



An Assessment of Factors Affecting Access to Finance for Micro and Small Enterprises in the Case of Metahara Town, Ethiopia

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Abstract

Micro and Small Scale Enterprises (MSEs) are the lifeblood of most economies. To be successful this and other business sectors require finance which 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 the working capital of the business firms. Without finance, no business enterprise can achieve its objectives. Finance is the backbone of any business enterprise (McKiernan and Chen, 2005). The general objective of the study was to find out the factors affecting access to finance for MSEs in the Metahara town. The research design was a cross-sectional survey that included a structured and unstructured questionnaire. Moreover, the questionnaire was distributed to MSEs Managers to be filled by them accordingly. From the total population of 169 MSEs legally registered in the study area, a sample of 117 was selected by using a random sampling technique. The access to finance practice was measured in two items (access firms and none access firms to loan). These variables were described by using descriptive statistics such as mean, standard deviation, frequency distribution, tables, pie charts, chi-square test, and t-test. The basic finding is that MSEs were extremely faced challenges in accessing finance. It is investigated that many MSEs have obtained their capital from microfinance, relatives (families), personal savings, and Equib. This indicates that access to finance from the bank is very difficult for MSEs. Due to the existence of fixed asset collaterals. Moreover, the longtime of loan process and bureaucracy; requirement of a large amount of advance savings; short term loan repayment period; high collateral; high-interest rate; absence of interest-free loan providing institutions have been hindering MSEs from access to finance.

Keywords: Access to Finance, MSEs, MFI, and Metahara Town.

INTRODUCTION

Micro and Small Scale Enterprises (MSEs) are the lifeblood of most economies. To be successful this and other business sectors require finance which 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 the working capital of the business firms. Without finance, no one business enterprise can achieve its objectives. Finance is the backbone of any business enterprise (McKiernan and Chen, 2015).

According to Okpara (2011), in Africa, on average, less than 20% of households have access to formal financial services, with low population densities, poor transport, and limited communications infrastructure contributing to a lack of supply of finance in extensive regions of the continent. Lowering these barriers to access to finance and offer suitable

financial products can allow households and small businesses to maximize the leverage of their savings or earnings for increased productivity, contributing to higher incomes, job creation, and ultimately growth (Okpara, 2011).

In Ethiopia, the contribution of the informal sector is even larger than in other African nations. It is an employer of the last resort holding 78% of the total urban economically active population compared to 62% for Africa as a whole (Michael, 2016).

The majority of firms in Ethiopia are micro and small enterprises. According to Aregash (2015), they account for 98% of all business firms. The micro-enterprise manufacturing sector alone absorbed 1.3 million persons (CSA, 2013). Employment in the informal micro-enterprises is growing much faster than employment in the formal sector accounting for 71% of urban employment by 2005 (World Bank, 2009). Thus, formalized medium- and large-sized firms absorb only a very small share of the annual increase in the Ethiopian workforce, and the majority of new entrants to the labor market are forced to engage in own-account work (Altenburg, 2010).

In Ethiopia, MSEs are the second-largest employment generating sector next to agriculture. More than 1.3 million people in the country are engaged in MSEs Sector. But a large number of MSEs are unable to grow and others remain to be at the survival stage. Moreover, out of 1000 MSEs in this country around 69 percent of them are found in survival types (Gebru, 2019).

According to the 2006 report of the High-Level Commission on Legal Empowerment of the Poor (CLEP), micro-enterprises account for 99.8% of total establishments, 99.6% of employment, and 94.7% of the gross value of production, and 95.1% of the value-added (HCLEP, 2006). They also absorb a labor force eight times larger than medium and large-scale industries, where micro-enterprises account for 97% of all manufacturing establishments and 19% of the gross value of production in the sector (Desta, 2010).

Many operators hunt for a narrow market, creating no incentive for business expansion. Limited access to credit; burdensome rules and regulations; lack of premises; lack of business and financial management skills; lack of infrastructure and the like affected the performance of Small and Micro Enterprises. Besides, businesses that ceased operation were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%) (Eshetu and Zelleke, 2018).

Therefore, this study empirically investigated the main factors that affect the access to finance of MSEs that are found in Metahara town.

Statement of the problem

The SME sector in Ethiopia is taken as an instrument in bringing about economic transition by effectively using the skill and talent of the people, particularly women and youth without demanding high-level training, much capital, and sophisticated technology. The Small and Medium Enterprises informal and Small Manufacturing Enterprise sector (SMEs) contributed a value-added of Birr 8.3 million in 1996. Based on the 1992/93 data, this figure constitutes about 3.4% of the GDP, 33% of the industrial sector's contribution, and 52% of the manufacturing sector's contribution to the GDP of the same year (Gebrehiwot, 2016).

The development of the sector in Ethiopia is believed to be the major source of employment and income generation for a wider group of the society in general and urban youth in particular. The five-year Growth and Transformation Plan (GTP) of Ethiopia envisages creating a total of three million micro and small scale enterprises at the end of the plan period (NBE, 2011). Citing the source from the Federal Micro and Small Enterprise Development Agency (FMESDA), the EEA Research Brief noted that a total of seventy thousand five hundred (70500) new MSEs were established in 2011/12 employing eight hundred six thousand three hundred (806300) people across the country. The performance is below the target set in GTP (EEA, 2015).

In a study conducted by (Mulu, 2019) in Ethiopia, it was found that limited access to credit; burdensome rules and regulation; lack of premises; lack of business and financial management skills; lack of infrastructure, and the like affected their performance. One of the leading factors contributing to the unimpressive growth and performance of the enterprises is limited access to finance (Wolday and Gebrehiwot, 2014).

There is no also abundant data on Micro and Small Enterprises regarding access to finance yet. Besides, Zewde (2012) confirmed that the literature on MSEs in Ethiopia is insufficient. In particular, little is known about enterprises found in small towns like Metahara. Therefore, this study was aimed at filling up the gap by investigating the factors that affect access to finance for MSEs' in Metahara town.

Basic Research Questions

For the successful accomplishment of this study, the following basic research question was taken as starting points:

- ❖ Is there relevant information for MSEs regarding access to finance in the study area?
- ❖ What is the impact age of MSEs has on accessing finance in the study area?
- ❖ What is the impact of the size of MSEs in accessing finance in the study area?
- ❖ What are the factors that determine MSE's Access to finance in the study area?

General Objective

The general objective of the study was to find out the factors affecting access to finance of MSEs that are found in Matchara town.

