

**ASSESSMENTS ON CHALLENGES OF FINANCE FOR MICRO
AND SMALL ENTERPRISES IN CASE OF JIMMA TOWN**

**A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF
JIMMA UNIVERSITY IN PARTIAL FULFILLMENT OF THE
REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION (MBA)**

BY:

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UNDER THE GUIDANCE OF

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JIMMA, ETHIOPIA

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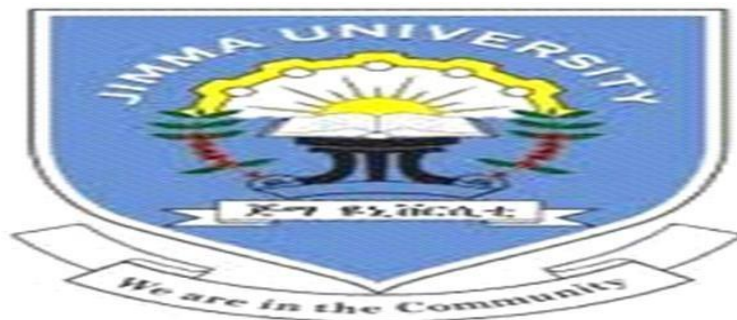
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ABSTRACT

The purpose of the study was to assess on challenges of finance for micro and small enterprises in case of jimma town. The study was used descriptive research design methods was used to conduct the study. The study was targeted a sample of 378 from a target population of 7218 MSEs located in jimma town. Proportional Stratified random sampling technique was used in selecting the respondents for the study. Primary and secondary data was collected from the study respondents through using self-administer questionnaires and published via unpublished document from jimma MSEs Offices, journal, books and other respectively. With the quantitative data collected through the questionnaire a descriptive statistical analysis method was used and analyzed descriptively and presented through figures, tables, percentages, bar charts, pie charts and tabulation to show differences in frequencies. Statistical Package for Social Sciences (SPSS) version was used to aid in coding, entry and analysis of quantitative data obtained from the closed ended questions. The study was revealed out the key source of finance for MSEs is personal saving followed by microfinance institutions which are informal and semiformal source of finance respectively. It was also revealed out the major challenges hindering micro and small enterprises from accessing credit facilities to be stiff collateral requirement, interest rate, bureaucracy of of rules and regulation of credit policy of financial institution.

Key word: MSEs –Micro and small enterprises, Finance

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ACRONYMS

MSEs –Micro and small enterprises

CSA- Central statistics agency

FMSEDA- Federal micro and small enterprise development agency

MFI- Micro finance institutions

NGO- Non-governmental organizations

GDP- Gross domestic product

ILO-International Labor organizations

TVET- technical and vocational educational training

SPSS – Statistical packages for social science

OCSSCO---Oromia Credit and Saving Share Company

FDRE MOTI---Federal democratic republic of Ethiopia Ministry of trade & industry

ICT---Information communication technology

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Government and a country, in regard to business development, success is related to small business sustainability (Carrasco-Davila, 2005) government authorities had been developing programs that promote the creation of job opportunities through the small business (Plan Nacional de Desarrollo, 2007). These sectors are recognized as an integral element of economic development and a crucial component in the effort to lift countries out of poverty. The dynamic role of micro and small enterprises (MSEs) in developing countries as engines through which the growth strategy of developing countries can be achieved has long been recognized. Small businesses play a significant role in the development of a country and serve as tools to sustain and grow economies (Ibrahim, Angelidis, & Parsa, 2008). By reason of ease simplicity in operation, small businesses are initiated for various reasons depending upon entrepreneur motives and traits (Kozan 2006).

The development of Policies to promote MSEs is common in both developed and developing countries (Storey, 1994 & Hallberg, 2000). In case of developed countries, during the last two or three decades it has become common place for governments to implement and exercise policies or programs designed to promote aspects of micro and small-sized enterprises (MSEs). This has coincided with an increase in the significance, in terms of contribution to employment and GDP growth, of SMEs in most of the developed economies (Storey, 1994). In the case of developing economies, policies designed to assist MSEs have been an important aspect of industrial policy and multilateral aid programs such as those of the United Nations since the 1950s (Levitsky, 1996). However, while there are wide variations across countries the traditional picture is one where the relative importance of SMEs tends to decline as a country moves up the developmental ladder (Hallberg, 2000; and Liedholm and Meade, 1998).

In addition, they also comprise a significant proportion of the business enterprises. It may therefore be argued that, only from the perspective of their significance in their economies, MSEs warrant attention from governments. Storey (1994) has argued, in the UK context, that the increased importance of MSEs means that public policies towards them cannot be considered in isolation from other influences in the economy and cannot be left to those with a particular interest in MSEs.

According to Hallberg, Despite a long history of development efforts, MSEs were perceived rather as a synthetic construction mainly of “social and political” importance (Hallberg, 2000), especially throughout the 1980’s and up to late 1990’s. Although domestic MSEs constituted most of what could be and what are still deemed as the private business activity in most developing countries, private sector development strategies advocated for and implemented in these countries were skewed towards the needs of large scale business, including foreign investment. This type of policy advocate was partly motivated by the rather disappointing (Meyer-Stamer, Jörg and Frank Waltering, 2000) results achieved through extensive MSE support systems operated in developed countries since the 1970’s.

While the contributions of MSEs were recognized, many countries developed programs and policies were developed to support them, their journey in many instances is short-lived with high rate of failure mostly in Africa due to several factors (Michael and Jeffrey, 2009; Lussier, 1996; Honjo, 2000; ILO, 2007; Wiboonchutikula, 2001; Zewde and Associates, 2002). There are many obstacles hindering their growth like competitions, lack of access to credit, cheap imports, insecurity, debt collection, marketing problems, shortage of working space, standardized product in the market, change in demand and absence of market linkages, lack of raw material accessibilities (Wiboonchutikula, 2001).

Okpara & Wynn (2007) conducted research on small business development has shown that the rate of failure of MSEs in developing countries is higher than the developed world. According to Geberhiwot and Wolday, (2006) more than 11,000 MSEs were surveyed and about 5 percent of them admitted having main constraints like shortage of working space for production and marketing, shortage of credit and finance, regulatory problems (licensing, organizing, illegal business), poor production techniques, input access constraints, inadequate management and business skill, absence of appropriate strategy, lack of skilled human resource, low level of awareness of MSEs' as job area, low level of provision and interest for trainings and workshop. These constraints confirm with other developing countries, especially poor management, corruption, lack of training and experience, poor infrastructural development, insufficient profits and low demand for product and services.

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

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

Despite the developments of the support institutions, the MSE sector is still confronted with several drawbacks and challenges they have to overcome in order to maintain and operate successfully. Major obstacles include access to finance, competition, infrastructure market

access, appropriate technology and access to raw materials. However, peculiar and most critical problems to MSEs are lack of access to financial sources both as initial and as working capital (FMSEDA, 2011).

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

1.2 STATEMENT OF THE PROBLEM

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

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

In Ethiopian Federal MSE strategy (2011) access to finance is a major bottleneck for the development and rapid growth of MSEs. More likely MSEs face liquidity problems as they are considered expensive to be served thus less attractive to formal banks. The most referred complaint among entrepreneurs in Africa is Lack of finance (Biggs & Srivastava, 1996).

A study result conducted in Ethiopia shows credit constraint affects negatively firm growth (Gebreeyesus, 2009). Thus, MSEs generally have gone through a range of problems at startup and while in due course of operation. Among others, finance is the most influential and leading problem. In addition to that, potential finance providers or lenders, whether they are formal or informal is also unwilling and rigid to commit funds for MSEs perceiving them as an unsound position. This problem leads MSEs Fail to start and progress MSEs were not entitled to be visible and intentionally incentives and enabling environment has long been against them. Starting from many years ago, it is not surprise that the Sub- Saharan Countries like Ethiopia have not managed to reduce and maintain the increasing poverty and deprivations of their citizens while giving almost no care for how the financial sources of MSEs are obtained (Gebrehiwot and Wolday, 2006).

The long disregard of the sector particularly by local and federal government, academicians and politicians in Ethiopia has made the area with untouched research problems to be explored so as to promote the growth dynamics of the sector. Recently, however, there is a proactive movement towards understanding the potential of the sector in helping reduce poverty among stake holders (academicians, development practitioners, NGOs, donors, and politicians).

Literatures and studies on MSEs in Ethiopia south west region specially in Jimma town is somehow and most of the available studies were not covered in line with challenges of finance for micro and small business enterprises Hence, due to long ignorance of MSEs coupled with implementation problems of policies as well as not available data on the area at the ground inspired the researcher to conduct a research on the source and challenges of finances for MSEs in Jimma Town oromiya region. Further, the study was pursued MSEs to know how generally access finance and what challenges they face and the likelihood of the relationship of the variables with the financial sources and challenges for the sector. It is from this point of view that the researcher was motivated to undertake this study In line with the above problems, the following research questions will be formulated to be answered as a result of the study.

- 1.2.1 What are the major sources of finances for MSEs?
- 1.2.2 What are the challenges of MSEs related to finance Access?
- 1.2.3 Did MSEs have received different types of support expected from the government?
- 1.2.4 What actions are required to overcome the problem of MSEs?

1.3 RESEARCH OBJECTIVE

1.3.1. General Objectives of the Study

The overall objectives of the study are to assess challenges of finances for MSE in Jimma town.

1.3.2. Specific objectives of the study

- To identify financial sources mostly used by MSE.
- To assess the challenges faced by MSEs to access finance.
- To assess the support provided by the government to MSEs.
- To assess the solution or action needed to overcome the challenges that faced by MSEs.

1.4 SIGNIFICANCE OF THE STUDY

MSEs Plays a great role in an economy but little is known about how the sectors' financial sources are going on and what challenges they face. Problems' MSEs was address through

appropriate measures for their huge potential as area of employment; home of natural entrepreneurship; benefits of the flexibility and exploitation of sectorial linkage can be maximized. Therefore, the findings which were obtained as a result of conducting the research have certain areas of significance:- firstly to give an understanding of source and challenges MSEs in line with finance, secondly to reduce blurred current conditions of MSEs in aspects of source and challenges of finance. Third significance were served as spring board to other researchers for further investigation, fourthly to give supportive recommendations that would facilitate the growth of MSEs, the last but the list In general, this study was used to gives some insight about source and challenges of finance for MSE and may serve as stepping-stone for other studies.

1.5 SCOPE OF THE STUDY

Covering of huge study area at many dimensions and direction and different sectors of business are very encourage able activities of the researcher, However, due to time and resource constraints the study focus is only one sector i.e., MSEs. Even though the concepts of MSEs consists a number of dimensions like marketing, success factors, etc., the scope of this study was delimited to the challenges of finance for MSEs. The other dimensions were beyond the scope of the study. Geographically, the study focus is in Jimma Town at oromiya region.

1.6 LIMITATION OF THE STUDY

The source of difficulties encountered in this study include the following

- Most of the document that are concerned with micro enterprises are written in Afan Oromo; to translate in to the required instruction language (English) takes longer period. It is very important to note these limitations did not have any significant impediment with the outcome of the study.
- Absence of timely returned distributed questionnaire by sample of respondents and they needed reminding to complete and return in order to proceed to the next action at the right time and it make the researcher exhaustively busy for the completion.

1.7 ORGANIZATION OF THE STUDY

The study was organized in five chapters. The first chapter is the introductory part of the study which contains background of the study, statement of the problem, objectives of the study, significance of the study, scope of the study, and organization of the study. The second chapters are devoted to the presentation of literature reviews of related researchers. The third chapter deals with research methodology of the study which presents description of the study, research design, data sources and gathering tools, sampling and sampling technique, data analysis and presentation, validity of research and ethical consideration. The fourth chapter was the analysis and discussion of data collected. The final chapter summarizes, concludes the results obtain from the findings and suggests the necessary recommendations for the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.1 OVERVIEW OF MICRO AND SMALL ENTERPRISES

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

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

The sectorial classification has also used as criteria to define MSEs by Bolton Committee. Accordingly, firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm) whereas, firms in the road transport industry are classified as small if they have 5 or fewer vehicles (Bolton, 1971).

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

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

"micro", those with fewer than 50 employees as "small", and those with fewer than 250 as "medium" (Carsamer, 2009).

