ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

BUSINESS- GOVERNMENT RELATION, ACCESS TO FINANCE AND FIRM GROWTH: FIRM-LEVEL EVIDENCE FROM ETHIOPIA

BY

TIGIST BIRHANU

ADVISOR: MISRAKU MOLLA (PhD)

JUNE 2021

ADDIS ABABA, ETHIOPIA

BUSINESS- GOVERNMENT RELATION, ACCESS TO FINANCE AND FIRM GROWTH: FIRM-LEVEL EVIDENCE FROM ETHIOPIA

BY

TIGIST BIRHANU

A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MBA IN ACCOUNTING AND FINANCE

JUNE 2021

ADDIS ABABA, ETHIOPA

ST. MARY'S UNIVERSITY

SCHOOL OF GRADUATE STUDIES

FACULTY OF BUSINESS

BUSINESS- GOVERNMENT RELATION, ACCESS TO FINANCE AND FIRM GROWTH: FIRM-LEVEL EVIDENCE FROM ETHIOPIA

BY

TIGIST BIRHANU

APPROVED BY BOARD OF EXAMINERS

____________________	________________________
Dean, Graduate Studies	Date &Signature
____________________	________________________
Advisor	Date & Signature
____________________	________________________
External Examiner	Date & Signature
____________________	________________________
Internal Examiner	Date & Signature

DECLARATION

I declare that this paper is a result of my independent research work on the topic entitled ***Business- government relation, access to finance and firm growth: firm-level evidence from Ethiopia***" is my own work and in partial fulfillment of the requirements of MBA in Accounting and finance at St. Marry University.

Tigist Birhanu

Signature _________________

Date ____________________

ADVISOR APPROVAL SHEET

The Undersigned certifies that, he has read and hereby recommend for acceptance by St. Marry University a thesis entitled "***Business- government relation, access to finance and firm growth: firm-level evidence from Ethiopia***".

Misraku Molla (PhD)

Signature _________________

Table of Contents

ACKNOWLEDGEMENTS I

LIST OF TABLES II

LIST OF FIGURES III

ABSTRACT IV

CHAPTER ONE 1

INTRODUCTION 1

1.1 BACK GROUND OF THE STUDY 1

1.2 STATEMENTS OF THE PROBLEM 3

1.3 OBJECTIVE OF THE STUDY 6

1.3.1 General Objective 6

1.3.2 Specific Objective 6

1.4 RESEARCH HYPOTHESIS 7

1.5 SIGNIFICANCE OF THE STUDY 7

1.6 SCOPE OF THE STUDY 8

1.7 LIMITATION OF THE STUDY 8

1.8 ORGANIZATION OF THE STUDY 8

CHAPTER TWO 9

2 REVIEW OF LITERATURE 9

2.1 THEORETICAL REVIEW 9

2.1.1 Definition and concept of Business-Government Relation 9

2.1.2 The need for Business-Government relationship 10

2.1.3 Definition and concept of access to finance 12

2.2 UNDERLING THEORIES ON BUSINESS-GOVERNMENT RELATION, ACCESS TO FINANCE AND GROWTH 13

2.2.1 Institution theory 13

2.2.2 Growth theory 14

2.2.3 Resource dependency theory 15

2.3 EMPIRICAL REVIEW 16
2.4 KNOWLEDGE GAP.. 21
2.5 2.5. CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT 21
2.5.1 2.5.1. Conceptual Framework 21
2.5.2. HYPOTHESES DEVELOPMENT 22
2.5.2.1. HYPOTHESIS ON BUSINESS GOVERNMENT RELATION AND FIRM GROWTH.... 22
2.5.2.3. HYPOTHESIS ON ACCESS TO FINANCE AND FIRM GROWTH 24
CHAPTER THREE 25
3 RESEARCH DESIGN AND METHODOLOGY 25
3.1 RESEARCH DESIGN AND APPROACH 26
3.2 DATA SOURCES AND TYPE 26
3.3 SAMPLE SELECTION, COMPOSITION AND DISTRIBUTION 27
3.4 RESEARCH MODELS AND ECONOMETRIC SPECIFICATIONS.................................... 29
3.5 VARIABLE DEFINITION AND MEASUREMENT 30
3.5.1 Measuring Business Government Relation.. 30
3.5.2 Measurement of Access to finance 31
3.5.3 Measuring Firm growth and Control variables 31
4 DATA PRESENTATION, ANALYSIS AND INTERPRETATION 34
4.1 DESCRIPTIVE STATISTICS.. 34
4.2 CORRELATION ANALYSIS 35
4.3 NORMALITY AND HETEROSCEDASTIC TEST 36
4.4 REGRESSION RESULTS 37
4.4.1 The Impact of Business-Government Relation and Access to finance on Firm Growth 37
4.4.2 The effect of Business-Government Relation on access to finance.............. 38
4.5 SUMMARY OF MAJOR FINDINGS AND DISCUSSIONS 39
5 CONCLUSION AND RECOMMENDATION 41
5.1 CONCLUSION.. 41
5.2 RECOMMENDATIONS.. 42

5.3 LIMITATIONS AND FUTURE RESEARCH DIRECTIONS 42

REFERENCE.. 43

ACKNOWLEDGEMENTS

First and foremost, I thank the Almighty GOD for the wisdom and preservice that has been bestowed upon me during this paper and indeed, throughout my life. Next, my deepest gratitude is goes to my advisor **Misraku Molla (PhD)** for his unreserved and extraordinary effort in providing all the necessary constructive advises on how to go through all the contents of the paper, which otherwise be difficult to stand alone.

