

THE ROLE OF FINANCIAL INSTITUTION IN THE GROWTH OF
SMALL AND MEDIUM ENTERPRISES (In Case Of CHEHA Woreda)



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DEPARTMENT OF MANAGEMENT

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List Abbreviations and Acronyms

SME	Small and Medium Enterprises
MSSE	Micro and Small Scale Enterprises
FI	Financial Institutions
MFI	Micro Finance Institutions
CSI	Credit and Saving Institutions
FDRE	Federal Democratic Republic of Ethiopia
ERCA	Ethiopian Revenue and Custom Authority
ECA	Economic Commission Africa

ABSTRACT

This study deals about the role of financial institutions contribution to the growth and development of Small and Medium Enterprises in Chehaworeda Small and Medium Enterprises. It tried to examine two separate but interrelated issues. On the One hand, it seeks to show the place of Small and Medium Enterprises in financial institutions overall objective/s.. The study was make use of descriptive, explanatory quantitative research methodology and has come up with five major findings. The first is lack of access to financial services is the major factor that negatively affects the growth of SMEs in Chehaworeda. The Second finding is the most Small and Medium Enterprises have achieved some level of growth. Thirdly, it found out that financial institution contributed almost some for the growth of SMEs in Chehaworeda; rather the demand for the products and services of SMEs is the major factor for their growthThe last major findings are that SMEs usually use their own savings to finance their business activities. The overall conclusion of the study would have further support from financial institutions is critical for SMEs found in Chehaworeda so that they can grow expand.

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CHAPTER ONE

Introduction

1.1. Back Ground of the study

The term SMEs covers a wide range of definitions and measures, varying from country to country and the sources the reporting SME statistics. Also there is no universal agreed definition of SME . Some of the commonly used criteria are the number of employees, value of assets, value of sales and size of capital or turnover. However, the most common basis of defining SMEs is number of employees (Nugent, 2001).

Small and Medium Enterprises (SMEs) and financial institutions are the vital contribution to the overall performance of an economy. SMEs are play a crucial role in developing the economy and in creating employment. They do not only provide employment income opportunities to a large number of people, but also are at the forefront of technological innovations and export diversification. Similarly, financial institutions play an indispensable role in firm's growth and thus industry productivity and economic growth. They provide sound medium of exchange and facilitate trading, encourage mobilization of resources through saving and allocate resources to activities with highest returns, monitor investments and exert corporate governance , and spread risks by offering a diversity of financial instruments . Furthermore, they provide financial assistance to fulfill the varied needs of enterprises (*Kothari C.R (2006) Research Methodology: Methods and Techniques (2nd Ed.)*)

Zeller (2003) broadly defined financial institutions as an organization, which maybe either for profit or nonprofit, that takes money from clients and places, it any of a variety of investment vehicles for the benefit of both client and the organization. Common example of financial institutions as bank, insurance companies, credit associations, microfinance, financial and economic firms(*Gray and Guy,(2003) "The granting of loans is much easier to large firms,that small once in Malawi."*)

Whatever the definition, and regardless of size of the economy the growth of the SMEs is becoming increasingly crucial economic growth. The issue of SMEs development ranks high among the priorities of socio-economic development, given the growing need for employment creation and poverty alleviation (Nugent, 2001). Nugent (2001) further noted that there is also an urgent need to create a strong competitive SMEs sector that is able to play a leading role in the development process.

The issue of SMEs development ranks high among the priorities of socioeconomic development, given the growing need for employment creation and poverty reduction. There is also an urgent need to create a strong competitive in SMEs sector that is able play a leading role in the development process as this was the case everywhere even in the developed world including the USA (Beyene, 2002). In leading with the development of SMEs, financial institutions are one essential organ. Therefore, access to financial services and institutions a critical element of SMEs growth. However, there appears to be limited evidence that confirms the contribution of financial institutions for SMEs growth.

To this end, this study is significantly place as its main focused the examination of financial institutions role in SMEs growth in Ethiopia, particularly in chehaworeda.

