

# Formal vis-a-vis Informal Financial Institutions as a Source of Credit for Micro and Small Enterprises in Ethiopia: Empirical Evidence from Wolaita and Dawro zones, Ethiopia

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## Abstract

In the current world with many challenges, Micro and Small Enterprises (MSEs) together with institutional facilities are expected to create jobs for youths both in developed and developing countries. Microfinance institutions, claimed as established to provide credit for MSEs are considered as appropriate institutional platforms to play the touched issue here above. However, studies about how MFI provides credit for MSEs as expected are limited and if any not satisfactory. By considering the case of MSEs in Wolaita and Dawro zones from Southern Ethiopia, the current study was undertaken to investigate credit providing related issues of MFIs to the MSEs to be revitalized as institutions established to play such roles. The study was based on data collected from a sample of 158 MSEs from the two zones and analyzed using descriptive statistics and logit model. The finding shows the instrumental role MFIs play in providing credit for MSE and has identified the major constraints faced by MSEs in getting credit from MFIs. Accordingly, the study result from descriptive statistics revealed that majority of the sampled MSE operators (about 77%) claimed that the loan was not adequate for their planned business start-up. The sampled MSE also raised the issue of long process to secure credit, lack of adequate collateral; inflexibility in repayment arrangement systems, high borrowing costs, and problems related with disbursement time as a major factor affecting their credit access from formal financial institutions in the study area. In addition, the finding from logit model shows that number of workers employed by each MSE, number of members in the enterprise, educational level of the MSE owner/manager, and number of business development training attended determines the likelihood of getting the credit amount needed and requested by MSE from formal finance sources such as MFIs in Wolaita and Dawro zones. From this finding, the study concludes that even if MFIs are playing a priceless contribution in supporting MSE sector development in the country, there are still a number of problems attached with loan giving process in the study area. Further strengthening and expanding MFIs services and working on the above listed constraints are the key recommendation from this study if MSE development was expected more to create jobs for jobless in the study area.

**Keywords:** MSE, MFI; Formal, Informal, Credit, Wolaita zone, Dawro zone.

## 1. Background of the Study and Problem Statement

Starting from early years till today, the issue of employment creation never regarded as the optional concern for politicians, the economy and society itself all over the world. In this regard, some years ago in currently so called developed countries, and in recent years in developing countries Micro and Small Enterprises (MSEs) are believed to serve as a source for sustainable job opportunities. According to MSEs Development Strategy of Ethiopia, the main focus of the Ethiopian government is creating job opportunities through MSEs development, to reducing unemployment and alleviate poverty and enhancing MSEs to be base for industrial development in the country. Further, according to MSEs Development Strategy of Ethiopia, the major objectives of MSE development in Ethiopia are threefold. First, through creating job opportunity, bringing equal development, improving income of the society and poverty reduction. Second, enabling the sector competent, facilitate economic growth and lays foundation for industry development. Third, expanding the sector's development in urban by creating developmental investors (FMSEDA, 2011, 2013, 2015, FDRE Ministry of Urban Development and Construction 2013).

Accordingly, in Ethiopia MSE is one of the institutions given recognition and special attention it is expected to serve as vehicles for employment opportunities especially at urban center and as it underpin the economic development of the country currently (ibid). As a complementary institution to MSE, microfinance institutions (MFIs) are established to provide credit for small scale enterprises (business and farmers) in July 1996 (Deribie et al. 2013). According to (Deribie et al. 2013) MFIs are considered as the decisive way outs from the vicious circle of poverty particularly for the rural and urban poor in a country like Ethiopia where many people live barely below the absolute poverty line, said so because they are expected to solve the finance constrains of such small scales through providing credit.

However, the relevant and timely question today is how these MFIs are progressing in providing credit for MSE in the country. Many reports and literatures suggested that although MFI has been providing credit support to MSE in Ethiopia, it was not sufficient from the wide range interest of enterprises. In the country, the challenges related to finance supply are listed by FMSEDA (2011) as follows. Ineffective and inefficient service in delivering and collecting loan due to capacity limitation of microfinance institutions in delivering and collecting credit/loan, mismatch between credit demand and supply due to less capacity of most MFI to deliver. In addition the document identifies limitation of focus on skill and ability of MFI to organize saving, poor refunding and collecting saving culture, failure in creating awareness that help to identify competent clients before supplying credit and capacity limitation to provide training, produce business plan, and facilitate production and sales sites as the major challenges.

