



Full Length Research Paper

Access to Finance for Micro and Small Enterprises in Debre Markos Town Ethiopia

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Abstract

This study investigates about access to finance for Micro and small enterprises in Debre Markos Town. The study has conducted based on a survey covering 80 randomly selected MSEs. Interviews and questionnaires have been used as a tool to gather the information.

Currently, micro and small enterprises (MSEs) are playing a crucial role in creating employment opportunities and serves as sources of income for lower level income people. Hence, this sector is receiving due attention and recognized by policy makers with the purpose of enhancing growth and reducing poverty. Nevertheless, these sectors are facing financial and other challenges. The study has aiming to assess the access to finance for MSEs as well as the appropriateness of the access to finance in relation to the fairness of interest rate, loan size, time delay in dispersing the loan and the pre-conditions of borrowing. It is possible to point out that there is lack of access to finance; even the access which is delivered to MSEs is inappropriate. Moreover, MSEs are facing difficulties to bring collateral, disbursement of loans on time, interest rate, loan size and other availability of financial instruments. These and other problems together are hampering MSEs' expansion, diversification, promotion and growth. Lack of competition in financial institutions limits the access to finance. High risk and high transaction costs associated with creditors of MSEs likewise constrain access to finance. In addition to this, many MSEs are poor at book keeping and didn't prepare formal financial statements and deprive them from access to finance.

Keywords: MSEs, Finance and MFIs

Introduction

Micro and Small Scale Enterprises (MSEs) are lifeblood of most economies. To be successful this and other business sectors, finance plays a major role in any aspect of business operation. As far as micro and small enterprises (MSEs) are concerned as part of business enterprises, they need finance to start up, expand, diversify and for working capital of the business firms. Without finance, no one-business enterprise can achieve its objectives. Finance is the backbone of any business enterprise (Mckernan and Chen, 2005) including for MSEs.

Different authors defined MSEs differently in different place at different time. But, many authors of the world concluded and use number of employees to classify and define MSEs. However, in Ethiopia, it depends up on the capital investment of which 20,000 - 50,000 birr for small and less than 20,000 birr for micro enterprises (Hailay, 2003). In this paper, the researcher has used capital to defined MSEs which is the same as what has been used by Ethiopians to define and classify MSEs.

SMEs are described as efficient prolific job creator, the seed of big businesses and the fuel of national economic engine (Abor & Quartey, 2010). Cobbold et. al, (2008) also suggested that SMEs are particularly important in supporting economic growth and livelihoods in developing countries. On top of this, micro and small enterprises are a pivotal resource for the development of Ethiopia, not only for the contribution that it makes to poverty alleviation and job creation but also the sector is a base for entrepreneurial endeavor and the potential for new business development. Molhotra *et al.* (2006), Wattanapruttipaisan (2003) and their co-authors elaborated that MSEs play a pivotal role in developmental goals such as in improving living standard, distributing income fairly among low level and high level group, reducing unemployment rate, fostering linkages among various economic sectors, easy to begin and expand, labor intensive, require small capital, low technology, little know -how and facilitates import and export transactions among countries. Due to this merit, the sector is receiving due attention of policy makers and development practitioners. Furthermore, MSEs serve as a bridge to reach at the technically advanced medium and large enterprises.

Statement of the Problem

Now days, in almost all economies of the world especially in developing countries in Africa and Ethiopia, micro and small enterprises are crucial and a key factor for sustained growth and development. Okpara and Wynn (2007) elaborated that MSEs are generally regarded as the driving force of economic growth, job creation and poverty reduction in developing countries. They have been the means through which accelerated economic growth and rapid industrialization to be realized. In Ethiopian context, as to the Ethiopian

government's strategy, Growth and Transformation plan, micro and small enterprises are the bridge to achieve the goals of the government (MoFED, 2011).

Despite these contributions of SMEs, their major barriers to growth and development appear to be shortage of both equity financing and debt. Thus, according to Lader (1996), one other important problem that SMEs often face is access to capital. Lack of adequate financial resources also places significant constraints on SMEs growth and development. MSEs Owners complain that lack of access to finance constrains their growth and competitiveness. Indeed, financial sector policies often work against the ability of commercial financial institutions to serve MSEs, albeit often unintentionally. In many countries, lack of competition in the banking sector limits pressure on banks to reach out to MSEs client segments. High risk and high transaction costs--real or perceived associated with bank lending to MSEs likewise constrain access. The difficulties that MSEs encounter when trying to access financing consists of many incomplete range of financial related activities, regulatory rigidities or gaps in the legal framework, lack of information on both the bank's and the MSE's side(OECD, 2006).

Wattanaputtipaisan (2003) stated that acute financial constraint becomes a strong obstacle for MSEs in developing countries. Malhotra *et al* (2006) goes some way to confirm the above explanation that lack of access to finance is hampering the growth and competence of MSEs.

In contrast to this, Riba (1999) argued that the major constraint for MSE growth, expansion, diversification and promotion is not the shortage of access to finance. It is rather lack of access to medium and long-term credit (time duration of credit) that hinders MSEs. There are also some authors who shared the arguments of both sides. Malhotra *et al* (2006) is a good case in point. In their article, they stated that the major constraints of MSEs which are not only lack of access to finance but also lack of medium or long term credit, appropriate loan size, technology and know-how. Pissarides (2000) corroborates that credit constraints constitute one of the main obstacles to growth, expansion, diversification and promotion of MSEs.

