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COLLEGE OF BUSSINES AND ECONOMICS
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**FACTORS AFFECTING ACCESS TO FINANCE BY MICRO AND SMALL
ENTERPRISE: THE CASE OF MSE IN ROBE TOWN**

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Bale Robe, Ethiopian

Declaration

I, ijara bekele, hereby declare that the thesis work titled " **Factors affecting Access to finance by Micro and Small Enterprise: In the Case of MSE in Robe Town**" submitted for the degree of Master of Science in Accounting and Finance from Madda Walabu University is the result of my own efforts and that all sources of materials used in the study have been properly acknowledged. Except for the advice and suggestions of the thesis advisor, I produced it entirely on my own.

This research is unique and has not been submitted for consideration for any other university or institution's degree, diploma, fellowship, or other similar designations.

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CERTIFICATION

I hereby certify that I have read and evaluated this research entitled as “Factors affecting Access to finance by Micro and Small Enterprise: In the Case of MSE in Robe Town” and have been prepared under my guidance by Ijara Bekele. I recommend that it be submitted as fulfilling of the thesis requirement.

Advisor

Signature

Date

Acknowledgment

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List of acronyms

COF	Cost of finance
GDP	Gross domestic product
IMF	International monetary fund
MFI	Micro finance institution
MSE	Micro and small Enterprises
UNDP	United nation development program

Abstract

This study aims to assess Factors affecting Access to finance by Micro and Small Enterprise in Case of MSE in Robe Town. To achieve the study objective data were collected both Primary and secondary data. Primary data were collected using questionnaire. Questionnaires were distributed to 336 samples from 2,185 total MSEs and 33 from financial institution mainly banks in Robe Town. Probability sampling methods for SMEs as well as non-probability sampling method and convenience sampling technique. Descriptive research designs with qualitative and quantitative research approach were used. The study adopted a stratified random sampling technique to select the sample size. For the sake of achieving the objectives of this study, data were collected using questionnaires which were distributed to 369 samples from 2,185 target population. To analyse the collected data, the study was used Descriptive statistics such as mean, percentages, frequencies, standard deviations and binary logistic regression to determine the main factors affecting access to finance by MSEs. The main independent variables are demographic factors (gender and level of education), users of finance related factors (information about finance, age of the business and level of income) and institutional factors (distance of banks from clients, interest rate and collateral requirement and dependent variable access to finance. The result showed level of education, age of the business, level of income and collateral requirement have positive and significant effect on access to access on the other hand information about finance, distance of banks from clients and interest rate have negative and significant effect on access to access. Based on the finding of the study it is suggested systematic process of financial education, improve financial information, institutions should accept business assets as collateral, reduce cost of finance, efficient running of these enterprises in order to increase and obtain higher profit margins, the training on financial management skills and reducing gender gaps which improve access to finance.

Key word: - Demographic factors, institutional factors, Micro and Small Enterprise, Access to financing, Robe

CHAPTER ONE

1. INTRODUCTION

In this chapter identify a background of the study, statements of the problem, objective of the study, specific of the study, and research hypotheses, significant of the study, scope, limitation and to identify the organization of the study were incorporated

1.1. Background of the study

Micro and small Enterprises (MSEs) are registered businesses with less than 250 employees that contribute heavily to employment and GDP (Srinivas, 2015). The role of Micro and small size Enterprises (MSEs) in the development process remains at the forefront of policy deliberations in developing countries as in developed countries. It has the advantages of encouragement of entrepreneurship; the greater likelihood that MSEs will utilize labour-intensive technologies and thus have an immediate impact on employment generation; they can usually be established rapidly and put into operation to produce quick returns; and that, they may well become a countervailing force against the economic power of larger enterprises (Bataa, 2008). Indeed, (Deakins, 2008) submitted that the development of SMEs accelerates the achievement of wider socio-economic objectives, including poverty assuagement.

Micro and Small-Scale Enterprises (MSEs) are lifeblood of most economies. To be successful this and other business sectors actually 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 working capital of the business firms. Without finance, no one business enterprise can achieve its objectives. Finance is the backbone of any business enterprise. Access to finance has always been a challenge for MSEs; but the need to address this issue became more pronounced after the global financial crisis. Access to financing is recognized as the leading obstacle to small businesses growth in Ethiopia, alike most other developing and under-developed countries (Muluneh, 2016).

(Abdulsaleh, 2013) determined that access to debt finance was particularly more important for establishing smaller businesses such as retail businesses, and for the expansion of small businesses into medium-sized enterprises. The growth and development of existing

businesses would consequently boost the national economic growth of any country. According to data from the World Bank, many of the countries in Sub-Saharan Africa report a high number of SMEs in the economy (World Bank, 2011). SMEs growth opportunities in Sub-Saharan Africa are severely disadvantaged by access to finance. He therefore counsels that the obvious long-term solution for improved access to finance is policy improvement on areas such as property rights, regulations on bankruptcy and financial market reforms (Fjose, 2010). (African Development Bank 2012) advises that authorities in Uganda need to place more attention on addressing the key financial limitations of SMEs if the sector is to become competitive in the long run.

Debt finance has been recognized in many business surveys as the most important factor determining the survival and growth of small and medium-sized enterprises in both developing and developed countries.

According to (De la Torre, 2009) debt financing is a system of funding in which a company takes delivery of credit which includes long-term debt (repayable in more than a year) and short-term loans (repayable within a year) and gives its promise to repay the credit while access to finance is the ease with which MSEs can get credit to undertake fruitful investments to swell their business fortunes and to acquire the latest technologies, thus guaranteeing their competitiveness and that of the nation as a whole. It has also been defined as the non-existence of price and non-price barriers in the use of financial services (Frasch, 2013).

On the other hand, (Srinivas, 2015) Small and Medium-size Enterprises (SMEs) often have great difficulty accessing financial services in many emerging markets and grow in ways linked to the formalization of an economy. They form a larger percentage of the businesses that operate in especially developing countries. They are however faced by many constraints that hinder their profitability and, consequently, their growth. One of the main constraints that have been highlighted over the years is the financial constraint. The need for finance is of paramount importance for the success of any firm, be it big or small IMF (2007 and 2008). Thus, this study intends assess Factors affecting Access to finance by Micro and Small Enterprise the Case of MSE in Robe Town.

1.2. Statement of the problem

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 (Enelefew, 2018). 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, etc, 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 every entrepreneur, particularly those in the MSE sector. 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 or relatives.

There are a number of previous researches were done on access to finance of MSE both in and out Ethiopia for example (Kiplimo, 2015), (Thuku, 2017), (Alam, 2017),(Osano, 2017), (Chipeta and Kanyumbu, 2018), (Cong Do et al, 2019),(Oke, Sanni and Ijaiya, 2019) and (Brixiová, Kangoye and Yogo, 2020). In Ethiopia (Muluneh 2016), (Tewodros 2017), (Deresse and Zerihun, 2017), (Enelefew, 2018), (Mulatu, 2019) and (Kasahun, 2019). A review of previous studies on access to finance of MSEs shows that access to finance has an important role to play in the development of MSEs. Currently, there have been no studies on MSEs' access to finance in Robe Town. In order to help MSEs in Robe Town improve their access to finance, in this study area. None of them are tried to access factors affecting access to finance from the demographic factors, users of finance related factors and institutional factors. Thus, this study tried to fill the gaps factors affecting of access to finance by MSEs by the MSE firms in Robe Town. Thus, this study intends assess Factors affecting Access to finance by Micro and Small Enterprise by considering independent variable demographic factors (gender and level of education), users of finance related factors (information about finance, age of the business and level of income) and institutional factors (distance of banks from clients, interest rate and collateral requirement and the dependent variable; access to finance by micro and small enterprises in robe town of Robe Town.

1.3. Objectives

1.3.1. General Objective

To examine Factors affecting Access to finance by Micro and Small Enterprise: In the Case of MSE in Robe Town

1.3.2. Specific objectives

1. To investigate the effect of demographic factors on Access to finance by Micro and Small Enterprise (Gender and Level of education)
2. To examine effect of users of finance related factors on Access to finance by Micro and Small Enterprise (like: Information, Age of the business and Level of income)
3. To investigate the effect of Institutional Factors on Access to finance by Micro and Small Enterprise (like: Distance of the client, Interest rate and Collateral requirement)

1.4. Hypothesis of the study

H1: Gender has positive and significant effect on Access to finance

H2: Level of education has positive and significant effect on Access to finance

H3: Information has negative and significant effect on Access to finance

H4: Age of the business has positive and significant effect on Access to finance

H5: Level of Income has positive and significant effect on Access to finance

H6: Distance of clients from bank has negative and significant effect on Access to finance

H7: Interest rate has negative and significant effect on Access to finance

H8: Collateral requirement has positive and significant effect on Access to finance

1.5. Significance of the Study

The studies of MSEs at national or regional levels have general significances at broader geographical scale. However, such studies at smaller geographical areas like at regional, zonal, 'woreda', Kebele' and (urban /town) levels will have specific significance at the respective scales as well as at the household and individual levels. Accordingly, the result of this study is expected to reveal factors affecting accesses to finance by SMEs.

As a result, the findings of the study will show the gaps and SMEs and financial institution and can be used for the practical measures to be taken to enable the beneficiaries further

improve their income. The study contributes for the improvement of access to finance by the MSE firms. Also, the result of this study may provide constraints of access to finance by the MSE firms. Therefore, this study is expected to bridge research gaps by providing basic information mainly factors affecting access to finance by SMEs in the town.

1.6. Scope of the Study

The study geographically delimits to Robe Town, Oromia regional state, south east Ethiopia and thematically to assess Factors affecting Access to finance by Micro and Small Enterprise the Case of MSE in Robe Town. The study was utilized demographic factors (gender and level of education), users of finance related factors (information about finance, age of the business and level of income) and institutional factors (distance of banks from clients, interest rate and collateral requirement and the dependent variable accesses to finance. The study was use descriptive and inferential research design with qualitative and quantitative research approach along with empirical analysis. The study was used both Primary and secondary data with purposive and simple random sampling methods. To analyse the collected data the Descriptive statistics such as mean, percentages, frequencies, standard deviations and binary logistic regression to determine access to finance by MSEs was used. Finally, to the study was conducted 2021/ 2022 in Robe Town.

1.7. Limitation of the Study

Every study has its own limitations which are encounter at various stages. Even though the study was conducted with great effort by researcher there were some limitations. There were also some limitations expected such as shortage of finance, a small number of may not filled questionnaire are may face by the researcher as some limitations to conduct this study. However, the researcher was overcome this limitation to a great extent by supplementing interviews with focus group discussion and observation.

1.8. Organization of the Study

The organization of the research has five chapters. Chapter one concern with the introductory part include background, statement of the problem, objective of the study, basic question, significance of the study, scope and organization of the study. The second chapter of the research deals with literature review. Chapter three of research described methodology of the study finally, chapter four is about Data analysis and chapter five is about Summary of findings, conclusions and recommendations

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

Introduction

For a complete understanding of the theory and practice behind the study, other related studies were reviewed. This chapter presents a structured review of the related literature. It examines both theoretical literature, empirical literature and the variables commonly used in the study of access to finance and conceptual frame work.

2.1. General overview of SMEs

To date there is no commonly acknowledged definition of small and medium enterprises (IFAC, 2011). The definition varies across countries and industries. According to the World Bank, Small and Medium Enterprises are officially defined on the basis of both the number of people employed and the annual turnover of the enterprise (World Bank, 2011).

There is a general consensus that the performance of SMEs is important for both the economic and social development of developing countries (Kira, 2013). From the economic perspective, SMEs provide a number of benefits. SMEs have been noted to be one of the major areas of concern to many policy makers in an attempt to accelerate the rate of growth in low-income countries. These enterprises have been recognized as the engines through which the growth objectives of developing countries can be achieved (Mwangi, 2011).

They are potential sources of employment and income in many developing countries and they seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. Additionally, they are able to withstand adverse economic conditions because of their flexible nature (Maziku, 2012). Moreover, SMEs are more labor-intensive than larger firms and therefore have lower capital costs associated with job creation (Makoni, 2014).

