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

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Abstract
This study empirically investigated factors affecting access to finance for MSEs in Hosanna town. Micro and Small Scale Enterprises (MSEs) are lifeblood of most economies. To be successful this and other business sectors actually require finance which plays a major role in any aspect of business operation. As far as micro and small enterprises (MSEs) are concerned as part of business enterprises, they need finance to start up, expand, diversify, and for working capital of the business firms. Without finance, no business enterprise can achieve its objectives. Finance is the backbone of any business enterprise (McKiernan and Chen, 2005).The general objective of the study was to find out the factors affecting access to finance of MSEs in the study area. The research design was cross sectional survey which included a structured and unstructured questionnaire. Moreover, the questionnaire was distributed to MSEs Managers to be filled by them accordingly. From the total population of 169 MSEs, 117 of them were selected by using random sampling technique. The access to finance was measured in two items (access firms and none access firms to loan).These variables were described by using descriptive statistics such as mean, standard deviation, frequency distribution, tables, pie chart, chi-square test and t-test. However, lack of access to finance is one among the other obstacles of MSEs to grow and expand. In accordance with this study results, those MSEs which were preparing financial statements and business plan have access to finance from micro financial institutions. Availability of collateral is major problems for MSEs to has access to finance.The other basic finding of this study is MSEs were extremely faced challenges in accessing finance from the study, it is investigated that many MSEs have obtained their capital from microfinance, families, personal savings, and from Equib. This indicates that access to finance from bank is very difficult for MSEs due to lack of collaterals. Moreover, long time of loan process and bureaucracy; requirement of large amount of advance saving; short term loan repayment period; high collateral; high interest rate; absence of interest free loan providing institutions have been hindering MSEs from access to finance. Therefore, based on the finding the researcher recommended that MSEs have to prepare financial statement and business plan to get loans. Furthermore, MFI have to improve long time for loan process and other bureaucracies.
Key words: Access to Finance, MSEs and MFI

INTRODUCTION

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

Access to finance has always been a challenge for MSEs; but the need to address this issue became more pronounced after the global financial crisis. Access to financing is recognized as the leading obstacle to small businesses growth in Ethiopia, alike most other developing and under-developed countries. The small businesses, in most cases, as indicated by Haftu, Tseahye, Teklu, and Tassew (2009) manage to start a business with resources from informal sector, but find it extremely difficult to survive and expand without further financial assistance from the institutional lenders (Haftu et al., 2009). MSEs are informally or formally organized businesses typically operated by the owner and immediate family, where the income from business may be the sole source of income for the family (Desta, 2010). Since the 1950's efforts have been made to mitigate poverty in developing countries. Promotion of micro and small enterprises has been regarded as one of the measures. The strategy gained momentum throughout the developing world since the nineteen seventies (Thapa, 2010).

According to Okpara (2011), in Africa, on average, less than 20% of households have access to formal financial services, with low population densities, poor transport and limited communications infrastructure contributing to a lack of supply of finance in extensive regions of the continent. Lowering these barriers to access to finance and offering suitable financial products can allow households and small businesses to maximize the leverage of their savings or earnings for increased productivity, contributing to higher incomes, job-creation and ultimately growth (Okpara, 2011).

In Ethiopia the contribution of the informal sector is even larger than 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).

In Ethiopia, MSEs are the second largest employment generating sector next to agriculture. More than 1.3 million people in the country are engaged in MSEs sector. But a large number of MSEs are unable to grow and others remain to be at survival stage. Moreover, out of 1000 MSEs in this country around 69 percent of them are found in survival types (Gebru, 2009).

The first Micro and Small Enterprise Development Strategy was launched in 1997 acknowledging their potential in employment creation and poverty reduction. The same year one of the pioneer comprehensive attempts to quantify the nature of the sector was conducted by the Central Statistics Authority (CSA) which indicated that the sector accounts for 88.2 % of private sector employment (Stevenson and St-Onge, 2005). According to the 2006 report of High Level Commission on Legal Empowerment of the Poor (HCLEP), micro enterprises account for 99.8% of total establishments, 99.6% of employment , 94.7% of gross value of production, and 95.1% of the value added (HCLEP, 2006). They also absorb a labor force eight times larger than medium and large scale industries, where the micro enterprises account for 97% of all manufacturing establishments and for 19% of the gross value of production in the sector (Desta, 2010).