1.2. Back Ground of Organization

The Small and Medium Enterprises (SMEs) of chehaWoreda established in 2005. According to the woreda Micro, Small and Medium Enterprises(SMEs) there are around 53 Small and Medium Enterprises in the in the woreda. .The major sectors, which they are engaged in Manufacturing, construction, trade and service. There are contributed for employment, rural-urban linkage and supply of goods and services. The fast growing SMEs are those, which engage in construction and manufacturing sectors

1.3. Statement of The problem

Obviously, SMEs constitute the backbone of an economy. The SMEs sector plays a vital role in industrial development of the country, World Bank (1994) indicated that industrial development is earlier believed to have occurred because of large become perceived as the key agent for industrialization. It is recognized that this sector provides not only employment opportunities to an increasing number of people in the country, but it also, an effective means of fighting poverty and income inequality. At the same time, SMEs serve as a training ground for emerging entrepreneurs. It is with in this context that SMEs development became focal attention for governmental and nongovernmental organizations. This requires bringing specific needs of the enterprise to the center of the policy-process, and organizing that SMEs are to be assisted not because they are small, but because of their capability to be efficient innovative and able to compete in the local and international markets.

However, as Albaladejo (2001)noted, in the majority of developing countries ,most SMEs activities are undertaken in the informal economic growth. They use their own saving, reinvestment of profits and their own labor as main sources for their development. Despite these their sustainable will largely depend on the capacity of financial institutions to mobilize resources from low valued to high valued and invest in the SMEs activities.

Since SMEs does have a very significant role in the Ethiopian economy, the government is striving to create competitive and productive SMEs sector. It is for this reason that the Ethiopian government develops policy so as to address the constraints and to tap the potential of the sector. This policy was serve as guidelines to all stockholders and stimulates new enterprises to be established and existing ones to grow and become more competitive. When company is growing rapidly its current financial resources. In support of this, the Ethiopian government in order to provide adequate supply of financial services to various sectors of the economy, especially small business has a wide variety of financial institutions both at international and national levels as an effective means of fighting poverty and income inequality.

Therefore, it is absolutely essential that the financial institutions should contribute for the development of SMEs not only quickly but also at minimal cost. For this reason, the researcher was focused the examination of financial institutions (banks and micro finance) role in SMEs growth in Ethiopia, particularly in chehaworeda.

1.4. Research question

The researcher was tried to answer the following questions:

- 1). what roles do financial institutions, specifically banks and micro finance institutions play in the growth of SMEs in chehaworeda?
- 2) What forms of financing are available in financing the financial needs of SMEs in chehaworeda?
- 3) Are the financial institutions services accessible and affordable for the SMEs?

1.4.1 Research Objectives

The study has the following general and specific objectives.

1.4.2. General Objectives

The main objective of this study was to analyze the role of financial institutions /banks and micro finance institutions/ on the growth of SMEs in Ethiopia particularly in chehaworeda.

1.4.3 Specific Objectives

- 1) To assess the role of financial institutions specifically banks and micro finance institutions play in growth of SMEs',
- 2) To assess what form of financing was available in financing working capital as well as medium and long term loans have',
- 3) To identify the financial institutions products or services accessible to SMEs',

1.5. Scope of the Study

This study had been initiated the researcher, entirely focuses on the role of financial institutions in the growth of Small and Medium Enterprises (SMEs) in chehaworeda. Because, the SMEs is back bone for the development of the once country economy. So, small and medium enterprises need the assistance from different financial institutions to run their business.

1.6. Significance of the Study

There appeared to a number of attempted to investigate the role of Financial Institutions in the promotion of SMEs in Ethiopia. Therefore, this study was the initially to provide a comprehensive approach to the understanding of role of financial institutions and would intend to fill the gap in area

Generally, this study contributes to the knowledge in many important areas of financial institutions and SMEs. Firstly, it advances to a better understanding of functions and roles of financial institutions. Secondly, it increases the understanding of how a financial institution influences the development of SMEs. And third, it was pave the way forward for the government, policy makers, and financial institutions and to the general public at large understand the different roles of financial institutions in the enterprises development processor

1.7. Limitations of the Study

The following are the Researcher was faced during conducting the research:

_Some owners of business enterprises were not willing to give the information,

_Lack of the researcher experience to analyze the data

1.8. Organization of the study

The study was organized in to five (5) chapters. The first chapter is introduction part and contains back ground of the study, statement of the problem, objective of the study, significance of the study, scope and limitation of the study. The second chapter is literature review, the third chapter contains research methodology and the fourth chapter consists of analysis and interpretation of the collected data. Finally the fifth chapter deals about conclusion and recommendation based on the analyzed data.