In successful developing countries MSEs by virtue of their size, location, investment and their capacity to generate greater employment demonstrated their powerful propellant effect for rapid economic growth. The MSE sector has also been instrumental in providing good and services that are of adequate quality with in rural areas. It also makes use of the skill and talent of a large number of people without requiring high level training, large sum

of capital or sophisticated technology (st. Merry, 2005). Moreover, according to the same source, the Ethiopian government has prioritized this sector as one of the development engine mainly in urban areas, so that some of them should produce and supply inputs to manufacturing sectors. The number of households and individual engaged in MSEs has dramatically been increased owing to the success of some people in the sector. The success of the objective of the MSEs is based on the type of enterprises, initial capital, and skill of entrepreneur and market condition of MSE's.

Moreover, a research must aim at providing information on current status, success and failure of MSE's, and finally alternative option for further development of this sector (O.Kula, 2005).

2.2. Role of SMEs

SMEs are important for both the economic and social development of developing countries (Kira, 2013). From the economic perspective, it has been noted to be one of the major areas of concern to accelerate the rate of growth in low-income countries. According to (Mwangi, 2011), SMEs is recognized as the engines through which the growth objectives of developing countries can be achieved.

Furthermore, they are potential sources of employment and income in many developing countries and they seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. Besides, due to flexible nature of SMEs they are able to withstand adverse economic conditions (Maziku, 2012). Moreover, SMEs are more labour-intensive than larger firms and therefore have lower capital costs associated with job creation (Makoni, 2014). As well, they perform useful roles in ensuring income stability, growth and employment and since SMEs are labour-intensive, they are more likely to succeed in smaller urban centers and rural areas, where they can contribute to a more even distribution of economic activity in a region and can help to slow the flow of migration to large cities. Also due to their regional dispersion and their labour intensity, it is argued, small-scale production units can promote a more equitable distribution of income than large firms and they improve the efficiency of domestic markets; yet they also make productive use of scarce resources, thus facilitating long-term economic growth (Turyahebwa, 2013)

SMEs contribute to a country's national product by either manufacturing goods of value, or through the provision of services to both consumers and/or other enterprises. This

encompasses the provision of products and, to a lesser extent, services to foreign clients, thereby contributing to overall export performance. From an economic perspective, however, enterprises are not just suppliers, but also consumers; this plays an important role if they are able to position themselves in a market with purchasing power: their demand for industrial or consumer goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients.

Demand in the form of investment plays a dual role, both from a demand-side (with regard to the suppliers of industrial goods) and on the supply side (through the potential for new production arising from upgraded equipment). In addition, demand is important to the income-generation potential of SMEs and their ability to stimulate the demand for both consumer and capital goods (Odongo, 2014).

2.3. Theoretical Framework

The following are some examples of modern financial management theories formulated on principles considered as 'a set of fundamental tenets that form the basis for financial theory and decision-making in finance.

2.3.1. Agency Theory

Agency theory deals with the people who own a business enterprise and all others who have interests in it, for example managers, banks, creditors, family members, and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. The theory is on the notion of the principle of "two-sided transactions" which holds that any financial transactions involve two parties, both acting in their own best interests, but with different expectations.

Emanating from the risks faced in agency theory, researchers on small business financial management contend that in many small enterprises the agency relationship between owners and managers may be absent because the owners are also managers; and that the predominantly nature of SMEs make the usual solutions to agency problems such as monitoring and bonding costly thereby increasing the cost of transactions between various stakeholders. Nevertheless, the theory provides useful knowledge into many matters in SMEs financial management and shows considerable avenues as to how SMEs financial

management should be practiced and perceived. It also enables academic and practitioners to pursue strategies that could help sustain the growth of SMEs.

(Jensen and Meckling 1976) explain the principal-agent relationship between equity holders and debt holders. In a principal-agent framework, the business is the agent and the finance provider is the principal.

This theory asserts that principals have higher agency costs because equity controlled firms have a tendency to invest sub optimally to expropriate wealth from debt holders that in turn results in incremental risk for the principal. That is, business owners invest on high risk projects that the cost of debt should have been higher to share on the marginal return on investment.

2.3.2. Signalling Theory

Signalling theory rests on the transfer and interpretation of information at hand about a business enterprise to the capital market, and the impounding of the resulting perceptions into the terms on which finance is made available to the enterprise. In other words, flows of funds between an enterprise and the capital market are dependent on the flow of information between them. The emerging evidence on the relevance of signalling theory to small enterprise financial management is mixed. Until recently, there has been no substantial and reliable empirical evidence that signalling theory accurately represents particular situations in SME financial management, or that it adds insights that are not provided by modern theory (Emery et al, 1991)

2.3.3. Growth Cycle Theory

(Berger and Udell 1998) initiated the Growth Cycle Theory of small business financing. This theory illustrates the dynamic financial needs, as the small business becomes more experienced and enhanced informational transparency. In this theory ,the firm gets better access to venture capital as a source of equity and midterm-loans as a source of debt yet, as the firm gets older and information-wise transparent it tends to have better access to public equity and long-term financing. (Gregory, Rutherford, Oswald and Gardiner 2005) found that only firm size, as measured by total employees, could significantly determine the decision of whether to use insider financing instead of going for public equity or long-term financing

2.3.4. The Pecking-Order Theory

This is another financial theory, which is to be considered in relation to SMEs financial management. It is a finance theory which suggests that management prefers to finance first from retained earnings, then with debt, followed by hybrid forms of finance such as convertible loans, and last of all by using externally issued equity; with bankruptcy costs, agency costs, and information asymmetries playing little role in affecting the capital structure policy.

A research study carried out by (Norton 1991) found out that 75% of the small enterprises used seemed to make financial structure decisions within a hierarchical or pecking order framework. (Holmes et al 1991) admitted that POF is consistent with small business sectors because they are owner managed and do not want to dilute their ownership. Owner-managed businesses usually prefer retained profits because they want to maintain the control of assets and business operations.

This is not strange considering the fact that in Ghana, according to empirical evidence, SMEs funding is made up of about 86% of own equity as well as loans from family and friends. Losing this money is like losing one's own reputation which is considered very serious customarily in Ghana. The 1971 Bolton report on small firms outlined issues underlying the concept of 'finance gap' (this has two components-knowledge gap-debt is restricted due to lack of awareness of appropriate sources, advantages and disadvantages of finance; and supply gap-unavailability of funds or cost of debt to small enterprises exceeds the cost of debt for larger enterprises) that: there are a set of difficulties which face a small company. Small companies are hit harder by taxation, face higher investigation costs for loans, are generally less well informed of sources of finance and are less able to satisfy loan requirements. Small firms have limited access to the capital and money markets and therefore suffer from chronic undercapitalization. As a result; they are likely to have excessive recourse to expensive funds which act as a brake on their economic development.

2.3.5. Entrepreneurship theory

Entrepreneurship theory (Shane, 2003) stated that entrepreneur's ability to discover and exploit opportunity for entrepreneurial activity differs between individuals and depends on individual's attitude towards risk taking. For instance, a risk-averse individual is less likely

to exploit entrepreneurial opportunity (Shane, 2003). As such, a person may not search for or discover entrepreneurial opportunity if he/she has a negative attitude towards risk-taking. In the same vein, an individual may have an innovation business or service idea, and great likelihood to access micro-finance but may not utilize the opportunity if he/she fears risk.

2.3.6. Leverage

This is the term used to describe the converse of gearing which is the proportion of total assets financed by equity and may be called equity to assets ratio. The studies under review in this section on leverage are focused on total debt as a percentage of equity or total assets. There are however, some studies on the relative proportions of different types of debt held by small and large enterprises.

2.3.7. The theoretical model of equilibrium

The theoretical model of equilibrium with credit rationing follows from the pioneering work of (Stiglitz and Weiss, 1981). The model is based on imperfect credit markets characterized by information asymmetry, which makes it too costly for banks to obtain accurate information on the borrowers and to monitor the actions of the borrowers. The model assumes the existence of many banks that seek to maximize their profits through their choice of interest and collateral (thereby reducing the probability of default on their loans) and many potential borrowers who seek to maximize their profits through the choice of projects. The probability of success of the projects is unknown to the bank but known to the firms due to information asymmetry.

2.3.8. Equity Funds

Equity is also known as owners' equity, capital, or net worth. (Cost and et al 1990) suggests that 'larger firms will use greater levels of debt financing than small firms. This implies that larger firms will rely relatively less on equity financing than do smaller firms'. According to the pecking order framework, the small enterprises have two problems when it comes to equity funding (McMahon et al 1993): Small enterprises usually do not have the option of issuing additional equity to the public. Owner managers are strongly averse to any dilution of their ownership interest and control. This way they are unlike the managers of large concerns who usually have only a limited degree of control and limited, if any, ownership interest, and are therefore prepared to recognize a broader range of funding

options. Modern financial management is not the ultimate answer to every whim and caprice.

2.4. Factor affecting access to Finance

Financing of SMEs' viable projects have an important implication on sustainability and growth of the SMEs but the factors influencing the access to debt financing to firms are many and complex. For the purpose of this study, the researcher adopted the following factors and is conceptualized as below.

2.5. Demographic factors

2.5.1. Gender

(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 categorised into discrimination, abilities and preferences, and competition (Harrison and Mason 2007). Moreover, (Verhuel and Thurik 2001) divided the impact of gender on SMEs capital into direct and indirect effect. The former "gender effect" refers to the fact that while male and female entrepreneurs may share characteristics but they are different in the way in which they finance their firms. However, the latter "female profile" can be more attributed to differences related to business type, management and experience.

2.5.2. Level of education

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.

2.6. Users of finance related factors

2.6.1. Information about finance

Information causes an imbalance of power between the parties. In this context, for example, the borrowers are more likely to get more information than the lenders. Information related with the risk associated with the investments is likely to be available to the borrowers. Lack of information may cause inefficiency related to the flow or transfer of funds from the lenders (surplus) to the borrowers. Furthermore, for overcoming these issues, the financial intermediaries use three major ways such as providing the commitment for long-term relationship with the clients. The second way is through the sharing of the information. Lastly is through the delegation and monitoring of the credit applicants. When the customers borrow money directly from banks, the banks should consider the need for relevant information to be addressed and so as to redress the asymmetry of the information (Osano, et al, 2017).

2.6.2. Age of the business

According to (Villalonga 2004) the age of the firm has implications on financial access and as such the link between age of the firm and growth or profitability has been given attention in the industrial organization literature. (Chandler 2009) that the longer a firm exists; the more it signals that it can weather tough economic conditions. Furthermore, by staying in business, a firm can signal that it does not adopt opportunistic behaviour. It also signifies that the firm and in particular the owners or managers are mature enough to deal with business challenges. Older firms provide a resume which lenders can use to gauge their credit worthiness.

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 be lacking.

(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 (Quartey 2003) who concluded the significant positive effect of firm age on the ability to access external finance.

2.6.3. Level of income

As income of households increases by one unit the probability of a household being financially included decreases by approximately. This negative relationship indicates that people who did not have enough money are more likely to be included in the formal financial services than those who do have. This is particularly so because people go to financial institutions to get loan/ credit and then can open bank account to save in to bank his/her income generating from loan. The results also reveal that most of the household's income is irregular and birr per month (Esmael and Mohammd, 2021).

2.7. Institutional factors

2.7.1. Distance of banks from clients

Physical access to banking services is a barrier as, in most cases, potential individuals have to travel long distances to visit bank headquarters, branches or agencies in order to open a bank account or access other services. In this paper, physical access means the distance to reach the nearest bank branch or agency. By including this variable, the study tried to answer the question: is physical distance a barrier to access to banking services in Malawi? To answer this question we built a variable called "Distance" to explore how distance to the nearest bank branch can affect the probability of having (and using) a banking account (Chipeta and Kanyumbu, 2018).

2.7.2. Interest rate

Interest Rate also known as the Cost of Finances (COF) is the cost and interest and other charges involved in the borrowing of money to build or purchase assets. Whited (2010) in his contemporary study on rural finance argues that the cost of money is intended to compensate a contractor for the capital cost of employing certain facilities in the performance of contract. The cost of money charged by lending institutions includes operating costs, administrative costs, and an acceptable rate of return.

2.7.3. Collateral requirement

(Bougheas et al 2005) argue that collateral is an important factor for SMEs in order to access debt finance. Collateral reduces the riskiness of a loan by giving the financial

institution a claim on a tangible asset without diminishing its claim on the outstanding debt. Coco (2000) points out that collateral requirements are the lender's second line of defence. (Barbosa and Moraes 2004) argue that SME owners-managers that invest heavily in tangible assets tend to have higher financial leverage since they can borrow at lower interest rates if their debt is secured with such assets.