As part of the national poverty reduction program, micro and small enterprises have been viewed as major vehicles for reducing poverty and creating employment in Ethiopia. The commitment to the sector seems more consolidated in recent years. The various development plans such as the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) 2004/5-2009/10 and its successor the Growth and Transformation Plan (GTP), 2010/11-2014/15, incorporated the objective of promoting and expanding MSEs. In this respect, while the PASDEP aimed to create 1.5 million new jobs, the GTP targets to double the figure to 3 million (MoFED, 2010).

However, the performance of micro and small enterprises is yet below expectation and their role in reducing poverty has faced several challenges. Many operators hunt for a narrow market, creating no incentive for business expansion. Limited access to credit; burdensome rule and regulation; lack of premises; lack of business and financial management skills; lack of infrastructure and the like affected the performance of Small and Micro Enterprises. Besides, businesses that ceased operation were characterized by inadequate finance (61%), low level of education (55%), poor managerial skills (54%), shortage of technical skills (49%), and inability to convert part of their profit to investment (46%) (Eshetu and Zelleke, 2008). Therefore, this study empirically investigated the main factors that affect the access to finance of MSEs that are found in Hossana town.

Statement of the problem

Small and Micro enterprises are major sources of employment and income for the poor in Ethiopia. They absorb not only a labor force eight times larger than medium and large scale industries but they also supply goods and services at an affordable price which directly benefits the lower sect of the society (Desta, 2010).

Yet, like other developing countries, the performance of the enterprises in Ethiopia is below expectation. Although a National Small and Micro Enterprises Development Strategy for the promotion of MSEs was issued in 1997, the success achieved so far is not much (Eshetu and Mamo, 2009). Despite the huge number of people earning their livelihood from the sector, the enterprises have been performing below capacity and their growth has been inhibited by numerous factors (Mulat and Fantu, 2006).

According to World Bank (2004), small firms identify lack of access to financial services as one of the key constraints to growth and investment. MSEs, in developing countries, are usually more credit constrained than other segments of the economy because of the following: (a) financial sector policy distortions; (b) lack of know-how on the part of banks; (c) information asymmetries, for example, lack of audited financial statements; and (d) high risks inherent in lending to MSEs (World Bank 2004). In a study conducted by Mulu (2009) in Ethiopia, it was found that limited access to credit; burdensome rule and regulation; lack of premises; lack of business and financial management skills; lack of infrastructure and the like affected their performance. There is no also abundant data on Micro and Small Enterprises regarding access to finance yet. Besides, Zewde (2002) confirmed that the literature on MSEs in Ethiopia is insufficient. In particular, little is known about enterprises found in small towns like Hossana. Therefore, this study was aimed at filling up the gab by investigating the factors that affect access to finance for MSEs' in Hossana town.

General Objective

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

Specific Objectives

The specific objectives

- ✓ To evaluate availability of information in accessing finance for the MSEs in Hosanna town.
- ✓ To evaluate the collateral in accessing finance for the MSEs in Hossana town.
- ✓ To evaluate age of MSEs in accessing finance in the study area
- ✓ To evaluate size of MSEs in accessing finance for MSEs in Hosanna town.
- ✓ To evaluate the managerial educational level in accessing finance for MSEs in Hosanna town.
- ✓ To identify the factor those determineMSEsAccess to finance operating in hosanna town.

Significance of the study

Understanding the challenges of micro-enterprises in small towns helped policy designers to take into account their unique needs during policy formulation. Secondly, it helped implementers to provide appropriate support to solve the actual bottlenecks of the enterprises by revealing areas of deficiency. Thirdly, it has contributed to the academic literature supplementing to the understanding of the nature and characteristics of micro-enterprises in small towns. Fourthly, it has benefited other stakeholders such as NGOs and microfinance institutions by throwing light on the betterment of their services.