The empirical studies of Gebrehiwot and Wolday (2006), who conducted their research on this subject in Ethiopia, pointed out that inadequate loan size, loan durations that do not match with the gestation periods and cash flow patterns of borrowers' activities financed by the loan, failure to disburse loans timely, and the tendency of group collateral requirements are the problems of MSEs in expanding and diversifying their enterprise.

Studies conducted so far concluded that the problem of MSEs are access to working capital, inadequate infrastructure, high transactional cost, limited managerial and technical experts and marketing problems World Bank, (2008), Hailay (2003) and Gebrehiwot and Wolday (2006).

Even though many authors have concluded the above listed problems of MSEs, they are still do not agree on each point. For example, Wattanaputtipaisan (2003) stated that lack of access to finance is a strong obstacle for MSEs in developing countries. In contrast, Riba (1999) argued that the major constraint for MSEs' growth, expansion, diversification and promotion is not the lack of access to finance rather its loan term, to medium and long-term credit, whereas Malhotra *et al* (2006) shared the arguments of both sides.

As per my knowledge or information is concerned, there was no study conducted so far in Debre Markos Town on this issue though there was an attempt made on regional and national levels.

In addition to the above gaps, the major focus of this research has been on adequacy of loan size, interest rate, loan term (loan duration), delivery systems, repayment methods, the availability of loan on time (delays in loan request processing) and ranking the problems from the very serious to less serious.

Materials and Methods

Research Design

A research design can be qualitative, quantitative or mixed. Among the aforementioned three approaches, the researcher has used mixed approach. Hence, this approach is helpful to address the research questions and thereby to investigate the access of finance for MSEs . The researcher has used open ended and closed ended questions for the qualitative and quantitative approaches respectively. Moreover, the researcher has used interview and questionnaire in order to get detailed investigation about the access and role of finance in expanding and diversifying MSEs. Structured questionnaires have been distributed to 80 MSE owner managers. On top of this, semi structured in-depth interview has made with official coordinator (Head Office) of MSEs and with each 10 Kebeles' MSE coordinators.

Data Type, Data Sources and Data Collection Techniques

To conduct the research, both primary and secondary data have been used. The primary data is consisted of interviews and questionnaires with owner managers and legal officials (Bureau of Debre Markos Town) and the employees having access to the issue relevant to the research. The secondary data was collected from financial related activities, performance and growth of MSEs. The

data collected includes periodic publications of government body, documents on accessing credit facilities, initial and current capital and finally report on development of MSEs from the firm themselves and head office of Debre Markos Town.

Sample Size and Sampling Procedures

According to the data obtained from Debre Markos Town (Head Office) of MSEs, these are classified into 8 categories based on their type of engagements. From the 8 groups, the researcher has selected 4 sub-sectors based on their wide coverage in area and contribution to the GDP of the economy. They are Construction materials, Metal and Woodwork, Food Processing and Textile. By the time the study has conducted, out of 500 operators of MSEs, 20, 50, 12 and 10 were selected from Construction materials, Metal and Woodwork, Food Processing and Textiles respectively. Consequently, a sample size of 92 MSEs has been used from the 4 sectors of MSEs. Stratified simple random sampling has been applied to address the problems. Questionnaires have been distributed for the sample strata of the 92 MSE sectors managers and owners. On top of this, 10 official coordinators of MSE have had interviewed from each kebele. Meanwhile, the Town head office coordinator was also consulted for further information. To obtain the relevant information, judgmental sampling technique has been applied which is based on the position of the officials. Research instruments were translated in to Amharic language administered to help respondents to clearly understand the questions and to respond helpful information for the paper.

Data Processing and Analysis

In processing the data, filled and completed questionnaires has been carefully checked to assure that the data is accurate and uniformly entered and arrange to facilitate percentages and tabulation systems. Coding data was made by assigning symbols to the response of the population and grouped into limited number of categories. To arrive at the percentages and tabulations, the researcher has used both Excel and SPSS as a tool in order to incorporate into a document or research presentation.

This research type is simply descriptive (used simple statistical tools). Because, it is highly concentrated to see the access to finance and the problems of access to finance. The data have been analyzed using tabulations that is in the form of tables, percentages, bar graphs, pie charts and finally with statements. These instruments help to facilitate the interpretation process of the research.

Data analysis and discussion

This data analysis and discussion is made based on the questionnaires distributed to the four types of micro and small enterprise owner managers of Debre Markos; namely: Construction materials, Food Processing, Textile (Weaving) and Metal and Woodworks. On top of this, the respondents of the interview were the government officials of the Woreda' and the head office of Debre Markos Town who assigned by the government to coordinate MSEs.

Total of 92 questionnaires were distributed to 92 MSE owner managers of which, 80 questionnaires (87% response rate) were collected. The remaining 12 questionnaires have not collected due to lack of cooperation of the respondents. Therefore, this data discussion and analysis is made by 80 numbers of questionnaire respondents; and interviewees (Woreda and Town Coordinators). Hence, every graph presented here are own survey.

Type and Numbers of SMEs Incorporated in the Study

Among the many types of MSEs listed, construction materials, metal and wood work, food processing and textile (weaving) are incorporated in this study. The following Pie chart presents the type and number of MSEs included in the paper.