List of Tables

Table 3-1 Sample distribution across regions 29

Table 3-2 variable definition and measurement.. 32

Table 4-1 Summary of descriptive statistics 35

Table 4-2 correlation matrix.. 35

Table 4-3 Shapiro-Wilk W test for normal data.. 36

Table 4-4 Heteroscedastic test.. 36

Table 4-5 The effect of business-government relation and access to finance on Firm growth: Linear model estimate 37

Table 4-6 the effect of business-government relationship on firm's access to finance: Probit model estimate 38

List of Figures

Figure 2-1 Conceptual Framework 22

Abstract

This study examines; 1) the effect of business-government relation on access to finance and firm growth, and 2) the impact of access to finance on firm growth. The data was obtained from the WBES which is conducted in 2015 covering the period 2012 to 2014. The study used multiple linear regression model and a standard probit model to examine the impact of business-government relation on Access to finance and firm growth, and investigate the effect of business-government relation on firm's access to finance, respectively. This paper used a quantitative research approach along with explanatory research design with a target population of 849but only 555 firms satistify our screeing criterions.The following major findings are obtained. First, business-government relation has an impact on firms growth. Second, firm's that are connected with the government have better access to finance than those who do not. Third, the availability of external finance has a positive strong effect of firm's growth. Fourth, on average, only 30% of sampled firms have access o finance. Finally the firm's access to external finance and growth is also affected by firm size, firm age, and sectoral variation. This study recommend company mangers to strengthen the connection with the government and policymakers should developed mechanism that minimize the corrupt relationship between business organizations and the government and try to facilitate the formal business government relation to get access to finance.

Keywords: Business-government relation, Access to finance, Growth, Ethiopia.

Abbreviations

BGR-business government relation

Acc_Fin-Access to finance

BGR_MT –Business government Relations by management time

BGR_GOVCONT-business government relations by government contract

BGR_Curroption-business government relations by corruption

RDT-resource dependency theory

CHAPTER ONE

INTRODUCTION

This chapter presents a general introduction. Specifically, it presents background of the study, statement of the problem, objective of the study, Research hypotheses, and significance of the study, scope and limitation and structure of the study.

1.1 Back ground of the study

Access to finance plays a really important role in both firm entry and growth stages of enterprises. Firms use internal and external sources of finance to their operations and growth. However, firms in numerous stages of growth can access financial services from different sources. The focal sources of finance for firms at start-up stage include: personal savings, loans or equity from friends and relatives, credit from suppliers and risk capital (usually reserved for high-profit start-ups). Firms within the startup period, when initial investments have not matured yet or whose investment projects are substantially larger than their current earnings, will not have enough financial means from retained earnings and will face a constraint to their growth project (Hermelo and Vassolo 2007).

Both formal and informal financial institutions exist in developing economies. Informal finance is defined as small, unsecured and short-in-maturity funding capital sourced from (1) private moneylender(s), (2) the relatives and friends of the business owners and (3) other enterprises. Formal finance mostly obtained from established financial institutions such as banks, micro-finance, mutual funds, and other non-depository financial institutions. Firms that fail to produce sufficient collaterals are forced to search out informal lenders. The informational advantage of the informal sector that is the private money lenders can reduce the transactional costs and this could push the effective cost of informal loans below the effective cost of formal loans. However, the price (i.e. the interest rate) offered to borrowers within the informal sector (private moneylenders in this case) is usually much higher than the prices seen within the formal sector.

A well-functioning financial system is important for several reasons: enhancing the efficiency of intermediation, which is achieved by reducing information, transaction, and monitoring costs; promoting productive investment by identifying and funding good business opportunities; monitoring performance of businesses; enabling the trading, hedging, and diversification of risk; and facilitating the exchange of goods and services (Husain, 2004).Financial sector reforms (promoting healthy competition, reduction in cost, broadening access to finance and easing regulatory constraints) that remove these distortions will have direct impact on improving financial access and promote firm growth.

Large volume of empirical studies show that the availability of external finance (both from formal and informal sources) have a positive effect on firms growth and performance (see e.g., Kislat, 2015 for review of related works). However, African countries in general and Ethiopia in particular face high degree of financial constraints which adversely affect firm's growth and productivity (Ayalew and Xianzhi,2019a; Honohan and Beck, 2007). Broad access to financial services is not only important for individuals, but also for the economy at large; credit constraints reduce the efficiency of capital allocation and intensify income inequality by impeding the flow of capital to poor individuals with investment opportunities with high expected returns (Demirguc-Kunt and Levine, 2007; Lopez and Serven, 2009).Access to financial constraint has significant negative effect on firm growth (Fowowe, 2017). Participation in financial markets promotes firm growth indicate significant positive relationships between various objective measures of access to finance and firm growth. subjective measure show that the access to finance constraint exerts a substantial negative effect on firm growth and objective measure show that firms that do not seem to be credit constrained experience faster growth than firms which are credit constrained. These financing is extremely important for firm growth, and justifies the numerous measures and initiatives being put in place to make more finance available for African firms (Fowowe, 2017).

Business-government relation might have an effect on firm's access to external finance and firm growth. It isthe relations between the general public and private sectors. They take the form of formal, regular, co-ordination or informal ad hoc interactions (Tevelde, 2013), and their scope can include the entire economy or target specific sectors, varieties of firms or policy processes. There are several mechanisms through which state-business relations support economic growth.