This all indicates that despite the expected role played by MFIs in supporting MSE in finance there are a number of factors affecting and determining their service in the country. Many research have been done in this regard, but their focus was on either MSE or MFI related performance, opportunities, success history and challenges separately (Wolday, 2008; Mulu, 2013; Deribie et al, 2013, FDRE Ministry of Urban Development and Construction 2013, Mohammed et al, 2015; to list some) in the country. The current study was designed to show the service gap by MFIs in providing credit for MSE operators in Ethiopia, taking Wolaita and Dawro zones as study area.

## 2. Review of Literature

In Ethiopia, development of micro and small enterprises is among the strategic directions during its first Five Year Growth and Transformation Plan (GTP I) period which cover 2011-2015. The ultimate objective the plan was hoped to bring about rapid economic growth in the country. In this case, the development of MSEs was integrated in such mega plan as one of the mainstays and of the best tools to implement Industrial Development Plan of the nation. Moreover, with a total population of 90 Million and annual growth 2.6%, the MSE sector is believed to control the effects of unemployment and urban poverty (FMSEDA, 2015). Based on different country experiences and literatures Ethiopian MSE development agency defined MSEs on the bases of their total capital and working labor engaged in each enterprise.

**Table 1: Revised Definition of Micro and small enterprises (MSEs) in Ethiopia**

<u>Type of Enterprise</u>	<u>Sector</u>	<u>Human power</u>	<u>Total asset</u>
<u>Micro Enterprise</u>	<u>Industry</u>	<u>&lt; 5</u>	<u>&lt; 100000 (\$6000 or E4500)</u>
	<u>Service</u>	<u>&lt; 5</u>	<u>&lt; 50,000(\$3000 or E2200)</u>
<u>Small Enterprise</u>	<u>Industry</u>	<u>6-30</u>	<u>&lt; birr 1.5 million (\$9000 or E70000)</u>
	<u>Service</u>	<u>6-30</u>	<u>&lt; birr 500,000(\$30000 or E 23000)</u>

Source: FMSEDA, 2015

Federal Ministry of Finance and Development (MoFED, 2014), reported that comprehensive support have been provided to micro and small enterprises in the country that has helped the enterprises to create temporary and permanent employment opportunities for about 2.02 million citizens in the fiscal year of 2012/13. According to this report, during the last three years of the GTP I, a total of 3.96 million temporary and permanent employment opportunities were created throughout the country under MSE strategy. The report outlined that, this achievement contributed to the decline of urban unemployment rate from 18 percent in 2010/11 to 17.5 percent in 2011/12 and further to 16.5 percent in 2012/13 in the country.

Furthermore, FMSEDA (2015) disclosed that meaningful success was achieved by MSE sector in Ethiopia as a result of the comprehensive support extended from the government and concerted effort of the major stakeholders. According to this report, during the plan period 2011-2014 the sector was able to:

- ✓ Generate 6,671,012 jobs, exceeding the goal set for the total GTP period (3 million Jobs),
- ✓ Generate ETB 25.62 billion through Domestic Market linkage, exceeding the goal set for the total GTP period (ETB 10 billion),
- ✓ Generate 65,375,026 USD through Foreign Market linkage, exceeding the goal set for the total GTP period (46,166,142USD).

According to the strategy of the MSEs development sector the main input to start-up and expand business is credit and it is expected to be based on the saving of the beneficiaries. Agency clearly suggested that, MFI would facilitate service system that helps to provide credit for start-up of MSE on actors saving and families guarantee basis. Accordingly enterprise may pay 1% service fee so as to sustain credit guarantee fund system. Creditors should also save 20% in advance to get credit guarantee while enterprises involved in export product and growth focus should save 15% to be beneficiary from credit guarantee. According the strategy documents, due to capacity limitation, the credit supply will focus on the following points. Enterprises that produce for export market, enterprise engaged in construction and products that substitute import product. In

addition, model enterprises that produce and give services at cluster, enterprise that have their own saving and good history/ background in credit will be given priority.

