FACTORS AFFECTING CREDIT ACCESSIBILITY OF SMALL AND MEDIUM ENTERPRISES IN SOUTH WEST SHOA ZONE

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DEBEBE WORKINEH OLGA

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FACTORS AFFECTING CREDIT ACCESSIBILITY OF SMALL AND MEDIUM ENTERPRISES IN SOUTH WEST SHOA ZONE

DEBEBE WORKINEH OLGA

MAJOR ADVISOR: AREGA SEYOUM (PHD)

CO-ADVISOR: DESTA YOHANNES(MSc)

A THESIS SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, WOLKITE COLLEGE OF BUSINESS AND ECONOMICS, SCHOOL OF GRADUATE STUDIES

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DECLARATION

I hereby declare that this MSc thesis is my original work and has not been presented for a degree in any other university, and all sources of material used for this thesis have been duly acknowledged.

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This is to certify that the thesis entitled **"Factors Affecting Credit Accessibility of Small and Medium Enterprises in South West Shoa Zone"** submitted in partial fulfillment of the requirements for the degree of **Master's** with specialization in **Accounting and Finance**, the Graduate Program of the **Department of Accounting and Finance**, and has been carried out by **Debebe Workineh Olga** Id. No **GSE/007/10**, under our supervision. Therefore, we recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department.

Dr. Arega Seyoum		22/06/2020
Name of major advisor	Signature	Date
Mr.Desta Yohannes		22/06/2020
Name of major advisor	Signature	Date

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As members of the Board of Examiners of the final Master's degree open defense, we certify that we have read and evaluated the thesis prepared by **Debebe Workineh Olga** under the title **"Factors affecting credit accessibility of small and medium enterprises in South West Shoa Zone, Oromia Region, Ethiopia"** and recommend that it be accepted as fulfilling the thesis requirement for the degree of **Master of Science in Accounting and Finance.**

Mitiku Melese _____ _____

Name of the Chairperson Signature Date

Dagnachew Abera _____ _____

Name of Internal Examiner Signature Date

Abebaw Kassie (PHD) _____ _____

Name of External Examiner Signature Date

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_____ _____ _____

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ABBREVIATIONS

AWB	Awash Bank
AMFIs	Aggar Microfinance Institution
BIB	Birhan International Bank
BOA	Bank of Abyssinia
CBE	Commercial Bank of Ethiopia
CBO	Cooperative Bank of Oromia
DBE	Development Bank of Ethiopia
DB	Dashen Bank
EEA	Ethiopian Economic Association
EMFI	Eshet Microfinance Institution
FMSEDA	Federal Micro and Small Enterprises Development Agency
GDP	Gross Domestic Product
GTP	Growth and Transformational Plan
GTPII	Growth and Transformational Plan Two
LSMFI	Leyu Specialized Microfinance Institution
MDGs	Millennium Development Goals
MMFI	Metemamen Microfinance Institution
MLRM	Multiple Linear Regression Model
NBE	National Bank of Ethiopia
OIB	Oromia International Bank

OCSSCo	Oromia Credit and Saving Share Corporation
SMEs	Small and Medium Enterprises
SWSHZ	South West Shoa Zone
SWSHZEIDO	South West Shoa Zone Enterprises and Industry Development Office
WB	Wegegen Bank
VF	Vision Fund
WB	World Bank
WBG	World Bank Group
WTEIDO	Woliso Town Enterprises and Industry Development Office

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ABSTRACT

The purpose of this study is to investigate factors affecting credit accessibility of small and medium enterprises in south-west shoa zone. The main research objectives addressed in this study were: - To identify the extent of collateral requirement, how credit facility non-awareness, structure of financial sector, and distances from financial institutions affect credit accessibility, and to what extent management competency and small business support influences credit accessibility of small and medium enterprises in South West Shoa Zone. The study adopted both descriptive and explanatory research design. The population of the study consists of 1,193 Small and medium enterprises registered on Enterprise and Industry Development office of south-west shoa zone and Woliso Town Enterprise and Industry Development office. Stratified sampling technique has been used by dividing the population into two geographical areas to determine the total sample size of 299 enterprises. Both quantitative and qualitative data were used in the study. Data was collected using research questionnaires from sample selected of SMEs based on sampling techniques and structured interviewees conducted with 9 Banks and 6 microfinance institutions operating in the zone. Descriptive statistics was used to analyze data including frequencies, percentages, mean, standard error and confidence interval. Quantitative data were entered; cleaned and analyzed using stata13 version statistical software and using econometrics model; correlation and multiple regressions were used to show the relationship between variables. The study was employed credit accessibility as a dependent variable; while collateral requirement, credit facility non-awareness, structure of financial sector, distance from financial institutions, management competency and small business support were used as independent variables. The findings of the study shows collateral requirement, credit facility non-awareness, and structure of financial sector and distance from financial institutions have significant negative relationship, and management competency and small business support have positive relationship with credit accessibility of small and medium enterprises. The study recommended; financial institutions needed to consider receivable, inventory, equipment, and personal guarantee can be pledged as collateral, small and medium enterprises themselves take time to search for other financial institutions than limiting themselves to government microfinance, the concerned government body needed to make small and medium enterprises exhaustive awareness about credit facility in order to minimize his burden on small and medium enterprises in the country, financial institutions were needed to make exhaustive advertisement about credit terms and types they were providing, financial institutions needed to recognize small and medium enterprises up on organization of their structure, setting cost of financing, credit risk mitigation, setting credit policies and procedures, and liquidity risk calculation, financial institutions were needed to open their branches near to small and medium enterprises location, small and medium enterprise owners or managers needs managerial training to make sure their businesses are stable, and government needed to support small and medium enterprises in giving resources, market linkage, legalization and leasing.

Keywords; SMEs, credit accessibility, factors, FIs and SWSHZ

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

Small and medium enterprises have made significant contributions to the living standards of many people in Ethiopia (WBG, 2016). However, credit accessibility is the major problem affecting Small and medium enterprises in the country.

A financial system is a system that consists of a set of organized markets and institutions together with regulators of those markets and institutions (Peter H. and Keith B., 2007). Financial Institutions are institutions undertaking the function of intermediation between two parties. These parties are usually called lenders and borrowers or sometimes surplus sectors or units, and deficit sectors or units to create assets for savers and liabilities for borrowers which are more attractive to each than would be the case if the parties had to deal with each other directly (Peter H. and Keith B., 2007). Institutions that perform these essential functions of channeling funds from those with surplus funds to those with shortages of funds are banks, thrifts, insurance companies, securities firms and investment banks, finance companies, mutual funds, pension funds).

Even though, poverty and unemployment eradication are agendas of the government in Ethiopia in most of the time, small and medium enterprises are facing finance accessibility after they start their business to stay sustainable their business in the long run as most of them are accessible to micro finance institutions only. According to (Shepherd, 2011) business financing is a very important factor in growth and performance of businesses; he noted that one of the major problems in the new ventures and especially the small businesses is obtaining financial assistance. For the entrepreneur, available financing needs to be considered from the perspective of debts versus equity and using internal versus external funds. The concern of this study was debt financing or external credit facilities. The external finances or credit facility is the type of finance that is obtained from persons other than the actual owners of the company, which are creditors to the company. (Manasseh, 2010) noted that credit facilities can be in any of the following forms; loan debentures, overdrafts, lease finance, trade creditors, and many

others. Credit facility is important for the development of the national economy, but excessive lead to inflationary gap (Khudairi, 1987), (Catheart, 1982) clarified that bank credit is important in the comparison between financial sources, and (Hamzawi, 1997) clarified that the size of bank credit determines spending and purchasing power available in the economy, and increase saving and reduce consumption. Therefore, reducing this financing gap in low-income countries should raise the incentive to create SMEs and consequently improve economic growth and increase job creation. In addition, improving SMEs' access to finance is significantly important in promoting performance and firm productivity (World Bank, 2015).

The SMEs sector in Ethiopia is taken as an instrument in bringing about economic transition by effectively using the skill and talent of the people particularly women and youth without demanding high-level training, much capital and sophisticated technology (Ferdu N and Endris H, 2016). The Small and Medium Enterprises informal and Small Manufacturing Enterprise sector (SMES) contributed value added of Birr 8.3 million in 1996. Based on the 1992/93 data, this figure constitutes about 3.4% of the GDP, 33% of the industrial sector's contribution and 52% of the manufacturing sector's contribution to the GDP of the same year (Gebrehiwot, 2006). In Ethiopia, despite the introduction of private banking sector reform in 1994 that led to expansion of the banking industry, SMEs' problem of credit access has persisted implying that changes in the banking sector structure are not sufficient to introduce competition in the banking industry and an improvement in SME credit access cited by (Ayalneh M, 2018).

1.2 Statement of the Problem

Poverty and unemployment eradication are key development challenges over the decades in most developing economies. To overcome such challenges, they are creating job opportunity for their citizens by developing different types of businesses enterprises. However, these Business enterprises are facing credit accessibility challenges for sustainable growth in the long run. Globally, business growth is predicated upon many factors among these, is the ability of the business people to access credit facilities (Peter H. and Keith B., 2007). At the same time as some people have income which they do not wish to spend entirely upon current consumption, there will be those firms, people and

public authorities whose expenditure plans exceed their income, these plans can be realized only if their owners either draw on past savings or engage in borrowings (Peter H. and Keith B., 2007). Ninety percent of small and micro enterprises collapse in their first year of startup, due to lack of financial resources (White and Kenyon, 2010). It is typical of SMEs in Africa to be lacking in business skills, track record and collateral to meet the existing lending criteria of risk adverse banks (World Bank, 2013). The imbalance access to finance by SMEs and large enterprises has undermined the role of SMEs in the economic development of most African countries including Ethiopia.

When it was seen the case in our country, the development of SMEs sector in Ethiopia is believed to be the major source of employment and income generation for a wider group of the society in general and urban youth in particular. The five-year Growth and Transformation Plan (GTP) of Ethiopia envisages creating a total of three million micro and small scale enterprises at the end of the plan period (NBE, 2011). Citing the source from the Federal Micro and Small Enterprise Development Agency (FMSEDA), the EEA research brief noted that a total of seventy thousand five hundred (70,500) new MSEs were established in 2011/12 employing eight hundred six thousand three hundred (806,300) people across the country. The performance is below the target set in GTP (EEA, 2015).

A handful of studies have been made on the challenges of access to finance of SMEs in Ethiopia. For example, the study ((Ferdu N. and Endris H, 2016) discussed factors affecting finance accessibility SMEs on demand and supply sides. However, only a few factors were considered by the authors, and the study was conducted in seven big cities such as Addis Ababa, Dire Dawa, Hawassa, Adama, Kombolcha, Dessie and Mekelle) where large enterprises are undertaken with large volumes of transactions. Nonetheless, the majority of SMEs are operating in country side of Ethiopia like at Zones and Worda levels and most of them are facing finance accessibility problem. Moreover, (Ferdu N. and Endris H., 2016) try to address the problem using descriptive statistics and didn't used inferential statistics like correlation and multiple regressions analyses, which the current study was used all.

Though there were these similar studies conducted, the availability of the problem in the area and none of these studies thoroughly examined the effect of the following six factors; viz., Collateral requirement, Credit facility non-awareness, Structure of financial sector, the distance from financial institutions by SMEs, the influence of management competency on credit accessibility and the influence of supporting small business on credit accessibility, the researcher selected these factors. Even though (Ayalneh, 2018) attempted to conducted similar study, yet he delimited it to include only four factors; Firm characteristics, Cost of borrowing, Collateral requirements and Awareness of Funding Opportunity and recommends further similar research should be done covering other regions as this research only covered SMEs in Addis Ababa and policy that implemented to access loan/finance from financial institutions with minimum requirement of security / collateral.

Therefore, cognizant the fact that there is shortage of empirical evidence that comprehensively examine factors influencing credit accessibility by SMEs in the study area in general, and the absence of similar studies at zonal and woreda level in particular, the researcher initiated the current study to examine the major factors affecting credit accessibility of SMEs in South West Shoa zone of Oromia regional sate, Ethiopia.

1.3 Research Questions

The Study was tried to answer the following basic and specific research questions:

1.3.1 Basic Questions

"What are the major factors influencing credit accessibility of SMEs in south-west Shoa zone, Oromia regional state?"

1.3.2 Specific Questions

1. To what extent the collateral requirement affect credit accessibility of small and medium enterprises in south-west shoa zone?

2. How does credit facility non-awareness affect credit accessibility of small and medium enterprises in the zone? ,

3. How does structure of financial sector affect credit accessibility of small and medium enterprises in the zone? ,

4. To what extent the distance from financial institutions by SMEs can affect credit accessibility of SMEs in the zone?

5. To what extent management competency can influence credit accessibility of small and medium enterprises in the zone?

6. To what extent small business support influence credit accessibility of small and medium enterprises in south-west shoa zone?

1.4. Objective of the Study

1.4.1. General Objective

The general objective of the study is to investigate factors affecting credit accessibility of Small and Medium enterprises in South West Shoa Zone of Oromia Regional State.

1.4.2. Specific Objectives

Specifically, the proposed study assumes the following objectives:

- ✓ To identify collateral requirement affect credit accessibility of SMEs in SWSHZ
- ✓ To identify credit facility non-awareness significantly affects credit accessibility of SMEs in the study area.
- ✓ To identify the structure of financial sector significantly affect credit accessibility of SMEs in the Zone.
- ✓ To know the distances of SMEs from financial institutions significantly affects credit accessibility of SMEs in the study area.
- ✓ To identify management competency has significant influence on credit accessibility of SMEs in South West Shoa Zone.
- ✓ To identify support of Small business influences credit accessibility of SMEs in the study area
- ✓ Recommend on factors affecting credit accessibility of SMEs in the study area.

1.5. Research Hypotheses

Hypothesis is a formal statement that presents the expected relationship between an independent and dependent variable (Creswell, 1994). Hypothesis is defined as a proposition or a set of proposition set forth as an explanation for the occurrence of some specified group of phenomena either asserted merely as a provisional conjecture to guide some investigation or accepted as highly probable in the light of established facts. Quite often a research hypothesis is a predictive statement, capable of being tested by scientific methods, that relates an independent variable to some dependent variable (Kothari, 1990). In this research study, credit accessibility of SMEs was dependent variable and six factors; viz., Collateral requirement, Credit facility non-awareness, Structure of financial sector, the distance from financial institutions by SMEs, the influence of management competency on credit accessibility and the influence of supporting small business on credit accessibility were independent factor.

Null hypothesis (H_0): there is no relationship between dependent and independent variables.

Alternative hypothesis (H_1): there is relationship between dependent and independent variables (Kothari, 1990).

The study seeks to disprove the null hypothesis H_0 which represent independent factors cannot affect credit accessibility of SMEs in South West Shoa zone by proving the alternative hypothesis H_1 which represent independent factors are significantly affected credit accessibility of SMEs in South West Shoa zone (Kothari, 1990).

1.6. Significance of the study

This research study is very important as small and medium enterprises are the bridge of industrial transformation in developing country like Ethiopia and credit accessibility is the major challenges affecting them. The study also important for recommendation by other researcher similar research should be done covering other regions as this research only covered SMES in Addis Ababa (Ayalneh M, 2018) and The study findings should be utilized by researchers and academicians who would wish to advance, test or confirm

hypothesis regarding factors influencing credit accessibility of Small and medium enterprise.

Generally this study would benefit the following beneficiaries:

- Benefits as a source of knowledge for future references by people who have interest to gain insight about finance accessibility of SMEs
- It would provide relevant information for financial institution to include SMEs in their credit deployment areas.
- It would help the policy-makers to set proper credit policy for SMEs
- It would benefit SMEs in the study area on credit accessibility for their future business endeavor.
- It would contribute to GDP of the country by identifying the major factors affecting credit accessibility of SMEs in South West Shoa Zone of Oromia, Ethiopia.

1.7. Scope of the Study

The scope of this study was limited to factors affecting credit accessibility of Small and Medium enterprises in South West Shoa Zone of Oromia Region. The study was assumed six factors; viz., Collateral requirement, Credit facility non-awareness, Structure of financial sector, the distance of SMEs from financial institutions, the influence of management competency on credit accessibility and the influence of supporting small business on credit accessibility.

Data was obtained from 166 SMEs in Woliso town and 133 SMEs enterprises in woreda's of South West Shoa Zone which were selected by using stratified sampling method. These data were obtained from the first quarter report of fiscal year 2012 E.C.

1.8 Limitation of the study

The study targeted 299 selected sample of small and medium enterprises registered in south-west shoa zone of Oromia region. Out of 299 questionnaires distributed, 289 were filled and returned giving the study a response rate of 96.65%. Even though high response rate is registered, it is failed to collect 100% of the questionnaires distributed due to the expansion of 11 woreda's in the zone, shortage of time in connection to pandemic disease covid-19, and finance which makes the study difficult to collect the questionnaires on time. These are the limitations of the study.

1.9. Structure of the Study

The study has five chapters. The first chapter compresses background of the study, statement of the problem, research questions, objectives of the study, research hypothesis, significance of the study, scope of the study and structure of the study.

Chapter 2 presents related literature review with respect to the theoretical perspective and empirical studies on credit accessibility of SMEs. Chapter 3 provides the research design and methods and types of data collection in the study, in addition includes the main principles of research methodology and the employed research design in the study. The fourth chapter consists of presentation of data, analysis of findings, and discussions of the findings on the problem of the study sampling techniques and finally, chapter 5 provides conclusions, recommendations and recommendation for further research.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

This chapter demonstrates review of existing literature based on facts and theories. It includes theories and practices which are formulated to explain, predict, and understand phenomena and, in many cases, to challenge and extend existing knowledge within the limits of critical bounding assumptions on factors affecting credit accessibility of SMEs, levels of collateral requirement, credit facility non-awareness, the structure of financial sector, the effects of distance from financial institution by SMEs, management competencies on credit accessibility of SMEs and small business support on credit accessibility. The chapter also holds reviewed of theoretical literature, empirical studies, summary of literature and knowledge gap, and finally conceptual framework of the study.

2.1 Definition of Small and Medium enterprises in Ethiopia

Table 2.1 Small and medium enterprises' definition in Ethiopia

Enterprises	Sector	Number Of Employees	Capital	% of External Financing	Annual Sales turn over
Micro	Goods and Services	1-5	≤ 50,000	Above 30%	200,000
	Construction and Manufacturing		≤ 100,000	Above 50%	300,000
Small	Goods and Services	6-30	50,000 – 500,000	Above 30%	1,200,000
	Construction and Manufacturing		100,000 - 1,500,000	Above 50%	2,000,000
Medium	Goods and Services	31-99	Above 500,000	30%	Above 1,200,000
	Construction and Manufacturing		Above 1,500,000	50%	Above 2,000,000

Source :(NBE 2011), (FMSEDA, 2010 E.C), (WBG, 2016), (SWSHZEIDO, 2012 E.C) and (WTEIDO, 2012 E.C)

Micro, Small and Medium enterprises in Ethiopia are categorized as micro, small and medium based on number of employee they have employed, the amount of capital they have registered, their % age of credit accessibility, and the annual sales turn over they have record as portrayed in the above table 2.1. The researcher focuses only SMEs.

2.2 Theoretical Literature Review

A financial system is a system that consists of a set of organized markets and institutions together with regulators of those markets and institutions (Peter and Keith, 2007). Financial Institutions are institutions undertaking the function of intermediation between two parties. These parties are usually called lenders and borrowers or sometimes surplus sectors or units, and deficit sectors or units to create assets for savers and liabilities for borrowers which are more attractive to each than would be the case if the parties had to deal with each other directly (Peter and Keith, 2007). Institutions that perform these essential functions of channeling funds from those with surplus funds to those with shortages of funds are banks, thrifts, insurance companies, securities firms and investment banks, finance companies, mutual funds, pension funds). According to (Stieglitz and Weiss, 1981), the financial market imperfections play a central responsibility to the influence of the key decisions that concern the accumulation of capital by people in different occupations. For instance, in theories laying emphasis on capital accumulation, financial market imperfections determine the extent to which the young investors can borrow to invest in schooling or physical capital.

The environmental sector has in theory access to most generally available financing mechanisms from commercial banks and the investment sector - in an ideal world this might be sufficient. However, given the problems above, the sector has particular need for innovation in accessing finance geared to its needs (Delphi and Gmph, 1997).