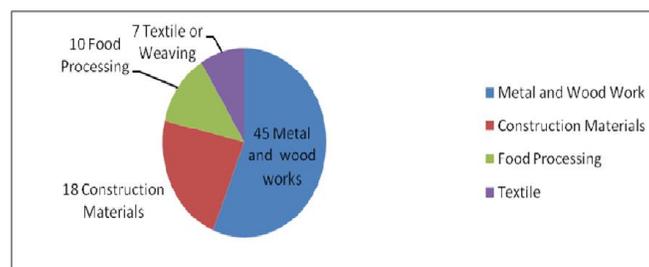


Fig 1. Type and Number of MSEs

As anyone can see from the above Pie chart, 45 Metal and Wood work, 7 Textile (weaving and cloth related activities), 10 food processing (Hotels, Restaurants, Milk and Milk products and food related merchandise enterprises) and 18 construction enterprises (cobble stone and other related tasks) have been included in the study.

Initial Sources of Finance for MSE Owners

The initial sources of capital/finance/ can be raised from multiple sources. A business can use internal or external funds to finance their operations and investments based on the accessibility or availability of the alternative sources of capital. A firm can use one of the two financing sources or both of them. Similarly, some MSEs could generate the sources of finance from their own capital

(personal saving, retained profit and sales of assets), debt, *Iqub*, family, *Arata* and other source. Accordingly, owner managers of MSE were asked their source of finance. The result of this analysis and discussion is indicated by the following Bar charts.

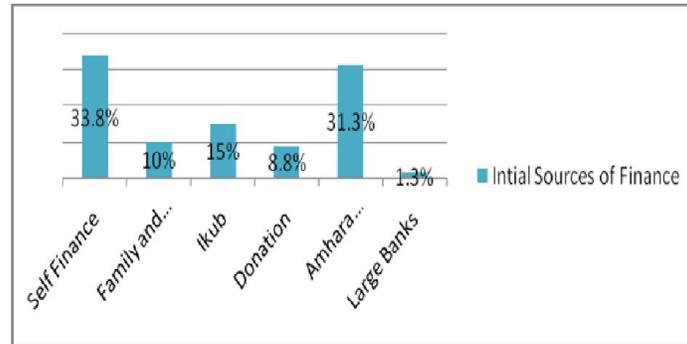


Fig 2. Initial Sources of Finance

The result of the study indicated that 31.3% MSEs have generated their initial capital/ finance/ from Amhara microfinance institution Debre Markos branch. Using these sources of capital / fund/, MSE operators have been starting their business by purchasing raw materials and other necessary inputs thereby expanding, diversifying, and promoting their business in the Town in particular in the country in general. As per to the respondents of the study /owner managers of MSEs/, 33.8% number of MSEs have got their initial capital from themselves/own capital/. It doesn't mean that their own capital is ample rather due to absence of access to finance from external sources (debt, Iqub, family and Idir) at the right time they were only relying only on their own capital. On top of this, some respondents replied that since most of MSEs are financially weak /absence of collateral, many of the financial institutions (creditors) were not willing to lend MSEs. As a result, they lacked access to finance from other sources. So, the only alternative they did was to use their own capital.

Microfinance and own capital/finance/ are not the only possible sources of finance rather there are also other sources. Some MSEs have got/ rose/ finance from their families and friends. As per the respondents, 10% of MSEs obtained from their families (father, mother, sister, brother and other related bodies) and friends. In connection with this, 15% of MSEs have acquired the capital from *Iqub*, whereas 8.8% number of MSEs' capital were generated from donation. The remaining 1.3% /almost none/ MSE owner managers had got the capital from large banks. This implies that large banks are not willing to lend MSEs due to absence or lack of collateral on the specified period.

Micro and Small Enterprises' Growth Pattern (Initial and Current Capital)

In order to know the financial trends of MSEs, managers of Micro and Small business enterprises have asked questions about their initial and current capital to see whether there is change on the size and amount of capital in the businesses; and their responses have been displayed in the following graphs.

Figure 3. MSEs' Growth Pattern (Initial and Current Capital)

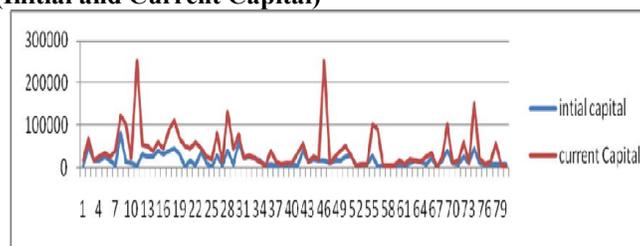


Fig 3. MSEs' Growth Pattern (Initial and Current Capital)

The above blue black color represented the initial capital where as the red color indicated current capitals of MSEs in Debre Markos Town. Here, from the graph, we can understand that MSEs' capital is growing fastly/sharply/. The red color of the graph /current capital/ is above or equals to the blue black color of the graph /initial capita/. This implies, there is an increment from time to time. Although there are some MSEs' capital still constant /no change/ but most of them are changing positively/increase their capital/ from time to time. This is a good symptom of a country's growth. So that so as to make the growth consistent in the town in particular in the country in general, it is preferable to assist them in multi directions. It could be by making them to get access to finance, training on how to keep financial records, providing raw materials, searching market for their finished products and other related activities.

Financial Situation of MSEs in Debre Markos Town

The amount of income that can be generated by large businesses, medium and MSEs is depend on the amount of revenue (sale value and selling price) and expenses /cost of production, operating expenses ,interest expenses and depreciation expense and tax payable to the government/. Because net income is the net of revenue and expenses. Likewise, Micro and small business enterprise owners have been asked about the trends/whether their net income, expense, revenue and total assets are increased, decreased or constant; and the response has been indicated in the following Bar Charts.