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

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

2.2 MICRO AND SMALL ENTERPRISES IN ETHIOPIA CONTEXT

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

Summary of MSEs definition in Ethiopian context

Enterprise	Sector	No of Employee	Total asset ETB	Total asset USD
Micro-enterprise	Industry	≤5	≤ETB 100,000	≤ 4,630
	Service	≤5	≤ETB 50,000	≤ 2,310
Small-enterprise	Industry	6-30	101,000-1,500,000	4,630 -69,500
	Service	6-30	50,0001-500,000	2,310 - 23,150

Table 2. 1 Summary of MSEs definition in Ethiopian context

Source MOUDH 2016

Micro and Small Enterprise Sectors and Sub Sectors

Manufacturing Sector	Trading	Urban agriculture
Textile and garment	Wholesale of local products	Modern animal husbandry
Leather and leather products	Retail trade of local products	Poultry
Food processing and beverage	Raw material supply	Modern afro-forestry
Metal works and engineering	Service sector	Fruits and vegetables production
Wood works including furniture	Rural and small scale transport services	Decoration services (interior?)
Traditional handicrafts and jewelries	Cafeteria and restaurant	Beekeeping
Agro processing	Warehousing services	Modern irrigation
Construction materials production	Tourist services	Animal feed processing
Construction Sector	Packaging services	Product design and development services
Contracting	Management services	Security and cleaning services
Sub-contracting	Municipal services	Maintenance services
Cobble stone works	Project engineering services	Beauty saloons
Sub-contracting for infrastructure construction	Landscaping, urban greenery,	
Agriculture Sector	Electronics and software development	
Local mining works	Internet café	
Precious stones	Garage and assembly works	

Table 2. 2 Micro and Small Enterprise Sectors and Sub Sectors

SOURCE MOUDH

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

The strategy targets support measures and beneficiaries such as small manufacturers in food, textiles, leather, and clothing Metal works, and crafts; self-employment (focus on school leavers, disabled and unemployed youth); start-up and expanding firms (focus on women-

owned); small enterprises in nomadic and disaster areas; agro-business and small scale farming and fishing; small builders/contractors; small exporters; as well as small-scale tourism operators (FDRE MoTI, 1997)

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

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

2.3 ROLE OF MSEs FOR ECONOMIC DEVELOPMENT

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

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

Thus, pending financial and institutional improvements, direct government support of MSE's can boost economic growth and development. The growth of MSE's boosts employment more than the growth of large firms because MSE's are more labor intensive So subsidizing MSE's may help reduce poverty (Beck & Demirguc-Kunt, 2004). However, the anti-MSE has questioned the efficacy of MSE's in promoting growth and reducing poverty. First, they argue that large enterprises may exploit economies of scale and more easily undertake the fixed costs associated with research and development, boosting productivity. They argue further that some researchers found that small businesses are neither more labor intensive nor better at creating jobs than large firms (Thormi & Yankson, 1985). Moreover, they doubt the crucial role of small businesses and instead emphasize the importance of the business environment facing all firms, big and small. Small businesses create monopoly. They are of the view that if there are low entries and exit barriers, well defined property rights, effective contract enforcement, and access

to finance, it will work to promote conducive business environment for all firms and not only small firms (Demirguc-Kunt, 2004).

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

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

2.4 OVER VIEW OF FINANCE

2.4.1. Meaning of Finance

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

According to the Guthumann and Dougall, —Business finance can broadly be defined as the activity concerned with planning, raising, controlling, administering of the funds used in the business.

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

2.4.2. The Need for Finance

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

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

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

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

Similarly, it is pointed out that MSEs need finance to invest in new equipment and machinery, reach out to new markets and products and cope with temporary cash flow shortages as well as to innovate and expand (Fafchamps cited in Gebrehiwot and Wolday, 2006). Some argue that capital, being scarce in developing countries, should essentially be deployed in a way that maximizes the creation of new jobs and production of new goods and services [without basically changing the dual nature of the economy] rather than being used to convert a very small number of businesses into modern capital- intensive ones (Ibid, 2004:54). In spite of this, MSEs limited access to available finance compared to larger organizations have limited their growth and development. In addition, MSEs are forced to higher transaction costs than larger

enterprises to obtain finance. Moreover, insufficient funding has been made available working capital scarce (Levy, 2000).

According to the 1995/96 survey of urban informal activities in Ethiopia, lack of working Capital was among the most pressing problems that small manufacturing industries identified (the others being marketing and shortage of supply of raw materials) as limiting expansion of their business. According to the survey of 1995/96, 50% of the informal sector operations indicated that their main problem in operation was lack of sufficient initial capital. Lack of sufficient capital, particularly at the start of their operations, was also identified as the major problem for about 35% of the small scale manufacturing industries (Gebrehiwot and Wolday, 2006).

Some researchers, however, argued that factors such as marketing or technological assistance might be the critical factors in the success or failures of MSEs. Yet, despite the contribution of these factors to the development of such enterprises, it should not be over looked that marketing or technological assistance do require finance. Marketing normally involves producing quality product, promotion and making the product available at the consumers 'destination. Undoubtedly, such activity requires considerable amount of finance which MSEs have limited access to it. Technological assistance, too, no matter how it is made available, is not cost free to run. It requires knowledge to operate and maintain, there by requiring finance. Some also argued that capital, being scarce in developing countries should essentially be deployed in a way that maximizes the creation of jobs and production of new goods and services rather than being used to convert a very small number of businesses in to modern capital intensive only (Wolday, 2006).

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

In many developing countries where the MSEs sector is seen to be active, (at least in terms of numbers in relation to the size of the economy) and where one of the biggest constraints to its further development is perceived to be finance, general governmental policy on the development of the financial system may be regarded to be 'demand- following'. What is interesting about this type of 'demand-following 'finance is that as a result of market imperfections, the financial system's development does not always automatically follow the growth of the real sector of the economy. In fact, the increased supply of financial services in response to demand may not be at all automatic, flexible or inexpensive in developing countries. Restrictive banking legislation, religious barriers against interest charges and imperfections in the operation of the market mechanism may dictate and an inadequate demand following response by the financial system (Helmsing and Kolstee, 1993).

In view of these impediments to the 'demand-following 'effect, a need is often perceived for intervention in the intermediation process, specifically for the redirection of credit. Intervention

entails governments setting up institutions where the private sector is deemed incapable of doing so, pegging deposit and lending rates at levels perceived to be fair to borrowers and savers but not necessarily coinciding with free market levels, rationing credit to different rates under criteria that underlie mainly government priorities (Ibid, 1993).

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

2.4.3. Sources of Finance

Theoretically, enterprises may use internal and external sources of finance. The former comprises own savings and retained earnings while the latter includes security finance, Explicit borrowing from formal and informal sources, implicit borrowing in the form of Accounts payable (i.e. trade credit and advances from clients), hire purchases, and lease to- buy contracts. For firms that can't resort to primary and secondary money and capital markets (either because the markets do not exist or the firms are not in a position to access such markets) (Gebrehiwot and Wolday, 2006). For instance, raising funds through securities (bond and equity) issue involves listing requirements that are too stringent for many firms to meet, and is costly.

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

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

In Ethiopia, the potential sources of finance include conventional banks, MFIs, cooperatives, government projects, and other informal lenders, as well as trade credit. Equity finance is limited: although we have not direct evidence, one could reasonably expect much more equity finance to be forthcoming in a situation where equity holders (in partnerships, for example) could liquidate their holdings quickly and with relative ease when they want to (Gebrehiwot and Wolday, 2006). Generally finance sources can be discussed categorically in many classifications. Some may classify them as institutional and non-institutional others in degree of formality of operating within a given financial system which can be classified as formal, semi-formal and informal sources of finance.

2.4.3.1. Formal Source

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

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

Regardless of the number, nature, and type of loan extension criteria conventional banks are not interested in providing finance to MSEs for they are not only faced with lack of having adequate information, infrastructure but also are not required to finance MSEs in their mission statements. Nor is their capacity, especially their branch network, extensive and dense enough to effectively reach MSEs throughout the country (in rural areas in particular). Moreover, the delivery of financial services to MSEs requires the development of innovative financial products that attract MSE operators, which Ethiopian banks are lacking. Besides, conventional banks in Ethiopia do not have interest in promoting new markets with higher perceived risks (MSEs) and relatively high information costs. As a result, the formal banks deliberately avoid the delivery of financial services to MSE operators who might need small loans such as Br. 10,000, 15,000, 20,000, 30,000 etc.(Wolday, 2006).

2.4.3.2. Semi-formal sources

Semi-formal sources are those providers of finance that are mostly registered as NGOs and MFIs with special charter. NGOs are no longer involved, at least officially, since the issuance of

micro-finance law, Proclamation Number 40/1996, which requires those involved in the provision of micro-finance to be established as share companies (owned only by Ethiopian nationals), prohibiting them from them directly involving themselves in credit and savings activities. The new approach to microfinance has taken root in Ethiopia as could be seen from contents of the proclamation enacted to govern micro finance activities in Ethiopia (Proclamation Number40/1996). MFIs are mushrooming following the proclamation: in the last years, the micro-finance industry showed remarkable growth in terms of outreach and performance (Gebrehiwot and Wolday, 2006). MFIs helps people start their own businesses i.e., MSEs, by providing loans which will be difficult to get from the main banking system of Ethiopia. MFIs originally were established in the form of rural finance providers. And they have been expanding in Bolivia, Bangladesh and Indonesia. At that point in time, they were united under the banner of micro finance'. Proving cheaper edit was at the center piece of many of the MFIs. Moreover, such MFIs had shared the commitment to serve MSEs that have been excluded from the formal banking sector (Martin, 2001). As a result, MFIs were, being a subsidized credit support program, expected to deliver finance for needy groups and firms. MFIs used to follow up the poverty approach in the pursuit of credit extension. This approach is criticized for developing the non-loan repayment culture.

Despite the increase in number of the institutions, MFIs in Ethiopia have little impact in developing the country. For they are agricultural oriented and peasantry focused with limited outreach to MSEs and the absence of varieties in the type of financial products delivered regardless of MSEs area of operation (Wolday, 2002). The new financial systems approach emphasizes large-scale outreach to the economically active but poor, both to borrowers who can repay micro loans from household and enterprise income streams, and to savers. This approach focuses on institutional self-sufficiency, because, given the scale of the demand for micro-finance, this is the only possible means to meet widespread clients 'demand for convenient and appropriate financial services (Gebrehiwot and Wolday, 2006).

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

In order to overcome such critics, MFIs should be move concrete by letting down the poverty alleviation approach and adopting the financial system perspectives approach that emphasizes their institutional sustainability. In the context of Ethiopia, the objective of almost all MFIs is poverty reduction, mobilizing savings, and extending credit to MSEs. The maximum amount of group loan does not exceed Br. 5,000 and the repayment period does not exceed one year.

Though the group methodology waived the need for collateral, it is surrounded by the old paradigm and could not fit individual loan requirement (Tewodros, 2005).

2.4.3.3. Informal sources

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

Credit and saving unions: are most often to salary and wage earners pertaining in urban areas, there by excluding the bulk of MSE operators. Although there is a continuous increase in the number of credit and saving institutions and members, it has entirely excluded MSEs.

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

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

- The *'iqqub'* belongs to the type of traditional financial institutions which are included under the savings associations.
- The *'iqqub'* was a saving club combing a bank and lottery.

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

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

Money-lenders: covers a wide range of credit arrangements that differ across countries, with interest ranging from zero to as many as 100% a month (Aryeetey 2000). MSEs Use money-lenders as a last resort. Most of the informal moneylenders base their lending disciplines on a firsthand knowledge of the borrower (Gebrehiwot and Wolday, 2006).

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

Trade credit suppliers: are significant sources of informal credit in an enhanced credit rating system. Trade credit refers to loans suppliers extend to their customers in connection with product sales. They supply either input or cash advances to MSE operators. Enterprises may receive trade credit either as a substitute for or complement to bank credit. Trade credit has attraction feature of not being guaranteed by mortgage able assets, which is advantageous for enterprises lacking collateral assets. Enterprises could resort to trade credit both as a means of financing purchases (i.e., receive trade credit from suppliers) and promoting sales (i.e., grant trade credit to customers). Extending trade credit to customers may be important in sealing deals as well as become and remain competitive as it represents better terms of sales compared to requiring payment in advance or up front (sales promotion motive). Hence, enterprises could be engaged in trade credit for establishing good business relationships or for financing purpose. In the context of Ethiopia, it is reported that the practice of providing trade credit exists for either purpose (Gebrehiwot and Wolday, 2006). However, trade credit suppliers are unwilling to extend trade credits, the only option left for these enterprises is to depend on personal funds or turn to friends and relatives. This limits the amount of funds available for working capital and reinvestments in productive capacities like high use operating equipment and facility refurbishments.

2.5 DETERMINANTS OF ACCESS TO FINANCE

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

The formal financial institutions in Ethiopia have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced

to use the informal institutions for credit. The main sources of startup and expansion finance or funds for most MSEs in Ethiopia are personal savings followed by iqub/idir, family and friends/relatives. Nevertheless, the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs (Admasu 2012).. Generally, different literature reveals that the main major determinants that affect access to finance of MSE fall under Entrepreneur characteristics, Firm level characteristics and Institutional characteristics.

2.5.1. Entrepreneur Level Characteristics

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

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

2.5.2. Firm Level Characteristics

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

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

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

Abor (2007) found that SMEs in the agricultural sector exhibit the highest capital structure and asset structure or collateral value, while the wholesale and retail trade industry has the lowest debt ratio and asset structure.

2.5.3. Institutional Level Characteristics

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

Whenever interest rate rises up, investment will eventually fall, this is because with higher interest rate the possibility of making profit out of investment is very low, hence high interest rate reduces the marginal efficiency of capital. On the contrary, bank charges interest to investors out of which certain percentage will be paid to savers as deposit rate. At higher deposit rate saving will be attractive and similarly banks will extend more loans, but investors will reject further loans as interest rises (Sacerdot,2005) revealed that the type of financial institution and its policy will often determine the access. What is displayed in form of prescribed minimum loan amounts, complicate application procedures and give restrictions on credit for specific purposes.

