

# Access To Finance and Its Challenges for Small and Micro Business Enterprises in Afar Region: Case of Samara-Logiya City Administration

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*Abstract—Importance in the role of the small and medium enterprise (SME) in the development process continues to be in the forefront of policy debates not only in developing countries but also in developed countries. The advantages claimed for SME are various, including the encouragement of entrepreneurship; the greater likelihood that SME will utilize labor intensive technologies and thus have an immediate impact on employment generations; they can usually be established rapidly and put into operation to produce quick returns; and they may well become a countervailing force against economic power of large enterprises. More generally the development of SME is seen as accelerating the achievement of wider socio-economic objectives, including poverty alleviation. In spite of the generally fast pace by which access to financial services for SME is being developed, significant segments of the SME sector do not yet benefit from the expansion and deepening of outreach. In attempting to gain access to financial services SME continue to face constraints caused by many factors. Thus, this research intended to study the challenges faced by SME in access to finance. The study used descriptive research design. Primary data were collected using structured questionnaires and quantitatively analyzed. The findings indicated that problems faced by SMEs were insufficient collateral and Business proposal not acceptable. On the same note the study identified that the most challenging stage of the loan process were; application and appraisal stage, loan approval stage and the period it took to process the loan. Terms of coping mechanism used to manage challenges faced by SMES in accessing finance, the study identified the following; saving and trying to reduce expenses, and borrowing from friends at zero interest rates. Based on the study findings, it is recommended the government and financial institutions should also provide a good economic environment where SMEs can be able to borrow at reasonable rates as well as friendly terms. It's also important to train most of the entrepreneurs on simple financial management tips, to enable them make informed financial decision.*

**Index Terms—SMEs, access to finance, collateral, cost of credit, Afar Region**

## I. INTRODUCTION

### 1.1. Background of the Study

This chapter being the precedent outlines defines and addresses the basic idea of the research. It gives a brief background of the study followed by statement of the problem and introduces the thrust of the research by identifying its main areas. The chapter also presents research question, objectives, significance & scope of the study and organization of the research report. In short it is the foundation upon which the rest of the research is lay on and guides the researcher through the research process.

Micro and Small Enterprises (MSEs) are lifeblood of most economies. To be successful in this and other business sectors, finance plays a major role. As far as 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 MSEs and any other business enterprise (Mckernan & Chen, 2005). Both in the developing and developed world small firms have been found to have less access to external finance and to be more constrained in their operation and growth (Galindo & Schiantarelli, 2003).

Micro, Small and Medium Enterprises (MSMEs) are viewed as a key driver of economic and social development in the African context. They represent a large number of businesses in a country, generate much wealth and employment and are widely considered to be vital to a country's competitiveness. MSMEs are hailed for their pivotal role in promoting

grassroots economic growth and equitable sustainable development (Pelham, 2000).

The catalytic roles of micro and cottage businesses have been displayed in many countries of the world such as Malaysia, Japan, South Korea, Zambia, and India among other countries. They contribute substantially to the Gross Domestic Production (GDP), export earnings and employment opportunities of these countries. MSEs have been widely acknowledged as the springboard for sustainable economic development (Osotimehin, Jegede, Akinlabi, & Olajide, 2012). Apart from the fact that it contributes to the increase in per capital income and output, it also creates employment opportunities, encourage the development of indigenous entrepreneurship, enhance regional economic balance through industrial dispersal and generally promote effective resource utilization that are considered to be critical in the area of engineering economic development (Oboh, 2004; Odeh, 2005).

In Ethiopia the contribution of the informal sector is even larger than other African nations. It is an employer of the last resort holding 78% of the total urban economically active population compared to 62% for Africa as a whole (Michael, 2006). The majority of firms in Ethiopia are micro and small enterprises. According to Aregash (2005), they account 98% of all business firms. The micro enterprise manufacturing sector alone absorbed 1.3 million persons (CSA, 2003). Employment in the informal micro enterprises is growing much faster than employment in the formal sector accounting for 71% of urban employment by 2005 (World Bank, 2009). Thus, formalized medium- and large-sized firms absorb only a very small share of the annual increase in the Ethiopian workforce, and the majority of new entrants to the labor market are forced to engage in own-account work (Altenburg, 2010).

Despite their significance, accessing credit is a major constraint to the development and growth of MSEs and also to poor rural and urban households. This is mainly due to the behavior of lenders in terms of hedging against borrowers' risks by demanding collateral, which they lack, and also information asymmetry. Consequently, borrowers who are willing to pay prevailing credit interest rates cannot access the funds at those rates because lenders are unwilling to lend to them due to dearth of information about them and lack of collateral usable assets, severely

constraining their access to credit. This behavior is common amongst formal financial institutions. Evidence shows that such borrowers may then be forced to limit their investments to retained earnings (International Finance Corporation, 2000) thereby restricting enterprises growth and development.

Africa's MSEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations, which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus. Access to formal finance is poor because of the high risk of default among MSEs and due to inadequate financial facilities. Small businesses in Africa can rarely meet the conditions set by financial institutions, which see MSEs as a risk because of poor guarantees and lack of information about their ability to repay loans.

The financial system in most of Africa is underdeveloped however and so provides few financial instruments. Capital markets are in their infancy, shareholding is rare and no long-term financing is available for MSEs. Non-bank financial intermediaries, such as microcredit institutions, could be a big help in lending money to the smallest MSEs but they do not have the resources to follow up their customers when they expand (Kauffmann, 2005).

To some writers (Cofie, 2012; Ahiawodzi and Adade, 2014), the SMEs sector can do better with respect to its current contribution to GDP growth. Ackah and Vuvor (2011) are among several writers who have acknowledged that some of these constraints are challenges faced by SMEs in having access to credit facilities from financial institutions (banks, micro-finance firms, savings and loans companies among others), which are the sector's financiers.

In the microfinance and SMEs literature, several challenges are identified as militating against access to credit facilities among SMEs. Some of these challenges are: SMEs lacking collateral security; poor records keeping; poor credit rating as a result of poor savings history, and stringent lending criteria used by financiers (Ackah and Vuvor, 2011; Cofie, 2012). These challenges lack of access to credit, insufficient loan size, time delay and collateral (Wolday and Gebrehiwot, 2006). The fact is that these and other challenges have been consistently found in researches conducted in both developed and developing country

contexts, making them strongly confirmed constraints faced by SMEs in the global SMEs industry.