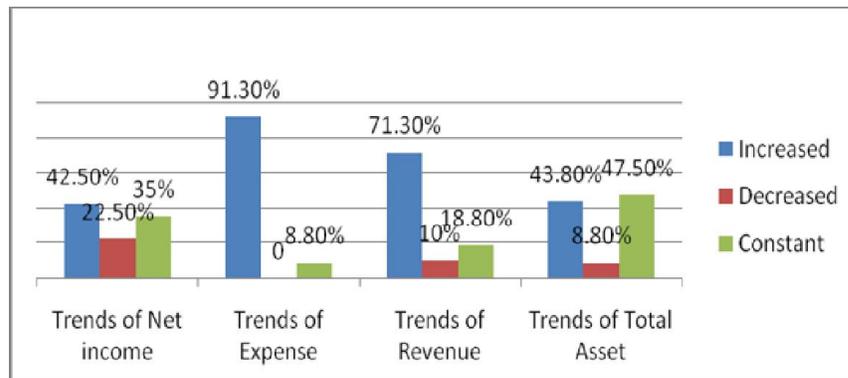


Fig 4. Financial Situation of MSEs in Debre Markos Town

To make use of internal financing instrument, a business must be profitable and to be profitable the entity has to minimize its cost and increase their revenue as well. Simply, net income/ net profit/ is the excess of revenues over expenses. If revenue is greater than expense, it would be net income and if revenue is less than expenses, it would be net loss. As it is indicated in the above Pie Chart, 42.5% of respondents elaborated that their net income has been increased. This can be due to the increment of revenue/ sale volume/ over expenses; whereas, 35% of the respondents replied that their businesses' net income has been constant. They suggested that expenses are increased in line with the revenue. In other term, revenue and expenses are increased proportionally over time.

On the opposite fashion, the remaining 22.5% of respondents stated that their enterprises' net income is decreasing from time to time. They stated that their expenses / cash out flow/ were greater than revenue/cash inflow/. This can be due to the general increase in cost of production or inflation. Moreover, the reason for the decrease in gross profit is that the MSE have been faced the problem of cost increase in material and energy as well as increase in labor cost without increasing the selling price in proportion to the increase in selling price. Therefore, increase in input prices has been seriously affected the profitability of these businesses. The increase in input price and decrease in profitability of the MSEs eroded the ability/capacity/ of internal financing thereby they mostly relying heavily on external finance such as debt.

Major part of business organization's expense are direct or indirect labor cost, direct or indirect material cost , energy cost, operating expenses/selling and administrating/, interest expenses, depreciation expenses, tax expense and other expenses. It was indentified that the cost of production has been increased in general from time to time without the consideration of the proportionate increment in the revenue of the Micro and Small businesses under.

Besides, most of (91.3%) of the respondents stated that expenses have been increased; whereas the remaining 8.8% respondents elaborated that the expenses of their business have been constant. As per the evidence in the above Bar Chart, the majority (71.3%) of owner managers replied that the revenue of their firm has been increased though the increment is not satisfactory. There is a slightly increase in revenue. On the other hand, 10% of the MSE owner respondents stated that their revenue has been decreased due to absence of capital for expansion, work place, raw material, power/energy/. Hence, without this ingredient, it is unthinkable to increase revenue for any organizations. They also stated that electric power is fluctuating /on off/ throughout the working days; and the remaining 18.8% of respondents stated that their firms' revenue is constant. There is no significant change in revenue due to the above afore mentioned problems.

Respondents have been also asked about the total assets of their firm; and 43.8% of MSE respondents answered that their total assets have been increased over time. Whereas, 47.5% and 8.8% of MSE respondents elaborated that their total assets have been constant and decreased over time respectively. Total asset is defined as the composition of equity and liabilities. Firms can accumulate their assets through using different sources of finance (borrowing, equity, Idir, Iqub donation and others). Hence, MSEs are users of these sources of finance to upgrade their total assets.

Access to Finance for MSEs after their Establishment

In addition to the internal sources of finance or equity, access to credit/loan/ is essential. Credit is the main input to start-up, expand and diversify business enterprises. In principle, large Banks, Microfinance and other financial institutions would facilitate credit service system. However, in case of our country Ethiopia, large Banks are not willing to provide credit service for MSEs. The credit facilities of MSEs have been only relied on microfinance and other traditional financial institutions such as Idir and Iqub. The access to credit facilities given by these institutions is not enough for all MSEs. Due to the capacity limitation, the government of Ethiopia out lined that the credit supply would focus on the following points.

- Enterprises that produce for export market
- Enterprise engaged in construction and products that substitute import products
- Model enterprises that produce and give services at clusters
- Enterprise that have their own saving and good history/ background in credit (GFDRE, 2011).

Enterprise involved apart from the above business fields would consider as secondary. This hinders MSE owners to get access to finance or credit. On top of this, both new and old MSEs /customers/ should:

- Set business plan that could be implement and effective.
- Have bookkeeping system and be audited
- Have money management and saving culture
- Use audit services in cost sharing approach in order to keep their history in credit.
- Have better auditing service system

Microfinance institutions are currently facilitating and formulating different systems that help MSEs to carry out credit service on the basis of growth level of the enterprises. Accordingly, to know the access to finance for MSEs in Debre Markos, owner managers have asked about the access to finance over the past periods. The following Bar Chart has shown their response responded.