Specific Objectives

The specific objectives

- ❖ To evaluate the availability of information in accessing finance for the MSEs in Metahara town.
- ❖ To evaluate the age of MSEs in accessing finance in the study area
- ❖ To evaluate the size of MSEs in accessing finance for MSEs in Metahara town.
- ❖ To identify the factor that, determines MSE's Access to finance operating in Metahara town.

Operational Definitions of Terms

Cooperatives: association of at least 10 individuals who are from the same area.

Enterprise: It refers to a unit of economic organization or activity whether public or privately engaged in the manufacturing of goods.

Factors: A factor is a contributory aspect such as politico-legal, working premises, technologies, infrastructures, marketing, financial, management, and entrepreneurial influences that affect the performance of micro and small enterprises.

Gullit: A petty trading activity is usually undertaken at roadsides and sometimes at designated places.

Idir: A widely prevalent sort of funeral grouping in Ethiopia, where resources are mobilized and pooled to get emotional and material support upon the death of the member himself, his dependents, or relatives.

Informal sector: in this paper, the concept of the informal sector is used alternatively with micro-enterprises, because it is consistently and widely accepted, and comparative data are available for Ethiopia.

Initial paid-up capital: is that part of the issued capital of an establishment that has been paid by the owners to start the operation.

Iqub: A voluntary, informal, and indigenous form of rotating saving and credit scheme, where each member contributes a mutually agreed amount of money on a weekly or monthly basis.

Manufacture of food products: includes the manufacture of vegetables, preparing 'baltina' products, and manufacture of bakery products.

Manufacture of metal products: is an enterprises sector engaged in the manufacture of fabricated metal products, except machinery and equipment; manufacture of parts and accessories for motor vehicles and their engines.

Manufacture of textiles and garments: is an enterprise sector engaged in the preparation and spinning of textile fibers, manufacture of carpets and rugs; manufacture of wearing apparel, dressing, and dyeing of fur.

Manufacture of wood and wood products includes manufacturing of furniture, joinery, and modern beehives.

Microenterprise: means a commercial enterprise whose capital is not exceeding birr 200,000 other than high technology and consultancy services.

Performance: in this paper performance is defined in terms of the profitability of the MSEs.

A partnership involves two or more individuals who have a partnership agreement to operate a business and share the earnings and liabilities of the venture.

Respondent: respondents are those individuals who are owner-managers or operators of an enterprise.

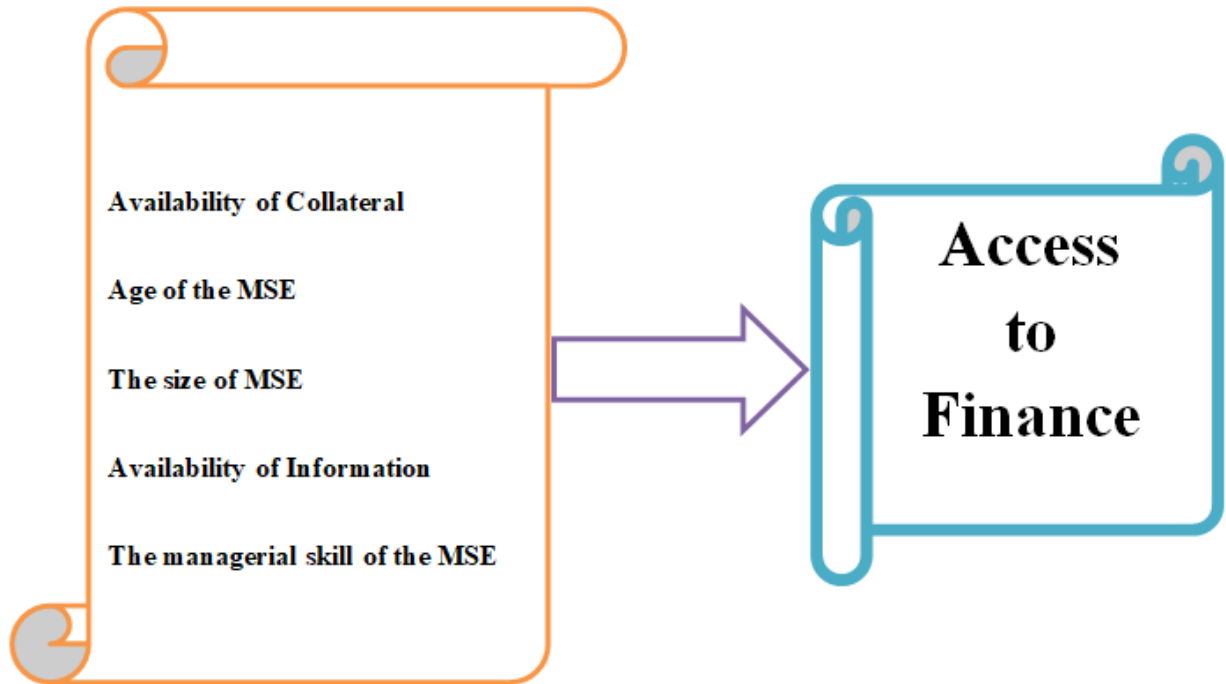
Small enterprise: means a business engaged in commercial activities whose capital is exceeding birr 20,000 and not exceeding 500,000 birrs, other than high technology and consultancy service institutions.

Conceptual Framework

The sources of credit are formal credit and debt financing which refers to the case where SMEs get finance products in a form of loans from lending institutions (Osama & Languitone, 2016). The other is informal credit is a source of finance for SMEs firm in which the entrepreneurs access from local money lenders at a high-interest rate.

For this study purpose, we have proposed the following factors as independent variables which may affect the access to finance of MSE exist in maturate town, fantale woreda, east Showa zone, Oromia, Ethiopia.

These are, Availability of Collateral, Age of the MSE, The size of MSE, Availability of Information and Managerial skill of the MSE exist in the study area are among the main factors hindering the accessibility of finance for MSE exist in the study area. The following chart shows those variables shortly and briefly.