CHAPTER TWO

2. LITERATURE REVIEW

This chapter reviews the theoretical and empirical literature on the role of financial institutions in growth of Small and Medium Enterprises. This review of the literature establishes the framework for the current study. Which in turn, help in clearly identifying the gap in the literature formulating research questions for the study.

2.1. THEORETICAL STUDIES

This section briefly sketches different types of financial institutions, which have proven effective in providing services to SMEs. These are banks and MFIs. The section opens with an overview of financial institutions. This shows the various products and services that financial institutions have and explain the theoretical role of banks and MFIs to the development of firms. These give an idea on how financial institutions contribute to the development of SMEs. Finally, the concern is to show the nature importance, measures of growth and constraints of SMEs.

2.1.1. OVERVIEW of FINANCIAL INSTITUTIONS

A financial institution is an institution that provides financial services for its clients or members. Most financial institutions are regulated by the government. Broadly speaking, there are three types of financial institutions:

- Depository Institutions: that accepts and manages deposits and makes loans, including banks credit unions trust companies and mortgage loan companies;
- Contractual Institutions: including insurance companies and pension funds; and
- Investment Institutions: including investment bank brokerage firms.

The financial institutions are the ones that supply the investment needed to achieve sustainable development. As innovators they developed new financial products to encourage sustainable development. They also perform activities such as praising risks and estimating returns, for companies, projects and others. Furthermore as power fuel

stakeholders and lenders they can exercise considerable influence over the management of companies including SMEs (Ageba&Wolday, 2006).

2.1.2. THE ROLE of BANKS

Understanding the many roles that banks play in the firm's growth is one of the fundamental issues in theoretical economics finance. Banks play an important role in economic development through mobilization of funds from within and outside the country and channeling such funds to various sectors of the economy. The efficiency of the process through which resources are channeled into productive activities is crucial for growth and general welfare. Banks are one part of this process. The banking sector specifically commercial banks, have several ways to get involved in SMEs financing, ranging from the creation or participation in SMEs finance investment funds, to the creation of a special unit for financing SMEs within the bank. Banking sector services provided to SMEs take various forms, such as: short term loans, repeated loans, where full repayment of one loan brings access to another, and where the size of the loan depends on the client's cash flow; very small loans or bank overdraft facilities are also appropriate for meeting the day to day financial requirements of small businesses (Proclamation No. 626/2009).

2.1.3. ROLE of MICROFINANCE INSTITUTIONS

Although the formal financial institutions have taken various measures to strengthen their operation and expand their services, they could not address the financial needs of micro and small enterprises satisfactorily. It is thus necessary to design special instruments and mechanisms to meet the financial requirements and promote the development of SMEs (FDRE, 1997). Microfinance as a development tool provides financial services and products such as very small loans, savings, micro-leasing, micro insurance and money transfer to assist the poor in expanding or establishing their businesses. It is mostly used in developing economies where firms do not have to other sources of financial assistance. In addition to financial intermediation, Micro finance Institutions(MFIs) provide social intermediation services such as the formation of groups, development of self-confidence and the training of members in that group on financial literacy and management. Enterprise development services or non-financial services that assist micro entrepreneurs

include skill development, business training, marketing and technology services, and subsector analysis (Proclamation No 626/2009). In Ethiopia formal micro finance started in 1994 /5. In Particular, the Licensing and Supervision of Micro finance institution Proclamation of the government encouraged the spread of Micro finance institutions (MFIs) in both rural and Urban areas as it authorized them among other things, to legal accept deposits from the general public (hence diversity sources of funds), to draw and accept drafts, and to manage funds for the micro financing business.