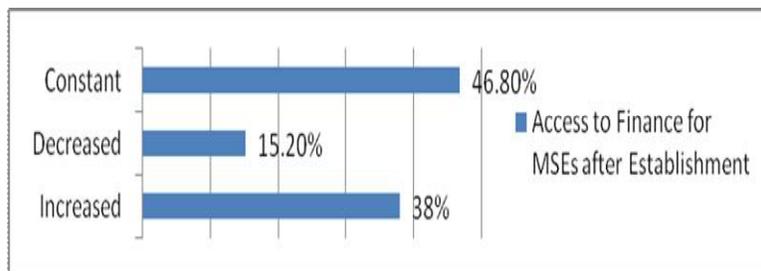


Fig 5. Access to Finance for MSEs after Establishment

As indicated in the above Bar Chart, the majority (46.8%) of MSE respondents replied that the access to finance for their firms has been constant. Means, the access to external finance is still as it was. Moreover, they stated that there is lack of access to finance. Some (38%) of respondents replied that access to finance has been increased over time. This access to finance is mainly come from microfinance and Iqub. On the opposite fashion, the remaining percentage (15.2%) of the respondents stated that the access to finance of their firm is decreased. They said that at the very beginning they had got credit from micro finance and other institutions for initial capital but not now; for the expansion and diversification of their businesses. The researcher also has asked to those who have a need for external additional finance whether they had applied / requested/ for additional finance. The response has displayed graphically as follows.

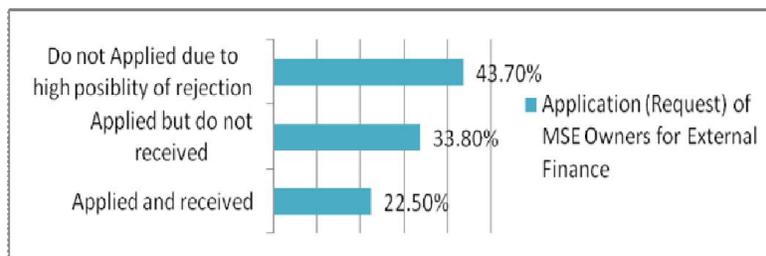


Fig 6. Application (Request) of MSE Owners for External Finance

After the establishment of any enterprise, it is unquestionable for the need of finance. It could be for operating, expanding and diversifying of MSEs. To know the willingness of financial institutions to give money for MSEs, owner managers have asked whether they have applied or request to external financial institutions for additional finance. Hence, as it has represented in the above Bar

Chart, the majority (43.7%) of the respondents stated that they do not applied due to fear of high possibility of rejection. Because, they couldn't fulfill the criteria's of financial institutions sated such as collateral, audited financial position of MSEs and guarantees. So that they couldn't applied for additional finance thought there have had a need for additional finance. Some (33.8 %) of the respondents stated that they were applied/requested/ for additional external finance but not got. This is due to unable to fulfilled the above criteria's sated by financial institutions. On the other, 22.5% of the respondents stated that they have applied or requested and got credit or finance from external sources. MSE owners have been asked about their main obstacle to access external finance and their responses have presented in the following Bar graph.

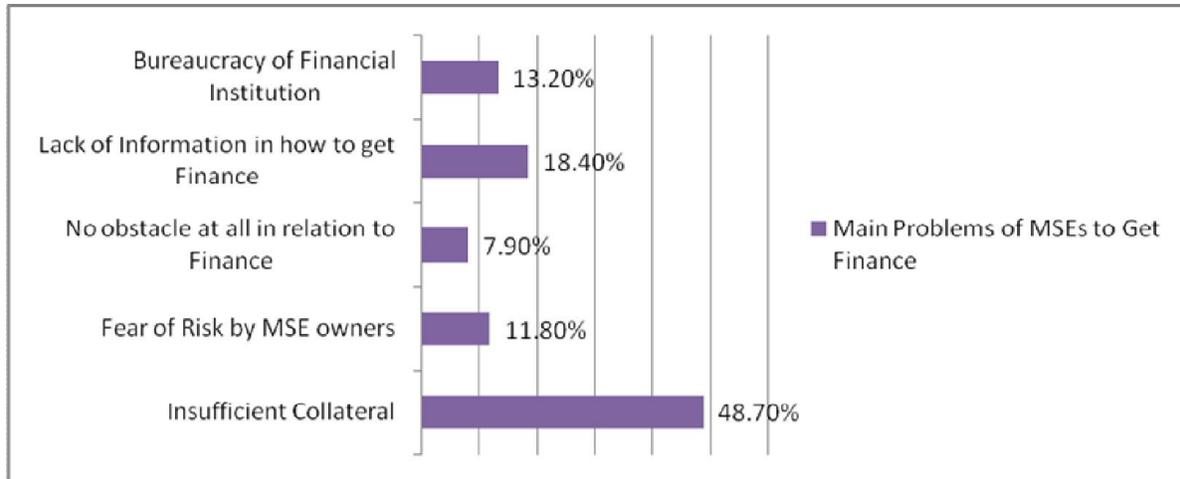


Fig 7. Obstacles of MSEs from Access to External Finance

As anyone can understand from the above graph is that 48.7% of SMEs' main financial problem is due lack of collateral. This implied that many MSE owners have been out of access to finance due to lack of sufficient collateral. Large banks and other most financial institutions are not willing to lend money for MSEs.; because these banks and most financial institutions do not have confidence on MSEs in repaying the loan on the specified period. In order to minimize this risk, they mostly ask collateral as pledge. while, 18.4% of the respondents stated that this lack of finance has been happened due to lack of clear information on how to get/access/ to finance. What it means is that there is lack of know-how and orientation on how to search the possible sources of finance. Some (13.2%) of respondents elaborated that bureaucracy of financial institutions has been found their main financial problem. MSE owners have asked to complete many bureaucratic activities and should forced to wait long time to get the money. On the other hand, few (11.8%) respondents stated that fear of risk by MSE owners have been found as the main financial problem. This means that some MSE owners didn't take loan from credit providers due to fear of risk on their business. As a result, some MSEs have been looking out of the access to finance.