Where credit duration, terms of payment, required security and the provisions of supplementary services do not fit the needs of the target group, potential borrowers will not apply for credit even where it exists and when they do, they will be denied access. The length of the loan maturity period required by the borrower may also influence the bank's credit rationing behavior. The longer the loan maturity period, the greater the risk of loan recovery due to the riskier nature of long term investments, hence the higher will be the likelihood that the borrower will be credit rationed

2.6 EMPIRICAL REVIEWS

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

The most important policy and institutional reforms which include the support for those in extreme need and the provision of enabling environment for private sector development. To enhance the development of private sector, the government has formulated a National MSE

Development and Promotion Strategy in 1997, which aims to use an approach to alleviate the problems of unemployment and promote the growth of MSEs. Despite the contribution to employment and economic growth this day, most MSEs face critical constraints both at the operation and startup level. According to research report of Commission on Legal Empowerment of the Poor(2006), some of these constraints include lack of access to finance, lack of access to premise, lack of infrastructure, lack of training in Entrepreneurial and management skills, lack of information on business opportunities, social and cultural facts, in particular deficient entrepreneurial culture and excessive corruption., Lack of adequate capital, sufficient loan, and inefficient financial market in terms of facilitating financial resources to entrepreneurs are the major obstacles in doing business particularly in the informal sector.

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

The study done by Admasu.2012, the main sources of startup and expansion finance or funds for most MSEs are personal savings followed by iqub/idir, family and friends/relatives. The formal financial institutions have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. But the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs. In some cases this problems may be the inability of many operators to meet formal financial institutions requirements for example business plan, governance systems and other accountability issues which are linked to business risk. This shows that the studied operators accessed finance mainly from informal sources. According to Minster of Urban Development and Construction, (2013), the study also identified a number of challenges and constraints hindering the growth of MSEs in Selected Major Cities of Ethiopia. These challenges were manifested in terms of capital, technology and employment growth trends. Enterprises from the regional cites indicated that shortage of finance (42 percent) to expand their business was their principal challenge, followed by lack of working premise (28.3 percent); and lack of access to market or absence of linkage to market. The study also showed that lack of access to land has been one of the most crucial bottlenecks (26.4percent) in Addis Ababa, problem of finance (25.6 percent) and access to market (25.1 percent) were among the strong factors inhibiting the growth of these enterprises in the capital. The findings of Mulu (2007) also indicate that banks and MFIs do not seem to support MSE expansion. Due to this 85 percent of the respondents have never received credit from these formal sources. The

availability of other informal sources of finance, however, affects growth positively and significantly. This shows that in the absence of formal source of credit, informal networks appear more appealing for MSEs. Hence, firms with better network to borrow from informal sources such as, relatives, friends, and suppliers better loosen credit constraints, and grow faster.

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

2.7 OPERATIONAL DEFINITIONS OF THE STUDY

Micro and Small Scale Enterprises (MSEs) are lifeblood of most economies. To be successful this and other business sectors, finance plays a major role in any aspect of business operation. As far as micro and small enterprises (MSEs) are concerned as part of business enterprises, they need finance to start up, expand, diversify and for working capital of the business firms. Without finance, no one business enterprise can achieve its objectives. Finance is the backbone of any business enterprise (Mckernan and Chen, 2005) including for MSEs Finance is necessary to help MSEs to set up and expand their operations, build up new products, and invest in new staff or production facilities (World Bank, 2008). Availability of finance determines the capacity of resources which in turn greatly influence the viability and success of a business. Securing capital for business start-up or business operation is one of the major obstacles of every entrepreneur, particularly those in the MSE sector (Solomon, 2009) .Access to financing is recognized as the leading obstacle to small businesses growth in Ethiopia, alike most other developing and under-developed countries. Small businesses, in most cases, manage to start a business with resources from informal sector, but find it extremely difficult to survive and expand without further financial assistance from the institutional lenders (Fetene, 2010). The formal financial institutions in Ethiopia have not been able to meet the credit needs of the MSEs. Since there is high interest rate and collateral requirement, most MSEs have been forced to use the informal institutions for credit. The main sources of startup and expansion finance or funds for most MSEs in Ethiopia are personal savings followed by iqub/idir, family and friends/relatives. Nevertheless, the supply of credit from the informal institutions is often so limited to meet the credit needs of the MSEs (Admasu 2012).

Therefore based on the above literature the main intent of this research is only concerned with financial source and challenges, from this perspectives in order to set up and expand their operations from which financial source(formal, semiformal and informal) MSE needs finance and to determine whether age of operator ,educational level of the operator ,the fixed asset enterprise possess, duration of business, number of employee , business sector, amount of interest rate, repayment period, lending procedure and availability of information are the determinant/challenges to access finance Generally, MSE performance is success if and only if the above source of finance can support enterprises to set up and expand their operations, build up new products, and invest in new staff or production facilities without more concerning on the above determinant variables of access to finance . And it is failure if the financial sources of

finance are stricken on the variable mentioned above Performance: are the overall activities and operations performed by Mses Operators in strengthening their enterprises As Walker and Brown (2004), small business performance can be measured by financial and non- financial criteria such as increases in profit or turnover and/or increased numbers of employees and autonomy, job satisfaction or the ability to balance work and family responsibilities respectively.

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

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

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 DESCRIPTION OF THE STUDY AREA

Jimma is the largest town from town which is found on south west Ethiopia, located in the oromia region; it is commercial center for coffee production region. The population of the town was more than 195000 until 2008. According to the current used master plan, Jimma town has the total area of 100.2 km² the name of today's Jimma was derived from Mecha-Oromo clan called JimmaWayu. These people had started to live in the main quarters of the town namely Jiren, Hirmata and Mendra. In the 18 century the kingdom of Jimma which was one of the five Gibe States (Shanan Gibe) next to Gera, Guma, LimmuInariya and omma was established by Abba Jifar I.

3.2 RESEARCH DESIGN

It is known that several options are available in social research but all approaches are not appropriate to all research study, it depends largely on the objectives of the study. The study employed a descriptive research design for the study. Herbert W Seliger; ElanaShohamy (1997) stated that, descriptive study is appropriate when a researcher wants to look into a phenomenon or a process in its natural Contexts in order to get its overall picture instead of taking one or some of its aspects and manipulating it in a simulated or an artificial setting. Being a descriptive design, the researcher used a quantitative approach.

3.3 DATA SOURCES AND GATHERING TOOLS

The researcher used both primary and secondary sources of data. Primary data is the data which is directly collected for a specific purpose of investigating the research problem at hand (Dr.sue Greener. (2008). Whereas secondary data is a data one that have not been collected for the immediate study at hand but for purposes other than the problem at hand. The primary data was collected from micro and small enterprise operators and the Secondary data gathered from the report of Jimma town Micro and Small Enterprise office and from the published via unpublished materials.

In order to collect the primary data from the target source, a self-administered questionnaire were used. The questionnaire were first prepared in English and translated into Amharic by researcher for those who were blinded for English version to check consistency of questionnaire.

3.4 SAMPLING AND SAMPLING TECHNIQUES

The study was employed Proportional stratified sampling techniques in order to address all group of strata classified in terms of sector and random sampling was used for the selection of one respondent from the strata that reports on behalf of the selected group based on lottery

methods. The target population of the research is Micro and small enterprises located in Jimma town. Based on Yemane (1996) determination of sample size formula, the researcher can get grand total sample of 378 at 95% confidence level and 5% precision level as described below

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

Where

- n Sample size
- N Total population MSEs = 7218
- d Non-response rate: 5%
- e Confidence level : 5%

Sample size from each sector type of MSEs is determined by using the formula shown below. $n_h = (N_h/N_s)n$ where n_h is sample size from each stratum, N_h is total population in each sector, and N_s population of the sum of strata for the study (7218) n is total sample size from the study population (378) using this formula, sample the computed sample size from each stratum is provided in table below. From each stratum, using proportional quota sampling techniques sample sizes were computed as indicated below.

S,no	Enterprise sector	Total Number of Enterprise	Sample size from the total population	Proportionate sample size from each MSEs (N_h/NH) Sample
1	Construction	695	37	$(695/7218)*378=37$
2	Manufacturing	1,418	74	$(1,418/7218)*378=74$
3	Service	1,852	97	$(1852/7218)*378= 97$
4	Trade	2,254	118	$(2254/7218)*378=118$
5	Urban farming/agriculture	999	52	$(999/7218)*378=52$
Total		7,218	378	378

Table 3. 1 Proportionate sample size from each stratum

Source: Own survey data computation 2018

3.5 DATA ANALYSIS AND PRESENTATIONS

When the data was collected, with the quantitative data collected through the questionnaire a descriptive statistical analysis method was used. Descriptive research involves gathering data that describes events and then organizes, tabulates, and describes the phenomena. To process the data from different angles, the researcher was used all the necessary data, and finally the raw data was organized and grouped on the basis of common characteristics. As a result, the data obtained via the questionnaire was tallied and the frequencies were converted into percentages. Tabulation methods, description of facts based on statistical analysis like latest version of SPSS (Statistical Package for Social Science), percentages, and graphs with explanation.

3.6 VALIDITY OF THE STUDY

The researcher selected participants randomly so that characteristics were the probability of being equally distributed and recruits large sample to account or compare these outcomes. The researcher was used the same instrument for pre-test and post-test measures. To guard against this, the researcher was conducted pilot studies to establish trust and respect with the participants. Hence, a more cooperative atmosphere, which was increases the validity of the subjects' responses.

3.7 ETHICAL CONSIDERATIONS

Letter of cooperation would obtain from Jimma zone micro and small enterprises development office to the concerned MSEs established body of Jimma town. Verbal and informed consent would obtain from the owners/managers of the study by informing the purpose of the study and researcher use the ideal way of recording, storing and retrieving. Regarding the right to privacy of the respondents, the studies maintain the confidentiality of the identity of each participant. In all cases, names would keep confidential thus collective names like 'respondents' were used

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF RESULTS

4.1 INTRODUCTION

This chapter presents the result and analysis of data collected through questionnaire. It is organized into four parts, the first part consist presentation of the demographic profile of respondents, the second part deals with general information about the enterprises, the third part consists of financial information of MSEs and the last part of this chapter deals on challenges of MSEs faces to get loan respectively by using descriptive statistics frequency, percentage, and graphs and etc.

4.2 SAMPLE RESPONDENT’S RESPONSE RATE

Characteristics	Variable	Frequency	Percentage
Response rate	Completed and returned	360	95.00
	Not returned	18	5.00
	Total	378	100.00

Table 4. 1 Response rate of the sample respondents

Source: Own survey data computation 2018

Regarding to the response rate of the respondents from the total 378 questionnaires were distributed among these 360(95%) questionnaires were returned and answered correctly, the remaining 18(5%) are not returned by the respondents. Therefore the analysis and interpretations of 360 respondents were discussed under here as followed.

4.3 DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENT

Regarding to demography of sample respondent’s, the researcher presented the findings here under by table

Age of the respondent	Frequency	Percent
15-25	65	18.10
26-35	183	50.80
36-45	88	24.40
46-55	22	6.10
more than 56	2	0.60
Total	360	100.00
Educational status of the respondent		
No formal education	9	2.50
Primary	13	3.60

Secondary	112	31.10
TVET	55	15.30
Diploma	82	22.80
Degree	84	23.30
masters and above	5	1.40
Total	360	100.00
Sex of the respondent		
Male	255	70.80
Female	105	29.20
Total	360	100.00
Marital status of the respondent		
Married	168	46.70
Single	172	47.80
Divorced	4	1.10
Other	16	4.40
Total	360	100.00

Table 4. 2 Demographic characteristics of the respondent

Source: Own survey data computation 2018

As we have seen from the above table most of MSEs are operated by adulthood ranging from 26-35 which is about 183(50.83%) and followed by middle age ranging from 36-45 which is 88(24.40%) and also the table shows 18.10(65) of sample respondents are in between age of 15-25 and 6.10%(22) sample respondents are in between age of 45-55 and the rest of sample respondent are above 56 years old which is about 0.60%. Almost 93.30% of the sample respondents fall below an age of 45 years indicating that it is the younger part of the population that are actively organized and operating as MSEs than those found in the older age. They are probably those who can easily understand any guidance provided to them by the support institutions.

The study also shows that about 37.20% of the sample respondents range from below high school to high school complete, this implies that the educational coverage of government activities is also need to be swift and uninterrupted however the participation of TVET and Diploma graduate in MSEs was 38.1% of the total respondents. This implied that it is almost pointing to the direction of the government strategy that encourages graduates to be organized in MSE. The result of this study was in line study conducted by Goedhuys and Sleuwagen (2000) that argue higher education not only raises enterprise performance, but also increases outside options such as wage employment. Lower education and vocational training significantly influenced the likelihood of being entrepreneurs rather than wage employees.