State commitment to basic policy can minimize uncertainties within the minds of investors and, by doing so, raise the rate of investment. Synergistic or effective Government-business relations are seen as a key determinant of economic growth and structural transformation in low income countries (Hausmann 2014). They are important in several areas of policy and practice, including macroeconomics, trade, industrial development, taxation, public expenditure, infrastructure, competition, anti-corruption, transparency and accountability, and private sector development. Effective state-business relations also can result in a better rate of investment by creating an institutional environment where the state provides great quality public goods like infrastructure, effective public administration (or the lack of corruption) and secure property rights (Sen 2013b).

Finally, this study aimed at examining the relationship between Business-government relation, access to finance and firm growth in Ethiopia using survey data that comes from the 2015 WBES for Ethiopia covering a period from 2012 to 2014.

1.2 Statements of the problem

Business-government relation is a relations between the general public and private sectors. They take the form of formal, regular, co-ordination or informal ad hoc interactions (Tevelde, 2013), and their scope can include the entire economy or target specific sectors, varieties of firms or policy processes. There are several mechanisms through which state-business relations support economic growth. State commitment to basic policy can minimize uncertainties within the minds of investors and, by doing so, raise the rate of investment. In business-government relation nexus firm growth and access to finance nexus growth, there are two key practical problem remain unsolved.

First, access to finance is remain the key problem from firm's growth in developing country's including Ethiopia. It also remains the core concern of researchers, policymakers and business leaders. In this regard, African countries in general are severely disadvantaged from financial development, and financing constraint is the most binding constraint for firms' growth (Beck and Cull 2014; Ayalew and Xianzhi 2019). Financing constraint in the region is twice higher than non-African countries, and only about 23 percent of firms use bank loans (Otchere, Senbet et al. 2017). In Ethiopia, the level of financial constraints is worst than even compared with other African countries. For instance, Ayalew and Xianzhi (2019) reported, in Ethiopia, about 44% of

firms face financial constraints which is higher compared to the 36% and 42% of East Africa and Africa average, respectively. In Ethiopia, the financial sector is opaque, underdeveloped, and bank-based which adversely affect the firm's access to external finance to fund their innovative projects. However, we know very little how and to what extent lack of access to external finance affect firm's growth and operation. Regasa et al.(2017) show that the majority of Ethiopian firms are constrained in access to credit , which are challenges that hold back performance of firm in Ethiopia

Second, due to high level of corruption business-government relation is not as such in a position to support the innovation process and to promote export led industrialization. In a positive view, government cooperation with general business improve firm's access to public resources (including public funding, accessibility of utilities such as electricity, ICT, and other infrastructure) that potentially enhance access to external finance, innovation, export and competitiveness performance. In contrast, in countries where the general business deal with politicians in the informal way such as in the form of corruption, bribe and other informal gifts destruct the business community engagement in innovation, and productivity innovation. in this regard, according to the 2018 Transparency International's Corruption Perceptions Index, Ethiopia ranked 114th out of 180 countries which is higher compared to 107th out of 180 countries in 2017. These all together might erode business-government relations which in turn, adversely affect companies commitment in investment in innovation and their global competitiveness and productivity (Tian, Wang et al. 2019).

Among the benefits of business-government relation, access to finance is one of the most important which help firms toward boosting performance and taking comparative advantages. The importance of finance to the performance of firms has been acknowledged in the literature of finance because, it helps in expansion of operations and market share, assists formation of new business, allows business to take advantage of opportunities to grow (Animasaun and Babayanju, 2016) and investing in production facilities whereas, limited access to finance is a key obstacle to firm growth in developing countries like Ethiopia because, no one can start a business or run a business without adequate funds (Animasaun and Babayanju, 2016).

Unfortunately, the role of business-government relation on boosting firm's access to finance and growth in developing countries is not well explored. Specially, literature on this specific topic is almost non-existent in the context of Ethiopia. Those studies conducted separately by them provide contradictory finding. The empirical studies suggest that, business-government relation have no clear effect on performance of private business and vary from one country to another and sector to sector (Castells, 2012). Some studies found business-government relation have positive effect on firm performance on the other hand many other have found negative and insignificant relationship. Similarly microeconomic literature on the links between access to finance and firm performance has produced a number of contradicting results. On the one hand, study made by Ayyagariet al., 2010 evidenced that firms with access to external finance grow more quickly. On the other side some studies on this issue documented no relationships between access to external finance and firm growth: see for example Allen *et al*. (2012) and Beck et al. (2015).Thus, there is a continuous debate among scholars on the effect of both political connections and access to finance.

The study made by Ahmad (2020), investigates the impact of financial constraints on firm performance and the role of financial development in reducing the financial constraints. The finding of this study indicates the significances of access to finance in term of explaining firm performance. Further the study shows that improvement in access to finance leads to subsequent improvement in firm performance.The study made by Nadiyasu (2020) on the title "the effect of political connections on firm performance in nonfinancial firms listed on Johannesburg stock exchange". The study found that political connections (mostly interpreted business-government relation) positively affect firm performance but not all types of such connections affect firm performance. The study was used fifty firms listed on Johannesburg Stock Exchange as sample size based on availability of complete data, during period from 2012 to 2018.