It has become a necessity to be able to find out the main challenges that are faced by SMEs when it comes to seeking funds from the various financial institutions and conditions that allow these problems to persist. It is against this background that this research is conducted, the aim is to find these challenges and possible solutions to improve the rate of which funds can be easily accessed by SMEs in Afar Region.

## 1.2. Statement of the Problem

Small-scale enterprises have become an important contributor to Ethiopia's economy. The sector contributes to the national objective of creating employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low-income households in the country, accounting for material amount of GDP (Eshetu and Mammo, 2009). Had this sector been provided proper emphasis, the sector has a high potential for contributing to meet the objective they were envisaged for. Yet the majority of entrepreneurs in this sector are considered as not creditworthy by most formal credit institutions as per the report of World Bank's (2009) and by Abebe, Million and Andrew (2009) about businesses and their access to finance in Ethiopia. While there are a number of constraining factors obstacle development and emergency of small firms the basic and the one that seek attention is access to finance (Ayyagors, Demirguc-Kunt and Maksimovic, 2006)

In spite of the enormous contributions of SMEs to the national economy, access to credit facilities from banks and other formal financial institutions has been one of the main bottlenecks to SME development in the country (Asare, 2007). There are various constraints or bottlenecks that hinder the smooth access to credit facilities from the formal financial institutions by the SMEs in Ethiopia. These challenges lack of access to credit, insufficient loan size, time delay and collateral (Wolday and Gebrehiwot, 2006). Although the financial determinants in obtaining formal finance are studied by different researchers (Beck & Cull, 2014; Beck & Demingue, 2006; Belanova, 2013; Czemiell, 2013; Fjose et al., 2010; Green et al., 2006; Hassen & Abdwahab, 2014; Kofi et al., 2013; and Nguyen & Luu, 2013) around the world abroad Ethiopia and locally studied by few

researchers (Brehanu & Mesfin, 2015; Brhane, 2014; Gebrehiwot & Wolday, 2006; Selamawit et al., 2014; Ahmed, 2016) in different regions, no comprehensive studies have been conducted on the matter and no solution on these obstacles have been recommended in Afar Region.

As per the researcher knowledge, from the overall local researchers studied, few of the researches (Gebrehiwot & Wolday, 2006) in Ethiopia have descriptive nature while most of them are explanatory (Brehanu & Mesfin, 2015; Brhane, 2014; Selamawit et al., 2014; Ahmed, 2016) and almost all studies are undertaken in regions other than afar. For instance, the study by Brehanu & Mesfin (2015) assess factors affecting access to finance with reference to MSE's in Dilla Town; the study by Brhane (2014) assumed in Debrre Markos town; the study by Selamawit et al., (2014) assess the major determinants of access to finance in general taking a case in Asella town; and the study by Gebrehiwot & Wolday (2006) covered six major towns namely Addis Ababa, Nazret, Awassa, Bahir Dar, Jimma, and mekele while the study is limited to describing rather than explaining the factors contributing for access to formal finance; Ahmed (2016) assessed the determinants of access to formal finance in small and medium manufacturing enterprises in Addis Ababa. Therefore, this study is undertaken to fill the gap, challenges of access to formal finance, for the region of Afar, Samara-Logiya City Administration.

## 1.3. Research objectives

### 1.3.1.General Objective

The SME sector remains one of the key contributors to the country's economy. Their contributions to the poverty reduction, tax revenue, and improvement of GDP, infrastructure, and many others cannot be overlooked. The main objective of this study is to find out the various challenges faced by SMEs in getting funds from financial institutions in Afar Region.

### 1.3.2.Specific Objectives

The specific objectives of the study are:

1. To establish the influence of collateral requirements on accessibility of credit facilities by SMEs operating in Afar Region, Ethiopia.
2. To determine the influence of cost of credit on accessibility of credit facilities by SMEs operating in Afar Region, Ethiopia.

3. To investigate the influence of business risks on accessibility of credit facilities by SMEs operating in Afar Region, Ethiopia

#### 1.4. Research Questions

This assessment attempted to answer primarily the following research question to realize the intended objectives of the study and to address the research problem appropriately. The following specific research questions are developed to address and assess the broader research objectives:

1. How do collateral requirements affect accessibility of credit facilities by SMEs operating in Afar Region, Ethiopia?
2. What is the influence of cost of credit on accessibility of credit facilities by SMEs operating in Afar Region, Ethiopia?
3. Do business risks influence accessibility of credit facilities by SMEs operating in Afar Region, Ethiopia?

## II. RESEARCH METHODOLOGY

### 2.1. Research Design

According to Saunders et al, (2015), research design is a framework that is used by researchers to collect and analyze data to answer research question and meet research objectives hence providing sufficient reliable data source information, collection methods and analysis techniques. Research design is also defined as the determination of research approach or strategy to be used to conduct a particular project or research. A researcher should ensure that the design is in line with the research objective (Cooper & Schindler, 2014). According to Sekaran and Bougie (2013), descriptive research is a design used to answer the question, what, how and why. Cooper and Schindler (2012) descriptive research are also used to determine the relationship between variables. Therefore, descriptive research is appropriate for this study. Quantitative research was adopted to gain better knowledge and understanding of the results. Quantitative research relies on deductive reasoning or deduction (Sekaran & Bougie, 2013). In addition, qualitative research is also used to describe variables and build relationship among variables (Saunders et al, (2012).

### 2.2. Research Approach

According to (Kothari 2004) there are two basic approaches to research, viz., quantitative approach and the qualitative approach. The former involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis and it sub-classified into inferential, experimental and simulation approaches to research. The purpose of inferential approach to research is to form a data base from which to infer characteristics or relationships of population. This usually means survey research where a sample of population is studied (questioned or observed) to determine its characteristics, and it is then inferred that the population has the same characteristics. While, qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behavior; and it generates results either in non-quantitative form or in the form which are not subjected to rigorous quantitative analysis through focus group interviews, projective techniques and depth interviews. As Dawson (2003) defined qualitative research explores attitudes, behavior and experience through such methods as interview or focus groups but quantitative research generates statistics through the use of large-scale survey research, using methods such as questioners or structured interviews. According to Creswell (2009, 4) definition "Mixed approach research is an approach to inquiry that combines or associates both qualitative and quantitative forms." Keeping in view of the purpose of this study the study adopted mixed approach consisting both interview and questionnaires techniques for data collection.