The table above revealed that 70.80% of the selected sample populations were males and the rest 29.20% were females. This implied that most of the owners of MSEs were found to be males, hence, the involvement of female MSEs operators were limited, it is almost less than

one third of the sample respondents. Even if there is a clear message to encourage females in the mission statement of jimma Micro and Small Enterprises Development Agency; but the involvement of females is still poor and it needs close and proper attention towards them. MSEs are assumed to be the basis for medium and large industries, this strategy will not meet the ultimate goal in the absence of females.

Lastly, the above demography table clearly shows that most of the sample respondents were single (47.80%), followed by married (46.70%). this implied that MSEs have no more financial sources, because they have no at least two families, i.e., the husband and wife side. And as if peoples begin to be married, they have the probability of good saving habit there by financing their own MSEs properly. Similarly, they will be good in synergy and the chance of having collateral increases. But, this does not mean that married owners are overlooked, because those owners may have more dependents and in turn it may consumes the retained earnings of MSEs.

4.4 GENERAL INFORMATION ABOUT THE ENTERPRISES

Under this section the researcher engaged to know the business sector, Number of Staff Employed, Number of years in Business, legal forms, motivation to start business, working premises, fixed asset of MSEs and major challenges of MSEs.

4.4.1 Sector of the enterprise

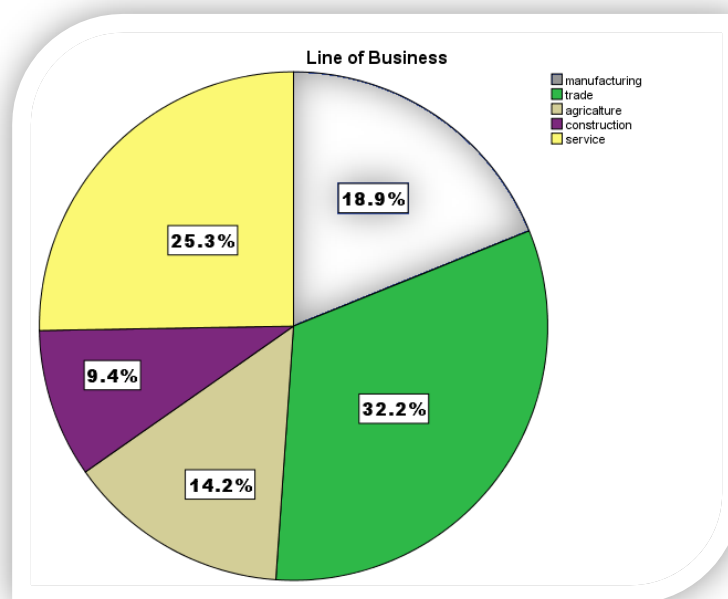


Figure 4. 1 line of business in jimma town

Source: Jimma town MSEs Office

As we have seen from the above pie chart, the major business sectors in which the respondents are organized were the trade sector (32.2%) followed by service sector (25.3%) and with the lowest number of MSEs in Constructions sector is (9.4%). Urban agriculture sector constitute 14.2% of sample respondents whereas the Manufacturing sector accounts for 18.9% sample

operators. The proportions of MSEs in all sectors are not uniform for all sectors and particularly low in constructions, manufacturing and urban agriculture sector respectively which was the main stay of the country.

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

4.4.2 Number of Staff Employed

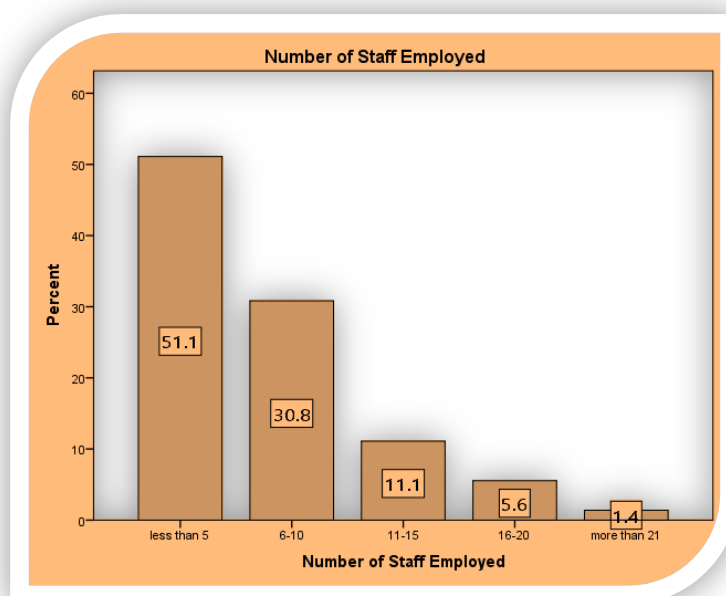


Figure 4. 2 Number of staff employed in Jimma MSEs

Source: Own survey data computation 2018

Regarding the businesses size of operators, the above figure 4.2 shows 51.1% of the sample respondent have a number of staff is less than 5 which is the largest sample respondents and followed by 30.8% ranging from 6-10 employees and 11.1% is also in between 11-15 workers and 5.6% are in between 16-20 workers and the lowest number of staff employed is 1.4% which is more than 21 staff. This study shows that most of MSEs have a staff of less than five. Number of staff employed in the business also shows the capacity of firms it terms of capital they have, this means that MSEs have less capital to expand their business and hire more employees.

4.4.3 Number of years in Business

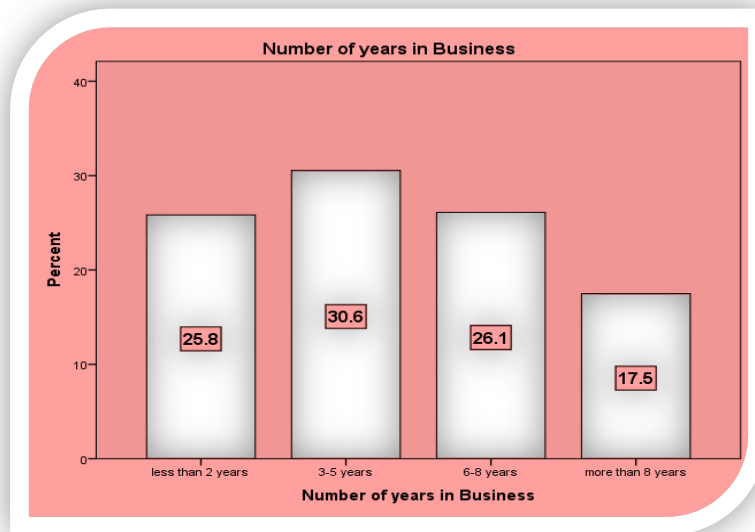


Figure 4. 3 Numbers of years in business
Source: Own survey data computation 2018

Figure 4.3. revealed that from the total sample respondents 30.6% have business experience of ranging from three to five years which is the largest sample respondents work experience, whereas 26.1% is ranging from six to eight years, 25.8% is less than two years and the rest were more than 8 years which is 17.5% , the result shows that 56.4% of sample respondents were operating their business below five years, this also indicates that most of MSEs experience were in infant stage, this also indicates that they need further support in terms of capital, sharing experience, announcing with technology and other all dimensions.

4.4.4 Legal form of business enterprise

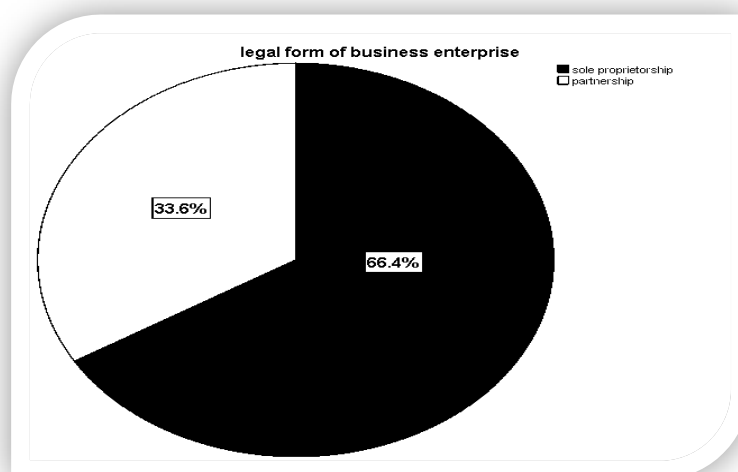


Figure 4. 4 Legal form of business enterprise
Source: Own survey data computation 2018

Regarding to legal form of business enterprise, the survey result shows that 66.4% of sample respondents were started their business only by themselves rather collaborating with other, this implies that most of business operating in MSEs sectors were formed as sole proprietorship, whereas the remaining sample respondents were emerged with other to start their business operation.

4.4.5 Motivation to start your business

The under pie chart discussed on MSEs owners reason for getting in to businesses.

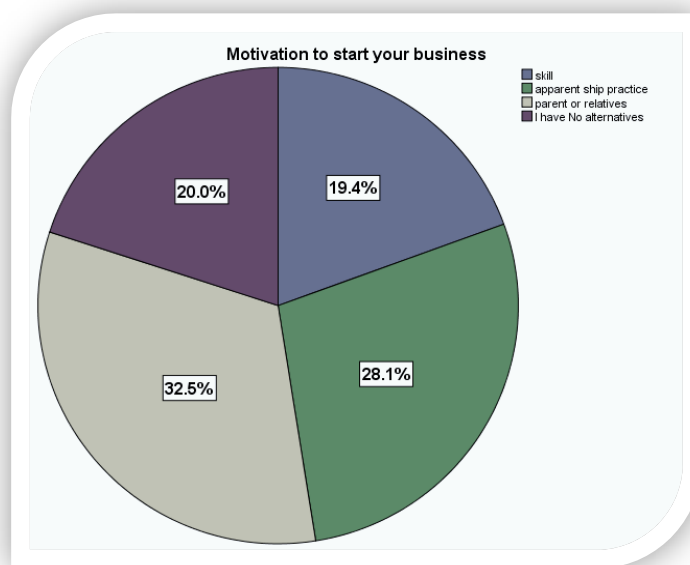


Figure 4. 5 Motivation to start business

Source: Own survey data computation 2018

The above table 4.2 revealed out that from the reason that motivate respondents to start their business 28.1% replied as entrepreneurship experience, 19.4% were as skill, 32.5% were as parents/relatives advice and support and the remaining 20% were as had no alternative choice. According to Tiruneh Abebe, The trend to begin businesses by entrepreneurship and skill in this business may be encouraging because those owners have an experience in different dimensions of the business and could be helpful in their current and/or future businesses opportunities. But from the total sample respondents large number of owner started their business by family and relatives advice and support rather than skill and entrepreneur experience, this indicates that MSEs needed to upgrade their experience through formal and education and training.

4.4.6 Working premise of business enterprise

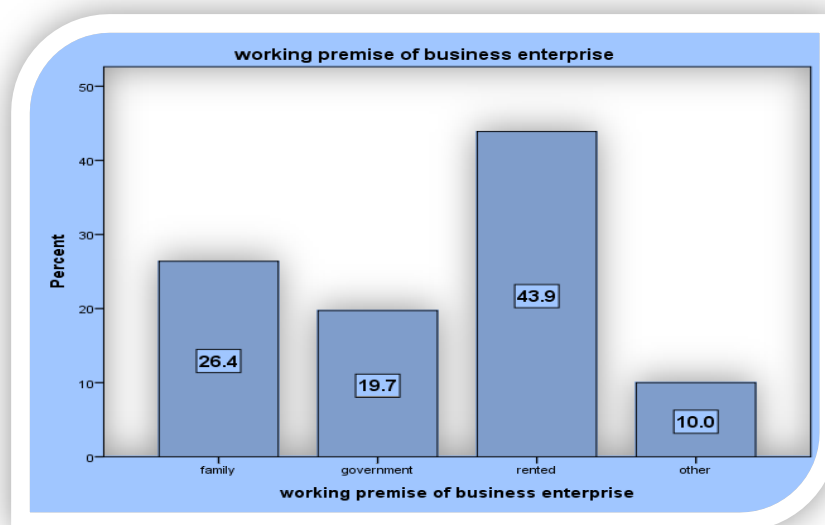


Figure 4. 6 Working premise
Source: Own survey data computation 2018

In line with working premises the study found Significant proportions 43.9% which is almost half of total sample respondents are operating their businesses in rented premises, and followed by 26.4% from their families premises, and 19.7% in government buildings which is no payment at all till now even if it is seated on the strategy, From this one can understand that most MSEs are working at rented premises and high rental charges have impeded the success of many MSEs as some charges are higher than the capacity to pay ,this has increased costs and resulted in poor sales and negative cash flows, thus minimizing the chance of their performance, One of the desires of most participants in MSEs is to save on costs and this includes saving on rental; for them higher disposable income now is more important than a better quality premises.