Above all, although attempts have been made to investigate the major aspects of micro and small enterprises in Addis Ababa and other major cities like Hawassa, Adama, Bahir Dar and Mekele, only few studies have been conducted in small towns such as Hosanna. Thus this study had a significant effect in the study area.

Scope of the Study

In terms of geographical scope this study was conducted on MSEs found in Hosanna Town. Therefore, any of the analysis and finding of this research confined only to the selected case study area.

Methodologically, quantitative and qualitative approaches were employed to deal with the analysis of the data. As anyone observed from this study, the respondents were managers of the MSEs. Hence, this study was based on quantitative and qualitative evidence on important variables in order to capture their effects of access to finance and challenges in MSEs found in Hossana Town.

Limitations of the Study

Because of time and financial constraints, the area coverage of this study was delimited to MSEs found in Hosanna Town. On the other hand, since the researcher was not familiar in the area's language (hadiysa), there was some manageable communication barrier between the researcher and some of the respondents. However, the researcher used translator to avoid communication barriers. On top of this, the conclusions and recommendations that were drawn by this study were applied only for Micro and Small Enterprises in Hossana town.

RESEARCH METHODOLOGY

Description of study area

S/N/N/P is one of the regions with a total population of 18,158,471 taking 36.7% of the population in Ethiopia (FDRE Population Census Commission, 2008). Hosanna is a district in Hadiya zone of S/N/N/P with a total population of 1,193,812. From the researcher's own observation and informal discussions with MSEsOperators indicated that they face numerous challenges which have not been investigated by any prior studies. Such a gap inspired the researcher to conduct further study on such issues.

Research Design and strategy

The cross sectional survey approach was used in gathering the data for the purpose of meeting the research objectives. The researcher was used direct contact method with the help of phone and the person who knows the selected firms' exact locations. On this regard, phone was used not only for clarification purpose but also for reminding the respondents to return the questionnaires within intended time. Besides, the researchers hired also one person in order to lead him to the selected firms' exact locations; that made it easy for the researcher to contact all the selected firms within a short period of time. With regard to the respondents, the general manager of each targeted firms were the respondents of this study because of not only their involvement and responsibility in the key decision areas but also their knowledge about strategy, structure, and related facilities of the enterprise. Most of the time, the respondents (managers) of the enterprises were very busy; this made the researcher to spend much time and effort to get their extra time in order to contact them and acquire the desired information.

Sampling technique and size determination

According to Hosanna town Micro and Small Enterprises development office report (2015), the target population amounts to 169. There are five business sectors in the target population and their names are: trade, manufacturing, urban agriculture, construction, and services.

After determining the sample size for this study, the researcher selects those 117 enterprises or respondents from the target population proportionally. The researcher used the following formula to determine the sample size for this study.

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

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

Where:

n = the required sample size :(?)
N = the target population: (169)
P = the estimated variance of a population: (0.5)
A = Precision desired: (5%)
Z = based on 95% confidence level: 1.96

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

Finally, as tried to mention in the above, because of different kinds of reasons, some of the respondents might not respond a questionnaire. On this regard, the researcher estimates that there will be 80% response rate. Therefore, for the purpose of tackling the problem of a 20% none response rate, the researcher adds a 20% none response rate to a base sample size, that is 117/0.8 this is equal to **146.**

Table 1 number of respondent

Business Sectors	**No. of MSEs in each strata**	**Sectors Weight in %**	**Sample Size**
Trade	70	41	48
Manufacturing	54	32	38
Urban Agriculture	22	13	15
Construction	12	7	8
Services	11	6.6	8
Total	169	100%	117

Source: Hosanna town MSE promotion office report (2015)

Types and Sources of Data Collection

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

Variables and Measures

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

Dependent Variables

The only dependent variable in the study is access to finance. Access to finance for Micro and small enterprises can be described as the proximity of such MSEs to sources of funding specially loans from financial institutions (Beck, Demirgüçkunt, and Maksimovic, 2005). To address these issues, this study aims to examine the existing situation of MSEs' access to finance in Hosanna Town. More specifically, this study will investigate the internal characteristics of MSEs in Hosanna town such as collateral, age of the firm, size of the firm, availability of information, managerial education level and performance of the firm etc. Furthermore, the study will analyze comparisons of those characteristics between MSEs that have access (herein referred to as 'Access firms') to financial institutions and those that don't (herein referred to as 'Non-access firms').