Despite the encouraging results registered in promoting micro and small-scale enterprises development over the last few years in the country, many empirical researches shows that there are still a number of challenges in the sector. Many of these studies claim constraints regarded to credit access. Different study places lack of adequate financial resources at the significant constraints on MSE development in different areas of the world. For example, according to (Lader, 1996) one important problem that SMEs often face in developing country is access to capital. Further, Cook and Nixon (2000) analyzed that notwithstanding the recognition of the role of SMEs in the development process in many developing countries, SMEs development is always constrained by the limited availability of financial resources to meet a variety of their operational and investment needs. Similarly a study conducted by World Bank observe that about 90% of small enterprises surveyed stated that credit was a major constraint to new investment (Parker *et al.*, 1995). Levy (1993) also found that there is limited access to financial resources available to smaller enterprises compared to larger organizations and the consequences for their growth and development. The role of finance has been viewed as a critical element for the development of MSEs (Cook and Nixon, 2000). (Parker *et al.*, 1995) identified that a large portion of the SME sector does not have access to adequate and appropriate forms of credit and equity. According to Mosley (2001), MFI are said to be a cheaper way of source of finance to MSEs.

In Ethiopia many studies and official reports indicate the gap. For instance, FMSEDA 2015 in its report revealed that the major challenges in the MSE sector are lack of entrepreneurial capability of the MSEs operators and poor technical and technology support in the sector as a whole. Further, it was identified that, the gap between the demand and supply of credit service and weak saving culture in the country is another crucial constraint facing the sector (MoFED, FMSEDA 2015). Further, study by (Mokennon and Tilaye, 2013) concluded that finance related factors such as difficulty of accessing finance, high collateral requirements and inadequacy of loan are the major ranked challenges followed by inconvenience of loan payback period and high interest rate had severely hindered most sample MSE's operations in Akaki-Qality Sub city of Addis Ababa.

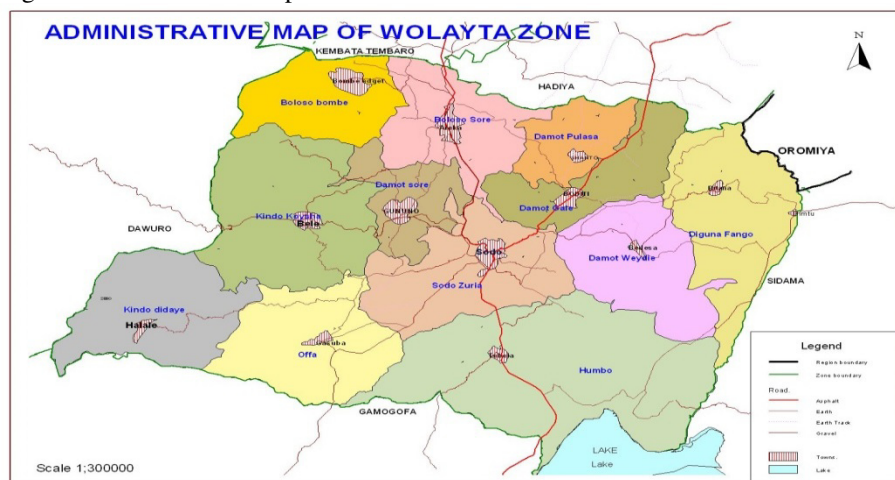
These all empirical studies focus on identifying factors affecting the performance of MSE operators at different case studies. As best of our knowledge, there is no empirical research undertaken aiming at identifying factors matters for why MFI failed to provide enough credit for MSE operators in the country, specifically in Wolaita and Dawro zones. Thus, this study was designed to investigate whether these institutions provide credits to MSEs to be revitalized as institutions for these enterprises towards providing credit for such enterprises in the two zones.

### 3. METHODOLOGY OF THE STUDY

#### 3.1. Descriptions of the Study Area

Wolaita is the name of both the people and area in Southern Nations, nationalities and Peoples' Regional State (SNNPRS).

Figure 1: Administrate Map of Wolaita Zone



The map, titled 'ADMINISTRATIVE MAP OF WOLAYTA ZONE', shows the district boundaries of the Wolaita Zone. The districts are color-coded and labeled: Boloso bombe (yellow), Bolobo Sore (pink), Damot Pulasa (orange), Damot sora (green), Damot sode (light green), Damot Weyite (purple), Diguna Fango (light yellow), Kindo didaye (grey), Kindo Keffena (light blue), Offa (yellow), Sodo Zuria (orange), Humbo (green), and Hadaqa (light green). The map also shows the regional boundary with Oromiya to the east and Dawuro to the west. Major roads, rivers, and lakes are indicated. A legend in the bottom right corner defines the symbols for Region boundary, Zone boundary, Road, Airport, Bath, Bath Track, Market, Town, and Lake. The scale is 1:300000 and a north arrow is present in the top right corner.