4.4.7 Types of fixed asset owned by MSEs

This section illustrate that fixed asset owned by MSEs in their business entity

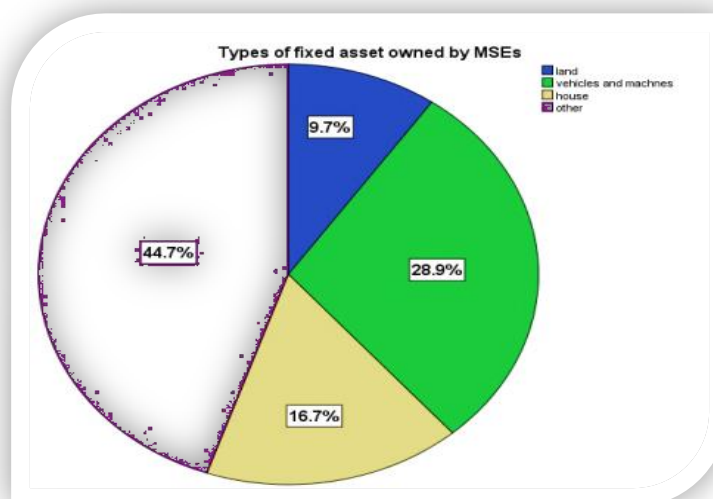


Figure 4. 7 Fixed asset possessions

Source: Own survey data computation 2018

As the above pie chart shows that regarding the type of fixed asset the operator were possessed, 9.7%, 28.9% and 16.7% have land, vehicle and machine and house respectively. The remaining 44.7% represented by other resources which are too close to the above total sum of 55.3%. This implied that most of the asset that the respondents of the operator had not serve as collateral of gaining finance to start and expand their business which further can affect their overall performance.

4.4.8 Major problem of MSEs in business operation

This section discussed on the challenges of MSEs operator faces in business activity.

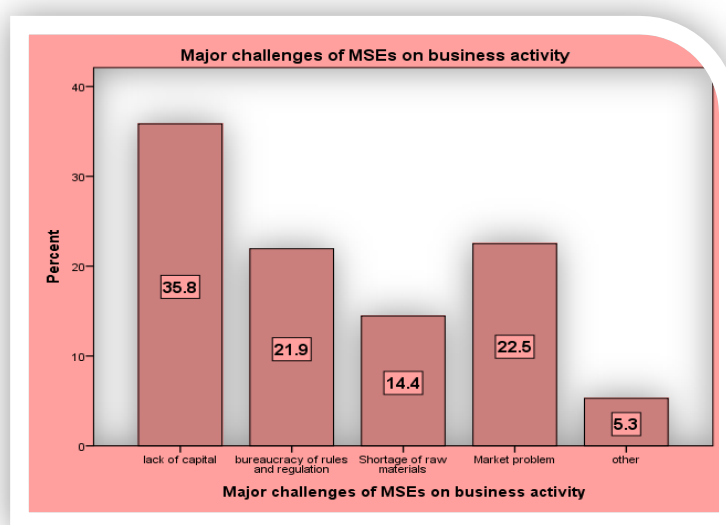


Figure 4. 8 Major problems of MSEs

Source: Own survey data computation 2018

Regarding to the challenge MSEs owners faces in business operation, the survey result shows that lack of sufficient capital were the most challenging factors at 35.8%.from this we can understand that most of MSEs have not sufficient capital due to start-up and expansion or working capital of MSEs came from personal savings, micro finance institution, family and relatives, friend, iqub, legal bank, NGO, and other sources of finance respectively. This situation can be a constraint for MSEs Owner's wishing to mobilize adequate capital to begin and expand their businesses. Owners find it very difficult to access credit from banks due to lack of collaterals such as cars and/or residential houses or land titles that can be deposited to get loan from commercial banks. On the other hand, the loans provided by MFIs are small with a short Repayment period and high interest rates, this result were consistent with previous study carried by Gemechu Abdissa & Teklemariam, (2016).

The other highlighted reason for why many MSEs fail to continue trading after the initial years of set-up, People starting MSEs are generally believed to face numerous difficulties. Hence, the other challenges were government rules and regulations (21.9%), input access constraints (raw material and spare parts shortage) (14.4%), complexity of marketing process (22.5%) and the

rest represented as other problems,

According to the survey result implies that the government structure of MSEs targeted office were not served as MSEs owners wishes rather its leads them frustrating and thinking blurred in to the service provided for them.

The raw materials availability were one factors of MSEs to operates their business, this implies that the owners of MSEs has not been made a market analysis and starting their business regardless of considering the availability of input and no government support regarding raw materials problem faced by them.

The other survey result implies marketing were a problems of MSEs, this is shows that the supply of product and service by MSEs were not equal to the demands, this occurs when due to lack of promotion marketing of demand and supply by concerned body through like trade exhibition and there were other factors that affect MSEs business activity like space in which to operate, and physical facilities to conduct their businesses whether this is providing a service, producing a product or trading. They require physical protection against unlawful behavior of others, but also protection in the sense of having legal mechanisms available which help to improve the conduct of businesses (example, protection against unfair competition), and incentives to prompt the start of the business concerning the rules and regulations of the government.

4.5 FINANCIAL CHARACTERIZATIONS OF THE RESPONDENTS

4.5.1 Source of Initial startup capital

The initial sources of capital/finance/ can be raised from multiple sources. A business can use internal or external funds to finance their operations and investments based on the accessibility or availability of the alternative sources of capital. the result of analysis and discussion was indicated here under.

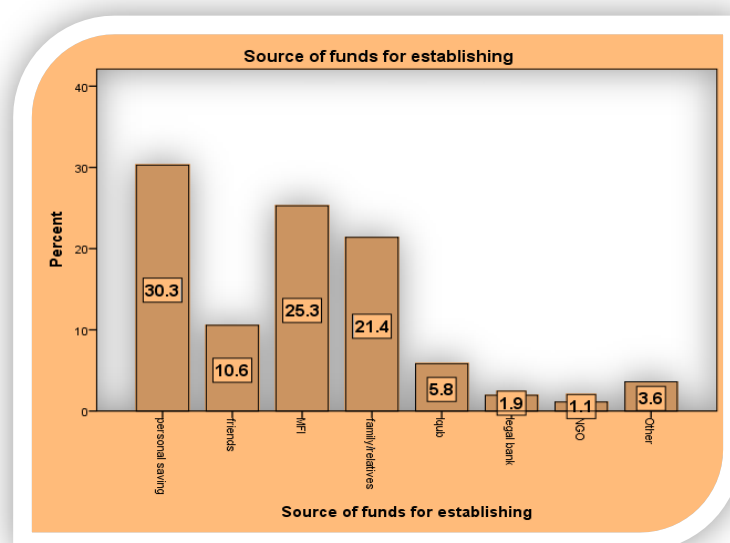


Figure 4. 9 Source of fund for establishment
Source: Own survey data computation 2018

Regarding to sources of funds for establishing, the result of the study indicated that 30.3% MSEs have been generated their initial fund source from personal saving. It doesn't mean that their own capital is ample rather due to absence of access to finance from external sources at the right time they were only relying only on their own capital Using these sources of capital / fund/, MSEs operators have been starting their business by purchasing raw materials and other necessary inputs thereby expanding, diversifying, and promoting their business in the town in particular in the country in general.

As per to the respondents of the study of MSEs, 25.3% of MSEs have got their initial capital from Oromia Credit and Saving share Company (OCSSCO) microfinance institution jimma branch. On top of this, since most of MSEs are financially weak /absence of collateral, many of the financial institutions (creditors) were not willing to lend MSEs. As a result, they lacked access to finance from other sources. So, the only alternative they did was to use their own capital

It is also study results Microfinance and own capital/finance/ are not the only possible sources of finance rather there are also other sources. Some MSEs have got/rose/ finance from their friends 10.6% families/relatives 21.1%, Iqub 5.8%, legal bank or formal bank (commercial banks and Ethiopian development bank) 1.9%, NGO 1.1% and other sources 3.6% respectively. Generally, most of financial sources received by MSEs indicated above were from semi-formal and informal sources respectively, this implies that Formal sources of finance i.e., banks are refrained from providing finances to MSEs even after establishment or in due course of operation. This narrow source of finance may be the reason why businesses fail to establish and progress in the study area. This result is consistent with previous studies by (Anthony 2013; Mabhungu 2011; Odit and Gobardhun 2011) and, Ermias, 2011, Brhane Tadesse, 2011, Deresse & Zerihun 2018).

4.5.2 Loan experience of sample respondents

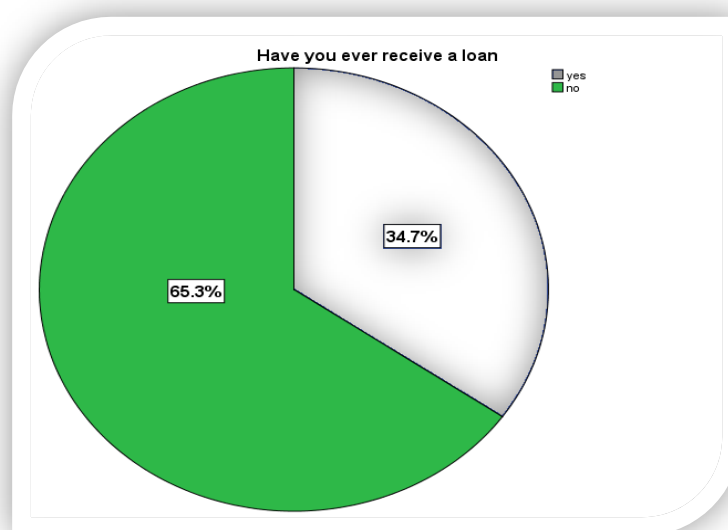


Figure 4. 10 Loan experience of MSEs
Source: Own survey data computation 2018

The survey result shows that 65.3% of sample respondents have never received a loan from financial institution, this not implies that all these inhabitant have enough capital and they have not need to access credit but there may be numerous obstacle behind hindering them from access to finance from financial institution, it may be due to absence of collateral, lack of information how to get, high interest rate and other reasons, whereas the remaining 34.7% have taken credit from financial institution.

4.5.3 Reasons for not making loan applications

In order to know the reason of MSEs owner non-loan experience, the researcher has asked respondents and the response has been presented in the following bar chart

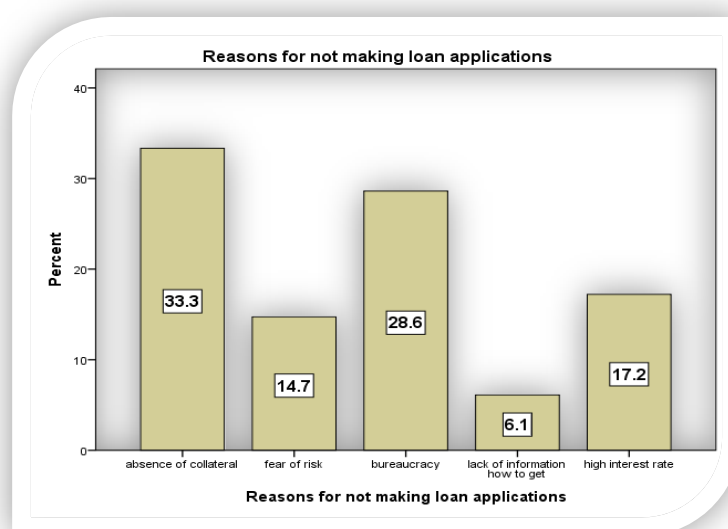


Figure 4. 11 Challenge to get loan

Source: Own survey data computation 2018

Regarding to reason of MSEs not making loan application, the study shows that 33.3% of MSEs' operators main reason were due lack of collateral. As we seen from the above 4.4.6 finding, most of MSEs have no fixed assets like land and house. This implied that many MSEs owners have been out of access to finance due to lack of sufficient collateral. Large banks and other most financial institutions were not willing to lend money for MSEs.; because these banks and most financial institutions do not have confidence on MSEs in repaying the loan on the specified period. In order to minimize this risk, they mostly ask collateral as pledge.

The second finding shows that 28.6% MSEs reasons not to make loan application were government rules and regulation which called bureaucracy. This implies that bureaucracy of financial institutions has been found their main financial problem. MSEs Owners have asked to complete many bureaucratic activities and should force to wait long time to get the money.

On the other hand, findings shows that 17.2% of sample respondents agreed that interest charged in to loan is a very high, due to this they were not make loan application for financial institution, and they refrain themselves from taking in to account loan is good sources of finance

to mobilize their business.

Other findings shows that 14.7% respondents stated that fear of risk by MSE owners have been found as the main reason of not to making loan application. This means that some MSEs owners didn't take loan from credit providers due to fear of risk on their business. As a result, some MSEs have been looking out of the access to finance and 6.1% lack of information how to get loan, what it means is that there is lack of know-how and orientation on how to search the possible sources of finance. This result is consistent with previous studies by Ermias, 2011, and Brhane Tadesse, 2014).

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

In order to know the amount of loan released, time delay to receive loan and capital ranges of MSEs, the researcher has been presented in the following table

Loan amount/size released for MSEs	Frequency	Percent
Sufficient	73	21.4
Insufficient	283	78.6
Total	360	100
Time range to receive loan		
1-2 weeks	30	8.3
3-4 weeks	61	16.9
1-2 months	91	25.3
more than two months	178	49.4
Total	360	100.0
capital range of the respondent		
<50000	79	21.9
50001-100000	112	31.1
100001-500000	113	31.4
500001-1500000	56	15.6
Total	360	100.0

Table 4. 3 Financial information of MSEs

Source: Own survey data computation 2018

As we can see from the above table, most of sample respondents which were 78.6% stated that their loan size has been found insufficient. Whereas, the remaining 21.4% of respondents agreed about the loan size they had taken was sufficient. This were indicated that the amount of money requested by borrowers is much greater than the money given /released/ to the MSEs owners whereas the loan that were issued by lender institution were not according with the interest of borrower rather it depends on rules and regulation of financial institution. Due to this, imbalance of demand and supply of loan have been occurred.