2.2. Nature and Importance of SMEs in Economic Development

2.2.1. What is SMEs?

The issue of what constitutes in SMEs is a major concern in literature. Different authors have usually given different definitions to this category of business. Some attempt to use the capital assets, while others use number of employees and turnover level. Others define SMEs in terms of their legal status and method of production. In the context of Ethiopia, the Ministry of Trade and Industry adopted official definition of Micro and Small enterprises. According to the ministry's definition Small and Enterprises are business enterprises with a paid-up capital of more than birr 20,000, but not more than birr 500,000. Large and Medium scale manufacturing enterprises have been classified as business establishments with more than ten employees using automated machinery. The Ethiopian Revenue and Custom Authority (ERCA) also defined enterprises for the tax purpose as the enterprises having below ETB 1 million annual turnovers as small enterprises, from ETB 1 million to 4 million annual turnovers as medium, and above ETB 4 million annual turnovers as large enterprises. And this definition of SMEs used in this research.

2.2.2. Importance of Small and Medium Enterprises (SMEs)

Small firms are backbone of national development. For a country to reach its full potential in terms of economic and social development, it should not ignore the importance of its indigenous micro small and medium enterprises (SMEs) and the contributions that they make to the country's economy. As indicated below, facilitation of economic growth and creation of long term jobs and provide the basis for large scale enterprises are major contributions of SMEs.

Facilitate economic growth and bring about equitable development:-

Micro and Small enterprises (MSEs) by making use of predominantly local resources engage in the production of goods and services of mass consumption and stimulate the growth of the economy. The expansion of MSEs also contributes towards a more equitable regional development, and distribution of income and wealth.

Create Long term jobs:-

While small and micro enterprise activities have absorbed a large number of unemployed people. Therefore, support for MSEs has to include skill upgrading programs for MSE operators and strengthening the use of appropriate modern technologies that boost their capacity to create long term jobs.

Provide the basis for large scale enterprises:-

MSEs provide the foundation for growth and stimulate indigenous entrepreneurship. They provide training for entrepreneurs and managers and through this learning process MSEs grow.

2.2.3. Indicators of Growth

Growth reflects both short and long term changes in a firm/business organization. A growth process is likely to be driven by increased demand for the firm's products or services. That is, sales increases first and thus allow the acquisition of additional resources such as employment or other assets. Thus, sales growth has high generality is the best growth measure. The researcher use volume of sales as a measure of growth of SMEs in cheha worda.

2.2.4. General Constraints to SMEs Growth

Despite their potential role to accelerate economic growth and reduce poverty, in most developing countries, SMEs face a wider range of constraints and problems and they are unable to address the problems they face on their own. The constraints relate, to the legal and regulatory environments, access to markets, finance, business information, business premises (at affordable rent), the acquisition of skills and managerial expertise, access to

appropriate technology, access to quality business infrastructure and in some cases discriminatory regulatory practices (FDRE, 1997 and Gebreeyesus, 2009).

In Ethiopia MSEs have been confronted by various problems which are policy, structure and institutional in nature. To start with, lack of smooth supply of raw materials serious marketing problems, lack of working premises and lack of sufficient capital are the major challenges for small and medium scale enterprises to start and grow/expand. Although the economic policy of the country paid due emphasis for entrepreneurship values and appreciation of the sector's contribution to the economy, there are still constraints related to infrastructure, credit, working premises, extension service, consultancy, information provision, preferential treatment, and many others which need proper attention (FDRR ,1997).

The Policy and Regulatory Framework

Whether the produce for international or domestic markets, SMEs can highly benefit from favorable policy and regulatory environment. Absence of such an enabling environment can force Small and Medium Enterprises (SMEs) to early exist the market. Such Framework should include:-

Stable fiscal and monetary setting with reasonable interest rates, a system of financial markets that provides incentives to save and mechanism to channel savings to investments;

-Policies that minimize the cost of business licensing and registering while protecting public interests; Policies that facilitate business transactions such as infrastructure development.