Source: Wikipedia, 2016.

Dawro is another zone in SNNPR and located at about 500km from Addis Ababa and 275km from Hawasa.

**Figure 2: Administrative Map of Dawro zone**



Source: Wikipedia, 2016.

### 3.2. Sampling Technique

The basic sampling unit of the study was MSE owners/operators from these two zones. Using two-stage sampling technique, 158 MSE operators were selected based on the proportion using a simplified formula provided by Yamane (1967).

Table 2: Sample size

Town	Frequency	Percent	Town	Frequency	Percent
Areka	18	11.54	Boditi	23	14.84
Sodo	35	21.43	Humbo	19	12.64
Tercha	33	20.33	Shantu	16	10.99
Waka	14	8.24			
Total	158	100			

Source: Authors computation, 2016

### 3.3 Data Sources and Data Collection Methods

Both qualitative and quantitative data were collected from primary sources. These primary data from MSE owners/operators, and MSE officials were collected through survey questionnaire and key informants between June and July of 2015.

### 3.4. Method of Data Analysis and Model Specification

The method of analysis used in the study is descriptive statistics and logit regression methods. In this study descriptive analysis were chosen because of its simplicity and clarity to draw inferences. With the goal being to investigate common characteristics that explain the likelihood that one micro enterprise might make the decision to borrow over another an appropriate utility maximization approach is the logistic (logit) regression approach. Literatures identified that the logit model can be employed when the dependent variable (access to credit) is dichotomous. It specifies a non-linear functional relationship between the probability of getting credit or not getting credit from micro finance institutions and those factors that influence that decision. The factors that influence the credit are referred to as explanatory or exogenous or independent variables. The logit model has a logistic distribution function for the stochastic term “ $\epsilon$ ” (Greene, 2003; Cameron and Triyedi, 2005), and it has been used by a number of researchers in related studies (Ayagma et al., 2006). Logit model was specified as:

$$\ln[p/(1-p)] = \alpha + \beta X + e \quad \dots\dots\dots (1)$$

Where p is the probability that the event Y occurs, p(Y=1), p/(1-p) is the "odds ratio" and ln[p/(1-p)] is the log odds ratio, or "logit." Maximum Likelihood Estimation (MLE) is a statistical method for estimating the coefficients of a model.

$$L = \text{Prob} (p_1, p_2, \dots, p_n) \dots\dots\dots (3)$$

The higher the L, the higher the probability of observing the probabilities in the sample.

MLE involves finding the coefficients ( $\alpha, \beta$ ) that makes the log of the likelihood function (LL < 0) as large as possible. The maximum likelihood estimates solve the following condition:

$$\{Y - p(Y=1)\} X_i = 0 \quad \dots\dots\dots (4)$$

The slope coefficient ( $\beta$ ) is interpreted as the rate of change in the "log odds" as X changes ... not very useful. After all, the empirical model specification was specified as:

$$U_i = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \epsilon_i \quad \dots\dots\dots (5)$$

Where U is the dependent variable that represent access to credit (has access=1, 0 otherwise) and X1, X2, X3, X4, X5....represents the independent variable with coefficient  $\beta_1, \beta_2, \beta_3, \beta_4, \text{ and } \beta_5$ .

**Table 3: Description of Variables used in the Logit model**

Variables	Description and Measurements
Applied to get credit from MFI	It is a dummy dependent variable in the logit and assigned value 1 if applied and 0 otherwise.
Amount of credit Received	It is continuous independent indicating the amount credit secured by MSEs and measured in terms of Ethiopian birr.
Age of the Enterprise manager/owner	It is continuous independent variables measured in years.
Number of workers employed by MSE	It is a continuous variable explaining the number of paid workers in the enterprise.
Access to additional source of income used to cover some financial constraints	This is a dummy variable indicating enterprise's access to additional source of income and assigned value 1 if have the access and 0 otherwise.
Have Book Account at MFI	It is a dummy variable showing weather the enterprises have opened book account atMFI and assigned value 1 was given if they saved and 0 otherwise.
Education level of the MSE owner/manager	This is a continuous variable indicating the educational level of manager of the enterprise.
Number of members in the enterprise	This is a continuous variables showing the numbers of members in the enterprise.
Number of business development training attended	It a number of business development training attended after establishment of the enterprise in group.

Source: Authors, 2016.