Loan Amount /size/ Released for MSEs

Due to fear of risk of repaying the money, many financial institutions lend a small amount of money for MSEs. In order to know the loan size given for MSEs by financial institutions, the researcher has asked respondents about the size or amount of money borrowed based on their perception and the response has been presented in the following Pie chart.

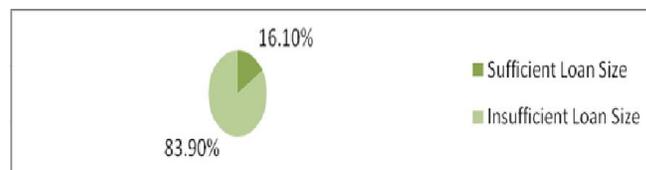


Fig 8. Perception of MSE Owners about the Loan Size Given to them

As can see from the above Pie chart, the majority (83.9%) of respondents stated that their loan size has been found insufficient as per their perception. Whereas, very few (16.1%) or respondents' perception about the loan size they had taken was sufficient. On top of this, in order to examine the gap between the amount of money borrowers wanted to borrow and the loan permitted and given to them by lenders, the researcher has asked respondents in relation to the money they were asked to borrow and the already given or released loan amount to them; and then the answer has been organized and presented in the following graph.

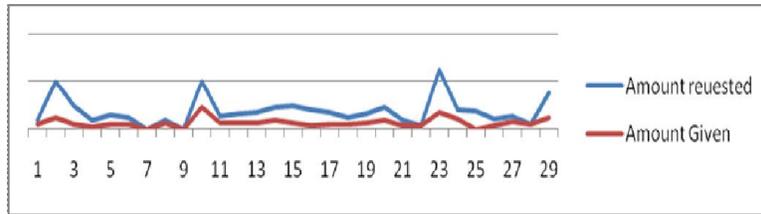


Fig 9. Amount of Loan Requested by Borrowers and Released

The above blue color graph line indicates that the amount of money requested by MSE owners while the red color graph line indicates the amount of money permitted and released to borrowers. Between the two different line graphs, there is a large gap or distance. This indicates the amount of money requested by borrowers is much greater than the money given /released/ to MSEs. There is imbalance between the demand and supply of loan. There is high demand and low supply of money/ a few amount of money for credit/. Therefore, many MSEs have faced the problem of access to finance; because credit providers are limited in number and amount. If this is the case, this could hinder MSEs’ growth, expansion, diversification and development. There is loan restriction sated by credit providers; they couldn’t release the money as per the request of borrowers.

Perceptions of Borrowers about the Interest Rate Charged by Creditors

The rate which is charged or paid for the use of money is called interest rate. An interest rate is often expressed as an annual percentage of the principal. It is calculated by dividing the amount of interest by the amount of principal. Interest rates often change as a result of inflation and Federal Reserve Board policies (Gebrehiwot and Welday, 2006). The degrees of interest rate charged by creditors are not the same in all financial institutions. To know the perception of borrowers about the degree of interest rate, MSE owner managers have asked about the interest rate imposed on them by credit providers and the response of them have been indicated in the following Bar graph.

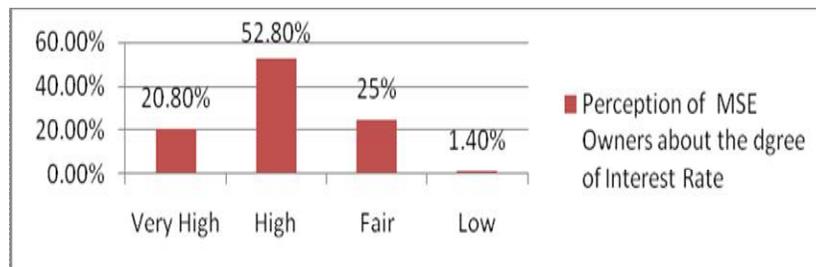


Fig 10. Perception of MSE Owners about the Degree of Interest Rate

The above graph indicated that the majority (52.8%) of the respondents stated that the degree of interest rate charged on their loan is high. On similar fashion, 20.8% of respondents elaborated that the degree of interest rate on their loan is very high. This implies that almost 73.8% of the respondents were not satisfied with the fairness of the interest rate rather they said that it is very high and high which is above our ability to pay it through generating income from the money borrowed. On the other hand, some (25%, and 1.4%) of the respondents stated that the degree of interest rate charged on their soft loan is fair and low respectively. They do not have any complain in relation to the degree/ fairness/ of the interest rate on the money they borrowed.

Pre- Conditions of MSE Borrowers to get Loan from Financial Institutions

In order to get the loan from external financial institutions, borrowers should fulfill different conditions which are sated by financial institutions. These pre-conditions are not the same over all credit providers of financial institutions. Some financial institution asked group guarantee, guarantee, collateral, adequacy and cost of credit facility, profitability of the business, duration of the business and some of them are privately without any collateral and guarantee. Besides, in order to know the conditions of borrowing, MSE owners have asked about the condition of their borrowing which what they had asked during that time; and their response have been presented in the following graph.