Access to Finance

Access to finance is one of major constraints faced by Small and Medium Enterprises (SMEs) everywhere. In Ethiopia, the potential sources of finance include conventional banks, microfinance institutions, cooperatives, government projects, semi-formal and informal lenders, as well as trade credit. Although often SMEs acquire their capital from their own savings or from family and other informal sources they also seek bank loans to

meet their financial requirements. However, because of their weak financial base they are regarded as high risk areas and do not get enough loans from banks. Because of the high transactional cost involved and inability of SMEs to provide the collateral banks require SMEs find it difficult to get funds/loans at all stages of their development ranging from startup to growth and expansion (Amha&Wolday, 2006).

Lack of non-financial support services: technology, skills development and marketing.

Support services can assist Small and Medium Enterprises (SMEs) in performing well and competitive. However, even if such services may exist in many African countries their effectiveness is doubtful (Asmalash, 2002). Support services for marketing for instance requires connecting companies' products and services with national and international markets. But In Africa, According to United Nations Economic Commission for Africa /ECA/(2001:29),the experience is variable, with some countries having a good and relatively efficient network of institutions providing services (Mauritius, South Africa and Tunisia), whereas some others have none (Cameroon, Gabon and Senegal).In other countries such as Ethiopia, Kenya and Uganda the network of institutions is somewhat inadequate. All in all, it seems that marketing services are more wide spread in Africa than technological related ones, but overall effectiveness tends to be low in both cases.

CHAPTER THREE

3. Research Methodology

The purpose of this chapter is to present the research methodology adopted. The chapter is arranged as follows present the research method; in section the research design is presented; sampling design is presented in section Sample size is described; type and sources of data is presented in section in section data collection tools will be described **and**

3.1. Research Design

The study design were descriptive in nature, SMEs their experience and opinion about the role of financial institutions in their growth. This study uses descriptive type of study which has the purpose to describe the existing situation about the relationship between SMEs and Financial Institutions.

3.2. Target population

TARGET POPULATION OF THIS STUDY WAS ALL EMPLOYEES AND MANAGER OF THE ORGANIZATION TO FILL THE QUESTIONARIES' IN MICRO FINANCE CHEHA WOREDA. TOTAL POPULATION IN THIS ORGANIZATION IS 53. THE RESEARCHER IS USED CENSUSES SURVEY METHOD, BECAUSE OF THE SMALL NUMBERS OF THE EMPLOYEES.

3.3. SAMPLING DESIGN

A sample design is a definite plan for obtaining a sample from a given population. Sampling refers to the selection of a subset of a population to estimate the characteristics of the entire population. The researcher used the sample data for many reasons. These reasons include lowering the cost, faster data collection (saving of time) and to improve the quality and accuracy of the data. It refers to the technique or procedure the researcher would adopt in selecting items for the sample. Sample design may as well lay down the number of items to be included in the sample i.e. the size of the sample (Kothar, 2004). The researcher used a convenient sampling technique for selecting the sample from the total population. Convenient sampling was a non-probability sampling technique used to draw representative data by selecting sample based on convenient accessibility and the

proximity to the researcher. This method was selected because of its advantages such as the availability and the quickness with which the data can be gathered.

3.4. Sample Size

All Small and Medium Enterprises (SMEs) currently registered with the trade and industry bureau of Chehaworeda administration constitute the study population. From the existing records of this bureau there are SMEs in the woreda

3.5. Types and Sources of Data

The researcher was used both primary and secondary data to achieve its objectives. Primary data are those which are collected for the first time, and thus happen to be original in character. Secondary data are thus which have already been collected/written by someone else (Kothari, 2004). In this research, primary data would gather from the sample population.

3.6. Data Collection Tools

There are several methods of collecting data particularly in surveys and descriptive analysis. Most important primary data collection tools is questionnaires. From these methods this study was utilized structure questionnaire to collect data from sample SMEs as it is appropriate.