2.2.1 Short Term Credit financing

‘‘Short term’’ refers to financing that will be repaid in 1 year or less. Short-term financing may be used to meet seasonal and temporary fluctuations in a company’s funds position as well as to meet permanent needs of the business (Jae and Joel, 2007). For

example, short-term financing may be used to provide extra net working capital, finance current assets, or provide interim financing for a long-term project. When compared to long-term financing, short-term financing has several advantages; for example, it is easier to arrange, it is less expensive, and it affords the borrower more flexibility (Jae and Joel, 2007). The drawbacks of short-term financing are that interest rates fluctuate more often, refinancing is frequently needed, and delinquent repayment may be detrimental to the credit rating of a borrower who is experiencing a liquidity problem. The sources of short-term financing are trade credit, bank loans, bankers' acceptances, finance company loans, commercial paper, receivable financing, and inventory financing (Jae and Joel, 2007). The merits of the different alternative sources of short-term financing are usually considered carefully before a firm borrows money. The factors bearing upon the selection of the source of short-term financing include:

1. Cost. 2. Effect on credit rating. Some sources of short-term financing may negatively affect the firm's credit rating. 3. Risk. The firm must consider the reliability of the source of funds for future borrowing. 4. Restrictions. Certain lenders may impose restrictions, such as requiring a minimum level of net working capital. 5. Flexibility. Certain lenders are more willing than others to work with the borrower, for example, to periodically adjust the amount of funds needed. 6. Expected money market conditions. 7. The inflation rates. 8. Corporate profitability and liquidity positions. 9. The stability of the firm's operations.

2.2.1.1 Trade Credit

Trade credit (accounts payable) refers to balances owed to suppliers. It is a spontaneous financing source since it comes from normal business operations. Trade credit is the least expensive form of financing inventory. The benefits of trade credit are: It is readily available, since suppliers want business; collateral is not required; interest is typically not demanded or, if so, the amount is minimal; it is convenient; and trade creditors are frequently lenient in the event of corporate financial problems (Jae and Joel, 2007). A company having liquidity problems may stretch its accounts payable; however, among the disadvantages of doing so are the giving up of any cash discount offered and the probability of lowering the firm's credit rating.

2.2.1.2 Banks Loans

The term 'bank' covers a wide variety of institutions whose principal function is to accept deposits and make loans (Peter and Keith, 2007). All deposit-taking institutions require a license which is granted by the regulatory body. But not all deposit-taking institutions are 'banks'. Since the 1980s there has been a remarkable trend towards merger and the globalization of banking activity, with the result that the major retail banking firms now include not just a retail banking division but also divisions specializing in other forms of banking (Peter and Keith, 2007). Retail banking involves the provision of loan and deposits facilities to the personal or household sector. It also includes banks which provide similar services to small and medium-sized firms (Peter and Keith, 2007). Both types of activity include payment services, and so banks operating in both parts of the retail sector are heavily involved in the payments' mechanism. Under the heading of wholesale banking 'corporate banks' are provided loan and deposits facilities to large corporate clients and also a large range of fee-based financial advice of relevance to the major private limited corporations. In addition, a range of institutions, known as 'investment banks', whose principal activities have little direct contact with conventional banking activity at all (loans and deposits) but are concerned mainly with the operation of security markets (Peter and Keith, 2007). Banks' income is earned from two principal sources. The lending rates are higher than deposit rates and this 'spread' forms the traditional source of profit for banks. But increasingly banks earn income from charging fees for advice and other services (Peter and Keith, 2007). Banks have the power to create money through lending and that they will frequently have a commercial interest in so doing.

To be eligible for a bank loan, a company must have sufficient equity and good liquidity. When a short-term bank loan is taken, the debtor usually signs a note, which is a written statement that the borrower agrees to repay the loan at the due date (Jae and Joel, 2007). A note payable may be paid at maturity or in installments. Bank loans are not spontaneous financing as is trade credit. But borrowers must apply for loans, and lenders must grant them. Without additional funds, a firm may have to restrict its plans; therefore, as a company's need for funds changes, it alters its borrowings from banks.

One example is a self-liquidating (seasonal) loan which is used to pay for a temporary increase in accounts receivable or inventory. As soon as the assets realize cash, the loan is repaid (Jae and Joel, 2007). Therefore, Banks are the most significant source of external finance to SMEs, and can exert considerable influence on SMEs.

Constraints on banks' lending

There are three sources of constraint: the first two are 'demand' constraints and the third one 'supply' constraint. Both types of constraint can form the basis for monetary control techniques. The first limitation on banks' ability to lend is the demand for bank lending. As remarked, banks charge interest on bank loans and expect people to borrow up to the point where the utility gained from the last pound borrowed is just equal to the cost of borrowing it. The utility of a bank loan lies not in the money itself, of course, but in the goods that can be purchased with it. Since the marginal utility of most goods is assumed to decrease with increasing quantities of the good, it follows that the utility associated with each addition to one's borrowing also diminishes. In short, it is expected the demand for bank lending to vary inversely with the rate of interest charged (Peter and Keith, 2007). A second factor limiting banks' ability to expand the total stock of bank deposits is the demand for money. It is the willingness of people to hold an expanding stock of bank deposits. Plainly, the simplest case is that where people are willing to hold exactly that expanding stock of deposits which results from other people's decisions to borrow. Both sets of demand conditions are consistent. The third factor limiting banks' lending is monetary base. It is the authority body action to decline to increase the supply of base money; banks are constrained in the amount of lending they can undertake. Therefore, bank charges, the bank's ability to expand deposit and the bank's ability to increase supply of money can be taken as structure of financial institution affecting credit accessibility of SMEs.

Eligible for Bank Loans

To be eligible for a bank loan, a company must have sufficient equity and good liquidity. When a short-term bank loan is taken, the debtor usually signs a note, which is a written statement that the borrower agrees to repay the loan at the due date (JAE and JOEL, 2007). A note payable may be paid at maturity or in installments. Bank loans are not spontaneous financing as is trade credit. Borrowers must apply for loans, and lenders must grant them. Without additional funds, a firm may have to restrict its plans; therefore, as a company's need for funds changes, it alters its borrowings from banks. One example is a self-liquidating (seasonal) loan which is used to pay for a temporary increase in accounts receivable or inventory. As soon as the assets realize cash, the loan is repaid. Loans, of course, earn interest, and the prime interest rate is the lowest interest rate applied to short term loans from a bank (Jae and Joel, 2007). Banks charge only their most creditworthy clients the prime rate; other borrowers are charged higher interest rates. Bank financing may take any of the following forms:

1. Unsecured Loans: - Most short-term unsecured loans are self-liquidating. This kind of loan is recommended for use by companies with excellent credit ratings for financing projects that have quick cash flows. They are appropriate when the firm must have immediate cash and can either repay the loan in the near future or quickly obtain longer-term financing. The disadvantages of this kind of loan are that, because it is made for the short term, it carries a higher interest rate than a secured loan and payment in a lump sum is required.

2. Secured Loans: If a borrower's credit rating is deficient, the bank may lend money only on a secured basis, that is, with some form of collateral behind the loan. Collateral may take many forms including inventory, accounts receivable, or fixed assets. In some cases, even though the company is able to obtain an unsecured loan, it may still give collateral in exchange for a lowest interest rate.

3. Lines of Credit: - Under a line of credit, the bank agrees to lend money to the borrower on a recurring basis up to a specified amount. Credit lines are typically established for a 1-year period and may be renewed annually. Construction companies often use such an

arrangement because they usually receive only minimal payments from their clients during construction, being compensated primarily at the end of a job. The advantages of a line of credit for a company are the easy and immediate access to funds during tight money market conditions and the ability to borrow only as much as needed and repay immediately when cash is available. The disadvantages relate to the collateral requirements and the additional financial information that must be presented to the bank. Also, the bank may place restrictions upon the company, such as ceiling on capital expenditures or the maintenance of a minimum level of working capital. Further, the bank will charge a commitment fee on the amount of the unused credit line. When a company borrows under a line of credit, it may be required to maintain a deposit with the bank that does not earn interest (Jae and Joel, 2007). This deposit is referred to as a compensating balance and is stated as a percentage of the loan. The compensating balance effectively increases the cost of the loan. A compensating balance may also be placed on the unused portion of a line of credit, in which case the interest rate would be reduced.

4. Installment Loans: - An installment loan requires monthly payments. When the principal on the loan decreases sufficiently, refinancing can take place at lower interest rates. The advantage of this kind of loan is that it may be tailored to satisfy a company's seasonal financing needs (Jae and Joel, 2007). Therefore, Banks in Ethiopia can develop such forms of loan products and SMEs in Ethiopia can access such facilities.

2.2.1.3 Bankers' Acceptances

A banker's acceptance is a draft, drawn by an individual and accepted by a bank that orders payment to a third party at a later date. The credit worthiness of the draft is of good quality because it has the backing of the bank, not the drawer. It is, in essence, a debt instrument created by the creditor out of a self-liquidating business transaction. Bankers' acceptances are often used to finance the shipment and handling of both domestic and foreign merchandise. Acceptances are classed as short-term financing because they typically have maturities of less than 180 days (Jae and Joel, 2007).

2.2.1.4 Commercial Finance Company Loans

When credit is unavailable from a bank, a company may have to go to a commercial finance company. The finance company loan has a higher interest rate than a bank, and generally is secured. Typically, the amount of collateral placed will be greater than the balance of the loan. Collateral includes accounts receivable, inventories, and fixed assets. Commercial finance companies also finance the installment purchases of industrial equipment by firms. A portion of their financing is sometimes obtained through commercial bank borrowing at wholesale rates (Jae and Joel, 2007).

2.2.1.5 Commercial Paper

Commercial paper can be issued only by companies possessing the highest credit ratings. Therefore, the interest rate is less than that of a bank loan, usually 0.5 percent below prime. Commercial paper is unsecured and sold at a discount in the form of short-term promissory notes. The maturity date is usually less than 270 days; otherwise Securities and Exchange Commission (SEC) registration is needed. When a note is sold at a discount, it means that interest is immediately deducted from the face of the note by the creditor, but the debtor will pay the full face value. Commercial paper may be issued through a dealer or directly placed to an institutional investor. The benefits of commercial paper are that no security is required, the interest rate is typically less than through bank or finance company borrowing, and the commercial paper dealer often offers financial advice. The drawbacks are that commercial paper can be issued only by large, financially sound companies, and commercial paper dealings relative to bank dealings are impersonal (Jae and Joel, 2007).

2.2.1.6 Receivable Financing

Receivable financing has several advantages, including avoiding the need for long-term financing and obtaining a recurring cash flow base. Accounts receivable financing has the drawback of high administrative costs when there are many small accounts. However, with the use of computers these costs can be curtailed. Accounts receivable may be financed under either a factoring or assignment arrangement. Factoring refers to the outright sale of accounts receivable to a bank or finance company without recourse. The

purchaser takes all credit and collection risks. The proceeds received by the selling company are equal to the face value of the receivables less the commission charge, which is typically 2 to 4 percent higher than the prime interest rate. The cost of the factoring arrangement is the factor's commission for credit investigation, interest on the unpaid balance of advanced funds, and a discount from the face value of the receivables where high credit risks exist. Remissions by customers are made directly to the factor (Jae and Joel, 2007). The assignment of accounts receivable has a number of advantages, including the immediate availability of cash, cash advances available on a seasonal basis, and avoidance of negative customer feelings. The disadvantages include the high cost, the continuance of the clerical function associated with accounts receivable, and the bearing of all credit risks. The financial manager should be aware of the impact of a change in accounts receivable policy on the cost of financing receivables (Jae and Joel, 2007). Therefore, Banks and other financial institution in Ethiopia can develop such forms of loan products and in order to SMEs in Ethiopia can access such facilities as well as SMEs in SWSHZ.

2.2.1.7 Inventory Financing

Financing inventory typically occurs when a company has fully used its borrowing capacity on receivables. Inventory financing requires the existence of marketable, non-perishable and standardized goods that have quick turnover. The merchandise should not be subject to rapid obsolescence. Good collateral inventory is that which can be marketed apart from the borrower's marketing organization. Inventory financing should take into account the price stability of the inventory and the expenses associated with selling it. The disadvantages of inventory financing include the high interest rate and the restrictions on some of the company's inventory. The vehicles of inventory financing include a floating (blanket) lien, warehouse receipt, and trust receipt. In the case of a floating lien, the creditor's security lies in the aggregate inventory rather than in its components. Even though the borrower sells and restocks, the lender's security interest continues. With a warehouse receipt, the lender receives an interest in the borrower's inventory stored at a public warehouse; however, the fixed costs of this arrangement are quite high. There may be a field warehouse arrangement where the warehouse sets up a

secured area directly at the debtor's location. The debtor has access to the goods but must continually account for them. With a trust receipt loan, the creditor has title to given goods but releases them to the borrower to sell on the creditor's behalf. As goods are sold, the borrower remits the funds to the lender. A good example of trust receipt use is in automobile dealer financing. The drawback of the trust receipt arrangement is that a trust receipt must be given for specific items. A collateral certificate may be issued by a third party to the lender guaranteeing the existence of pledged inventory. The advantage of a collateral certificate is flexibility since merchandise does not have to be segregated or possessed by the lender (Jae and Joel, 2007). It is very important for credit accessibility of SMEs in Ethiopia since it does not require fixed asset collateral as well as SMEs in SWSHZ.

2.2.1.8 Other Assets

Assets other than inventory and receivables may be used as security for short-term bank loans such as real estate, plant and equipment, cash surrender value of life insurance policies, and securities. Also, lenders are usually willing to advance a high percentage of the market value of bonds. The owner's personal assets may be pledged when the company's financial position is very weak. In addition, loans may be made based on a guaranty of a third party (Jae and Joel, 2007).

2.2.2 Long term Financing

Long term financing are with maturity with more than 1 year. They are indicated as follows

2.2.2.1 Intermediate-term loans

Intermediate-term loans are loans with maturity of more than 1 year. Intermediate-term loans are appropriate when short-term unsecured loans are not, such as when a business is acquired. The interest rate on an intermediate-term loan is generally higher than on a short-term loan because of the longer maturity date. The interest rate may be either fixed or variable (according to, for example, changes in the prime interest rate) (Jae and Joel, 2007). The cost of an intermediate-term loan varies with the amount of the loan and the

financial strength of the borrower. Ordinary intermediate-term loans are payable in periodic equal installments except for the last payment, which may be higher (referred to as a balloon payment). The schedule of loan payments should be based on the borrower's cash flow position to satisfy the debt (Jae and Joel, 2007).

2.2.2.2 Insurance Company Term loans

Insurance companies and other institutional lenders may extend intermediate-term loans to companies. Insurance companies generally accept loan maturity dates exceeding 10 years, but their rate of interest is often higher than that of bank loans. Insurance companies do not require compensating balances, but usually there is a prepayment penalty involved, which is typically not the case with a bank loan. A company may take out an insurance company loan when it desires a longer maturity range (Jae and Joel, 2007).

2.2.2.3 Equipment Financing

Equipment may serve as collateral for a loan. An advance is made against the market value of the equipment. The more marketable the equipment is, the higher the advance will be. Also, considered is the cost of selling the equipment. The repayment schedule is designed so that the market value of the equipment at any given time exceeds the unpaid principal balance of the loan. Equipment financing may be obtained from banks, finance companies, and manufacturers of equipment. Equipment loans may be secured by a chattel mortgage or a conditional sales contract. A chattel mortgage serves as a lien on property except for real estate. In a conditional sales contract, the seller of the equipment keeps title to it until the buyer has satisfied all the agreed terms; otherwise the seller will repossess the equipment (Jae and Joel, 2007). The buyer makes periodic payments to the seller over a specified time period. A conditional sales contract is generally used by small companies with low credit ratings.

2.2.2.4 Mortgages

Mortgages represent notes payable that serve as collateral real assets and require periodic payments. Mortgages can be issued to finance the acquisition of assets, construction of

plant, and modernization of facilities. The bank will require that the value of the property exceed the mortgage on that property. Most mortgage loans are for between 70 percent and 90 percent of the value of the collateral. Mortgages may be obtained from a bank, life insurance Company, or other financial institution. It is easier to obtain mortgage loans for multiple-use real assets than for single-use real assets. There are two kinds of mortgages: a senior mortgage, which has first claim on assets and earnings, and a junior mortgage, which has a subordinate lien. A mortgage may have a closed-end provision that prevents the firm from issuing additional debt of the same priority against the same property. If the mortgage is open-ended, the company can issue additional first-mortgage bonds against the property. Mortgages have a number of advantages, including favorable interest rates, less financing restrictions, and extended maturity date for loan repayment (Jae and Joel, 2007).

2.2.2.5 Bonds Payable

Long-term debt principally takes the form of bonds payable and loans payable. A bond is a certificate indicating that the company has borrowed a given sum of money that it agrees to repay at a future date. A written agreement, called an indenture, describes the features of the particular bond issue. The indenture is a contract between the company, the bondholder, and the trustee. The trustee makes sure that the company is meeting the terms of the bond contract. In many cases, the trustee is the trust department of a commercial bank. Although the trustee is an agent for the bondholder, it is selected by the company prior to the issuance of the bonds. The indenture provides for certain restrictions on the company such as a limitation on dividends and minimum working capital requirements. If a provision of the indenture is violated, the bonds are in default. The indenture may also have a negative pledge clause, which precludes the issuance of new debt that would take priority over existing debt in the event the company is liquidated. The clause can apply to assets currently held as well as to assets that may be purchased in the future (Jae and Joel, 2007).

2.2.2.6 Leasing

Leasing is the provision of finance to acquire a piece of capital equipment, with the finance secured by title to the equipment. It is a highly flexible form of finance used throughout business to finance everything from photocopiers to aircraft. Leasing works best where the equipment is movable and saleable, although it has been used more generally. It can be regarded as a form of sales financing. Leasing can often be combined with tax advantages (by transferring a tax credit to an organization that can use it) (Delphi and Gmph, 1997).

2.2.2.7 Venture Capital

Venture capital is a specialist form of investment which provides equity capital to small, new companies. Small companies with no track record can have difficulties raising capital from most investors, and venture capitalists aim to fill the gap. Venture capital is normally high return / high risk - venture capitalists expect to see returns of over 25% from their investments but accept that a certain number will fail. Normally, venture capitalists have a relatively long term focus, aiming to hold companies for several years before selling them. Venture capitalists generally take a significant stake in a relatively small number of companies and have a more active approach than most other types of investors, in terms of participating in management of the company. They will often have a seat on the board and will aim to advise and help companies in business strategy, finance etc. Venture capital often has a focus on technology, with information technology and biotechnology being recent favorites (Delphi and Gmph, 1997).

2.2.3 Credit facility non-awareness

Awareness of credit institutions, either formal or informal, is an essential demand-access element of credit. Individuals cannot choose to ask for a loan in an institution that they do not know. It has been recognized that access to financial services must be studied from the supply and demand sides of the market (Pearlman & Sarah, 2010). With respect to the demand side of the market (Claessens, 2013) explains that entrepreneurs are voluntarily excluded of the credit market if they are not aware of the service, do not need the service, or assume rejection. Thus, she suggests that in order to have access to the credit market

individuals should decide to be aware of the services. Even though awareness is the first step towards use, not much has been explored about the determinants of awareness of credit sources and their use.

2.2.4 Structure of financial institutions

2.2.4.1 The term structure of interest rates. The term structure of interest rates describes the relationship between long-term and short-term rates. The term structure is important both to corporate treasurers deciding whether to borrow by issuing long-term or short-term debt and to investors who are deciding whether to buy long-term or short-term credit facility (Michel and Eugene, 2011). Interest rates are high as it is an instrument used to curb inflation rates in different countries (World Bank, 2011). Many country studies show that rural women farming entrepreneurs are more likely to face higher interest rates, be required to collateralize a higher share of the loan, and have shorter-term loans (IFC, 2011).

The issue of high interest rates being charged on borrowers of funds has brought a huge challenge to young entrepreneurs who can only borrow in small amounts. In most cases, this has brought either closure or stagnation of their business and those who have not started the business investments end up not starting one due of lack of capital. SMEs suffer from loss of profitability and lack of investments, which promote growth, due to poor credit offered to them and non-access to bank loans (Giancarlo, 2012). This is due to high costs of borrowing from commercial banks and other financial institutions.

2.2.4.2. Interest Rate Risk

As such, if an institution happens to face an increase in the interest rates on its liabilities and at the same time, fails to increase its interest rate charged on loans to its clients due to competition, then the financial institution can become compromised.

From investment point of view, interest rate risk is the risk that arises for bond owners from fluctuating interest rates. How much interest rate risk a bond has depends on how sensitive its price is to interest rate changes in the market which depends on the bonds times to maturity and the coupon rate of the bond. And also from investment point of

view the interest rate risk is the risk that an investment's value will change due to a change in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve, or in any other interest rate relationship. Such changes usually affect securities inversely and can be reduced by diversifying (investing in fixed-income securities with different durations) or hedging (such as through an interest rate swap).