### 2.3. Sampling Frame

Zikmund and Babin (2012) sampling frame is the source material or device from which a sample is drawn. A sampling frame is a complete and correct list if population, individuals, events, organizations or institutions which can be sampled (Cooper & Schindler, 2014). This study was based on Small and Medium Enterprises operating in Samara-Logiya City Administration. The researched adopted the entire population methods.

### 2.4. Population and Sample Size

According to O'Gorman and MacIntosh (2014), population is the total collection of all elements that a researcher would like to study. Population can be

defined as the total collection of individuals whom researchers seek to make inference on (Cooper & Schindler, 2014). The target population of this study is Small and Medium Scale Manufacturing Enterprises operating in Samara-Logiya City Administration. As per the data collected from Samara-Logiya City Administration Micro and Small Enterprises Office, there are 45 Small Enterprises. The businesses in operation are mainly in the manufacturing, construction, mining, service and trading sectors operating in Samara-Logiya City Administration, Afar Region. Since the population is small in size a census sampling method was used to select the business owners or managers. This group of respondents are expected to provide reliable information on the factors influencing SMEs in accessing finance. Therefore, the sample size of the study was 45 small and micro enterprises.

Table 3.1: Sectors SMEs engaged in.

Sector	Frequency
Service	19
Trade	23
Construction	6
Mining	7
Manufacturing	4
Total	59

### 2.5. Data Collection Methods

Primary data was collected using structured questionnaires. Cooper and Schindler (2012) primary data are original information collected directly from a sample size. The questionnaires have closed ended questions. Questionnaire are also self-administered. They are dropped and picked immediately respondents are done filling them. Respondents are given enough time to answer questions. The study used a five-point Likert scale. Respondents were asked to give their opinion based on the study objectives. Likert Scale was used because it is easy to use on online or self-administered questionnaires.

According to Mugenda and Mugenda (2012), validity is the accuracy and meaningfulness of inferences, which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represent the variables of the study. The research instrument was validated in terms of content and face validity.

### 2.6. Research Procedure

Questionnaires were used in the study to collect data. After approval is granted, a pilot test of the questionnaire was carried out to make sure that the tool is suitable before it is administered. The pilot test included administration of the questionnaire to a randomly selected population. The pilot test enabled fine tuning of the questionnaire in order to ensure that it is efficient and objective.

Standardization of the questionnaire was done to reduce interference from interpersonal factors. Questionnaires are hand delivered to the respondents. Content validity was considered and the questions and statements were engineered in a manner that made them precise, clear and short in order to ensure that there was no repetition. A cover letter with the details of the purpose of the study was attached together with the questionnaire.

### 2.7. Data Analysis

Data collection can also be defined as the examination and making inference of the coded data (Kombo & Tromp, 2012). Data analysis is the process of analyzing, cleaning, transforming and modeling data collected in a research. Data analysis methods that were used in the study is quantitative techniques (Mugenda & Mugenda, 2012). Data collected were coded, entered screened and cleaned using Statistical Package for Social Sciences (SPSS) version 21.0 and presented using percentages, means, standard deviations and frequencies. To ensure a high response rate, respondents were given ample time to fill the questionnaires. The information was displayed by use of tables and figures.

## III. DATA ANALYSIS AND DISCUSSION

### 3.1. Introduction

This chapter presents the results of the analysis of the data collected during the study. This chapter has been presented in four sections, that is, section one covered respondent's background information, section two dealt with key challenges faced by SMEs in accessing finance, section three covered information on coping mechanism used by SMEs and four factors affecting access to finance by SMEs.

### 3.2. Characteristics of Respondents

The characteristics of respondents are important in that

they will help the researcher obtain basic information regarding the SMEs in Samara-Logiya City; it will also give information on gender and marital status among men and women as it's also important in determining the gender dominance among SMEs in Samara-Logiya City. In addition to this it will also be a source of data on level of education, type of business, as well as the size of the organization based on the number of employees. These are SMEs who carries different types of trade and offer services in the city.

3.2.1. Response Rate

The response rate is important in that it shows the number of owners or managers who responded on the questionnaire that was given. It helps the researcher to determine if the number of respondents was enough to form an opinion. The higher the number of respondents the reliable the information obtained and the researcher received 42 questionnaires out of 59 which were administered and represents 71% response rate as shown in the figure 4.1 below.

From the data obtained it shows that 71% of the sample responded which is deemed as a true representation of the total population and would enable the researcher to draw conclusion. This high response was a result of the fact that the researcher gave questionnaire to the respondents which were picked later therefore giving enough time and also giving explanation to those who faced difficulties in answering the questions.

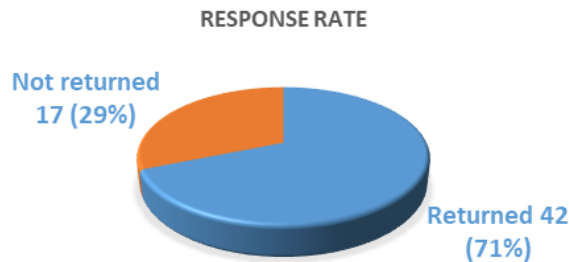


Figure 3.1: Response rate

Source: Primary Data, 2025

3.2.2. Gender of the respondents

The respondents were to indicate their gender, which would be used to show the distribution between men and women who own and operate SMEs in Samara-Logiya City. It's important to get the information on gender dominance among SMEs in the area as shown below;

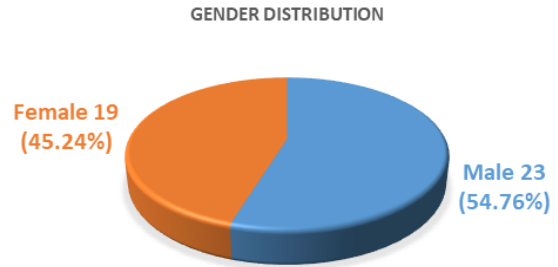


Figure 3.2: Distribution by gender

Source: Primary Data, 2025

The findings presented in figure 3.2 show that 54.76% (23) of the respondents were male while 45.24% (14) were female. Thus, there was no significant gender disparity amongst the respondents and the indication are that SMEs are managed and run by both male and female at almost the same proportion, however there slightly more men than women which would be attributed to the fact that most men run business while the wife work elsewhere. Another reason would be cultural belief that men are the owners of the property in the family set up and tend to succeed in business more than women.