Independent Variable

Collateral and Access to Finance

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

Age of the MSEs and Access to Finance

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

The size of the MSE and Access to Finance

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

Availability of information and Access to Finance

Small firms lack proper accounting procedures and owners easily mix their business and personal finances, making their financial statements often unreliable. Record keeping is particularly important to the integrity of the business. The prevailing corrupt tendency in the society, which has permeated the fabric of the society including entrepreneurs, have prevents most small and medium enterprises operators from keeping adequate records Osotimehin et al (2012). According to Aldaba (2011), MSEs, particularly the smaller ones, have been unable to access funds due to their limited track record, inadequate financial statements and business plans. Banks have continuously pointed out that the lack of credit information has deterred them from lending to MSEs. Without the necessary credit information, it is difficult to determine the credit worthiness of borrower firms. Therefore, in this study, the researcher is going to see the overall credit information including business financial statements and business plans of the MSEs whether to have access to credit or not.

Lack of Managerial skill and Access to finance

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

Performance of MSEs and Access to finance

According to Martin (2010) performance is defined simply in terms of output such as quantified objectives or profitability. Ondiege (1996) demonstrated that access to finance is associated with improved performance of MSEs in developing country. Moreover, Lundvall and Hjalmarsson (1998) show that manufacturing enterprises that have limited access to credit also tend to be less productive and cannot always move to points of best practice. This indicates that since the MSE sector does not have adequate access to credit, its potential role in transforming the country is unlikely to be realized. Therefore in this study performance of MSEs is going to be measured in terms of increase or decrease of profitability.

Methods of Data Analyses

The researcher is going to use descriptive statistics like correlation, chi-Square tests, mean, media, standard deviation, and frequency distribution in order to analyze the data at hand for this study. Descriptive statistics of correlations for the independent variables is going to be used to assess the multi co linearity among independent variables; Chi-Square tests are going to be used for two variables which are measured in nominal scale. Furthermore, a binary logistic regression model is going to be used to determine the significance of the impact of various factors affecting access to finance of MSEs. This model will incorporate the Factors (independent variables) to predict the Access to finance of MSEs. The dependent variable of this study has two categories (0 and 1). The value 0 indicates that access to finance firms and the value 1 indicates that the non-access to finance firms.

DATA ANALYSIS AND DISCUSSION

Data analysis and discussion

The data analysis and discussion was made based on the questionnaires distributed to the five sectors of MSEs of hosanna town namely trade, manufacturing, urban agriculture, construction and service. On top of this, the respondents were the managers of MSESs. Total of 146 questionnaires were distributed to146 MSEs Managers of which, 117 questionnaires were collected by using random sampling. Therefore, this data discussion and analysis was made by 117 numbers of questionnaire respondents.