When market interest rates increase, prices on previously issued fixed-income securities as traded in the market decline, since potential investors are now more inclined to buy new securities that offer higher rates. Only by having lower selling prices can past securities with lower rates become competitive with securities issued after market interest rates have turned higher. Interest-rate risk of a debt instrument such as a bond can be determined in two ways. One way is to look at the term structure of a debt security by measuring its average term to maturity called duration. The other way is to measure the sensitivity of changes in a debt security's price associated with changes in its yield to maturity (Jae and Joel, 2007).

2.2.4.3. Foreign Exchange Risk

Foreign exchange risk (also known as FX risk, exchange rate risk or currency risk) is a financial risk that exists when a financial transaction is denominated in a currency other than that of the base currency of the company. Foreign exchange risk also exists when the foreign subsidiary of a firm maintains financial statements in a currency other than the reporting currency of the consolidated entity. The risk is that there may be an adverse movement in the exchange rate of the denomination currency in relation to the base currency before the date when the transaction is completed. Investors and businesses exporting or importing goods and services or making foreign investments have an exchange rate risk which can have severe financial consequences; but steps can be taken to manage (i.e. reduce) the risk (Peter and Keith, 2007).

2.2.4.4. Credit Risk

Credit risk is the risk of loss as a result of the non-performance by clients and other counterparties of their payment obligations to the Group. Credit risk concerns loans and advances, credit commitments and guarantees as well as market values of derives and any

holdings. Credit default risk is the risk that the issuer will fail to satisfy the terms of the obligation with respect to the timely payment of interest and repayment of the amount borrowed. To gauge credit default risk, investors rely on analysis performed by nationally recognized statistical rating organizations that perform credit analysis of issues and issuers and express their conclusions in the form of a credit rating (Jae and Joel, 2007).

2.2.4.5. Liquidity Risk

Liquidity risk is the risk stemming from the lack of marketability of an investment that cannot be bought or sold quickly enough to prevent or minimize a loss. It is the risk that may disable a bank from carrying out day-to-day cash transactions. Liquidity risk represents the possibility that an asset may not be sold on short notice for its market value. If an asset must be sold at a high discount, then it is said to have a substantial amount of liquidity risk (Jae and Joel, 2007).

2.2.4.6. Insolvency Risk

It is risk that an individual or especially a company may be unable to service its debts. Bankruptcy risk is greater when the individual or firm has little or no cash flow, or when it manages its assets poorly. Banks assess bankruptcy risk when considering whether to make a loan. Insolvency is a term for when an individual or organization can no longer meet its financial obligations with its lender or lenders as debts become due. Before an insolvent company or person gets involved in insolvency proceedings, it will likely be involved in informal arrangements with creditors, such as making alternative payment arrangements. Insolvency can arise from poor cash management, a reduction in cash inflow forecasts or from an increase in expenses (Peter and Keith, 2007). When a business becomes insolvent, it does not have enough cash to meet its interest and principal payments. A decision must then be made whether to dissolve the firm through liquidation or to permit it to reorganize and thus stay alive (Michel and Eugene, 2011).

2.2.4.7 The regulation of financial markets

The financial services' industry has always been politically sensitive and, consequently, heavily regulated. Such regulation has many aspects. It may be concerned with the degree of competition in a market, the protection of consumers of financial services, the

encouragement of small investors, the capital adequacy of financial institutions, the ability of small firms to obtain venture capital, or the preservation of the reputation of the market and the practitioners in it (Peter and Keith, 2007). As well as theoretical arguments for and against regulation in general, there are practical explanations of the regulation of specific segments of the financial sector. The banking industry, for instance, relies on public confidence.

2.2.5 Management Competency

One of the obstacles to the success of an enterprise is lack of willingness to take risk. Fear of failure and embarrassment prevent people with ideas not to explore them and venture into a competitive stage. Many young entrepreneurs fear risks arising from their immediate social environment (Nieman & Neuwenhuizen, 2010). According to studies by (Olawale and Lynety, 2011), they observed that breadth of the experience is one of the initiatives that can be designed to enhance skills and knowledge among the youths. Entrepreneurial skills include creativity, innovation, risk-taking and ability to interpret successful entrepreneurial role models and identification of opportunities. Entrepreneurial education thus provides basics of such practical business practices. The (Olawale and Lynety, 2010) continue to assert that low levels of financial literacy can influence the degree to which organized youth group Entrepreneurs access formal sources of finance. These studies noted that entrepreneurship education should be made accessible to all tertiary learners in order to be equipped for business practices. In addition, expert financial training greatly increases the chances of entrepreneurs securing appropriate and affordable finance. Further, these studies recommended that entrepreneurial finance skills and competencies should be cultivated into youths all the way from institutions of learning (Olawale and Lynety, 2011).

2.2.6 Supporting of Small Businesses

(Christian A, 2016), Governments can support SMEs in various ways, by promoting: policy or legislative measures such as credit, technical assistance and fiscal incentives, and by providing business development services such as training, advisory services, information, and technology transfer. For rural enterprises, extension services and

marketing support can be especially valuable. Targeted technical assistance, information and advisory services, and finance to specific enterprises and value chain programs whereby SMEs are linked to large corporations as suppliers or distributers as well as procurement and local content programs whereby governments and/or large company source inputs or services from domestic SMEs are the major support can be given to SMEs.

2.2.8 Small and Medium Enterprises in Ethiopia

Ethiopia is currently implementing a five-year (2010/11-2014/15) Growth and Transformation Plan (GTP) in line with its long-term vision of achieving rapid, sustainable and equitable socioeconomic growth and development, reducing poverty, and meeting the Millennium Development Goals (MDGs) within the framework of macroeconomic stability (WBG, 2015). In order to promote the SME sector the Government intends to facilitate the development of industrial clusters, for interconnected firms in a particular field with links to related institutions such as financial service providers, technical and vocational educational institutions, and various levels of government institutions. These initiatives aim to enable firms to overcome constraints in the areas of capital, skills, technology, logistics as well as to grow and compete by fostering production value chains and achieving efficiency gains. According to the Micro and Small Enterprises Development Strategy of the GTP, SMEs are given strategic focus by the Government due to the fact that they play an essential role in the country's industrial development plan and in the creation of employment opportunities in urban centers with the ambitious objective of 3.4 million jobs expected to be added to this segment over the five-year GTP period and training provided to over 3 million operators (WBG, 2015).

Over the past decade, Ethiopia has achieved high economic growth, averaging 10.7 percent per year (World Bank, 2013) establishing the country among the fastest growing economies both in Africa and the developing world. This growth momentum has continued through the first two years of the GTP period and inflation has declined to single digits (from its peak of 40 percent in July 2011 to around 7 percent in June 2013), significantly reducing the distortianary effects that a negative real interest rate

environment was having on financial intermediation. For the country to reach the middle income status by 2025 as indicated in the GTPII, the conditions for an increased scope of the private sector should be created. In fact, despite the impressive results achieved through the public sector-led growth strategy centered on high public investments promoted by the Government, the challenge of strengthening the competitiveness of the economy requires the support of the private sector as an additional engine of growth.

2.2.9 Overview of Financial Sector in Ethiopia

Ethiopia's financial sector is dominated by the banking sector (commercial banks) which currently represents more than 92.6 percent of total assets of the financial sector, excluding the assets of the Development Bank of Ethiopia (DBE) and National Bank of Ethiopia (NBE). MFIs constitute 5.2 percent and insurance companies 2.2 percent of the total financial sector assets. There is a considerable increase in assets of MFIs from 4.4 percent of the total financial sector assets in 2005/06 to 5.2 percent in 2011/12 demonstrating the increasing role of microfinance institutions in poverty alleviation, asset building and employment creation particularly in rural communities (WBG, 2015).

Financial intermediation is a driving force for economic development: an expansion in credit to the private sector in fact enables firms to invest in productive capacity thereby laying the foundation for a sustainable growth path. However, Ethiopia is falling behind its peers in this area. In 2011, credit to the private sector in Ethiopia was equivalent to about 14 percent of GDP compared to the regional average of 23 percent of GDP. Moreover, while the worldwide trend has been an increase in private sector credit, Ethiopia has experienced a decline of about 5 percentage points since 2004 (WBG, 2015).

2.3 Empirical literature Review

Hand full related studies are conducted by different researchers in different countries. The aim of this study was focused on analyses of factors affecting credit accessibility of SMEs in SWSHZ, Oromia Regional State, Ethiopia.

According to (WBG, 2015), the share of private banks in outstanding credit lending has dropped from 39 percent of the market share in 2009/10 to 32 percent in 2011/12 while that of the public banks rose from 61 to 68 percent during the same period, 2009/10 to 2011/12. The total disbursement of public banks has almost tripled in the last three years during 2009-2012 as public banks (particularly the Commercial Bank of Ethiopia) focused on financing large scale public infrastructure projects. At the same time, the lending capacity of Development Bank of Ethiopia was enhanced through the introduction of NBE bills while the annual new credit disbursement of private banks has increased by only 28 percent in the same period.

The microfinance sector: Microfinance is a dynamically developing sector in the financial industry in Ethiopia. At the end of 2012, there were 30 licensed microfinance institutions (MFIs) operating in Ethiopia. Their deposits amounted to Birr 5.5 billion and represented the savings of 2.6 million clients. Some MFIs are sizeable financial institutions in their own rights and bigger than some of the commercial banks. The sector is highly concentrated, with the 5 largest MFIs (owned by regional governments and operating in different regions without competing with each other) corresponding to 89% of total sector assets and 83% of total borrowers (WBG, 2015). The predominant loan methodology is group loans, but some MFIs have started to offer individual loans. This development needs to be expanded to support the development of MSMEs. MFIs are not yet exchanging information through the credit bureau at the National Bank of Ethiopia, although the credit bureau's technology would allow for it.

Access to financial services: Access to financial services remains highly limited all over Ethiopia with only 1.97 commercial bank branches and 0.33 ATM per 100,000 adults. Access to finance remains a top obstacle for enterprises (WBG, 2015). The recently published data of the 2011 Ethiopia Enterprise Survey (WB, 2012) confirm that access to finance remains a top obstacle for enterprises: this is perceived as the main business environment constraint by micro (41%), small (36%), and medium (29%) enterprises in Ethiopia, compared to an SSA average of 24%, 20%, and 16% respectively (WBG, 2015). The same survey indicates that almost 93% of small enterprises and over 95% of medium enterprises have either a checking or a savings account (a percentage higher than

the respective SSA averages) but only 3% of small enterprises and 23% of Medium Enterprises have a loan or line of credit. The low percentage can be explained among other factor that extremely high value of collateral needed for a loan, corresponding to 249.3% (253.5%) of the loan amount for small (medium) enterprises, against a SSA average of 160%. This also means that there is a very high potential for profitable cross-selling to be exploited by banks if they target these existing account holders and offer them credit. Owner's and manager's characteristics affect SMEs ability to access finance especially from formal financial institutions.

Schmitz (1982) cited (Ferdu and Endris, 2016), highlighted that the small scale producers in developing countries fail to expand primarily because they lack managerial ability (Ferdu and Endris, 2016). Similarly, the location of the enterprises also plays an important role in their creditworthiness level (Berger and Odell, 2006) cited by (Ferdu and Endris, 2016). Found that the geographical proximity of SMEs to their respective banks affect positively the banks' decision-making. It enables the loan officers to obtain better environmental information about the borrowing enterprises. (Gilbert,2008) pointed out that urban firms have better chance in accessing credits from banks than those who are in rural areas or poor urban areas as cited by (Ferdu and Endris, 2016).

On the other hand, Myers (1984) cited by (Ferdu and Endris, 2016) argued that the industry may not determine the capital structure of SMEs but can indirectly influence the firm's asset structures. He argued the structure of financial sector in which the company operates may also impact the decision of banks while appraising loan proposals.

(Tafa, 2011) examined SMEs accounting practice and its effect on accessing finance in Addis Ababa to provide empirical evidence of for the gap. He finds out poor record keeping and accounting information make it difficult for financial institutions to evaluate potential risks and returns, making them unwilling to lend to SMEs. He also pointed out age of the firm and collateral are also the other determinant factor of the access to finance.

(Ferdu N. and Endris H, 2016) discusses only factors affecting finance accessibility SMEs on demand and supply sides and only a few factors were considered by the

authors, and the study was conducted in seven big cities such as Addis Ababa, Dire Dawa, Hawassa, Adama, Kombolcha, Dessie and Mekelle where large enterprises are undertaken with large volumes of transactions. However, the majority of SMEs are operating in country side of Ethiopia like at Zones and Worda levels and most of them are facing finance accessibility problem. Moreover, (Ferdu N. and Endris H., 2016) try to address the problem using descriptive statistics and didn't use inferential statistics like correlation and multiple regressions analyses, which the current study is used. (Tafa, 2011) also limited to accounting practices of SMEs which affect their finance accessibility, limited to Addis Ababa city and did not formulate model for his study which current study formulated model for the problem. (Ayalneh M., 2018) attempted to conducted similar study, yet he delimited it to include only four factors; firm characteristics, cost of borrowing, collateral requirements and awareness of funding opportunity and recommends further similar research should be done covering other regions as his research only covered SMEs in Addis Ababa and policy that implemented to access loan/finance from financial institutions with minimum requirement of security / collateral.

Therefore, none of these studies thoroughly examined the effect of the following six factors; viz., Collateral requirement, Credit facility non-awareness, Structure of financial sector, the distance from financial institutions by SMEs, the influence of management competency on credit accessibility and the influence of supporting small business on credit accessibility. Having this fact that there is shortage of empirical evidence that comprehensively examine the factors influencing access to finance by SMEs in general, and the absence of similar studies at zonal and woreda level in particular, the student researcher initiates the current study to examine the major factors affecting credit accessibility of SMEs in South West Shoa Zone, Oromia Regional State, Ethiopia.

2.4 Summary of Literature and knowledge gap

From review of existing literature based on facts and theories, there are several types of credit financing like; trade credit, unsecured bank loans, Inventories, account receivables or fixed assets, line of credits, Installment loans, bankers acceptance, commercial papers, equipment or mortgage, bonds payable and extra in order to minimize factors affecting

credit accessibility of SMEs. Having these theories and facts, the study is going to recommend the best way to overcome on the factors affecting credit accessibility of SMEs in South West Shoa Zone, Oromia Regiomal State, Ethiopia

From the review of empirical literature, Banks are the major source of finance and financing large scale of projects. At the same time, the lending capacities of both private and public banks are increasing in Ethiopia. However, MFIs are supporting the development of SMEs in Ethiopia than banks (WBG, 2016). This study is proposed to recommend on the best way banks give credit support to SMEs which the previous studies did not.

A study conducted by (Ferdu N. and Endris H, 2016) discusses only factors affecting finance accessibility SMEs on demand and supply sides and only a few factors were considered by the authors, and the study was conducted in seven big cities such as Addis Ababa, Dire Dawa, Hawassa, Adama, Kombolcha, Dessie and Mekelle where large enterprises are undertaken with large volumes of transactions. However, the majority of SMEs are operating in country side of Ethiopia like at Zones and Worda levels and most of them are facing finance accessibility problem. Moreover, (Ferdu N. and Endris H., 2016) try to address the problem using descriptive statistics and didn't use inferential statistics like correlation and multiple regressions analyses, which the current study is used.

On the other hand, (Tafa, 2011) also limited to accounting practices of SMEs which affect their finance accessibility, it is limited to Addis Ababa city and did not formulate model for his study which current study formulated. Similarly, (Ayalneh, 2018) attempted to conducted similar study and delimited to include only four factors; firm characteristics, cost of borrowing, collateral requirements and awareness of funding Opportunity and recommends further similar research should be done covering other regions as this research only covered SMEs in Addis Ababa and policy that implemented to access loan/finance from financial institutions with minimum requirement of security / collateral.

Therefore, none of these studies thoroughly examined the effect of the following six factors; viz., collateral requirement, credit facility non-awareness, structure of financial sector, the distance from financial institutions by SMEs, the influence of management competency on credit accessibility and the influence of supporting small business on credit accessibility.

Having this fact that there is shortage of empirical evidence that comprehensively examine the factors influencing access to finance by SMEs in general, and the absence of similar studies at zonal and woreda level in particular, the student researcher initiates the current study to examine the major factors affecting credit accessibility of SMEs in South West Shoa Zone of Oromia Regional State, Ethiopia.

2.5 Conceptual Framework of the study

A conceptual framework is a product of qualitative process of theorization which interlinks concept that together provides a comprehensive understanding of a phenomenon or phenomena (Jabareen, 2009). The concepts that constitute a conceptual framework support one another, articulate their respective phenomena, and establish a framework-specific philosophy that defines relationships.

The conceptual framework of this study relates the influence of independent variables; collateral requirement, credit facility non-awareness, structure of financial sector, distance from financial institution, management competency, small business support on the dependent variable; access to credit facilities by small and medium enterprises in South West Shoa Zone of Oromia regional state, Ethiopia.

The measures or indicators for access to finance include the amount of financing provided to SMEs as credit accessibility, number of SMEs accessing the finance (loans), and the distance of SMEs in the Zone from financial institution measured by km.

Collateral is the assets required by financial institutions to secure the repayment of credit facility to be granted. It can be minimized through financing commercial paper, share certificate, deposit certificate, payable, receivable, plant, equipment, inventory, mortgage, lease, and venture capital financing.

Credit facility non-awareness is the exclusion of SMEs from credit accessibility and non-awareness of types and terms of credit facility provided by FIs, which can be solved through creating awareness by both FIs and government organs.

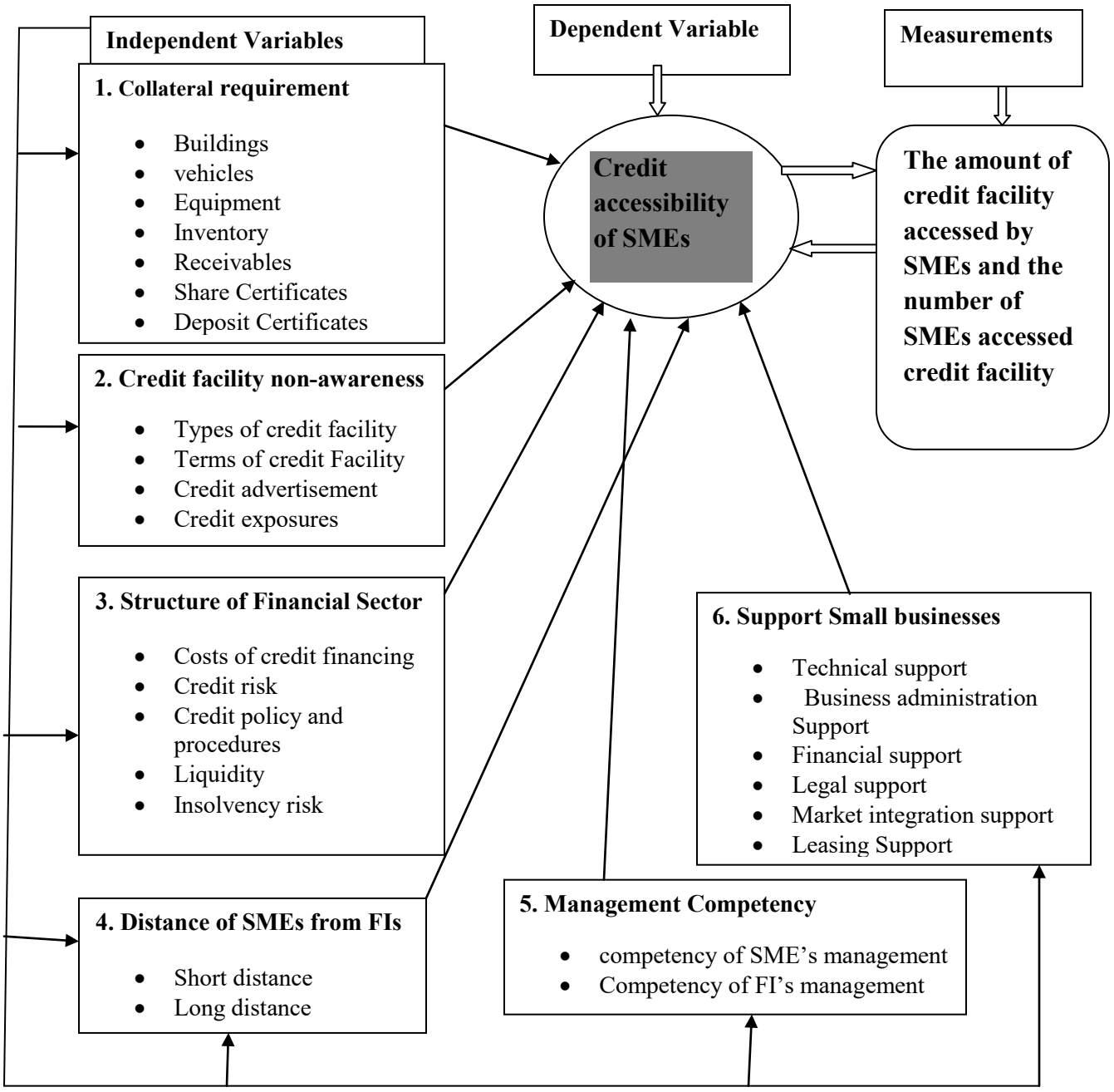
The structure of financial sector is centralization or decentralization position, charges, risk mitigation, liquidity or insolvency, and policies and procedures of financial institutions on credit accessibility of SMEs. It can be simplified by setting sound special policies and procedures for SMEs.

