituted a large proportion of the remaining SMEs work force (CSA, 2003).

The average micro-enterprise has a capital of 3,528 birr, a yearly production value of 2,300 birr and an annual surplus of 1,300 birr. Although significantly more productive and profitable than micro-enterprises, small-scale industries are also very small, with an average of slightly more than three employees, 18,934 birr in annual operating surplus, capital of 38,554 birr, and production value of 68,800 birr. A recent study on SMEs indicated that SMEs in Ethiopia are confronted by many problems. The constraints facing SMEs in most developing economies are similar: unfavorable legal and regulatory environment and, in some cases, discriminatory regulatory practices; lack of access to markets, finance, business information; lack of business premises at affordable rent; low ability to acquire skills and managerial expertise; low access to appropriate technology; and poor access to quality business infrastructure.

## 2.3. Empirical Review

In spite of the above theoretical recognition of role of financial institutions and their contribution to the development of SMEs, there appears to be limited empirical evidence available and most of them generally focused on challenge of SMEs in access external finance and on role of financial institutions in economic growth. As a result, slight studies had been done on the contribution of financial institutions in the development of SMEs. Recent research shows that the efficiency of financial intermediation and transfer of risk (Naveed Ahmed, 2011) can affect economic growth while at the same time institutional insolvencies can result in systemic crises which have unfavorable consequences for the economy as a whole. Hence, the important role that financial institutions such as insurance companies remain in financing and insuring economic activity and contribute to the stability of the financial system in particular and the stability of the economy of concerned country in general is part of immune and repair system of the economy. Small and medium enterprises contribute to economic development by increasing national output, creating jobs and reducing income inequality and poverty (Fanta, 2015). They play an important role in both developed and developing countries.

For instance, in the US, small businesses contributed 48% of sales, 50% of the nation's private workforce and 64% of the “net new jobs” between 1993 and 2011 (SBA, 2014).

Most small businesses fail and this is a global phenomenon, albeit more severe in developing countries. For instance, only 20% of small businesses in the US survive the first year, and only 3% survive the first five years (SBA, Small Business Profiles for the states and territories, 2015). The failure rate of SMEs is high in sub-Saharan Africa (Boubakary, 2015). External and internal factor are responsible for failure of small businesses. While the external factors include limited access to finance, poor market conditions, and lack of institutional support, internal factors include lack of strategy and vision, low educational levels, and inadequate social capital (Franco, M., and Haase, H., 2010).

The empirical studies of (Gebrehiwot, Micro and Small Enterprises (MSEs) Finance in, 2006), who conducted their research on this subject in Ethiopia, pointed out that inadequate loan size, loan durations that do not match with the gestation periods and cash flow patterns of borrowers’ activities financed by the loan, failure to disburse loans timely, and the tendency of group collateral requirements are the problems of SMEs in expanding and diversifying their enterprise. In addition to this, (Mulu, Growth of Micro-Enterprises, 2007), who conducted a study based on a survey consisting 974 randomly selected businesses in six major towns of Ethiopia in this subject, raised these problems. Similarly, the author stated that the smaller and younger firms grow faster than their counterpart does. This is due to the fact that at the initial stage, most of SMEs have access to finance both from microfinance institutions and families, but after they started their business they face lack of continued access to finance .Growth rate also differs by sector in which the enterprise operates. Manufacturing shows higher growth rate (13%) followed by service (11%) in contrast to trade (6.2%).  (Mulu, Growth of Micro-Enterprises, 2007) Listed some factors 6 that might affect business growth and among which, type of sector, human capital, formality of the firm, and access to finance are the major ones. Studies conducted so far concluded that the problem of SMEs are access to working capital and long term credit, inadequate loan size, inadequate infrastructure, high transactional cost, limited managerial and technical experts and marketing problems World Bank, (2008), (Hailay, 2003) and (Gebrehiwot, Micro and Small Enterprises (MSEs) Finance in, 2006). Even though many authors have concluded the above listed problems of SMEs, they are still don’t agree on each point. For example, (Wattanapruttipaisan, 2003) stated that lack of access to finance is a strong obstacle for MSEs in developing countries. In contrast, (Riba, 20012) argued that the major constraint for SMEs' growth, expansion, diversification and promotion is not the lack of access to finance rather its loan term, to medium and long-term credit, whereas (Malhotra, 2013) shared the arguments of both sides. In addition to this, these authors did not identify some more serious problems.

One line of inquiry points to financial institutions and their role in economizing on information costs. For example, (Rajan R. a., 1998) argued that well-developed financial markets and institutions help a firm to overcome problems of moral hazard and adverse selection, thus reducing the firm's cost of raising money from outsiders. This thesis uses under this view, firms in less financially developed countries are likely to exhibit lower levels of firm investments (and firm growth) because of financial constraints. The thesis basically focused on quantitative aspects by using the cross country database survey. Consistent with this prediction, several studies find financial development to be positively related to the level of industry and/or firm growth rates (Levine, Finance and Growth, 2005); (Kang, 2000) Patel (2004) argues that, in the case of India, development financial institutions have been major conduits for channeling funds to firms, industries and sectors during their development. Other studies (Allen and Gale (1997); Levine (1997)) have identified the importance of development financial institutions in the South Korean and Japanese process of industrialization. In Germany, especially in the post Second World War era, this mode of financial intermediation has been used in national reconstruction as well. (Ojo Olu, Impact of Microfinance on Entrepreneurial Development, 2009) Noted that the MFIs are evident tools for entrepreneurship development due to the various services they offer and the role they performs towards the development of the economy.

This research study investigates the impact of microfinance on entrepreneurial development of small scale enterprises that craving for growth and development in Sokoru. The researcher used questionnaire as an instrument of primary data collection. The study centers on two broad variables; the dependent variable which is entrepreneurial development and the independent variable which is MFIs. The study reveals that there is a significant difference in the development of firms which uses MFIs and those who do not use them; and there is a significant effect of MFIs activities in predicting entrepreneurial productivity. Allen and Gregory (2005) also assessed the presence of small and large or state owned and foreign-owned financial institutions effect on SME credit availability through comparative advantages in the different lending technologies. In particular, a greater presence of foreign-owned institutions and a lesser presence of state-owned institutions are likely to be associated with significantly higher SME credit availability in developing nations because foreign-owned institutions appear to have advantages in some of the lending technologies, and state-owned institutions appear to be generally disadvantaged. Moreover, Allen and Gregory (2005) strongly suggested that "worse" lending infrastructures may also reduce SME credit availability indirectly. This may occur if a restrictive regulatory environment constrains the potential financial institution structure, preventing some types of financial institutions from gaining sufficient market shares to capitalize on their comparative advantages in specific lending technologies.

The research evidence suggests that some of these effects may be quite strong. Many nations explicitly or implicitly restrict the entry of foreign institutions. These restrictions may have significant negative effects on SME credit availability, given the advantages that foreign owned banks appear to have in SME credit availability in developing nations. In addition, the governments of a number of nations maintain large market shares for state-owned financial institutions with lending subsidies and tax collection procedures. These practices appear to "crowd out" more efficient privately-owned institutions and result in lower overall SME credit availability, despite the mandates of state owned institutions to the contrary. (Amha, 2006) Presented evidence on the state of micro and small enterprises finance in Ethiopia from a survey of 1000 micro and small enterprises in six major towns conducted by the authors.

This thesis deals with the issue of micro and small enterprises finance and is the first empirical work on trade credit in Ethiopia. It suggests a new venue to channel funds to micro and small enterprises by linking support to micro and small enterprises, supplier's credit and bank lending. It shows that friends/relatives, suppliers credit, and Iqub are the most important sources of finance in that order. The amount involved (in both stock and flow terms) is also relatively high. Trade credit appears to be used as a substitute for bank loans. Contrary to the common belief that trade credit occurs between people with strong social ties, most micro and small enterprises that granted trade credit and those that received suppliers credit characterized their relation as 'business only'. More than half of the MSEs that granted trade credit also received suppliers credit whose amount exceeded what they received, suggesting that suppliers credit is being passed on to customers. Supplier's credit thus avails itself as a potential instrument for banks to channel finance to micro and small enterprises to improve their access to modern machinery/equipment/tools.

### 2.1.1. Overview of Financial Institutions

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

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

As (Amina Z. S., 2009) Noted the financial sector can have more impact on firms' growth in two ways: firstly, a well-developed financial system allows the firms to have access to financial services, which they are often denied. They need to have access to a large array of financial services, such as saving facilities, payment instruments, credit, and insurance. Secondly, the financial sector can also contribute to firm's growth indirectly, as a diversified and competitive financial sector plays an important role in economic development generally. Indeed, a well-functioning financial sector contributes to the maintenance of economic stability; it provides a means of payment and makes possible secure financial and commercial transactions; it helps to mobilize domestic and external savings; and it is crucial for the efficient allocation of capital to productive investments.

In order for firms to benefit from economic growth, the SMEs need to have access to products/services which is provided by financial institutions. The common products that financial institutions provide includes: credit, savings, insurance, credit cards, cash management, and payment services. These points are briefly described each as follows:

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

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

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

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

**Payment Services:** payment services include checks cashing and checks writing opportunities for clients who retain deposits. In addition to checks cashing and writing privileges, payment services comprise the transfer and remittance of funds from one area to another (Ledgerwood J. , Sustainable Banking with the Poor Microfinance Handbook:, 1999). In transferring resource allocation from direct financing to indirect financing, as (Amina Z. S., Financial system's role in the economic development. Business eBulletin, 2009) Noted financial institutions provide the following five basic services:

- Currency alteration: Buying financial claims denominated in one currency and selling financial claims denominated in another currencies.
- Quantity Divisibility: Financial institutions are capable in producing a broad range of quantity from one dollar to many millions, by gathering from different people.
- Liquidity: Easy to liquidate the instruments by buying direct financial claims with low liquidity and issuing indirect financial claims with more liquidity.

• Maturity Flexibility: Creating financial claims with wide range of maturities so as to balance the maturity of different instruments so as to reduce the gap between assets and liabilities.

• Credit Risk Diversification (portfolio investment): By purchasing a broad range of instruments, financial institutions are able to diversify the risk.

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

#### 2.1.1.1. Role of Banks

Private, domestic commercial banking is a relatively recent phenomenon in many developing countries, especially in Africa. From the 1950s through the 1970s, financial systems in many developing countries were predominantly composed of state-owned banks and of branches of foreign-owned commercial banks that provided short-term commercial and trade credit. The state-owned banks promoted economic development priorities through a network of financial institutions such as agricultural banks, development banks, and export banks, while borrowing heavily from multilateral and foreign private banks to support these efforts (Allen F. a., The roles of banks in financial systems, 2008).Further noted that with the advent of structural adjustment and financial liberalization in the 1980s, private domestic commercial banking expanded rapidly. Many new private banks were founded by large business groups to access funds for their own businesses and corporations. As such, they naturally favored the large accounts of an established clientele. When granting loans to less familiar clients, banks protected themselves with asset (mostly real estate) collateral two to three times the value of the loans. Competition is growing, however, as new banks enter the market under banking laws that allow more freedom of entry and a less repressed regulatory environment. The struggle to survive is forcing many of these banks to look at new markets, including the microfinance market.

Understanding the many roles that banks play in the firm's growth is one of the fundamental issues in theoretical economics and finance. The efficiency of the process through which resources are channeled into productive activities is crucial for growth and general welfare. Banks are one part of this process. (Allen F. a., 2008) As discussed in banks perform various roles in the growth of firms. First, they ameliorate the information problems between investors and borrowers by monitoring the latter and ensuring a proper use of the depositors' funds. Second, they provide inter temporal smoothing of risk. Third, they perform an important role in corporate governance. The relative importance of the different roles of banks varies substantially across countries and times but, banks are always critical to firm growth. Each of these roles is described as follows.

**Role of Banks in corporate governance**

Banks can exercise in corporate governance of firms through holding enterprise debt or through ownership rights. Whether banks hold shares or not, they actually have control over firms but the pattern of effective control is different in the two cases. As creditor's banks exercise control over firms using the threat of withdrawing credits; in the case of long-term loans such intervention is obviously less frequent than in the case of short-term loans. Banks also intervene if a firm cannot face its promised payment: during periods of poor financial performance the right to control is transferred from shareholders to creditors (Boot, 9, pp. 7-25). As owners, banks may have their representatives on the company board and can influence the selection and the dismissal of management. How efficient banks' role in corporate governance is obviously depends upon the degree of concentration of debt (the size of loans) and of equity claims (the voting rights) (Allen F. a., The roles of banks in financial systems, 53, pp. 210-308). The most common argument in favor of banks having concentrated stakes (debt and equity) in firms refers to the economies of scale in monitoring managers. Concentrated stake allows overcoming the public good problem of monitoring: banks act as delegate monitors for a large number of small savers (Diamond, Financial Intermediation and Delegated Monitoring, 1984). In the world of informational asymmetry between financiers and managers, dispersed security holders contracting directly with borrowers would either free ride on monitoring (because their share of the benefit is small) or would have to repeat monitoring individually, which is costly and useless. Both solutions are inefficient. Consequently, it is argued, delegating monitoring to financial intermediaries contributes to the lowering of the fixed cost of information collection (Allen F. a., The roles of banks in financial systems, 2008). According to (Edwards, 1994) banks have an additional advantage over other financial intermediaries (such as pension funds or insurance companies) because they have direct access to important information. Firms usually hold their accounts with the banks and thus the latter can directly observe all withdrawals and deposits which permit to assess the firm's financial situation. Another theoretical argument in favor of bank intermediation underlines the advantages of commitment to long-term relationships (Boot, 9, pp. 7-25) (Allen F. a., The roles of banks in financial systems, 2008). The authors argue that in the situation of incomplete contracts (i.e. when it is impossible to specify all future actions and payments because these are too complex to be described or because managerial decisions are not verifiable) banks help reduce moral hazard between financiers, managers and employees through the creation of the mechanism for long term commitment. Without such commitment implicit contracts between investor, manager and employees may be unsustainable (Allen F. a., The roles of banks in financial systems, 2008). Finally, it is argued, in the case of firms with cash flow problems, concentrating firms financial obligations may facilitate coordination and may allow for the reduction of reorganization or liquidation costs (Hoshi, 1990).

**The Risk Sharing Role of Banks**

One of the most important functions of the financial system is to share risk and it is often argued that financial markets are well suited to achieve this aim. Traditional approach financial theory suggests that the main purpose of financial markets is to improve risk sharing through exchanges of risk among individuals at a given point in time. However, this strategy cannot eliminate macroeconomic shocks that affect all assets in a similar way (Allen F. a., The roles of banks in financial systems, 2008). Departing from the Traditional approach, (Allen F. a., 1997) Focus on the inter - temporal smoothing of risk that cannot be diversified at a given point in time. They argue that such risks can be averaged over time in a way that reduces their impact on individual welfare through inter temporal smoothing by banks. This involves banks building up reserves when the returns on the banks' assets are high and running them down when they are low. The banks can thus pay a relatively constant amount each period and do not impose very much risk on depositors.

**The Monitoring Role of Banks**

The idea that banks exist to reduce the monitoring costs associated with external finance is central to modern theories of financial intermediation. Rather than having multiple lenders collect information about the firm's prospects prior to granting credit and then simultaneously monitor the borrower's actions once an investment has been undertaken Potential investors may find it more efficient to delegate these tasks to a bank, through which they all provide funding to the firm (Diamond, Financial Intermediation and Delegated Monitoring, 1984). This role of banks is particularly important for small-business borrowers, whose small size and relative opacity make funding through public markets a virtual impossibility, and leads naturally into the idea of banks as “relationship lenders.” Through their ongoing monitoring efforts, banks build relationships with their customers that give them valuable information about these firms’ prospects in the future (Beck, 2004).

**The Financing Role of Banks**

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

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

#### 2.1.1.2. Role of Microfinance institutions

(Robinson, The paradigm shift from credit delivery to sustainable financial, 1998) Defined microfinance as a development tool that grants or provides financial services and products such as very small loans, savings, micro-leasing, micro insurance and money transfer to assist the very or exceptionally poor in expanding or establishing their businesses. It is mostly used in developing economies where firms do not have access to other sources of financial assistance. In addition to financial intermediation, some MFIs provide social intermediation services such as the formation of groups, development of self-confidence and the training of members in that group on financial literacy and management (Ledgerwood J. , Sustainable Banking with the Poor Microfinance Handbook, 1999). According to (Ledgerwood J. , Sustainable Banking with the Poor Microfinance Handbook, 1999), MFIs can offer a variety of products/ services to SMEs.