Another study made by Ling, Zhou, Liang Song & Zeng (2016), found that business-government relation leads to oversupply of loan thereby increasing financial burden also the study carried out by (Chen, Liao,Lin& Yen, 2018)shows that politically connected firms have the propensity of undertaking risky investments and have poor financial management practices. Consequently, according to those studies political connection have negative effect on the firm's performance.

Similarly, the study made in Ethiopia by Regasa et al. (2017), has investigated the effect of access to finance on firm growth under research topic the effect of access to finance on firm growth. The study evidenced that negative relationship between the use of external finance and firm growth. Fowowe (2017) looked at the effect of access to finance on growth of firm in African countries under the research title "Access to finance and firm performance: Evidence from African countries". The result of the study found using subjective measures show that the access to finance constraint exerts a significant negative effect on firm growth. Furthermore, the author found using objective measures reveals that firms that are not credit constrained experience faster growth than firms which are credit constrained.

Thus, this paper investigates the effect of business-government relation and access to finance on firm performance in Ethiopia and the effect of access to finance on firm growth will also be examined. To the best of the researcher knowledge previously no more studies were conducted in Ethiopia by giving special focus on this subject. Therefore, this study seeks to fill the gap by investigating the effect of political connection and access to finance on firm performance in Ethiopia and the effect of political connectedness on access to finance. This is because political connectedness and access to finance of a firm to a large extent determines the firms' survival in a given competitive business environment.

1.3 Objective of the Study

1.3.1 General Objectives

The general objective of this study is to investigate the impact of business government relation on the firm's access to finance and `growth in Ethiopia.

1.3.2 Specific Objective

Based on the general objective mentioned above, this study has the following specific objectives.

1. To investigate the impact of business-government relations on the firm's growth.
2. To examine the effect of business-government relation and the firm's access to external finance.
3. To investigate the effect of access to finance on firm growth.

4. To show the level and degree of business-government relation and access to finance in Ethiopia.

1.4 Research hypothesis

Hypotheses are predictions about the connection among two or more variables or groups based on a theory or previous research (Pittenger, 2003).Hypotheses are assumptions or theories that a researcher makes and tests. Hypotheses are important in identifying the variables that examined and data to be collected, to describe the relationship among variables. This study proposed the following three hypotheses to be tested. The Research hypothesis was formulated as follows.

- ***Hypothesis 1 (H1):- There is a statistically significant positive relationship between business government relation and firm growth.***
- ***Hypothesis 2 (H2):- There is a statistically significant positive relationship between business government relation and the firm's access to finance.***
- ***Hypothesis 3 (H3):- Access to finance has a statistically positive effect on firm's growth.***

1.5 Significance of the Study

The research will have both practical and academic importance. The study have several significances to the company's managers, government or policy makers, and future researchers. Specifically, it will have significance to company managers in terms of indicating how relationship with government and access to finance affects the growth of their firms. It has significance to the managers in terms of showing whether and how and for what types of firm business-government relation is could have strong effect on the link between access to finance and firm growth. Similarly, this study will have significance to policymakers in terms of showing whether and how business-government relationship could have positive role in promoting access to finance and growth of firms in Ethiopia. Finally, this study will help other researchers as a source of reference and as a stepping stone for those who want to make a further study on the area.

1.6 Scope of the Study

The scope of this study is restricted to analyze the impact of business-government relation on firm's access to external finance and growth in Ethiopia and further to show the effect of access to external finance on firm's growth and productivity. The study used the 2015 WBES for Ethiopia which contains data for three consequentive years (2012, 2013 and 2014).

1.7 Limitation of the Study

Every research is subject to limitations merging from geographical, methodological and conceptual scope. The has several limitations. First, the study used the 2015 WBES for Ethiopia which contain information for the year 2012, 2013 and 2014 only. Therefore, the data is relatively old but we do not have option as the latest available data is the 2015 survey. Second, the data is cross-sectional which is often criticized in its limitation to show the effect over time as panel data does. Third, this study was used survey data from the World Bank Enterprise Survey group, literary unlike financial and other report; survey data have an issue of containing biased data.

Finally, the study has limitations in measurement related issues, such as accurately measuring business-government relation as such type of relationship made secretly for corruption purpose. Similarly, so far measurement of access to finance including the one
this study employ are still debate in their accuracy.

1.8 Organization of the Study

The study paper has organized in five chapters i.e. chapter one presented the background of the study, statement of the problem, research questions, objectives, significance, and scope of the study and definition of terms. Chapter two presents the literature review associated to the topic under study. It further presents the theoretical concepts, empirical literature studies, and therefore the conceptual framework. Chapter three deals with the research methodologies, which include research approach, design, population, sample technique and sample size, data collection and instrument, data analysis method and research variables within the study. Chapter four discusses the empirical findings of the study that features data presentation, analysis and interpretation.

Supported the findings of the study, the fifth chapter presents summary, conclusion and recommendation of the study.

CHAPTER TWO

2 REVIEW OF LITERATURE

This chapter deals with review of theoretical and empirical literature, development of, conceptual framework and research hypotheses.

2.1 Theoretical Review

2.1.1 Definition and concept of Business-Government Relation

Business-government relation is a relation between the general public and private sectors. They take the form of formal, regular, co-ordination or informal ad hoc interactions (Tevelde, 2013), and their scope can include the entire economy or target specific sectors, varieties of firms or policy processes. There are several mechanisms through which state-business relations support economic growth. State commitment to basic policy can minimize uncertainties within the minds of investors and, by doing so, raise the rate of investment.