3.7. Data Presentation and Analysis

After it would have been collect data has to be processed and analyzed in accordance the proposed plan. This would process implies editing, coding, classification and tabulation of collects data. So that they are manageable to analysis. The term analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data groups (Kothari, 2004). Data had been analyzed with the help of descriptive statistical tools like mean frequency and percentage. Finally the researcher was interpret the data in understandable and communicable manner to the reader and was be put her own conclusions and recommendations.

CHAPTER FOUR

4. Data Presentation and Analysis

This part of the research covers data presentation and analysis. As stated in the previous chapter the primary data source of this study is the survey result obtained from sample SMEs. The total number of SMEs surveyed is 45.

4.1 The Back Ground of Respondent

Table 4.1.1 age distribution of respondent

Item	Category	Number of respondent	percentage
Age	18-33	20	44.44%
	34-49	16	35.55%
	56-65	9	17%
	.>66	-	0%
	Total	45	100%

As it's indicated in total from total number of respondent 20(44.44%) of them were in the age of 18-33 and 16 were 34-49.9(35.55%) and 9(17%) were 56-65 from this it can conclude that most of the employee age group are between 18-33

Table 4.1.2 sex distribution of the respondent

item	Category	Number of respondents	Percentage
se	Male	31	66.88%
	Female	14	31.11%
	Total	45	100%

Source survey 2019

In the above table most of the respondents were males

Table 4.1.3. Age of business:

item	Variable	Frequency	Percentage
	Less than one year	16	35.55
	1-5 years	15	33.33
	5-10 years	9	20
	10 years and above	5	11.11
	Total	45	100

Source; survey result 2019

Age of the business is one of the factors that affect the growth of SMEs. Because, as age of business increases there is a potential to get experience and increased market share. In this regard, the researcher tried to identify the age of the SMEs found in cheha Wereda. As indicated in the above table the greatest number of SMEs, 35.55% are less than one year of age. 33.33% of the SMEs are between 1 and 5 years age, While 20% are the age between 5 and 10 years. Only 11.11%, very small portion of the SMEs, are 10 years and above years of age. This indicates most SMEs are the recent establishment.

Table 4.1.4.Level of education:

Item	Category	Frequency	Percentage
Education	Diploma	20	44.44
	Bachelor degree	25	55.55
	Masters and above	0	0
	Total	45	100

Source: survey result 2019

From this table 4.1.4.The researcher would tried to analysis most of SMEs are focused on Bachelor degree 55.55% and the rest engaged in diploma 44.44%. This might be because of the government focuses on creation of work. In addition to higher education than degree.

Table 4.2 Do you agree that your enterprises ever get access to loans from financial institutions (banks and micro finance institutions)?

item	Category	Frequency	Percentage
	Agree	11	24.44
	Strong agree	7	15.55
	Dis agree	18	40
	Strong dis agree	9	20
	Total	45	100

Source: survey result 2019

It is argued that access to finance is a major determinant of growth of SMEs. Hence ,the researcher tried to find out whether SMEs in ChehaWoreda have got enough access to loan services of financial institutions(microfinance institutions). However,as the table 4.2 Above shows only 24.44 and 15.55% agree and strongly agree respectively based on access to loans services at least once. The major part 40 and 20% dis agree strongly dis agree respectively based on availability financial services. This implies the majority of

SMEs are not beneficiaries of loan services of financial institutions. This might be because of some bureaucratic collateral inadequacy problems are bootlick for the access to the loan.

Table 4.2.1. Do you agree, the requirements those provided by financial institutions are easy to fulfill by SMEs. Do you agree this?

Item	Frequency	Percentage
Agree	22	48.88
Strongly agree	18	40
Disagree	3	6.66
Strongly disagree	2	4.44
Total	45	100

(Source ;survey result 2019)

The level of affordability of loan criteria which financial institutions require from SMEs to give loan is very important. However, as table 4.2.1. Above depicts, the criteria are said to affordable the agree with its 48.88% and strongly agree with its 40% of the SMEs. The remaining Dis agree

And strongly dis agrees with the amount 6.66 and 4.44% respectively believe that the criteria are not affordable. This shows a considerable size of SMEs are not benefiting from loan services of financial institutions due to the fact that the criteria are not affordable to fulfill. The affordability of criteria are not fulfill, because of high borrowing cost, lack of availability of raw materials

Table4.2.2. Do you agree, that you know SMEs closed, because the lack of access to finance and support from financial institutions.