The most prominent services are financial. Banks do not often provide these services to small informal businesses run by the poor as profitable investments. They usually ask for small loans and the banks find it difficult to get information from them either because they are illiterates and cannot express themselves or because of the difficulties to access their collateral due to distance. It is by this that the cost to lend a dollar was being very high and also there is no tangible security for the loan. The high lending cost is explained by the transaction cost theory (Christabell, Women empowerment through capacity building: the role of, 2009). As (Christabell, Women empowerment through capacity building: the role of, 2009) the transaction cost can be conceptualized as a non-financial cost incurred in credit delivery by the borrower and the lender before, during and after the disbursement of loan. The cost incurred by the lender include; cost of searching for funds to loan, cost of designing credit contracts, cost of screening borrowers, assessing project feasibility, cost of scrutinizing loan application, cost of providing credit training to staff and borrowers, and the cost of monitoring and putting into effect loan contracts. On the other hand, (Robinson, The microfinance revolution: Sustainable finance for the poor, 2003) noted the borrowers cost ranging from cost associated in screening group member (group borrowing), cost of forming a group, cost of negotiating with the lender, cost of filling thesis work, transportation to and from the financial institution, cost of time spent on project appraisal and cost of attending meetings. The services provided by MFIs can be categories into four broad different categories (Ledgerwood J. , 1999):

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

### 2.1.2. Nature and Importance of SMEs in Economic Development

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

#### 2.1.2.1. What is an SME?

The issue of what constitutes an SME is a major concern in the literature. Different authors have usually given different definitions to this category of business. Some attempt to use the capital assets while others use number of employees and turnover level. Others define SMEs in terms of their legal status and method of production. The European Commission (EC) defined SMEs largely in term of the number of employees as follows: first, firms with 1 to 9 employees - micro enterprises; second, 10 to 99 employees - small enterprises; third, 100 to 499 employees - medium enterprises. Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. However, the EC definition is too all-embracing to be applied to a number of countries. The (UNIDO (United Nation Industrial Development Organization), 1999) UNIDO also defined SMEs in terms of number of employees by giving different classifications for developed and developing countries. The definition for developed countries is given as follows: Large firms with 500 or more workers; Medium firms with 100-499 workers; and Small firms with 99 or less workers. The classification given for developing countries is also as follows (UNIDO, 1999): Large firms with 100 or more workers; Medium firms with 20-99 workers; Small firms with 5-19 workers; and Micro firms with less than 5 workers. In the context of Ethiopia, the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises as:

- Microenterprise**s** are business enterprises found in all sectors of the Ethiopian economy with a paid-up capital (fixed assets) of not more than Birr 20,000, but excluding high-tech consultancy firms and other high-tech establishments.
- Small Enterprises are business enterprises with a paid-up capital of more than Birr 20,000, but not more than Birr 500,000, but excluding high-tech consultancy firms and other high-tech establishments.

The Central Statistical Authority (Central Statistical Authority (CSA), 2003)  for the purposes of its survey on Urban Informal Sector Activity Operators and Small-scale Manufacturing Industries attached various definitions to enterprises in different sectors. The CSA based its definitions on the size of employment and extent of automation for small-medium- and large-scale enterprises and used a combination of criteria for defining informal sector operators

CSA definition of enterprises:

- Large and medium scale manufacturing enterprises have been classified as establishments with more than ten employees using automated machinery.
- SMEs are establishments that engage less than 10 persons using power driven machinery.
- Cottage/handicrafts are household type enterprises located in households or workshops normally using own or family labor and mostly manual rather than automated/mechanical machinery.

The Ethiopian Revenue and Custom Authority (ERCA) also defined enterprises for the tax purpose as enterprises having below ETB 1million annual turnovers as Small enterprises, from ETB 1million to ETB 4 million annual turnovers as medium, and above ETB 4 million annual turnovers as large enterprises. From the above, it can be understood that the definitions of SMEs in different countries, even across economic sector in the same nation, is different. This may be a result of the fact that most nations have higher economic levels than others. Even though every nation has different definition, SMEs play very important role in its economic activities. In Least-Developed Countries (LDCs), their role is considered even more important, since they offer the only realistic prospects to increase employment and value added. Many LDCs provide employment opportunities for the majority of population who live under the poverty line. So, SMEs contribute not only economic but also social benefits by reducing crime rate and alleviating poverty (Aung, 2008). They are often described as efficient and prolific job creators, the seeds of big businesses and the fuel of national economic engines. Even in the developed industrial economies, it is the SME sector rather than the multinationals that is the largest employer of workers (Nugent, Small and Medium Enterprises in Korea, 2001). Interest in the role of SMEs in the development process continues to be in the forefront of policy debates in most countries. Governments at all levels have undertaken initiatives to promote the growth of SMEs (Cook, Cook, P. and Nixson, F.,, 2000). SME development can encourage the process of both inter and intra-regional decentralization and they may well become a countervailing force against the economic power of larger enterprises. More generally, the development of SMEs is seen as accelerating the achievement of wider economic and socio-economic objectives, including poverty alleviation (Cook, Finance and Small and Medium-Sized Enterprise, 2000).

#### 2.1.2.2. Indicators of Growth

(Hoy, 1992) Stress that a consensus has been reached among academics that sales growth is the best growth measure. It reflects both short and long term changes in the firm and is easily obtained. Furthermore these authors maintain that sales growth is the most common performance indicator among firms themselves. The growth process as such provides further arguments for advocating sales growth. A growth process is likely to be driven by increased demand for the firm's products or services. That is, sales increases first and thus allow the acquisition of additional resources such as employment or other assets (Ardishvili, 1998). It is also possible to increase sales, by outsourcing the increased sales volume, without acquiring resources or employing additional staff. In this case, only sales would increase. Thus, sales growth has high generality. On the other hand, there is a widespread interest in the creation of new employment. This makes employment growth. Another important aspect to capture in the process of rationalization; it is possible to replace employees with capital investment. In other words, there is to some extent an inverse relationship between capital investment and employment growth, as a consequence, assets are another important measure of growth. Measuring growth in terms of assets is often considered problematic in the service sector (Weinzimmer, Measuring organizational growth: Issues, consequences and, 1998). This appears to be mainly an accounting problem. While intangible assets indeed may expand in a growing service firms, this is not reflected in the firm balance sheet. There are two basic approaches to measure growth: absolute and relative. Measures of absolute growth examine the actual difference in firm size from one observation to another. Growth rates refers to relative changes in size, that is size changes are related to initial size of the firm typically, by dividing the absolute growth by the initial growth of the firm.

### 2.1.2.3. General Constraints to SMEs' Growth

Despite the potential role of SMEs to accelerate growth and job creation in developed and developing countries, a number of bottlenecks affect their ability to realize their full potential. SME development is hampered by a number of factors. A set of constraints, which is not intended to be exhaustive, is identified below. Input Constraints:  SMEs face a variety of constraints in factor markets (Kayanula, The Policy Environment for Promoting Small and, 2000).

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

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

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

• Production inputs: SMEs face constraints in the availability of production inputs. For instance, better quality raw materials are generally exported or are available only to larger firms and their suppliers tend to be oligopolies. Inadequate infrastructure and weak provision of basic services such as transportation, energy, urban planning and production sites represent particular impediments for SMEs.

• Lending infrastructure: The lending infrastructure includes the information environment, the legal, judicial and bankruptcy environment, and the tax and regulatory environments. All of these elements may directly affect SME credit availability by affecting the extent to which the different lending technologies may be legally and profitably employed. The final element, the regulatory environment, may also restrict SME credit availability indirectly by constraining the potential financial institution structure (Allen N. a., A more complete conceptual framework for SME, 2005). Output Constraints: Access to domestic and international markets can be constrained by factors that relate to the size of SMEs (Kayanula, The Policy Environment for Promoting Small and, 2000).

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

• International Markets: Previously insulated from international competition, many SMEs are now faced with greater external competition and the need to expand market share. Limited international marketing experience, poor quality control and product standardization and little access to international partners, however, impede expansion into international markets. Management Constraints: The lack of economies of scale and competition for one of the most scarce resources, management know-how, place significant constraints on SME development (Gockel, 2002).

• Management skills and training: Even though SMEs tend to attract motivated managers, they can hardly compete with larger firms. The scarcity of management talent, prevalent in most countries of the region, has a magnified impact on SMEs.

• Consulting Services: The lack of support services or their relatively higher unit cost can hamper SME efforts to improve their management because consulting firms often are not equipped with appropriate cost effective management solutions for the scale of SMEs. Regulatory Constraints: Although wide ranging structural reforms have improved prospects for enterprise development, many issues remain to be addressed at the firm level (Kayanula, The Policy Environment for Promoting Small and, 2000).

• Taxation & Tariffs: Complicated and inefficient tax codes that include cascading sales taxes and stamp taxes are least favorable to SMEs. At the same time, the tariff and non-tariff barriers which favor larger firms that play a role in policy making are often biased against SMEs (Kayanula, The Policy Environment for Promoting Small and, 2000).

• Legal: High start-up costs for firms, including licensing and registration requirements can impose excessive and unnecessary burdens on SMEs. The absence of antitrust legislation favors larger firms, while the lack of protection for property rights limits SME access to foreign technologies.

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

## 2.3. Conclusion and Knowledge Gaps

The review of empirical evidence reveals that most of the studies used database survey as their principal source of data which led to expulsion of recent data and low representativeness. Further, Allen and Gregory (2005) do not assess the overall credit availability infrastructures to SME. Instead they merely focused on banks technologies. (Ojo Olu, Impact of Microfinance on Entrepreneurial Development, 2009) On the other hand focuses on the role of MFIs in entrepreneurial development by ignoring the other institutions which are proven effective in providing services to SMEs. Lastly, (Amha, 2006) present evidence on the state of micro and small enterprises finance in Ethiopia not on SMEs and simply argues about the source of finance and their contribution for the development of micro and small enterprises. In conclusion, the literature review has showed that, although empirical evidence appears to be limited, the financial institutions influence the development of SMEs. However, there is high focus of financial development and firm performance studies in developed nations. On the other hand, in developing countries there has been a relatively limited number of evidence on the relationship between financial institutions and SME development including South Korea, Nigeria and India. Further, previous studies only focus on financing role of financial institutions by ignoring other roles such as governance, non-financial services/social intermediation services, risk sharing and monitoring and controlling. Finally, to the knowledge of the researcher, in Ethiopian context there appears to be no attempt to examine the role of financial institutions in the growth of SME. These gaps in the literature led to the current research questions:

What roles do the financial institutions play in SMEs growth? Are the financial institutions products/services, accessible and affordable for SMEs? How do financial institutions address the problems that SMEs face in the process of accessing and settling loans?

This study was need for three reasons. Firstly, there is no reliable and comprehensive study to examine role of financial institutions in SME growth in Ethiopia, particularly in Sokoru. Secondly, it was pave the way forward for the government, policy makers, and financial institutions to understand the different roles of financial institutions in the development process. Finally, this study advances the knowledge of how financial institutions influence the development of SMEs.

## 2.4 Conceptual framework of the Study

Perhaps the most prominent determinant of firm growth is the financial resources. Generally, firms do not make their capital structure entirely with their internal funds to meet their investment needs. For getting different benefits associated with debt, firms raise external finance through debt financing. Thus, financial institutions make easier for firms to access external finance that facilitates firms to grow.

**Independent variables** **Dependent variable**

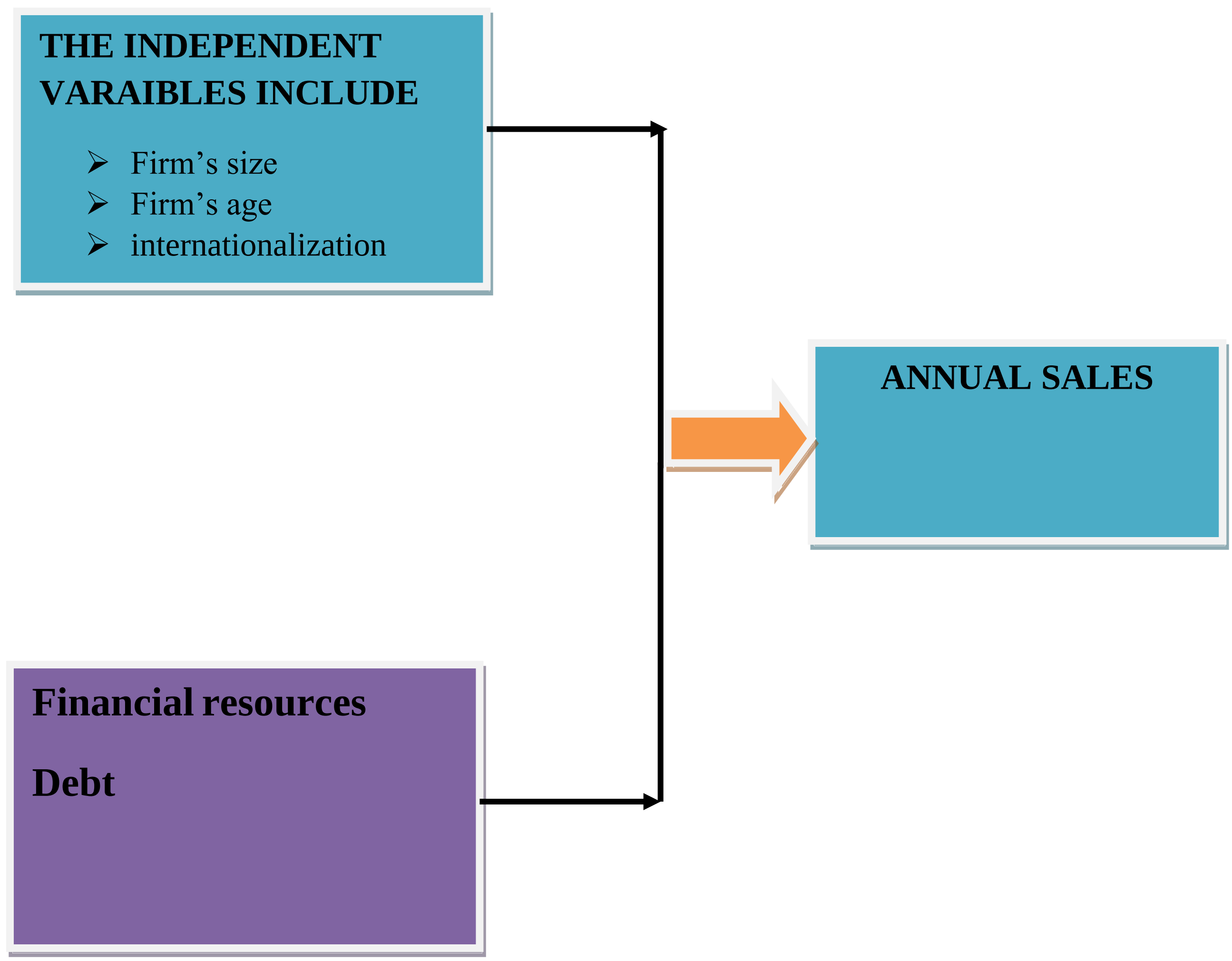



**Figure 1: Conceptual Framework of the Study**

**Source:** Developed from the literature

# CHAPTER THREE

# RESEARCH DESIGN AND METHODOLOGY

## Research design

This study is designed to describe the role of financial institutions in the growth of SMEs. Thus descriptive research design is viewed as an appropriate research design for this study. Generally, the first step in any sampling method is to identify the study population from where the samples would be drawn. The final sample SMEs were selected using stratified random sampling. The list of these SMEs was collected from the Sokoru town SME agency. The way in which research is conducted may be conceived of in terms of the research philosophy subscribed to the research approach employed and the research instruments developed and utilized in the pursuit of a goal – the research objective(s)- and the quest for the solution of a problem - the research question. The purpose of this chapter is to present the research methodology adopted in this study.