Collateral plays a vital role in accessing bank loans. Many MSE owners complain that they are denied loans despite a strong earning capacity and future growth prospect. In Ethiopia, Fanta found that firms that own assets for collateral are found to have a relatively better access, signifying the importance of collateral in the credit market. Collateral is a key element of credit contracts. It decreases the incentives of borrowers to default, increases the incentives to devote effort to the project, and decreases bankruptcy costs for banks. The possibility of using outside assets as collateral allows firms to maintain higher leverage ratios, which is particularly important for small firms. As the provision of collateral plays an indispensable role in easing MSE access to debt finance, MSEs that have more fixed assets tend to utilise higher financial leverage. The reason for this is that these firms can borrow at lower interest rates as their loans are secured with these assets serving as collateral. In their investigation of the role of collateral and personal guarantees using a unique data set from Japan's MSE loan market, Ono and Uesugi found that a positive relationship between the use of collateral and the strength of the borrower lender lending relationship results in easier MSE access to external sources of finance. A similar conclusion was reached by (Odit and Gobardhun) when examining the factors determining the use of financial leverage by MSEs in Mauritius. They concluded that access to debt finance is affected by the positive association between the debt ratio and the asset structure. Furthermore, they revealed that MSEs with a lower portion of tangible assets in their total assets are more likely to encounter difficulties in applying for outside finance because of the inability to provide the collateral required (Deresse and Zerihun, 2017).

2.8. Empirical studies

(Kiplimo, et al 2015) was done the study on Determinants of Access to Credit Financial Services by Smallholder Farmers in Kenya. Credit financial access has been argued to be the engine of sustainable rural development and a factor necessary for household food security and poverty reduction. This study sought to establish the main factors that affect smallholder farmers' access to credit financial services in Kenya. The logistic regression

results indicates that, the marginal effects of education level, occupation and access to extension services were statistically significant with positive effects on access to credit financial services. However, total annual household income and the distance to the credit source were statistically significant with negative influence on access to credit financial services. Overall, this paper concludes with implication for policy to establish credit/loans offices close to farmers in order to reduce lending procedures, risks, and educate them on perceptions on loan repayment. Moreover, the government should enhance the enforcement of credit input services in the form of in-kind lending to reduce fungibility into consumption expenditures. Finally, to realize food security, increased economic outcomes, and reduce poverty, it would be necessary to invoke enabling policy mechanisms to realizing equitable access to credit by smallholder farmers.

(Thuku 2017) was done the factors affecting access to credit by small and medium enterprises in kenya: a case study of agriculture sector in Nyeri county. The purpose of the study was to access factors affecting access to credit by Small and Medium Enterprises (SMEs) from financial institutions in Kenya, a case study of Nyeri County. The research was guided by the following objectives: to determine the influence of firm's characteristics on SMEs access to credit in Nyeri County, Kenya, to determine entrepreneur's characteristics on SMEs access to credit in Nyeri County, Kenya, to establish the influence of financial characteristics on SMEs access to credit in Nyeri County, Kenya. A descriptive research design was employed to gather quantifiable information through use of open and close-ended questions. The target population was 200 SMEs in agriculture sector that have been in operation for more than 3 years. Stratified random sampling was used to select a sample size of 67. Data was analyzed using descriptive statistics and Statistical Package of Social Sciences (SPSS). Data obtained was coded according to different variables and descriptive statistics such as frequencies, mode, mean percentiles, variances and standard deviations was used to interpret. Tables, figures and charts were used for analysis and interpretation of data. Pearson correlation and regression analysis was done to determine the influence of independent variables on the dependent variable.

The findings on firm characteristics and access to credit revealed that majority of the respondents agreed that size of a firm and location affects access to finance and older firm (more than 3 years) have more experiences of applying for loans than younger firms below 3 years. Credit does not enable SMEs to meet their expansion plan. The findings on financial characteristics and access to credit revealed that respondents agreed that they

have adequate book keeping records hence easy access to credit and audited financial statements and lack of collateral affects access to finance. Financial institutions are more reluctant to provide long term finance to SME's and credit does not have a positive effect on business performance and growth. The findings on entrepreneur characteristics and access to credit revealed that banks prefer women to men when issuing credit. Use of networking does not influences access, groups/chama to finance use of political ties and level of education / training does not influence access to finance.

(Alam 2017) Factors Affecting Access to Finance of Small and Medium Factors Affecting access to Finance of Small and Medium Enterprises (SMEs) of Bangladesh. This study addresses the issues that impede SMEs of Bangladesh in obtaining finance from the financial institutions. To accomplish our goals we collected data from a sample of 86 SMEs to investigate the problems and suggest policy recommendations. We collected data by directly interviewing the respondents with the help of a questionnaire for self-guidance. We also used secondary data for this purpose. Findings revealed that the size and age of the firms, education and skills of the owners, and unfavorable credit terms such as high interest rates, lack of collateral security, corruption by bank officials etc. are some of the biggest hurdles that SMEs in Bangladesh face in getting loans from financial institutions. The limitation is that the study has included one city in its sample population. A nationwide study where there are SMEs in large numbers could lead to better results for this kind of study. The implication is that small businesses, as opposed to the larger ones, face funding obstacles and are discriminated by the financial institutions in granting loans. Built on current literatures and research on SMEs, especially in regard to their ability to access finance, this study captures the information relating to problems identified by SMEs in having access to finance and suggesting the ways and means needed for strengthening the SMEs access to finance for their expansion and growth.

(Osano, et al 2017) Factors influencing access to finance by SMEs in Mozambique: Case of SMEs in Maputo central business district. SMEs play an important role in the economic development of Mozambique. Access to finance is important for the growth of SMEs. Thus, the purpose of the study was to establish the factors that influence access to finance by SMEs. The factors that were addressed included structure of financial sector, awareness of funding opportunities, collateral requirements, and small business support services. The target population was 2725 which comprised of 2075 staff of three Banks, namely BIM Bank, BCI Bank, and Standard Bank and 650 SMEs in Maputo Central Business District.

The research focused on a sample size of 242 SMEs and 324 staff of the named Banks. Descriptive and inferential research design was used. Structured questionnaires were used to collect the primary data. The findings from the study were that there is a relationship between the structure of the financial sector and access to finance by SMEs; there is a relationship between awareness of funding and access to finance by SMEs; there is a relationship between collateral requirements and access to finance by SMEs; and there is a relationship between small business support and access to finance by SMEs. The study findings are significant since they would enable the government to come up with appropriate regulation, funding programs, and schemes toward improvement of access to finance by SMEs. This study concludes that small business support services should be provided to SMEs to improve access to finance and that there is a need for more funding programs and financial schemes to assist SMEs. It is further concluded that since information is concerned with funding opportunities by SMEs, then relevant information should be available and known to all players in the financial market

(Chipeta and Kanyumbu 2018) were done the study on determinants of Access to Banking Services in Malawi. The study aims to investigate the determinants of access to banking services in Malawi, taking into account that limited coverage of banking services especially in rural areas has been constraining sustainable economic development. To explore the determinants of access to banking services in Malawi, household-level data from the FinScope Malawi 2008 and 2014 surveys of demand for financial services was used. From both an analysis of cross-tabulation of frequency of responses and a regression analysis, the study establishes that the degree of access to banking services rises in ascending order from rural to peri-urban to urban areas, and that the degree of access to banking services rises with rising levels of income. It also found that the degree of access to banking services is high among those who receive salaries and pensions and those residents who conduct business or earn rental income, as well as those who receive transfers and remittances from other people. Conversely, the degree of access to banking services is low among those who receive low and irregular incomes, such as smallholder farmers and casual workers. It is further established that access to banking services rises with higher levels of education and that distance to the nearest bank branch is negatively correlated with access to banking services. Another outcome is that financial innovation encourages access to banking services. Furthermore, the study notes that the above factors

are interrelated. From the results of the study, suggestions are offered on how to improve access to banking services in Malawi.

(Cong Do, et al 2019) were done the study on Factors Affecting Access to Finance by Small and Medium Enterprises in Vietnam. The small and medium-sized enterprises (SMEs) play an important role for economic growth in Vietnam. Access to finance is necessary in order to initiate, operate, develop and facilitate growth conditions of all businesses. Therefore, this study aims to determine factors affecting access to finance of SMEs in Vietnam. The study adopted a survey research design that employed a stratified random sampling. The primary data was collected from 400 SMEs via structured questionnaires. The Cronbach's Alpha testing methods, the exploratory factor analysis (EFA), ANOVA analysis and multivariate linear regression analysis were used in this study. The study results indicate that there are six factors significantly affecting access to finance of SMEs in Vietnam including managerial experience, the owner-manager's financial literacy, business plan, financial management regulations, the owner-manager's education and business size.

(Oke, Sanni and Ijaiya 2019) were done the study Firm Characteristics and Access to Bank Financing: Evidence from SMEs in North Central Nigeria. The study drew data from the primary source through the adaption of World Bank and OECD Financial literacy questionnaires. A sample of 280 SMEs and 207 loan officers were drawn from the population of 1030 SMEs and 448 banks respectively. Descriptive statistics, binary logit regression model with Marginal effect and Kruskal Wallis H were employed in analysing the data. From SMEs' perspective, the results revealed that firm age, incorporation status and industry which are significant at 0.05, 0.01 and 0.1 respectively, are the firm specific characteristics impacting access to bank finance among SMEs whereas firm size is insignificant. From banks' perspective, all the selected firm characteristics, which are all significant at 0.01, are the factors influencing banks' credit approval for SMEs in the North Central Nigeria. The study concluded that SMEs in the North Central Nigeria encounter serious paucity of finance as they are virtually oblivious of, or not fully exploring all firm related factors influencing their access to facilities especially from banking institutions. The study, therefore, recommended that SMEs should fully explore all firm factors, at individual level, for improved access to financial market. Also, they should synergise by forming strong alliance and solicit credits as a consortium rather than as individual units to facilitate better access and at relatively cheaper costs.

(Brixiová, Kangoye and Yogo 2020) were done the study on Access to Finance among Small and Medium-Sized Enterprises and Job Creation in Africa. In the past decade inclusive growth, that is job-rich growth, has topped the policy agenda in developing countries. This paper investigates how the access to finance affects employment in small and medium-sized enterprises (SMEs) in Sub-Saharan Africa. It first presents a model where firm creation requires entrepreneurial search and paying the start-up costs, while the firm's size in terms of employment depends on the access to credit. Under the financial market imperfections, access to credit can be a binding constraint on firm entry and employment even when the banks have sufficient liquidity. Using an impact evaluation based approach on firm-level data from 42 African countries, we show that SMEs with access to formal financing create more jobs than firms without access, with employment in firms having access to more affordable and larger loans growing the fastest. The impact of access to finance is stronger for firms in manufacturing than in services, pointing to sectorial targeting of finance as a possible policy supporting industrialization.

(Muluneh 2016) was done the study on An Assessment of Factors Affecting Access to Finance for Micro and Small Enterprises in the Case of Hossana Town. The general objective of the study was to find out the factors affecting access to finance of MSEs in the study area. The research design was cross sectional survey which 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, 117 of them were selected by using random sampling technique. The access to finance 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 chart, chi-square test and t-test. However, lack of access to finance is one among the other obstacles of MSEs to grow and expand. In accordance with this study results, those MSEs which were preparing financial statements and business plan have access to finance from micro financial institutions. Availability of collateral is major problems for MSEs to has access to finance. The other basic finding of this study is MSEs were extremely faced challenges in accessing finance from the study, it is investigated that many MSEs have obtained their capital from microfinance, families, personal savings, and from Equib. This indicates that access to finance from bank is very difficult for MSEs due to lack of collaterals. Moreover, long time of loan process and bureaucracy; requirement of large amount of advance saving; 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. Therefore, based on the finding the researcher recommended that MSEs have to prepare financial statement and business plan to get loans. Furthermore, MFI have to improve long time for loan process and other bureaucracies.

(Deresse and Zerihun 2017) were done the study on Determinants of Access to Formal Financial Sources of Micro and Small Enterprises (MSEs) in West Oromia Region, Ethiopia. The main objective of this study is therefore to identify factors enabling successful access to formal financial sources. 200 sample MSEs selected from three towns in west Oromia region are used for this study. The finding indicated that; availability of collateral, MSE's age, Sector of the MSEs, Legal ownership, owner's or manager's age, owner's or manager's religion and Size of the MSE significantly determine access to bank credit at $p < 0.1$. It was also found that Keeping accounting record, Sector, Legal ownership, owner's or manager's age, owner's or manager's business experience and Size of the MSE significantly determine access to credit from MFIs at $p < 0.1$. From supply side, high interest rate and long loan procedures are the main factors. This implies that though MFIs are established to provide credit to MSEs, the system of credit provision is almost similar with banks.