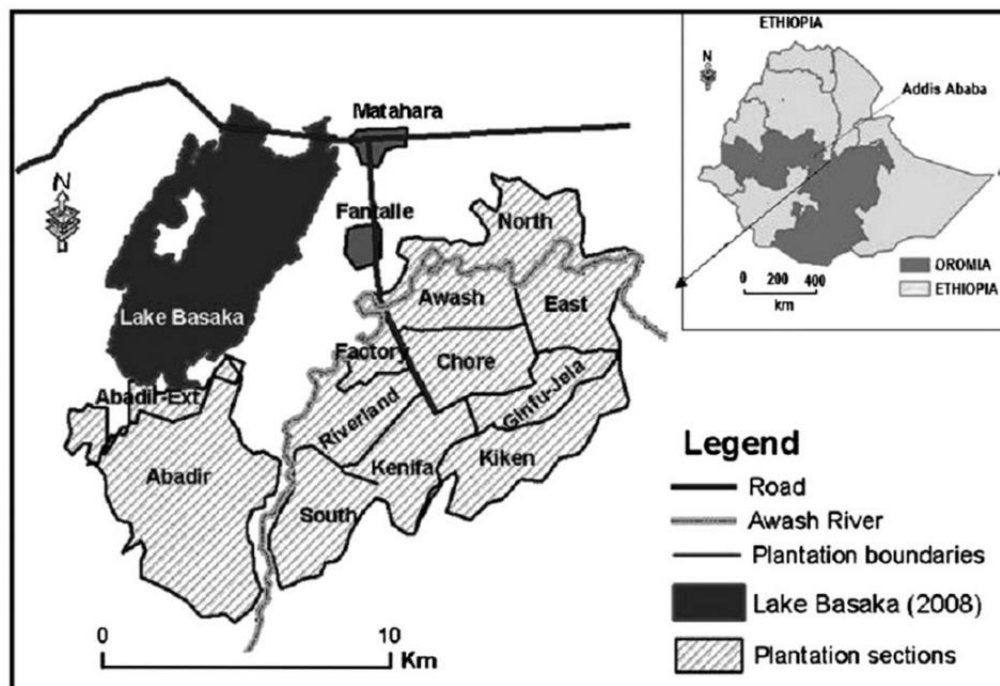
RESEARCH METHODOLOGY

Description of the study area

Matehara is a town in central Ethiopia. Located in the East Shewa Zone of the Oromia, it has a latitude and longitude of 08°54'N 39°55'E Coordinates: 08°54'N 39°55'E with an elevation of 947 meters above sea level.

Access to Matehara includes a station on the Addis Ababa–Djibouti Railway. There is a Tuesday livestock market. Notable local landmarks include Metehara Mikael Bet church, Mount Fentale to the north, and Lake Basaka to the south of the town. The town is inhabited by the Karrayu Oromo and Ittu Oromos).

The researcher's observation and informal discussions with MSEs Operators indicated that they face numerous challenges which have not been investigated by any prior studies. Such a gap inspired the researcher to conduct further Studies on such issues.



Definition of MSEs

Though there are different definitions of micro and small enterprises, the revised definition of MSEs by the Ethiopian government were used in this study (Table 1). Accordingly, employment and assets have been used to define MSEs (FDRE, 2011).

Table 1: Definitions of micro and small enterprises

Level of enterprise	Sector	Employment	Total asset(in Birr)
Microenterprise	Industry	≤5	≤100,000
Small enterprise	Industry	6-30	≤1.5 million
Service	enterprise	6-30	≤500,000

Source: MOFED (2020) report

Research Design and strategy

The cross-sectional survey approach was used in gathering the data to meet the research objectives. The researcher used the direct contact method with the help of a phone and a person who knows the selected firms' exact locations. In this regard, the phone was used not only for clarification purposes but also for reminding the respondents to return the questionnaires within the intended time. Besides, the researchers hired also one person to lead them to the selected firms' exact locations; that made it easy for the researcher to contact all the selected firms within a short time.

Sampling technique and size determination

According to Metehara town Micro and Small Enterprises development office report (2019), the target population amounts to 169. There are five business sectors in the target population and their names are trade, manufacturing, urban agriculture, construction, and services. After determining the sample size for this study, the researcher selects those 117 enterprises or respondents from the target population proportionally. The researcher used the following formula to determine the sample size for this study.

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$$n = \left(\frac{P(1-P)}{\frac{A^2}{Z^2} + \frac{P(1-P)}{N}} \right)$$

An Equation for Determining Sample Size adapted from (Watson, 2001)

Where:

n = the required sample size : (?)

N = the target population: (169)

P = the estimated variance of a population: (0.5)

A = Precision desired: (5%)

Z = based on 95% confidence level: 1.96

By inserting the above information into the sample size determination formula, the researcher can get the desired base sample size which is 117 for the research.

Finally, as tried to mention the above, for different kinds of reasons, some of the respondents might not respond to a questionnaire. In this regard, the researcher estimates that there was an 80% response rate.

Therefore, to tackle the problem of a 20% non-response rate, the researcher adds a 20% none response rate to a base sample size, which is 117/0.8 this is equal to 146.

Table 1 Number of respondents

Business Sectors No. of MSEs in each stratum Sectors Weight in % Sample Size is calculated as follows

Business Type	No SME in the strata	Sectors Weight in %	Sample size
Trade	70	41	48
Manufacturing	54	32	38
Construction	12	7	8
service	22	13	15
Urban Agriculture	11	6.6	8
Total	169	100%	117

Source: Metehara town MSE promotion office report (2020)

Types and Sources of Data Collection

Both primary and secondary sources of data are going to be employed to achieve the intended objectives of the study. For primary data, structured questionnaires were designed and administered for the selected sample member respondents. The structured questionnaires enable the researcher to collect more information within a limited period. Secondary data was collected from annual reports from the town Micro and Small Enterprises development office and written sources of the sampled Micro and Small Enterprises.

Variables and Measures

There are two major variables in this study. These are the independent and dependent variables. Independent variables are factors that affect access to finance for MSEs in Metahara town. The dependent variable is Access to finance for Micro and Small Enterprises in Metahara town. These variables were measured using descriptive statistics such as mean, media, mode, frequency distribution, variance, etc.

Dependent Variables

The only dependent variable in the study is access to finance. Access to finance for Micro and small enterprises can be described as the proximity of such MSEs to sources of funding especially loans from financial institutions (Beck, Demirgüçkunt, and Maksimovic, 2005).

To address these issues, this study aims to examine the existing situation of MSEs' access to finance in Metahara Town. More specifically, this study will investigate the internal characteristics of MSEs in Metahara town such as collateral, age of the firm, size of the firm, availability of information, managerial education level and performance of the firm, etc. Furthermore, the study will analyze comparisons of those characteristics between MSEs that have access (herein referred to as 'Access firms') to financial institutions and those that don't (herein referred to as 'Non-access firms').

Independent Variable

Collateral and Access to Finance

According to Tewodros (2005), commercial banks assess the creditworthiness of the applicant using parameters like collateral; banks hold title to an asset that is at least equivalent to the amount of loan to be taken. The purpose of this asset is to enable the banks to recover their amount of loan in case of default by the borrower. While assessing the asset that is pledged as collateral, the banks look at the quality and most of the time prefer an asset that appreciates over time. Therefore, in this study, the researcher will ask whether MSEs have fixed assets to be used as collateral for getting loans from financial institutions.