Distance of SMEs from FIs affecting credit accessibility of them will be simplified by setting policies to open branches of credit providing FIs in local areas like woreda's and zones.

The influences of management competency on credit accessibility of SMEs will be strengthened by making competent management for both SMEs and FIs.

Finally, giving technical, financial, legal, business administration, market integration and leasing support will increase credit accessibility of SMEs.

Figure 2.1 Conceptual frameworks showing the relationship among variables



(Source: Researcher's own construct based on theoretical literature review)

CHAPTER THREE

3 .RESEARCH DESIGN AND METHODOLOGY

In this chapter, the study concentrates on the research design and methodology that were used in the study. It includes subsections in this order: research design, methodology, data analysis techniques and then finally, model specification.

3.1 Research Design

The study adopted both descriptive and explanatory research design along with correlation and multiple linear regression analysis. The explanatory research design was used to explain the basic concepts of the study, to increase the analyst's interest in the problem and to clarify ambiguous situations or discover ideas that may be potential business opportunities in the study area. A mixed methods approach is useful to capture the best of both quantitative and qualitative approaches (Creswell, 2003). The use of both methods also ensures that the data would be effectively interpreted and analyzed using the statistical analysis, descriptive figures as well as the narrative explanation. Descriptive study was conducted to describe characteristics of objects, people, groups, organizations, or environments as well as to discover association/correlation among different variables and the researcher have no control over variables rather addressing the relationship between variables. The descriptive research design also encourages developing the skills of evaluating data and synthesizing ideas, which are higher-order skills than those of accurate description (Mark, Philip, and Adrian, 2007). So, the current study used correlation and multiple regression analysis to show the relationship between dependent and independent variables, and used descriptive analysis for statements on dimension of independent variables.

3.1.1 Types of Data

This research was used mix of quantitative and qualitative research approach. Because it was used survey questionnaires to collect quantitative data and structured interviewee to collect qualitative data which help business research mix use of data collection and analysis (Greener, 2008).

3.1.1.1 Quantitative Data

Quantitative research is based on the measurement of quantity or amount. It is applicable to phenomena that can be expressed in terms of quantity (Kothari, 2004). Quantitative research is a means for testing objective theories by examining the relationship among variables (Creswell, 2003). According to (Jonker and Pennink,2010), quantitative research is often regarded as being purely scientific, justifiable, and precise and based on facts often reflected in exact figures. This approach often appears when the audience consists of individuals or readers with a quantitative orientation. This quantitative research approach can be furthered sub-classified into inferential survey research, experimental, and simulation approaches (Jonker and Pennink, 2010) cited by (Creswell, 2003).

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. Experimental approach is characterized by much greater control over the research environment and in this case some variables are manipulated to observe their effect on other variables. Simulation approach involves the construction of an artificial environment within which relevant information and data can be generated (Kothari, 2004). Therefore, this particular research study was used quantitative data with inferential research approach.

3.1.1.2. Qualitative Data

Qualitative research is concerned with qualitative phenomenon, which means that, phenomena relating to or involving quality or kind (Kothari, 2003). In Qualitative research approach the researcher often makes knowledge claims based primarily on the multiple meanings of individual experiences, socially and historically constructed meanings, participation in issues, collaboration or change oriented with an intent of developing a theory or pattern or advocacy/participatory perspectives (Creswell 2003). According to (Kothari, 2003) in this method the researchers uses mostly the closed ended questions. Closed questions have the advantages of easy handling, simple to answer,

quick and relatively inexpensive to analyze. In this particular study qualitative data was gathered through structured interviewee from loan or credit officers or branch managers of 9 banks and 6 microfinance institutions operating in South-West Shoa Zone and investigated.

3.2 Methodology

The target population of the study consist a total of 1,193 out of which 530 Small and Medium enterprises registered on Enterprise and Industry Development office of south west shoa zone and 663 enterprises registered on Woliso town Enterprise and Industry Development office. Stratified sampling technique was used since the population of the study already registered in two offices according to geographical location of the zone; woliso town and woreda's and total sample size of 299 enterprises was drawn from the total population by using Taro Yamane's simplified formula for proportions n = $\frac{N}{1+N\,e^2}$ (Yamane, 1973) at 95% confidence level of certainty and 5% level of sampling error to be considered. Qualitative data was gathered through interviewing Loan/Credit officer or Branch Managers of Financial Institutions operating in South West Shoa Zone.

3.2.1. Source of Data

The study was used both primary and secondary source of data in the investigation of the extent of collateral requirement, how does credit facility non-awareness, how does structure of financial sector, to what extent distance from financial institutions, to what extent managerial competency and the extent of small business support influences credit accessibility of small and medium enterprises in south west shoa zone.

3.2.1.1 Primary Data

The study was collected primary data using questionnaires and interviews. Survey research design strategy was used by preparing research questionnaires as a general term to include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order (Mark, Philip, and Adrian, 2007). Questionnaire is one of the most widely used data collection techniques within the survey strategy, because each person (respondent) is asked to respond to the same set of

questions, it provides an efficient way of collecting responses from a large sample prior to quantitative analysis (Mark, Philip, and Adrian, 2007). Therefore, the study was used closed ended questionnaires in line with the objectives of the study. The questionnaire was contained two sections. The first section sought to establish the respondent's general information while the second section seeks to establish the respondents' opinions on the seven objectives of the study which were: To identify the extent of collateral requirement, how credit facility non-awareness, structure of financial sector, and distances from financial institutions affect credit accessibility, and to what extent management competency and small business support influences credit accessibility of small and medium enterprises in South West Shoa Zone as well as recommend on factors that were affecting credit accessibility of SMEs.

The study used non comparative itemized (verbal) rating scale of Likert, which is a widely used rating scale that requires the respondents to indicate a degree of agreement or disagreement with each of a series of statements about the stimulus objects for closed ended questions. Typically, each scale item has five response categories, ranging from 'strongly disagree' to 'strongly agree', the numeric values one (1) to five (5) were used having one being the least score and five being the most score (Kothari, 2003).

An interview is a purposeful discussion between two or more people (Mark, Philip, and Adrian, 2007). The uses of interviews help the researcher to gather valid and reliable data that are relevant to the research question(s) and objectives. Structured interviews use questionnaires based on a predetermined and standardized or identical set of questions and the researcher refer to them as interviewer-administered questionnaires as well as the researcher read out each question and then record the response on a standardized schedule, usually with pre-coded answers which is used to collect quantifiable data. It is also referred to as quantitative research interviews (Mark, Philip, and Adrian, 2007). By comparison, semi-structured and in-depth (unstructured) interviews are non-standardized used to collect qualitative date often referred qualitative research interviews. More frequently descriptive research study use structured interviewee (Mark, Philip, and Adrian, 2007). Therefore, this research study used structured interviewee technique to collect data from 9 Banks and 6 Micro finance institution's managers or credit officers

operating in the Zone, since there are 9 banks and 6 MFIs are operating in the study area. The structured interviewee would be validated in terms of number and amount.

3.2.1.2 Secondary Data

Secondary data means data that are already available i.e., they refer to the data which have already been collected and analyzed by someone else. Usually published data are available in:- (a) various publications of the central, state are local governments; (b) various publications of foreign governments or of international bodies and their subsidiary organizations; (c) technical and trade journals; (d) books, magazines and newspapers; (e) reports and publications of various associations connected with business and industry, banks, stock exchanges, etc.; (f) reports prepared by research scholars, universities, economists, etc. in different fields; and (g) public records and statistics, historical documents, and other sources of published information. The sources of unpublished data are many; they may be found in diaries, letters, unpublished biographies and autobiographies and also may be available with scholars and research workers, trade associations, labor bureaus and other public/ private individuals and organizations (Kothari, 2004).

In this particular research study secondary data like credit records, reports and other secondary data about SMEs available in banks and micro finance institutions operating in SWSHZ would be analyzed.

3.2.2 Sampling Design

All items in any field of inquiry constitute a 'Universe' or 'Population.' A complete enumeration of all items in the 'population' is known as a census inquiry. It can be presumed that in such an inquiry, when all items are covered, no element of chance is left and highest accuracy is obtained. But in practice this may not be true. Even the slightest element of bias in such an inquiry will get larger and larger as the number of observation increases. Moreover, there is no way of checking the element of bias or its extent except through a resurvey or use of sample checks (Kothari, 2004). When field studies are undertaken in practical life, considerations of time and cost almost invariably lead to a selection of respondents i.e., selection of only a few items. The respondents selected

should be as representative of the total population as possible in order to produce a miniature cross-section. The selected respondents constitute what is technically called a 'sample' and the selection process is called 'sampling technique.' The survey so conducted is known as 'sample survey'. Algebraically, let the population size be N and if a part of size n (which is < N) of this population is selected according to some rule for studying some characteristic of the population, the group consisting of these n units is known as 'sample'. Researcher must prepare a sample design for his study i.e., he must plan how a sample should be selected and of what size such a sample would be (Kothari, 2004). A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. There are many sample designs from which a researcher can choose. Some designs are relatively more precise and easier to apply than others. Researcher must select/prepare a sample design which should be reliable and appropriate for his research study (C.R. Kothari, 2004).

3.2.2.1 Sample Size

Sample size refers to the number of items to be selected from the universe to constitute a sample. The size of sample should neither be excessively large, nor too small. It should be optimum. An optimum sample is one which fulfills the requirements of efficiency, representatives, reliability and flexibility. While deciding the size of sample, researcher must determine the desired precision as also an acceptable confidence level for the estimate. The size of population variance needs to be considered as in case of larger variance usually a bigger sample is needed. The size of population must be kept in view for this also limits the sample size. The parameters of interest in a research study must be kept in view, while deciding the size of the sample. As such, budgetary constraint must invariably be taken into consideration when we decide the sample size (Kothari, 2004).

In this Particular research, the population of the study consist a total of 1,193 out of which 530 Small and medium enterprises registered on Enterprise and Industry Development office of south west shoa zone and 663 enterprises registered on Woliso Town Enterprise and Industry Development office. Stratified sampling technique was used since the population of the study already registered in two offices according to

geographical location of the zone; woliso town and woreda's and total sample size of 299 enterprises were drawn from the total population by using Taro Yamane's simplified formula for proportions n = $\frac{N}{1+N\,e^2}$ (Yamane, 1973) at 95% confidence level of certainty and 5% level of sampling error to be considered, as proportionate in the following table 3.1 and simple random sampling is used to draw the sample size from each strata.

Table 3.1 Number of SMEs registered in woliso town and woreda's of SWSH Zone

SMEs in the Zone	Small	Medium	Total	25.11% of Samples	Adjusted Sample size
Woliso Town	637	26	663	166.48	166
Woredas	431	99	530	133.083	133
Total	**1068**	**125**	**1,193**	**299.56**	**299**

(Source: SWSHZEIDO and WTEIDO, 2012 E.C)

Confidence level and significance level: The confidence level or reliability is the expected percentage of times that the actual value will fall within the stated precision limits. Thus, if we take a confidence level of 95%, then it means that there are 95 chances in 100 (or .95 in 1) that the sample results represent the true condition of the population within a specified precision range against 5 chances in 100 (or .05 in 1) that it does not. Precision is the range within which the answer may vary and still be acceptable; confidence level indicates the likelihood that the answer will fall within that range, and the significance level indicates the likelihood that the answer will fall outside that range. We can always remember that if the confidence level is 95%, then the significance level will be (100 – 95) i.e., 5%; if the confidence level is 99%, the significance level is (100 – 99) i.e., 1%, and so on. Sampling errors are the random variations in the sample estimates around the true population parameters. Since they occur randomly and are equally likely to be in either direction, their nature happens to be of compensatory type and the expected value of such errors happens to be equal to zero (Kothari, 2004). Sampling error decreases with the increase in the size of the sample, and it happens to be of a smaller magnitude in case of homogeneous population. In brief, while selecting a sampling procedure, researcher must ensure that the procedure causes a relatively small sampling error and helps to control the systematic bias in a better way (Kothari, 2004).

The study was conducted by interviewing Loan/Credit officers or Branch Managers of 9 Banks and 6Micro Finance Institutions operating in South West Shoa Zone using census.

3.3 Data Analysis Techniques

(Miller, 1991) notes that in order to analyze collected data, a researcher needs to have the following information about the statistical data analysis tools namely: descriptive, inferential and test statistics. Before processing the responses, data preparation was done on the complete questionnaires by editing, coding, entering and cleaning the data. Data collected were analyzed using descriptive statistics, correlation and regression analysis. Descriptive analysis is largely the study of distributions of one variable (Kothari, 2004). The descriptive statistical tool helps in describing the data and determining the respondents' degree of agreement with the various statements under each objective. To ensure that the data collected from the field make meaning, the researcher analyzed the data using mean and standard deviation, frequencies and percentages. Inferential analysis is concerned with the various tests of significance for testing hypotheses in order to determine with what validity data can be said to indicate some conclusion or conclusions. It is also concerned with the estimation of population values. It is mainly on the basis of inferential analysis that the task of interpretation (i.e., the task of drawing inferences and conclusions) is performed (Kothari, 2004). Descriptive statistics concern the development of certain indices from the raw data, whereas inferential statistics concern with the process of generalization. Inferential statistics are also known as sampling statistics and are mainly concerned with two major types of problems: (i) the estimation of population parameters, and (ii) the testing of statistical hypotheses. The important statistical measures that are used to summaries the survey/research data are: (1) measures of central tendency or statistical averages; (2) measures of dispersion; (3) measures of asymmetry (skewness); (4) measures of relationship; and (5) other measures. Amongst the measures of central tendency, the three most important ones are the arithmetic average or mean, median and mode. From the measures of dispersion, variance, and its square root—the standard deviation are the most often used measures. Other measures such as mean deviation, range, etc. are also used. For comparison purpose, the researcher was used mostly the coefficient of standard deviation or the coefficient of variation. In this study

coefficient of variation is used for comparison purpose. Correlation analysis studies were also used to show the joint variation of two or more variables for determining the amount of correlation between two or more variables. It is thus a study of functional relationships existing between two or more variables. This analysis is regression analysis. The study was used STATA version 13 data analysis tool and Microsoft excels to generate quantitative reports. The analyzed data's were presented in the form of tables and figures.

For purposes of predicting the dependent variable (credit accessibility) from the independent variables (factors), a multiple regression was used. The multiple regression was used to describe, forecast (predict) and adjust new observations and processes. It also used for interpreting the results of the effect of explanatory variables on the dependent variable. The explanatory research design also employed to explain the basic concepts of the study, to increase the analyst's interest in the problem and to clarify ambiguous situations or discover ideas that may be potential business opportunities in the study area.

3.4 Model Specification

Regression is the determination of a statistical relationship between two or more variables. In simple regression, there are only two variables, one variable (defined as independent) is the cause of the behavior of another one (defined as dependent variable). When there are two or more than two independent variables, the analysis concerning relationship is known as multiple correlations and the equation describing such relationship as the multiple regression equation (Kothari, 2004). Therefore, the study adopted correlation and multiple regression analysis due to it has one dependent and six independent variables.

When data is collected on the basis of some attribute or attributes, it has statistics commonly termed as statistics of attributes. It is not necessary that the objects may process only one attribute; rather it would be found that the objects possess more than one attributes. In order to find out the degree or intensity of association between two or more sets of attributes, it should work out the coefficient of association. Professor Yule's coefficient of association is most popular and is often used for the purpose (Kothari, 2004). The value of this coefficient lies between +1 and –1. If the attributes are

completely associated (perfect positive association) with each other, the coefficient is +1, and if they are completely disassociated (perfect negative association), the coefficient is –1. If the attributes are completely independent of each other, the coefficient of association is 0. The varying degrees of the coefficients of association were read and understood according to their positive and negative nature between +1 and –1(David R., Dennis J. & Thomas A., 2011).

As indicated before the study has the following Attributes or variables

Dependent Variable: Credit accessibility

Independent Variables: - Collateral requirement, Credit facility non-awareness, Structure of financial sector, Distance from financial institution by SMEs, Management competency and small business support.

Collateral requirement, Credit facility non-awareness, Structure of financial sector and Distance of financial sector were significant negative association with credit accessibility, while the rest independent factors were significant positive association with credit accessibility.

Therefore, the study was adopted the following multiple regression Model (David R., Dennis J. & Thomas A., 2011) and (Kothari, 2004) and the model validated a one unit increase or decrease of independent variable would influence dependent variable .

$Y= \alpha- \beta_1 x_1 - \beta_2 x_2 - \beta_3 x_3 - \beta_4 x_4 + \beta_5 x_5 + \beta_6 x_6 + \epsilon$

Where Y represent credit accessibility

α represent Y intercept or constant (predicted value for Y)

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ and β_6 are regression coefficients for variables x_1, x_2, x_3, x_4, x_5 and x_6 indicating the average change of Y as a result of change in one variable of x.

x_1 represent Collateral requirement, x_2 represent credit facility non-awareness, x_3, represent structure of financial sector, x_4, represent distance of SMEs from financial

institutions, x_5 represent management competency, x_6 represent small business support and ϵ represent error terms

Y is the Confidence level and significance level: The confidence level or reliability is the expected percentage of times that the actual value was fall within the stated precision limits. Therefore, in the study, Y represents the confidence and significance level of credit accessibility of SMEs in the study area varies with the influence changes of the independent variables.

CHAPTER FOUR

4. RESULTS & DISCUSSIONS

4.1 Introduction

This chapter presents data collected from the field, its analysis and discussion of the findings on factors affecting credit accessibility of small and medium enterprises in south-west shoa Zone, Oromia regional state. The findings are based on the research question regarding credit accessibility of small and medium enterprises in south-west shoa Zone, Oromia regional state, which include collateral requirement, credit facility non-awareness, structure of financial sector, and distances of SMEs from financial institutions, Management competencies, and Support of small business. The data is presented in form of tables from the result of stata version 13 statistical software and figures.

Linearity, homogeneity of variance (homoscedasticity), multi-co linearity, independence, errors-in-variables and significance of the study were checked using statistical tools.

The study targeted 299 selected sample of small and medium enterprises registered in south-west shoa zone of Oromia region. Out of 299 questionnaires distributed, 289 were filled and returned giving the study a response rate of 96.65% as shown in table 4.1. The high response rate was made by the use of researcher assistants who administered the questionnaires and made subsequent calls and visits to remind the respondents to fill the questionnaires.

Table 4.1 summary of observations

Variable	Obs	Mean	Std. Dev.	Min	Max
obs	289	145	83.57133	1	289

(Source: own survey, 2020)

4.2 General Information of the respondents

The study in this section sought to establish on the respondents' general information including sex, marital status, age, education level, credit accessibility of SMEs, type of

financial institutions credit facility accessed, types of credit facility accessed by SMEs, the amount of credit facility accessed by SMEs, whether collateral was offered for the credit facility accessed by SMEs, the types of collateral offered and the distances of SMEs from financial institutions by kilometers. This general information's were presented below using frequency and percentages tables.

4.2.1 Sex of the respondents

The study findings in the following table 4.2 indicate 45.33% of the respondents were female and the rest 54.67% were male. From this finding, one can deduce that most of the respondents were male.

Table 4.2 summary of the sex of respondents

sex of respondents	Freq.	Percent	Cum.
Female	131	45.33	45.33
Male	158	54.67	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.2 Marital Status of the respondents

According to the following table 4.3, the study finding indicates that 125 and 43.25% of the respondents are married and the rest 164 and 56.75% are single. This result show most of the respondents were free of marriage.