3.2.3. Distribution by marital status

The respondents were required to indicate their marital status. The question was meant to give the status of business owner – managers who run SMEs in Samara-Logiya City. It was important to establish the marital status of most of business owners in this town. The results are as shown on the Table 3.1 below.

Table 3.1: Marital status

	Frequency	Percent	Cumulative Percent
Single	22	52.38	52.38
Married	18	42.86	95.24
Divorced	1	2.4	97.64
Separated	1	2.4	100.0
Total	42	100.0	

Source: Primary Data, 2025

As indicated above, majority of the respondents were single (52.38%), followed by marrieds at 42.86% and divorced/separated at 2.4% respectively. This shows that majority of the respondents are single and this is attributed to the social status of most of the people.

3.2.4. Level of education

The respondents were required to indicate their level of education. The level of education is important in that it helped the researcher to determine the expertise and specialization of most of the owners and business managers in this area. The response would also help the researcher determine how they understand the environment in which they operate and decision-making process, the results obtained are shown on the figure 3.3

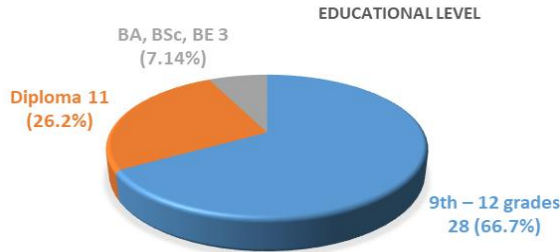


Figure 3.3: Distribution by level of education

Source: Primary Data, 2025

The finding shows that majority (66.7%) of the respondents had secondary education (9<sup>th</sup> – 12 grades), 26.2% had college education (Diploma) while 7.14% were university graduates (BA, BSc, BE). This confirms that some of the respondents have attained higher education which is encouraging since in theory most of the small business have been associated with the less educated but the research shows different results and this is could be attributed to the fact that most SMEs are seeking self-employment and hunger of becoming their own bosses.

3.2.5. Type of business organization

The type of business is clearly defined based on its legal registration status in that there is sole proprietor where the owner operates and has registered the business as sole owner, partnership where they own business jointly may with a friend or spouse and limited company that have several owners each having a certain percentage of ownership. Data obtained on type of business is shown below on table 3.2

Table 3.2: Distribution by Type of business

	Frequency	Percent	Cumulative Percent
Sole proprietor	4	9.5	9.5
Partnership	38	90.5	100
Limited company	0	0	100.0
Total	42	100.0	

Source: Primary Data, 2025

The firms under the study were registered as sole proprietor or Partnership Company. More specific 90.5% of the respondents’ enterprises operated as partnerships and the rest 9.5% were sole proprietorships. The results show that the businesses are registered as partnerships, this is mainly because it makes it easy to raise additional capital from the directors/owners, also enable get special consideration like tenders and credit facilities.

3.2.6. The number of employees employed

The question on number of employees was to enable the researcher establish if the business would be grouped as micro or small enterprise. Micro enterprises are those that employ less than 5 employees while small enterprises employ 6-30 employees. In this Samara-Logiya City most businesses have less than 5 employees. The respondents were expected to indicate the number of employees who are paid salaries within their respective firms. The findings are as shown in table 3.3

Table 3.3: Distribution by number of employees

	Frequency	Percent	Cumulative Percent
Less than 5	27	64.3	64.3
10-50	15	35.7	100.0
50-100	0	0	100.0
Total	42	100.0	

Source: Primary Data, 2025

As shown above, majority (64.3%) of the respondent’s firms employed less than 5 employees and 35.7% of them had 10 to 50 employees respectively. The results are reflection of how SMEs operate in the city, in that most of them are still at their infant stage where they need close management and most belief that outsiders would interfere with the smooth running of businesses.

3.3. Key challenges faced by SMEs in accessing finance

This section covers the questions posed to the respondents on the key challenges that they face in accessing finance. It’s a well-known fact that SMEs are faced with many challenges posed by both internal and external environments. In their response the SMEs cited the various challenges that they face in accessing finance from financial institution. Though most of the

SMEs operate bank account and prefer to borrow from the bank, they cited difficulties like slow process of loan application, non-financing of start-ups, lack of collateral, adverse credit selection, financing less than amount applied for which inhibit them from meeting their financial requirement as well as institutional policies which makes the offer higher interest rates and credit rationing. This leaves significant numbers of potential borrowers without access to the much-needed credit. The results on this section were presented in form of tables, frequencies pie charts and cross tabulations to give a clear picture of respondent’s opinion.

3.3.1. Do you do and operate a bank account.

The question was imposed to establish if the SMEs operate accounts since this happens to be like a minimum requirement by financial institution in that has no bank account since most financial institution base their decision on creditworthiness on strength bank account. Despite the requirement on documentation, they mainly rely on the bank statement and audited account to make their decision on whether to finance or not and how much to finance. Almost all SMEs in this city have and operate accounts and this can be attributed to the recent the campaigns, promotions and personal selling being run by financial institutions.

Table 3.4: How long have you been operating the account?

	Frequency	Percent	Cumulative Percent
< 1 year	3	7.14	7.14
1-5 years	22	52.38	59.5
5-10 years	10	23.8	83.3
> 10 years	7	16.7	100.0
Total	42	100.0	

Source: Primary Data, 2025

The respondents unanimously agreed that they hold and operate bank accounts in various banks. It was further notable that they have operated accounts for a period of time ranging from less than one year to over 10 years. More specific, 52.38% of the respondent had operated their accounts for a period of 1 to 5 years, 23.8% for 5 to 10 years, 16.7% for over 10 years and only 7.14% for less than 1 year. The results show that all SMEs operate account mainly due to insecurity

associated with holding cash as well as the fact that the banks have been enticed and enticing SMEs to open and operate account, after realizing that they form large part of the country’s economy.