Item	Frequency	Percentage
Agree	23	51.11
Strongly agree	12	26.66
Dis agree	6	13.33
Strongly dis agree	4	8.88
Total	45	100

Source: survey result 2019

In order to understand the level of financial problem that SMEs experience the researcher tried to find out number of SMEs that are terminating their business due to financial problem. One of the ways to know this is preparing questionnaire to SMEs in order to get the degree of agreement. Accordingly, as table 4.2.2 shows of them said that they agree and strongly agree with their separate amount of {51.11% } and {26.66% } respectively are terminating down due to lack of finance. The remaining disagree and strongly disagree with their level {13.33% } and {8.88% } respectively of SMEs are didn't shut down due to lack finance. This implies that the level of impact of financial constraint on SMEs in chehWereda is significant. The reason that the SMEs are terminated due to lack of access to finance and internal problem of financial institution.

Table 4.2.3. Nature of business activities:

Item	Frequency	Percentage
Trade	10	22.22
Manufacturing	15	33.33
Services	15	33.33
Construction	5	11.11
Others	0	0
Total	45	100

Sources: survey result 2019

Trade, Manufacturing, services and construction are the major areas of business operation that SMEs usually engage in. In this connection, the researcher tried to identify the area of business activity that most SMEs in Cheha Woreda are engaged in. As the table above(Table 4.2.3) shows that most SMEs, 33.33% are engaged in manufacturing and services followed by trade, 22.22% and construction 11.11%.The reasons that most SMEs engaged in manufacturing and services are we can get easily what we want from the potential customers so that this nature of business activities would preferable.

Table 4.2.4. Types of ownership

Item	Frequency	Percentage
Sole proprietorship	11	24.44
Partnership	25	55.55
private limited company	9	20
Others	0	0
Total	45	100

Source: survey result 2019

There are a number of business ownership types. In Cheha Woreda ,as table 4.2.4.above depicts most SMEs are partnership 55.55% followed by sole proprietorship covers 24.44% and private limited company form of ownership covers 20%.This might be because SMEs prefer to operate in partnerships rather than individually: or the conditions for operating individually are not conducive. Again the reasons are weak financial base they are regarded as high risk areas and do not enough loans from financial institutions

Table 4.2.5 Criteria to get loans:

Item	Frequency	Percentage
Collateral	14	31.11
Third party guarantee	12	26.66
Business plan	13	28.88
Others	6	13.33
Total	45	100

Source: Questionnaire (Appendix12)

It is a common practice that financial institutions ask for some sort of precondition/criteria in order to give loan service. These preconditions could be either collateral, third party guarantee or business plan. The researcher tried to identify the most commonly used criteria that financial institutions in cheha Woreda use give loan service. As the indicated table above (table 4.2.10) collateral 31.11%, business plan is 26.66% are the most commonly used criteria. Third party guarantee and others cover 28.88 and 13.33% respectively, 'less important as compared to the first two. The reason for loan selection criteria to select business plan and collateral are high and guarantee minimize of default risk and other problems related with loan.

Table 4.2.6 the factors those enhanced to business growth registered:

Item	Frequency	Percentage
Marketing managerial efficiency	10	22.22
Favorable legal and administrative environment	5	11.11
Support from financial institutions	2	4.44
High demand	28	62.22
Others	0	0
Total	45	100

Source: survey result 2019

In order to registered growth in business SMEs, there is a number of factors can play their role . The researcher tried to list out the most common factors and identifies their contribution level based on Cheha Woreda SMEs. As table 4.2.6. shows, high demand to purchases of their products services contributes to business growth registered is the most one with its 22.22% followed by marketing managerial efficiency with its 22.22% and favorable legal administrative also 11.11% . The remaining one support from financial institutions is contributed the least amount which is 4.44%. The reason that the contribution from financial institutions is least ,it might be lack of understanding to ask the services financial institutions.