## 3.1. Sources of data

Under this study, there were two sources of data. The primary source of data is the collection of first-hand information using questioners that appropriately suit the study based on the researcher's assumed perceptions. Just by its name, secondary data is information already which may have been processed and stored. This information came from official documented data, journals, articles, newspapers, text books and internet. The primary source used as the main empirical data for the analysis, while the secondary source used to describe theories and in the literature review.

## 3.2. Type of data

The study used a combination of primary and secondary data. Primary data are data that are collected for the first time by the researcher. These types of data are preferred as they are unbiased, original data, they are direct from population. The primary was obtained by using questionnaires and interview guide. In this study, primary data were data set about business ownership, level of education, gender, age of respondent, and business experience. Secondary data are data that have already been collected by other researchers. These types of data are economical as the researcher does not need to go to the field hence he/she can serve costs also saves time because it takes shorter period to get secondary data than to get primary data. Secondary data was obtained by using documentary review. In this end, secondary data collected by researcher were; amount of loan applied, amount of loan secured and size of the business.

## 3.3. Target Population

Population refers to the total collection of elements about which one wish to make some inferences (Cooper & Schindler, 2003).This study targeted small and medium sized enterprises operating businesses like transport services, retail and wholesale trade, manufacturing, hotel and catering services among others, across Sokoru town, with licenses or business permits from the county government. The population of the study targeted at the 280 enterprises operating businesses licensed by the Sokoru town.

## 3.4. Sample Design

In selecting sample, three factors determine the size of an adequate sample includes: nature of population, types of sampling design and degree of precision desired (Salant, 1994).Using a sample that is too large is a waste of resources while using a sample that is to small means getting results that are likely to be lacking in validity. In light of this, to select adequate sample size, the following procedures were employed. First the population was defined as the business operators in the SMEs sector spread across Sokoru. Second 280 enterprises was identify as population units which was registered both in Sokoru Trade and Industry Bureau and Ethiopian Investment Agency. The researcher uses a combination of both Sokoru Trade and Industry Bureau, CSA (2003), and UNIDO definitions of SMEs (see section 2.1.2.1.). Finally 162 SMEs was proportionally select. Random sampling technique was employed that draw a portion of a population so that each member of the population has an equal chance of being selected. A sample drawn at random is unbiased in the sense that no member of the population has any more chance of being selected than any other member. Therefore, sample size was determined by using random sample calculator at 95% confidence level, 5% error level and 7 sample frame as list of units in the population. Survey instrument the survey instrument contains both open and closed questions. The open questions give the respondent freedom to decide the aspect, detail and length of his/her answer. It enables the respondents to give a more adequate presentation of his/her particular case and convey flexibility in his/her choice. The closed questions on the other hand are designed to keep the questionnaire to a reasonable length and this encourages response and validity in terms of the representativeness of the returns. It minimizes the risk of misinterpretation unlike the former. It also permits easier tabulation and interpretation for the researcher. The questionnaire was designed in three main sections. The first section is SMEs respondent's profile. The second and third section possesses the questions relating to the subject matter of the inquiry. These sections are design to collect both qualitative and quantitative data on financial institutions role in SMEs growth. Specifically, questions relating to role of banks and MFIs respectively. The responses for these second and third sections form the basis for the analysis. This represents purely the primary source of data collection and it will prepare in both English and Amharic accordingly for the purpose of clarity and ease understanding of the informants. The English and Amharic version questionnaires are presented in appendices 1and 2 respectively. Conduct of survey the survey with randomly selected sample SMEs was conducted in the period between February and March, 2020. The survey questions are developing by translating the research questions and research objective in to questions. Then it was give to the research advisor for final suggestions and comments.

### 3.4.1 Method of sampling and determination of sample size(s)

From the information of Sokoru town trade and industry office the total number of medium and small enterprises in Sokoru town were 280 which contain 1080 members. Sample size determination was done using the finite population correction factor formula as follows:

$n_0 = \frac{z^2 pq}{d^2}$(To determine the sample size in estimating the mean or the proportion (Kothari, 1999)

$n = \frac{no}{1+ no/N}$ (To determine sample size of finite population correction factor formula. (Kothari, 1999)

n= sample size with considering the finite population correction factor (with population <

10,000) because of this n would be preferred.

Where: n-- sample size

d-- Margin of error

p -- Population proportion

N – Population size

The researcher was used the most frequently chosen confidence value 95% (1.96) from z distribution table). A larger value for the quantity p (1 - q) is result 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 panel data value of *p*= 0.5. The study would have used 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:

$$n = \frac{384}{1+(384)/280} = 161.92 \approx 162$$

The study used simple random sampling to select 162 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 and agriculture,…………Kothari (2004) recommends stratified random sampling because it is accurate, easily accessible, divisible into relevant strata and it enhances better comparison

## 3.5. Method of data collection

Scientific problems can be solved only on the basis of data and a major responsibility of the investigator is to set-up a research design capable of providing the data necessary for the solution of the study problem. The more clearly and thoroughly a problem and its ramifications are identified, the more adequately the study can be planned and carried to a successful completion.

Therefore, it was tire to avoid what may be characterized as methodological monism, i.e. the insistence on using a single research method. This is not due to an inability to decide between the various advantages and disadvantages of the various alternatives. Instead, it is believed that all methods are valuable if used appropriately, that research can include elements of both the qualitative and quantitative approaches, if managed carefully. In light of the research problem and the underlying philosophy of each research approach highlighted above, the current research combines both qualitative and quantitative research approaches. That is, to get the benefits of a mixed method approach, as presented earlier, and to mitigate the bias in adopting only one approach. The quantitative aspect, qualitative aspect, and data analysis methods adopted in this study are further elaborated in the following sections.

## 3.6. Method of data analysis

In order to investigate the role of financial institutions in the growth of SMEs, the results obtained from the above mentioned data gathering instruments was separately presented and jointly analyzed to address the various research questions and to test the hypothesis. With respect to survey, the responses obtained from survey of SMEs were tabulate and interpreted by using descriptive statistics. Regarding in-depth interviews descriptive research approach was employed to present outcomes of in-depth interviews with banks and MFIs managers/officials. Finally, to assess the relationship between SMEs growth (i.e. sales growth) and financial resources from financial institutions, regression analysis was use. It was used annual sales as a measure of firm growth as dependent variable because of the difficulty of obtaining realistic information on profits earned. This conforms to the studies by (Wijewardena, 1995); (Weinzimmer, 1998), and (Esra karadeniz, 2003), which have use sales growth as a key indicator of small business success and growth. To this end, the current study also use sales growth as an indicator of firm growth and it was measured by the growth rate in percentage terms. Hence, the dependent variable includes information of both positive and negative growth. Sales growth is significantly influence by the following set of variables: external finance, firm size, age of firms, and internationalization (Esra karadeniz, 2003). Perhaps the most prominent determinant of firm growth is the financial resources. Generally, firms do not make their capital structure entirely with their internal funds to meet their investment needs. For getting different benefits associated with debt, firms raise external finance through debt financing. Thus, financial institutions make easier for firms to access external finance that facilitates firms to grow. Accordingly, the expected coefficient of the variable is positive. In addition to financial resources from financial institutions, the independent variables include firm's size, firm's age, and internationalization. The size of firms is included in the model because it can be expected that the larger firms grow faster than smaller ones due to their ability to employ high skilled, skillful managers and workers and to achieve more efficient product facilities. Accordingly, the expected coefficient of the firm size variable is positive. Another factor could be the age of firms because, younger firms, would grow rapidly due to innovative ideas and dynamic management. On the other hand, older firms may achieve stronger growth because of their experience. Thus, the expected coefficient of the age variable can be either positive or negative. The internationalization of firms is included in the model because it can be expected that firms, active in export trade, may be relatively more capable of increasing their sales.

## 3.7. Method of presentation

In this study descriptive research methods is employed. Secondary data was examined and qualitative primary research was also conducted by taking in depth interview with the owners and employees of the selected SMEs. The descriptive design is applied to determine the role of financial institutions, with a particular focus on banks and MFIs, on the growth of SMEs in Ethiopia, particularly in Sokoru. Both primary and secondary sources of data have been used. To collect appropriate data, structured questioner has been designed for SMEs owners. Interview questions were developed and in-depth interview has been conducted with owners and managers of SMEs in Sokoru town as well as representatives from different institutions cooperating with these SMEs. Sokoru town is one of the woreda that is found in Jimma zone.

Before selecting a sample, first the list of those SMEs that are currently registered and who have license from government office and currently working in Sokoru woreda all were identified as sampling frame. Samples were selected using random sampling technique.

Linear regression model is applied to test the formulated hypotheses and to examine the four variables whether they are affecting the role of financial institutions, with a particular focus on banks and MFIs, on the growth of SMEs and the data was analyzed using descriptive data analysis and inferential analysis technique

This section introduces the fundamental elements of research approaches. The three common approaches to conduct research are quantitative, qualitative, and mixed methods. Researchers typically select the quantitative approach to respond to research questions requiring numerical data, the qualitative approach for research questions requiring textural data, and the mixed methods approach for research questions requiring both numerical and textural data (Carrie Williams, Research Methods, 2007). The subsequent discussions present the basic features of quantitative, qualitative and mixed methods research approaches in an orderly manner.

## 3.8. Model of specifications

To empirically test the relationship between the dependent and independent variables discussed so far, particularly whether $\beta_1$ is statistically significantly positively different from zero, the following multiple OLS regression model was applied:

$$GR_{1t} = \beta_0 + \sum_{k=1}^{n} \beta 1 \; X_{1t} + \varepsilon$$

$GR_{1t}$: Growth of enterprises i at time *t*; i = 1, 2… 7 enterprises

$\beta_0$: The intercept of equation

$\beta_1$: Coefficients of $X_{it}$ variables

$X_{1t}$: The different independent variables for growth of enterprises i at time t

*t* : Time = 1, 2 …5 years; i: number of enterprises

$\varepsilon$: The error term

## 3.9. Definition of variables

Specifically, when the above general least squares model converted into current study specified variables it becomes:

$$GR_{1t} = \beta_0 + \beta_1 (DBM1_t) + \beta_2 (SZ1_t) + \beta_3 (AGE1_t) + \beta_4 (INR1_t) + \varepsilon \qquad (3.2)$$

Where:

$\beta_0$ = a constant; the average growth when all independent variables are zero

$\beta_{1\text{-}4}$ = the coefficient; the contribution of each marginal change in independent variables on SME growth respectively.

$\mathcal{E}$ = the error term; the error in predicting the value of growth, given the value of i variables the variables (with expected sign in parenthesis) are:

$\boldsymbol{GR_{1t}}$ = Growth (defined as percentage change in sales volume for i enterprises at time t for the last five years from 2015/16 to 2019/20), or what is being predicted or explained

$\boldsymbol{DBM_{1t}}$ = Loans from banks and MFIs, defined as percentage change in total borrowed capital for i enterprises at time t (+)

$\boldsymbol{SZ_{1t}}$ = Size of firm, defined as percentage change in both permanent and temporary employees of i enterprises at time t over the period of last five years -2015/16 to 2019/20 (+)

$\boldsymbol{AGE_{1t}}$ = Age of enterprises *i* at time t (- or +)

$\boldsymbol{INR_{1t}}$ = Internationalization of firms, Dummy variable that equals 1 if SME have export strategy and 0 otherwise (+).

In conclusion, survey of SMEs, documentary analysis (documents held by SMEs), and in-depth interviews with bank and MFIs managers/officials was separately held to gather data for the quest of the research objective. The result from these methods of inquiry was separately present and jointly analyze to address the various research questions and to empirically test the hypothesis. The analysis was being on the results obtained and literature guide.

# CHAPTER FOUR

# RESULTS AND ANALYSIS

## 4.1. Introduction

The preceding chapter presented the hypothesis and research questions along with choice and rationale of the research approaches adopted for this study. This chapter presents respectively the results and analysis of the findings of different research techniques used. The first section presents the outcomes of the different methods used independently. Next, the results obtained using different methods are jointly analyzed in section two to address the hypothesis and each research question.

### 4.1.1. Results

This section presents respectively the survey results obtained from sample SMEs and in-depth interview results gathered from selected financial institutions and the results of regression model based on the available information (financial as well as non-financial) accumulated from SMEs records

#### 4.1.1.1. Survey results

As indicated in the previous chapter, survey was the main strategy of inquiry adopted to investigate the role of financial institutions in the growth of SMEs. To this end, the results obtained from the survey are presented in three parts. The first part reveals respondent's profile. This is followed by role of banks and MFIs on the growth of SMEs in part two and part three respectively.

##### 4.1.1.1.1. Respondents' profile

The survey instrument was distributed to a total of 162 respondents, among which 158 questionnaires were collected. From these collected questionnaires 7 questionnaires rejected as incomplete, or were not suitable for use in this study. Only 151 were found to be usage questionnaires that filled completely. Based on usable responses only, the response rate was 93.2%.

As it is depicted on Table 4.1, from the total of 151 respondents 33 (21.85%) of them are female and 118 (78.15%) of them are male.

**Table 4.1 Gender**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | female | 33 | 21.9 | 21.9 | 21.9 |
| | male | 118 | 78.1 | 78.1 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

About 4.6 percent of survey respondents had bachelor degree, while 55 percent hold Diploma, 39.7 percent hold less than diploma, and 4.6 percent had a Master Degree or above in a particular profession (table 4.2.).

**Table 4.2 Respondents' level of education***

| Level of education | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Diploma | 83 | 55.0 | 55.0 | 55.0 |
| | bachelor degree | 7 | 4.6 | 4.6 | 59.6 |
| | masters or above | 1 | .7 | .7 | 60.3 |
| | Others | 60 | 39.7 | 39.7 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

Regarding the current position, 15.2 percent of the survey respondents were managers while 68.2 percent and 16.6 percent of the respondents were owners/mangers and sales persons respectively (table 4.3).

**Table 4.3 Respondents' current position***

| Current position | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Manager | 23 | 15.2 | 15.2 | 15.2 |
| | owner/manager | 103 | 68.2 | 68.2 | 83.4 |
| | sales person | 25 | 16.6 | 16.6 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

In terms of year of experience, 66.2 percent of the survey respondents had 1 to 5 years of work experience while 11.3 percent had 5 to 10 years of experience. The rest had less than 1 year and more than 10 years of experience (table 4.4).

**Table 4.4 Respondents by years of work experience***

| Years of experiences | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Less than one year | 31 | 20.5 | 20.5 | 20.5 |
| | 1-5 years | 100 | 66.2 | 66.2 | 86.8 |
| | 5-10 years | 17 | 11.3 | 11.3 | 98.0 |
| | more than 10 years | 3 | 2.0 | 2.0 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

Regarding the age of business, 13.9 percent of survey respondents' firms were less than five years old and 26.5 percent of survey respondents' firms were between 1 and 5 years while 59.6 percent indicated that their businesses existed for more than five years (table 4.5).

**Table 4.5 Age of business***

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | less than one year | 21 | 13.9 | 13.9 | 13.9 |
| | 1-5years | 40 | 26.5 | 26.5 | 40.4 |
| | 5-10years | 72 | 47.7 | 47.7 | 88.1 |
| | 10-14years | 17 | 11.3 | 11.3 | 99.3 |
| | more than 14 years | 1 | .7 | .7 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

In terms of business activities, 12.6 percent, 9.9 percent, 60.3 percent, and 13.9 percent of survey respondents were manufacturing, services, agriculture, and trade respectively. The rest were construction (Table4.6).

**Table 4.6 Types of business activity***

| Business activity | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | manufacturing | 19 | 12.6 | 12.6 | 12.6 |
| | trade | 21 | 13.9 | 13.9 | 26.5 |
| | agriculture | 91 | 60.3 | 60.3 | 86.8 |
| | service | 15 | 9.9 | 9.9 | 96.7 |
| | construction | 5 | 3.3 | 3.3 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

As to forms of business ownership, 45 and 13.2 percent of survey respondents were sole proprietors and private limited companies (Plc.) respectively. The rest were partnership (Table 4.7).

**Table 1.7 Business ownership form***

| Forms of ownership | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | sole proprietorship | 68 | 45.0 | 45.0 | 45.0 |
| | Partnership | 63 | 41.7 | 41.7 | 86.8 |
| | private limited company | 20 | 13.2 | 13.2 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

According to the data presented in Table 4.8, about 50.3 percent of business surveyed had between eleven and twenty employees 27.8 percent had between six and ten employees 10.6 percent between one and five the rest percent more than 20 employees.