Table 4.3 summary of the marital status of respondents

Marital status of respondents	Freq.	Percent	Cum.
Married	125	43.25	43.25
Single	164	56.75	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.3 Age of the respondents

The study sought to find out the ages of the respondents. According to the following table 4.4, 64 and 22.15% of the respondents are fall under the ages ranging from 18-25 years old, 184 and 63.67% of the respondents are fall under the ages ranging from 26-35 years old and the rest 41 and 14.19% of the respondents are aged ranging from 36-45 years old. From the findings, we can conclude that majority of the respondents were aged ranging from 26-35 years. The ages range show the most productive age

Table 4.4 summary of the ages of respondents

Age of respondents	Freq.	Percent	Cum.
18-25	64	22.15	22.15
26-35	184	63.67	85.81
36-45	41	14.19	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.4 Education Level of the respondents

The researcher sought to find out the highest education level of the respondents. According to Table 4.5, the study findings indicates 79.93% of the respondents indicated their highest level of education was a Degree, diploma, level/ certificate, 18.69% indicated Grade 1-12, 1.04% indicated master's degree while 0.35% indicated PhD degree. From these findings, we can infer that most entrepreneurs had Degree, diploma, level/ certificate holder, as their highest level of education. This result shows, the respondents were in a better position to understand the questions asked and the matters regarding credit accessibility.

Table 4.5 summary of education level of respondents

Education level of respondents	Freq.	Percent	Cum.
Certificate	85	29.41	29.41
Degree	90	31.14	60.55
Diploma	56	19.38	79.93
Dr	1	0.35	80.28
Grade 1-8	8	2.77	83.04
Grade 9-12	46	15.92	98.96
MA	3	1.04	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.5 Credit accessibility of the enterprises

The researcher further sought to find out from the respondents whether they had credit accessibility. From the findings on table 4.6, 50 number and 17.30% of the respondents indicated that they had not accessed to credit facility, while 239 in number and 82.70% indicated that they had accessed to credit facility. From these findings, we can deduce that most of SMEs were accessed credit facility.

Table 4.6 summary of the credit accessibility of respondents

credit accessibility of SMEs	Freq.	Percent	Cum.
no	50	17.30	17.30
yes	239	82.70	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.6 Types of Financial institutions credit accessed

As indicated on table 4.6 above and table 4.7 below, 50 number and 17.30% of the respondents indicated that they had not accessed to credit facility, while 239 in number and 82.70% indicated that they had accessed to credit facility. Accordingly, from these

accessed credit facility, 37 number and 12.80% are accessed credit facility of bank, 8 in number and 2.77% accessed both bank credit facility and micro finance institutions, 193 in number and 66.78% credit from micro finance institutions only, and 1 in number and 0.35% accessed credit from other. We can conclude, from those accessed to credit facility 239, 193 in number and 80.75% are accessed credit facility from micro finance institutions. These result shows, MFIs were the major sources of finance for SMEs in the study area.

Table 4.7 summary of the types of financial institutions SMEs accessed credit facility

type of fis SMEs accessed credit	Freq.	Percent	Cum.
bank	37	12.80	12.80
both	8	2.77	15.57
mfi	193	66.78	82.35
no	50	17.30	99.65
other	1	0.35	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.7 Types of credit facility accessed

The researcher sought to find out from the respondents the types of credit facility SMEs had accessed. Accordingly, table 4.8 shows 1 or 0.35% of them had access to finance from guarantee facility, 1 or 0.35% of them had access to finance from other facility, 25 of 8.65% had access to revolving fund facility, 212 or 73.36% had access to term loan facility, and the rest 50 or 17.30% of the respondents indicated that they had not accessed to credit facility, from those 239 or 82.70% had access to credit facility, 212 in number and 88.70% are accessed term loan credit facility. From these findings, we can deduce that most of SMEs are accessed term loan credit facility.

Table 4.8 summary of the types of credit facility SMEs accessed

type of credit facility SMEs accessed	Freq.	Percent	Cum.
guarantee	1	0.35	0.35
no	50	17.30	17.65
other	1	0.35	17.99
revolving	25	8.65	26.64
term loan	212	73.36	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.8 The amount of credit facility accessed

The researcher also further sought to find out from the respondents, the amount of credit facility their enterprises accessed. From the findings on table 4.9, 50 and 17.30% of the respondents indicated that they had not accessed to credit facility, while 239 in number and 82.70% indicated that they had accessed to credit facility. From these SMEs accessed to credit facility, 29 in number and 10.03% were accessed credit below amount of fifty thousands, 106 in number and 36.68% were accessed credit amount ranging from fifty thousand to one hundred thousand, 35 in number and 12.11% were accessed credit amount ranging from one hundred one thousand to two hundred thousand, 23 in number and 7.96% were accessed credit amount ranging from two hundred one thousand to three hundred thousand, 25 in number and 8.65% are accessed credit amount ranging from three hundred one thousand to five hundred thousand, 16 in number and 5.54% were accessed credit amount ranging from five hundred one thousand to eight hundred thousand, 2 in number and 0.69% were accessed credit amount ranging from eight hundred one thousand to one million two hundred thousand, and 3 in number and 1.04% were accessed credit amount above one million two hundred thousand. From the result, we can conclude from the total 239 of SMEs accessed to credit facilities, 193 in number and 80.75% were accessed credit amount up to three hundred thousand which shows low amount

Table 4.9 summary of the amount of credit facility SMEs accessed

amount of credit SMEs accessed	Freq.	Percent	Cum.
no	50	17.30	17.30
below50,000	29	10.03	27.34
50,000-100,000	106	36.68	64.01
101,000-200,000	35	12.11	76.12
201,000-300,000	23	7.96	84.08
301,000-500,000	25	8.65	92.73
501,000-800,000	16	5.54	98.27
801,000-1.2mil	2	0.69	98.96
above 1.2mil	3	1.04	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.9 Collateral security offered

The study finds out whether SMEs are offered collateral security for the credit facility they accessed. Accordingly, table 4.10 shows 238 in number and 82.35% were offered collateral security for the credit facility they accessed. Therefore, from those accessed to credit facility from the sample observation, almost all are offered collateral security for their loan which implies no one is accessed credit facility without offering collateral.

Table 4.10 summary of collateral offered for credit facility accessed by SMEs

Is collateral offered for credit	Freq.	Percent	Cum.
no	51	17.65	17.65
yes	238	82.35	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.10 Types of collateral security offered

The types of collateral security offered by SMEs for the credit facility they accessed also responded by respondents. Accordingly, as stated below on table 4.11, 189 and 65.40% are building, 50 and 17.30% were not accessed credit, 44 and 15.22% are other, and 6 and 2.08% are vehicle collateral offered.

Table 4.11 the types of collateral offered by SMEs for credit facility accessed

type of collateral offered	Freq.	Percent	Cum.
building	189	65.40	65.40
no	50	17.30	82.70
other	44	15.22	97.92
vehicle	6	2.08	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.2.11The distances of SMEs from Financial institutions

Finally, the researcher further investigates and find out the distances of SMEs from financial institutions. According to table 4.12 below, 99 in number and 34.26% of SMEs are located with distance below five kilometers, 55 in number and 19.03% enterprises located with distances ranging from five to twenty kilometers, 53 in number and 18.34% enterprises located with distances ranging from twenty-one kilometers to forty kilometers, 67 in number and 23.18% enterprises are located with distances ranging from forty-one kilometers to sixty kilometers, and 15 in number and 5.19% enterprises are located distances above one hundred kilometer. We can conclude that 190 number of enterprises and 65.74% of enterprises are located with distances above five kilometers which shows most of the enterprises were far from FIs.

Table 4.12 the distances of SMEs from financial institutions

dis of SMEs from fis	Freq.	Percent	Cum.
below 5km	99	34.26	34.26
km5-20	55	19.03	53.29
km21-40	53	18.34	71.63
km41-60	67	23.18	94.81
above km100	15	5.19	100.00
Total	289	100.00	

(Source: own survey, 2020)

4.3 MLRM Assumption and its Test

Before going further in to categorical data econometric procedures, the first issue is to test the assumption of multiple linear regression model (MLRM). Most prior academic literature, as mentioned in the literature review, examines factors affecting credit accessibility of SMEs in different statistical techniques. Among them, (Ayalneh M, 2018) used only descriptive statistics and list of figures for his study assessment of access to finance and its availability for SMEs in Addis Ababa. (Tafa M, 2011) also used descriptive statistics and ordinary least squares (OLS) technique in which differences between the observations and estimations are minimized in terms of sum of squares. The method of (OLS) uses Gauss- Markov theorem assumptions of linear regression model, the estimators of OLS have the smallest variance of all linear and unbiased estimators of parameters and Gauss- Markov theorem does not depend on the assumptions of normality of error terms. Therefore, this study used MLRM assumptions no perfect multi co linearity or no exact linear relation exists between any subset of explanatory variables. Questions on the degree of agreement on credit accessibility of SMEs in South-west shoa zone are not violating the assumptions of OLS methods and all assumptions are tested in the following manner.

4.3.1 Test for Linearity of the Model

When linear regression is done, there is the assumption that the relationship between the response variable and the predictors is linear. This is the assumption of linearity. If this assumption is violated, the linear regression will try to fit a straight line to data that does not follow a straight line. Checking the linear assumption in the case of simple regression is straight forward, since only has one predictor. All have to do is scatter plot between the response variable and the predictor to see if nonlinearity is present.

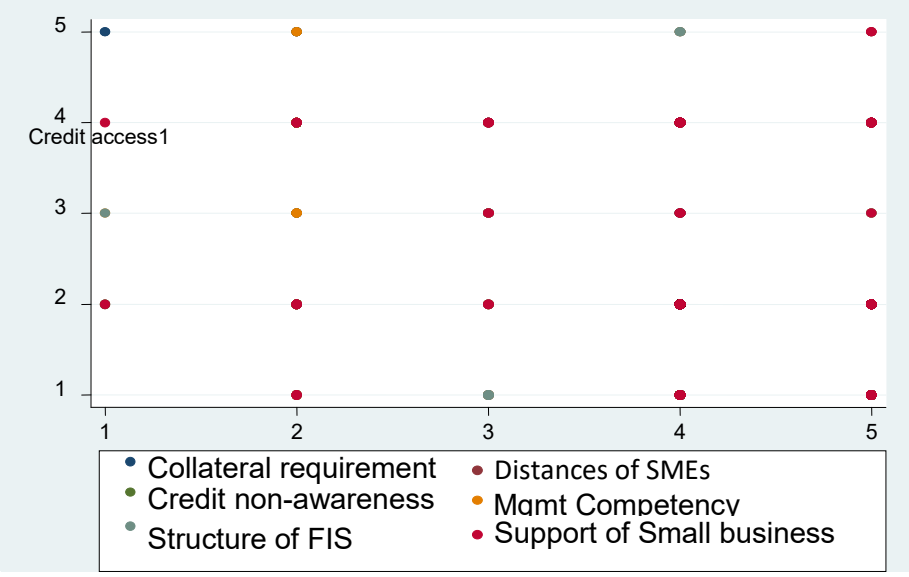
Decision rule:

Nonlinear: the scattered plot graph is curved band or a big wave-shaped curve.

Linear: the scattered plot graph is straight line (David R., Dennis J. & Thomas A., 2011)

Therefore, the dots in figure 4.1 below show the linear relationships of individual independent variable with dependent variable.

Figure 4.1 scattered graph showing linearity of the model.



(Source: own computation, 2020)

4.3.2 Test for zero mean value of the error term E (ε|Xi) =0

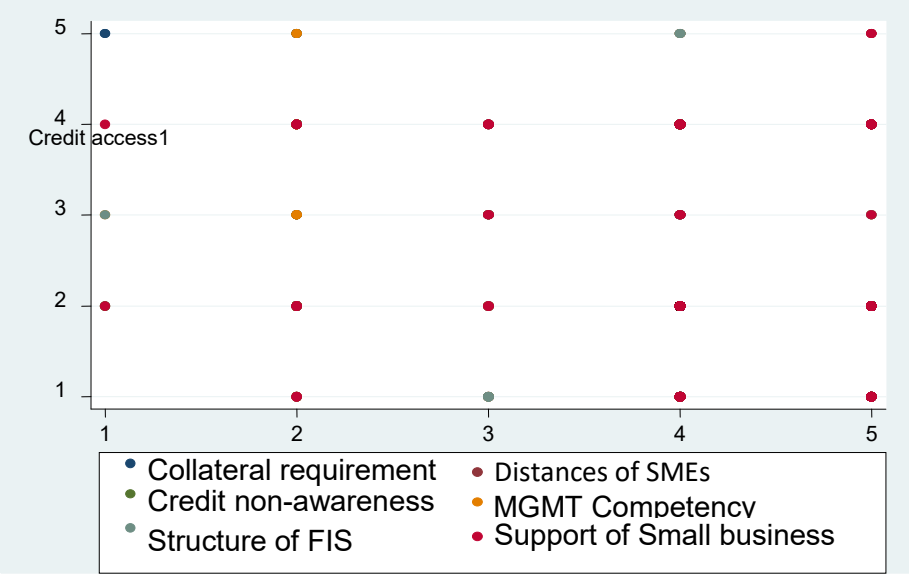
The first assumption required is that the average value of the errors is zero. In fact, if a constant term is included in the regression equation, the assumption will never be violated. Therefore, since the constant term (i.e. α) was not included in the regression equation, the average value of the error term in this study is zero. The following scattered graph implies the observations on dependent and independent variable scattered around the line in random way defining the relationships connecting the variables on average unbiased assumptions OLS.

Decision rule: Biased: the true line lies below or above the observations

Unbiased: the observations lie in the center of true line (David R., Dennis J. & Thomas A., 2011)

Therefore, the observations lies in the center of true line showing no violating the assumptions OLS says that the expected value of the error term is zero, which means that, on average, the regression line should be correct.

Figure 4.2 scattered graph showing zero mean value.



(Source: own computation, 2020)

4.3.3 Test for Heteroskedasticity

It has been assumed that the variance of the errors is constant. This is known as the assumption of homoscedasticity. If the errors do not have a constant variance, they are said to be heteroscedastic. To test this assumption, in this study the white's test, brusech-pagan/ Cook-Weisberg test for heteroscedasticity numerical test and graphical test was employed. As shown on table 4.13 imtest and table 4.14 Chi-Square test versions of the test statistic gave the same conclusion that there is not the presence of heteroscedasticity as the p value were in excess of 0.05 or as the calculated Chi-Square 110.31 is less than the critical value Chi-Square 124.34 at 101 degree of freedom and 5% level of significance from the Chi-Square table in both numerical test (Gujarati D, 2003)

Table 4.13 Heteroskedasticity Test: imtest

```
Cameron & Trivedi's decomposition of IM-test
```

Source	chi2	df	p
Heteroskedasticity	110.31	101	0.2475
Skewness	33.16	23	0.0782
Kurtosis	16.32	1	0.0001
Total	159.79	125	0.0194

(Source: own computation, 2020)

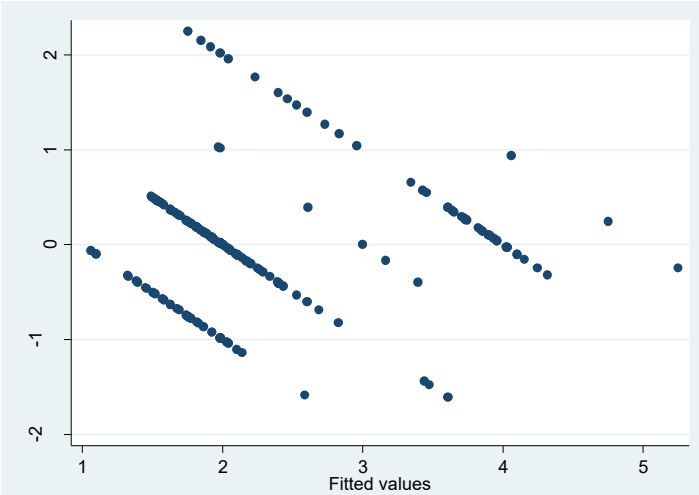
Table 4.14 Heteroscedasticity Test: Breusch-pagan/cook-weisberg for chi^2 test

```
. estat hettest

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of suffaccess1

         chi2(1)      =     0.36
         Prob > chi2  =   0.5467
```

Figure 4.3 residual vs fitted graph of heteroskedasticity test.



(Source: own computation, 2020)

Besides the numerical test, the above fitted graphical test also shows there is no problem of heteroskedasticity as the residual value is fitted. Therefore, the model is not violating the assumption of OLS heteroskedasticity.

4.3.4 Test for Multicollinearity

This assumption is concerned with the relationship exist between explanatory variables. If an independent variable is an exact linear combination of the other independent variables, then we say the model suffers from perfect collinearity, and it cannot be estimated by OLS (Brooks, 2008). Multicollinearity condition exists where there is high, but not perfect, correlation between two or more explanatory variables Cameron and (Trivedi, 2009), (Wooldridge, 2006). According to (Churchill and Iacobucci, 2005), when there is multicollinearity, the amount of information about the effect of explanatory variables on dependent variables decreases. While Hair et al. (2006) argue that correlation coefficient below 0.9 may not cause serious multicollinearity problem. (Malhotra, 2007) stated that multicollinearity problem exists when the correlation coefficient among variables is greater than 0.75. (Kennedy, 2008) suggests that any correlation coefficient above 0.7 could cause a serious multicollinearity problem leading

to inefficient estimation and less reliable results. This indicates that there is no consistent argument on the level of correlation that causes multicollinearity.

According to (Gujarati D, 2003), the standard statistical method for testing data for multicollinearity is analyzing the explanatory variables' correlation coefficients (CC); condition index (CI) and variance inflation factor (VIF). Therefore, in this study correlation matrix for six independent variables as shown below in the table 4.15 have been estimated. The results show that, the highest correlation was 0.4022 which is between collateral requirement and credit non-awareness. Since there is no correlation above 0.7, 0.75 and 0.9 according to (Kennedy, 2008), (Malhotra, 2007) and Hair et al. (2006) respectively, one can conclude in this study there is no problem of multicollinearity.

Table 4.15 Correlation matrix of multi collinerity test

	collat~1	nonawa~1	strucf~1	dissme~1	mgmtco~1	suppsm~1
collateral~1	1.0000					
nonawarene~1	0.4022	1.0000				
strucfisaf~1	0.2929	0.3135	1.0000			
dissmesaff~1	0.3081	0.3996	0.2908	1.0000		
mgmtcomhel~1	0.1295	0.1430	0.1750	0.1749	1.0000	
suppsmallh~1	0.1390	0.0471	0.1610	0.0807	0.3606	1.0000

(Source: own computation, 2020)

4.3.5 Test for Auto correlation

According to (Chris Brooks, 2008) the CLRM's disturbance terms are the covariance between the errors terms over time or cross-sectional type of data is zero. In other words, it is assumed that the errors are uncorrelated with one another. According to (David R., Dennis J. & Thomas A., 2011) one of the assumptions of the regression model is the error terms are independent. However, when auto correlation is present, this assumption is violated. If the value of y in time period t is related to its value in time period t - 1, first-order auto correlation is present and if the value of y in time period t is related to the value of y in time period t - 2, second-order auto correlation is present, and so on. To test this assumption the Durban– Watson (DW) statistical test applied for time series data.

However, for this study lawley chi^2 is applied to determine the value of *p* due to the employment of cross-sectional data in the study (Gujarati D, 2003) and (David R., Dennis J. & Thomas A., 2011)

Table 4.16 Correlation matrix of auto correlation test

```
Test that correlation matrix is compound symmetric (all correlations equal)

       Lawley chi2(20) =    484.62
           Prob > chi2 =    0.0000
```

(Source: own computation, 2020)

Decision rule: Where *p* is a parameter and *p*= 0, the error terms are not related, there is no auto correlation and the regression assumptions are satisfied. *P*=0, therefore, the error terms are not related and there is no auto correlation (David R., Dennis J. & Thomas A., 2011)

4.3.6 Test for Significance

The significance tests we used in simple linear regression were a t test and an F test. In simple linear regression, both tests provide the same conclusion; that is, if the null hypothesis is rejected, we conclude that $\beta_{1 \neq 0}$. In multiple regressions, the t test and the F test have different purposes. The F test is used to determine whether a significant relationship exists between the dependent variable and the set of all the independent variables; the researcher used the F test as the test for overall significance and the t test; significant of individual variable is not used as it is not mandatory for large sample greater than thirty (30), (Gujarati D, 2003) and (David R., Dennis J. & Thomas A., 2011).