(Tewodros 2017) factors affecting access to finance for micro and small enterprises: the case of west Hararghe zone, Ethiopia. The overall objective of the study was to find The research design was cross sectional survey which included a structured and unstructured questionnaire were used, 392 questionnaires distributed to data was examined using SPSS (version 20) and AMOS (version 21). In this study descriptive statistics like simple percentage, frequency and tables were used to give clear picture about the MSEs, to MSEs in borrowing finance and structural Equation Model (SEM).In accordance with and collate preparing business plan and financial statements have access to finance from finance institutions. Availability of collateral is a most significant level the major obstacles of MSEs in borrowing finance were long time loan process and bureaucracy, requirement of large amount of advance saving, short term loan repayment period; respectively. and financial statement to get loans. Furthermore, Financial Institutions have to improve loan process bureaucracies.

(Enefefew 2018) was done the study on Determinants of Access to Finance in Micro and Small Enterprises: The Case of Bole Sub-city. The main objective of this study was to

assess the major determinants of access to finance by using semi structured questionnaire administered to 160 randomly selected MSEs in Bole sub-city. Binary logistic regression was used to identify major determinants of access to credit from formal financial institutions and test the hypotheses. The result of the study revealed that age of operator, educational level, employment size and lending procedure are significant factors that affect MSEs' access to credit. In addition, MSEs run by operators who have negative attitude towards lending procedure of formal financial institutions are less likely to access credit than those which did not. Considering the role of MSEs in employment generation, income generation and poverty alleviation, all stakeholders (government and non-governmental institutions) have responsibilities to facilitate sufficient access to finance for MSEs.

(Mulatu 2019) was done the study on determinants of firm's access to finance: a study in micro, small and medium enterprises in Wolaita Zone, Sodo Town. The purpose of the study was to investigate the factors that influence MSMEs' access to finance. The factors that were addressed included strong business plan, credit history, collateral requirements, awareness of funding opportunity, and availability and credibility of financial statements. The target population was 366 MSMEs that are operating in Wolaita Zone, Sodo Town. The research focused on a sample size of 188 MSMEs. Data obtained from research instruments was analyzed using the Statistical Package for Social Science (SPSS) version 20.0. Descriptive statistics was used to summarize the data collected from the sample respondents in a meaningful form including tabulations, figures and percentages. ANOVA and multiple linear regressions were also used in inferential part of the study. The findings of the study implied that there is significant relationship between business plan and access to finance by MSMEs; there is no significant relationship between credit history and access to finance by MSMEs; there is significant relationship between collateral requirements and access to finance by MSMEs; there is significant relationship between awareness of funding opportunity and access to finance by MSMEs; there is significant relationship between availability and credibility of financial statements and access to finance by MSMEs; The study findings are significant since they would enable the stakeholders to come up with appropriate regulation, funding programs, and schemes toward improvement of access to finance by MSMEs.

(Kasahun 2019) was done the study on Determinants of Access to Finance for Micro and Small Scale Enterprises in Nekemte Town. The objective of the study is to assess the determinants of access to finance by MSEs in Nekemte town using explanatory research

design on the population of 22,959 MSE firms of which 195 MSEs are computed as sample size. Simple random sampling technique is used to select the MSE firm operating in agriculture, construction, manufacturing, services and trade sectors. Within the selected MSEs, operators with close information about MSE financing are selected for data collection using structured questionnaires and analyzed by SPSS 20 versions. The Binary logistic regression revealed operators education, MSE stage of growth, recording keeping, awareness of potential lenders and source of startup capital are significant determinants of access to finance. In conclusion, the finding revealed determinants of access to finance are observed from operators', MSE firm, management performance and financing institution related factors that need the collaborative effect of various stakeholders. The study recommend the provision of awareness, training, business planning and experience sharing for MSE owners by service provider and microfinance institutions are advised to be flexible in their loan terms, loan procedures and loan size for MSE firms.

2.9. Literature Gap

From the empirical studies above it is evident that access to finance is an important source of credit for MSEs. The studies show that the imperfections in the formal financial institution out the borrowers who do not have the required collateral and MSEs fall in this category. Lack of information in the credit market is also an important factor in determining access to finance as it leads to credit rationing. Further studies go on to suggest that informal financial markets exist due to the fact that there is unsatisfied demand in the credit market arising from the MSEs whose demand for credit is considered too small to be economically viable in the formal sector.

The studies also suggest that the formal source finance may become insufficient as the MSEs grow to medium enterprises. A credit gap results where those who may not access credit from the informal credit market may still not be considered for loans from the formal financial sectors. Very few studies have been done on the effects of financial access on the financial performance of MSEs in different study area and none has been done in Robe Town. It is with this background and the gaps identified that this study sought to establish the role that the informal, semiformal and formal sectors in extending access to the SMEs and the effect of the same on financial performance. The potential contribution that access to financial services can make to growth and poverty reduction is now widely accepted in academic and policy circles, and thus improving access has become an issue of increasing focus for developing country governments and donors.

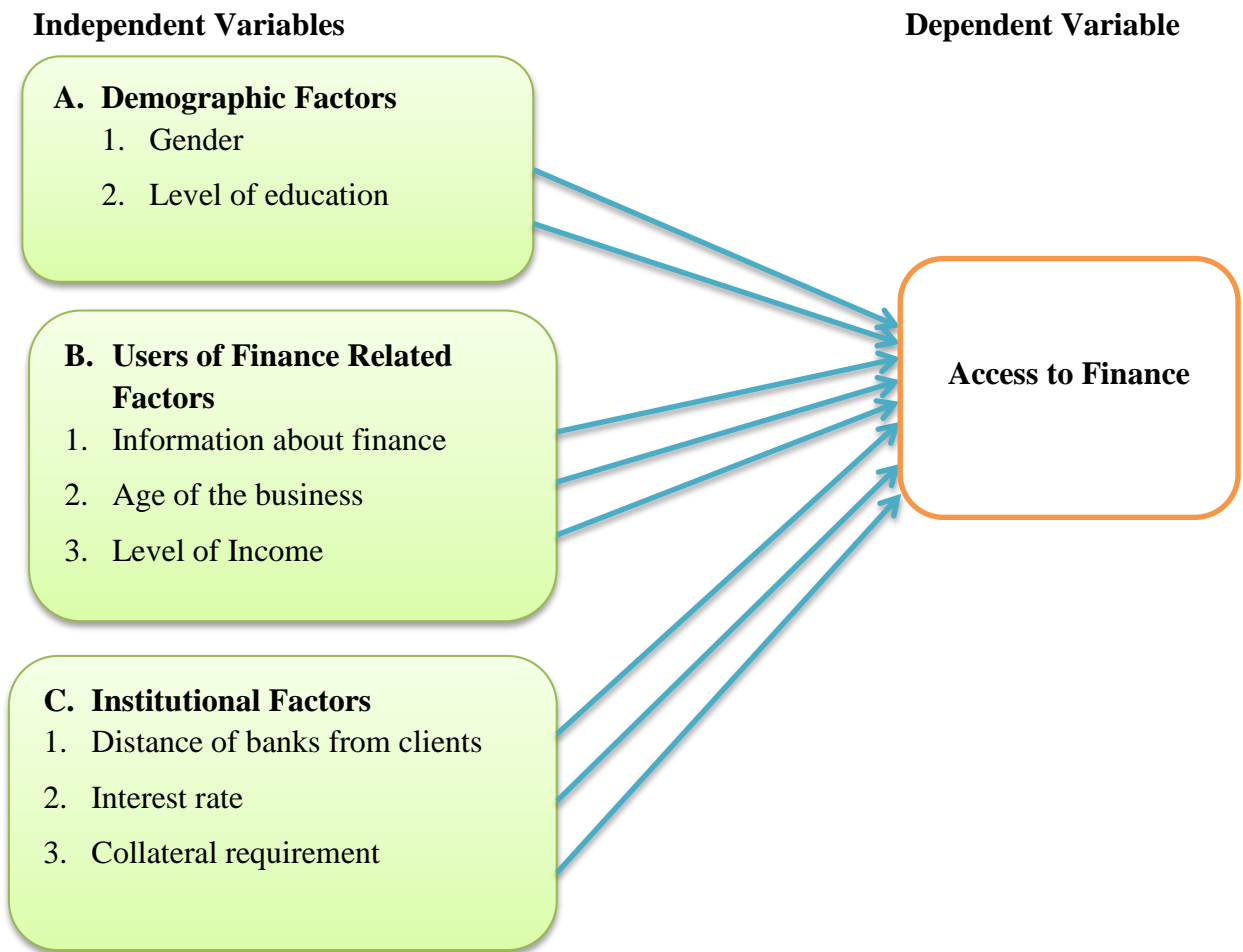
It is clear from the above arguments that the small firms' access to financing may either come from supply side market failure or demand side market failure. From the supply side, the lending institutions may shy off from MSEs funding due to fear of default, generally bracketing MSE sector as high risk Endeavour or from information asymmetry that happens to be experienced at a higher level in MSE sector. On the other hand, the demand side may be due to the entrepreneur lack of proper information, lack of business networking or business skills. Firms, financial and entrepreneurial characteristics have been highlighted in this research as the main factors that influence MSEs' access to funding.

In this literature review, the researcher identified some research gaps that need to be highlighted here. First, there lacks a conventional definition of MSEs, and therefore, the lending institutions apply their own criteria and measures while dealing with MSEs. It has been found that this problem of consistent definition is experienced world over. Second, it has been found that it is difficult to measure the performance of MSEs. Consequently, lending institutions do not pay attention to the all important aspect of future cash flows that could otherwise be used as an indicator of credit worthiness. Further there is a lack of credit rating agencies that are well suited for the all crucial MSEs' sector. Therefore, this research is designed to fill the literature gaps that were not addressed by any one of the earlier studies, specifically problems Access to Finance by MSEs in Robe Town.

2.10. Conceptual framework of the study

Conceptual framework is a product of qualitative process of theorization which interlinks concept that together provides a comprehensive understanding of a phenomenon or phenomena (Jabareen, 2009). The concepts that constitute a conceptual framework support one another, articulate their respective phenomena, and establish a framework-specific philosophy that defines relationships. The conceptual framework of this study relates to independent variables; demographic factors (gender and level of education), users of finance related factors (information about finance, age of the business and level of income) and institutional factors (distance of banks from clients, interest rate and collateral requirement and the dependent variable; access to finance by micro and small enterprises in robe town of Robe Town.

Figure 1. Conceptual framework of the study



Source: Self compilation based on Literature

Chapter Three

3. Research Methodology

Introduction

This chapter focused on the description of the study area, research design, target population, source of data, tool of data collection, sample design, data analysis and data presentation method and ethical consideration.

3.1. Description of the study area

The study is carried out in Robe town, Bale Zone, Oromia Regional State, Ethiopia. Robe is more commonly known as Bale Robe (in order to differentiate it from other towns in Ethiopia which are also called Robe). It is located in the Bale Zone of the Oromia Region with latitude and longitude of 7°7' N 40°0' E/ 7.117°N 40.000°E an elevation of 2492 meters above sea level. It is located about 430 km by road from Ethiopia's capital city of Addis Ababa (OFEDBPGBZ, 2019).