#### 4. Results and Discussions

Before executing the model was tested for possible problems of multicollinearity (using variance inflation factor (VIF) for continuous variables and contingency coefficient (CC) for categorical variables). According to Gujarati (2004) 1/VIF tells us what proportion of an x variable's variance is independent of all the other x variables. A high proportion, for example 10, indicates potential multicollinearity trouble among explanatory variables. From the test result, we found that there is no serious multicollinearity problem in the model as given the following Table.

**Table 3: Variance Inflation Factor (VIF) Test for continuous explanatory variables**

Variable	VIF	1/VIF
Number of business development training attended	1.85	0.541993
Number of employees in the MSE	1.51	0.662325
Amount of credit received by MSE from MFI	1.12	0.896257
Age of the Enterprise's manager/owner	1.09	0.917521
Educational level of the enterprise manager/owner	1.05	0.952879
<b>Mean VIF</b>	1.324	

Source: Authors computation from field survey, 2016

In the same fashion, we tested the multicollinearity problem for categorical explanatory variables entered the model using Pearson's contingency coefficient (CC) in which it indicates the association among categorical independent variables in the model as explained by Blaikie, N. (2003). As a rule of thumb if the result is less than 7.5 there is a weak relationship among explanatory variables ensuring there is no serious multicollinearity problem in the model.

**Table 4: Contingency test for categorical explanatory variables**

Variables	Account in MFI	MFI Application	Save in MFI
Account in MFI	1.0000		
MFI Application	-0.0781	1.0000	
Save in MFI	-0.1310	0.2994	1.0000

Source: Authors computation, 2016.

To account for the issue of hetroskedasticity, we used a Breusch-Pagan/Cook-Weisberg tests in which the null hypothesis states that the error variances are all equal versus the alternative that the error variances are a multiplicative function of one or more variables. Low Chi-square value from Breusch-Pagan/Cook-Weisberg tests indicates there is no hetroskedasticity. The test result, revealed that there is no hetroskedasticity problem in the model.

#### 4.1. Descriptive Analysis

Informed by the above useful pre-statistical tests, we now turn to present and discuss survey result from

descriptive statistics on the issues related to access to credit for MSE in Wolaita and Dawro zones from formal and informal sources. The objective is to compare the issue between formal and informal institutions in providing credit for MSE.

### 1. Reasons for not securing credit from MFI

We have asked sampled MSE operators from Wolaita and Dawro zones whether they secured the actual amount needed and requested from MFI. About 57.59% of them replied that they failed to secure the amount they requested from the formal sources (MFI) of finance. In this regard, the MSE operators were asked about the major reasons that they applied and failed to secure credit amount they requested from MFI in Wolaita and Dawro zones. Their response was summarized in the Table 5 below.

As the result from descriptive statistics revealed that among the sampled MSEs applied to get credit from MFI in the study area, replied that all of them requested for credit and majority of sampled MSEs stated that they lack adequate collateral to secure the amount they requested. According to Ethiopian MSE development strategy, the main collateral to get credit from MFI is saving 20% of the amount needed by each MSEs. However, since most of MSEs are recently graduate students or jobless they lack capacity to save the required rate. About 77% of sampled MSEs replied lack of adequate capital is the major reason for not securing the amount we needed from MFI as a loan. In addition, about 72.78% of the sampled MSEs stated that the process to secure credit is very difficult and it takes time.

Table 5: **Reasons why MSEs didn't get amount of credit requested from MFI**

Reasons for not get loan from MFI	Frequency	Percent
Do not know where to go	21	13.3%
Inadequate collateral	122	77.22%
Do not want to incur debt	20	12.66%
Borrowing process is too difficult and takes time	115	72.78%
Did not think I would get the credit	6	3.79%
Interest and other costs (application cost) are too high.	44	27.85%
Afraid, I may not be able to repay	6	3.79%
Already heavily indebted	5	3.16%
My religion doesn't allow	16	10.23%

Source: Authors computation from survey data, 2016

Furthermore, about 27.85% of sampled respondents have responded that the interest rate charged was high and there are additional costs to secure credit from MFI in the study area. This all implies that, MSEs are not securing credits they requested from the formal sources of finance to run their business in Wolaita and Dawro zones, based on the descriptive statistics analysis result using the survey data from 158 MSEs.