The research hypothesis

H_0: no relationship between the dependent and independent variables

H_1: There is relationship between dependent and independent variables

If H_0 is rejected, the test gives sufficient statistical evidence to conclude that one or more of the parameters have relationship and that the overall relationship between dependent

and the set of independent variables is significant. However, if H_0 cannot be rejected, the study does not have sufficient evidence to conclude that a significant relationship is present. A mean square is a sum of squares divided by its corresponding degrees of freedom. In the multiple regression case, the total sum of squares has n-1 degrees of freedom, the sum of squares due to regression (SSR) has p degrees of freedom, and the sum of squares due to error has n - p -1 degrees of freedom. Hence, the mean square due to regression (MSR) is SSR/p and the mean square due to error (MSE) is SSE/ (n-p-1).

$$\text{MSR} = \frac{\text{SSR}}{\text{P}}, \text{MSE} = \frac{\text{SSE}}{\text{n}-\text{p}-1}, \text{F} = \frac{\text{MSR}}{\text{MSE}}$$

Rejection rule p-value approach: Reject H_0 if p-value $\leq \alpha$

Critical value approach: Reject H_0 if $F \geq F_\alpha$

Where, F_α is based on an F distribution with p degrees of freedom in the numerator and n-p-1 degrees of freedom in the denominator (Gujarati D, 2003) and (David R., Dennis J. & Thomas A., 2011).

From table 4.17 of the result of ANOVA analysis F = 20.78, from the F distribution table with twenty three degrees of freedom in the numerator and two hundred sixty five degrees of freedom in the denominator, $F_{.05} \approx 1.5$ With $20.78 > 1.5$, the researcher reject H_0 and conclude that a significant relationship is present between credit accessibility and the six independent variables, collateral requirement, credit facility non-awareness, structure of financial institutions, distances of SMEs form financial institutions, management competency and small business support, Alternatively, Using $\alpha = 0.05$, the p-value = 0.000 in the last column of the analysis of variance indicating that, the researcher reject H_0 and accept H_1because the p-value is less than $\alpha = 0.05$ indicating there is significant relationship between credit accessibility and independent variables; collateral requirement, credit facility non-awareness, structure of financial institutions, distances of SMEs form financial institutions, management competency and small business support. Therefore, F test shows that the multiple regression relationship is significant.

Table 4.17 ANOVA result of covariance and correlation analysis

```
                Number of obs =     289     R-squared     =  0.6433
                Root MSE      =  .61127     Adj R-squared =  0.6123
```

Source	Partial SS	df	MS	F	Prob > F
Model	178.567345	23	7.76379761	20.78	0.0000
collatera~1	101.795892	4	25.448973	68.11	0.0000
nonawaren~1	9.8322869	3	3.27742897	8.77	0.0000
strucfisa~1	1.80338116	4	.45084529	1.21	0.3083
dissmesaf~1	3.67554087	4	.918885217	2.46	0.0459
mgmtcomhe~1	2.14350365	4	.535875912	1.43	0.2230
suppsmall~1	4.08231085	4	1.02057771	2.73	0.0296
Residual	99.01743	265	.373650679		
Total	277.584775	288	.963836025		

(Source: own computation, 2020)

4.4 The degree of agreement on credit accessibility of SMEs in SWSH Zone

Miller (1991) notes that in order to analyze the collected data, a researcher needs to have the following information about the statistical data analysis tools namely: descriptive, inferential, and test statistics. Before processing the responses, data gathered though structured questionnaires were prepared by editing, coding, entering and cleaning it into stata version 13, and analyzed using descriptive statistics and multiple linear regression analysis. For the statements on dependent variable; credit accessibility of SMEs, both descriptive, correlation and multiple linear regression analysis is used.

4.4.1 Descriptive Statistics Result

Table 4.18 presents the outcomes of the descriptive statistics for main variables involved in the regression model. The dependent variable was credit accessibility. The remaining were independent variables such as: collateral requirement, credit facility non-awareness, structure of financial institutions, distances of SMEs form financial institutions, management competency and small business support. Key figures, including mean, standard deviation, minimum and maximum value were reported. This was generated to

give overall description about data used in the model and served as data screening tool show reasonable figure.

Table 4.18 Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
suffaccess1	289	2.290657	.9817515	1	5
collateral~1	289	3.806228	.9558824	1	5
nonawarene~1	289	3.629758	.9778521	2	5
strucfisaf~1	289	3.899654	.8977015	1	5
dissmesaff~1	289	3.768166	.9080411	1	5
mgmtcomhel~1	289	3.982699	.6742112	1	5
suppsmallh~1	289	4.204152	.742918	1	5

(Source: own computation, 2020)

The study used mean value range below 2 for strongly disagree, 2 up to 2.5 for disagree, above 2.5 to 3.0 for neutral, above 3 to 4 for agree, above 4 to 5 for strongly agree (Kothari, 2004). According to table 4.18 above, all variables comprised 289 observations and the degree of agreement on credit accessibility of small and medium enterprises in south-west shoa zone. From the total sample, the mean of sufficient credit accessibility was 2.29 indicating disagree SMEs are sufficient access to credit facility in south-west shoa zone with a minimum of 1 for strongly disagree and a maximum of 5 for strongly agree. That means most respondents are disagreed by 2.29 degree of agreement on average for the question SMEs have sufficient access to credit facility in the zone. From this result, we can conclude that, SMEs in the study area didn't have sufficient access to credit facilities. The standard deviation statistics for credit accessibility was (0.98) which indicates that variation between the observed sample and credit accessibility was very high (Gujarati D, 2003) and (David R., Dennis J. & Thomas A., 2011).

Regarding the explanatory variables of the model there are some interesting statistics that have to be mentioned. From the total sample responded, the mean of collateral requirement was 3.81 indicating the respondent's agreement on statement the requirement of collateral by FIs is affect credit accessibility of SMEs in the study area with a minimum of 1 for strongly disagree and a maximum of 5 for strongly agree. The

standard deviation statistics for collateral requirement was (0.95) which indicates that variation between the observed sample and credit accessibility as a result of collateral requirement is high.

The mean value of credit non-awareness was 3.63, which indicate the degree of agreement on the non-awareness about credit facility limit SMEs to finance their business in south-west shoa zone with a minimum of 2 for disagree and a maximum of 5 for strongly agree. The standard deviation statistics for credit non-awareness was (0.98) which indicates that variation between the observed sample and credit accessibility as a result of non-awareness of credit facility is high. The result show non-awareness of credit facility is affecting credit accessibility of SMEs in the study area.

The mean value of the structure of financial sector was 3.89 indicating the degree of agreement the structure of financial institutions limit credit accessibility of SME's business in south west shoa zone with a minimum of 1 for strongly disagree and a maximum of 5 for strongly agree. The statistics standard deviation of financial sector was (0.89) which indicates that variation between the observed sample and credit accessibility of SMEs as a result of structure of financial sector is high. From this result we can understand that the structure of financial sector is affecting credit accessibility of SMEs in the study area.

The mean value of the distances of SMEs from financial institutions was 3.77, indicating the degree of agreement the distances of SMEs from financial institutions affect credit accessibility of SMEs in south west shoa zone with a minimum of 1 for strongly disagree and a maximum of 5 for strongly agree. The statistics standard deviation of distances of SMEs from financial institutions was (0.91) which indicates that variation between the observed sample and credit accessibility of SMEs as a result of the distances of SMEs from financial institutions is high.

Also, the mean value of management competency was 3.98, indicating the degree of respondent's agreement on management competency help credit accessibility of SMEs in south-west shoa zone with a minimum of 1 for strongly disagree and a maximum of 5 for strongly agree. The statistics standard deviation of management competency was (0.67)

which indicates that variation between the observed sample and credit accessibility of SMEs as a result of the management competency is high.

Finally, the mean value of supporting small business was 4.2, indicating the degree of respondent's agreement on supporting small business help credit accessibility of SMEs in south-west shoa zone with a minimum of 1 for strongly disagree and a maximum of 5 for strongly agree. The statistics standard deviation of management competency was (0.74) which indicates that variation between the observed sample and credit accessibility of SMEs as a result of not supporting small business is high.

4.4.2 Correlation analysis

When data is collected on the basis of some attribute or attributes, it has statistics commonly termed as statistics of attributes. It is not necessary that the objects may process only one attribute; rather it would be found that the objects possess more than one attributes. In order to find out the degree or intensity of association between two or more sets of attributes, it should work out the coefficient of association. Professor Yule's coefficient of association is most popular and is often used for the purpose (Kothari, 2004). The value of this coefficient is somewhere between +1 and –1. If the attributes are completely associated (perfect positive association) with each other, the coefficient will be +1, and if they are completely disassociated (perfect negative association), the coefficient will be –1. If the attributes are completely independent of each other, the coefficient of association is 0. The varying degrees of the coefficients of association are to be read and understood according to their positive and negative nature between +1 and –1. The most widely used bi-variant correlation statistics is the Pearson product-movement coefficient, commonly called the Pearson correlation which was used in this study. Correlation coefficient between two variables ranges from +1 (i.e. perfect positive relationship) to -1 (i.e. perfect negative relationship). Table 4.19 bellow shows the correlation coefficient between the dependent variables and independent variables.

Table 4.19 Partial and semi partial correlation of dependent and independent variables

Partial and semipartial correlations of suffaccess1 with

Variable	Partial Corr.	Semipartial Corr.	Partial Corr.^2	Semipartial Corr.^2	Significance Value
collatera~1	-0.6685	-0.5862	0.4469	0.3437	0.0000
nonawaren~1	-0.1861	-0.1235	0.0346	0.0153	0.0016
strucfisa~1	-0.0461	-0.0301	0.0021	0.0009	0.4390
dissmesaf~1	-0.0725	-0.0474	0.0053	0.0022	0.2231
mgmtcomhe~1	0.0407	0.0265	0.0017	0.0007	0.4950
suppsmall~1	0.0435	0.0284	0.0019	0.0008	0.4654

(Source: own computation, 2020)

According to (Brooks, 2008) if it is stated that y and x are correlated, it means that y and x are being treated in a completely symmetrical way. Thus, it is not implied that changes in x cause changes in y, or indeed that changes in y cause changes in x rather, it is simply stated there is evidence for a linear relationship between the two variables, and that movements in the two are on average related to an extent given by the correlation coefficient.

As could be seen in the above table 4.19, the negative correlation of the requirement of collateral with credit accessibility is the most significant indicated by the correlation of (-0.6685) indicating the requirement of one unit collateral, decrease the chance of SMEs credit accessibility by 66.85% other variables being constant. The other independent variables correlated with credit accessibility, credit facility non-awareness indicated by correlation value (-0.1861) implying non-awareness of credit facility, decrease the chance of SMEs credit accessibility by 18.61% other variables being constant, structure of financial sector indicated by correlation value (-0.0461) implying the structure of financial sector, decrease the chance of SMEs access to credit facility by 4.61% other variables being constant, the distances of SMEs from financial sector indicated by correlation value (-0.0725) implying the locations of SMEs, decrease the chance of their credit accessibility by 7.25% other variables being constant, management competency indicated by correlation value (0.0407) implying as the management of both SMEs and FIs more competent, the chance of SME's credit accessibility increased by 4.07% other

variables being constant, and supporting of small business indicated by correlation value (0.0435) implying a one unit support of small business, increase the chance of SME's credit accessibility by 4.35% other variables being constant respectively.

4.4.3 Results of regression analysis

The study was used multiple linear regression for main variables on the statements degree of agreement on credit accessibility of SMEs in the study area. Therefore, in this result, a multiple linear regression analysis was conducted to test the influence among main variables. The researcher used statistical (STATA V 13.0) to code, enter and compute the measurements of the multiple regressions. Under the following regression outputs on table 4.20 R-Square (coefficient of determination) is a commonly used statistic to evaluate model's goodness of fit. R-square is 1 minus the ratio of residual variability. The adjusted R^2, also called the coefficient of multiple determinations, is the percent of the variance in the dependent variable explained uniquely or jointly by the independent variables. According to the study findings, combined variables had a strong relationship with credit accessibility, R (0.7581); $p < 0.05$. R squared indicates of (0.5747); $p < 0.05$ indicates the model is good fit. Adjusted R squared indicates of (0.5656); $p < 0.05$ indicates that variability in credit accessibility of SMEs in SWSH Zone Oromia Regional state is attributed to variability in collateral requirement, credit facility non-awareness, structure of financial sector, distances of SMEs from FIs, management competency and supporting of small business. According to (Gujarati, 2003) Even the unadjusted R^2 of seems low and frequently encountered in cross-sectional data with many observations and different from zero value can be statistically significant. Therefore, the exhibited R^2 and adjusted R^2 best fit the model.

Under the regression outputs the beta coefficient may be negative or positive; beta indicates that each variable's level of influence on the dependent variable. P-value indicates at what percentage or precession level of each variable is significant.

Model Specification: As presented in chapter three of the study, MRL model is used in the study in order to identify factors affecting credit accessibility SMEs in SWSHZ of Oromia regional by using coefficient value of variables in the study as follows:

$$Y= 5.43- 0.681x_1 – 0.145x_2 – 0.036x_3 – 0.058\ x_4 + 0.042\ x_5 + 0.041\ x_6 +\epsilon$$

Where Y represents Credit accessibility, 5.43 represent Y intercept or constant (predicted value for Y)and -0.681, -0.145, -0.036, -0.058, 0.042 and 0.041 are regression coefficients for variables x_1, x_2, x_3, x_4, x_5 and x_6 respectively, indicating how much credit accessibility change as a result of change in one independent variable on average. Where, x_1 represent collateral requirement, x_2 represent credit facility non-awareness, x_3, represent structure of financial sectors, x_4, represent distance of financial institutions, x_5 represent management competency, x_6 represent small business Support and ϵ represent error terms at 95% confidence level and 5% significance level respectively. The confidence level or reliability is the percentage of times that the actual value falls within the stated precision limits. Therefore, the study finds out, 95% confidence the result lies between the stated interval and the model is significant at significance level 1% and 5% p-values, credit accessibility of SMEs in the study area varies with the influence changes of the independent variables.

As shown on table 4.20, the coefficient of collateral requirement, credit facility non-awareness, structure of financial sector and distance of financial institutions are negative, (-0.681), (-0.145), (-0.036) and (-0.058) respectively indicating as the requirement of collateral security increases, credit accessibility of SMEs decrease by 68.10%, non-awareness of credit facility, decrease credit accessibility of SMEs by 14.52%, as complexity of financial sector increase, credit accessibility decrease by 3.62% and as the distances of SMEs increases from financial institutions, credit accessibility decrease by 5.79% on average respectively. The rest coefficient of management competency and support of small business are positive relationships with credit accessibility indicating as management competency increase, credit accessibility of SMEs in the study area increases by 4.22% and as support of small business increases, credit accessibility of SMEs increases by 4.066% on average.

Table 4.20 Result of regression analysis

Source	SS	df	MS	Number of obs =	289
				F(6, 282) =	63.51
Model	159.523265	6	26.5872108	Prob > F =	0.0000
Residual	118.06151	282	.418657837	R-squared =	0.5747
				Adj R-squared =	0.5656
Total	277.584775	288	.963836025	Root MSE =	.64704

suffaccess1	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
collateralreqaffcred1	-.6806086	.0450884	-15.09	0.000	-.7693611	-.5918562
nonawareneaffcredit1	-.145172	.0456523	-3.18	0.002	-.2350345	-.0553095
strucfisaffcredit1	-.0361685	.0466734	-0.77	0.439	-.128041	.055704
dissmesaffcredit1	-.0578636	.0473891	-1.22	0.223	-.1511448	.0354176
mgmtcomhelpcredit1	.0421879	.0617476	0.68	0.495	-.0793568	.1637325
suppsmallhelpcredit1	.0406571	.0556174	0.73	0.465	-.0688209	.1501351
_cons	5.428283	.3153508	17.21	0.000	4.807542	6.049023

(Source: own computation, 2020)

4.5 The degree of agreement on Independent factors affecting credit accessibility of SMEs in south-west shoa Zone

Descriptive statistics research tool is used for the analysis of statements on independent variables: - collateral requirement, credit facility non-awareness, structure of financial institutions, distances of SMEs from financial institutions, management competency and small business support. The mean, standard error and 95% of confidence interval were used to analyze the result. This was generated to give overall description about data used on the analysis of questions on independent variables and served as data screening tool to show reasonable result. This analysis also used mean value range below 2 for strongly disagree, 2 up to 2.5 for disagree, above 2.5 to 3.0 for neutral, above 3 to 4 for agree, above 4 to 5 for strongly agree (Kothari, 2004). The mean value, standard error and confidence interval were used for analysis, conclusion and recommendation on these statements independent factors affecting credit accessibility of SMEs in the study area. Regression analysis is not used for the analysis of these statements due to it seeks dependent and independent variables, and these statements were independent only. The statements were presented for further analysis on the dimensions of independent variables as indicated on conceptual frame work part of the study.

4.5.1 Collateral requirement for credit facility

The researcher sought to find out the level of agreement on statements on the extent of collateral requirement affect the credit accessibility of SMEs in the study area.

Accordingly, the following table 4.21 shows, the respondents disagreed with a mean of 2.09, a standard error of 0.055 and a 95% confidence interval of (1.98703 – 2.206741) that the collateral security required by financial institutions are easily available, this implies the collateral required by FIs are not available easily. Further, the respondents strongly agreed with a mean of 4.14, a standard error of 0.035 and a 95% confidence interval of (4.077141 – 4.213516) that buildings and vehicles are the major types of collateral security required by FIs, this result implies buildings and vehicles are the major collateral securities serving in the study area . Also, the respondents disagreed with a mean of 2.19, a standard error of 0.042 and a 95% confidence interval of (2.110453 – 2.27709) that receivables serve as collateral in FIs; this result implies receivables were not serving as collateral in the study area. The respondents also disagreed with a mean of 2.12, a standard error of 0.048 and a 95% confidence interval of (2.029662 – 2.219473) on the statement inventories serve as collateral in FIs; this result implies inventories were not serving as collateral in the study area.. Further the respondents also disagreed with a mean of 2.32, a standard error of 0.054 and a 95% confidence interval of (2.217513 – 2.433006) on the statement equipment serve as collateral in FIs; this result implies equipment was not serving as collateral in the study area. And also the respondents disagreed with a mean of 2.41, a standard error of 0.055 and a 95% confidence interval of (2.298336 – 2.518273) on the statement personal guarantees serve as collateral in FIs; this result implies personal guarantee was not serving as collateral in the study area.. Lastly, the respondents agreed with mean of 3.61, a standard error of 0.046 and a 95% confidence interval of (3.520775 – 3.704139) on the statement share certificate serve as collateral in FIs; this result implies share certificate was serving as collateral in the study area.

Table 4.21 Estimation of collateral requirement for credit facility

Mean estimation Number of obs = 289

	Mean	Std. Err.	[95% Conf.	Interval]
aviofcoll1	2.096886	.0558143	1.98703	2.206741
builveh1	4.145329	.0346441	4.077141	4.213516
recsercoll1	2.193772	.0423316	2.110453	2.27709
invesercoll1	2.124567	.0482184	2.029662	2.219473
equisercoll1	2.32526	.0547426	2.217513	2.433006
pgsercoll1	2.408304	.0558716	2.298336	2.518273
scsercoll1	3.612457	.0465809	3.520775	3.704139

(Source: own computation, 2020)

4.5.2 Credit non-awareness on credit accessibility

The researcher also sought to find out the level of agreement on statements how credit facility non-awareness affects the credit accessibility of SMEs in the study area.

Table 4.22 shows the respondent's disagreement with a mean of 2.26, a standard error of 0.053 and a 95% confidence interval of (2.157723 – 2.368226) on the statement SMEs adequate aware with the types of credit facility offered by FIs.

Furthermore, the respondents disagreed with a mean of 2.25, a standard error of 0.0.052 and a 95% confidence interval of (2.152803 – 2.359307) on the statement SMEs adequate aware with the terms of credit facility offered by FIs. Also, the respondents disagreed with a mean of 2.13, a standard error of 0.049 and a 95% confidence interval of (2.033331 – 2.229645) on the statement awareness given by concerned body is enough to aware credit facility offered by FIs. And also the respondents disagreed with a mean of 2.22, a standard error of 0.054 and a 95% confidence interval of (2.114923 – 2.327983) on the statement SMEs were aware credit facility offered by FIs through advertisement by FIs themselves. Finally, the respondents agreed with a mean of 3.81, a standard error of 0.053 and a 95% confidence interval of (3.708362 – 3.917935) on the statement credit exposure of SME's help them for re financing their business. From the result, the researcher can deduce SMEs were not adequate aware with types and terms of credit

facility and the awareness and advertisement given about credit facility on the study area is not sufficient.