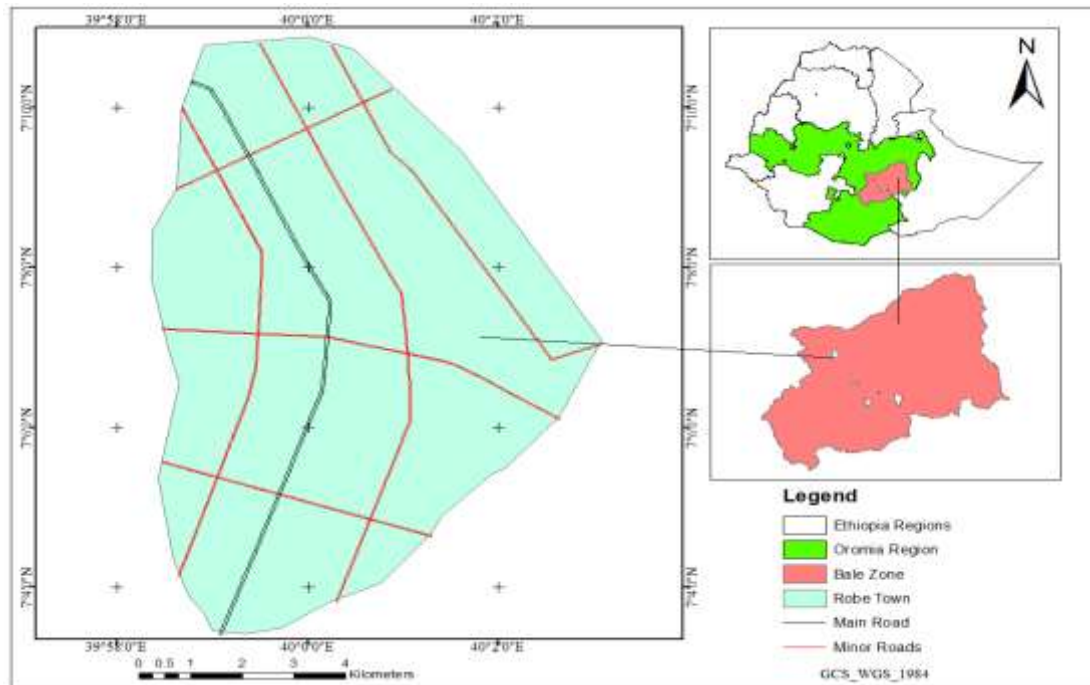


Figure 2. Study area map

3.2. Research Design

Research design is the blueprint for fulfilling research objectives and answering the research questions. According to (Kothari, 2004) research design is the arrangement and structure used to regulate the study to attain the research objectives. The research designs employed under this study were both descriptive and explanatory. The reason for using descriptive research design was; to describe the state of affairs as it exists at present and explanatory research design was better to connect ideas to understand the cause and effect of the variables Research Approach

3.3. Research Approach

To attain the proposed research an objective, the study was employed both quantitative and qualitative research design. It was tried to address the descriptive and explanatory research approaches. According to (Kothari, 2004) a quantitative research approach was used to describe the numerical aspects and quantitative data was collected and analysed in an integrated manner. The basic reason for choosing the quantitative research approach for this study lies in the fact that it is allowed to come objective. This was in turn contributes much to the inferences of the study results (Kothari, 2004).

3.4. Data Source and Type

The study was used both Primary and secondary data. Primary data were obtained from respondents through questionnaires. The survey conducted from MSE staff and among selected finance staff, while the questionnaires were distributed to the MSEs members and some selected respondents from financial institutions in Robe Town. Regarding to secondary data the study was used from published document, annual reports and other published material. These included loan manuals, financial reports, among others, that were relevant to the study. For this study purpose the researcher was mainly use Primary data which were collected through survey.

3.5. Target Population of the Study

The target population of the study were 2,185 MSE firms which are operating their business in Robe town. Additionally, 33 population from financial institution including loan officers, accountants and managers were selected using convenience sampling method from commercial Banks, Awash Bank, Cooperative Bank of Oromia, Oromia Bank and Sinkee Bank were include for this study based on their service year in the study area to

investigate major factors affecting access to finance of micro and small enterprises in the study area. The MSE firms used as a population of the study are categorized in to five strata based on Ethiopian government MSE development strategy (MoUDH, 2016) and consider the sector of construction, manufacturing, service, trade and Agriculture as the priority sector in terms of job creation and revenue generation as shown by the following table.

S/No	MSEs	Members
1	Manufacturing	288
2	Construction	318
3	Service	668
4	Trade	746
5	Agriculture	165
Total		2,185

Source Bale Robe MSE office 2021/2022

3.6. Sampling size and sampling Method

Sampling is the process of selecting individuals for a study (McMillan and Schumacher, 1999). The study was employed purposive and simple random sampling methods. For the qualitative data, purposive sampling techniques were employed to select respondents. However, simple random sampling method was applied to identify respondents for the questionnaire survey. For the purpose of this study probability sampling techniques by using strata and simple random sampling technique were used to sample the respondents. The total sample size is calculated using yemane (1960) sampling formula:

$$n = \frac{N}{1 + N(e^2)}$$

Where n = sample size

N = Population size

e= is the level of precision, i.e., e = 0.05

$$n = \frac{2,185}{1 + 2,185(0.05^2)}$$

$$n = \frac{2,185}{6.5}$$

$$n = 336$$

The proportions of sample from each MSEs for data collection from respondents are allocated in the following table below.

Table: sample proportion of MSEs and Banks

S/No	MSEs	Members	Sample
1	Manufacturing	288	44
2	Construction	318	50
3	Service	668	103
4	Trade	746	114
5	Agriculture	165	25
Total		2,185	336

3.7. Method of Data Collection

For this study, the primary data was collected through the use of a self-administered questionnaire from MSEs in Robe Town. After identifying the sample respondents, the questionnaire was provided to them by the researcher and enough time has been given to respond to all of the items in the questionnaire carefully. The questions in the questionnaire are closed-ended or structured with a predetermined 5-point Likert scale for response to ease the process of analysing the data from the respondents. The use of questionnaires is advantageous because questionnaires are economical, speedy, there is no bias (as in interviewee: interviewer bias), and the possibility of anonymity and privacy encourages participants to be willing to respond on sensitive issues, and do so honestly. The questionnaire is preferred because it translates the research objectives into specific questions that were asked to the respondents.

The Research Questionnaire was used in this research has three parts. The first part assesses the general demographic information about the participants following question related to measure of variables related to factors affecting access to finance.

3.8. Methods of Data Analysis

The collected data are summarized and analyzed using descriptive and different inferential statistics using STATA version 14. Descriptive statistics such as mean, percentages, frequencies, and standard deviations were used in the process of assess the major factors affect access to finance and assess financial institution factors affect availability of funding and the study was used binary logistic regression estimating determinants of access to finance by MSEs. The researcher was used Pearson Correlation to identify the relationship that exists between independent and dependent variables. Furthermore, regression analysis was also used to test the hypothesis and to achieve the study objective that focuses on identifying which factors highly or positively affect the access to finance by MSEs. The

logit model is used to derive determinants of access to credit by ensures that the probability lies in the interval of 0 and 1.

Binary logistic regression analysis is used for predicting the probability that $AF=1$ for known values of predictor variables $x_1 \dots x_k$. The technique enables us to identify the most influential predictor variables affecting access to credit.

The technique enables us to identify the most influential predictor variables affecting access to credit ($ATF=1$). In binary logistic regression, the dependent variable ATF is defined as follows:

$$AF = \begin{cases} 1 & \text{if the MSE firms are accessed formal credit} \\ 0 & \text{otherwise or MSE firms not accessed credit} \end{cases}$$

Generally, the binary logistic regression of dichotomous outcome variable AF on the combination of k discrete and continuous independent variables $x_1 \dots x_k$ is defined by the following logit function:

$$\text{logit}(p_i) = \ln\left(\frac{p_i}{1-p_i}\right) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \dots + \beta_k X_k \dots \dots \dots \text{(eqn)1}$$

The probability of MSE accessed formal credit is given by the statistical expressions:

$$\text{Where } pr(y = 1) = \frac{1}{1 + \exp^{-z}} \dots \dots \dots \text{(eqn)2}$$

$$Z = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \dots + \beta_k X_k \dots \dots \dots \text{(eqn)3}$$

Using equation (3), Access to Finance $ATF=1$ (the probability of MSE firm credit participation), given the values contributing variables for access to credit by the MSE firms $x_1 \dots x_k$ can be done for any randomly selected MSE firm in this study.

3.9. Description and measurement of Variables

Access to finance: The ease at which businesses or individuals are able to get credit from micro finance institutions. This is the degree to which financial services are available to all at a fair price and that there is a ready supply for the credit from different institutions. This include availability of the providers of the service as well as the application process and the turnaround time for getting the amounts applied for as a whole when trying to get access to credit.

Collateral requirement: - Security given when an individual or a business is applying for a loan that can be reclaimed in case of default.

Interest rate: Attitude of MSE operators towards interest rate charged by formal financial institutions and how it discourages loan application. MSE operators with a negative

attitude towards interest rate is discouraged from loan application and are less likely to access credit from formal financial institutions.

Gender: Gender (sex) of the operator of MSEs. Males are more likely to access to finance than females. It is be measured by questions in which the answer ranges from strongly agree =5, agree=4, neutral=3, disagree=2 and strongly disagree =1.

Educational level: Educational status of the MSE operator. Operators who have reached a higher level of education are more likely to access finance from formal financial institutions than operators of lower educational level. It is be measured by questions in which the answer ranges from strongly agree =5, agree=4, neutral=3, disagree=2 and strongly disagree =1.

Age of the business in this study's context is defined as business successes/ failures acquired since its formation. It is be measured by questions in which the answer ranges from strongly agree =5, agree=4, neutral=3, disagree=2 and strongly disagree =1.

Information: in this study's context is defined as the insufficient borrower's skill and knowledge about finance. It is be measured by questions in which the answer ranges from strongly agree =5, agree=4, neutral=3, disagree=2 and strongly disagree =1.

Distance of banks from clients: is the amount of distance between financial service users and financial institution. It is be measured by questions in which the answer ranges from strongly agree =5, agree=4, neutral=3, disagree=2 and strongly disagree =1.

Level of Income: is the money that people and business receive in exchange for working, producing a product or service or investing capital. It is be measured by questions in which the answer ranges from strongly agree =5, agree=4, neutral=3, disagree=2 and strongly disagree =1.

3.10. Data Quality Assurance: Reliability and Variability of Variables

Validity is a necessary criterion for assessing the quality and acceptability of research (Zohrabi, 2013). Credibility refers to the value and acceptability of the findings (Houghton et al., 2013). Validity of an instrument refers to the appropriateness of the instrument to measure what it intends to measure (Amin, 2005). To ensure greater chances of data validity, the questionnaire were reviewed with the research supervisor for expert input. Approval from the supervisor was conducted a field test with the data collected (researcher).

Reliability is one of the main requirements of any research process is the reliability of the data and findings (Zohrabi, 2013). Reliability deals with the consistency, dependability, and replicability of the results obtained from a part of the research (Zohrabi, 2013). Reliability ensures the likelihood of duplicating a study, and the researcher should follow specific processes essential to scientific research (O'Reilly & Parker, 2013).

Reliability is defined by Vogt (2007) as the consistency of either measurement or design to give the same conclusions if used at different times. The first step in ensuring reliability is by providing clear operational definitions of the variables under study. Thereafter, internal consistency was measured through internal consistency reliability (Sekeran, 2009) as well as split-half reliability using Cronbach's alpha.

If the α (cronbach alpha) value is computed to be 0.7 and above, then the instrument is considered satisfactory (Cronbach, 1951 as cited by Sekeran & Bougie, 2010), using results from the pretested questionnaire. According to Zaiantz (2015), Cronbach's alpha, α can be computed by running Excel's Anova: Two Factor without Replication data analysis tool and computing

$$\alpha = 1 - \frac{MSE}{MSB}$$

Where MS_{ϵ} is Mean square/MS Error while MS_B is Mean square/ MS Rows

Variables	Abbreviation	Measurement	Sign
MSEs' access to Finance	AF	Y=1 if Access to Finance, 0 if No access	
Gender of the operator	GRr	0 if female operator access, 1 if male	+
Age of the MSE	AGG	Continues	+
Educational level	EDL	Measured by proxy questions ranked by Likert scale	+
Level of Income	IL	Measured by proxy questions ranked by Likert scale	+
Information	IF	Measured by proxy questions ranked by Likert scale	-
Distance of clients from banks	DS	Measured by proxy questions ranked by Likert scale	-
Interest rate	IR	Measured by proxy questions ranked by Likert scale	-
Collateral requirement	CR	Measured by proxy questions ranked by Likert scale	+

3.11. Ethical Consideration

The ethical issues for this research mainly related to all the data factor affecting access to finance by micro and small enterprise the case of MSE in robe town. Participants' willingness to respond genuinely for provided questioners were communicated and after data collection participants response confidentiality and secrecy has guaranteed, confidentiality about the information obtained from the organization was guaranteed according to the organization's policy. As much as possible ethical language was used in the questioners constructed and distributed to the respondents.