Similarly sampled MSE operators were asked about the amount of credit received from MFI. In this case, our aim is to analyze whether the secured amount is adequate for start-up of the business they want to start or not, as well as whether the disbursement time and the repayment period was affordable or not for them. Regarding the adequacy of the credit received, only 20.25% of the sampled MSEs were replied at it was adequate while the remaining 79.75% of them replied it was not adequate for their business start-up. About 60% and 66% of the sampled MSE stated that the repayment period was adequate and the loan was disbursed timely, respectively. Thus, the main finding here is that, the amount given to MSE from formal sources are not adequate and even if majority of them are not claiming the issue of repayment period and the issue related with the loan disbursement, the significant number of sampled MSE operators raised the issue negatively.

Table 6: **Factors related to credit received by MSEs from MFI.**

Indicators	Frequency		Yes in Percent
	Yes	No	
Is the loan amount you secured adequate? Yes=1, No=0	32	126	20.25%
Is the repayment period (term to maturity) adequate? Yes=1, No=0	95	63	60.12%
Was it disbursed timely? Yes=1, No=0	105	53	66.46%

Source: Authors computation from survey data, 2016.

### 2. Optional source of finance for MSE in the study area: Informal sources

By continuing, we asked the MSE operators/owners whether they use the informal source of credit or not if not get the amount required from MFI. About 69 (43.67%) sampled MSE operators/owners responded that they use informal source of financial institutions to cover their capital shortage. This study was in line with the survey study conducted by Mohammed et al (2015) on major urban Ethiopia. They found that about 31% of the sampled MSE relied on informal source of financial institutions. Then we asked the sampled respondents why they use informal credit sources and put their reasons in rank. Their responses are summarized in Table 7 below:

The descriptive statistics result revealed that significant number of sampled MSE operators stated simple process to get credit from informal sources are the first reason to rely on such sources. Out of 69 MSE

claiming they rely on informal sources, 23 (33.33%) of them have chosen this reason in the first rank for why they prefer informal source of finance than that of formal once such as MFI. The second reason majority of sampled MSE ranked at first reason is the flexibility in payback arrangements such as maturity, repayment frequency, rescheduling possibilities, etc of the informal finance sources compared to the formal sources. About 24.63% of them selected this reason at first rank. Furthermore, about 18.84% and 15.94% of sampled MSE claimed that the first reason for why they prefer the informal sources over the formal once the existence of little or no collateral requirements and more favorable interest rate charged by informal once, respectively.

**Table 7: Reasons why MSE rely on informal sources**

Reasons	First		Second		Third	
	Frequency	Percent	Frequency	Percent	Frequency	Percent
More favorable interest rate	11	15.94%	19	27.53%	7	10.14%
Simple process	23	33.33%	12	17.39%	16	23.18%
Little/no collateral requirements	13	18.84%	12	17.39%	10	14.49%
Flexible payback arrangements	17	24.63%	15	21.74%	17	23.18%
Ease of access	3	4.35%	8	11.60%	17	23.18%
Limited access to formal sources of credit	2	2.89%	3	4.35%	2	2.89%
Total	69	100%	69	100%	69	100%

Source: Authors computation from survey data, 2016.

The remaining 4.35% and 2.89% of the sampled MSE reason out that first reason to rely on informal sources are ease of access of such sources and lack of formal sources such as MFI in their area. The key finding here is that, MSEs prefers a source of finance having shortest process and flexibility in loan repayment systems.

#### 4.2. Results from Econometric Model

In this section the result from logit regression result will be presented using maximum likelihood estimation method. Here, we present the odds ratio from logit regression result.

**Table 8: Logistic regression Result**

Variables	Odds Ratio	Std. Err	z	P>z	[95% Conf.Interval]	
Amount of credit Requested	0.9999987	3.46E-05	-0.04	0.9690	0.9999308	1.000066
Have Book Account at MFI	0.5806684	0.949594	-0.33	0.7400	0.0235461	14.31982
Number of workers employed by MSE	1.444365	0.489305	1.09	0.2780	0.7435611	2.805674
Number of members in the enterprise	5.355743**	3.763647	2.39	0.0170	1.350996	21.23173
Access to additional source of income	3.767069	10.50622	0.48	0.6340	0.0159233	891.1962
Age of the Enterprise manager/owner	1.019129	0.284916	0.07	0.9460	0.589197	1.762778
Number of workers employed by MSE	4.5819***	0.803412	5.7	0.0000	3.007277	6.156593
Number of business development training attended	1.33067*	0.705248	1.89	0.0590	-0.0515	2.712931
Education level of the MSE owner/manager	0.2366844**	0.123018	1.92	0.054	-0.00442	0.477796
constant	0.0103137***	0.021627	-2.18	0.0290	0.0001692	0.628553
Number of observation=158	Probability > chi2 =0.0000		Log likelihood = -16.93			
LR chi2(7) =60.91	Pseudo R2 =0.6428					

\*, \*\*, & \*\*\* indicates statistical significance of the coefficients at 10%, 5% and 1% significance level respectively.