Characteristics and types of business sectors

Type and Numbers of MSEs Included in the Study

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

Source own survey, 2016

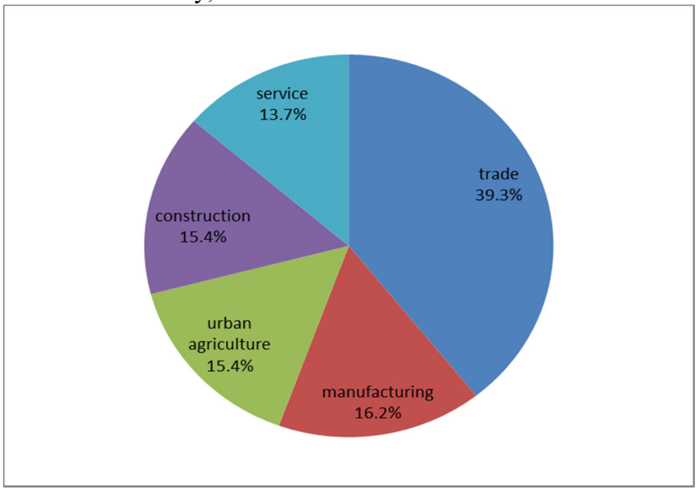

Figure 1Types and Number of MSEs

Table 2Types of business sector and its legal form

Table 2 siness sectors and legal form of MSEs

No.	Business sector	Sole proprietorship	Partnership	Total
1	Trade	22	24	46
		46.8%	34.8%	39.3%
2	Manufacturing	8	11	19
		17.0%	15.9%	16.2%
3	Urban agriculture	7	11	18
		14.9%	15.9%	15.4%
4	Construction	0	18	18
		0.0%	25.7%	15.4%
5	Service	10	6	16
		21.3%	8.6%	13.7%
	Total	47	70	117
		100.0%	100.0%	100.0%

Source, own survey study, 2016

Based on the output of the data from representative sample respondents five types of business sectors were incorporated in the study area such as trade, manufacturing, urban agriculture, construction, and service sectors. The legal forms of the MSEs engaged in different activities were also classified under to categories i.e. sole proprietorships and partnership. Thus, out of 117 sample respondents 46 (39.3%) engaged on trade sector, 19 (16.2%) engaged on manufacturing sector, 18 (15.4%) engaged on urban agriculture, 18 (15.4%) engaged on construction sector, and the remaining 16 (13.7%) engaged on service sector. Moreover, when these sectors are divided based on its legal form 47 sectors were sole proprietorship type and the remaining 70 were partnerships. Hence, based on the output of the data most of the business sectors were involved on trading activities and were partnership forms of business in the study area.

Sex of respondents and sector of the business

Table 3 Sex of the respondents and business sectors

No.	Sex of the respondents	Business sector					Total	Percent
		Trade	Manufacturing	Urban agriculture	Construction	Service		
1	Male	32	16	13	18	9	88	75.20
		36.4%	18.2%	14.8%	20.5%	10.2%	100.0%	
2	Female	14	3	5	0	7	29	24.80
		48.3%	10.3%	17.2%	0.0%	24.1%	100.0%	
Total		46	19	18	18	16	117	100
		39.3%	16.2%	15.4%	15.4%	13.7%	100.0%	

Source, own survey study, 2016

Once again from 117 sample respondents who engaged on the five sectors 88 (75.2%) were male and the remaining 29 (24.8%) were female respondents when they are classified based on sex of respondents using table 4.2. Moreover, out of the total 88 male respondents 32 (36.4%), 16 (18.2%), 13 (14.8%), 18 (20.5%) and the remaining 9 (10.2%) were involved on trade, manufacturing, urban agriculture, construction and service sectors respectively. In line with this, out of the total 29 female sample respondents 14(48.3%), 3 (10.3%), 5 (17.2%), and the remaining 7 (24.1%) were involved on trade, manufacturing, urban agriculture and service sectors respectively. However, no female respondents were found in the construction sector this might be due to the work load and difficulty of the job nature. In addition both male and female respondents were more involved in trade sector in the study area.

Source of startup (initial) finance of MSEs

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

Table 4 source of startup finance

No.	source of startup finance	Responses	
		N	Percent
1	From micro finance	62	39.2%
2	From relatives	32	20.3%
3	From personal saving	39	24.7%
4	From Equib	25	15.8%
Total		158	100.0%