Age of the MSEs and Access to Finance

The number of years either in business has been used in most studies as a proxy for the age of the company (Foreman, 2003). The logic behind this is that experience in years provides the company a set of historic actions to learn from, build confidence in both turbulent and orderly business environments, and improve their actions ahead. Therefore, in this study, MSEs' number of years of age is going to be taken as a measure of a firm's experience.

The size of the MSE and Access to Finance

The number of employees is thought to be more appropriate to use as a measure of firm size. This is because, first, its accurateness and easy data collection; second, as tried mentioned above, most of the time economic agents provide wrong data when they are asked questions regarding their incomes, sales, or earnings. assured that the number of employees as a measure of firm size is a much more researched measure than total sales and it has been found more consistent results with it (Majocchi, Bacchiocchi, and Mayrhofer, 2005); (Foreman, 2003). Therefore, in this study, the number of employees is going to be taken as a measure of firm size.

Availability of information and Access to Finance

Small firms lack proper accounting procedures and owners easily mix their business and personal finances, making their financial statements often unreliable. Record keeping is particularly important to the integrity of the business.

The prevailing corrupt tendency in the society, which has permeated the fabric of the society including entrepreneurs, has prevented most small and medium enterprises operators from keeping adequate records Osotimehin et al (2012). According to Aldaba (2011), MSEs, particularly the smaller ones, have been unable to access funds due to their limited track record, inadequate financial statements, and business plans.

Banks have continuously pointed out that the lack of credit information has deterred them from lending to MSEs. Without the necessary credit information, it is difficult to determine the creditworthiness of borrower firms. Therefore, in this study, the researcher is going to see the overall credit information including business financial statements and business plans of the MSEs whether to have access to credit or not.

Lack of Managerial skills and Access to finance

Many researchers document evidence that higher educated managers perform better in business enterprises; there is a direct positive effect of a manager's higher level of education on a firm's profitability and access to finance (Nakos, et al., 1998). In the same manner, it was found that higher educated manager performs better in small businesses because of a good cultural orientation that helps them to accept any accountability and responsibility and to manage any operations in accessing finance to their businesses in an easy manner (Holzmüller and Kasper, 1991). Therefore, in this study managers are going to be asked to rate their level of education. The choices were certificate and below, college diploma, 1st degree, and 2nd degree and above.

Performance of MSEs and Access to finance

According to Martin (2010) performance is defined simply in terms of output such as quantified objectives or profitability. Ondiege (1996) demonstrated that access to finance is associated with improved performance of MSEs in a developing country. Moreover, Lundvall and Hjalmarsson (1998) show that manufacturing enterprises that have limited access to credit also tend to be less productive and cannot always move to points of best practice.

This indicates that since the MSE sector does not have adequate access to credit, its potential role in transforming the country is unlikely to be realized. Therefore, in this study performance of MSEs is going to be measured in terms of increase or decrease in profitability.

Methods of Data Analyses

The researcher is going to use descriptive statistics like correlation, chi-Square tests, mean, media, standard deviation, and frequency distribution to analyze the data at hand for this study. Descriptive statistics of correlations for the independent variables are going to be used to assess the multi-co linearity among independent variables; Chi-Square tests are going to be used for two variables which are measured on a nominal scale.

EMPIRICAL MODEL

The study used the multi-collinearity models to predict the extent to which the identified independent variables affect the dependent variable. In this case, SPSS version 20 was used for investigating and analyzing the factors that affect access to finance for MSEs' in Metahara town. It was designed as follows

Types of Variable	Name of Variable	Operational symbol
Dependent Variable	Access to Finance	AF
Independent Variables	Availability of Collateral	AC
	Age of the MSE	AMS
	The size of MSE	SMEs
	Availability of Information	SMEs
	The managerial skill of the MSE	MS
	The Performance of MSEs	PMS

$$Y=F(x) \dots\dots\dots (1)$$

Where; Y is the dependent variable AF (Access to Finance)

X- Is an independent factor that influences Y

The influence of the above factors is expected to predict by using a regression model developed as follows;

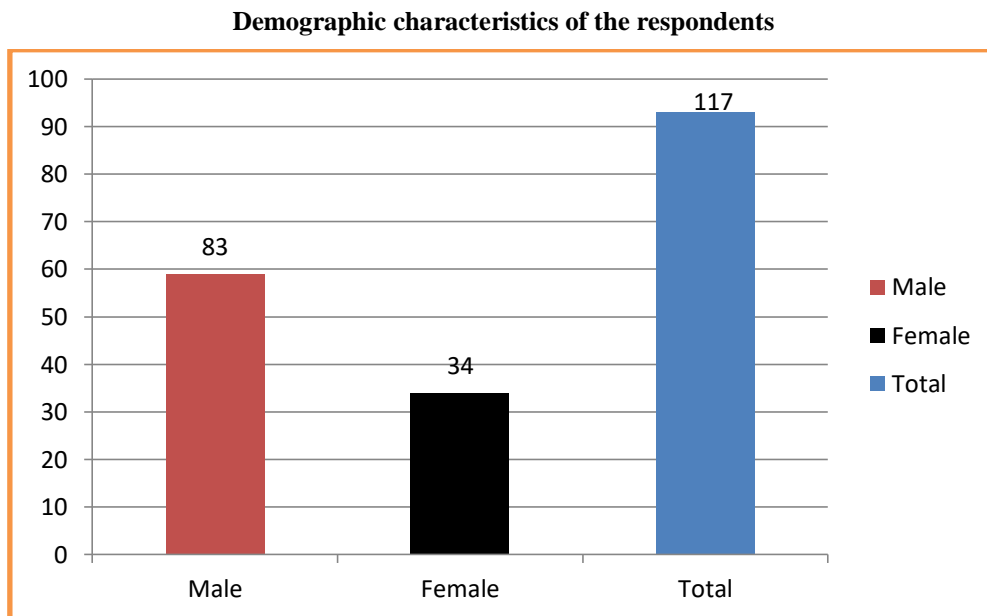
$$AF = \beta_0 + \beta_1 AC + \beta_2 AMSEs + \beta_3 SMSEs + \beta_4 SMSEs + \beta_5 MS + \beta_6 PMSEs + \text{et} \dots\dots (2)$$

Where β_0 ; is intercept, $\beta_1 - \beta_8$ are coefficients of the variables,

ET: is an error term that represents the factors that didn't include in the model but have an influence on access to finance for MSEs' in Metahara town.