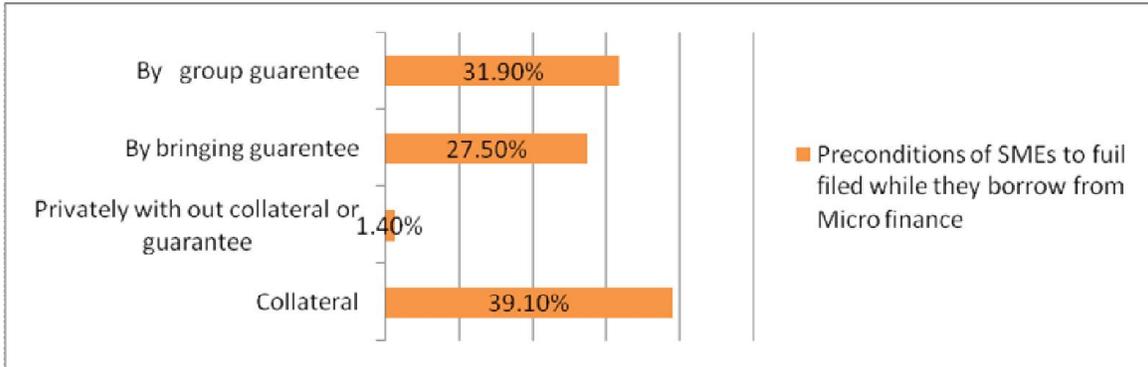


Fig 11. Pre-conditions of Borrowing for MSEs

As per the above graph, 39.1% of the respondents stated that they had asked to bring collateral while they borrowed their loan from their credit providers. Whereas, 31.9% of the respondents elaborated that the loan has given by organizing and forming group guarantee. This means every individual is responsible for the unpaid loan. If one individual is failed to repay the principal loan and its interest rate, the other members should pay the loan by contributing equal amount from them. On the opposite fashion, 27.5% of the respondents stated that they had taken their loan by bringing guarantee/not group guarantee/. It is possible to take the loan individually; but it is mandatory to bring satisfactory guarantee. But very few respondents (1.4%) stated that they had taken their loan without any guarantee or collateral. From the above response, the researcher has been identified that many MSE owners have been facing a great difficulty to bring collateral due to the fact that they do not have ample assets for collateral. Even if they take the loan by group guarantee, there is a risk for them that some one individual may not be able to pay the loan with its interest at a specified date. If he/she is failed to pay the loan, the remaining other group members are responsible to repay for that loan.

Challenges of Creditors on MSEs after Releasing the Loan

MSEs have facing different challenges even after they received the loan from credit providers. Most of the access to credit is inappropriate. Some creditors are looking to influence borrowers by different actions. Some of the actions are: they forced them to repay the loan before they generate revenue; charged high interest rate which is not proportional with the income of borrowers; penalty for late payments and time delay (long bureaucracy). Besides owner managers were asked about their problems faced by credit providers after they got the loan; and the response has been presented in the following Pie chart.

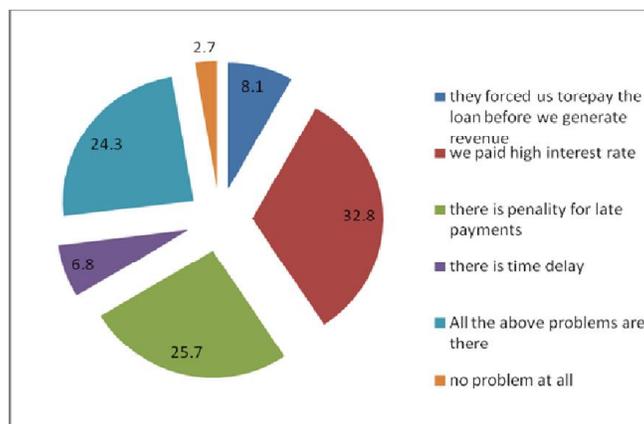


Fig 12. Challenges of MSEs from Formal and Informal Financial Institutions

As it is clearly presented in the above Pie chart, the majority (32.8%) of the respondents stated that there is high interest rate on the loan amount which is not proportional with the income they generate. While 25.7%, 24.3%, 8.1%, 6.8% and 2.7% of the respondents pointed out that there is high penalty for late payment; all the afore mention problems are there; they forced us to repay the loan before we generate revenue; there is time delay ; and no problem at all respectively. These main problems of MSEs or influences’ of creditors on MSE borrowers after money released have been identified from the Respondents.

Length of Repayment Period

In order to know the length of the loans’ repayment period, MSE owner managers have asked about the length of the loan periods in order to know and classify it as short, medium, long and very long based on borrowers’ perceptions; and their responses have been presented in the following Bar graphs.

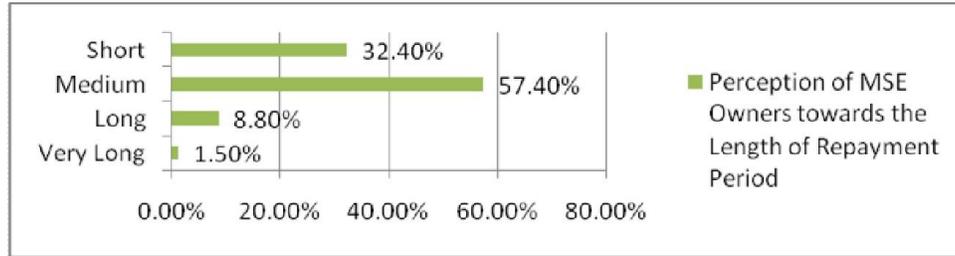


Fig13. Perception of MSE Owners towards the Length of Repayment Period

From the above graph any one can understand that the majority (57.4%) of the respondents stated that the repayment loan period is medium. They don't have any complain regarding the length of the loan period. On top of this, 8.8% and 1.5% of respondents stated that the loan period is long and very long respectively which is above their expectations. On the other hand, 32.4 % of the respondents elaborated that the loan period is short which results negative consequence in repaying the loan at the specified period. They added that creditors are not waited us until we generate revenue. They forced us to pay the loan within short period of time whether by selling productive assets or penalize them if they failed to pay the loan on the already specified period.