Table 4.22 Estimation of credit non-awareness on credit accessibility

Mean estimation Number of obs = 289

	Mean	Std. Err.	[95% Conf.	Interval]
smesadawaretypcred1	2.262976	.0534756	2.157723	2.368228
smesadawaretermcred1	2.256055	.0524592	2.152803	2.359307
awargivenenou1	2.131488	.0498705	2.033331	2.229645
smesawarcredadvfis1	2.221453	.0541247	2.114923	2.327983
credexposupprefin1	3.813149	.0532388	3.708362	3.917935

(Source: own computation, 2020)

4.5.3 Structure of Financial sector on credit accessibility

Further the study finds out the level of agreement on statements how structure of financial sector affects credit accessibility of SMEs in SWSHZ.

As indicated on table 4.23 the respondent's strongly agreed with a mean of 4.069, a standard error of 0.049 and a 95% confidence interval of (3.971139 – 4.167269) on the statement complex structure of financial sector affect the credit accessibility of SMEs in the study area. Continuing, the respondents agreed with a mean of 3.89, a standard error of 0.050 and a 95% confidence interval of (3.800768 – 3.99854) on the statement cost of financing like: - interest rate, insurance premium, credit charges and own contribution affect credit accessibility of SMEs in the study area. Further, the respondents agreed with a mean of 3.78, a standard error of 0.051 and a 95% confidence interval of (3.688168 – 3.889686) on the statement credit risk mitigation by FIs is affecting credit accessibility of SMEs in the study area. Also, the respondents agreed with a mean of 3.84, a standard error of 0.054 and a 95% confidence interval of (3.736854 – 3.951727) on the statement credit policies, and procedures of FIs are affecting credit accessibility of SMEs in the study area. And Also, the respondents agreed with a mean of 3.82, a standard error of 0.054 and a 95% confidence interval of (3.712925 – 3.927213) on the statement credit risk calculation by FIs is affecting credit accessibility of SMEs in the study area. Lastly,

the respondents strongly agreed with a mean of 4.03, a standard error of 0.041 and a 95% confidence interval of (3.956599 – 4.119526) on the statement insolvency or liquidity of FIs were affecting credit accessibility of SMEs in the study area. Generally, we can conclude from the findings the structure of financial sector affect the credit accessibility of SMEs in the study area.

Table 4.23 Estimation of the structure of financial sector on credit accessibility

Mean estimation Number of obs = 289

	Mean	Std. Err.	[95% Conf.	Interval]
compstruaffcred1	4.069204	.0498238	3.971139	4.167269
costoffinaffcred1	3.899654	.0502409	3.800768	3.99854
credriskmitaffcred1	3.788927	.0511926	3.688168	3.889686
credppaffcred1	3.844291	.0545852	3.736854	3.951727
liquiriskcalaffcred1	3.820069	.0544364	3.712925	3.927213
insofisaffcred1	4.038062	.0413891	3.956599	4.119526

(Source: own computation, 2020)

4.5.4 The distances of SMEs from financial sector

Also the study finds out the level of agreement on statements the extent of the distances of SMEs from financial institutions affects credit accessibility of SMEs in SWSHZ.

As one can understand from table 4.24 the respondents agreed with a mean of 3.78, a standard error of 0.051 and a 95% confidence interval of (3.683201 – 3.887733) on the statement the distances of SMEs from FIs were affecting credit accessibility of them in the study area. The respondents also agreed with a mean of 3.76, a standard error of 0.051 and a 95% confidence interval of (3.664439 – 3.864973) on the statement short distances from FIs helped SMEs on their accessibility of credit facility in the study area. And also the respondents agreed with a mean of 3.75, a standard error of 0.051 and a 95% confidence interval of (3.653697 – 3.854953) on the statement long distances from FIs were affecting credit accessibility of SMEs in the study area

Therefore, it is understandable that the distances of SMEs from FIs was affecting the credit accessibility of SMEs in the study area.

Table 4.24 Estimation of distances of SMEs from FIs on credit accessibility

Mean estimation Number of obs = 289

	Mean	Std. Err.	[95% Conf.	Interval]
disofsmeaffcred1	3.785467	.0519584	3.683201	3.887733
shortdisofsmehelpcred1	3.764706	.0509427	3.664439	3.864973
longdisofsmeaffcred1	3.754325	.051126	3.653697	3.854953

(Source: own computation, 2020)

4.5.5 Management competency on credit accessibility

And also the study finds out the level of agreement on statements the influences of management competency on credit accessibility of SMEs in SWSHZ.

Table 4.25 shows the respondents were strongly agreed with a mean of 4.05, a standard error of 0.034 and a 95% confidence interval of (3.984289 – 4.119517) on the statement financial resource management competency of SMEs increases credit accessibility of them in the study area.

On the other hand, the respondents agreed with a mean of 3.94, a standard error of 0.038 and a 95% confidence interval of (3.873293 – 4.022901) on the statement human resource management competency of SMEs increases credit accessibility of them in the study area. Also, the respondents agreed with a mean of 3.97, a standard error of 0.036 and a 95% confidence interval of (3.897723 – 4.039994) on the statement material resource management competency of SMEs increases credit accessibility of them in the study area. And also, the respondents strongly agreed with a mean of 4.05, a standard error of 0.035 and a 95% confidence interval of (3.986086 – 4.124641) on the statement marketing management competency of SMEs increases credit accessibility of them in the study area. Finally, the respondents strongly agreed with a mean of 4.04, a standard error of 0.034 and a 95% confidence interval of (3.976618 – 4.022901) on the statement credit management competency of FIs increase credit accessibility of SMEs in the study area. Therefore, we can conclude from the findings the management competency of both SMEs and FIs are increase credit accessibility of SMEs in SWSHZ of Oromia regional state, Ethiopia.

Table 4.25 Estimation of management competency on credit accessibility

Mean estimation Number of obs = 289

	Mean	Std. Err.	[95% Conf.	Interval]
frmgtcompinccred1	4.051903	.0343525	3.984289	4.119517
hrmgtcompinccred1	3.948097	.0380054	3.873293	4.022901
mrmgtcompinccred1	3.968858	.0361417	3.897723	4.039994
mmcompinccred1	4.055363	.0351977	3.986086	4.124641
cmcompfisinccred1	4.044983	.034734	3.976618	4.113347

(Source: own computation, 2020)

4.5.6 Support of Small business on credit accessibility

Finally, the study finds out the level of agreement on statements the influences of small business support on credit accessibility of SMEs in SWSHZ.

Accordingly, as indicated on table 4.26 first, the respondents disagreed with a mean of 2.22, a standard error of 0.053 and a 95% confidence interval of (2.1187 – 2.331127) on the statement your business get sufficient support from concerned party; this result implies SMEs did not getting sufficient support from concerned party. Second, the respondents strongly agreed with a mean of 4.08, a standard error of 0.033 and a 95% confidence interval of (4.024649 – 4.155282) on the statement technical support like training helps SMEs in accessing credit facility; this result implies technical support like training help in credit accessibility of SMEs. Third, the respondents strongly agreed with a mean of 4.11, a standard error of 0.030 and a 95% confidence interval of (4.05346 – 4.174914) on the statement financial support like giving initial capital for SMEs help in accessing credit facility; this result implies financial support like giving initial capital for SMEs help in credit accessibility of them.

Fourth, the respondents strongly agreed with a mean of 4.11, a standard error of 0.032 and a 95% confidence interval of (4.052925 – 4.182369) on the statement legal support like trade license, TIN and legalization of SMES helps on credit accessibility of them; this result implies legal support of SMEs help in credit accessibility of them. Fifth, the respondents strongly agreed with a mean of 4.01, a standard error of 0.030 and a 95%

confidence interval of (3.954387 – 4.073295) on the statement business administration support like entrepreneurship and training helps SMEs to access credit facility; this result implies business administration support of SMEs help in credit accessibility of them. Sixth, the respondents strongly agreed with a mean of 4.14, a standard error of 0.032 and a 95% confidence interval of (4.080644 – 4.210014) on the statement market integration support helps SMEs to access credit facility; this result implies market integration support of SMEs help in credit accessibility of them.

Finally, the respondents agreed with a mean of 3.63, a standard error of 0.052 and a 95% confidence interval of (3.52995 – 3.736486) on the statement leasing support helps SMEs on accessibility of credit facility; this result implies leasing support help SMEs in credit accessibility of them.

Table 4.26 Estimation of support of small business on credit accessibility

Mean estimation Number of obs = 289

	Mean	Std. Err.	[95% Conf.	Interval]
suffsupp1	2.224913	.053964	2.1187	2.331127
tstraihelpcred1	4.089965	.0331854	4.024649	4.155282
fsichelpcred1	4.114187	.0308535	4.05346	4.174914
lstradelichelpcred1	4.117647	.0328834	4.052925	4.182369
asentacchelpcred1	4.013841	.0302067	3.954387	4.073295
mishelpcred1	4.145329	.0328644	4.080644	4.210014
lshelpcred1	3.633218	.0524671	3.52995	3.736486

(Source: own computation, 2020)

4.6 Result of interviewee Questions

4.6.1 Credit accessibility of SMEs in the study area

Interviews were also conducted with branch managers and credit officers of 9 Banks and 6 microfinance institutions operating in the zone. As it is shown on table 4.27 from those SMEs accessed to credit facility of FIs in the study area, twenty-nine and 11.65% of SMEs had access to bank credit. The rests two hundred twenty and 88.35% of SMEs had access to credit facility from MFIs. From those who had accessed credit facility of MFIs

one hundred thirty-two and 60% obtained credit facility from OCSSCO. This shows SMEs in the study area was limited to access credit facilities offered by government-based MFIs. Even though, the number of SMEs accessed to bank credit is less, the figure amount is high relative to that of MFs. In addition, there is no credit accessed by SMEs from seven banks from the nine banks interviewed. The maximum amount of credit accessed to MFIs is five hundred thousand compared to that of banks two million five hundred thousand. The types of credit accessed are term loan except one guarantee from DB and revolving fund from OCSSCO. The types of collateral security offered are only buildings and vehicles.

Table 4.27 Result of interview questions

S.No	Name of FIs	Credit accessibility Of SMEs	No of SMEs credit accessed	Amount of Credit accessed	Types of credit accessed	Types of collateral offered
1	CBE	yes	27	280,000-2.5mil	Term loan	Building and vehicle
2	DB	yes	2	800,000-1mil	Term loan and Guarantee	Building
3	CBO	no	no	no	no	no
4	IOB	no	no	no	no	no
5	BIB	no	no	no	no	no
6	AWB	no	no	no	no	no
7	DBE	no	no	no	no	no
8	BOA	no	no	no	no	no
9	WB	no	no	no	no	no
10	OCSSCO	yes	132	50,000-500,000	Term loan and Revolving	Building
11	LSMFs	yes	25	50,000-500,000	Term loan	Building
12	AMFs	yes	22	50,000-300,000	Term loan	Building
13	MMFs	yes	16	50,000-300,000	Term loan	Building
14	EMFs	yes	14	50,000-200,000	Term loan	Building
15	VF	yes	11	50,000-200,000	Term loan	Building

(Source: own survey, 2020)

4.6.2 Challenges facing financial institutions on credit entertainments of SMEs

4.6.2.1 Banks

According to CBE's loan officer, there is no credit available for SMEs till 2019 G.C. But in 2019 personal loan and mortgage types of credit facility were introduced for a short period and now it is suspended for unknown reason.

Credit relation manager of DB reason out, documentation problems of SMEs are affecting credit accessibility of them. According to credit relation manager of DB, the required documents like; trade license, TIN certificates, article of memorandum, article of association and marriage certificates were not properly and accurately issued to SMEs by the concerned government body as per the requirements of NBE directives and banks credit policies and procedures in the study area. The credit relation manager of DB further identified lack of adequate collateral security; the complex lending rules of banks, and the separate unavailability of loan products for SMEs are affecting credit accessibility of SMEs in the study area. The credit relation manager of DB further suggested that like the Ethiopian talent serious launched by DB to give financial and technical support for SMEs would solve the problem if other FIs are continued to introduce such separate product for SMEs.

According to loan officer of CBO collateral requirement, credit facility non-awareness, credit structure like; interest rate, terms and charges, credit policies and procedures, unable to provide financial statements, TIN, trade licenses and fear of risk taking were the major challenges face on the entertainments credit facility of SMEs in the study area.

Also, the loan officer of OIB, stated the product is available at the bank, no SMEs requested the product due to credit unawareness, exposures or history, collateral requirement and other problems raised by loan officer of CBO.

As customer service manager of WB point out, there is no practice and no awareness of SMEs approach to private banks rather they approached to government related FIs even though the product is available at our bank. He further points out, he knew in Addis there were SMEs accessed to credit facility of the bank, but in SWSHZ there is no such

practice and the government also initiates them to access from government institutions in connection to mobilize deposit from own contribution in connection to credit facility.

As the branch manager of AWB pointed, there is no product to finance SMEs. But they are financing individual traders and mortgagers. On the other hand, he pointed the NBE directives allows MFIs than banks to finance SMEs. There were only two banks allowed to provide such products; CBO and Addis International bank which, Addis International bank is not found in the study area.

Finally, BIB manager also raised points listed by CBO and OIB loan officers

4.6.2.2 Microfinance Institutions

The branch manager of OCSSCO stated that depending on the political instability, unwillingness to repay their loan, loan management problem, the diversion of the loan for other purpose, lack of commitment to change, waiting for enforcement by external body, lack of market linkage by concerned party were some major problems face on the entertainment of credit accessibility of SMEs.

The credit officer of AMFs pointed out; SMEs select MFIs than Banks due to bank process has time-consuming and bulky policies and procedures. Further, he listed the main challenges facing MFIs on the entertainments of SMEs credit request is double request management from other FIs, most of the MFIs repayment mode is monthly which may difficult for SMEs, there must be 10% own contribution to entertain credit facility, there is 3% service charge of loan granted, the interest rate charged by MFs are high relative to bank and, most MFs use flat rate of repayment method than double declining method and the duration of the loan is one to three years from minimum to maximum.

Finally, the rest other MFs were pointed similar challenges on the entertainments of SMEs loan request.

4.7 Discussions

The population of the study consists of 1,193 SMEs registered on two office of enterprise and industry development office of south-west shoa zone of oromia region. Stratified and simple random sampling was used to determine the sample size of 299 enterprises from

the total population and 289 were responded from the sample selected. Data was collected using structured questionnaires based on the research questions and closed ended interviewee. Descriptive statistics used to analyze to data included frequencies and percentages distribution tables, and mean. For inferential statistics, correlation, and multiple regressions were used to analyze data.

4.7.1 The degree of agreement on credit accessibility of SMEs in SWSH Zone

As it is indicated on table 4.18, SMEs in south-west shoa were no accessing credit facility sufficiently from FIs founding in the same zone. This insufficient credit accessibility of SMEs is due to six main factors: - collateral requirement, credit facility non-awareness, structure of financial institutions, distances of SMEs form financial institutions, management competency, and small business support. Accordingly, from multiple linear regression analysis, the coefficient of collateral requirement, credit facility non-awareness, structure of financial sectors and distance of financial institutions were negative, (-0.681), (-0.145), (-0.036) and (-0.058) respectively indicating a one unit requirement of collateral security by financial institutions, decreases credit accessibility of SMEs by 68.10%, credit facility non-awareness decrease credit accessibility of SMEs by 14.52%, a complexity structure of financial sector, decrease credit accessibility of SMEs by 3.62%, and the distances of SMEs from financial institutions, decrease credit accessibility of them by 5.79% on average respectively. The left coefficient of management competency and coefficient of support small business were positive relationships with credit accessibility indicating a one unit management competency of both SMEs and FIs, increase credit accessibility of SMEs in the study area by 4.22%, and a one unit support of small business increases credit accessibility of SMEs by 4.066% on average. The results of correlation analysis also show the same conclusion with regression analysis.

4.7.2 The extent of Collateral requirement affects credit accessibility of SMEs in SWSHZ

From the findings from table 4.21 the researcher deduce that collateral securities required by FIs are not easily available and receivables, inventories, equipment and personal guarantees are not serving as collateral for credit accessibility. Only buildings, vehicles

and shares certificates are serving as collateral for credit accessibility in the study area. The current study was the same result with that of (Ayalneh M, 2018) access to finance was highly limited by strict collateral requirements. However, the study is limited to Addis Ababa. Further, the current study analyzed and reviewed from the literature reviewed, receivables, inventories, equipment and personal guarantees can be served as collateral to solve the problem of collateral requirement. (Tafa M, 2011) also confirm one constraint of the SME's inability to access funds are the general inability on the part of SME's to provide acceptable collateral/securities to back up their loan request by more emphasizing accounting practice of SMEs affect their credit accessibility of them.

The current study is different from that of (Fredu N. and Edris H, .2016) in that even though there is demand and supply, collateral requirement is the most influential factor affecting credit accessibility of SMEs in the study area, but, (Fredu N. and Edris H, .2016) stated demand and supply side factors that affecting credit accessibility of SMEs by comparing other infrastructure like: - electricity, land, competition, transportation, telecommunication, tax administration, tax rate and the like. (WBG, 2014) is similar with the current study result in the average value of collateral needed for loans in Ethiopia is also very high compared to other regions of the world as well as to other developed economies in Africa. On average, Ethiopian firms require 234 percent of the loan amount for collateral, compared to 134.3 percent in Eastern Europe and Central Asia. In well-developed African countries, collateral requirements are also much lower than in Ethiopia: 120.8 percent in (Kenya, 2007), and 103.6 percent in (South Africa, 2007).

Furthermore, the current study strengthen the findings by interviewee results which almost all 9 bank officers and 6 MFIs officers confirm the requirement of collateral security were affecting credit accessibility of SMEs in the study area.

Finally, from the regression analysis result, the requirement of collateral security affects credit accessibility by 0.681 or 68.1% on average which is the most influential factor in the study.

4.7.3 How credit facility non-awareness affect credit accessibility of SMEs in SWSHZ

As indicated on table 2.22, the researcher find out SMEs were not adequate aware with types and terms of credit facility and the awareness and advertisement given about credit facility on the study area is not sufficient. The regression analysis result also negatively related to credit accessibility in the study area by beta coefficient of - 0.14 which non-awareness of credit facility decrease credit accessibility by 0.14 or 14% on average.

The study conducted by (Ayalneh M, 2018) different from the current study in that the availability of information on who is offering credit facilities influenced access finance and its availability only to a neutral level. As cited by (Ayalneh M, 2018), the flow of information in the financial market is crucial for both SMEs and financial providers (Falkena et al., 2001).

The current study is resulted credit facility non-awareness negatively affect credit accessibility of SMEs in the study area compared to (Ayalneh M, 2018), and other studies listed on research gap part didn't include credit non-awareness in their studies.

The result of interviewee from bank staffs pointed out, there is no practice and no awareness of SMEs approach to private banks rather they approach to government related FIs even though the product is available at private banks. The banker's further pointed out, in Addis there is SMEs accessed to credit facility of bank, but in SWSHZ there is no such practice. The result of current study's multiple regression analysis also show as non-awareness of SMEs about credit facility increase, the credit accessibility of them decreased by 0.145 or 14.5% on average.

4.7.4 How structure of financial sector affect credit accessibility of SMEs in SWSHZ

As indicated on table 4.23 the respondent's strongly agreed with a mean of 4.069, a standard error of 0.049 and a 95% confidence interval of (3.971139 – 4.167269) on the statement complex structure of financial sector affect credit accessibility of SMEs in the study area. The result also shows cost of financing like: - interest rate, insurance premium, credit charges and own contribution affect credit accessibility of SMEs in the study area. Further, the current study specified credit risk mitigation of FIs, credit policies

and procedures of FIs, credit risk calculation of FIs, and insolvency or liquidity of FIs are affecting credit accessibility of SMEs in the study area.

The current study includes cost of borrowing under structure of financial sector it is related to (Ayalneh M, 2018) that high cost of borrowing makes difficult to access finance furthermore his respondents mentioned high interest rate as a cause for their default of repayment and hindrance to access finance from lending institutions. As cited by (Ayalneh M, 2018) these findings also reflect those of a study carried out by (Mwangi and Bwisa, 2013), (Ndungu, 2016); (Anthony et al. 2013); (Fetene, 2010). The current study result similar with (WBG, 2014) another significant obstacle to involvement with SMEs indicated was the legal and regulatory framework affecting financial institutions.

As it is clearly understandable from interviewee result, the required documents like; trade license, TIN certificates, article of memorandum, article of association, and marriage certificates were not properly and accurately issued to SMEs by the concerned government body as per the requirements of NBE directives and banks credit policies and procedures in the study area, and the complex lending rules of banks, and the separate unavailability of loan products for SMEs are affecting credit accessibility of SMEs in the study area.

Finally, from the current study's regression analysis, the structure of financial sector affect negatively by 0.036 or 3.6% credit accessibility of SMEs in the study area.