Source: Authors, computation (2016)

Nine explanatory variables entered into logit model estimation to analyze factors determining probability that MSE operators secure requested credit amount from MFIs in Wolaita and Dawro zones. Among these variables, four of them are found to be statistically significant at less than 10% level of significance. Accordingly, the logit regression result revealed that number of workers employed by each MSE, number of members in the enterprise, educational level of the MSE owner/manager, number of business development training attended those MSE operators who were attending more business development training had relatively better access to credit than their counter parts from MFIs. The positive and significant coefficient obtained for variable number of workers employed by each MSE shows that those enterprises employing more workers are

more likely to secure the amount they requested compared to their counterparts. The result was significant at less than 1% significance level. The plausible justification may be among the major objectives of MSE establishment in Ethiopia is to create jobs for jobless. Thus, those MSE who have a business plan that create more jobs are more likely to secure better and the needed credit from formal financial institutions in the study.

Similarly, the logit regression result indicates that those MSE established with a greater number of members are more likely to receive the amount requested from MFI in Wolaita and Dawro zones. The result is statistically significant at less than 5% level of significance. This can be justified as those enterprises established with a greater number of members save more collectively in which their saving is considered as the collateral.

In addition, the result from logit model revealed educational level of the MSE owner/manager positively and significantly determine the probability of getting the requested amount of credit from MFIs. The result was statistically significant at less than 5% level of significance. The result is reasonable that education level plays a great role in such business game. Furthermore, according to Ethiopian MSE development strategy, priority was given to graduates according to their level of degrees. This coincides with this finding in which those MSE owners/managers better educational levels are more likely to get the required credit from MFIs.

Finally, positive and significant coefficient was achieved for variable number of business development training attended by each MSE in the study area. The result for this variable is statistically significant at less than 10% level of significance. This result also in line with the survey result by Berihu et al., 2014. Training is an important thing for MSE in many angels including business expansion, development of business plan and fulfilling necessary criteria's to secure the required and needed credit from MFIs.

## 5. Conclusion and Recommendation

Recognizing the role of Micro and Small Enterprises (MSEs) in the socio-Economic development of Ethiopia, the government has paid special attention to the sector in the recent years. As an evidence to this, formal financial institutions were established to support the sector. Among these institutions MFIs are considered the leading and at a front line institution expected to support the financial needs of MSE sector in the country. However, the concern is how these formal financial intuitions are fulfilling the needs of these MSE sector. The current study tried to revisit the gap in providing credit for MSE from MFI taking Wolaita and Dawro zones a study area.

The study result from descriptive statistics revealed that majority of the sampled MSE operators (about 77%) claimed that the loan was not adequate for their planned business start-up. The sampled MSE raised that there was a long process to secure the credit and the formal institutions lack flexibility in loan repayment arrangements compared to the informal sources. In addition, the sampled MSE raised the issue of lack of adequate collateral to get the needed and required credit from the formal institutions. Furthermore, they claimed that the interest rate charged by formal institutions are high and there additional costs such as service charges related to credit access from that institutions. As a result they are forced to use the informal institutions as a source of finance. The reasons are, these informal institutions loan access processes are easy, they charge more preferable interest rate, disbursement time was short, there is a necessary arrangements in loan repayment system and there is no or little collateral requirements compared to informal institutions. In addition, the finding from logit model shows that number of workers employed by each MSE, number of members in the enterprise, educational level of the MSE owner/manager, and number of business development training attended determines the likelihood of getting the credit amount needed and requested by MSE from formal finance sources such as MFIs in Wolaita and Dawro zones.

The major recommendation from this study is that, as MFI are established to ensure the development of MSE sector through providing and facilitating credit, the credit securing process should be shortened, the cost of borrowing should be revisited and minimized, there should be flexible repayment arrangements, and the disbursement time should be minimized. In addition, more training should be given to MSE operators regarding credit usage.

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