Regarding to time it takes to receive a loan, it is clearly seen from the finding table above that 49.4% this is almost half of sample respondents of MSEs owner borrowers have been waiting

beyond two months, 25.3% respondents waiting to receive loan ranging from one to two month from credit providers; such as from microfinance and other possible external financial sources. Whereas, 16.9% and 8.3% of the respondents stated that they have been waited ranging from three to four week and one to two weeks respectively. this implies that the credit service of financial institution were poor in terms of response rate raised by MSEs, this hindering the owners of MSEs not to making loan application. This result is consistent with previous studies by (Ermias, 2011)

With respect to capital of MSEs Operators categorized into four groups on the basis of the definition adopted by FMSEDA or MOUDH. The result of the study showed that, 53% of the respondents were reported that they own capital of less than 100,000 ETB whereas 31.4% of the respondents reported as they have a capital of between 100,001 to 500,000 ETB. The rest of respondents which were 15.6% of MSE have total capital of above 500,001 birr. From the finding we can understand that most MSEs were started their operations from scratch using relatively small start-up capital. on the other hand economic systems of our country were too volatile, this needs very strong capacity to survive in the market place, however the MSEs in Ethiopia were infant stage of business operation, therefore it is too difficult to make themselves adopt with this economic environment due to lack of capital.

4.5.5 Respondent's response regarding to finance as a major factors of business operation

The under pie chart discussed about the perception of sample respondents about finance as a major factors of business activities.

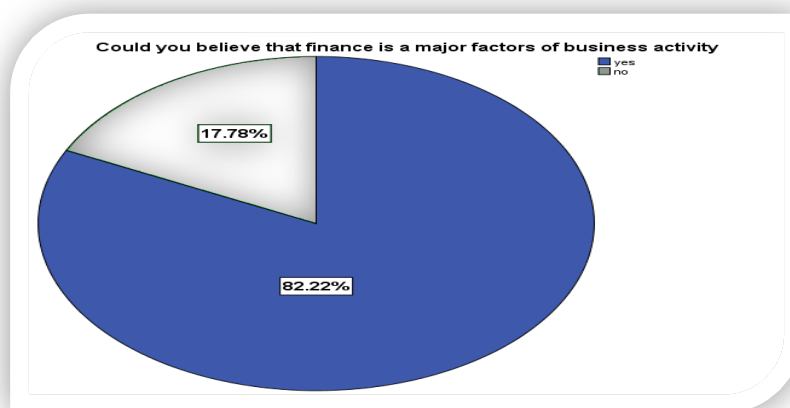


Figure 4. 12 Finance as major factors of business operation
Source: Own survey data computation 2018

Regarding to finance as a major factors of business operation, as we have seen the above pie chart 82.22% of sample respondents agreed that finance have been a major factors affecting business operation. The remaining 17.78% of MSEs operators/owners have been states as finance is not a major factor of business operation. The finding shows finance have been a significance effect on business activity is very high, the study also consistent with the previous study conducted by Gemechu Abdissa & Teklemariam, (2016) Correlation Analysis between

Financial factor and SMEs performance, and the results are there is significant correlation between financial factor and SMEs performance.

4.5.6 Challenges of access to finance for MSEs

In this section, the researcher were investigated the challenges that affect MSEs to access loan from formal financial institution. In order to prioritize the challenges from highest to list factors to access to finance, the researcher has been asked respondents and the response has been presented in the following table.

Descriptive Statistics				
	Minimum	Maximum	Sum	Mean
manager's age	1	5	670	1.86
educational status	1	5	718	1.99
sex of manager's	1	5	508	1.41
owner's religion	1	4	507	1.41
entrepreneurship capability	1	5	833	2.31
Owners experience	1	5	888	2.47
collateral requirement	1	5	1285	3.57
number of employees	1	5	812	2.26
Sector of business	1	5	999	2.78
duration of business	1	5	942	2.62
size of MSEs	1	5	1086	3.02
interest rate	1	5	1255	3.49
credit policy of financial institution	1	5	1122	3.12
repayment period of loan	1	5	984	2.73
fixed lending cost	1	5	1041	2.89

Table 4. 4 Challenges of access to finance for MSEs

Source: Own survey data computation 2018

According to survey result, possession of fixed asset has a large factors on MSEs access to credit from financial institutions at mean value of 3.57. This result is consistent with previous studies by (Mabhungu 2011; Odit and Gobardhun 2011) and is inversely related with (Tsehaye, 2013). Financial institutions are mostly comfortable to provide credit when borrower can provide collateral. Collateral acts as a screening device and used to minimize a risk. In the case of default, collateral serves to put the lender into a privileged position with regard to other creditors. In this regard MSEs were disadvantaged because of that they lack collateral as a pledge. Therefore, formal financial institution providing loan to MSEs on base of collateral regardless of considering the business proposal were profitable or not (Green, 2003).

From the survey result, Interest rate is one of the challenges that MSEs faces to access credit, this factors have huge influence on MSEs followed by collateral a mean value of 3.49. This implies that interest charged by financial institution have make the owner of MSEs frustrated to access to loan. According to Anthony 2013 found out that interest rate has a negative effect on credit allocation. Higher interest rate discourages micro and small enterprises to deepen their

financial access.

Regarding to lending procedure, the survey result indicates that it has a negative factors of access to credit from financial institutions with a mean of 3.12, MSEs operators who have a negative attitude about lending procedure. This implies that to get loans MSEs are expected to go through different processes and procedures, which is time-taking, cumbersome and sometimes difficult to understand. Rather they prefer to take loan from the informal credit institutions for the sake of ease even if it charges higher interest rates.

The survey result found that, firm's size has a significant effect on access to finance from financial institution at mean value of 3.02. this implies that financial institution refrain the loan serviced to MSEs due to numerous reason, according to Cassar (2004) argues that it may be relatively more costly for smaller firms to resolve information asymmetries with debt providers. Consequently, smaller firms may be offered less debt capital.

Fixed lending cost were the other challenging factors that MSEs faces to access credit, a result shows that 2.89 mean value has indicated that sample respondents stated lending cost as factors of access to loan. this implies that the loan amount released for MSEs and the corresponding cost of borrowing of money were high, this makes MSEs owners refrain themselves to access loan.

On the other hand, sectors of business also one of constraint to access credit, from the survey found that a mean value of 2.78 represented as factors of access to finance Martin and Daniel (2013) also found that the industry with which the business belongs was also found to have an implication on access to finance.

The above table result showed that loan repayment period has a negative impact on MSEs access to credit from financial institutions at mean of 2.73. This result is consistent with previous studies by (Wenner 2000).this implies that formal financial institutions have rules and regulations that limit and fix the time at which the borrower should repay the loan, this rules and regulation is set as per financial institution strategy as well as purposes rather MSEs plan and willing to the loan. Due to this reason individuals fear taking loans from formal credit sources and are discouraged from participating in credit market (Wenner, 2000). This implies that MSEs have not strongly enough in terms of capital to settle their credit principal with in specified period adopted by lenders.

As we have seen the result from survey , firm age have factors on firm's access to credit than other challenges like age, sex, religion education and employment number, entrepreneur capability and experience of MSEs owner's at a mean value of 2.62. Operating period or age of the enterprise does create a difference with respect to access to credit from financial institutions.

The other factors found in the survey is experience of the manager/owners of MSEs, which was valued at mean of 2.47, this implied experiences of the owner have affect MSEs Access to finance. On the other hand, the survey result showed that capability of manger/owners of MSEs has affect access to credit from formal financial firms at mean value of 2.31.

Employment size is another factor that has an effect on MSEs access to credit from formal financial institutions at mean value of 2.26. Small firms face with information opacity such as being unable to provide financial information. When the firm is small, most of the time it is owned and operated by the entrepreneur himself and there is no such legal requirement to regularly report financial information and many firms do not maintain audited financial accounts (Storey, 1994).

Regarding to Educational level of the MSEs operators or managers has a positive factors on MSEs access to credit from formal financial institutions at mean of 1.99, educated entrepreneurs have the ability to present positive financial information and strong business plans and they have the ability to maintain a better relationship with financial institutions compared to less educated entrepreneurs. Secondly, the educated entrepreneurs have the skills to manage the other functions of the business such as finance, marketing, human resources and these skills results to high performance of the business which helps those firms to access finance without any difficulty. The third reason stems from the supply side, where the bankers value higher education level of the owner/manager in the loan approval process as an important criterion (Irwin and Scott, 2010).

The variable entrepreneur's age has also effect on MSE's access to credit from formal financial institutions at mean of 1.86. The personal financing preferences of entrepreneurs appear to change according to age and the age of the entrepreneur is a significant determinant of the risk of borrowing. This implies that as the age of an entrepreneur increases, so does his business experience, practical, wisdom and his income generating capacity (Swain, 2001). And according to martins and Daniel 2013, the older age the credit history than younger, therefore, the lender can assess credit history that were accumulated by older age than younger and take as security to provide credit facility.

According to the survey, Gender had little effect than other challenges that may MSEs faces to access to credit from formal financial institutions at mean value of 1.41. This implies that formal financial institutions have no concern on gender to set a difference in lending to MSEs. And the other factors that equally valued with gender factor are religion of MSEs owners a mean of 1.41.

4.6 GOVERNMENT SUPPORT AREA REGARDING MSEs

In this section we have been discussed on the support of government expected to MSEs, like training, facilitating of market, physical infrastructure, provision of incentives, MSEs target financial institution and others. In order to know such findings, the researcher has asked respondents and the response has been presented in the following table.

Items	Frequency	Percent
Training before start up business		
Yes	142	39.44
No	218	60.56

Total	360	100.00
Training after start up business		
Yes	110	30.56
No	250	69.44
Total	360	100.00
Interconnection of MSEs with financial institution		
Yes	79	21.94
No	281	78.06
Total	360	100.00
Pushing of formal financial institution to relax collateral requirement		
Yes	71	19.72
No	289	80.28
Total	360	100.00
encourage establishment of MSEs targeted financial institution		
Yes	203	56.39
No	157	43.61
Total	360	100.00
Information on access to finance from the government		
Enough	83	23.06
not enough	277	76.94
Total	360	100.00
Provision of some incentives to MSEs		
Yes	47	13.06
No	313	86.94
Total	360	100.00
Facilitate the complex process of marketing problem		
Yes	108	30.00
No	252	70.00
Total	360	100.00
Physical infrastructures		
Yes	122	33.89
No	238	66.11
Total	360	100.00
Government support regarding micro and small enterprise		
Enough	56	15.56
not enough	304	84.44
Total	360	100.00

Table 4. 5 Government support regarding to MSEs

Source: Own survey data computation 2018

Regarding to training that provide for MSEs before and after start up business , the survey result shows that 60.56% of sample respondents stated that they have not taken any training before startup and the remaining 39.44 has taken training and also after startup business 69.44% represented has not taken training and the rest 30.56% have taken training. This implies that most of MSEs owner were started their business without businesses environment by taking Training, according to Gebrehiwot and Wolday training applies to any transfer of knowledge, skills or an attitude which is organized to prepare people for more productive activities, or to change their working environment. Unlike formal educational programs, short-term skill training, directly or indirectly affects the performance of MSE operators.

The survey result shows, 21.94% of sample respondents were answered the government does trying to connect and announce financial institution with MSEs, whereas 78.06% of respondents stated that any interconnection promotion between formal financial institution with MSEs does not used by the government.

With regard to the government activity in line with pushing formal financial institution relax their collateral requirement, the survey result shows that 80.28% were stated that government do nothing to push them in order to relax their stiff collateral requirement whereas 19.72% answered in reverse. However, According to (FMSEDA, 1997) The stiff and limited nature of collateral requirements that are currently being requested by the formal financial institutions should be relaxed in order to create more access to small borrowers.

The above table shows that 56.39 sample respondents agreed that have involving to expanding MSEs target financial institution whereas the remaining have not satisfied with this idea. Although, according to (FMSEDA, 1997) In this regard, a micro-financing proclamation has been promulgated, which specifically caters for the financial requirements of MSEs. There are also some ongoing programs that witness encouraging developments in the area of micro financing. These include the Relief Society of Tigray (REST) in Tigray, the Ethiopian Relief Organization (ERO) in Amhara, the Ethiopian Social Rehabilitation and Development Fund (ESRDF) and other NGOs that have already included in their activities the financing of MSEs both in rural and urban areas. Therefore, Government will further encourage and create the enabling ground for the establishment of such MSEs targeted financial institutions.

Regarding to information on access to finance, 76.94 sample respondents have not get enough information, whereas the remaining 23.06% have enough information on how to get loan, and on provision of some incentive to MSEs in order to minimize their business burden 86.94 sample respondents have stated that they didn't whether there is an incentive or not whereas the remaining 13.06% have an idea of provision of incentive from the government. And regarding with easing complex process of marketing problem, 70% were resisting and the remaining 30% were accepted that the government involvement of facilitating the complex process of marketing problem. On the other hand, the survey result indicated that 66.11% of respondents

were not satisfied with the government involvement in to physical infrastructure and the remaining 33.89% have been satisfied.