**Table 4.8 Business by number of employees***

| Number of employees | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1-5 | 16 | 10.6 | 10.6 | 10.6 |
| | 6-10 | 42 | 27.8 | 27.8 | 38.4 |
| | 11-20 | 76 | 50.3 | 50.3 | 88.7 |
| | 21-50 | 16 | 10.6 | 10.6 | 99.3 |
| | more than 50 employees | 1 | .7 | .7 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

Almost 99.3 percent of SMEs faced some degree of market competition while 0.7 percent had no market competition in their sector (table 4.9).

**Table 4.9 Business by level of market competition***

| Market competition | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | no competition | 1 | .7 | .7 | .7 |
| | moderate competition | 42 | 27.8 | 27.8 | 28.5 |
| | strong competition | 67 | 44.4 | 44.4 | 72.8 |
| | severe competition | 41 | 27.2 | 27.2 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

In terms of annual turnover, during the 2018/19 fiscal year, 13.2 percent of survey respondents had total sales of birr10, 000 or less. About 25.2 percent, 50.3 percent, 10.6 percent, and 0.7 percent of SME survey respondents had total annual sales of birr 10,001 to birr 50.000, birr 50,001 to birr 100,000, birr 100.001to one million birr, and above one million birr respectively (Table 4.10).

**Table 4.10 SMEs by annual sales for 2018/19 fiscal year***

| Fiscal year | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | birr 10000 or less | 20 | 13.2 | 13.2 | 13.2 |
| | birr 10,001-50,000 | 38 | 25.2 | 25.2 | 38.4 |
| | birr 50,001-100,000 | 76 | 50.3 | 50.3 | 88.7 |
| | birr 100,001-1000,000 | 16 | 10.6 | 10.6 | 99.3 |
| | birr 1000,001 or more | 1 | .7 | .7 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

According to the data presented in table 4.11, about 82.1 percent of survey respondents sold their products/services in the domestic market. However, the firms participating in export trade had low proportion of export to total sales.

**Table 11 SMEs by export to total sales ratio in 2018/19 fiscal year***

| Fiscal year | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1-10% | 16 | 10.6 | 10.6 | 10.6 |
| | 11-20% | 6 | 4.0 | 4.0 | 14.6 |
| | 21-50% | 4 | 2.6 | 2.6 | 17.2 |
| | more than 50% | 1 | .7 | .7 | 17.9 |
| | no export | 124 | 82.1 | 82.1 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

#### 4.1.1.1.2. Role of Banks in the Growth of SMEs

To capture information regarding the relative importance of banks in SMEs growth, survey respondents were asked about the accessibility of bank products and services. About 58.9 percent of survey respondents had access to financial resources from banks. The balance had no access to the financial resources provided by banks (table 4.12).

**Table 4.12 Access to bank loans**

| Access to banks loans | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | yes | 89 | 58.9 | 58.9 | 58.9 |
| | no | 62 | 41.1 | 41.1 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

In order to investigate factors for inaccessibility of bank loans, survey respondents were asked to indicate the reasons. As presented in table 4.13, some SMEs were discouraged from applying by high collateral requirement (26.5 percent), difficulty of processes involved (3.3 percent), high cost of borrowing (1.3 percent) and fear of repayment ability (6 percent).

**Table 4.13 Reasons for not having access to bank loans**

| Reasons for not having access to bank loans | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | | 89 | 58.9 | 58.9 | 58.9 |
| | inadequate collateral | 40 | 26.5 | 26.5 | 85.4 |
| | no need for credit | 6 | 4.0 | 4.0 | 89.4 |
| | fear of inability to repay | 9 | 6.0 | 6.0 | 95.4 |
| | high borrowing cost | 2 | 1.3 | 1.3 | 96.7 |
| | process too difficult | 5 | 3.3 | 3.3 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

To investigate the real accessibility of bank loans, SMEs that had access to financial resources were asked whether they ever applied and received bank loan (table 4.14).

**Table 4.14 Bank loans applied and received**

| Bank loans received | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | yes | 62 | 41.1 | 41.1 | 41.1 |
| | no | 89 | 58.9 | 58.9 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

SMEs that applied and received loans were also asked about terms of credit (i.e. maturity period) involved in relation to bank loans (table 4.15).

**Table 4.15 Bank loans maturity periods**

| Loans maturity Periods | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 0-1year | 89 | 58.9 | 100.0 | 100.0 |
| Missing | System | 62 | 41.1 | | |
| Total | | 151 | 100.0 | | |

The use of collateral/guarantee to secure loans was also quite common among all types of lenders (except informal sources such as iqub, friends and relatives) with noticeable differences in the extent of coverage. Looking at table 4.16, it can be noted that the criteria in granting bank loans were based on various types of securities/guarantee. About 98.7 percent of survey respondents that had access to bank loans indicated that enterprises must have valid documents of property ownership certificate while 0.7 percent were showed that enterprises must present third party guarantee as collateral. The rest of survey respondents indicated that banks were assessing previous loans records and current business status.

**Table 4.16 Banks loans criteria**

| Loans criteria | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Collateral | 149 | 98.7 | 98.7 | 98.7 |
| | business plan | 1 | .7 | .7 | 99.3 |
| | third party guarantor | 1 | .7 | .7 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

As table 4.17 presents, 94 percent of survey respondents indicated that bank loans criteria were not easy to meet.

**Table 4.17 Simplicity of bank loans criteria**

| Simplicity of bank loans criteria | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | yes | 9 | 6.0 | 6.0 | 6.0 |
| | no | 142 | 94.0 | 94.0 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

About 97.4 percent of survey respondents that had not access to bank loans had received inadequate funds from banks. The balance indicated that bank loans were inadequate for financing of operating activities as well as for investing activities (table 4.18).

**Table 4.18 Adequacy of bank loans**

| Adequacy of bank loans | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | yes | 4 | 2.6 | 2.6 | 2.6 |
| | no | 147 | 97.4 | 97.4 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

Table 4.19 presents that bank loans were most commonly used for financing operating activities (95.4 percent). Despite the common belief that bank loans are typically used for medium- (1 to 3 years) and short-term ( less than 1 year) financing requirements, a good number of the survey respondents indicates that bank loans were also used to purchase of long lived assets like business house and machinery (4.6 percent).

**Table 4.19 Purposes of bank loans**

| Purpose of bank loan | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | purchase of inputs/raw materials | 144 | 95.4 | 95.4 | 95.4 |
| | purchase of long lived assets (like machinery, business building) | 7 | 4.6 | 4.6 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

Among the 5 SMEs which actually applied and received banks loans, 3.3 percent had difficulties in paying back the loan while the remaining 96.7 percent did not face any problem in paying back the borrowed funds (table 4.20).

**Table 4.20 SMEs that face problems in paying back bank loans**

| Loans back pay problems | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | yes | 5 | 3.3 | 3.3 | 3.3 |
| | no | 146 | 96.7 | 96.7 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

Cash flow and liquidity problem (current assets are less than current liabilities) were among the common problems encountered by SMEs. The two main mechanisms that SMEs used to resolve such problems were borrowing from informal sources and postpone the payment date. Use of informal source of finance was widespread, for instance, 29 percent of survey respondents used iqubs, friends and relatives as means of mitigating liquidity problem.

**Table 4.21 Additional services offered by banks**

| Bank additional services | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | set business plans and regular control of business | 151 | 100.0 | 100.0 | 100.0 |

According to table 4.22,100 percent survey respondents indicates that banks had special products/services to SMEs.

**Table 4.22 Special products and services offered by banks***

| Bank special products and services | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Valid | provide the necessary skills and counseling | 151 | 100.0 | 100.0 | 100.0 |

### 4.1.1.1.3. Role of MFIs in the growth of SMEs

The prospective of microfinance is to broaden access to financial services for lower income levels and increases the amount of undertaken productive projects. By inclusion into the financial sector, improved income-generation is predicted. MFIs are supposed to be different from other financial institutions in that they are believed (and particularly established) to serve the microfinance needs of those who are underserved by banks. Several parameters can be used to assess the extent to which MFIs are actually doing this. These include accessibility, criteria used to offer loan, package of services delivered, adequacy of loan amount, and appropriateness of the loan duration and timeliness of disbursement.

According to the data presented in table 4.23, 70.9 percent of survey respondents had access to and receive financial resources from MFIs. Accessing credit is considered to be an important factor in increasing the development of SMEs

**Table 4.23 Access to MFIs loans**

| Accessibility of microfinance institution loans | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | yes | 107 | 70.9 | 70.9 | 70.9 |
| | no | 44 | 29.1 | 29.1 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

100 percent of survey respondents that had access to MFIs credit received loans with a maturity period of less than one year (Table 4.24).

**Table 4.24 MFIs loan maturity periods**

| MFIs loans maturity period | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Valid | less than 1 year | 151 | 100.0 | 100.0 | 100.0 |

One more prominent result depicts that 100 percent of survey respondents said that MF’s' loans criteria were not easy to meet (Table 4.25).

**Table 4.25 Simplicity of MFIs loans criteria**

| Simplicity of MFIs loans criteria | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Valid no | 151 | 100.0 | 100.0 | 100.0 |

Some MFIs failed to provide credit to SMEs. The most frequently mentioned reasons were: inadequate collateral 26.5 percent; other reasons were also given by survey respondents such as high borrowing cost, no need for credit and fear of in ability to repay and difficulty of the process (table 4.26).

**Table 4.26 Reasons for not having access to MFIs loans**

| Reasons for not having access to MFIs loans | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | | 89 | 58.9 | 58.9 | 58.9 |
| | inadequate collateral | 40 | 26.5 | 26.5 | 85.4 |
| | no need for credit | 6 | 4.0 | 4.0 | 89.4 |
| | fear of inability to repay | 9 | 6.0 | 6.0 | 95.4 |
| | high borrowing cost | 2 | 1.3 | 1.3 | 96.7 |
| | process too difficult | 5 | 3.3 | 3.3 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

Table 4.27 shows 96.7 percent of survey respondents indicate that collateral *were* the criteria to receive loans. The rest are 3.3 percent said that business plan,

**Table 4.27 MFIs loans criteria's**

| MIFs loans criteria's | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | collateral | 146 | 96.7 | 96.7 | 96.7 |
| | business plan | 5 | 3.3 | 3.3 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

About 76.2 percent of survey respondents had received inadequate fund (i.e. MFIs are far from meeting the loan requirements of their clients). The rest was for those who had received adequate funds (table 4.28).

**Table 4.28 Adequacy of MFIs loans**

| Adequacy of MFIs loans | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | yes | 36 | 23.8 | 23.8 | 23.8 |
| | no | 115 | 76.2 | 76.2 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

In terms of loans purposes, about 82.1 percent of survey respondents indicated that MFIs loans were most commonly used for the purchase of inputs/raw materials while 17.9 percent said that they were used to purchase long lived assets like business house, machinery (Table 4.29).

**Table 4.29 Purposes of MFIs loans**

| Purpose of MFIs loans | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | raw materials | 124 | 82.1 | 82.1 | 82.1 |
| | purchase long lived assets like machinery, business building | 27 | 17.9 | 17.9 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

According to the data presented in table 4.30, among 151 SMEs that actually received MFIs loans, 11.3 percent had problems in paying back their loans. The rest 88.7 percent did not have any problem in paying back the loans. Inflexibility of loan period in accordance with the working condition of SMEs, failure of the business venture and market conditions were among the problems encountered by SMEs. Sometimes, MFIs had provided some remedies to SMEs to tackle such problems such as postpone payment date instead of forcing for immediate payment, refinancing future potential projects, and make constant supervision of business activities.

**Table 4.30 SMEs that face problems in paying back the MFIs loans**

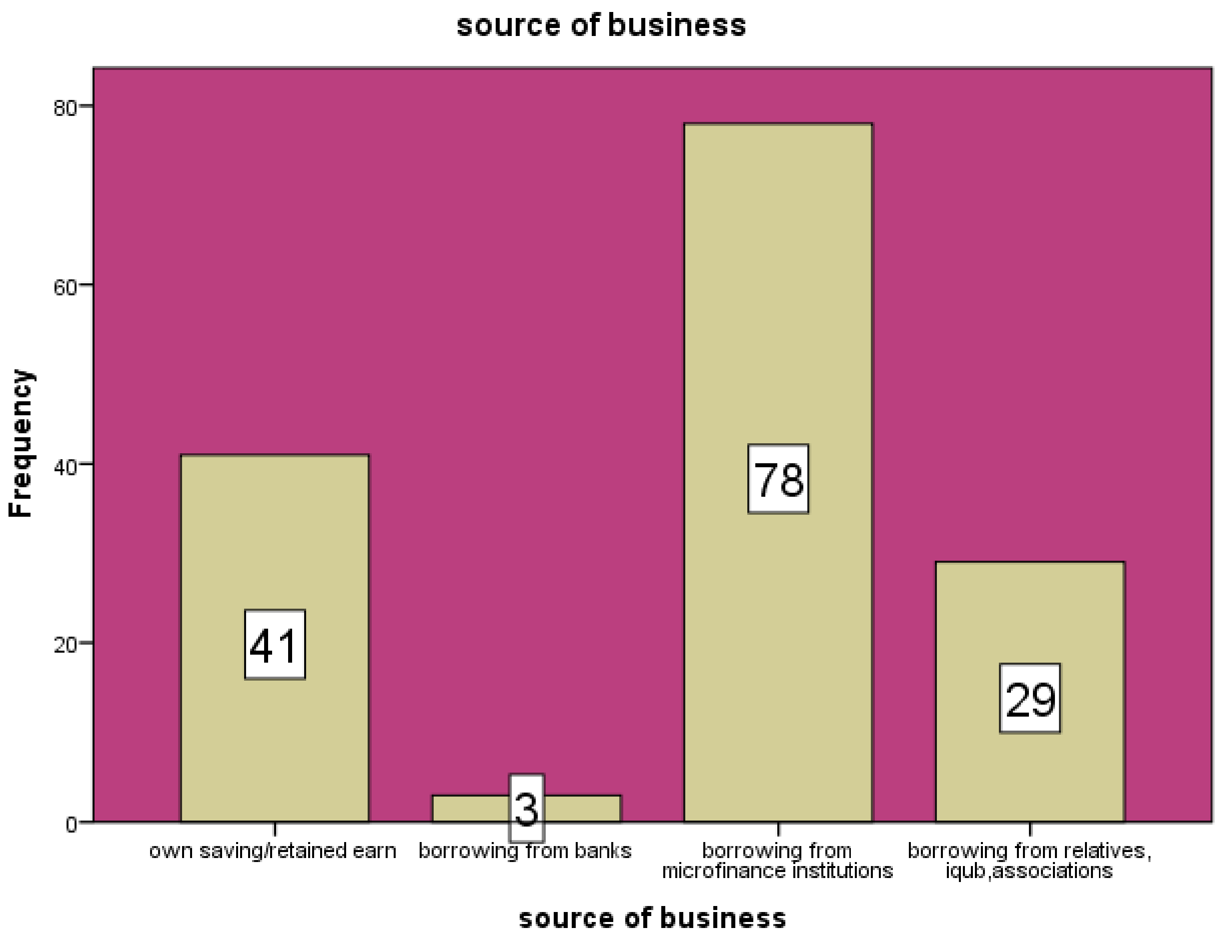
| Loans pay back problems | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | yes | 17 | 11.3 | 11.3 | 11.3 |
| | no | 134 | 88.7 | 88.7 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

Survey respondents were also asked about the additional product/services apart from financial services offered by MFIs. In this regard, 2.6 percent of the respondents indicated that MFIs help them in providing the necessary skills and counseling. About 97.4percent indicated that educating employee on the product and services offered (table 4.31).