4.7.5 To what extent the distance from FIs by SMEs can affect credit accessibility of SMEs in the zone

As it is understandable from table 4.24, the respondents agreed with a mean of 3.78, a standard error of 0.051 and a 95% confidence interval of (3.683201 – 3.887733) on the statement the distances of SMEs from FIs are affecting the credit accessibility of them in the study area. The respondents further agreed with a mean of 3.76, a standard error of 0.051 and a 95% confidence interval of (3.664439 – 3.864973) on the statement short distances from FIs helps SMEs on their credit accessibility, and agreed with a mean of 3.75, a standard d error of 0.051 and a 95% confidence interval of (3.653697 – 3.854953) on the statement long distances from FIs are affecting credit accessibility of SMEs in the

study area. The studies conducted by (Fredu N and Edris H (2016), (Ayalneh M,2018) and (Tafa M,2011) on credit accessibility of SMEs did not point out the effect of distances of SMEs from FIs which the current study further analyzed the negative effect of it by multiple linear regression model. As one can understand from the regression model, increases the distances of SMEs from financial institutions, decreased credit accessibility of SMEs by 0.058 or 5.8% on average.

4.7.6 To what extent management competency influences credit accessibility of small and medium enterprises in the zone

The study results on table 4.25, shows the respondents strong agreement with a mean of 4.05, a standard error 0.034, and a 95% confidence interval of (3.984289 – 4.119517) on statement financial resource management competency of SMEs increase credit accessibility of them, agreed with a mean of 3.95, a standard error 0.038, and a 95% confidence interval of (3.873293 – 4.022901) human resource management competency of SMEs increase credit accessibility of them, agreed with a mean of 3.97, a standard error 0.036, and a 95% confidence interval of (3.897723 – 4.039994) on statement material resource management competency of SMEs increase credit accessibility of them, strongly agreed with a mean of 4.05, a standard error 0.035, and a 95% confidence interval of (3.986086 – 4.124641) on statement marketing management competency of SMEs increase credit accessibility of them, and also strongly agreed with a mean of 4.05, a standard error 0.035, and a 95% confidence interval of (3.976618 – 4.113347) on statement credit management competency of FIs increase credit accessibility of SMEs respectively in the study area. From these result, we can conclude from the findings the management competency of both SMEs and FIs are increase credit accessibility of SMEs in the study area.

The current study result is the same with (Tafa M, 2011) in that, the role of the manager is the main determinant for the firm's success. The current study also find out, as the management competency of both SMEs and FIs increases, credit accessibility of SMEs increased by 0.042 or 4.2% from the multiple linear regression coefficient on average.

4.7.7 To what extent small business support influences credit accessibility of small and medium enterprises in south-west shoa zone

Finally, the study finds out the level of agreement on statements the influences of small business support on credit accessibility of SMEs in SWSHZ. Accordingly, as indicated on table 4.26 first, the respondents disagreed with a mean of with a mean of 2.22, a standard error 0.054, and a 95% confidence interval of (2.1187 – 2.331127) on the statement your business get sufficient support from concerned party.

Second, the respondents strongly agreed with a mean of 4.09, a standard error 0.033, and a 95% confidence interval of (4.024649 – 4.155282), on the statement technical support like training helps SMEs in accessing credit facility, Third, the respondents strongly agreed with a mean of 4.11, a standard error 0.031, and a 95% confidence interval of (4.05346 – 4.174914) on the statement financial support like giving initial capital for SMEs help in accessing credit facility, Fourth, the respondents strongly agreed with a mean of 4.11, a standard error 0.033, and a 95% confidence interval of (4.052925 – 4.182369) on the statement legal support like trade license, TIN and legalization of SMES helps on credit accessibility of them, Fifth, the respondents strongly agreed with a mean of 4.01, a standard error 0.030, and a 95% confidence interval of (3.954387 – 4.073295) on the statement business administration support like entrepreneurship and training helps SMEs to access credit facility, Sixth, the respondents strongly agreed with a mean of 4.15, a standard error 0.033, and a 95% confidence interval of (4.080644 – 4.210014) on the statement market integration support helps SMEs to access credit facility, finally, the respondents agreed with a mean of 3.63, a standard error 0.052, and a 95% confidence interval of (3.52995 – 3.736486) on the statement leasing support helps SMEs on credit accessibility in the study area.

The multiple linear regression coefficient of the current study also shows as support of small business increase credit accessibility of SMEs increased by 0.041 or 4.1 % on average from the beta coefficient of variability.

Generally, the current study finds out SMEs are not getting sufficient support, and supporting small business helps SMEs on credit accessibility of them in the study area.

(WBG, 2014) is similar with the current study in “comprehensive and practical policy interventions” is important to facilitate the development of micro and small enterprises in the country. Broadly put, the policy aims to address six key challenges that impede the growth of micro enterprises and small establishments; these include skill development, technology transfer, market facilitation, access to finance, the reduction of entry barriers, and improving the provision of information. To address these challenges and support the overall development of the SMEs in the country, the government has set in place an institutional structure at the federal, regional, and town levels.

(Christian A, 2016) Governments can support SMEs in various ways, by promoting: policy or legislative measures such as credit, technical assistance and fiscal incentives, business development services such as training, advisory services, information, and technology transfer, targeted technical assistance, information and advisory services, and finance to specific enterprises, value chain programmers whereby SMEs are linked to large corporations as suppliers or distributors, procurement and local content programmers whereby governments and/or large companies source inputs or services from domestic SMEs.

CHAPTER FIVE

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

The main objective of the study was to identify factors affecting credit accessibility of SMEs in SWSHZ of Oromia regional State, Ethiopia. In doing so, previous studies have been reviewed and it is summarized those factors were negatively and positively affects credit accessibility of SMEs. The study consists of one dependent variable; credit accessibility and six independent variable; collateral requirement, credit facility non-awareness, structure of financial sector, distances of SMEs from financial institutions, management competency and support of small business on credit accessibility. To comply with the objective of this research, the study also used an appropriate econometrics methodology for the estimation of variable's coefficient under descriptive statistics, correlation and multiple linear regression analysis.

From the total population of 1,193 SMEs registered in WTEIDO and SWSHZEIDO, 299 samples are selected using Taro yamane's simplified sample proportion method. Among 299 questionnaires distributed, 289 were returned and analyzed.

The quantitative data were mainly collected from the structured questionnaires distributed and organized using five likert scale degree of agreement ranging from 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for strongly agree. In specific, correlation and multiple regression analysis is adopted to measure the relationship between dependent and independent variables. The research used statistical tool (STATA V 13.0) to code, enter and compute the measurements of descriptive, correlation, and multiple regressions analysis. Descriptive statistical tool is used to give overall description about data used in the study and served as data screening tool to spot unreasonable figure. The study used mean value range below 2 for strongly disagree, 2 up to 2.5 for disagree, 2.6 up to 3.0 for neutral, 3.1 up to 4 for agree, 4.1 up to 5 for strongly agree for descriptive data analysis propose.

Qualitative data also collected through interviewee from 9 banks and 6 MFs operating in the study area, in order to strength the result of the study.

The research findings and the primary data results on factors affecting credit accessibility of SMEs in South-west Shoa Zone,Oromia Regional State, for the sample suggests following conclusions.

First, the correlation and multiple linear regression analysis of collateral requirement have a negative impact on credit accessibility of SMEs in the study area with strong significance coefficient. This indicates, the more collateral requirement, the less credit accessibility of SMEs in the study area.

Second, the correlation and multiple linear regression analysis of credit facility non-awareness resulted negative relationship with credit accessibility of SMEs with strong statistical significance. This implies SMEs were not aware adequately the types and terms of credit facility, SMEs were not access to credit facility sufficiently, and credit facility non-awareness affecting credit accessibility of SMEs in the zone.

Third, the structure of financial sector has a negative impact on credit accessibility of SMEs in the study area with significance coefficient in both correlation and regression analysis result. This indicates that, the structure of financial sector was negatively affecting credit accessibility of SMEs in the study area

Fourth, again correlation and multiple linear regression analysis result showed a negative relationship between distances of SMEs from financial institution and credit accessibility of SMEs with reasonable statistical significance. This shows, the distances of SMEs from FIs were affecting credit accessibility of them in the study area.

Fifth, the correlation and multiple linear regression analysis result showed a positive relationship between management competency and credit accessibility of SMEs in the study area with reasonable statistical significance. This implies that, the management competency of both SMEs and FIs will increase credit accessibility of SMEs in the scope.

Lastly, support of small business also has statistically significant and positive relationship with credit accessibility of SMEs. This implies, support of small business increase from the concerned party will increase credit accessibility of SMEs in the study area.

In the study area, as per the result of descriptive statistics for independent variables; first, there was building, vehicles and shares certificates are serving as collateral. Other, assets like receivable, inventory, equipment, and personal guarantee were not serving as collateral security for credit accessibility of SMEs.

Second, SMEs were not adequate aware terms and types of credit facility FIs are providing, the awareness given to SMEs is not sufficient for credit accessibility, SMEs were not get awareness through the advertisement FIs may provide by themselves and SME's didn't achieved credit exposure that help in refinancing of credit facility.

Third, complex structure of FIs, cost of financing, credit risk mitigation of FIs, credit policies and procedures, liquidity risk calculation of FIs and insolvency or liquidity of FIs are affecting credit accessibility of SMEs.

Fourth, short distances of SMEs from FIs helps their credit accessibility and long distances of SMEs are affecting credit accessibility of them.

Fifth, financial resource management competency, human resource management competency, material resource management competency, marketing management competency and credit management competency of both SMEs and FIs have positive influence on credit accessibility of SMEs.

Finally, SMEs had been not gotten sufficient support from concerned body. The study further finds out, technical, financial, legal, and administrative, market integration, and leasing support have positive influence on credit accessibility of SMEs.

5.2 Recommendations

In order to hold continued sustainable development of SMEs, it is vital to identify the determinants that mostly influence the overall credit accessibility of SMEs. Therefore, based on the findings, the following possible recommendations were forwarded:

Most of the SMEs in the study area were unable to provide collateral security in order to sufficiently access credit facility. Additionally, building and vehicles were the major collateral securities required by FIs in the study area.

Thus, effective policy making should recognize the challenges to growth identified by SMEs including lack of access to finance. Furthermore, FIs needed to consider receivable, inventory, equipment, and personal guarantee can be pledged as collateral in addition to building and vehicle at all levels of the country including study area.

SMEs were not adequately aware of the terms and types of credit facility available at FIs. Additionally, the awareness given to SMEs are not sufficient enough and FIs are not advertising enough their types and terms of credit service. Therefore, it is highly recommended that SMEs themselves take time to search for other FIs than limiting themselves to government microfinance in order for them to be competent in the market, the concerned government body needed to make SMEs exhaustive awareness about credit facility in order to minimize his burden on SMEs in the country. FIs are needed to make exhaustive advertisement about credit terms and types they were providing.

Financial institutions needed to recognize SMEs up on organization of their structure, setting cost of financing, credit risk mitigation, setting credit policies and procedures, and liquidity risk calculation. The policymakers need to set sound and uniform policy on the structure of financial sector that prioritize SME's credit accessibility, and promote systematic reforms to build the capacity of country's financial sector order to they supply credit facility for SMEs.

As the study result showed a negative relationship between distances of SMEs from financial institution and credit accessibility of SMEs with reasonable statistical significance, it is recommended that FIs were needed to open their branches near to SMEs location in the country including the study area. It is not only the business environment in the capital city that is important, but the environment in other areas of the country, including rural areas. Therefore, the study also recommends a critical local-level financial policy that is based on local needs of SMEs which is more economical and

ensures sustainability of the country than benefits larger enterprises and multinational companies.

Furthermore, from the study, financial resource, human resource, material resource, marketing and credit management competency of both SMEs and FIs has positive influence on credit accessibility of SMEs. Small and medium enterprise owners or managers needs managerial training to make sure their businesses are stable. Many SMEs who have access to the credit facility fail in the main area of managing their businesses and go loses. It is highly recommendable for them to understand the basic accounting methods and be creative enough to enter in new markets as the business grows. Failure to possess the managerial skills has hard moments to refund the money to the creditors and face challenges in accessing any loans or credit services to expand their businesses.

Finally, SMEs in the study area had been not gotten sufficient support from concerned body. Governments needed support SMEs in various ways, by promoting: business development services such as training, advisory services, information, and technology transfer, financial support like initial capital and finance to specific enterprises, legal support by providing legalization documents like trade license, TIN certificate and other legal documents, Administrative support like entrepreneurship and accounting training, market integration support like value chain programs whereby SMEs are linked to large corporations as suppliers or distributors, procurement and local content programs whereby governments and/or large companies source inputs or services from domestic SMEs and leasing support by providing land and other required materials by lease.

5.3 Recommendations for Future Research

The study findings should be utilized by researchers and academicians who would wish to advance, test or confirm hypothesis regarding factors affecting credit accessibility of SMEs in other regions of the country by adding other factors and reducing residuals which this study is limited to South West Shoa Zone of Oromia Region and six independent factors.

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APPENDIX I: RESEARCH QUESTIONNAIRES

WOLKITE UNIVERSITY

SCHOOL OF GRADUATE STUDIES

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

<u>Questionnaires to be filled by Selected SMEs's Owners or Managers or employees</u>

Dear Sir/Madam,

I am a student of Master of Science in Accounting and Finance at Wolkite University Currently carrying out a research on the title Factors Affecting Credit Accessibility of Small and Medium Enterprises in South West Shoa Zone, regional state of Oromia, Ethiopia. The aim of this questionnaire is to get appropriate information on the title under the consideration. The information obtained from you will be treated strictly in a confidential manner and used for academic purposes only. Therefore, I kindly request you to answer the following questions as honestly and openly as you can. Lastly, I will be glad if you fill and return the completed questionnaire as soon as possible.

Thank you for your kind cooperation.

Debebe Workineh Olga

Mobile Number: 0912-81-19-13 E-mail: workinehdebebe22@gmail.com

Instruction for filling the questionnaires:

1) No need to write your name.
2) Your participation is voluntary.
3) Please put tick (✓) mark inside the box that fit your best answer for the alternative questions provided here below.
4)

Part I: General information of Owners or Managers or employees of SMEs

1. Sex: Male ☐ Female ☐

2. Marital Status: Single ☐ Married ☐ Other ☐

3. Age: 18-25 ☐ 26-35 ☐ 36-45 ☐ Above 46 ☐

4. Education level: Grade 1-8 ☐ Grade 9-12 ☐ Certificate ☐ ☐ Diploma

Degree ☐ MA/MSC ☐ Dr ☐ Other (please Specify) _____

5. Have you ever had credit access from the financial institutions?

Yes ☐ No ☐

If your answer is yes for the above no 5 question, respond the following questions from 6-10

6. If your answer is yes for the above question, which financial Institution you have accessed?

` Bank ☐ Microfinance ☐ Both ☐ Other Specify _____

7. What type of credit facility you have accessed?

Term loan ☐ Overdraft ☐ Guarantee ☐ Revolving Fund ☐ other ____

8. By what amount your business accessed credit facility?

Below 50,000 ☐ 50,000-100,000 ☐ 101,000-200,000 ☐ 201,000-300,000 ☐ 301,000-500,000 ☐ 501,000-800,000 ☐ 801,000 – 1.2 million ☐ above 1.2 ☐ million

9. Have you offered collateral Security for your loan?

Yes ☐ No ☐

10. If your answer is yes for no 9 question above, which type of collateral security you offered?

Building ☐ Vehicles ☐ Inventory ☐ Equipments ☐ other (specify) _____

11. How many KM your business is far From Financial Institution in South west Shoa Zone? Below 5 km ☐

5-20 ☐ 21 - 40 ☐ 41-60 ☐ 61-80 ☐ 81-100 ☐ Above 100 ☐

Part II: Questions on the degree of agreement on credit accessibility of SMEs in South West Shoa Zone.

Indicate the extent you agree or disagree with the following statements by using the 5-point Likert scale below. (5=Strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

S. N	Item/ perspectives	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
1.	Your business has sufficient access to credit facility					
2.	The requirement of collateral by financial institutions affect your credit accessibility					
3.	Your non awareness about credit facility limit you to finance your business					
4.	The structure of financial sector limit your credit accessibility					
5.	Your distance from financial institution affect your credit accessibility					
6.	Your business's management competency help your credit accessibility					
7.	Supporting of small business helps to access credit facility					

Part III: Questions on the degree of agreement on factors affecting credit accessibility of SME in South West Shoa Zone.

Indicate the extent you agree or disagree with the following statements by using the 5-point Likert scale below. (5=Strongly Agree, 4=Agree, 3=Neutral, 2=Disagree, 1=Strongly Disagree)

1. Collateral requirement for credit facility

S. N	Item/ perspectives	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)
1.	The collateral security required by financial institutions are easily available					
2.	Buildings and Vehicles are the major types of collateral security required by Financial Institutions					
3.	Receivables can serve as collateral in Financial Institutions					
4.	Inventories can serve as collateral in Financial Institutions					
5.	Equipment can serve as collateral in Financial Institutions					
6.	Personal guarantees can serve as collateral in Financial Institutions					
7.	Share or Deposit Certificate can serve as collateral in Financial Institutions					

2. Credit non-awareness on credit accessibility

S. N	Item/ perspectives	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree(1)
1.	Small and medium enterprises are adequate aware with the types of credit facility offered by financial institutions					
2.	Small and medium enterprises are adequate aware with the terms of credit facility offered by financial institutions					
3.	The awareness given by concerned body is enough to aware credit facility offered by Financial Institutions					
4.	SMEs are aware credit facility offered by financial Institutions through advertisement by financial Institutions themselves.					
5.	Credit exposure of small and medium enterprises support them for re financing themselves					

3. Structure of Financial Sector

S. N	Item/ perspectives	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
1.	Structure of financial sector affect credit accessibility of SMEs					
2.	Cost of financing like: interest rate, insurance premium, credit charges and own contribution are affect credit accessibility of SMEs					
3.	Credit risk mitigation by Financial Institutions are affect credit accessibility of SMEs					
4.	Credit policy and procedures of financial institutions are affect credit accessibility of Small and medium enterprises					
5.	Liquidity risk calculation by financial institutions are affecting credit accessibility of SMEs					
6.	Insolvency or liquidity of financial institutions are affect credit accessibility of SMEs					

4. The distance of SMEs from Financial Institution

S. N	Item/ Perspective	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
1.	The distance of SMEs from financial Institutions are affecting credit accessibility of them					
2.	The short distance from financial institutions help SMEs in their accessibility of credit facility					
3.	The long distance from financial institutions affect credit accessibility of SMEs					

5. Management Competency on credit accessibility

S. N	Item/ Perspective	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
1.	Financial resources management competency of SMEs increase credit accessibility of them					
2.	Human resources management competency of SMEs increase credit accessibility of them					
3.	Material resources management competency of SMEs increase credit accessibility of them					
4.	Marketing management competency of SMEs increases credit accessibility of them.					
5.	Credit management competency of financial institutions increases credit accessibility of Small and medium enterprises					

6. Support of Small business on credit accessibility

S. N	Item/ Perspective	Strongly Agree (5)	Agree (4)	Neutral (3)	Disagree (2)	Strongly Disagree (1)
1	Your business get sufficient support from concerned party					
2	The technical support like training helps SMEs to access credit facility					
3	Financial support like initial capital given for your business helps you to access credit facility					
4	The legal support like trade license, TIN and Legalization helps SMEs to access credit facility					
5	The business administration support like Entrepreneurship and accounting helps SMEs to access credit facility					
6	The Market integration support helps SMEs to access credit facility					
7	Leasing support helps SMEs on accessibility of credit facility					

Thank for your cooperation!

APPENDIX II: INTERVIWEE QUESTIONAREES

WOLKITE UNIVERSITY

SCHOOL OF GRADUATE STUDIES

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

I am a student of Master of Science in Accounting and Finance at Wolkite University, currently carrying out a research on the title ***Factors Affecting Credit Accessibility of Small and Medium Enterprises in South West Shoa Zone, regional state of Oromia, Ethiopia*** and come to conduct Interview with Branch Managers or credit or loan officers of Financial Institutions operating in south West Shoa Zone.

Please respond your valuable answer for the following questions!

1. Is there Small and Medium enterprises are accessible to your credit facility? If there, can you tell the number Small and Medium enterprises succeeded in accessing the credit facilities, the amount of credit facility granted to them, which types of credit facility they have accessed and what kind of collateral security they offered?

2. Are there challenges or problems facing you on credit entertainments of Small and Medium enterprises? If there, what kinds of problems were you facing?

Thank you for your cooperation!