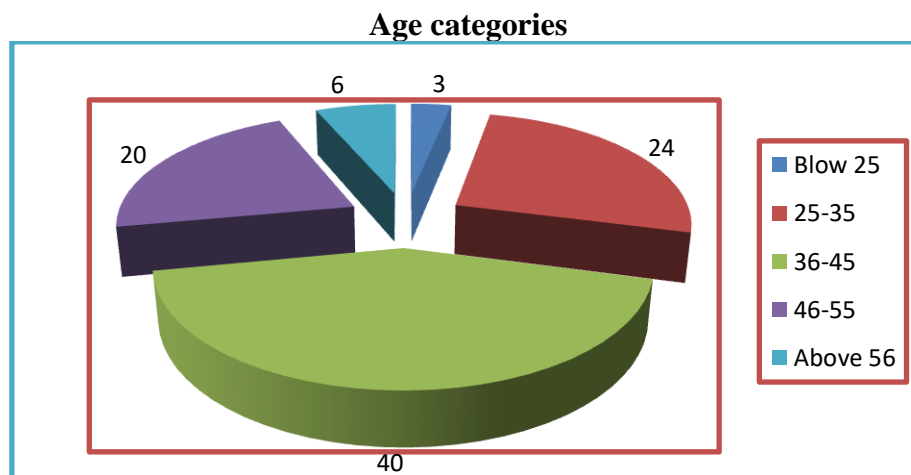
Data Presentation and Analysis

This chapter presents the analysis, findings, and discussions of the study in line with the research objective and the research methodology. The study aims to find out the factors affecting access to finance of MSEs that are found in Matchara town.



Figure_3: Gender categories of respondents

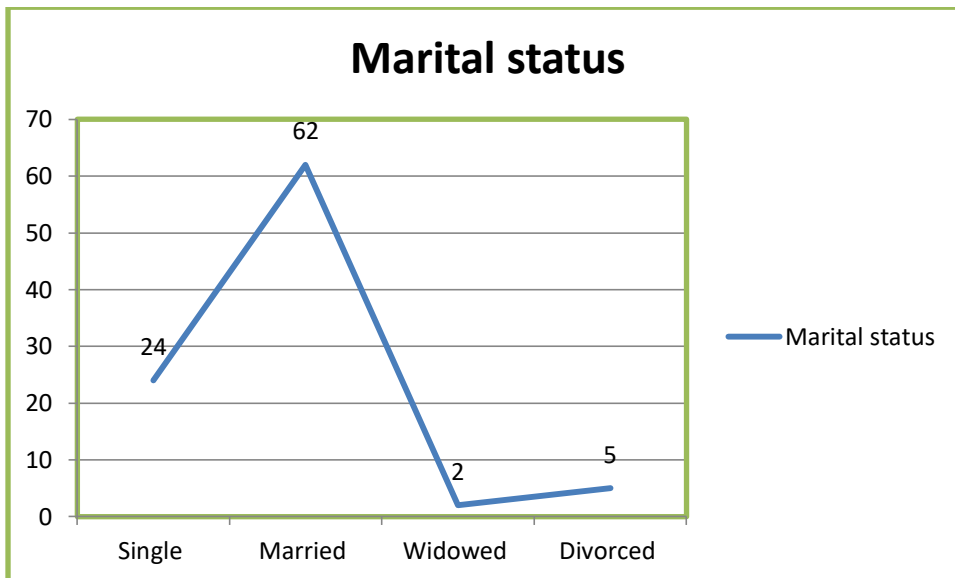
As indicated in the table above, from 117 samples taken 83 (70.94%) are male and the rest 34 (29.05%) are female. From this, we can understand that the number of male-owned micro finances is more than female-owned in the Matchara town.



Figure_1: Age categories of respondents

As indicated in table 2 regarding categories, of the total respondents 3(3.2%) are blow 25 age categories, 24 (25.8%) of respondents age categories are between 25 to 35, also 40 (43.0%) respondents are between 36 to 35 age categories, 20 (21.5%) are between 46 to 55 and the rest 6(6.5%) are above 56 years old. From this, we can conclude that more percent of Micro and Small Enterprise owners in Matchara town are between age categories of 36 to 45 years old followed by 25 to 35 age categories. Generally, these two age categories are productive and they can play a great role in minimizing unemployment and increasing the economy of the country.

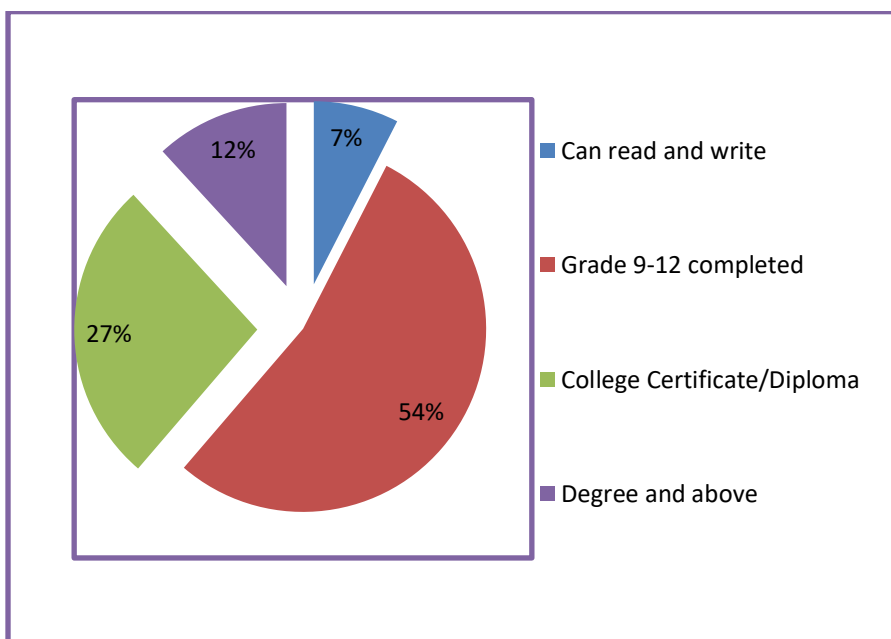
Marital Status of Respondents



Figure_2: Marital Status of Respondents

Concerning the marital status of respondents table3 shows that most of the respondents, 62 (66.7%) of sample respondents are Married followed by 24(25.8%) are single, 5(5.4%) are divorced and the remaining (2.2%) are divorced. The survey result indicated that more than half of the respondents are married.