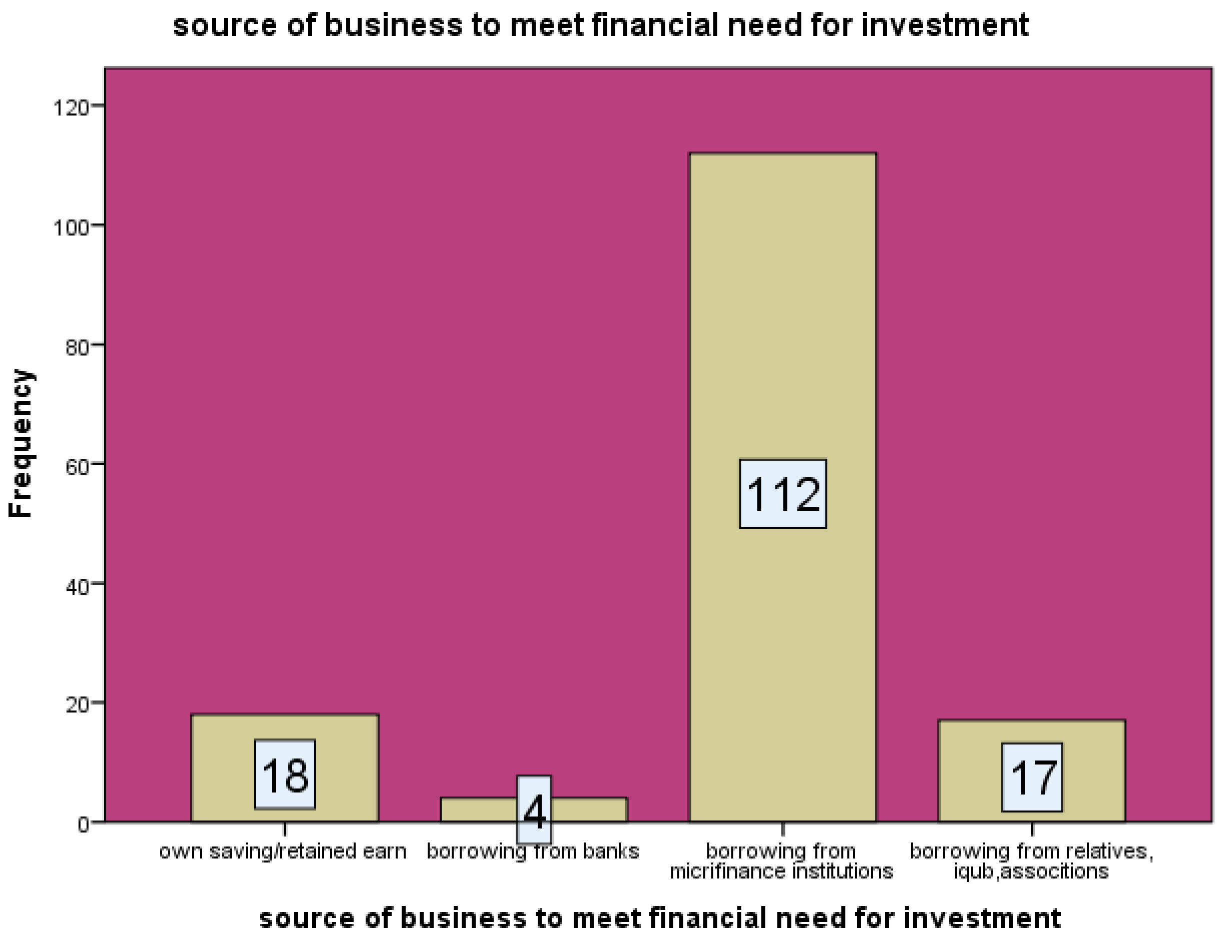
**Table 4.31 MFIs additional services**

| MFIs additional services | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | educating employee on the products and services offered | 147 | 97.4 | 97.4 | 97.4 |
| | provide the necessary skills and counseling | 4 | 2.6 | 2.6 | 100.0 |
| | Total | 151 | 100.0 | 100.0 | |

Survey respondents were also asked to identify the sources they normally use to meet their finance needs for working capital and medium & long term investment separately. The results are given in graph 4.1 and 4.2 respectively. It can be observed that borrowing from microfinance institutions were rated as the single most important source of finance both for working capital and medium & long term investment.




Despite this, banks and MFIs also provided financial resources to finance working capital and investment needs. MFIs were primarily providing short-term loans. However, bank loans were good for financing investment needs.




### 4.1.2. In-depth interview Results

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

#### 4.1.2.1. Bank products and services

In depth-interviews were conducted with bank officials and /or managers. According to the outcomes of the interviews, banks offer financial as well as non-financial products and services to SMEs. The first important service of banks was mobilizing deposits from the public and business community. Depending upon the nature of deposits (current/demand deposit, saving deposit, fixed deposit, recurring deposit, miscellaneous deposits), funds deposited with banks also earn interest. Thus, deposits with the banks grow along with the interest earned.

The second important function of banks was grant loans and advances. Such loans and advances are given to fulfill the financing requirement of the business community. The rate of interest charged on loans and advances varies depending upon the purpose, period and the mode of repayment. The borrower may withdraw and repaid the entire amount in lump sum or in installments. An advance is a credit facility provided by the bank to its customers. It differs from loan in the sense that loans may be granted for longer period, but advances are normally granted for a short period of time. Further the purpose of granting advances was to meet the day to day requirements of business.

Besides the primary functions of accepting deposits and lending money, banks were performing a number of secondary functions. These include: issuing letters of credit, demand drafts and pay orders, transferring money from one place to another, and other transactional products such as currency alteration, liquidity, quantity divisibility, and maturity flexibility and collecting and supplying business information.

Apart from these two main activities, banks were also rendering a number of auxiliary services. These services supplement the main activities of the banks. They broadly fall under two categories: agency services and general utility services. Agency services are those services which were rendered by banks as agents of their customers. They include: collection and payment of money, and payment of checks and bills on behalf of the customers, if so instructed; acting as a trustee or executor; acting as agents or correspondents on behalf of customers for other banks and financial institutions at home and abroad. General utility services are those services which are rendered by banks not only to the customers but also to the general public. These are available to the public on payment of a fee or charge. They include: safe-keeping of valuables in safe deposit locker; supplying trade information and statistical data useful to customers; and acting as a referee regarding the financial status of customers.

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

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

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

### 4.1.2.2. Microfinance institutions' products and services

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

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

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

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

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

#### 4.1.2.3 Pearson correlation analysis between customer satisfaction and service quality dimensions

Pearson correlation analysis was performed for this study to determine the relationship that exists between the five service quality dimensions and customer satisfaction and also to see the relationship that exists among service quality dimensions themselves. The results are presented on table 4.32 below

**Table 4.32 Correlations**

| | | sales | Internationalization | Employees | Age | Debt |
|---|---|---|---|---|---|---|
| Sales | Pearson Correlation | 1 | | | | |
| | Sig. (2-tailed) | | | | | |
| | N | 151 | | | | |
| Internationalization | Pearson Correlation | .799** | 1 | | | |
| | Sig. (2-tailed) | .000 | | | | |
| | N | 151 | 151 | | | |
| Employees | Pearson Correlation | .828** | .794** | 1 | | |
| | Sig. (2-tailed) | .000 | .000 | | | |
| | N | 151 | 151 | 151 | | |
| Age | Pearson Correlation | .824** | .832** | .820** | 1 | |
| | Sig. (2-tailed) | .000 | .000 | .000 | | |
| | N | 151 | 151 | 151 | 151 | |
| debt | Pearson Correlation | .764** | .756** | .757** | .738** | 1 |
| | Sig. (2-tailed) | .000 | .000 | .000 | .000 | |
| | N | 151 | 151 | 151 | 151 | 151 |

**. Correlation is significant at the 0.01 level (2-tailed).

As it can be seen from the table all the four service quality independent variable were significantly correlated with annual sale. The dimension that was highly correlated with sales was employee (correlation coefficient = 0.828) followed by age (correlation coefficient = 0.824), Internationalization (correlation coefficient = 0.784), and finally debt was found to be the dimension that was least correlated with sale (with correlation coefficient = 0764). This result shows that employee is the dominant and most important sales quality dimension as perceived by customers of Sokoru sub-city followed by age, and, internationalization. On the other hand debt is the least important service quality dimension as perceived by customers Sokoru city compared to the other four dimension but it is significant enough to correlate with annual sales and hence to improve the level of annual sale. Generally an improvement in the level of annual sale with respect to all of the four dimensions will bring an improvement on the level of annual sale.

The correlation result presented on table 4.12 also shows that there was a significant positive correlation among the four independent variable dimensions themselves. The highest correlation was found between age & employee (0.820) followed by employee and internationalization (0.794), and debt with employee (0.757), age with internationalization (0.832) debt & internationalization (0.756), This result indicates that an improvement in one independent variable quality dimension will bring a significant improvement on the other dimensions.

### 4.1.3. Documentary analysis – regression estimates

Finally, role of financial institutions in the growth of SMEs has been examined by estimating linear regression model. The data for this section was collected from different documents kept by SMEs coupled with survey. The mean loan value of SME along with the control variables for five years has been regressed against mean values of growth variable i.e. sales of each SME. Table 4.32 and 4.33 shows the result of descriptive statistics and regression model respectively.

**Table 4.33 Descriptive Statistics**

| **Variables** | | **Age** | **Employment** | **Sales** | **Debt** | **Internationalization** |
|---|---|---|---|---|---|---|
| N | Valid | 151 | 151 | 151 | 151 | 151 |
| | Missing | 0 | 0 | 0 | 0 | 0 |
| Mean | | 1.95 | 1.04 | 3.00 | 1.00 | 4.95 |
| Median | | 2.00 | 1.00 | 3.00 | 1.00 | 5.00 |
| Std. Deviation | | .514 | .227 | .589 | .000 | .459 |
| Minimum | | 1 | 1 | 1 | 1 | 1 |
| Maximum | | 3 | 3 | 5 | 1 | 5 |

It was used annual sales as a measure of firm growth as dependent variable and measured by the growth rate in percentage terms. Sales growth is significantly influenced by the following set of variables: external finance (percentage change in total borrowed capital from bank and MFIs), firm size (percentage change in employees), age of firms, and internationalization (dummy variable that equals 1 if SME have export strategy and 0 otherwise).

To ensure the statistical adequacy of the model (to satisfy the assumption of classical linear regression model), diagnostic tests were performed and violations were also detected. The adjusted *R*2 value indicates that 77 percent of the total variability of growth (percentage change in sales) about their mean value was explained by the model. For a cross sectional regression, this is fairly high (Brooks, 2008). The Durbin-Watson statistics of 1.974 indicating no evidence for autocorrelation between the independent variables of the regressions model (Brooks, 2008).

**Table 4.34 Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .881 | .776 | .770 | .418 | 1.974 |

### 4.1.3.2 Multicollinearity test

In order to confirm the acceptance of the regression model, collinearity diagnostics test was performed to check the existence of multicollinearity problem. According to Menard (1995) a tolerance value lower than 0.20 suggests a multicollinearity problem. As indicated on table 4.13 the minimum tolerance value for the model was 0.325 which is greater than 0.2. In addition to this according to Myers (1990), a variance inflation factor (VIF) above 10 indicates the possible existence of a multicollinearity problem and hence VIF should be less than 10. Again as shown on table 4.13 the maximum VIF for the model was 0.261 which is by far less than 10. Hence both cases indicated the absence of multicollinearity problem.

Table 4.35

**Coefficients**

| Model | | Collinearity Statistics | |
|---|---|---|---|
| | | Tolerance | VIF |
| 1 | age | .235 | 4.263 |
| | employee | .261 | 3.829 |
| | internalization | .249 | 4.021 |
| | debt | .355 | 2.814 |

### 4.1.3.3 Regression coefficients

**Table 4.36 regression coefficient**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | .097 | .118 | | .823 | .412 |
| Age | .281 | .079 | .286 | 3.539 | .001 |
| Employee | .335 | .080 | .322 | 4.200 | .000 |
| Internationalization | .164 | .077 | .167 | 2.127 | .035 |
| Debt | .188 | .067 | .184 | 2.795 | .006 |

As shown on table 4.15 the „b" coefficients which indicate the extent or the strength of the influence of each independent variable on the dependent variable (customer satisfaction) for age, employee, internationalization, and debt were 0.281, 0.335, 0.164 and 0.188 respectively. The mere interpretation of this shows that for a unit increase of age, employee, internationalization, and debt the corresponding increase in customer satisfaction are 0.281, 0.335, 0.164, and 0.188 respectively. Put it differently, that „b" coefficients for the four service quality dimensions (age, employee, internationalization & debt) are statistically significant at 95% confidence interval. This indicates that all the four independent variables dimensions have a significant and positive effect on annual sales, which agrees with the results of correlation analysis presented earlier and answer the main research question and sub questions of the study.

### 4.1.3.4 The equation for the regression line of the model

Based on the above results of „b" coefficients (table 4.15) for the four independent variables (quality dimensions) it is possible to derive the equation for the regression line as shown below.

$$Y = \beta_0 + \beta_1 (DBM1_t) + \beta_2 (SZ1_t) + \beta_3 (AGE1_t) + \beta_4 (INR1_t) + \varepsilon$$

**GR**= 0.097+ 0.188 DBM+0.335 SZ+0.281 AGE+0.164 INR1

Where:

$\beta_0$ = a constant; the average growth when all independent variables are zero

**GR** = growth rate

**DBM**=debt

**SZ**=size

**AGE**=age

**INR**=internalization

This chapter has separately presented the results of different methods adopted Specifically the SMEs and in-depth interviews with banks and MFIs managers /officials. In order to address the research problems and achieve research objective, the results of the different data collection methods were jointly analyzed. The analyses were based on the results obtained and literature guide. The next section, presents the analysis of each of these methods of inquiry to address each of the research questions and hypothesis.

## 4.2. Data analysis

The purpose of this section is to address each research questions and hypothesis in achieving the overall objective of the study using data presented in the preceding section. Hence, the results obtained under different methods are jointly analyzed to address each research questions and hypothesis.

### 4.2.1. Roles of financial institutions

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

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

Banks, as Allen and Gale (2008) noted, have historically been viewed as playing a good role in firm's growth for two reasons. One is that they perform a critical role in facilitating payments. The other is that they have long played an important role in channeling credit to households and businesses. Commercial banks, as well as other

Intermediaries, provide services in screening and monitoring borrowers; and by developing expertise as well as diversifying across many borrowers, banks reduce the costs of supplying credit. Thus, in their role as lenders, banks are often not merely buying someone's debt; rather, they are providing significant financial services associated with extending credit to their customers. And to the extent that investors want to hold bank liabilities, banks can fund borrowers directly.

Examination of the results in respect of roles of banks in the growth of SMEs showed the following findings. Firstly, banks provided both short and long term financial resources to SMEs for working capital as well as investment financing requirements. About 58.9 percent of SMEs had access to and received financial services from banks (table 4.12). This seems to support the view that SMEs use banks as one source of finance (Hoshi, 1990). This enables the SMEs to finance urgently needed expenditures. As Edwards and Fischer (1994) noted, borrowing from banks has many advantages to the business community than other sources. First, finance is available for a definite period; hence it is not a permanent burden. Second, banks keep the financial operations of their clients secret. Third, banks do not interfere in the internal affairs of the borrowing concern; hence the management retains the control of the company. As shown in table 4.19, 4.20, 4.32, and 4.33, banks finance a significant proportion of companies' investment needs and also provided finance for working capital requirements.

Secondly, it was also interesting that bank loans were used for the payment of previous loans, which is in support of the refinancing role of financial institutions (table 4.19). This means of financing is commonly used by firms when the cost of previous borrowed funds is higher than the current interest rate (Edwards and Fischer, 1994).

Thirdly, SMEs typically received a variety of additional financial services that only banks are well-positioned to provide. These include cash management, saving and payments, and other transactional products i.e. currency alteration, liquidity, quantity divisibility, and maturity flexibility (table 4.21).

Fourthly, besides providing financial resources, banks, as discussed in Allen and Gale (2008), help SMEs growth through ameliorating information problems, ensuring proper utilization of funds, provide inter temporal smoothing of risk, and standing guarantee on behalf of its customers for making payments.

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

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

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

Examination of the results in respect of role of MFIs in the growth of SMEs demonstrated the following outcomes. Firstly, 70.9 percent of SMEs had access to and received financial services from MFIs (table 4.23). It is believed that access to credit enables SMEs to overcome their liquidity constraints and undertake some investments such as the improvement of technological inputs thereby leading to an increase in production (Robinson, 2003).The financial services delivered by MFIs were lending and savings. The types of loan provided by MFIs take two forms such as term loans and installment loans. 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. It is thought that credit augment growth of SMEs.