In the literature, there is a tendency to use business-government relation and political connection interchangeably. Political connectedness is multiform and each of its components affects the firms in different way. There are many ways to create political connection. These links can be focused on direct political connection i.e. relations between present or former top manager, Employees or investors and politicians with present or past political activities or on indirect political connections such as politicization activities. As the Ethiopia experienced high level of corruption and relatively low level of democracy, understanding how political connections affect firm performance in Ethiopia is imperative.

In the time of this increased global competition, environment of business is filled with numerous uncertainties and unpredictable situations that would affect firms' activities. As the result of these complexities in the business environment, business firms are continuously looking for a means through which enhancing competitive advantage and performance of their firms, in order

to remain in business and look out for those elements that affect their firms' performance by surveying markets, gathering information and establishing necessary connections that will make them achieve their goals and objectives in the business environment. Making essential connection with top management of government in healthy approach is very advantageous to the connected firms since, politically connected firm enjoy a lot of benefits such as tax advantage, government subsidies, as the extant research has proved that politically connected firms also perform financially better and have easier access to finances and others. Moreover, politically connected firm can overcome the situation of uncertainty easily. On the other side, politically connected firms are seen judicial bias and they did not follow proper rules and regulations and avoid paying taxes. From this perspective, it has a positive impact on a firm's performance but the worst impact on the growth of the economy (Rabia, 2020).

2.1.2 The need for Business-Government relationship

The most significant political economy barriers to the emergence of effective state-business relations in low income countries and fragile and conflict-affected states (FCAS) are:

- ✓ the lack of a stable political settlement in which informal relationships between political and economic elites are based on trust and reciprocity;
- ✓ fragmented and weak organizational capacity of the private sector, with a large part of the economic elite in non-competitive sectors;
- ✓ a high degree of corruption and its lack of predictability;
- ✓ the prevalence of significant fragility and conflict, which gives rise to capital leaving the country, weakening the private sector and leading to lack of durability in the political settlement;
- ✓ Regulatory reforms that stress the creation of formal 'arms-length' relationships between the state and investors in weak governance environments, when informal 'hand-in-hand' relationships may be more effective.

Current approaches to improving the effectiveness of state-business relations are:

- ✓ support for business associations;
- ✓ investment climate reforms;
- ✓ investment facilitation;

- ✓ public-private dialogue mechanisms;
- ✓ the creation of special economic zones

Credible commitment of the state to policies, deals or arrangements is an essential attribute of effective state-business relations. Investment decisions may have large sunk costs – that is, the costs of certain investments cannot be recovered in full if the investment decision turns out to be less profitable than anticipated (Pindyck 1991).

The state needs to make a commitment that it will not change its policies, or rearrange on deals and arrangements, in order to incentivize entrepreneurs to make investment and production decisions (Rodrik 1991). If the state were not to uphold its announcements and promises, it is very likely that investors would not believe the state in the future, and investment would suffer (Bardhan2005).Credible commitment can be obtained through both formal and informal institutions. Formal institutions include properly enforced laws that prohibit the expropriation of private property without just cause, and well-functioning courts that protect firms if the state engages in predatory behavior.

Informal institutions are personalized relationships ('deals') between the agents of the state and the business sector that are repeated over time (Hallward-Driemeier and Pritchett 2015). If these deals are 'ordered' – that is, if deals negotiated between the state and business are reliably honored – then informal institutions can provide the credible commitment necessary for investment to take place, even when formal institutions are missing or poorly functioning (Pritchett and Werker 2013, Sen 2013a)

Successful collaboration between the state and the private sector needs close consultation, coordination and reciprocity. Close consultation and coordination can help increase levels of trust, lower the costs for the state of monitoring private sector performance, and reassure the private sector that their interests and concerns are being addressed (Doner and Schneider 2000).

Reciprocity is an important element of effective state-business relations – if the state offers subsidies to the private sector, government officials need to know that the private sector will ensure that these subsidies are used productively (Harriss 2006). If subsidies are contingent on performance, the state should have the capability and commitment to discipline the private sector if it does not meet its targets, and the private sector should be aware that the government will

behave in this way. As firms continue to hire and invest, the unemployment rate declines and government income, i.e., tax revenue, increases, and, in turn, regional leaders' appraisal scores improve, enhancing the chances of their tenure extension and promotion.

2.1.3 Definition and concept of access to finance

The concept of access to finance can be defined as "availability of a supply of reasonable quality financial services at reasonable costs, where reasonable quality and reasonable cost have to be defined relative to some objective standard, with costs reflecting all pecuniary and non-pecuniary costs" (Claessens 2006). It can also be defined as the "absence of price and non-price barriers" (Demirguc-Kunt and Bek 2008).

Access to finance can be considered as blood of every firm because without finance nothing can be done. While the effect of access to finance on firms performance become an interesting topic around the whole world, availability of finance becomes challenging issue in African countries than countries in other developing region (Fowowe, 2017).Thus, it is one of the factors that can significantly influence the firms' activities positively as well s negatively.

Theoreticians widely argued that inadequacy of financial services leads to inequality of income and restrictions of firms' performance. Besides, in the absence of sufficient financial facilities firms are limited to take advantage of promising growth opportunities. Limited access to finance has detrimental effect on the performance of firm. Equally, firms with better access to financial resource perform well. Hence, it is the key factor for the firm performance.