Educational Status of the Respondents



Figure_3: Educational Status of the Respondents

Table 6, the educational status of respondents from the total sampled respondents, 7 (27.8%) were Can read and write, 50 (47.8%) are Grade 9-12 (high school) completed, 25 (15.6%) of respondents have a diploma and the rest 11 (8.9%) are degree and above holders. Most of the respondents are from 9-to 12 completed and the least is 7 can only read and write. From this, the education level of Matehara town Micro and Small Enterprise owners is at a low level and they need to improve their education level to increase their participation in the trade.

House of Micro and Small Enterprise owners

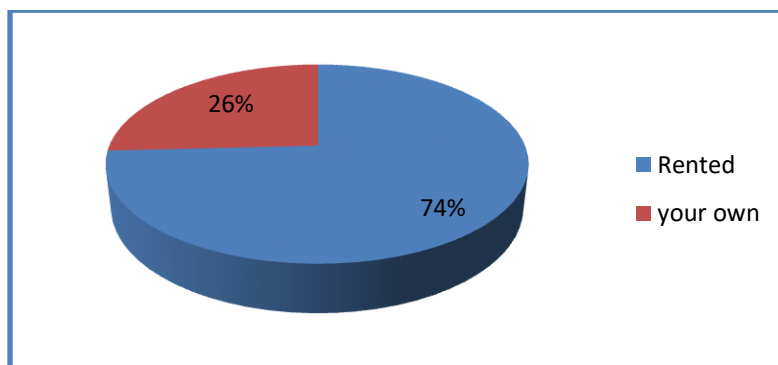
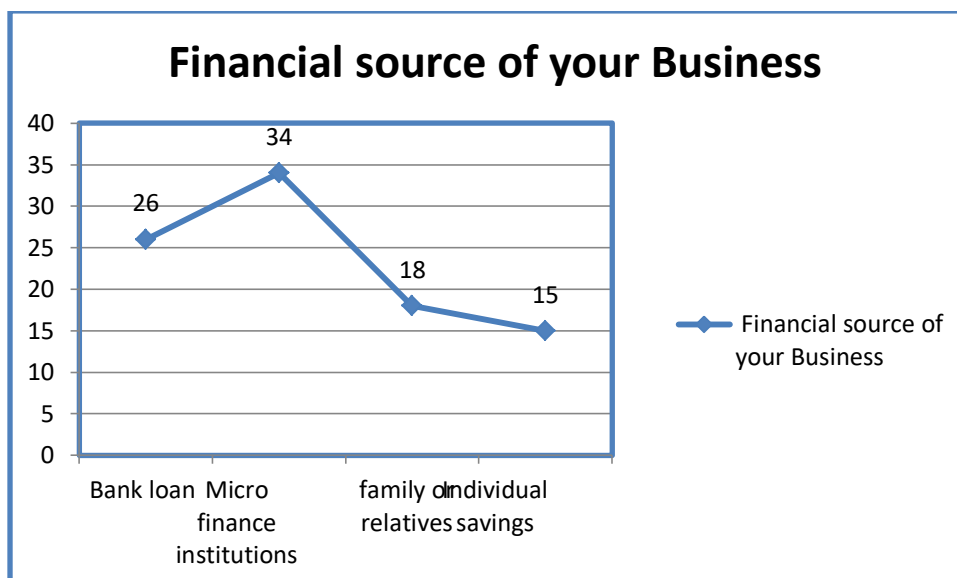


Figure 4: respondent's responses to their house

As shown in table 6, most of the Micro and Small Enterprise owners in the Matehara town 69 (74.2%) are working their business in a rented house while only 24(25.8%) are working in their own house or shop. From this, the researcher concluded that Matehara town Micro and Small Enterprise owners are most affected by this rented house.

Financial source



Source; survey 2021

As shown in the table above from the total number of respondents most of them, 34 (36. %) of respondents' financial sources are from Microfinance institutions. 26 (27.9%), 18 (19.3%), and 15 (16.1%) their source of finance for the business are the bank loan, family, or relatives and the rest 15(16.1%) are from individual saving respectively.

Legal challenges experienced by Micro and Small Enterprise owners

The fourth objective of the study was to examine the extent to which legal factors influence the business growth of Micro and Small Enterprise owners. 71(76.3%) of the Micro and Small Enterprise owners cited unpredictable government policies and high taxation rates as issues that posed a great threat to the sustainability of their enterprises. The Micro and Small Enterprise owners felt that the Matehara town employees were corrupt and subjected them to unnecessary harassment while providing trade licenses.

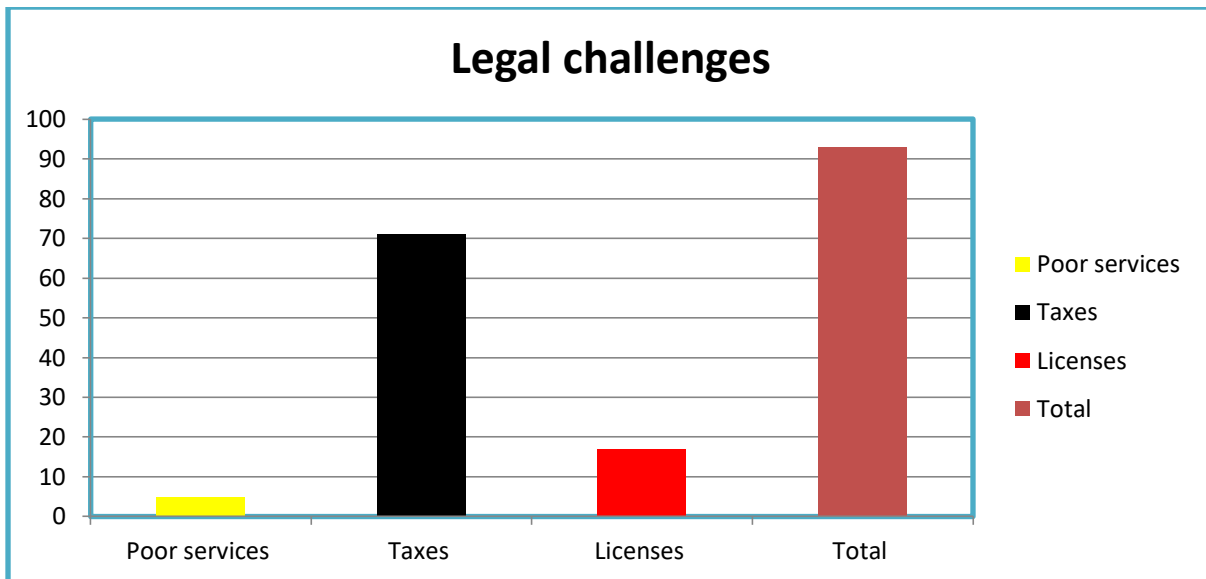
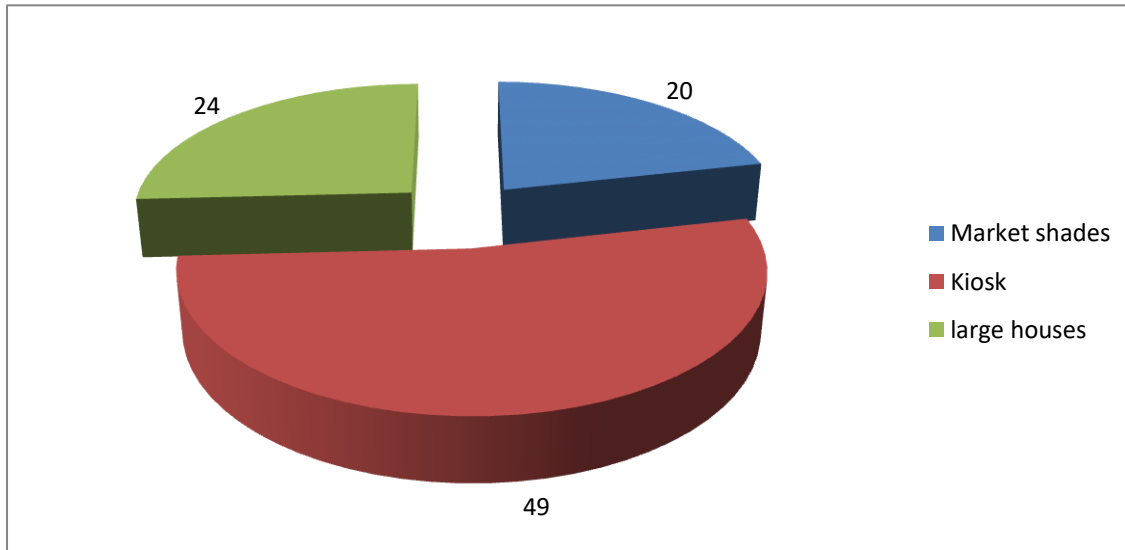