MFIs also deliver voluntary and compulsory saving activities. Compulsory saving may have an advantage of developing saving culture among SMEs. MFIs also attempt to deliver demand-driven financial products that meet the need of clients in various activities.

Secondly, apart from financial services, MFIs also provided non-financial services to SMEs. The major non-financial services provided by MFIs were training, setting up business plan and monitoring and supervisions, consulting services, and experience sharing forums (table 4.30). Some MFIs provide enterprise development training in the area of marketing, bookkeeping, and Social services. Social services such as health care, education and literacy training that improve the ability of the low-income earners. Sometimes MFIs also provides third party asset management (act as trustee), insurance and other transactional facilities (table 4.31).

Thirdly, the deliveries of MFIs' products and services had transaction cost consequences in order to have greater outreach (Christabell, 2009). MFIs visit their clients instead of them to come to the institution thereby reducing the cost that clients may suffer from. Microfinance clients admit that convenience is more important to them than return.

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

### 4.2.2. Forms of finance

Before one could set up any business venture, it needs a certain amount of capital, whether the business venture falls under the small, medium or large scale category. Firms' financing can be broadly divided into internal and external funds. A firm can use one of these two financing sources only or, as is more often the case in practice, a mixture of them. Traditionally, internal funding, i.e. personal savings, retained profit and sales of assets, is an important means of financing for SMEs. As Boot (2000) noted, investing personal savings maximizes the control of the entrepreneur keeps over the business. It is also a strong signal of commitment to outside investors or providers of funds.

External funding can be broadly divided into debt and equity. In practice, equity finance is limited in Ethiopia (Ageba and Amha, 2006). With respect to this study, this section investigates financial institutions' forms of debt financing used to finance SMEs working capital and investment needs.

There were varieties of sources of working capital finance for SMEs (Allen and Gregory, 2005). However, quite a number of SMEs survey respondents indicate that their main sources of working capital were from MFIs (51.7 percent), and informal sources like friends, relatives and *iqub* (19.2 percent). In addition, a significant number of SMEs indicates that they were obtained loans from own saving/retained earn (27.2 percent), and bank institution (2 percent) to finance working capital. Poor performance was observed in respect of loans from government agencies (graph 4.1). This is an indication that most of financial institutions were established to provide credit to the SMEs. The outcomes of interviews with bank managers/officials revealed that bank credit was available in such forms. First, cash credit, under this facility, the bank specifies a predetermined limit and the borrower were allowed to withdraw funds from the bank up to that sanctioned credit limit. Second, overdraft, under this arrangement, the borrower is allowed to withdraw funds in excess of the actual credit balance in its current account up to a certain specified limit during a stipulated period. Third, short term loan, under this system, the total amount of borrowing is credited to the current account of the borrower or released to the borrower in cash.

On the other hand, MFIs also grant working capital requirement in the form of term loans and installment loans. MFIs provide its lending services using mostly the group-based lending. However, cooperative and individual based lending methodologies were lately introduced in the system. Group members are jointly responsible for the loan. They will take the risk if one of a group member fails to repay the loan. The cooperative based loan requires physical asset or capital as collateral. Similarly the individual loan requires property or salary of permanent employees as collateral. Before taking the loan, all clients are required to undertake a training or orientation.

There were also a lot of sources available for funding of SMEs investment needs. These include among others personal savings, cooperative societies, government agencies, financial institutions, and international donor agencies (Allen and Gregory, 2005). Examination of the results revealed the following findings. Graph 4.2 reveals that major source of finance for investment needs of SMEs were personal saving (11.9 percent), family and friends (11.3 percent), banking institutions (2.6 percent), and MFIs (74.2 percent). As Ageba and Amha (2006) discussed owner's savings and family and friends were still constitute a major source of financing for both working capital and investment requirements in Ethiopia. This was due to that informal loans take place among parties with utmost good faith, making the transactional costs and collateral requirement low. Indeed, bank loans, cash credit and overdrafts and MFIs loans were not only used to finance working capital but also investment needs. Beck et al (2004) also show that small firms finance a smaller share of their investment with formal sources of external finance.

From the above discussion, even though personal savings and informal sources are the forms of finance, banks and MFIs also played greater roles in financing working capital and investment requirements of SMEs. As the results presented in table 4.15; table 4.19; table 4.24, and table 4.29, finance available from these financial institutions were used to finance both day to day operating activities and investment needs. But the MFIs finance for meeting working capital needs was easily available to SMEs than bank financial resources. This was because microfinance institution loans criteria were easy and simple to fulfill. The view that requirement of collateral and loans criteria are relatively simple in case of MFIs than banks is consistent with expectations since such loans take place among parties with intimate knowledge, making the need for security (in the form of asset collateral and guarantee) low (Ledgerwood, 1999).

### 4.2.3. Accessibility of financial institutions

Several parameters were used in this study to assess the accessibility and affordability of financial institutions, specifically banks and MFIs' funds. These include criteria used to offer the loan, simplicity of loan criteria, adequacy of loan amount being provided, and timeliness of disbursement.

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

Examination of results in respect to accessibility and affordability revealed the following outcomes. Firstly, about 41.1 percent of SMEs survey respondents indicate that the bank loans were inaccessible and unaffordable (table 4.14). The possible explanations for inaccessibility and unaffordability of bank loans as presented in table 4.14. First it may be considered as discouraging potential borrowers (i.e. firms that need credit but were discouraged from applying by perceived or real high collateral requirement (26.5 percent), difficulty of processes involved and worsen terms and conditions (3.3 percent), high cost of borrowing (1.3percent), or fear of repayment ability (6 percent)). Second it may be considered as uninformed i.e. not aware of the facility, or where and how to apply (11.7 percent). About 97.4 percent indicates that bank loans were inadequate for financing of operating activities as well as for investing activities (table 4.19).

Regarding the MFIs, 41.1 percent of survey respondents indicate that the MFI loans were inaccessible and unaffordable. Table 4.26 clearly shows the most frequently mentioned reasons such as respondent’s business size were beyond the target for MFIs credit facilities; respondents were not aware of MFIs loan facilities; difficulty to form a group which is a requirement for MFIs loans, and no MFIs operates in the area (40 percent). Other reasons were also including inadequate collateral, high borrowing cost and fears of in ability to repay, and difficulty of the process to be given a loan.

Secondly, securing financial resources was also determined by the stage or level of business development. Businesses that are viewed as growing had it easy to get a loan (Beck, et al, 2004). But in the context of Ethiopia, as outcomes of interviews with bank managers and/or officials reveals that the main criteria to offer loans were the ability to pay back and to meet the established requirements. Due to this about 94 percent of SMEs find it hard to meet to be given bank loans (table 4.17).

### 4.2.4. The problems that SMEs face

In Ethiopia, the potential sources of finance include banks, MFIs, cooperatives, government projects, semi-formal & informal lenders, as well as trade credit (Ageba and Ahma, 2006). But, having access to some of the sources was a major constraint to SMEs. High collateral and transactional costs, inadequate supply of finance, forms of finance, liquidity, and long and difficult application process were some of the problems that SMEs face in accessing funds. Information asymmetry between loan provider and loan receiver was also other constraints that hindering SMEs growth.

Finance helps firms overcome liquidity constraints and thus improve resource allocation in the economy (Rajan and Zingales, 1998). Allen and Gregory (2005) noted the higher financing obstacles that SMEs report match not only anecdotal evidence from both developed and developing countries; they also confirm theory's predictions. In a world with fixed transaction costs and information asymmetries, small firms with demand for smaller loans face higher transaction costs and face higher risk premiums since they are typically more opaque and have less collateral to offer. (Beck et al (2004) finds that the higher financing obstacles faced by SMEs indeed translates into slower growth.

There were many reasons why the SMEs do not have access to financial services; specifically there were two important problems. First, the smaller firm has no collateral. Second, dealing with small transactions was costly to financial institutions. Financial institutions, specifically banks and MFIs, addressed some of the constraints that SMEs face in accessing funds. First, MFIs tried to overcome these two constraints in many ways: Group lending, cooperative, and individual based lending schemes. These were improving repayment incentives and transactional costs, and also build support networks and educate borrowers. These alternative collateral and credit facilities will prominently enhance SMEs growth by ways of easing SMEs' financing constraints and on increasing their access to formal sources of external finance (Christabell, 2009).

Second, to mitigate financial distress that comes from the mismatching of cash inflows and out flows (loan maturity period), financial institutions were flexing loan terms and conditions/requirements and postpone the payment date. The more time a firms get, the less likely the firm is to experience problems of meeting short-term obligations. Thus, the probability that a firm will avoid financial distress can be enhanced through flexing and postpone payment date (Waterfield and Duval, 1996).

Third, financial institutions, specifically MFIs, were provided consultancy and training to equip SMEs in the area of business skills, book keeping, production, and financial management. As noted in Kayanula and Quartey (2000) training will enhance skills of employees', flexibility in managing the operations, and reduce costs.

Fourth, financial institutions were ameliorated the information problems through their monitoring effort and supply of valuable information. Credit availability to enterprises, but especially to SMEs, depends on the infrastructure that supports financial transactions, including the legal system and the information environment. Commercial laws that effectively assign and protect property rights and their efficient enforcement are crucial for financial transactions (Beck et al., 2004). Allen and Gale (2008) have also shown the positive effect that information has on credit availability to SMEs.

### 4.2.5. Hypothesis (H)

The hypothesis formulated for the purpose of this research work would be tested using the statistical technique. The research hypothesis states that:

**Ho: Loan from financial institutions, banks and MFIs, does not foster SMEs growth.**

**H1: Loan from financial institutions, banks and MFIs, contributes significantly to SMEs growth**

To test this hypothesis, data was obtained from the document analysis coupled with survey. Table 4.1.3.3 shows the result of regression model in which the role of financial institutions on growth measures has been explained. The regression result reveals that there was change in the level of SMEs sales (i.e. growth of SMEs) as a result of change in level of financing by financial institutions.

As noted in Levine (2005) financial institutions potentially shape key aspects of firm dynamics, such as size and growth, and thus industry productivity and growth. The impact across firms of financial institutions is most likely heterogeneous as firms differ in their need of external finance. The actual sign of the coefficients was compared with their expected sign, given in chapter three. This empirical evidence is consistent with the theory of development of financial institutions having significant effect on the firm's growth and size (Rajan and Zingales, 1998; Demirguc¸- Kunt and Maksimovic's, 1998); and Levine, 2005).

As stated in Brooks (2008), another way to evaluate an econometric model is to determine whether it is consistent with theory. In this instance, according to Levine (2005), in a well-functioning financial system, financial institutions potentially shape key aspects of firm dynamics, such as size and growth. Rajan and Zingales (1998) also argued that well-developed financial institutions help firms to overcome problems of moral hazard and adverse selection, thus reducing the firm's cost of raising money from outsiders. Thus, financial institutions could generate an overall positive effect on firm's growth that is comprised of a range of effects across firms.

However, age of the SMEs was not found to be statistically significantly affecting the SMEs growth. This is the views that younger firms would grow rapidly than older firms due to innovative ideas and dynamic management.

In general, the discussions in this chapter endeavored to integrate the results of the quantitative and qualitative methods so as to address the research questions and hypothesis and achieve the research objective. The next chapter presents the summary and conclusions of major findings and highlight implications and future research directions.

### 4.2.6. Summary of the major findings

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

The thesis reviewed literature on the theoretical recognition and empirical evidence of the role of financial institutions in enterprises growth, particularly in SMEs growth. The review highlighted overall role of financial institutions. This shows the various roles that financial institutions, particularly, banks and MFIs, play in the development of SMEs.

With regard to banks, the literature review revealed the banks role in ameliorating information problems and monitoring investments, inter-temporal smoothing of risk, corporate governance, and financing working capital and investment requirements.

In respect of MFIs, the literature review showed that MFIs were established to fill the gap existed between commercial banks and poor or small business entrepreneurs and then increased the amount of undertaken productive projects. Apart from this the review revealed MFIs products and services package available to enterprises such as financial services, social intermediation or non-financial services and enterprises development services.

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

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

The review of empirical evidence revealed that in spite of their limitedness, financial institutions potentially shape key aspects of firm dynamics, such as size and growth, and then economic growth. Further, in the empirical evidence it was indicated that the previous studies merely focused on access to finance and challenges of SMEs, but other than financing role appeared to be unknown. Finally, in the context of Ethiopia, there is no reliable and comprehensive study to examine the role of financial institutions in SMEs growth. These gaps in the literature led to the current research questions.

It was discussed that depending on the quest for the solution of a problem and research philosophy, a research method would be based on quantitative, qualitative or mixed approach. The thesis examined the three common research approaches features. In general, it was noted that the use of a single methods in assessing a given phenomenon is likely to yield limited outcomes. So, the current study combined both qualitative and quantitative research approaches to get the benefit of a mixed method approach. While the quantitative aspect were survey and documentary analysis (quantitative/qualitative data), the qualitative aspect employed in-depth interviews with banks and MFIs managers/officials. With respect to survey, semi-structured questionnaire was distributed among randomly selected SMEs in Sokoru and a response rate 93 percent was achieved. The survey instrument contained both open and close ended questions. Documentary studies also conducted simultaneously with actual conduct of survey to obtain information that may not be obtained through survey. On the other hand, in-depth interviews with banks and MFIs managers/officials were conducted at different time in their home office in order to have some clarifications on the issues that were raised.

The results of survey coupled with data obtained from documents held by SMEs and in-depth interviews with banks and MFIs managers /officials were jointly used in analyzing role of financial institutions in SMEs growth. In general, the results and analysis reflect the following major findings.

Financial institution has shown an encouraging growth in its growth and outreach. The number of borrowers, average loan size has increased in a remarkable way. However, SMEs has a serious hindrance in gaining access to products and services from financial institutions, particularly from banks. Inadequate collateral, difficulty of processes, fear of inability to repay, and high borrowing cost were frequently mentioned reasons by SMEs for inaccessibility of banks products and services.

Even though they had limited access to banks financial resources, SMEs were received both short term and long term loans. Thus SMEs were used banks as one source of financing either for working capital or investment requirements. Not surprisingly, bank loans were also used not only for operation requirement but also for settlement of previous loans. Similarly, banks were typically provided a variety of additional financial services such as cash management, saving and payment, and other transactional products. Besides providing financial services, banks were help SMEs growth through ameliorating information asymmetry; inter temporal smoothing of risks, and by ensuring proper utilizations of funds. However such contributions of financial as well as non-financial services were found to be by far lower than the SMEs demand.

Concerning with banks products and services, the result of in depth interviews with banks managers and officials revealed that banks also rendering a number of auxiliary services such as agency and general utility services.

Regards the forms of financial assistance, banks offered short term loans, cash credit, and over draft facility to finance SMEs working capital requirements. Similarly, banks also offered medium and long term financial assistance by way of term loans. This is in line with the traditional role of commercial banks. In general, although limited provision of banks products and services, banks help the SMEs development and growth.

Apart from banks, MFIs played significant role in SMEs development process. In the context of Ethiopia, MFIs were established to broaden access to financial services for poor and small enterprises. MFIs provided both term loan and installment loans. It was shown that access to MFIs enabled SMEs, particularly small enterprises that are underserved by banks, to overcome financing constraints and thereby accelerating their growth rate. Despite their importance in

SMEs growth, MFIs still provided inadequate financial access to finance SMEs working capital as well as investment needs.

In addition, MFIs typically provided a variety of additional financial services include: cash management, saving and payment, third party asset management (trustee) and insurance. Besides providing financial services, MFIs also provided social intermediation, non-financial services, and enterprise development services. However, some MFIs failed to provide such products and services. The most frequently mentioned reasons are low lending capacity, business size were beyond the target, inadequate funds, and high borrowing cost. However, the social benefits that gained by clients of MFIs supersede the high borrowing cost.

In addition, MFIs also support the development of SMEs through training in book keeping and manpower development, business control and monitoring, and by providing available business as well as others relevant information.

Further, financial institutions addressed some of the problems that SMEs face in the process of accessing and settling of loans. Sometimes banks flexing loan terms and conditions/requirements to enhance SMEs access to banks financial resources and postponed loan maturity period to overcome SMEs financial distress. Similarly, MFIs used alternative collateral and credit facilities to address financing constraints and postpone loan maturity period and refinancing future potential projects to overcome loan settlement problems.