3.12. Gender consideration

Primarily, this study was emphasis to the involvement of females and males as part of the study. The researcher believes that for the research work was completed, it needs to have all around view which includes gender as one of the issues which can be directly as well as indirectly affected by the findings of the study.

Chapter Four

4. Data Analysis, Presentation and Discussion

4.1. Introduction

The findings of this study presented and addressed in this chapter on the evaluation of factors affecting access to finance of Micro and small sized enterprises in case of Robe Town. The section explains and demonstrates the findings from the field with respect to the purpose of the study and the research aims. The study is also based on the theoretical and qualitative studies found in chapter two of the review of related literature. The point of view and observations of the author will also be included. This chapter divided into two sections where the first section presents and discusses the general characteristics of respondents. The second section discusses the specific objectives of the study which are to discuss the effect of firms' characteristics on Micro and small sized enterprises (MSE's) access to finance in Robe Town, to discuss the effect of demographic factors (gender and level of education), users of finance related factors (information about finance, age of the business and level of income) and institutional factors (distance of banks from clients, interest rate and collateral requirement on access to finance by Micro and small sized enterprises (MSE's) in Robe Town..

4.2. Response rate

This study targeted different MSE's members in Robe Town were the researcher distributed questionnaires to 336 members who were randomly selected in this study. The (filled) returned questionnaires were 306, which represents the response rate of 91.1% as demonstrated in table 4.1. Kothari (2004) stated that, a response rate of 50% is sufficient, while a response rate greater than 70% is very good. This implies that based on these assertions; the response rate for this study was 91.1 % which is reasonably very good.

4.3. Reliability Test

According to Kothari (2004), reliability refers to consistency, where internal consistency means linking the answer to each question in the questionnaire with other questions in the questionnaire. One of the foremost commonly used indicators of internal consistency is Cronbach's alpha coefficient. The Cronbachs alpha coefficient of scales should be at least 0.70, and the higher the better. Therefore, as shown in Table 3.2 below, the results for the

reliability test of Cronbach's Alpha Coefficients are above 0.6165. Therefore, it can be concluded that each variable represents a reliable and valid construct

Table 4.1: Over all Cronbach's alpha test for reliability

Average interitem covariance:	0.0449575
Number of items in the scale:	9
Scale reliability coefficient:	0.6195

Source: researcher own computation: 2022

As shown in table 4.1 for the reliability test using Cranach's Alpha coefficients for factors affecting access to finance was showed that 0.6195 which range from 0.6 to 1 and therefore, it is concluded that the questions regarding factors affecting access to finance are acceptable.

4.4. Demographical Characteristics of the Respondents

It is very important to determine the characteristics of the individual respondents, as the respondents helped the researcher understand the value of the information obtained from the field. This part provides basic information about respondent's characteristics; such information includes their gender, education level and age. The demographic futures of respondents are as explained as below.

4.4.1. Gender of respondents

Gender is an important aspect in the study area where in practice women are not given priority in participating social or economic activities in the societies. Hence the variable investigated to determine the proportion of gender participation in this study.

Table 4.2: sample given over gender distribution

Gender of respondents				
	Frequency	Percent	Valid Percent	Cumulative Percent
Male	193	63.1	63.1	63.1
Female	113	36.9	36.9	100.0
Total	306	100.0	100.0	

Source: researcher own computation: 2022

The table 4.2 shows that 63.1 percent of respondents were male and 36.9 percent of respondents were female. The finding shows that majority of respondents were male compared to female. This finding revealed that both male and female involved in the study and therefore avoiding biasness based on gender to enrich the findings.

4.4.2. Age of Respondents

Age of the respondents was among of the important characteristics in understanding the respondents' views about the particular problems; whereby each age group differ experience and maturity in accessing the finance.

Table 4.3: Sample given over age distribution

Age of respondents				
	Frequency	Percent	Valid Percent	Cumulative Percent
21 -30 years	105	34.3	34.3	34.3
31 - 40 years	166	54.2	54.2	88.6
41 – 50	35	11.4	11.4	100.0
Total	306	100.0	100.0	

Source: researcher own computation: 2022

Table 4.3 above shows, which on the basis of age criteria 54.2% of all respondents were between 31 and 40 years old, 34.3 % of them were between 21 and 30 years old and 11.4 % of respondents were between 41 and 50 years. The findings imply that most of respondents have an age ranging between 31 and 40 years old and above. This will make enrich the study as the majority of respondents was mature and has an experience on matters about the important of access to finance.

4.4.3. Level of Education of Respondents

Education level enhances the ability of people to use their resources efficiently and effectively, and education level is also one of the most important characteristics that could affect the ability of the individual to make decisions and the way some particular social phenomena look and understand. In a way, an individual's response is likely to be influenced by their academic status, so it becomes important to know the respondent's educational background. The author therefore analysed the ' educational rate ' parameter and the educational data presented in Table 4.4.

Table 4.4: educational level of respondents

Education level of respondents				
	Frequency	Percent	Valid Percent	Cumulative Percent
High school	37	12.1	12.1	12.1
Diploma	87	28.4	28.4	40.5
Degree and above	182	59.5	59.5	100.0
Total	306	100.0	100.0	

Source: researcher own computation: 2022

Table 4.4 above shows that, 59.5 % of all respondents had degree and above, 28.4% of all respondents were of diploma, 12.1% of all respondents were of high school level. From the table above there is an implication that the majority of respondents were educated. Also, the study involved respondents of all levels of education and therefore MSE are in the education level in which they understand the importance of access to finance.

4.4.4. Income Level

Table 4.5: Monthly Income of respondents

Monthly Income				
	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 20,000	39	12.7	12.7	12.7
Between 20,001 to 30,000	200	65.4	65.4	78.1
Between 30,001 to 40,000	65	21.2	21.2	99.3
Above 40,000	2	.7	.7	100.0
Total	306	100.0	100.0	

Source: researcher own computation: 2022

Table 4.5 above shows that, 65.5 % of all respondents had monthly income of 20,000 to 30,000 and 21.2% have monthly income of 30,001 to 40,000. From the table above there is an implication that the majority of respondents in good monthly income level. Therefore, MSE are in the good monthly income level in which they aid in access to finance.

4.4.5. Source of initial capital

Table 4.6: Source of capital of respondents

Source of capital				
	Frequency	Percent	Valid Percent	Cumulative Percent
Personal saving	102	33.3	33.3	33.3
Equib	27	8.8	8.8	42.2
Micro finance	177	57.8	57.8	100.0
Total.	306	100.0	100.0	

Source: researcher own computation: 2022

Table 4.6 above shows that, 57.8% of all respondents had Source of capital from Micro finance and 33.3% and 8.8% have Source of capital from informal sector (personal saving and equib). From the table above there is an implication that the majority of respondents in not use formal financial inclusion. Therefore, MSE are not good access to finance.

4.4.6. Firm's characteristic on the micro and small Entrepreneurs (SME's) access to finance

Table 4: 7 Micro and small characteristics on access to finance

Micro and small enterprises have sources of credit from financial institutions				
	Frequency	Percent	Valid Percent	Cumulative Percent
No (Not access)	215	70.3	70.3	70.3
Yes (Access)	91	29.7	29.7	100.0
Total	306	100.0	100.0	
Micro and small enterprises are deposit their income in formal financial institutions				
	Frequency	Percent	Valid Percent	Cumulative Percent
No (Not access)	220	71.9	71.9	71.9
Yes (Access)	86	28.1	28.1	100.0
Total	306	100.0	100.0	
Micro and small enterprises have bank account in formal financial institutions				
	Frequency	Percent	Valid Percent	Cumulative Percent
No (Not access)	57	18.6	18.6	18.6
Yes (Access)	249	81.4	81.4	100.0
Total	306	100.0	100.0	

Source: researcher own computation: 2022

Study finding shows that the respondents asked they have sources of credit from financial institutions. The result showed that, 70.3percent of respondents stated that no that indicated not access to finance. This showed that there are factors those affect access to finance. Respondents asked they are deposit their income in formal financial institutions. The result showed that, 71.9 percent of respondents stated that no that indicated not access to finance. This showed that there are factors those affect access to finance. Respondents also asked they have bank account in formal financial institutions. The result showed that, 81.4 percent of respondents stated that have bank account accesses to finance but this not indicate that access to credit. This showed that there are factors those affect access to finance.

4.5. Regression Result

4.5.1. Correlation between the variables

The correlation coefficient is a statistical indicator of how strong an association exists between two variables' relative movements. The degree of linear association between two variables is measured by their correlation. A positive correlation means that both variables shift in the same direction, whereas a negative correlation means that when one variable's value increases, the other variable's value decreases. The correlation coefficient is

measured on a scale that varies from -1 through 0 to $+1$. Complete correlation is expressed by either $+1$ or -1 .

Table 4.8: Correlations among variables

	FA	IF	AGG	EDL	DS	IR	CR	IL	GNR
FA	1.0000								
IF	-0.0587	1							
AGG	0.5518	0.1208	1						
EDL	0.4585	-0.0427	0.2646	1					
DS	0.0096	0.1168	0.2889	0.0331	1				
IR	0.0421	0.1186	0.2704	-0.004	0.4167	1			
CR	0.5273	0.0584	0.4723	0.221	0.2139	0.2792	1		
IL	0.4500	0.2305	0.4278	0.1893	0.3129	0.1735	0.3006	1	
GNR	0.0844	-0.025	0.0416	0.0822	0.1072	-0.0157	0.0567	0.0476	1

Source: researcher own computation: 2022

From table 4.8 above correlation between information and access to finance from the correlation analysis result is negatively correlated. This indicates that when information about financial service increase, access to finance increase. Correlation between age, education, distance, interest rate, collateral and income are positive relations with access to finance.

4.5.2. Test of model adequacy

This study was used logit link function. Logit link function was used in the analysis because it is evenly distributed categories and reasonable choices when the changes in the cumulative probabilities are gradual and logit involves all levels of the response and dichotomizes the response scale. Pseudo R-square measures the proportion of disparity in the dependent variable that is described by the independent variables (or by the ordinal logistic regression model). It is a goodness-of-fit statistic. Its value bounded between zero and one (inclusive), that is, the largest value that pseudo-R-square can assume is one or 100% (in which case all observations fall on the regression line, plane or surface), and the smallest it can assume is zero. In model fit information the p-value is less than 5%; the final model gives a significant improvement over the base line intercept only model.

The overall enter method of ordinal logistic regression model summarized in the table 4.11 below, indicates that Pseudo R-Square is 69.08%. Therefore, as it indicated that pseudo-R-squared is the proportion of variation in the dependent variable of access to finance that is explained by the eight independent variables. Therefore, it is pointed out that 69.08% of factors affecting access to finance demographic factors (gender and level of education),

users of finance related factors (information about finance, age of the business and level of income) and institutional factors (distance of banks from clients, interest rate and collateral requirement) have the power to explain the dependent variable access to finance. The remaining 30.92 % of the variance was affected or explained by other variables not included in this study and other variables affect access to finance which is out of this study.

4.6. Logistic Regression Result

The study used logistic regression model to evaluate the effect of independent variables demographic factors (gender and level of education), users of finance related factors (information about finance, age of the business and level of income) and institutional factors (distance of banks from clients, interest rate and collateral requirement) on dependent variable access to finance. The result of the regression is shown below.

Table 4. 9: Binary logit result on factors affecting access to finance

Logistic regression				Number of obs =	306	
				LR chi2(8) =	257.32	
				Prob > chi2 =	0.000	
Log likelihood =		-57.583902		Pseudo R2 =	0.6908	
FA	Coef.	Std. Err.	Z	P>z	[95% Conf.	Marginal Effect dy/dx
IF	-1.9716	0.632	-3.12	0.002	-3.210291	-0.10105
AGG	5.080365	0.98829	5.14	0.000	3.143359	0.260389
EDL	1.497356	0.31857	4.7	0.000	.872975	0.076745
DS	-4.252771	0.94323	-4.51	0.000	-6.101471	-0.21797
IR	-1.781613	0.89451	-1.99	0.046	-3.534826	-0.09131
CR	4.204629	0.8376	5.02	0.000	2.562968	0.215504
IL	4.316291	0.8242	5.24	0.000	2.700886	0.221227
GNR	.0539417	0.42427	0.13	0.899	-.7776133	0.002765
_cons	-19.812	3.16701	-6.26	0.000	-26.02008	-0.10105

Source: own computation 2022

4.7. Results and Tests of the hypotheses

The researcher was used then independent variables demographic factors (gender and level of education), users of finance related factors (information about finance, age of the business and level of income) and institutional factors (distance of banks from clients, interest rate and collateral requirement) on dependent variable access to finance. The result of the regression is shown below.