Figure5: respondent's response to legal challenges experienced by Micro and Small Enterprise owners

Influence of housing factors on business profitability of Micro and Small Enterprise owners

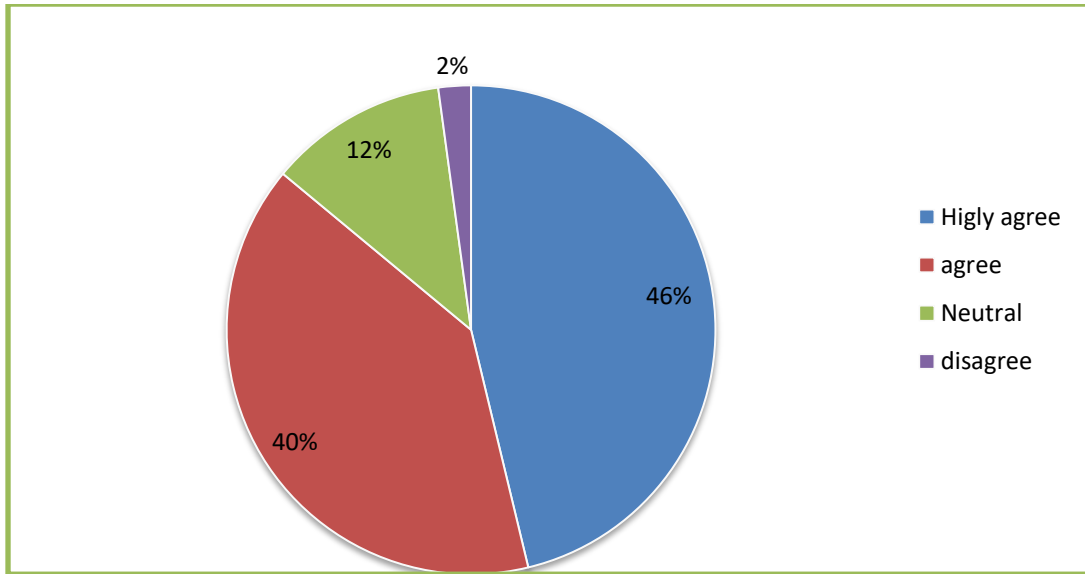
The second objective of the study was to assess the extent to which housing factors influence the business growth of Micro and Small Enterprise owners. The results revealed that 64% of the Micro and Small Enterprise owners owned kiosks as their business sites. These kiosks were strategically located on the main road to attract customers. The remaining 36% percent had permanent physical establishments such as market Shells (containers) and large houses made of either wood or iron sheets depending on the ability of the Micro and Small Enterprise owners. Most of the Micro and Small Enterprise owners owned the premises by renting from others. Some of the respondents did not consider space as an issue because of the kind and amount of commodities they were selling.



Figure_6: Types of business premises

Characteristics and types of business sectors

Type and Numbers of MSEs Included in the Study Among the many types of MSEs listed, trade 46(39.3%), manufacturing 19(16.2%), urban agriculture 18(15.4%), construction 18(15.4%), and service 16(13.7%) sectors are included in this study. The following Pie chart presents the type and number of MSEs included in this study.



Source of startup (initial) finance of MSEs

The startup sources of finance can be raised from multiple sources. A business can use internal or external funds to finance its operations and investments based on the accessibility of alternative sources of capital. A firm can use either one of the two financing sources or both of them. Similarly, some MSEs could generate the sources of finance from their saving, families (relatives), Equip, debt, and other sources of finance.

No	source of startup finance	Response	
		N	Percentage
1	From microfinance	62	39.2%
2	From relatives	32	20.3%
3	From personal saving	39	24.7%
4	From Equip	25	15.8%
Total		158	100.0%

Source, own survey study, 2022

According to table 4.3 for sources of startup finance 62 (39.2%) have generated their initial capital from microfinance, 32 (20.3%) from relatives (families), 39 (24.7%) from personal savings, and the remaining 25 (15.8%) generated their initial source of capital from Equip. Thus, based on the output of the data from sample respondents most of them acquired their startup finance from microfinance institutions that work around the study area. Hence, in the study area, microfinance institutions were one of the main and important sources of finance and contributed much more to the growth and development of MSEs in Metahara town.

Sourced funds from financial institutions and MSEs

In addition to the internal sources of finance, access to credit is essential. Access to finance is the main thing to start up; increases the operation of business enterprises. In principle, large Banks, Microfinance, and other financial institutions would facilitate a credit service system. However, in the case of our country Ethiopia, large Banks are not willing to provide credit services for MSEs. The credit facilities of MSEs have been only dependent on microfinance and other traditional financial institutions such as sources from Iqub. The access to credit facilities given by these institutions is not enough for all MSEs.