Finally, with respect to the relationship between SMEs growth and loans from financial institutions, banks and MFIs, the result of regression analysis showed that there was positive statistically significant relationship between them. That is, SMEs growth had increased when the level of financial resources from financial institutions was increased.

# CHAPTER FIVE

# CONCLUSIONS AND RECOMMENDATIONS

The purpose of this last chapter is to summarize the whole thesis and highlight implications and future research directions. Accordingly, section one presents an overview of the thesis and its conclusions. The second section discusses the implications to the policy makers and financial institutions.

## 5.1. Conclusions

From the analysis, SMEs has a serious hindrance in gaining access to products and services from financial institutions, particularly from banks. Inadequate collateral, difficulty of processes, fear of inability to repay, and high borrowing cost were frequently mentioned reasons by SMEs for inaccessibility of banks products and services. In the context of Ethiopia, MFIs were established to broaden access to financial services for poor and small enterprises. MFIs provided both term loan and installment loans. It was shown that access to MFIs enabled SMEs, particularly small enterprises that are underserved by banks, to overcome financing constraints and thereby accelerating their growth rate. Despite their importance in SMEs growth, MFIs still provided inadequate financial access to finance SMEs working capital as well as investment needs. In addition, MFIs typically provided a variety of additional financial services include: cash management, saving and payment, third party asset management (trustee) and insurance. Besides providing financial services, MFIs also provided social intermediation, non-financial services, and enterprise development services. However, some MFIs failed to provide such products and services. The most frequently mentioned reasons are low lending capacity, business size were beyond the target, inadequate funds, and high borrowing cost. However, the social benefits that gained by clients of MFIs supersede the high borrowing cost. In addition, MFIs also support the development of SMEs through training in book keeping and manpower development, business control and monitoring, and by providing available business as well as others relevant information. Further, financial institutions addressed some of the problems that SMEs face in the process of accessing and settling of loans. Sometimes banks flexing loan terms and conditions/requirements to enhance SMEs access to banks financial resources and postponed loan maturity period to overcome SMEs financial distress. Similarly, MFIs used alternative collateral and credit facilities to address financing constraints and postpone loan maturity period and refinancing future potential projects to overcome loan settlement problems. Finally, with respect to the relationship between SMEs growth and loans from financial institutions, banks and MFIs, the result of regression analysis showed that there was positive statistically significant relationship between them. That is, SMEs growth had increased when the level of financial resources from financial institutions was increased. This means whenever SMEs get enough funds from financial institutions they are achieved their target faster.

## 5.2. Recommendations

Based on correlation analysis results and the linear regression analysis results of the study discussed earlier the four dimensions affects annual sales" debt though their degree of correlation and effect on annual sale differ. Hence those recommended actions should take this fact in to account. The goal of financial institutions is to support the competitiveness and long-term growth of enterprises, and then the economic development of a country. Access is also determined by collateral (Comeig, 2014), advertisement (Ding, 2016), size, firm growth, margin, and financial development (Yihäinen, 2017). This will be accomplished through support for enhancing the private delivery of services.

In this context the following five main measures were suggested to the financial institutions and policy makers.

1. Avoid partiality: In order to promote the development and growth of SMEs the institutional biases should be reduced so as to include the small business into the system. This will enable them to get access to the financial institutions especially banks', products and services.
2. Lowering transactional costs of business: To the extent that it is practical, financial institutions' programs should lower financial and economic transaction costs. It is recognized that the fixed costs of doing business are less easily absorbed by smaller firms than by large ones. Therefore, actions to reduce bureaucratic procedures,

enhance access to credit, eliminate unnecessary requirements, and expand the availability services will benefit SMEs to a greater degree.

3. Targeted programs: Eliminating institutional biases and lowering transactions costs are necessary, but not sufficient steps to promote SMEs. In cases where SMEs do not have access to the necessary inputs because of the failure of the market to provide them, the Banks and MFIs can promote the provision of services and information that fill these gaps.
4. It is necessary to reappraise the role of financial institutions in Ethiopia, which have been the traditional intermediaries between saving households and investing firms. These may include asset management, fee based services, enterprises development services. The move away should be encouraged by regulators.
5. Financial institutions should develop wide range financial as well as non-financial Product /services to the needs of SMEs.

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# Appendix 1 - SMEs survey instrument

**Jimma University**

**Department of Accounting and Finance**

**Small and Medium Enterprises (SME's) survey questionnaire**

**Dear Participant**

This project is entitled **"Role of financial institutions in the growth of small and medium enterprises in Sokoru"**. The investigator is Solomon Tesfaye who is currently an MSc (in accounting and finance) student at the Jimma University.

The aim of this project is to investigate the long run relationship between financial institutions and Small and Medium Enterprises growth in Ethiopia, particularly in Sokoru city. To supplement the data obtained from selected banks and microfinance institutions by means of face-to-face interviews, the investigator seeks to gather relevant information from randomly selected SMEs in Sokoru using a self-administered questionnaire. Participation in this project is completely voluntary. Survey results will be recorded anonymously and strict confidentiality will be maintained. Individual responses will not be identified in the investigator's MSc thesis. For further information, please contact Solomon Tesfaye by the following address: Tel.: +251 913 25 78 70 E mail: solomontesfaye16@gmail.com

**Section I: Background**

1. Gender

1. Female ☐ 2. Male ☐

2. What is your level of education? Diploma ☐ **1**

☐ 2 Bachelor degree ☐ **3** Masters or above ☐ **4,** others Please specify……………………………………

3. What is your current position in the company Manager? ☐ 1 Owner/manager ☐ **2** Sales person ☐ **3** others ☐ **4,** Please specify……………………………………

4. How long have you been working in this position? Less than one year ☐ **1**

1-5 years ☐ **2** 5-10years ☐ **3** More than 10 years ☐ **4**

5. What is your main business activity? Manufacturing ☐ **1** Trade ☐ **2**

Agriculture ☐ **3** Service ☐ **4** Construction ☐ 5 Others **6,** Please specify……………………….……………..…..

6. Your business is:

Sole proprietorship ☐ **1** Partnership ☐ **2** Private Limited company ☐ **3** Others ☐ **4,**

Please specify…………….…………….....

7. How long has your organization been in business? Less than one year ☐ **1**

1-5 years ☐ **2** 5-10years ☐ **3** More than 10 years ☐ **4**

8. How many employees (both permanent and temporary) work for your enterprise in

2019/20fiscal year? 1-10 ☐ **1** 11-20 ☐ **2** 21-50 ☐ 3 51-100

☐ **4** More than100 employees ☐ **5**

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

engaged in No competition ☐ **1** Moderate competition ☐ **2** Strong

competition ☐ **3** Severe competition ☐ **4**

10. Please indicate roughly the average sales of your business in 2019/20 fiscal year.

Birr 10,000 or less ☐ **1** Birr 10,001 – Birr 50,000 ☐ **2** Birr 50,001 – Birr 100,000 ☐

**3** Birr 100,001 – Birr 1,000,000 ☐ **4** Birr 1,000,001 or more ☐ **5**

11. Please indicate the average export to total sales ratio of your business in 2019/20 fiscal year.

1-10% ☐ **1** 11-20% ☐ **2** 21-50% ☐ **3** More than 50% ☐ **4**

Unknown ☐ **5**

**Section II: Role of banks in Small and Medium Enterprises growth**

12. Does your organization have access to financial resources from banks needed for developing your business? Yes ☐ **1** No ☐ **2**

13. If the answer for question No. 12 is No, what do you think the reasons for not having access to financial resources (multiple answers are possible)? Inadequate collateral ☐ **1** No need for credit ☐ **2** Fear of inability to repay ☐ **3** High borrowing cost ☐ **4** Process too difficult ☐ **5** Others **6,** please specify…………………………

14. If the answer for question No. 12 is Yes, have you ever applied for a loan ("borrowed capital") to finance your business? Yes ☐ **1** No ☐ **2**

15. If the answer for question No. 14 is yes, what terms of credit (i.e. maturity period) involved in relation to the most recent loan received from banks 0-1year ☐ **1** 1-5 years ☐ **2** 5-10years ☐ **3** more than10 year's ☐ **4**

16. What criteria do the banks use to offer loans (multiple answers are possible)? Collateral ☐ **1** Business plan ☐ **2** Third party guarantee ☐ **3** Others ☐ **4,** Please specify…………………..

17. Are the criteria easy to be met? Yes ☐ **1** No ☐ **2**

18. Do banks give adequate fund needed for your business? Yes ☐ **1** No ☐ **2**

19. Loans received from banks are most commonly used for

Purchase of inputs/raw materials ☐ **1** Purchase of long lived assets (like machinery, business building) ☐ **2** Payment of previous loans ☐ **3**

☐ **4** other, please specify……..……………………………………….……....

20. Have you ever had any problems in paying back the loan? Yes ☐ **1** No ☐ **2**

21. If the answer for question No. 20 is yes, Please specify those problems…………………………………………………………………………………………

22. If the answer for question No. 20 is yes, what has happened to resolve them (multiple answers are possible)? Restructuring ☐ **1** Post pone payment date ☐ **2**

Removal of interest payment ☐ **3**

Others ☐ **4**, please specify………………………………

23. Apart from financial services offered by the banks, how do banks help you (multiple answers are possible) Set business plans and regular control of business ☐ **1**

Saving and Payment services ☐ **2** Third parties asset management (trustee) ☐ **3**

Insurance services ☐ **4**

Others **5** please specify……………………………………………………..………

24. Do banks have special products and services designed for your business growth (multiple answers are possible)? Reschedule loans ☐ **1** Provide the necessary skills and

counseling ☐ **2** Low interest rate on borrowing funds ☐ **3** Factoring/discounting

☐ **4** Others ☐ **5**, please specify ………………………………………………………….………

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

25. Does your organization have access to financial resources from microfinance institutions needed for developing your business? Yes ☐ **1** No ☐ **2**

26. If the answer for question No. 25 is No, what do you think the reasons for not having access to financial resources (multiple answers are possible)? Inadequate collateral ☐ **1** No need for credit ☐ **2** Fear of inability to repay ☐ **3** Process too difficult ☐ **4** High borrowing cost ☐ **5** Others ☐ **6,** please specify……………………………………...

27. If the answer for question No. 25 is Yes, have you ever applied for a loan ("borrowed capital") to finance your business? Yes ☐ **1** ☐ **2**

28. If the answer for question No. 27 is Yes, what terms of credit (i.e. maturity period) involved in relation to the most recent loan received from microfinance institutions Less than 1year ☐ **1**

1-5 years ☐ **2** 5-10years ☐ **3** More than10 years ☐ **4**

29. What criteria do the microfinance institutions use to offer loans (multiple answers are possible? Collateral ☐ **1** Business plan ☐ **2** Permanent working places **3** Others ☐ **4,** Please specify………………………..…

30. Are the criteria easy to be met? Yes ☐ **1** No ☐ **2**

31. Do microfinance institutions give adequate fund needed for your business? Yes ☐ **1** No ☐ **2**

32. Loans received from microfinance institutions are most commonly used for Purchase of inputs/raw materials ☐ **1** Purchase long lived assets like machinery, business building ☐**2** Payment of loans ☐ **3** Others ☐ **4,** please specify……………………..…………………………..

33. Have you ever had any problems in paying back the loan to microfinance institutions? Yes ☐ **1** No ☐ **2**

34. If the answer for question No. 33 is yes, what has happened to resolve them (multiple answers are possible)? Restructuring **1** ☐ Post pone payment date ☐ **3** Removal of interest payment ☐ **2** Others ☐ **4,** please specify……………………………………..

35. Apart from financial services offered by the microfinance institutions, how do microfinance institutions helps you(multiple answers are possible) Set business plans and regular control of business ☐ **1** Saving and Payment services ☐ **2** Reschedule/restructuring loans ☐ **3** Insurance services ☐ **4** Others ☐ **5** please specify…………………………………………………………..………

36. Do microfinance institutions have special products and services designed for your business growth (multiple answers are possible)?

Reschedule loans ☐ **1** Educating employee on the products and services offered☐ **2** Provide the necessary skills and counseling ☐ **3** Low interest rate on borrowing for business development ☐**4** Others **5,** please specify ……………………………………………………….………

37. Rank the sources your business normally uses to meet finance needs for working capital requirement Own saving/retained earn **1** Borrowing from banks **2**

Borrowing from microfinance institutions **3** Government advance **4** Borrowing from relatives, iqub, associations **5**

38. Rank the sources your business normally uses to meet finance needs for investment Own saving/retained earn **1** Borrowing from banks **2** Borrowing from microfinance institutions **3** Government advance **4** Borrowing from relatives, iqub, associations **5**

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

……………………………………………………………………………………………

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

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

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

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

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

………………………………………………………………………………………………

# Appendix 2 - SMEs Survey instrument (Amharic Version)

ጅማ ዩኒቨርሲቲ
የቢዝነስና ኢኮኖሚክስ ፋኩልቲ
አካውንቲንግና ፋይናንስ ትምህርት ክፍል

የአነስተኛና መካከለኛ ድርጅት/ተቋማት/ የጥናት ማጠይቅ

የተከበሩ የጥናቱ ተሳታፊ

የዚህ ጥናት ርዕስ **"Role of financial institutions in the growth of small and medium enterprises in Sokoru"** ነው፡፡ አጥኝውሰለሞን ተስፋዬ ሲባል በአሁኑ ጊዜ በጅማዩኒቨርሲቲ ወስጥ በአካውንቲንግና ፋይናንስ የድህረ ምረቃ ተማሪ ነው፡፡

የጥናቱ ዋና አላማበሰኮሩ የገንዘብ ተቋማት በድርጅቶች እድገት ላይ ያላቸውን ሚና ማወቅ ነው፡፡ ይህንን ለማድረግ መረጃ በዕጣከተመረጡባንክ ቤቶችና የብድርና ቁጠባ /microfinance/ ተቋማት በፊት ለፊት የጥያቄና መልስ እና በዕጣ ለተመረጡአነስተኛና መካከለኛ ድርጅት/ተቋማት/ ማጠይቅ በማተንና በመሰብሰብ ይሆናል፡፡

በዚህ ማጠይቅ ላይ መሳተፍ ሙሉ በሙሉ በፈቃደኝነት ላይ የተመሠረተ ነው፡፡ ማጠይቁ የተሳታፊወን ማንነት ሳይለይ ይማዝግብና ጥብቅ በሆነ ሚስጥርነት ይጠበቃል፡፡ የያንዳንዱ ተሳታፊ መልሶች በአጥኝውጽሁፍ ላይ የማሹ ማንነት ተገልጾ አይቀመጥም፡፡

ለተጨማሪ መረጃ ሰለሞን ተስፋዬን በሚከተለውአድራሻ ማግኘት ይችላሉ
ስልክ: +251 9 13 25 78 70
ኢ-ሜል: solomontesfaye16@gmail.com

**ክፍል አንድ፡ የርስዎና የድርጅቱ ጠቅላላ ሁኔታ**

**በተሰጡት የምርጫሳጥኖች ወስጥ የ _ ምልክት ያስቀምጡ፡**

1. ጾታ

1. ሴት ☐ 2.ወንድ ☐

2. የርስዎ የትምህርት ደረጃ

ዲፐሎማ 1 ☐

ዲግሪ 2 ☐

ማስተርስና ከዚያ በላይ 3 ☐

ሌሎች _(ባክዎን ይግለጿቸው) 4 ☐ ..................................................

3. በድርጅቱ ወስጥ ያለዎት የስራ ድርሻ

ስራ አስኪያጅ 1 ☐ የሽያጭሰራተኛ 3 ☐

ባለሀብት/ስራ አስኪያጅ 2 ☐ ሌሎች 4 ☐ (ባክዎን ይግለጿቸው)

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

4. በዚህ የስራ ክፍል ላይ ለምን ያህል ጊዜ አገልግለዋል?

ከአንድ አምት በታች 1 ☐

1-5 ዓመት 2 ☐

5-10 ዓመት 3 ☐

ከ 10 ዓመት በላይ 4 ☐

5. የድርጅቱ ዋና የስራ እንቅስቃሴ ምንድን ነ ወ?