Lastly regarding to government support on MSEs, the survey shows that 84.44% of sample respondents were not satisfied with the government involvement to support MSEs in order to maintaining them in favorable environment, whereas the remaining respondents stated that the progress of government to support MSEs were promising.

4.7 RELATIONAL DATA (CROSS TABULATION)

4.7.1 Business sectors and duration of the business cross tabulations

Line of Business * Number of years in Business Cross tabulation`							
		Number of years in Business				Total	
		less than 2 years	3-5 years	6-8 years	more than 8 years		
Line of Business	Manufacturing	15	27	18	8	68	
		22.1%	39.7%	26.5%	11.8%	100.0%	
	Trade	31	31	36	18	116	
		26.7%	26.7%	31.0%	15.5%	100.0%	
	Urban farming	11	17	10	13	51	
		21.6%	33.3%	19.6%	25.5%	100.0%	
	Construction	12	10	8	4	34	
		35.3%	29.4%	23.5%	11.8%	100.0%	
	Service	24	25	22	20	91	
		26.4%	27.5%	24.2%	22.0%	100.0%	
	Total		93	110	94	63	360
			25.8%	30.6%	26.1%	17.5%	100.0%

Table 4. 6 Cross tabulation of business sector with duration of business

Source: Own survey data computation 2018

The survey result of cross tabulation revealed that in regarding with the relationship between business sector and operating years in businesses, 15% of trade sectors engaged in businesses for more than six years which is largest proportion of all business sectors, and followed by service, manufacturing, urban and construction sectors at 11%, 7%, 6% and 3% respectively.

The survey also revealed that more than 55% from all sector sample respondents operates in businesses have staying for less than five years, which indicates that most of MSEs were at infant stage, this also implied that they needed support in all dimension in order to keep them safe.

4.7.2 Cross tabulation between Business sectors and capital range of MSEs owners

Line of Business * capital range of the respondent Cross tabulation						
		capital range of the respondent				Total
		<50000	50001-100000	100001-500000	500001-1500000	
Line of Business	manufacturing	3	19	28	18	68
		4.4%	27.9%	41.2%	26.5%	100.0%
	trade	34	37	29	16	116
		29.3%	31.9%	25.0%	13.8%	100.0%
	Urban farming	13	12	15	11	51
		25.5%	23.5%	29.4%	21.6%	100.0%
	construction	1	5	21	7	34
		2.9%	14.7%	61.8%	20.6%	100.0%
	service	28	39	20	4	91
		30.8%	42.9%	22.0%	4.4%	100.0%
Total		79	112	113	56	360
		21.9%	31.1%	31.4%	15.6%	100.0%

Table 4. 7 Cross tabulation of business sector with capital range

Source: Own survey data computation 2018

Regarding to relationship between sector of businesses and capital ranges of MSEs, the survey shows that, 53% of MSEs owners are running their businesses with a capital of less than 100000 ETB, at this time due to economic volatility the cost of everything which is needed by MSEs were rapidly increasing but their capital were remaining constant, this leads MSEs make them out of market and owners have were not make them free to operate their business in order to upgrade their business in terms of expansion, new enterprise, purchase of machine and hiring of more employees , the remaining 47% of sample respondents have a capital of more than 100000 ETB.

In addition to this the survey result shows that 12.7%, 12.5%, 7%, 8% and 6% is a capital range more than 100000 ETB occupied by under sector of manufacturing, trade, urban farming, construction, and service respectively, from this we can see that manufacturing sectors used more capitals than other sectors, this mean not that they have enough capital to running their business as we have seen from the survey result of 4.5.4, more than 68% sample respondents stated that their capital to running their businesses is not sufficient.

4.7.3 Cross tabulation between legal form of Business enterprise and working premise of business enterprise

legal form of business enterprise * working premise of business enterprise Cross tabulation						
		working premise of business enterprise				Total
		family	government	Rented	other	
legal form of business enterprise	sole proprietorship	77	11	125	26	239
		32.2%	4.6%	52.3%	10.9%	100.0%
	Partnership	18	60	33	10	121
		14.9%	49.6%	27.3%	8.3%	100.0%
Total		95	71	158	36	360
		26.4%	19.7%	43.9%	10.0%	100.0%

Table 4. 8 cross tabulation of legal form of business with working premise

Source: Own survey data computation 2018

With regarding to relationship between legal form businesses and working premises, according to the survey result shows approximately 34.7%, 21%, 7% and 3% of sample respondent of sole proprietorship started their businesses by rent, family, other working premise and government building respectively, in addition to this the survey result shows that 16.6%, 9%, 7% and 5% of sample respondents of partnership starting their businesses by government, rent, other working premise and family buildings respectively.

According to the survey result, most of MSEs used working premise by rent building than any other method of working premises, in addition to this sole proprietor were largest legal form of businesses by using rent building than partnership and the findings shows that partnership legal form of businesses were more accessible than sole proprietorship to get premises from the government side, this also implies that government give little attention to business enterprises that are formulated by single owners.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY OF FINDINGS

This study was guided by the main objective of investigating the source and challenges of finance for MSEs in jimma town. According to the finding incorporate in the previous chapters discussion and analysis of the data presented, the following findings are drawn and summarized below

- Regarding to demography of respondents, more than 90% of MSEs operators/owners age fall below 45 years and the remaining 10% fall above 45 years old, this indicates that most part of MSEs owners are younger. Distribution of educational status of MSEs operators indicates that more than 70% ranging from no formal education to diploma and about 24% were degree and above. Regarding to sex of sample respondents, more than 70% were male and the remaining were females.

- Regarding to general business information the survey result shows, from the total sample respondents 32.2%, 25.3%, 9.4%, 14.2% and 18.9% were engaged in trade, service, construction, urban farming and manufacturing sectors respectively. In align with number of staff employed in MSEs findings shows more than 50% of sample respondents were less than 5 employees the remaining to 6-10, 11-15, 16-20 and more than 21 employees respectively. the study shows MSEs working experience in business were more than 50% of sample respondents were less than five years which is infant stage, this implies most part of MSEs were younger. In addition to this the study shows legal form of businesses, which was 66.4% and 33.6% of sole proprietor ship and partnership respectively. Motivation to getting in to business of MSEs owners findings shows that 28.1%, 19.4%, 32.5% and 20% were entrepreneurial experience, skill of owners, family/relative advice and by having no alternatives respectively. Working promise of owner's result shows most of MSEs operators start their business by renting buildings and the remaining by family, government and other methods. Fixed asset possession of MSEs were found as 9.7%, 28.9%, 16.7% and 44.7% were land, vehicle/machine, house and other respectively. Lastly the survey shows that the major problem of MSEs, stated that 35.8%, 21.9%, 14.4%, 22.5% and 5.3% of sample respondents response represented by lack of capital, government beourocracy rules and regulation, shortage of input materials, marketing problems and other respectively.

- Regarding to financial characteristics of the respondents the survey result shows that, all most of MSEs initial sources of fund for establishment were personal saving and MFIs, on the other hand the credit experience of MSEs were less than 50%, in addition to this the loan amount received by MSEs as stated as insufficient by more than 75% of sample respondents. and also the time it takes to receive credit were very long time, about 50% sample respondents received their loan after two months, in top of this credit amount received by respondents were very small. about 52% of sample respondents receive less than 100000 ETB, and also this survey result also shows the obstacle of access to finance, this indicates that the major challenges faces by MSEs to get loan were absence of collateral followed by high interest rate and bureaucracy of rules and regulation of credit police of financial institution and lastly most respondents agreed that financial source as a major factors of business operation.

- With regard to government support to MSEs, the survey result shows that the training availability for MSEs before and after startup businesses about 35% which is very small figures relative to expectation from the government body, in addition to this the study shows that pushing of MFI to relax their collateral requirement to reducing the credit difficulties to MSEs were very small about 20% of the sample respondents agreed with this, and also the study shows that information available to MSEs about how to get loan were still very small about 24%, and the other findings shows that the provision of incentive to MSEs, facilitating of complex marketing problem, developments of physical infrastructure, encouragement of MSEs targeted financial institution and generally the overall support of government to MSEs owner in order to facilitate their business and to reduce burden were too low.

5.2 CONCLUSIONS

The primary objective of the national strategy framework was to create an enabling environment for MSEs. To further ensure the proper institutional coordination for MSEs support function the government created federal as well as regional Micro and Small Enterprises Development Agencies. Despite their huge contribution to the national economy in most developing countries, Ethiopia alike, MSEs face a wide range of challenges and they are often unable to address the problems they faced on their own. According to the survey results the researcher concluded that:-

- ❖ Taking the findings, the study concludes that the major source of startup finance and also working Capital is personal savings and OCSSCO (micro finance institutions) of Jimma branch which can also determine as informal and semiformal financial institutions, another important issue to note is that personal saving and MFIs are more engaged with financing SMEs than banks. Out of those who had access to finance from formal institutions, more than 55% had their access from personal saving and MFIs. Only close to 1.9% had their finance from banks.
- ❖ The other conclusion were followed is the challenges of Access to finance, it is one of the key issues of MSEs not only when starting the business project but also when operating. Identifying the major challenges of access to finance is therefore quite crucial, therefore, the results indicate that major MSEs challenges they faced while accessing for finance is stiff collateral requirement, interest rate and credit policy of financial institution were at a descending order and other challenges have less factors like size of MSEs, Sector of business, repayment period of loan, duration of business, Owners experience, entrepreneurship capability, number of employees, educational status, manager's age, sex of manager's and owner's religion at descending order respectively.
- ❖ Regarding to support expected from government for MSEs in order to mobilize their activities, the findings conclude that government motive to encourage establishment of MSEs targeted financial institution in order to meet budget deficits of MSEs were appreciated and growing, whereas the other support expected from the government like delivery of training, development of infrastructure, resolution of marketing problem, provision of incentive to share MSEs burden of cost to motivate, Pushing of formal financial institution to relax collateral requirement, Interconnection of MSEs with financial institution and Information on access to finance from the government were not encouraging and satisfactory.

5.3 RECOMMENDATION

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

- Although MFIs contributing to MSEs are one of the means of generating capital, but the coverage of MFI cannot be sufficient for establishing and expanding business operations, they still covered not more than 25% and most of MSEs starts their businesses by personal saving and other informal source of finance, thus it is expected from concerned body to creating more lines of credit by incorporating with financial institutions to solve the problem.
- Stiff requirement of collateral, boring Bureaucracy of rules and regulation of credit policy of financial institution and high interest rate were the main determinant factors of MSEs hindering owners from taking loans and financing on operations from financial institution, thus it is quite important to seek alternative means of solution to guarantees for collateral requirements such as municipality as a guarantee and resolution of bureaucratic confusion through discussion with concerned body and by reduction of interest charge in order to motivate MSEs to take credit as an important source of finance, in addition to this it is not the only challenges that MSEs faces to access credit.
- Regarding to government support, delivering of training to MSEs owners were very crucial in order to building capability, skills and experiences to mobilize their business operation appropriately, Although the regional MSEs development agencies trying to deliver training to MSEs owners, but still it is not covered at least more than half total MSEs operators, hence the government should incorporating with concerned bodies and give more attention on the issue of human capacity development in order keep and develop efficiency and effectiveness's of the existing and new comer operators on this field, in addition to this government supports in many dimension in order to smoothening of operation of MSEs were limited like infrastructure development, provision of incentive, facilitating of complex marketing problem, and others, hence it is expected from the government bodies to assess the gap and fill appropriately.
- Providing of Working premise is one of the most important instrument of encouraging MSEs to run their businesses operation, but most of MSEs have used by rent and family rather government support, therefore, government was expecting to give more attention on rendering of working premise.
- Federal and regional MSEs development strategy framework were stated on their objective statement about the involvement of female was unquestionable and encouraged, even though the mission statement said this, the proportion of gender were very different, more than two third of MSEs operators were male, this implies that it is homework for government, therefore government give attention to design additional female support strategy to encourage the participation.
- Most of our MSEs was in trouble of capital insufficiency and time it take to receive, more than 50% of MSEs run their business with a capital of less than 100000 ETB and more than 75% of sample respondents receive loan one month after they make application, this lead them in to numerous disadvantage, therefore MSEs targeted financial institution and concerned body expected to deal with this issue and give more attention in order to alleviating the service

provided and amending of loan amount they released to MSEs.

- Even though the provision of incentives were encouraged in the statements of Federal and regional MSEs development agencies MSEs supported area In order to alleviate some of the financial problems and encourage the growth of MSEs, these would improve the competitiveness of MSEs by reducing the cost of inputs and making their outputs competitive in price, hence it is expected from the government give more attention to implementation of provision of some incentives.

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APPENDIX
JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
MBA PROGRAM

The purpose of this questionnaire is to collect information on a study on sources and challenges of finance for micro and small enterprises in case of Micro and Small Enterprises in Jimma Town. The study is only for academic purpose and cannot affect you in any case. So, your genuine, honest and timely response is vital for accomplishment of this study on time. Therefore, I kindly ask you to give your response to each items/questions carefully.