Sourced funds from financial institutions

No	Access to Finance	Business sector					Total
		Trade	Manufacturing	Urban agriculture	Construction	Service	
1	Yes	31	13	12	8	6	70
		44.3%	18.6%	17.1%	11.4%	8.6%	100.0%
2	No	15	6	6	6	10	43
		34.9%	14.0%	14.0%	14.0%	23.3%	100.0%
Total		46	19	18	14	16	113
		40.7%	16.8%	15.9%	12.4%	14.2%	100.0%

Source, own survey study, 2022

Based on table 4.4 when the respondents were asked to respond to borrowing of funds from financial institutions (microfinance institutions) for their smooth operation of MSEs.; 70 respondents replied "yes" (have access to finance) and 43 respond "no" (have not access to finance) for borrowing related questions. However, the remaining 4 respondents were reserved to provide their responses to the same question. in line with, from the respondents who sourced their finance from financial institutions (microfinance institutions) 31(44.3%), 13 (18.6%), 12 (17.1%), 8 (11.4%), and the remaining 6 (8.6%) are involved on trade, manufacturing, urban agriculture, construction, and service sectors respectively. as a result, most trade sectors sourced their finance from microfinance institutions than other sectors to expand and strengthen their business, and manufacturing, urban agriculture, construction, and service sectors sourced their business from microfinance institutions next to the trade sector respectively in Metahara town.

Challenges of MSEs in accessing finance

About 26.1%, 22.5%, 21.5%, 19.4%, 7.7%, and 3.6% of the respondents replied that the major challenge faced to get a loan from financial institutions (micro-financial institutions) were a long time loan process and bureaucracy; requirement of a large amount of advance saving; short term loan repayment period; high collateral; high-interest rate; absence of interest-free loan providing institutions respectively.

Table 6 Challenges of MSEs in borrowing finance

Challenges faced to borrow from financial institutions (MFI)		Responses	
		N	Percent
1	Long time loan process and bureaucracy	62	25.1%
2	Requirement of a large amount of advance saving	56	22.7%
3	Short term loan repayment period	53	21.5%
4	High collateral	48	19.4%
5	High-interest rate	19	7.7%
6	Absence of interest-free loan providing institutions	9	3.6%
Total		247	100.0%

Source, own survey study, 2021

Some qualitative information was gathered from the respondents to investigate the major challenges that faced MSEs to access finance from financial institutions (MFI) in the study area. And also while filling out the questionnaire, respondents were asked and allowed to talk freely about their feeling about these influential factors and why as presented in the result below.

Long time loan process and bureaucracy

Long time loan process and bureaucracy is the major challenge that faced MSEs to get a loan from microfinance institutions. The study revealed that (25.1%) of the respondents replied that microfinance institutions are taking a long time to provide loans and their management is weak to offer the required service on time.

Requirement of a large amount of advance saving

The result of the study indicated that (22.7%) of the respondents replied that the requirement of a large amount of advance savings is their major challenge to raise additional finance from financial institutions (MFI) next to the long time loan process and bureaucracy. This is because of MSEs are required to save (20%) of the amount of the loan they are applied for to get the fund.

Short term loan repayment period

The loan repayment period is another important issue respondents are concerned with. The respondents replied that microfinance institutions give one year to start repaying the loan and the time is too short. The problem is that MFI is not flexible enough and does not take into consideration the circumstances they are in. Results showed that (21.5%) of them replied that the short-term loan repayment period is another challenge that faced them to have access to finance.

High collateral

The result of the study indicated that (19.4%) of MSEs' major financial problem is due to a lack of collateral. This implied that many MSEs have been out of access to finance due to a lack of sufficient collateral. Banks are not willing to lend money to MSEs.; because these banks do not have confidence in MSEs in repaying the loan within the specified period. To minimize this risk, they mostly ask for collateral as a pledge.

High-interest rate

The high-interest rate is an important factor that influences MSEs to apply for credit. Respondents were asked about their feeling about the interest rate of the loan. Respondents have different perceptions of the amount of rate of interest to be charged. Results showed that (7.7 percent) of them replied that the interest rate is high and they are unable to get a loan.

Absence of interest-free loan providing institutions

According to the result of this study, (3.6%) of the respondents in the study area replied that since the absence of interest-free loan-providing institutions they are facing a financial challenge to increase their operations. This is the least challenge when it is compared with other challenges.

CONCLUSION

Micro and Small Scale Enterprises (MSEs) are the lifeblood of most economies. To be successful this and other business sectors require finance which 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 the working capital of the business firms. Without finance, no business enterprise can achieve its objectives.

However, lack of access to finance is one among the other problems for MSEs to grow and expand. Following this study results, those MSEs who were preparing financial statements have access to finance from financial institutions (MFI) to properly conduct their operations in the study area, in addition to preparing financial statements, those MSEs who were preparing business plans also have access to finance. Therefore, preparing financial statements and business plans were playing a great role to have access to finance for MSEs in the study area. The availability of collateral to access finance for MSEs in the study area is a major problem since MSEs have been out of access to finance due to a lack of sufficient collateral.

Based on the findings of this study, the age of MSEs, size of MSEs, educational levels of managers, and profit level of MSEs are not playing a great role to have access to finance or not for the MSEs in the study area.

The other basic finding of this study is that MSEs were extremely faced challenges in accessing finance. From the study, it is investigated that many MSEs have obtained their capital from microfinance, relatives (families), personal savings, and Equib. This indicates that access to finance from the bank is very difficult for MSEs Due to the existence of fixed asset collaterals. Moreover, the longtime of loan process and bureaucracy; requirement of a large amount of advance savings; short term loan repayment period; high collateral; high-interest rate; absence of interest-free loan providing institutions have been hindering MSEs from access to finance.

Recommendation

Based on the findings obtained from this study, the researcher would like to forward the following constructive recommendations to MSE owners and the Government bodies.

- ✓ MSEs have to prepare both financial statements and business plans to get a loan from financial institutions.
- ✓ Microfinance institutions have to facilitate the supply of finance by improving a long time for the loan process and other bureaucracies.
- ✓ Policymakers of government bodies have to minimize a large amount of advance savings to supply loans to MSEs.
- ✓ Microfinance institutions have to adopt flexible loan repayment periods instead of short-term loan repayment periods.
- ✓ Financial institutions have to provide loans to MSEs at a fair interest rate.
- ✓ Financial institutions (MFI) have to adopt a profit-sharing loan provision system than providing loans at interest for those MSEs which are not willing to make loans at interest.

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