ማምረት 1 ☐ አገልግሎት 4 ☐

ንግድ 2 ☐ ግንባታ 5 ☐

እርሻ 3 ☐ ሌሎች 6 ☐ (እባክዎ ይግለጿቸው)

6. የድርጅቱ የባለቤትነ ት ሁኔታ

በአንድ ግለሰብ ባለቤትነ ት የተያዘ 1 ☐

ከአንድ በላይ ባለሀብቶች ያሉት (ሽርክና) 2 ☐

ሀላፊነ ቱ የተወሰነ የግል ማህብር (plc) 3 ☐

ሌሎች 4 ☐ (እባክዎ ይግለፃቸው).........................................................................

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

ከአንድ አምት በታች 1 ☐ 5-10 ዓመት 3 ☐

1-5 ዓመት 2 ☐ ከ 10 ዓመት በላይ 4 ☐

8. በ2011 የበጀት ዓመት በአማካይ በድርጅቱ ወስጥ ምን ያህል ቋሚ ጊዜያዊ ሰራተኞች አሉ?

1-5 ☐ 1 11-20 ☐ 3

6-10 ☐ 2 21-50 ☐ 4

9. በአማካይ ለአለፉት ሦስት ዓመታት የገበያ ወድድር/ፉክክር ምን ይመስላል?

ፉክክር የለም ☐ 1 ጠንካራ ፉክክር ☐ 3

መካከለኛ ፉክክር ☐ 2 በጣም ጠንካራ ፉክክር ☐ 4

10. በ 2011 የበጀት ዓመት በአማካይ ድርጅቱ ምን ያህል ሽያጭን በረወ?

ብር 10,000 ወይም በታች ☐ 1 ብር 100,001 – 1,000,000 ☐ 4

ብር 10,001 – 50,000 ☐ 2 ብር 1,000,001 ወይም በላይ ☐ 5

ብር 50,001 – 100,000 ☐ 3

11. በ 2011 የበጀት ዓመት በአማካይ ድርጅቱ ወደ ወጭሀገር የሸጣቸው/የላካቸው/ ከአጠቃላይ ሽያጭጋር ሲነጻጸር በመቶኛ ሲሠላ ምን ያህል ይሆናል ?

1-10% ☐ 1 ከ 50% በላይ ☐ 4

11-20% ☐ 2 የለም/አይታወቅም ☐ 5

21-50% ☐ 3

**ክፍል ሁለት፡ ባንክ ቤቶች በድርጅቶች ዕድገት ላይ ያላቸውሚና**

12. ድርጅቱ ከባንክ ቤቶች የገንዘብ ብድር የማግኘት ዕድል አለው? አዎ ☐ 1 የለወም ☐ 2

13. ለጥያቄ ቁጥር 12 መልስዎ 'የለም' ከሆነ ፤ ምክንያቱ ምን ይሆናል ብለውያስባሉ(ከአንድ በላይ ማምረጥ ይችላሉ)?

በቂ የሆነ ዋስትና ያለመኖር ☐ 1

ብድር ያለሚፈለግ ☐ 2

ብድሩን ለመመለስ ያለ ፍራቻ ☐ 3

ወለዱ ብዙ ስለሆነ ☐ 4

ብድር ለማግኘት ሂደቱ ከባድ ስለሆነ ☐ 5

ሌሎች ☐ 6 (እባከዎ ይግለጿቸው)..........................................................

14. ለጥያቄ ቁጥር 12 ሚልስዎ 'አዎ' ከሆነ ፤ ድርጅቱን ለማስደግ የገንዘብ ብድር ተጠይቆ ያውቃል?

አዎ ☐ 1 የለወም ☐ 2

15. ለጥያቄ ቁጥር 14 ሚልስዎ 'አዎ'. . ከሆነ ፤ ከድርጅቱ በቅርብ ጊዜ የተበደራቸውብድሮች ለምን ያህል ጊዜ ቆይታ/የ ብድር ጊዜ/ አላቸው?

ከአንድ አምት በታች ☐ 1 5-10 ዓመት ☐ 3

1-5 ዓመት ☐ 2 ከ 10 ዓመት በላይ ☐ 4

16. ባንክ ቤቶች የገንዘብ ብድር ለማስጠት ምን ምን ዓይነ ት ማስፈርቶች ይጠይቃሉ(ከአንድ በላይ መምረጥ ይችላሉ)?

የዋስትና ማስያዥያ _ ☐ 1

የስራ ዕቅድ (business.plan)..... ☐ 2

ዋስ/ተያዥ_ ☐ 3

ሌሎች _ ☐ 4 (እባከዎ ይግለጿቸው)........................................................................................

17. ባንክ ቤቶች ብድር ለማበደር የሚጠይቋቸውማስፈርቶች ቀላል ናቸው? አዎ _ ☐ 1 አይደሉም_ ☐ 2 18. ባንክ ቤቶች ድርጅቱ የሚጠይቀውን/የሚያስፈልገ ውን / ያህል ገንዘብ ያበድራሉ? አዎ _ ☐ 1 የለም_ ☐ 2 19. ድርጅቱ ከባንክ የተበደረውን ገንዘብ አብዛኛውን ጊዜ ለምን ያወለዋል?

የፈጀታ ዕቃና ግብዓት ለመግዛት _ ☐ 1

ለረጅም ጊዜ የሚያገለግሉ ሀብቶችን ለመግዛት ለምሳሌ፡ - የንግድ ቤት፤ ማሽኖች _ ☐ 2

ቀደም ሲል የነ በሩ ብድሮችን ለመክፈል _ ☐ 3

ሌሎች _ ☐ 4 (እባከዎ ይግለጿቸው)..............................................................

20. ድርጅቱ የተበደረውን ገንዘብ በሚከፍልበት ወቅት ችግር አጋጥሞት ያውቃል? አዎ_ ☐ 1 አያውቅም ☐ _2

21. ለጥያቄ ቁጥር 20 ማለስዎ 'አዎ' ከሆነ ፤ ባከዎን ችግሮችን ይግለጡ?

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

22. ለጥያቄ ቁጥር 20 ማለስዎ 'አዎ' ከሆነ ፤ ችግሮችን ለመፍታት ባንክ ቤቶች ምን የመፍትሄ አማራጭይሠጣሉ (ከአንድ በላይ ማምረጥ ይችላሉ)?

የብድር ማስተካከያ/ሥሪዛ _ ☐ 1

የመክፈያ ጊዜን ማራዘም _ ☐ 2

ወለድ የመተው _ ☐ 3

ሌሎች _ ☐ 4 (እባክዎ ይግለጿቸው)..................................................................................

23. ከገንዘብ ብድር በተጨማሪ ባንክ ቤቶች ለድርጅቱ ዕድገት ምን አገልግሎት/ዕገዛ/ ሠጠወት ያወቃሉ (ከአንድ በላይ ማምረጥ ይችላሉ)?

ቁጠባ አገልገሎት _ ☐ 1

የስራ ዕቅድ ማዘጋጀትና የስራ አፈጻጸም ክትትል _ ☐ 2

የሦስተኛ ወገን ገንዘብ ማስተዳደር አገልግሎት(trustee) _ ☐ 3

የኢንሹራንስ/መድህን/ አገልግሎት _ ☐ 4

ሌሎች ☐ _5 (እባክዎ ይግለጿቸው)..................................................................................

24. ለድርጅቱ ዕድገት ሲባል ባንክ ቤቶች ምን የተለየ አገልግሎት ይሠጣሉ (ከአንድ በላይ ማምረጥ ይችላሉ)?

የመክፈያ ጊዜ ማስተካከል/Reschedule.loans/. ☐ _1

የስልጠናና የምክር አገልገሎት _ ☐ 2

አነስተኛ የወለድ ማጠን ያለው ብድር _ ☐ 3

ድርጅቱ ከደንበኞቹ የተቀበለወን የዱቤ ሽያጭደረሰኝ መግዛት (discounting) _ ☐ 4

ሌሎች ☐ _5 (እባክዎ ይግለጿቸው)..................................................................................

**ክፍል ሦስት፡ ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት በድርጅቶች ዕድገት ላይ ያላቸውሚና**

25. ድርጅቱ ከብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት የገንዘብ ብድር የማግኘት ዕድል አለወ?

አዎ ☐ _1 የለወም _ ☐ 2

26. ለጥያቄ ቁጥር 25 መልስዎ 'የለም ከሆነ ፤ ምክንያቱ ምን ይሆናል ብለውያስባሉ(ከአንድ በላይ ማምረጥ ይችላሉ)?

በቂ ያልሆነ ዋስትና ያለመኖር _ ☐ 1

ብድር ያለመፈለግ _ ☐ 2

ብድሩን ለመመለስ ያለ ፍራቻ _ ☐ 3

ወለዱ ብዙ ስለሆነ _ ☐ 4

ብድር ለማግኘት ሂደቱ ከባድ ስለሆነ _ ☐ 5

ሌሎች _ ☐ 6 (እባክዎ ይግለጿቸው)..................................................................................

27. ለጥያቄ ቁጥር 25 መልስዎ 'አዎ' ከሆነ ፤ ድርጅቱ ለሚዳግ የገንዘብ ብድር ጠይቆ ያወቃል?

አዎ _ ☐ 1 የለም _ ☐ 2

28. ለጥያቄ ቁጥር 27 መልስዎ 'አዎ'. . ከሆነ ፤ ድርጅቱ በቅርብ ጊዜ ወስጥ የተበደራቸውብድሮች ለምን ያህል ጊዜ ቆይታ አላቸው?

ከአንድ ዓመት በታች _ ☐ 1 5-10 ዓመት _ ☐ 3

1-5 ዓመት _ ☐ 2 ከ 10 ዓመት በላይ _ ☐ 4

29. የብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት የገንዘብ ብድር ለማስጠት ምን ምን ዓይነት ማስፈርቶች ይጠይቃሉ(ከአንድ በላይ መምረጥ ይችላሉ)?

የዋስትና ማስያዥያ _ ☐ 1

የስራ ዕቅድ _ ☐ 2

ቋሚየስራ ቦታ _ ☐ 3

ሌሎች _ ☐ 4 (እባክዎ ይግለጿቸው)..........................................................................................

30. ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ብድር ለማበደር የሚጠይቋቸውመስፈርቶች ቀላል ናቸው?

አዎ _ ☐ 1 አይደሉም _ ☐ 2

31. ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ድርጅቱ የሚጠይቀውን/የሚያስፈልገውን/ ያህል ገንዘብ ያበድራሉ?

አዎ _ ☐ 1 የለም _ ☐ 2

32. ድርጅቱ ከብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት የተበደረውን ገንዘብ አብዛኛውን ጊዜ ለምን ያወለዋል?

የፈጆታ ዕቃና ግብዓት ለመግዛት _ ☐ 1

ለረጅምየሚያገለግሉ ሀብቶችን ለመግዛት ለምሳሌ፡ - የንግድ ቤት፤ ማሽኖች _ ☐ 2

ቀደምሲል የነበሩ ብድሮችን ለመክፈል _ ☐ 3

ሌሎች _ ☐ 4 (እባክዎ ይግለጿቸው)..........................................................................................

33. ድርጅቱ የተበደረውን ገንዘብ በሚከፍልበት ወቅት ችግር አጋጥሞት ያውቃል?

አዎ _ ☐ 1 አያውቅም _ ☐ 2

34. ለጥያቄ ቁጥር 33 መልስዎ 'አዎ' ከሆነ ፤ ችግሮችን ለመፍታት ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ምን የመፍትሄ አማራጭይሠጣሉ (ከአንድ በላይ መምረጥ ይችላሉ)?

የብድር ማስተካከያ/ሥሪዛ _ ☐ 1

የመክፈያ ጊዜን ማራዘም _ ☐ 2

ወለድ መተው _ ☐ 3

ሌሎች _ ☐ 4 (እባክዎ ይግለጿቸው)..................................................................................

35. ከገንዘብ ብድር በተጨማሪ ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ለድርጅቱ ዕድገት ምን አገልግሎት/ዕገዛ/ ሠጠውት ያውቃሉ (ከአንድ በላይ መምረጥ ይችላሉ)?

የቁጠባ አገልገሎት _ ☐ 1

የስራ ዕቅድ ማዘጋጀትና የስራ አፈጻጸምክትትል ☐ _2

የሦስተኛ ወገን ገንዘብ ማስተዳደር አገልግሎት(trustee) _ ☐ 3

የኢንሹራንስ/መድህን/ አገልገሎት _ ☐ 4

ሌሎች _ ☐ 5 (እባክዎ ይግለጿቸው)..........................................................................................

36. ለድርጅቱ ዕድገት ሲባል ብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ምን የተለየ አገልግሎት ይሠጣሉ (ከአንድ

በላይ ማምረጥ ይችላሉ)?

የማካፈያ ጊዜ ማስተካከል/Reschedule.loans/ _ ☐ 1

የስልጠናና የምክር አገልገሎት _ ☐ 2

አነስተኛ የወለድ ማጠን ያለው ብድር _ ☐ 3

ድርጅቱ ከደንበኞቹ የተቀበለወን የዱቤ ሽያጭ ደረሰኝ መግዛት (discounting) _ ☐ 4

ሌሎች _ ☐ 5 (እባክዎ ይግለጿቸው)..................................................................................................

37. የአጭር ጊዜ የገንዘብ ፍላጎትን ለማሟላት ድርጅቱ የሚጠቀማቸውን የገንዘብ አማራጭምንጮች በቅደም ተከተል ያስቀምጡ(በሳጥኑ ወስጥ ከ 1-5 ቁጥሮች በማስጠት የደረጃ ቅደም ተከተላቸውን ያሳዩ)?

የድርጅቱ ቁጠባና ትርፍ _ ☐

ከባንክ ቤቶች ብድር _ ☐

ከብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ብድር _ ☐

ከመንግስት የሚሥጥ ገንዘብ _ ☐

ከዘመድ፤ ከቤተሠብ፤ ከዕቁብ፤ ከማህበራት _ ☐

38. የረጅም ጊዜ የገንዘብ ፍላጎትን ለማሟላት ድርጅቱ የሚጠቀማቸውን የገንዘብ አማራጭምንጮች በቅደም ተከተል ያስቀምጡ(በሳጥኑ ወስጥ ከ 1-5 በማስጠት የደረጃ ቅደም ተከተላቸውን ያሳዩ)?

የድርጅቱ ቁጠባና ትርፍ _ ☐

ከባንክ ቤቶች ብድር _ ☐

ከብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ብድር _ ☐

ከመንግስት የሚሥጥ ገንዘብ _ ☐

ከዘመድ፤ ከቤተሠብ፤ ከዕቁብ፤ ከማህበራት _ ☐

39. ለድርጅቱ ዕድገት ባንክ ቤቶች ምን ምን ዓይነት ሚና ተጫውተው ያወቃሉ?

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40. በድርጅቱ ዕድገት ወስጥ የብድርና ቁጠባ /ማይክሮ ፋይናንስ/ ተቋማት ምን ምን ዓይነት ሚና ተጫውተው ያወቃሉ?

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41. የገንዘብ እጥረት በድርጅቱ ላይ ያስከተለው ችግር ምንድን ነው?

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

42. እባክዎትን ከላይ በአጠቃላይ በማጠይቁ ከተጠቀሱት ወጭ ባንክ ቤቶችና የብድርና ቁጠባ ተቋማት ለድርጅቱ እድገት ያደረጉት አስተዋጽዖ ካለ ይግለጹ?

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43. በርስዎ እይታ ባንክ ቤቶችና የብድርና ቁጠባ ተቋማት ለድርጅቱ እድገት እረድተውታል ብለው ያስባሉ? ያብራሩ

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# Appendix 3 - In-depth interviews questions

1. What bundle of financial institution products/services delivered to SMEs?

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2. What are the tools, techniques or modes employed in financial institutions for financing of SME's?
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3. Does your organization have special products/ services design for SMEs? How?
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------------------------------------------------------------------------------------------------------
---------------------------------------------------------------------------------
4. Are your products/services really as accessible and as effective in catering for the specific needs of SME's?

   a. Term
   b. Duration
   c. Adequacy
   d. Cost (time and many)
   e. Simplicity
   f. Criteria

5. Discuss modalities for the resolution of the problems encountered by SME's in accessing financial institutions products and services.
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6. Is there any cooperation between microfinance institutions and commercial banks in financing SME's?
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