3.3.2. Sources of funds to finance business

The respondents were asked to state whether they have ever borrowed funds to finance their business from any financial institution. The question was intended to establish how most of the SMEs finance their operation and expansion as they outgrow the owner’s capital and whether they consider bank as a way of sourcing funds. Though it well known that most of the SMEs have bank accounts the researcher wanted to establish if the SMEs borrow from the Banks since it gives indication on whether they obtained the loan applied for, or not and their opinion on the process. The results are as shown in figure 3.4 below

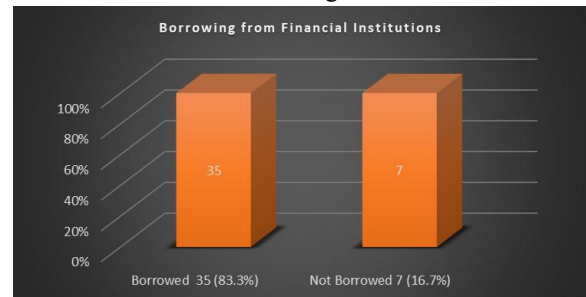


Figure 3.4: Have you borrowed funds to finance your business from any financial institution?

Source: Primary Data, 2025

As shown in figure 3.4, most of the respondents (83.3%) indicated that they had borrowed funds from financial institutions to finance their business while as little as 16.7% had not borrowed funds from financial institutions. This shows that majority of SMEs relied on funds from financial institutions to finance their operations and hence has borrowed at one time to finance their operations. Most these SMEs had earlier indicated that they prefer borrowing from financial institutions despite the challenges they face.

3.3.3. Preferred sources of finance

The respondents were asked to rate their preferred sources of funds in a five-point Likert scale. This question was meant to give comparisons on the most preferred source of finance considering that the SMEs have different sources where they can get financing. This would help the researcher to establish the most

preferred sources of finance by most of the SMEs, they were given a range of between 1 to 5. The range was 'least preferred (1)' to 'most preferred' (5). The scores of 'least preferred' and 'preferred' have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;(  $0 \leq S.E < 2.4$ ). The score of both 'moderate preference' and 'most preferred' have been taken to represent a variable which had a large impact (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale;  $3.5 \leq L.E. < 5.0$ ). A standard deviation of  $>1.25$  implies a significant difference on the impact of the variable among respondents; this is arrived at on the assumption that the average score is 2.5 and half of the 2.5 is 1.25.

Table 3.5: Preferred sources of finance

	Mean	Std. Deviation
Bank	3.5200	1.01982
Micro financial institutions	4.1562	1.19432
Other sources	2.8112	1.25147
Friends and relatives	1.3750	1.26364

Source: Primary Data, 2025

The study found that respondents to a large extent; prefer to source for funds from micro finance institutions (mean of 4.1562) and from banks (mean of 3.5200). On a moderate rate, the SMEs source finance from friends and relatives and only on rear occasions do they get funds from other sources to finance their business operations. The results from the questionnaire shows that most of the SMEs prefer to source finance from micro finance institutions this may be due to the conditions imposed by banks.

### 3.3.4. Opinion on ease of accessing funds from financial institutions.

The respondents were to give opinion on ease of accessing finance based on their experience especially for those who have borrowed from financial institution. This gives the respondents a chance to give honest opinion on how they rate accessibility to finance in most of financial institution where they have ever applied for financing. The respondents were asked to rate how easy it has been for them to access funds from financial institutions. 46.9% of the respondents felt that it has been fairly easy to access funds, 3.1% rated access of funds from financial

institutions to be very easy. On the other hand, 33.4% felt that access of funds from financial institutions has been very difficult and 15.6% rated it as extremely difficult.

Table 3.6: Ease of accessing funds from financial institutions.

	Frequency	Percent	Cumulative Percent
Extremely difficult	11	26.2%	26.2
Very difficult	22	53.4%	79.6
Fairly easy	8	19.01	98.61
Very easy	1	2.4	100.0
Total	42	100.0	

Source: Primary Data, 2025

From the data above, the results are that majority of the respondents feel that it's very difficult to access finance from the banks.

### 3.3.5. Did the financier give the loan applied for?

The researcher intended to investigate whether SMEs sought facility and got finance from financial institutions and if so, the amount of finance they obtained. This would help to determine if the respondent apply for financing from the bank and financed percentage they receive.

Based on this, the respondents were required to state whether the financier gave loans applied for, 35.7% of the respondents were given full amount while 64.3% were not given full amount applied for by the financier. According to the results obtained, it clearly shows that majority of the SMEs doesn't get the amount requested and are forced to look for other alternatives mainly due to the strict requirements imposed by financiers.



Figure 3.5: Did the financier give the loan applied for?

Source: Primary Data, 2025

3.3.6.Problems faced by SMEs who did not get full amount applied for

It was important to establish the problems that were faced by SMEs who were not financed the full amount. This is based on the fact that most financial institutions were not financing the SMEs the full amount applied for. It would help the researcher to be sure of the reasons that hindered financial institutions from giving funds as applied by the SMEs. The data obtained was captured here below and the results from respondents indicated that insufficient collateral (70.4%) and Business proposal not acceptable (25.9%) were the main problems which hindered them from qualifying for full loan. Based on these results it, shows that majority of the respondents were not able to get the loan applied due to various reasons. This clearly shows that SMEs are faced difficulties and are not able to get the amount of finance applied for.

Table 3.7: Did the financier give the loan that you applied

Did the financier give the loan that you applied		If no what were your problems			Total
		Insufficient collateral	Business proposal not acceptable	Previous credit records	
No	Count	19	7	1	27
	%	70.4%	25.9%	3.7%	100.0%
Total	Count	19	7	1	27
	%	70.4%	25.9%	3.7%	100.0%

\* If no what were your problems Cross tabulation  
Source: Primary Data, 2025

Table 4.8: Did the financier give the loan that you applied

Did the financier give the loan that you applied		If yes did the financier give full amount of loan		Total
		Yes	No	
Yes	Count	7	8	15
	%	46.7%	53.3%	100.0%
Total	Count	7	8	15
	%	46.7%	53.3%	100.0%

\* If yes did the financier give full amount of loan Cross tabulation

Source: Primary Data, 2025

This question is a continuation of the previous one that sought to establish whether the SMEs are financed for the full amount that they have applied for. Though most of the SMEs seek financing from financial institutions, however according to the response majority of the SMEs were not able to get the loan applied for, the question further wanted to establish the reasons why they were unable to get the loan.