Hypothesis 1 was stated that Gender has positive and significant effect on Access to finance

As shown on regression result table 4.9 above gender of the MSE operators or managers has a positive and statistically significant effect on MSEs' access to credit from formal financial institutions at 5% level of significance. Therefore hypothesis 1 is rejected. This is denoted that being other factors held constant, in a one level change in level gender of MSE, the possibility of access to finance increase by 0.27%. According to the results male-to-female ratios of different types of financial services are positive associated with the lack of equal rights to assets. This includes the usage, control and ownership of such assets. Based on the finding find that women are less likely to have an account, use it to receive money for work, save and hold credit and debit cards in countries with greater discrimination against women. The also findings demonstrate that the gender gap in access to loan and use of bank accounts for work purposes decline with female.

Hypothesis 2 was stated that Level of education has positive and significant effect on Access to finance

The result of this study revealed that MSE operators' education has positive and significant effect on access to finance by the MSE firm at 1 percent significant level. Therefore, H2 is accepted. The output of the model denoted that being other factors held constant, in a one level change in level educations of MSE, the possibility of access to finance increase by 7.7%. Educational of MSEs has a positively and significantly influences on SMEs access to formal finance. An increase education will increase the probability of accessing formal access to finance. This result is consistent with findings (Kasahun, 2019) and (Cong Do et al, 2021) who founds education has significant effect on access to finance.

Hypothesis 3 was stated that Information has negative and significant effect on Access to finance

This study found that information to formal financial access has negative and significant effect on access to finance at 1% significant level. As a result, H3 is accepted. The output of the model denoted that being other factors held constant, in a one level change in information of MSE about finance, the possibility of access to finance decrease by 10.1%. This indicated that lack of timely, accurate, quality and complete information regarding the ability of the applicants to repay back the loan and to access financial products from the financial institutions negatively affect access to finance. The study revealed that the

financial institutions require more information to evaluate potential risks associated to MSE. In order for MSEs to identify potential suppliers of financial services, they require enough information. This study therefore infers that availability of information is essential to both the creditors and the MSEs. This will enhance the understanding of the potential risks associated with the MSEs that apply for financing of MSEs. The results are consistent with findings (Cong Do, 2021) who finds information particularly in terms of financial literacy has significant effect on access to finance.

Hypothesis 4 was stated that Age of the business has positive and significant effect on Access to finance

The variable age business has a positive and significant effect on MSE's access to finance at 1% level of significance. As a result, H4 is accepted. The output of the model denoted that being other factors held constant, in a one level change in age of business of MSE, the possibility of access to finance increase by 26%. This indicates that business with older age of business is more likely to access credit from formal financial institutions than those with younger age of business. This implies that the personal financing preferences of owners or managers appear to change according to age and the age of the MSEs is a significant determinant of access of finance. In line with this other researcher also argue that as the age of the business increases, so does his business experience, practical, wisdom and his income generating capacity. In addition, due to capability of the older business to accumulate assets which are used as collaterals, formal financial institutions perceive them as creditworthy. As a result, they are more likely to access credit from formal financial institutions than the younger counterpart. The results are consistent with findings (Deresse and Zerihun 2017) whose finds age of business has significant effect on access to finance.

Hypothesis 5 was stated that Level of Income has positive and significant effect on Access to finance

The study showed that income level has positive and significant effect on access to finance at 1% significant level. Therefore, H5 is accepted. The output of the model denoted that being other factors held constant, in a one level change in level income of MSEs, the possibility of access to finance increase by 22.1%. As people's income increases access to finance also increases. This result makes sense that MSEs earn more income get paid through a bank account. The results are consistent with findings (Chipeta and Kanyumbu 2018) who found that income has significant effect on access to finance.

Hypothesis 6 was stated that Distance of clients from bank has negative and significant effect on Access to finance

The study results also showed that distance has a negative and significant impact on access to finance at 1% significant level. As result H6 is accepted. The output of the model denoted that being other factors held constant, in a one level change in level distance of MSEs from financial institution of, the possibility of access to finance decrease by 21.8%. The result indicated that that the greater the distance away from centres that the less the MSEs will be access to finance. As distance increase it reduces the chances of MSEs to access finance. If financial product is easily accessible to the MSEs form them to be able to derive any helpful them. This implies that access to financial services is a function of the distance between the service provider and the consumer of the financial product. The results are consistent with findings (Chipeta and Kanyumbu 2018) who founds that distance has significant effect on access to finance.

Hypothesis 7 was stated that Interest rate has negative and significant effect on Access to finance

The result showed that interest rate has negative and significant effect on access to finance at 5% significant level. As result H7 is accepted. The output of the model denoted that being other factors held constant, in one level increase in interest rate, the possibility of access to finance decrease by 9%. Interest rate is an important factor that influences MSEs to access to finance or access to credit. The results showed if interest rate is high MSEs are unable to access to finance. This result is consistent with findings (Gideon, 2021) who founds interest has significant effect of access to finance.

Hypothesis 8 was stated that Collateral requirement has positive and significant effect on Access to finance

From the regression result collateral requirement has positive and significant effect on access to finance at result 1% significant level. Therefore, H8 is accepted. The output of the model denoted that being other factors held constant, in a one level change in having collateral requirement of MSE, the possibility of access to finance increase by 21.6%. Collateral refers to the assets committed by MSEs to a lender as security for debt payment. The indicated that of high risk and for not having adequate resources to provide as collateral. The study also found that houses, land, and businesses are used as security and that creditors demand MSEs to post the collateral in order to reduce moral hazard. Further,

the study revealed if more collateral required by MSEs to access finance it creates disincentive to the MSEs to acquire financing. This result is consistent with findings (Deresse and Zerihun 2017), (Mulatu, 2019) and (Gideon, 2021) who founds collateral requirement has significant effect on access to finance.

4.8. In-depth interview results

In order to deeply understand how banks Factors affecting Access to finance by Micro and Small Enterprise in Robe Town with some selected commercial banks managers in Robe Town. The interviews were conducted with managers of Ethiopian commercial banks namely, commercial Banks, Awash Bank, Cooperative Bank of Oromia, Oromia Bank and Sinkee Bank. The finance managers were chosen as they are believed to be the most knowledgeable about the Factors affecting Access to finance by Micro and Small Enterprise. They were asked unstructured interview questions in relation to the Factors affecting Access to finance by Micro and Small Enterprise. These interview questions were designed to find out the main factors that affecting Access to finance by Micro and Small Enterprise.

According to an interview the factors that can factors that affecting Access to finance by Micro and Small Enterprise in Robe Town were; gender, level of education, information about finance, age of the business, level of income, distance of banks from clients, interest rate and collateral requirement. In addition to this the interviews result indicted that the main factors that can factors that affecting Access to finance were level of education, information about finance, age of the business, level of income, distance of banks from clients, interest rate and collateral requirement (Melaku , CBE manager and Nugusu , SB manager personal interview, February 21,2022).

As per the interview an increase in an MSEs years of education will increase the probability of accessing formal access to finance; availability of information is essential to both the creditors and the MSEs; business with older age is more likely to access credit from formal financial institutions than those with younger age; as MSEs income increases access to finance also increases; distance reduces the chances of MSEs to access finance; increase in level interest, the possibility of access to finan⁷⁷ ce decrease and finally they stated that increase in collateral requirement of MSEs causes the firm's access to finance also increase Getu, AB manager personal and Mohammed, OB manager personal interview, February 26,2022)

Table 4.10: Summary of testing hypothesis

No	The effect of	Hypothesis	Result	Conclusion
H1	GR	Positive and significant	Positive and insignificant	Rejected
H2	EDU	Positive and significant	Positive and significant	Accepted
H3	IF	Negative and significance	Negative and significance	Accepted
H4	AGG	Positive and significance	Positive and significance	Accepted
H5	IL	Positive and significance	Positive and significance	Accepted
H6	DS	Negative and significance	Negative and significance	Accepted
H7	IR	Negative and significance	Negative and significance	Accepted
H8	Cr	Positive and significance	Positive and significance	Accepted

Source: Own field survey, (2022)

Chapter Five

Summary, Conclusions and Recommendations

Introduction

This chapter presented the discussion of key findings of the study, discussion of the findings, conclusion drawn based on the findings and recommendation. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was to determine the factors affecting access to finance by micro and small enterprise in case of MSE in Robe Town.

5.1. Summary of Findings

This study was conducted to examine the factors affecting access to finance among Micro and small sized enterprises in case of Robe Town. This study targeted different MSE's members in Robe Town were the researcher distributed questionnaires to 336 members who were randomly selected in this study. The (filled) returned questionnaires were 306, which represents the response rate of 91.1%. To analyse the descriptive statistics, the researcher was used the frequency and percentage. Further, the researcher discussed regression analysis to determine factors affecting access to finance among Micro and small sized enterprises. Therefore, in line with the specific objective of the study the researcher reached the following summary of the finding factors affecting access to finance among Micro and small sized enterprises.

Descriptive statistics for respondent's profile showed that gender of respondents' 63.1 percent of respondents was male and 36.9 percent of respondents were female. Regarding to age criteria 54.2% of respondents was between 31 and 40 years old. Regarding to education level of respondents 59.5 % of all respondents had degree and above. 65.5 % of all respondents had monthly income of 20,000 to 30,000, 57.8% of all respondents had Source of capital from Micro finance and 33.3% and 8.8% have Source of capital from informal sector (personal saving and equib).

The first specific objective was stated that to investigate the effect of demographic factors on Access to finance by Micro and Small Enterprise (Gender and Level of education). The result showed that Level of education has significant but gender has insignificant effect access to finance among Micro and small sized enterprises.

The second specific objective was stated that to examine effect of users of finance related factors on Access to finance by Micro and Small Enterprise (like: Information, Age of the business and Level of income). The result showed that information has negative and significant effect on access to finance of MSE, age business has a positive and significant effect on MSE's access to finance and that income level has positive and significant effect on access to finance MSE. The third specific objective was stated that to investigate the effect of Institutional Factors on Access to finance by Micro and Small Enterprise (like: Distance of the client, Interest rate and Collateral requirement). The result showed that distance has a negative and significant impact on access to finance, interest rate has negative and significant effect on access to finance and collateral requirement has positive and significant effect on access to finance of MSE. Therefore, in line with the specific objective of the study the researcher reached the following conclusion. As per the interview an increase in an MSEs years of education will increase the probability of accessing formal access to finance; availability of information is essential to both the creditors and the MSEs; business with older age is more likely to access credit from formal financial institutions than those with younger age; as MSEs income increases access to finance also increases; distance reduces the chances of MSEs to access finance; increase in level interest, the possibility of access to finance decrease and finally they stated that increase in collateral requirement of MSEs causes the firm's access to finance.

5.2. Conclusion

The finding of the study reveals that genders have gender has positive and insignificant effect on access to finance. The result of this study revealed that MSE operators' education has positive and significant effect on access to finance. An increase in an MSEs years of education will increase the probability of accessing formal access to finance. The study found that information to formal financial access has negative and significant effect on access to finance. This indicated that lack of timely, accurate, quality and complete information regarding the ability of the applicants to repay back the loan and to access financial products from the financial institutions negatively affect access to finance. The variable age business has a positive and statistically significant effect on MSE's access to finance formal financial institutions. This indicates that business with older age is more likely to access credit from formal financial institutions than those with younger age. This implies that the personal financing preferences of owners or managers appear to change

according to age and the age of the MSEs is a significant factor affecting of the risk of borrowing.

The study shows that there is a positive and significant effect of income on access to finance. As people's income increases access to finance also increases. The study results also show that distance has a negative and significant impact on access to finance. The result indicated that that the greater the distance away from centres that the less the MSEs will be access to finance. Distance reduces the chances of MSEs to access finance. Interest rate has negative and significant effect on access to finance. High interest rate is an important factor that influences MSEs to apply for credit.

From the regression collateral requirement has positive and significant effect on access to finance. The result of regression output implies increase in collateral requirement causes the MSEs access to finance also increase. The implication behind this is that; if the MSEs ability to provide collateral increases; the firm's access to finance increases too. On the other hand, the relationship between collateral requirements and access to finance can be interpreted as; when the MSEs collateral requirement decreases the firm's access to finance also decreases because the two variables move in the same direction. Finally, based on regression result except gender education, information to formal financial access, age business, distance, interest rate and collateral requirement have significant effect on access to finance of MSEs.