Time Delays of MSEs to Get the Money from Credit Providers

In order to know the average time delay in weeks, the researcher has asked respondents (those who elaborated as there is time delay) to list out the time delay in weeks; and the response has been presented in the following Bar graph.

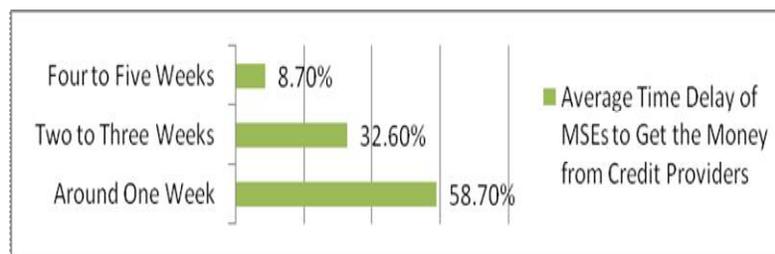


Fig 14. Average Time Delay of MSEs

As it is clearly seen from the above bar graph that 58.7% of MSE owner borrowers have been waiting around one week to get the money from credit providers; such as from microfinance and other possible external financial sources. Whereas, 32.6% and 8.7% of the respondents stated that they waited from two to three and four to five weeks to get the money respectively..

Conclusion

It is well known that small business sectors do have high relevance to developing countries like Ethiopia. MSEs are considered to have crucial role in an economy and are a key source of economic growth, dynamism and flexibility; and can adapt quickly to changing market demand and supply situations. They are also deemed to generate employment, help diversifying economic activities and make a significant contribution to export and trade. To attain the desired goal of MSEs, access to finance is very import. Finance needs MSEs to set up and expand their operations and build up new products. Access to finance provides a range of instrument and information to improve the survival rates, productivity and competitiveness of MSEs. Access to finance is an important issue for firms' innovation activity and their ability to benefit from inward. Firms having access for domestic and foreign capitals are less binding for financial constraints and are innovate more than those are not.

However, lack of access to finance is one among the other obstacles of MSEs to expand, diversify, promote and growth. Difficulties are prominent in accessing credit, either from domestic or foreign sources. Low credit ratings reduce the opportunities to invest in technology which would improve enterprise efficiency. From the study, it is identified that many MSEs have obtained their capital from microfinance, Iqub, Idir, themselves and families and relatives than that of large Banks. This implies that access to finance from large banks is very difficult for MSEs due to the presence of collaterals and guarantee.

Moreover, inadequate loan size, high interest rate, poor book keeping systems, information gap about finance, fear of business failure, short loan durations, failure to disburse loans timely, inconvenient loan, and the tendency of group collateral requirements have been hampering MSEs from access to finance. The government has made significant progress in improving access to finance for small and growing businesses over recent years. Hence, it is important for this momentum not to be lost. There are still market failures and anomalies in the system that needs to be addressed. By addressing market failures, government backed schemes have an important role to play in enabling businesses to access finance. Access to finance underpins business start-ups and growth, and creates the employment and wealth needed by the country.

In Debre Markos Town, it is observed that there is a gap between the demand of finance and the supply of finance. Besides, there are many MSE owners who are not users of credit or loan. Concluding arguments suggest that there is a need for concerted programmes on financial systems of Ethiopia to address the various obstacles to economic, social and environmental sustainability faced by MSEs.

Recommendations

After a detail investigation has made on the research title of Access to finance for MSEs since establishment, the researcher would like to forward the following constructive recommendations to MSE owners, Financial Institutions and to the Government bodies.

- It is recommendable for MSEs to rent vehicles and work premises instead of buying
- Microfinance and other institutions should provide facilitates of supply of finance and lease machine for MSEs and encourage them to save and to be users of credit facilities.
- It is recommendable for creditors to adopt flexible repayment periods instead of penalize borrowers
- Women and youths who came with new technologies and project ideas that derived from Universities and colleges, or from themselves should better to access initial capital credit.
- The money currently released to MSEs is not enough. Hence, it is better to raise the amount of money or loan size given for MSEs.
- Market linkages in sub-contracting should be expanded in all the MSE sectors
- Universities, TVET and other institutions are better to work jointly with other supporters of the sector so as to improve the modern management capacity & technological level of the MSE.
- MSEs should utilize all the available equipments held instead of leaving them ideal.
- The National Bank of Ethiopia should organize and integrate departments that build and support the capacity of Microfinance Institutions thereby to increase the capacity of lending for MSEs.
- Business Training Centers for capacity building should be established in Regions, zones, Wereda and kebele levels.
- Creditors should better to reduce the bureaucratic procedures
- Many MSEs are weak in book keeping and preparing financial statements. Hence, continuous training is highly important for MSE owners to create awareness on the advantage of book keeping
- The Government support approach could be based on the owners of MSE interest and wants.

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