Source, own survey study, 2016

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

Sourced funds from financial institutions and MSEs

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

Sourced funds from financial institutions

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

Source, own survey study, 2016

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

MSEs and Access to Finance

Table 5Firm Characteristics *by Access to Finance*

Independent variables		Access to finance %		X^2 value	p- value
		Yes (70)	No (43)		
Educational level of managers	Certificate and below	61	39	0.305	0.859
	College diploma	60.9	39.1		
	First degree	71.4	28.6		
Preparation of financial statement	Yes	80.5	19.5	43.59	0.000
	No	12.9	87.1		
Preparation of business plan	Yes	81	19	48.813	0.000
	No	7.1	92.9		
Level of profit	Increased	61.7	38.3	2.224	0.329
	Decreased	0	100		
	Remained the same	100	0		
Availability of collateral	Yes	80	20	3.36	0.067
	No	58.2	41.9		
		Access to finance mean (standard deviation)			
		Yes(70)	No(43)	T-value	p-value
Age of the MSEs		2.9 (1.979)	2.49 (1.919)	1.079	0.283
Number of employees		2.79 (2.245)	2.88 (2.291)	-0.224	0.824

Source, own survey study, 2016

Level of Education and Access to Finance

Based on the result of table 4.5 out of the total 117 respondents 70 respondents were replied yes for question related to access to finance, 43 respondents were replied no, and the remaining 4 of the respondents were reserved to respond for the question. In line with this, when the respondents were categorized based on their educational level in respect to access to finance; those respondents who acquired certificate and below constituted 61% and 39%, those who acquired college diploma constituted 60.9% and 39.1%, for those who acquired first degree constituted 71.4% and 28.6% for having access to finance and not having access to finance respectively in hosannatown from micro finance institutions. Moreover, the result of Pearson chi-square test (X^2 =0.305; P=0.859) result revealed that there is no statistically significant relationship between education level of managers and access to finance in the study area. When the findings of this study was compared with similar other studies conducted in different areas, (Nakos,etal, 1998) found that there is a positive relationship between educational level of managers and access to finance whereas the finding of this study revealed that there is no statistically significant relationship between educational level of managers and access to finance. This might indicates that, whether educational level of managers of MSEs increased or decreased in the study area; there is no any change in acquiring finance from financial institutions (micro finance institutions) and also managers have almost the same level of educational level i.e. certificate and below and college diploma this is because of MSEs are a group of poor individuals and their educational level is similar with each other. Therefore, their access to finance is not restricted with their educational level.

Preparation of Financial Statements and Access to Finance

Based on the output of table 4.5 for preparation of financial statements and access to finance 70 respondents were answered "yes" and the remaining 43 were answered "No". Among those respondents who answered "Yes" constituted 80.5% which have access to finance and the remaining 19.5% have no access to finance, even though they prepared their financial statements. Moreover, out of the total respondents who responded "No" for that question, 12.9% and 87.1% have access and have not access to finance in the study area respectively. Hence, the result of Pearson chi-square (X^2 =43.59, P=0.000) also revealed that there is a highly statistically significant relationship between preparation of financial statements and access to finance in the study area. The positive relationship between preparation of financial statement and access to finance found on this study was similar to the empirical results obtained by Aldaba, (2011). This implies that MSEs which were preparing their financial statement have access to finance for their smooth operation of their activities.

Preparation of business plan and Access to Finance

Based on the output of table 4.5 for preparations of plan and access to finance 70 respondents were answered "yes", 43 respondents were answered "No", and the remaining 4 were reserved to respond the question. Among those respondents who answered "Yes" 81% have access to finance and 19% have no access to finance even though they prepared their business plan. Moreover, out of the total respondents who respond "No" for the same question; 7.1% and 92.9% have access and have no access to finance in hosanna town respectively. Hence, the result of Pearson chi-square (X^2 =48.813, P=0.000) also revealed that there is a highly statistically significant relationship between preparation of business plan and access to finance in the study area. The relation is statistically significant at less than 1% probability level. The positive relationship between preparation of business plan and access to finance found on this study was similar to the empirical results obtained by Aldaba, (2011). This implies that preparation of business plan is a basic requirement for MSEs to have access to finance from financial institutions (micro finance institutions).