❖ **GENERAL INSTRUCTIONS:**

- ✚ Your participation is voluntary.
- ✚ I guarantee you that your responses will not influence your present and future employment with the enterprise.
- ✚ Writing your and enterprise's name is not necessary.
- ✚ Please tick on your appropriate response

❖ **PART ONE: PROFILE OF PARTICIPANTS**

1. Sex

- Male Female

2. Age:

- 15-25 26-35
 36-45 46-55 more than 55

3. Educational Qualification

- No formal education Primary Secondary
 TVET Diploma Degree
 Masters and above

4. Marital Status

- Married Divorced
 Single Other

PART TWO: BUSINESS INFORMATION'S

5. In which developmental sector of MSE did you engaged?

- Manufacturing Trade Agricultures
 Construction Services

6. What is the size of your business including temporary employee?

- Less than 5 6-10 11-15
 16-20 21-25 More than 21

7. How long did you do this activities (durations of the business?)

- Less than 2 year 3-5 year
 6-8 year More than 8 years

8. What is the legal form of your business?

- Sole proprietorship cooperatives
 Partnership other

9. What is your reason for getting into this business?

- Skill apparent ship practices
 Parent/relatives I had no alternatives

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

- Family Government
 Rented other

11. What type of fixed Asset you have?

- Land vehicles or machine
 House other

12. What do you think the major problem of your business?

- Lack of capital bureaucracy of rules & regulation
 Shortage of raw materials Market problem
 Other

PART THREE FINANCIAL INFORMATION'S

13. From where did you get initial startup capital?

- Personal saving Friends MFI
 Family/Relatives Iqub legal bank
 NGO other

14. Have you ever received a loan?

- Yes No

15. What is a challenge face MSEs to receive a loan?

- Absence of Collateral fear of risk
 Bureaucracy lack of information how to get
 High interest rate

16. Do you have adequate capital for your business?

- Yes No

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

- Below 50,000 Birr 50,001-100,000 Birr
 100,001-500,000 Birr 500,001-1,500,000 Birr
 Above 1,500,000 Birr

18. The loan amount/size released for MSEs are

- Sufficient insufficient

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

- One to two week Three to four week
 One month to two month More than two month

20. Could you believe that finance is a major factor of your business performance?

- Yes No

21. From the following factors which influence you not to access credit facility?

Element	No Extent	Small Extent	Moderate Extent	Great Extent	Very great Extent
Entrepreneur Characteristics					
Owner's manager's Age					
Education					
Sex					
Religion					
Entrepreneurship Capability					
Experience of the Owner/Manager					
Firm Characteristics					
Collateral requirement					
Number of Employee					
Legal form of Business					
Duration of Business Age of the Firm					
Size of the MSE					
Institutional/credit term Characteristics					
Interest rate					
Credit Policy of Financial Institutions					
Repayment Period					
Fixed Lending Costs					

PART THREE INFORMATION REGARDING GOVERNMENT

22. Did you take any training before start up business?

Yes No

23. Did you take any training after starting up business?

Yes No

24. Is Government committed to strengthen the link between micro and small enterprises and existing as well as evolving financial institutions?

Yes No

25. Is the government pushes formal financial institutions to relax their stiff and limited nature of collateral requirements in order to create more access to small borrowers?

Yes No

26. Is the Government encourage and create the enabling ground for the establishment of MSEs targeted financial institutions?

Yes No

27. Information on Access to Finance from the government is

Enough Not enough

28. Do you have an idea about the provision of incentives for MSEs in order to minimize their business burden?

Yes No

29. Is government undertaken responsibility to facilitate the complex process of marketing problems of MSEs in order to ease challenges?

Yes No

30. Do you satisfied with Physical Infrastructure which is developed by the government in order to facilitate business of MSEs?

Yes No

31. Generally government support regarding micro and small enterprise?

Enough Not enough

THANK YOU!!

ጂማ የኒሽርስቲ ኮሌጅ አፍ ቢዝነስ እና ኢኮኖሚክስ

የዚህ መመሪያ ፅሁፍ መሰረታዊ አላማ ይህን ሪሶርሽ ለመስራት የሚያገለግልውን መረጃ መሰብሰብ ሲሆን። መረጃውም የሚያገለግለው ለዚህ የጥናት አላማ ብቻ የሚውል መሆኑን ለማሳወቅ እወዳለሁ። ስለዚህም የናንተ መጠይቁን በታማኝነት እና በፍቃደኝነት መሙላት ጥናቱን በትክክለኛው እና በተገቢው ጊዜ ለመጨረስ ስለሚረዳኝ መልካም ትብብራችሁን ከወዲሁ ለመጠየቅ እወዳለሁ።

አጠቃላይ መመሪያ:

- ✚ ተሳትፎ/ሽ በፍቃደኝነት ላይ የተመሰረተው።
- ✚ ያንተ/ቺ መልስ በአሁኑም ሆነ በወደፊቱ ስራ/ሽ ላይ ምንም አይነት ችግር እንደሌለበት እና ለጥናት አላማ ብቻ እንደሚውል ማረጋገጫ መስጠት ፈልጋለሁ።
- ✚ የድርጅትም ሆነ የግል ስም መፃፍ አያስፈልግም።
- ✚ ተገቢውን መልስ ላይ ✓ በማድረግ መልስ/ሽ።

ክፍል አንድ: የግለሰቡ መረጃ

1. ፆታ
 - ወንድ ሴት
2. እድሜ
 - 15-25 26-35
 - 36-45 46-55 ከ 56 በላይ
3. የትምህርት ደረጃ
 - መደበኛ ያልሆነ ትምህርት አንደኛ ደረጃ ሁለተኛ ደረጃ
 - ቲቪቲ ዲፕሎማ ዲግሪ
 - ማስተርስ እና ከዚህ በላይ
4. የጋብቻ ሁኔታ
 - ያገባ ያላገባ
 - የተፋታ ሌላ

ክፍል ሁለት: የቢዝነስ

5. የትኛው የስራ ዘርፍ ላይ ነው የተሰማራኩ/ሽው?

- ማኒፋክቸሪንግ ንግድ አግሪካልቸር
- ኮንስትራክሽን አገልግሎትዘርፍ

6. የሰራተኛክ/ሽ ብዛት ምን ያክል ነው?
 - ከ 5 በታች 6-10 ከ 11-15
 - ከ 16-20 16-20 ከ 21 በላይ
7. ምን ያክል ጊዜ በዚህ ስራ ላይ ቆይተዋል/ሻል?
 - ከ 2 አመት በታች ከ 3-5 አመት
 - ከ 6-8 አመት ከ 8 አመት በላይ
8. የስራክ/ሽ ህጋዊ አመሰራረት ምን ያደነው?
 - በግል በጋራ/ሼር
 - ኮርፖሬሽን ሌላ
9. ወደዚህ ስራ ለመግባት ምክንያትህ/ሽ ምን ያደነው?
 - ችሎታክ/ሽ የስራ ላይ ልምምድ
 - ቤተሰብ ስራ ስላነበረኝ
10. ስራክን/ሽ የጀመርከው/ሽው እንዴት ነው?
 - በቤተሰብ ቤት በመንግስት በታ
 - በክራይ ሌላ
11. ምን አይነት ቋሚ ንብረቶች አሉክ/ሽ?
 - መሬት ማሽነሪ
 - ቤት ሌላ
12. የቢዝነስክ/ሽ መሰረታዊ ችግር ነው ብለክ/ሽ የምታምነው/ኚው ምን ያደነው?
 - የካፒታል እጥረት የህግ እና ደንብ መብዛት እና ውስብስብነት
 - የጥሬ እቃ አቅርቦት ችግር የገበያ ችግር
 - ሌላ

ክፍል ሶስት ፋይናንስመረጃ

13. የመነሻ ካፒታል ያገኘከው/ሽው ከየት ነው?
 - ከግል ቁጠባ ከዳይጅ ከመይክሮ ፋይናንስ
 - ከቤተሰብ ወይም ዘመድ እቁብ ህጋዊ ባንክ
 - ከኤንጂኦ ሌላ
14. የገንዘብ ብድር ወስደክ/ሽ ታውቃለህ/ሽ?
 - አዎ አይ
15. ብድር ለመውሰድ እንቅፋት ነው ያልከውን/ሽውን ምረጥ/ጩ
 - የማስያዥ ችግር ኪሳራን በመፍራት
 - ቢሮክራሲውን ጥላቻ መረጃው ስላልነበረኝ
 - ከፍተኛ የወለድ መጠን
16. ያለክ/ሽ ካፒታል ለቢዝነሱ በቂ ነው ብለክ/ሽ ታምናለክ/ሽ?
 - አዎ አይ
17. ከዚህ በታች ካለው ውስጥ ያንተ/ቺ ካፒታል የትኛው ውስጥ ይገኛል?

- ከ 50,000 ብር በታች
- ከ 50,001-100,000 ብር
- ከ 100,001-500,000 ብር
- ከ 500,001-1,500,000 ብር
- ከ1,500,000 ብር በላይ

18. የሚለቀቀው የብድር መጠን ባንተ/ቼአሳብ

- በቂ ነው
- በቂ አይደለም

19. ብድርለመውሰድምን ያክል ጊዜ ይወስዳል?

- ከ 1 እስከ 2 ሳምንት
- ከ 3 እስከ 4 ሳምንት
- ከ 1 እስከ 2 ወር
- ከ 2 ወር በላይ

20. ካፒታል በቢዝነስ ላይ ተለቅ ያለ አሉታዊ ተጽዕኖ አለው ብለክ/ሽ ታምናለክ/ሽ?

- አዎ
- አይ

21. ከስር ከተዘረዘሩት ውስጥ ብድር ለመውሰድ እንቅፋት ናቸው ያልከውን/ሽው ንበየክብደታቸው መጠን ምልክት አድርግ/ጊ

ዝርዝር	ችግር የለውም	ትንሽ ችግር አለው	መጠነኛ ችግር አለው	ከፍተኛ ችግር አለው	በጣም ከፍተኛ ችግር አለው
የድርጅቱ ባለቤት ባህሪ					
የባለቤቱ እድሜ					
የትምህርት ደረጃው					
ፆታው					
ሀይማኖቱ					
የባለቤቱ ክህሎት					
የስራ ልምዱ					
የድርጅቱ ባህሪ					
ድርጅቱ ያለው የብድር ማስያዣ					
የድርጅቱ ሰራተኛ ብዛት					
የሚሰራበት የስራ ዘርፍ					
የድርጅቱ በስራ ላይ የቆየበት ጊዜ					
የድርጅቱ አቅም/መጠን					
የአበዳሪ ድርጅቶች ህግ እና ደንብ					
የብድር ወለድ መጠን					
የተወሳሰበ የብድር ፖሊሲ					

የመልሶ መክፈል የጊዜ ሁኔታ					
ለብድር የሚወጣ ወጪ					

ክፍል አራት: ስለመንግስት አገልግሎት

- 22. ስራክን/ሽን ከመጀመርክ/ሽ በፊት የተሰጠክው/ሽ ስልጠና አለ?
 - አዎ አይ
- 23. ስራክን/ሽን ከጀመርክ/ሽ በዋላ የተሰጠክ/ሽ ስልጠና አለ?
 - አዎ አይ
- 24. መንግስት ጥቃቅን እና አነስተኛ ድርጅቶችን ካሉት የፋይናንስ ድጋፍ ሰጪ ድርጅቶች ጋር የማስተዋወቅ ስራ ስርቶዋል ብለክ/ሽ ታምናለክ/ሽ?
 - አዎ አይ
- 25. መንግስት አበዳሪ ድርጅቶችን ጠንከር ያለ የብድር ማስያዥ ህጋቸውን እንዲያለሰልሱ ግፊት ያደርጋል?
 - አዎ አይ
- 26. መንግስት ጥቃቅን እና አነስተኛን መሰረት ያደረጉ የፋይናንስ አገልግሎት የሚሰጡ ድርጅቶች እንዲበራከቱ ጥረት ያደርጋል?
 - አዎ አይ
- 27. ስለብድር አገልግሎት ሰጪ ድርጅቶች መንግስት የሚያቀርበው መረጃ
 - በቂ ነው በቂ አይደለም
- 28. መንግስት ጥቃቅን እና አነስተኛ ድርጅቶችን ለመርዳት ሲል የሚሰጠው የማበረታቻ ገንዘብ አለ?
 - አዎ አይ
- 29. መንግስት ጥቃቅን እና አነስተኛ ድርጅቶችን ከገበያው ጋር የማስተሳሰር ስራ ስርቶዋል ብለክ/ሽ ታምናለክ/ሽ?
 - አዎ አይ
- 30. ገበያውን ለማሳለጥ መንግስት እየሰራ ያለው መሰረተ ልማት ጥሩ ነው ብለክ/ሽ ታምናለክ/ሽ?
 - አዎ አይ
- 31. በአጠቃላይ መንግስት ለጥቃቅን እና አነስተኛ እየሰጠ ያለው ድጋፍ
 - በቂ ነው በቂ አይደለም

አመሰግናለሁ!!