Of those who were given loans, 46.7% were awarded full loans applied for while 53.3% were not awarded full loans. Amongst the SMEs which were awarded partial loans, they gave reasons for partial awards as; lack of assets/collaterals, lack of security, did not qualified for the amount applied for, lack of payment capability from my bank statement, it was first time borrowing so the financier awarded less than the amount applied for, other outstanding loans from other financiers and lack of audited books. The response shows that it's on rarely occasions that the respondents get the loan applied for due to different requirements such as collateral requirement, business proposal and previous credit history

3.3.7.Capability of meeting all the conditions required by the bank

This was meant to establish if the respondents met all the conditions because loan facilities have its unique conditions that should be fulfilled before the loan is drawn. Though the conditions depend with the financier, some of them are almost similar depending with the applicant for the facility and in this case for SMEs. It would help to establish if SMEs face difficulties in their effort to fulfill bank's requirement. The respondents were asked to state whether they were able to meet all the conditions required by the bank. As shown in figure 3.6 below, 35.7% of the respondents met all the conditions while 64.3% of the respondents did not meet all the conditions set by the bank. The respondent further indicated that some of the difficult requirements for loan access were; documentation of relevant documents, book keeping, payment of commitment fees, getting guarantors from the same financial institution, accumulating contribution to secure a loan, keeping audited books, preparation of business plan to support the loan and availing financial statements for the last 5 years.

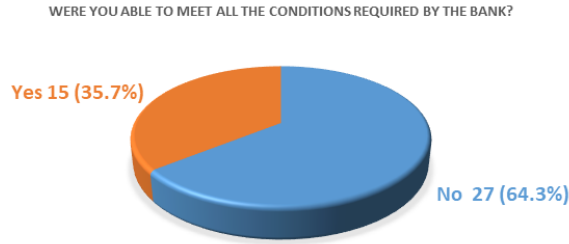


Figure 3.6: Were you able to meet all conditions required by the bank?

Source: Primary Data, 2025

3.3.8. Time taken to get the loan

This question was meant to establish if the time taken by financier to give loans to SMEs meet their expectation. It is a known fact that most of the customers are unsatisfied with the time that financial institutions take to have the loan drawdown and hence the question sought to know the opinion of SMEs based on the whole process from date when the respondent applies for the facility to when they receive the loan in their account. The purpose of the question was to establish if the timelines for the loans are acceptable by SMEs. Most of the delays is occasioned by lack of understanding on part of SMEs and piecemeal submission documents and or conditions; this is attributed financial institutions lack of agreed credit appraisal process that is applied across the board. There also due to the changes in external environment that poses challenges to the operations of the financial institutions as well as trying to ensure that non-performance loan is kept at minimum level as much as possible.

Table 3.9: How long did it take the bank to give the loan?

	Frequency	Percent	Cumulative Percent
< 1 week	0	0	0
1 month	2	4.76	4.76
3 months	14	33.3	38.06
> 3 months	26	61.9	100.0
Total	42	100.0	

Source: Primary Data, 2025

The respondents were required to state the time it took the bank to give them loan from end to end. Majority of the banks award loans to qualified application after three months 61.9%, followed by 33.3% within three

months and 4.76% within one-month period. The results were clear that financial institutions take long time to have the loans given to the customers which is a challenge considering most of the loans are to meet urgent financial needs such working capital, acquire properties and expansion hence leaves the SMEs with no choice but to seek for additional funds from other sources, most preferably informal sources to bridge the gap.

3.3.9. Satisfaction with the process from start to the end  
It's important to determine if the SMEs were satisfied with the whole process considering the average time taken is 3 months for them to get a loan and a lot changes in the operating environment will have taken place, and according to the respondents as shown in figure 4.7, 61.9% felt that they were not satisfied with the process while only 38.1% were satisfied by the process. Of those who were not satisfied with the process, the respondents indicated that the most challenging stage of the loan process were; the period it took to process the loan, application and appraisal stage, loan approval stage 'I had to visit the institution six times and every time I was told to check another day'.

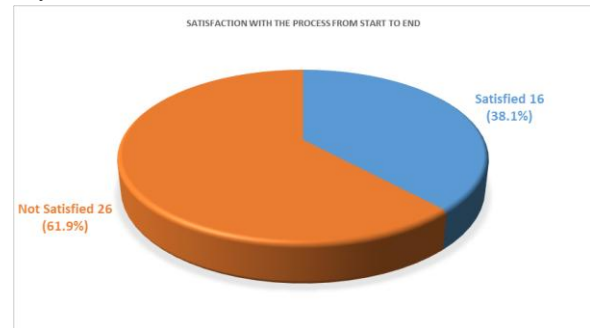


Figure 3.7: Satisfaction with the process from start to the end

Source: Primary Data, 2025

It clearly shows that the respondents are not satisfied with the period taken and they expect a short period than is the case of three months now, this is because the SMEs to meet their financial obligations as at when they fall due, but with this period they are faced with financial constraints that deprives the saving and in most cases are not able to get any benefits from these loans since they are overtaken by events and are of less help.

3.4. Coping mechanism used by SMEs

This section covers the findings from questions posed to the respondents on coping mechanism used by SMEs. From the finding it's a fact that the SMEs are faced with different challenges as they try to access finance such as inadequate collateral, time taken to give loan, lack of business proposal and much more. However, the SMEs in this town have to survive despite of these challenges and though only few do survive. For these SMEs to survive they have to adopt coping mechanism and the researcher wanted to establish if there are coping mechanisms that are employed by these SMEs.

Some of the coping mechanisms that SMEs use are; seeking finance from other sources of finance such as borrowing from friends and saving. The results obtained from the respondents show that due to the difficulties the SMEs have sought other alternatives that they find easier to finance their operations or meet their financial obligations hustle free and in a short period than going for financing from financial institutions despite the fact that this sources sometimes are risky and expensive than the financial institution.