5.3. Recommendations

Based on the findings and conclusion of the study the following recommendation should be considered.

- ❖ MSEs are usually access to finance constrained than other segments of the economy because of lack of collateral, cost of credit, business risk and financial information. Consequently, in process of protecting and assisting MSEs access to finance, the government have better provide financial access particularly credit guarantee arrangements that would act as alternative to the lending institution in case SMEs fails to pay.
- ❖ The Micro and Small Enterprise Authority better have systematic process of financial education targeting the MSEs. This will facilitate the necessary information on how and where to access cheap loans other than relying on the main stream financial

institutions. In addition, MSEs operators will have basics knowledge on financial and business management skills through formal education.

- ❖ The business owners need to actively improve their financial information through the Internet, books or participating in training programs on knowledge of financial service and financial development of the companies to apply this knowledge to better financial management.
- ❖ Many MSEs have no conventional collateral securities that collateral was found to be a significant factor in affecting access to credit. Consequently, it is recommended that financial institutions should accept business assets and introduce group guarantee, where borrowers form social groupings for the purpose of co-guaranteeing one another. This will reduce level of risk from FIs to the borrowers hence encouraging FIs to grant loans to borrowers consequently increasing credit access.
- ❖ From the findings it can be deduced that the rate of interest charged by different financial providers have to be evaluated and harmonized. Since some of the MSEs could depend heavily on informal borrowing they should be discouraged through trainings. The financial institutions should devise measures such as group lending so as to increase the credit access amongst MSEs.
- ❖ Addressing the problem of distance through an expansion in the bank branch network, and in the network of static and mobile agencies, vans and ATMs, and in expanding agency banking.
- ❖ The study results portray that income levels of MSEs facilitates and impact positively on their access to credits, government policies should therefore be geared towards creating a good micro environment for effective and efficient running of these enterprises in order to increase and obtain higher profit margins for sustainable growth and development of the MSEs.
- Educational level of entrepreneurs has enormous effect on access to credit from formal financial institutions. Concerned bodies of both the government and non-governmental institutions should work to create awareness and facilitate the provision of additional training for those with lower educational level (i.e primary school and those with no formal education). Additional training in loan request procedures will be important.
- The management skills that need to improve are: financial management skill, marketing skill, production management skill, human resources management skill. The training on financial management skills such as financial analysis and setting up

accounting information system, working capital management, investment management and capital mobilization will assist MSEs' owners in making better financial decisions.

- Achieving gender equality in access finance is an important way to unlock resources for economic empowerment and growth, by enhancing access to economic opportunity for a wide segment of society. It is also important at the micro level, as it improves women's lives by giving them voice and improving their decision-making capabilities. Hence, policies aimed at reducing gender gaps can benefit a lot from addressing inequalities in women's access to property rights and labour markets. This is particularly important given that guaranteeing property rights for women increases their creditworthiness which improve access to finance.

5.4. Direction for Further Research

Research on both micro and small enterprises in Robe Town to help come up with the existing discrepancies of financing gaps that exist. This would also help in coming up with a standard definition of MSEs that can be applied by all financial access to all over the country. It would also help regulate how different lending institution deal with the MSEs. Research can also be done on the. Due to the impact of MSEs sector on economic development, funding of this sector is crucial and therefore further research on how far the policies made at the government level on MSEs access to finance implemented.

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APPENDIX A QUESTIONNAIRE FOR MSE

MADDA WALABU UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

Research questionnaire

Dear respondent,

I, IjaraBekele, am pursuing my Master's degree program in Accounting and Finance and as partial fulfilment, I am conducting research thesis entitled as "Factors affecting Access to finance by Micro and Small Enterprise: In the Case of MSE in Robe Town.". This study is conducted in partial fulfilment of the requirements for the master's degree in Accounting and Finance at MaddaWalabu University. Its main objective is to identify the major Factors affecting Access to finance by Micro and Small Enterprise: In the Case of MSE in Robe Town. The study is going to be conducted out on your responses and other pertinent data that could support it. The reason of this questionnaire is to get your perceptions and views about a variety of aspects of Factors affecting Access to finance by Micro and Small Enterprise: In the Case of MSE in Robe Town. It forms a main part of the study and the information you will offer facilitate me to significantly analyse Factors affecting Access to finance by Micro and Small Enterprise: In the Case of MSE in Robe Town. Your support to respond is very significant to this study since it represents thousands of others who are not incorporated in the sample.

General Instruction:

- No need of writing your name
- Kindly respond to all questions
- If you need further clarification contact in the below address

It's essential to bear in mind that this survey is only for academic research purpose and the responses of each participant will be dealt with utmost confidentially. Thank you for your cooperation and assistance. Sincerely,

Name: IjaraBekele

Phone: +251915806863

Section 1: Demographic information of respondents

1. Age in years:

- | | | | | | |
|------|--------|--------------------------|-----|---------|--------------------------|
| i. | <20 | <input type="checkbox"/> | iv. | 41 – 50 | <input type="checkbox"/> |
| ii. | 21- 30 | <input type="checkbox"/> | v. | Above50 | <input type="checkbox"/> |
| iii. | 31- 40 | <input type="checkbox"/> | | | |

Gender

- i. Male
- ii. Female

2. Education level of the principal business owner(s)

- i. Elementary
- ii. High school
- iii. Diploma
- iv. Degree and above

Section 2: data on economic variables of micro and small enterprises

1. What is your monthly income?

- i. Less than 20,000
- ii. Between 20,001 to 30,000
- iii. Between 30,001 to 40,000
- iv. Above 40,000

2. What were the sources of your start-up capital?

- i. Personal saving”
- ii. “Equib”
- iii. Assistance from NGOs
- iv. Micro finance
- v. Borrowed from friends & relatives

Section 2: Question Related to Access to finance by Micro and Small Enterprise

Please provide your appropriate answer by ticking (✓) based on the following statement which indicated as agree being access to finance and disagree not access to finance.

S.N	Statement	Access	Not access
1	Micro and small enterprises have sources of loans from financial institutions		
2	Micro and small enterprises are deposit their income in formal financial institutions		
3	Micro and small enterprises have difficulty to have bank account in formal financial institutions		

Section 3: Question Related Factors affecting Access to finance by Micro and Small Enterprise

Please indicate the degree to which the following factors are affecting the profitability of your business enterprise performance. After you read each of the factors, evaluate them in relation to your business and then put a tick mark (✓) under the choices below. Where, 5 = strongly agree, 4 = agree, 3 = undecided, 2 = disagree and 1= strongly disagree.

No.	Factors affecting Access to finance by Micro and Small Enterprise	Scales				
		1	2	3	4	5
1	Information gap about finance					
1.1	Lack of creating awareness about the product/promotion	()	()	()	()	()
1.2	Lack of enough training given by banks to MSEs	()	()	()	()	()
1.3	MSE who have the awareness about the financial services are more access to finance	()	()	()	()	()
1.4	MSE are aware about the different services provided by financial institutions	()	()	()	()	()
1.5	Different workshops are organized by financial institution to deliver about financial service	()	()	()	()	()
2	Age of the business					
2.1	The Age of the MSE Affects its Ability to Access Funds	()	()	()	()	()
2.2	Firms that are older were found to have more access to finance	()	()	()	()	()
2.3	Older firms have the network capital generated overtime and also credit history that can be used by lenders to assess their credit worthiness	()	()	()	()	()
2.4	Young firms with limited managerial capabilities and experience are suffering from having access to finance.	()	()	()	()	()
2.5	Access to finance is significantly influenced by the age of the firm	()	()	()	()	()
3	Distance of clients from banks					
3.1	Closure of local banks or branches/outlets is increase access to finance	()	()	()	()	()
3.2	Place in an area which is well served by banks has well	()	()	()	()	()

	access to finance								
3.3	The location of the MSE determines the likelihood of having a bank account.	()	()	()	()	()	()	()	()
3.4	Access to banking services can also be influenced by physical access	()	()	()	()	()	()	()	()
4	Interest rate								
4.1	Reduction on the cost of finance, that is interest rates, application fees, loan insurance premium, legal fees	()	()	()	()	()	()	()	()
4.2	Reduction on the cost of finance, that is interest rates, application fees, loan insurance premium, legal fees	()	()	()	()	()	()	()	()
4.3	High bank service charges for the unsustainability of MSEs	()	()	()	()	()	()	()	()
4.4	Reduction on the cost of finance over recent past was the main factor for increased access to financing by MSEs	()	()	()	()	()	()	()	()
4.5	Amount of Interest charged discourage financial access of MSE	()	()	()	()	()	()	()	()
5	Collateral requirement								
5.1	Growth in the asset base of MSE has able to meet the collateral requirement	()	()	()	()	()	()	()	()
5.2	MSEs who have fixed asset are more likely to access credit from formal financial institutions than those who do not.	()	()	()	()	()	()	()	()
5.3	Not having collateral required makes difficult to access finance	()	()	()	()	()	()	()	()
5.4	Collateral is a mandatory requirement in accessing finance	()	()	()	()	()	()	()	()
5.5	SMEs very worried about collateral in accessing finance	()	()	()	()	()	()	()	()
5.6	Collateral is the major hinder factor to my access to finance assistance	()	()	()	()	()	()	()	()
6	Income Level								
6.1	MSE who have enough money are more likely to be access to formal financial services	()	()	()	()	()	()	()	()
6.2	The better Economic activity of MSE promote the likelihood of being financially access	()	()	()	()	()	()	()	()
6.3	MSE who are in good financial performance are more use formal financial service	()	()	()	()	()	()	()	()
6.4	MSE who are in not in good financial performance are more use informal financial service	()	()	()	()	()	()	()	()
7	Education on access to finance								
7.1	Knowledge about financial system through education is important for financial access	()	()	()	()	()	()	()	()
7.2	Educate the customers on their rights and obligations is important for financial access	()	()	()	()	()	()	()	()
7.3	Uneducated people are not using formal financial institutions have effect on for financial access	()	()	()	()	()	()	()	()
8	Gender on access to finance								
8.1	There is equal access for women and men to financial service	()	()	()	()	()	()	()	()
8.2	Women have lower account in formal financial institution than men	()	()	()	()	()	()	()	()
8.3	Women have fewer economic opportunity than men	()	()	()	()	()	()	()	()

APPENDIX B QUESTIONNAIRE FOR FINANCIAL INSTITUTION

MADDA WALABU UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

Research questionnaire

Dear respondent,

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Name: IjaraBekele

Phone: +251915806863

Section 1: Demographic information of respondents

1. Age

- i. <20
- ii. 21- 30
- iii. 31- 40
- iv. 41 – 50
- v. Above50

2. Gender

- i. Male
- ii. Female

3. Education level of the principal business owner(s)

- i. Elementary
- ii. High school
- iii. Diploma
- iv. Degree and above

Section 2: Interview questions

1. Does gender affect the access to finance of MSEs in Robe Town?
2. Does level of education affect the access to finance of MSEs in Robe Town?
3. Does information about finance affect the access to finance of MSEs in Robe Town?
4. Does age of the business affect the access to finance of MSEs in Robe Town?
5. Does level of income affect the access to finance of MSEs in Robe Town?
6. Does distance of banks from clients affect the access to finance of MSEs in Robe Town?
7. Does interest rate affect the access to finance of MSEs in Robe Town?
8. Does collateral requirement affect the access to finance of MSEs in Robe Town?

Marginal effects after logit

y = Pr(FA) (predict)
 = .05419051

variable	dy/dx	Std. Err.	z	P> z	[95% C.I.]	X
IF	-.1010522	.0418	-2.42	0.016	-.182976 -.019128	1.76993
AGG	.2603885	.08373	3.11	0.002	.096283 .424494	1.96242
EDL	.0767453	.02677	2.87	0.004	.02428 .12921	3.21786
DS	-.2179711	.07639	-2.85	0.004	-.367697 -.068245	1.80147
IR	-.0913146	.04821	-1.89	0.058	-.185813 .003184	1.76536
CR	.2155036	.0734	2.94	0.003	.071651 .359356	1.88203
IL	.2212268	.06594	3.35	0.001	.091979 .350475	1.93709
GNR	.0027647	.02178	0.13	0.899	-.039922 .045451	3.46656