Access to improved finance facilities is one form of incentives to the firm that drives its performance and realization of its potential contribution to the economy. In Ethiopia, despite the firms' contribution to the national economy through job creation and supporting development process, firms cannot achieve their objectives due to existence of different factors that affect their performance such as availability of finance facility. Thus, limited access to finance is the foremost contributor to the underperformance of firms in Ethiopia (Wolday and Gebrehiwot, 2004 cited in Fredu and Edris, 2016). Moreover, in Ethiopia to develop financial access of firms different programs are practiced over the past years by government and non-government organizations. Despite the efforts made to close the funding gaps, many firms continue to

encounter trouble in accessing finance. As described by the (Zins and Weill, 2016 cited in Tekeste and Hossein, 2020), in Ethiopia financial services penetration is still weak. This shows that firms in Ethiopia still faced difficulty in accessing better finance. To sum up, it has been established in the theoretical literature lack of access to finance severely impedes the performance of the firm in Ethiopia.

2.2 Underling Theories on Business-Government relation, Access to Finance and Growth

2.2.1 Institution theory

According to (Meyer and Rowan, 1977) Institution theory is not only explained why organizational structures and practices become entrenched but also how and why change occurs. It's a research tradition that traces its origin back to foundational articles that discussed how organizational funding and change were driven less by functional considerations and more by symbolic actions and external influence than the theory at the time assumed. Tolbert et, al, 2011 also states that Institutional theory has also moves into examining the funding of conditions for new firms this work questions the conventional assumption that entrepreneurs are rationally able to locate opportunities and it instead posits that key source of organizational funding activities are institutional features of the social group to which entrepreneurs belong or the symbolic environment they face.

Institution theory focuses on the roles of social; political and economic systems in which companies operate and gain their legitimacy. As explained by Scott, institutions provide for the Rules of the game and define the valuable ways to operate by discouraging, constraining or encouraging given behavioral patterns. Corrupt practices and regulatory uncertainties increase the transaction costs and the lack of respect for property rights makes the launch of new products extremely difficult for many of them. Institution theory is its more realistic assumptions about human behavior. The assumption about competition and scarce resources is thus retained. This assumption is explicit in the treatment of high transaction costs and insecure property rights as constraints to firm growth and economic development. Redding in his" the spirit Chinese Capitalism" also shares this conception. He points out that insecure property rights and

inefficient transaction costs are amongst the major impediments to economic development in Mainland China (Redding, 1993).

2.2.2 Growth theory

Schumpeterian growth theory helps us reconcile growth with development: first, by looking at how growth is related to the size distribution of firms, which itself depends on local institutional constraints and, second, by bringing out the notion of appropriate growth institutions and policies, that is, the idea what drives growth in a sector (or country) far below the world technology frontier is not necessarily what drives growth in a sector or country at the technological frontier, at which creative destruction plays a more important role.
Understanding the relationship between competition and growth also helps improve our understanding of the relationship between trade and growth. Indeed, there are several dimensions to that relationship. To begin, there is the scale effect, in which liberalizing trade increases the market for successful innovations and therefore the incentives to innovate. This is naturally captured by any innovation-based model of growth, including the Schumpeterian growth model. But there is also a competition effect of trade openness, which only the Schumpeterian model can capture. This latter effect appears to have been at work in emerging countries that implemented trade liberalization reforms (e.g., India in the early 1990s), and it also explains why trade restrictions are more detrimental to growth in more frontier countries.
In contrast, the Schumpeterian growth paradigm can account for the positive correlation between competition and growth found in linear regressions. In addition, it accounts for several interesting facts about competition and growth that no other growth theory can explain. [Aghion & Griffith (2006) provide a first attempt at synthesizing the theoretical and empirical debates on competition and growth.

The analysis emphasizes the role of technological progress as a catalyst for the economic transformation. Schumpeterian growth theory has operationalzed Schumpeter's notion of creative destruction by developing models based on this concept. This model is shed light on

several aspects of the growth process that could not be properly addressed by alternative theories.

2.2.3 Resource dependency theory

Resource dependency theory is developed by Pfeffer and Salancik(1978). This theory is one of the important theories of business sector, as it reminds that every firm is part of something bigger. It is mainly deals with how the external resources of organization influence the behavior of the organization. It also states that every firm desire resources that are necessary to their operations and helpful for their success. However, this resources are external resources and under the control of peoples outside the environment of business firms. This means every firm are subject to the influence of immediate environment to gain those essential resources required to accomplish objectives. Literature on interdependency between business and politics documented that firms use government as the major source of external resources particularly in developing economies where weak market laws exist (Wu, Li, Ying & Chen, 2018). Thus, in order to become advantageous from access to those limited and external resources, firms enter into political connections. These connections are helpful for the firms to manage uncertainties and interdependence (Najaf, 2020).

The procurement of external resources is an important belief of both the strategic and tactical management of any company. Firms in order to acquire competitive advantage over other firms in the same industry and to get better access to scarce resource that are vital for their operations, firms are widely apply a variety of strategies. The resource base view is used to determine the strategic resource a firm can exploit to achieve sustainable competitive advantage. RDT is supported by the idea that resource is the key to organizational success and that access and control over resource is a basis of power. Because these resources are more often than not provided by another organization, this contract creates kind of symbiotic relationship. Generally, RDT is the reliance of company on another organization or party for the resource it needs to operate. It has implication regarding the optimal division structure of organizations, recruitment of board members and employees, production strategies, contract structure, external organizational links and many other aspects of organizational strategy.