3.4.1. Are the financial institutions your preferred source of finance?

The researcher sought to know the most preferred sources, based on the earlier questions; the SMEs have preference on where they sought finance. The preferred sources can be termed as where majority of them seek financing.

Table 3.10: Are the financial institutions your preferred source of finance?

	Frequency	Percent	Cumulative Percent
Yes	23	54.76	54.76
No	19	45.24	100.0
Total	42	100.0	

Source: Primary Data, 2025

Based on response shown on the table 3.21 below, 54.76% of the respondents preferred financial institutions as sources of finance while 45.24% not prefer financial institutions as a source of finance. This is the number that felt they would prefer other sources, despite the challenges faced by SMEs, it shows that they still prefer to borrow from financial institutions as opposed to other sources that are available. This is

because financial institutions are considered safe and have high chances of surviving during hard economic times, it can also be attributed to the fact that most of the SME's bank with different financial institution and take advantage of the existing relationship as well as ability to get services from one stop shop.

Table 3.11: Are the financial institutions your preferred source of finance \* if not what alternatives source of funds do you have Cross tabulation

Are the financial institutions your preferred source of finance		If not, what alternatives source of funds do you have				Total
		Friends and relatives	Own savings	Selling of properties	Others	
No	Count	4	12	2	1	19
	%	21.05%	63.12%	10.53%	5.26%	100.00%
Total	Count	4	12	2	1	19
	%	21.05%	63.12%	10.53%	5.26%	100.00%

Source: Primary Data, 2025

As a way of coping with the challenges, the researcher sought to know the alternative sources that are used by SMEs, especially those that do not prefer financial institutions as source of finance. It's important to establish the coping mechanism used or the available alternative sources like selling of properties, saving, borrowing from friends and informal sources. According to the results half of the respondents prefer other sources of finance as opposed to financial institutions and of those who did not prefer financial institutions as source of finance, 63.12% uses their own savings as source of funds, 21.05% preferred friends and relatives, selling of properties (10.53%) and other (5.26%) as source of finance to finance their businesses. Based on the results majority of the SMEs use their own saving especially because own savings are considered less risky and reduces financial burden on the SMEs.

3.4.2. Influence of stakeholders in enabling SMEs access finance easily.

There are stakeholders who are supposed to make access of finance of easier and they include government, international donors, banks and society. In this question the researcher wanted to establish if the effort being put by these stakeholders is helping the SMEs access finance. The various ways in which the stakeholders in the SMEs sector use are includes lobbying government and donor intervention, however it's important to determine if this has helped the SMEs

HAVE THE STAKEHOLDERS ENABLED SMES ACCESS FINANCE EASILY?



Figure 3.8: Have the stakeholders enabled SMEs access finance easily

Source: Primary Data, 2025

As indicated in figure 3.8, 38% of the respondents felt that stakeholders have enabled SMEs to access finance easily. On the other hand, 62% were of the opinion that stakeholders have not enabled SMEs to access finance easily and this shows that a lot still need to be done in order to help the SMEs access finance. The various suggestion include creation of third party guarantees from government, acceptance of different instruments as collateral security.

3.5. Key Challenges Faced when Accessing Credit Facilities

The study also sought to establish the major factors that hinders SMEs from accessing finance form the financial institutions. This question was meant to give comparisons on the most constraint that the SMEs have in accessing fiancé from financial institutions. This would help the researcher to establish the most problem faced by SMEs to get finance, they were given a range of between 1 to 5. The range was ‘least preferred (1)’ to ‘most preferred’ (5). The scores of ‘least preferred’ and ‘preferred’ have been taken to present a variable which had an impact to a small extent (S.E) (equivalent to mean score of 0 to 2.4 on the continuous Likert scale ;( 0≤ S.E <2.4). The score of both ‘moderate preference’ and ‘most preferred’

have been taken to represent a variable which had a large impact (L.E.) (equivalent to a mean score of 3.5 to 5.0 on a continuous Likert scale; 3.5≤ L.E. <5.0). A standard deviation of >1.25 implies a significant difference on the impact of the variable among respondents; this is arrived at on the assumption that the average score is 2.5 and half of the 2.5 is 1.25.

3.5.1. Collateral Requirements

The study found out that group guarantees influenced access to credit facilities to a moderate extent (M= 3.05, SD= 0.701) while individual guarantors influenced access to financing to a moderate extent also (M= 2.98, SD= 0.631). The influence of having a bank account was to a moderate extent (M= 2.86, SD= 0.684) and so did ownership of assets such as title deeds, log books (M= 2.80, SD= 0.559). Equity capital had the least influence but still it was to a moderate extent (M= 2.79, SD= 0.547). The standard deviations indicated the extent to which the responses were dispersed from the mean. Overall, collateral requirements influenced access to credit facilities only to a moderate extent (M= 2.90, SD= 0.624). This implies that access to credit was highly limited by strict collateral requirements such as group guarantees, individual guarantors, having a bank account, having equity capital and assets such as title deeds and log books. The results are as shown in Table 4.11. These findings are in line with those of Matavire et al (2013) who their study on challenges facing SMEs in accessing finance from financial institutions, the case of Belaway, Zimbabwe found out that SMEs fail to secure loans because of restrictive requirements, top among them being collateral security.

Table 3.12: Collateral requirements

Factors	Mean	Std. Deviation
Group guarantee	3.05	0.701
Individual guarantors	2.98	0.631
An account	2.86	0.684
Assets: Title deeds etc.	2.80	0.559
Equity capita	2.79	0.547
Average	2.90	0.624

Source: Primary Data, 2025

3.5.2. Cost of Credit

On the extent to which cost of credit influenced access

to credit, the study found out that the influence was to a moderate extent (M= 3.42, SD= 0.73). Repayment period influenced access to credit to a great extent (M= 3.50, SD= 0.817) followed by taxation at a moderate extent (M= 3.44, SD= 0.697) and then fluctuation of interest rates also at a moderate extent (M= 3.43, SD= 0.713). Amount of interest paid on loan had an influence to a moderate extent (M= 3.38, SD= 0.731) while the amount of credit facilities processing fees also influenced access to credit facility to a moderate extent (M= 3.35, SD= 0.692). The results are as shown in Table 4.11. These findings reflect those of a study carried out by Mwangi and Bwisa, (2013) on challenges facing entrepreneurs in accessing credit where they found out that most of youth entrepreneurs faced challenges in accessing credit due high cost of credit. This was evidenced by high loan processing fees, high rate of legal fee, high rate of interests, high cost of credit insurance and high expenses incurred in travelling in the process looking for credit.