Level of profit and Access to Finance

Based on the output of table 4.5 for level of profit and access to finance 70 respondents were answered yes and the remaining 43 answered No as a whole. Among those respondents who answered "increased MSEs level of profitability" 61.7% have access to finance and the remaining 38.3% have no access to finance. Moreover, out of the total respondents who respond "decreased" for the same question; 100% have no access to finance in hosanna town and from those respondents who answered remaining the same 100 % have access to finance in the study area respectively. Hence, the result of Pearson chi-square (X^2 =2.224; P=0.329) also revealed that there is no statistically significant relationship between level of profit and access to finance in the study area. The negative relationship between level of profit and access to finance found on this study was similar to the empirical results obtained by Tucker and Lean, (2003); Gebru, (2009).This implies that the level of profit increased or remained the same for those MSEs in the study area have access to finance from micro finance institutions irrespective of their level of profit. This is because of the intention given for MSEs to enhance their growth and to create job opportunity for the individuals who are working under them.

Availability of Collateral and Access to Finance

Based on the output of table 4.5 for availability of collateral and access to finance 70 respondents were answered yes and the remaining 43 answered No as a whole. Among those respondents who answered "Yes" 80% have access to finance and the remaining 20% have no access to finance even though they can present collateral. Moreover, out of the total respondents who respond "NO" for the same question; 58.2% and 41.8% have access and have no access to finance in hosanna town respectively. Hence, the result of Pearson chi-square (X^2 =3.36; P=0.067) revealed that there is statistically a significant relationship between availability of collateral and access to finance in the study area. The positive relationship between availability of collateral and access to finance found on this study was similar to the empirical results obtained by Tucker and Lean, (2003), Gebru (2009). This implies that MSEs are getting access to finance (credit) from financial institutions only when they have collateral for the loans they applied for. Banks and other financial institutions are not willing to lend money for MSEs without availability of collaterals.

Age of MSEs and Access to Finance

Based on Table 4.5 for age of MSEs and access to finance; it is believed that when the MSEs stayed many years in operation they have a better chance in acquiring finance from financial institutions. Whereas, based on output of the data from sample MSEs from the study area showed that from that of 70 and 43 number of respondents; the mean age of the MSEs is 2.9 and 2.49 for those who have access and have no access to finance from financial institutions in the study area respectively and their standard deviation among them is also 1.979 and 1.919 respectively. Moreover, the result of T- test (t=1.079; P=0.283) showed that there is no statistically a significant relationship between firms age and access to finance in the study area. The negative relationship between age of MSEs and access to finance found on this study was similar to the empirical results obtained by Hall et al., (2004). This might be due to MSEs can get loan from micro finance institutions at their initial time when they saved 20% of the amount of the loan which are asked to get for their business.

Number of employees (firm size) and Access to Finance

According to the results obtained in Table 4.5 about the size of the firm and access to finance the output of the data from sample MSEs from that of 70 and 43 number of respondents; the mean number of employees were 2.79 and 2.88 for those who have access and have no access to finance from micro finance institution in the study area respectively and also their standard deviation among them was 2.245 and 2.291. Moreover, the value of T- test (T=-0.224; P=0.824) showed that there is no statistically significant relationship between number of employees and access to finance in the study area. The negative association between firm size and access to finance found on this study was not similar to the empirical results obtained by (Abor and Biekpe, 2009). This might be due to a number of MSEs are getting loan from financial institutions irrespective of the number employees which are working under the MSEs.

Challenges of MSEs in accessing finance

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

Table 6Challenges of MSEs in borrowing finance

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

Source, own survey study, 2016

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

Long time loan process and bureaucracy

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

Requirement of large amount of advance saving

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

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

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

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

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

CONCLUSION AND RECOMMENDATION

Conclusion

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

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

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

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

Recommendation

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

- ✓ MSEs have to prepare both financial statements and business plan in order to get loan from financial institutions.
- ✓ Microfinance institutions have to facilitate the supply of finance by improving long time for loan process and other bureaucracies.
- ✓ Policy makers of government bodies have to minimize the large amount of advance savings to supply loan to MSEs.
- ✓ Microfinance institutions have to adopt flexible loan repayment periods instead of short term loan repayment periods.
- ✓ Financial institutions have to provide loan to MSEs at fair interest rate.

- ✓ Financial institutions (MFI) have to adopt profit sharing loan provision system than providing loan at interest for those MSEs which are not willing to take loans at interest.

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