Basic arguments for resource dependency theory are:

- Organizations depend on resources.

- These resources ultimately originate from an organization's environment.
- The environment, to a considerable extent, contains other organizations.
- The resource one organization needs are often in the hand of other organization.
- Resources are a basis of power.
- Legally independent organizations can therefore depend on each other.
- Power and resource dependence are linked directly: organization A's power over organization B equal to organization B's dependence on organization A's resource.
- Power is thus relational, situational and potentially mutual.

Organizations depend on multidimensional resources: labor, capital, raw material etc. organization may not be able to come out with countervailing initiatives for all these multi resources. Hence organization should move through the principle of scarcity, critical resources are those the organization must have to function. An organization may adopt various countervailing strategies it may associate with more suppliers or integrate vertically or horizontally (http//:www.en.m.wikipedia.org accessed at 11-Nov-2020)

2.3 Empirical Review

This section review some of selected the most recent that show; 1) the impact of business-government relationship on firms access to finance and growth; and 2) the effect of access to finance on firm's growth.

Some of earlier studies such Bertrand, Kramarz, Schoar, &Thesmar, (2004),Faccio(2006), Johnson & Mitton (2003); Li, Meng, Wang, & Zhou (2008) commonly show that firms receive economic benefits through building and maintaining a good relationship with their governments. They suggests that business-government relations help firms in various ways: the securing of favorable regulatory conditions) and access to resources, such as bank loans Understanding whether and how business-government relations impact firm growth and its subsequent development can generate better knowledge of the long-term effect of such relations and lead to the discussion of whether and when business government relations are worth building.

Aryeetey et al. (1998) maintain that growing SMEs appear more likely to use external finance. While it is difficult to determine whether finance is induce growth or the opposite (or both). As enterprises grow through different stages, i.e., micro, small, medium and large scale, they are

also expected to shift financing sources. They are first expected to move from internal sources to external sources. There is also a relationship between the degree of previous growth and future growth. They argue that the agency problem and consequently the cost of financing are reduced if the firm issues short-term debt rather than long-term debt. However, hold of firms with growth opportunities will have a smaller proportion of debt in their capital structure. This is because conflicts of interest between debt and equity holders are especially serious for assets that give the firm the option to undertake such growth opportunities in the future. If growth opportunities produce moral hazard situations and SMEs have an incentive to take risks to grow. Thus the benefits of this growth will not be enjoyed by lenders who will only recover the amount of their loans, resulting in a clear agency problem. This wills be reflected in increased costs of long-term debt that can be mitigated by the use of short-term debt.

According to Ari Hyytinen, Otto Toivanen (2005), the study provides evidence that capital–market imperfections hold back innovation, growth, and public policy that can complement capital markets. The effects of government funding on the behavior of SMEs in Finland is the term of financial dependence and growth American Economic to firm-level data, the study shows that government funding disproportionately helps firms from industries that are dependent on external finance. They demonstrate that the result is economically significant and Strong to a variety of tests. The empirical evidence is based on a new data set originated from a recently conducted survey in Finland that was administrated by the research institute and subsidiary research unit of Finland. The data was conducted from December 2001 and January 2002 from 618 firms. The hypothesis put forward and tested in this study is that if there are economically significant imperfections in capital markets; government funding may disproportionately help firms in industries that were dependent on external finance. So the analysis shows that firms in industries that are more dependent on external financing invest relatively more in R&D, and they are relatively more growth-oriented when they have more government funding (potentially) available. Thus the evidence is a consistent show that financial constraints hold back innovation and growth, and the hypothesis that government funding can alleviate capital market imperfections. These findings are not inconsistent with the view that government finance of industrial R&D can be an important tool for innovation policy. However, the study has convincingly shown that the government ownership of financial institutions leads to

misallocation of capital that can be detrimental to economic growth and the type of government involvement may matter.

Yeh et al. (2013) had examine how political connections are related to preferential bank loans, how the entrenched position of the ruling party affects the types of preferential bank loans and how corporate governance is related to preferential bank loans. They have found that KMT-connected (DPP-connected) firms were associated with higher (lower) abnormal returns before the 2004 election. This pattern of return was reversed after the unexpected result. Moreover, the result of study reveals that political connections were positively correlated with preferential bank loans. However, the types of preferential bank loans differed between KMT connected and DPP-connected firms due to differences in the entrenched power of the ruling party.

Animasaun and Babayanju (2014) conducted study to examine the effect of short term, long-term and medium term source of finance on profitability. Their study has used quantitative research design and secondary source of data collected from the audited financial statements of the 20 firms covered 5 years between the periods of 2011-2015. To analyze collected panel data, fixed-effect model was employed by the study. The targeted population consisted of 25 downstream petroleum firms in Nigeria from which a sample size of 20 firms was selected using a purposive sampling technique. The finding of the study highlights that source of finance as a whole significantly affected organizational performance in the downstream petroleum industry in Nigeria. The study also revealed that both short and long-term finance significantly impacted on profitability. Further, the study concludes that direct relationship between medium-term finance and profitability.