Table 4.2.7. The means that the SMEs usually uses to finance activities:

item	Category	Frequency	Percentage
	Borrowing from banks	6	13.33
	Government advance	4	8.88
	Own saving	26	57.77
	Borrowing from micro finance institutions	7	15.55
	Borrowing from relatives,Iqub, and associations	2	4.44
	Total	45	100

Source: survey result 2019

In order to understand the sources of finance that the SMEs use to run their business activities, the researcher tried to find out the different means in ChehaWoreda. As indicated in table 4.2.7. Above, own saving is the major source of SMEs used to finance their activities. It contributed {15.55}% followed by borrowing from microfinance institution, 13.33%, borrowing from banks, 4.44% and borrowing from relatives, pique, and associations. This implies the most SMEs in ChehaWoreda use to finance their business. This reason might be lack of understanding about financial institutions and others or fear of inability to repay loans.

CHAPTER FIVE

5. Conclusion, and Recommendation

5.1. Conclusion

- ✓ Most of the employee age group is between 18-33.
- ✓ Most of the respondents were males.
- ✓ Bureaucratic collateral inadequacy problems are a bootlick for the access to the loan.
- ✓ A considerable size of SMEs are not benefiting from loan services of financial institutions due to the fact that the criteria are not affordable to fulfill. The affordability of criteria are not fulfilled, because of high borrowing cost, lack of availability of raw materials the most SMEs in Cheha Woreda use to finance their business. This reason might be lack of understanding about financial institutions and others or fear of inability to repay loans.
- ✓ That the level of impact of financial constraint on SMEs in Cheha Woreda is significant.
- ✓ In the light of this and part of its objectives which it sets at the beginning, this research tried not only to uncover the major constraints of the growth of SMEs in Cheha Woreda but also analyzed the drivers of SMEs growth and tried to identify means of finance that SMEs usually use.

5.3. RECOMMENDATION

✓ In order to improve the standards of the SMEs for loan requested and to provide sufficient support for SMEs, the financial institution recommended allocating enough capital (funds) to upgrade the financial strength of the business.

- ✓ The researcher would recommend that to give priorities for having those a good business plan to be productive.
- ✓ The researcher also recommend to Cheha small and medium enterprise to minimize bureaucratic problem of the organization.
- ✓ It would recommend that small and medium enterprise initially some amount of saving before applying a loan request to the organization.
- ✓ The government is better to give appropriate budget to the organization

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APPENDIX

**WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF MANAGEMENT**

This questionnaire is presented to study under taken to identify the role of financial institution in the growth of small and medium enterprises are facing in their day to day operation.

Dear respondents please fill in the be sted questions with the help of data collectors as

Genuinely as possible your cooperation in this regard is in valuable and complete response will

Be highly appreciated.

Direction indicates your response by putting tick () mark against the appropriate box and write brief answers in the given space and don't write your name.

Thanks you for advance.

PART I Demographic questions

1, Age. A. 18-33 B. 34-49 C. 50 -65
D.>66

2, sex. A. Male B. Female

3. Education status. A. diploma B. degree C.
Master above

4, marital status. A. married B. Unmarried

5, nature of business activities.

A. trade B. Manufacturing C. Service

D. Construction E other

6, Type of ownership.

A. solepropertorship B. partnership C. private limited
company

D. other

7, Age of business.

A. less than one year B. 1-5 year C. 5-10 year D. 10 years and above

8, Do you agree that your enterprises every get access to loans from financial institution a banks and microfinance institution.

A. agree B. strong agree C. disagree D. strong disagree
strongly disagree

9. Criteria to get loans.

A. collator B. third party guarantee C. Business plan
D. other

10, do you agree the requirements thos vided by fin institution are
easy to fulfill by SMEs A agree B storing agree C disagree

.12, the means that the SMEs usually uses to finance activities.

A. Borrowing from banks B. Government advan C. own saving
D. borro from finance inst E borrowing from relatives aqua and associations

11, do you agree that lack of access to finance and support from financial institutions.

A. agree B. strongly agree C. Disagree D. strongly disagree