Table 3.13 Cost of Credit

Factors	Mean	Std. Deviation
Repayment period	3.50	0.817
Taxation	3.44	0.697
Fluctuation interest rates	3.43	0.713
Amount of interest paid on loan	3.38	0.731
Amount of credit facilities processing fees	3.35	0.692
Average	3.42	0.73

Source: Primary Data, 2025

### 3.5.3. Business Risks

In regard to the extent to which business risks influenced access to credit facilities by the micro and small enterprises, the study established that business risk had an influence to a great extent (M= 4.20, SD= 0.689). The risk of severe competition influenced access to credit to a great extent (M= 4.38, SD= 0.645) while the risk of accountability had an influence to a great extent (M= 4.33, SD= 0.730). The factor with the least influence was the risk of inadequate human and financial capital which influenced access to credit also to a great extent. The results of the study are as shown in Table 4.12. These findings are supported by Green (2003), who argued that commercial banks tend to

impute a high risk to small enterprises and are therefore reluctant to extend credit to them especially due to their small size and inherent vulnerability to market fluctuations and the mortality rates of small enterprises.

Table 3.14: Business Risks

Factors	Mean	Std. Deviation
Severe competition	4.38	0.645
Accountability	4.33	0.643
Unpredictable operating environment	4.30	0.730
Poor inventory management	4.21	0.656
Delayed payments	4.11	0.655
Inadequate human and financial capital	4.06	0.761
Average	4.20	0.689

Source: Primary Data, 2025

In summary, the study found out that the key challenges hindering micro and small enterprises from accessing credit facilities were found out to be high cost of repayment, strict collateral requirements, unwillingness of people to act as guarantors, lack of enough collateral and short payment period.

## IV. SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

### 4.1. Summary of Findings

The objectives of the study were to determine challenges facing SMEs operating in Samara-Logiya City Administration in accessing finance. The study found that majority of SMEs relied on funds from financial institutions to finance their operations, that is, 83.3% of the respondents had borrowed funds from financial institutions to finance their business. It was also noted that SMEs do face problems when accessing funds. The problems faced by SMEs were insufficient collateral (70.4%) and Business proposal not acceptable (25.9%). other the reasons for partial awards were; lack of security, lack of payment capability from my bank statement, it was first time borrowing so the financier awarded less than the amount applied for, other outstanding loans from other financiers and lack of audited books. The study findings indicated that the most challenging stage of the loan process were; the period it took to process the

loan, application and appraisal stage, loan approval stage 'I had to visit the institution six times and every time I was told to check another day,' said a respondent.

The study established that majority of the respondents obtained their start-up capital from personal savings followed by family and relatives indicating that the respondents chose to get their start-up capital from sources that do not have strict requirements such as collateral security and high repayment cost.

The study also established that repayment period, taxation, loan processing fees and fluctuation of interest rates influenced access to credit to a great extent.

On business risks, the study established that the financial institutions tend to impute a high risk to small enterprises and are therefore reluctant to extend credit to them especially due to small size, severe competition and inherent vulnerability to market fluctuations.

In terms of coping mechanism used to manage challenges faced by SMES in accessing finance, the study identified the following; saving and trying to reduce expenses, borrowing from friends at zero interest rates, reducing credit period for the firm's creditors, and obtaining credit facilities from suppliers.

#### 4.2. Conclusion

Small and Medium Enterprise (SME) are considered to have a crucial role in an economy and are key source of economic growth, dynamism and flexibility and can adapt quickly to changing market demand and supply situations. They also deemed to generate employment, help diversifying economic activity and make significant contribution to export trade. Roles of SME sector to the development process are also highly relevant to small developing economies like Ethiopia considering its small domestic market, weak and narrow based economy against volatile global environment.

However, inadequacies in access to finance are one of the key obstacles to SME growth, not only in developing countries, the research has clearly demonstrated that SME are usually more credit constrained than other segments of the economy because of financial sector policy distortions, lack of collateral, information asymmetries, lack of sufficient collateral as well as high risks inherent in lending to

SMEs.

In addition to the above-mentioned constraints of lack of access to finance to SMEs, the research has revealed one characteristic that SME are more disadvantaged in obtaining external finance. Developing countries like Ethiopia have economic imbalances that lead to excess demand for available domestic savings as well as institutional weakness that encourage large number of individuals to engage in low productivity informal activity. Therefore, government action is necessary to correct market failures, and also assist potential start-ups and disadvantaged groups in society.

#### 4.3. Recommendations

The government should provide specific laws restricting and clarifying and therefore, offering certain types of financial contracts or financial business, including factoring, venture capital, structured finance, and credit guarantee system.

The government and donor programs to improve access to financial services for SME and should be designed to ensure that these services are sustainable on market principles after completion of the programs. The stakeholders should urgently establish a Credit Guarantee System. It should be based on the following criteria for evaluating credit guarantee system risk sharing among the borrowers and banks. CGS should obtain whatever collateral is available from the borrower and should pursue loan recovery vigorously, even after the guarantee has been paid out. CGS should be designed so that fees and other income, such as the return on investments, cover all administrative costs and claims.

The study found out that access to credit facilities by micro and small enterprises is highly limited by high repayment cost of credit given. This study therefore recommends that the management of credit giving institutions should consider lowering their interest rates as a way of encouraging MSEs to borrow from them.

The study found out that the business risks hinder micro and small enterprises from accessing credit facilities to a great extent. This is because the credit giving institutions consider MSEs to be highly risky due to the small size and vulnerability to market fluctuations. The study recommends that the management of MSEs should differentiate their products and services as a way of coping with severe competition and other business risks.

The study found out that very few MSEs have access to credit facilities. Most of the respondents preferred to use personal savings and contributions from relatives and friends since they find it difficult to access to credit from credit giving institutions. They study therefore recommends that the management of the institutions should increase their product portfolios they offered to MSEs. The marketing departments should endeavor to research on the clients' desired options and be able to include the probable and realistic ones onto the list. This will help to reach out to the MSEs that cannot access to credit facilities.

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