Russell (2014) looked at the relationship between business-government relation and the financial performance of industries and firms. The research paper was focused to estimate the extent to which industry-level and firm-level performance is determined by political connections rather than normal market forces. According to the finding of the study corporate political activity is positively correlated with executive compensation measures, but not robustly with firm performance and profitability measures. This suggests that political connections have no significant effect on the performance of firms or particular industries in most cases, but that company executives do indeed benefit from having closer ties with the political process.

The study made by Wang (2016) examine the impact of firms' business-government on firm performance in private listed Chinese firms in the manufacturing sector under the study topic "Business cycles, political connectedness, and firm performance in china". The study had employed the difference-in-difference (DID) method to estimate the impact of political connectedness, comparing the change of firm performance in association with the stimulus between politically connected firms and non-connected ones and the study period covers 2005 to 2012. Result of study shows that political connectedness, particularly executives or directors being political delegates, enable firms to have better access to bank credit but have no direct impact on firm sales. Additionally, the study indicates that two types of political connectedness, being political delegates or former officials, have different impact on firm profitability.

According to Fowowe.B (2017), In Nigeria, the study shows the effects of access to finance on the growth of firms in African countries. To achieve this, data set from the World Bank's Enterprise Surveys are employed subjective and objective measures of access to finance. The study use data collected from 10,888 firms across 30 African countries and the results use as the subjective measure and show that access to finance constraint exerts a significant negative effect on firm growth. The results using the objective measurements show that firms that are not credit-constrained experience faster growth than firms that are credit constrained. The results have provided two important insights into the financing of firms in Africa. Firstly, the results have shown that inadequate finance has an inhibiting effect on the growth of firms. This was evident from the estimations that showed a significant negative effect of access to finance constraints on firm growth. Secondly, the results showed that participation in financial markets promotes firm growth; the finding indicates significant positive relationships between various objective measures of access to finance and firm growth.

Young-choon Kim (2018) investigate the costs and benefits of business-government relations: empirical analysis of former communist transition economies. The study investigate the costs and benefits of building business-government relations with incumbent politicians and bureaucrats, and then analyze whether and how business-government relations influence firms' decisions on subsequent corporate development in the context of transition economies. The

business-government relationship is important in transition economies because these countries undergo a series of changes, and their governments target economic growth, thus providing more opportunities for firms and government officials to engage in exchange behavior. The researcher takes some initial hypothesis idea on the base of costs and benefits of business-government relations. The costs and benefits of business-government relations and further analyze its impact on firm development, we use data from the World Bank's Enterprise Surveys (World Bank, 2002a, 2002b). The Enterprise Surveys comprise data from over 120,000 manufacturing and service providing firms in 125 developing countries.

Yuan t. etal. In 2019 on the impact of business-government relations on firms' innovation: evidence from Chinese manufacturing industry. The researcher starts by taking hypotheses on business-government relations have a positive relationship to firms' innovation. The stronger the relationship between the enterprise and the government, the more conducive the environment to technological innovation. Female managers strengthen the positive effects of business-government relations on firms' innovation. The participation of female executives in corporate innovation decisions is conducive to promoting the stability and rationality of innovative strategic decisions. Market competition intensity weakens the positive effects of business-government relations on firms' innovation. The data in this paper is selected from the World Bank enterprise survey data for Chinese companies from December 2011 to February 2013 and contains a total of 2700 private companies and 148 state owned enterprises. After excluding samples with missing values, 675 samples are finally obtained. The paper uses survey data from the World Bank obtained through the stratified sampling method to study the influence mechanism of business-government relations on firms' innovation.

Similarly, Omonona& Oni (2019) examined the relationship between political affiliations and performance of firms in South African mobile telecommunication industry. The study was conducted a survey on population drawn from selected mobile telecommunication organization and their result indicated that political connections affects both performance and non-performance of mobile telecommunication firms. The study suggested that a reduction in frequent cabinet reshuffle while ensuring political integration and government stability.

2.4 Knowledge gap

The difference in access to capital is due to the lending practice of state-owned banks, and this difference increases as business-government relations grow stronger (Brandt & Li, 2003; Che, 2002).The literatures reviews that are discussed so far showed that, firms' performance are determined by many factors from those, business-government relation and access to finance are the most important ones. The empirical studies also suggest that the effect of both factors vary across countries and regions. For instance, some of those studies argued that business-government affect firm performance positively; whereas others found that business-government affect performance of firm negatively and the same is true for access to finance. Therefore, there is a continuous debate on the effect of both access to finance and business-government relation on firm performance in different countries and more detailed investigation of this was promised for future research by prior researchers. As per the review of literatures, no empirical study was conducted in Ethiopia context in this specific title. Based on the review of the literatures majority of the empirical studies was conducted with the intent of examining "the relationship between business-government relation, access to finance, and firm growth..

In general, lack of research study on this specific subject in the context of Ethiopian initiates this study. To the best of my knowledge, this is the first study that will investigate the effect of political connectedness and access to finance on firm performance and the effect of political connectedness on access to finance. Therefore, this study aims to fill the gap by giving more emphasis on both political connectedness and access to finance factors that affect firm performance in Ethiopia. Further the study will investigates the effect of access to finance on firm performance.

2.5 Conceptual Framework and Hypothesis Development

2.5.1 Conceptual Framework

Figure 2.1 show the conceptual framework of the study. It first path (H1) show the relationship between BGR and firm growth. The second path show (H2) the link between BGR and access to finance. The third path (H3) indicates the link between access to finance and firm growth. The last path indicates the inclusion of control variables to our model.

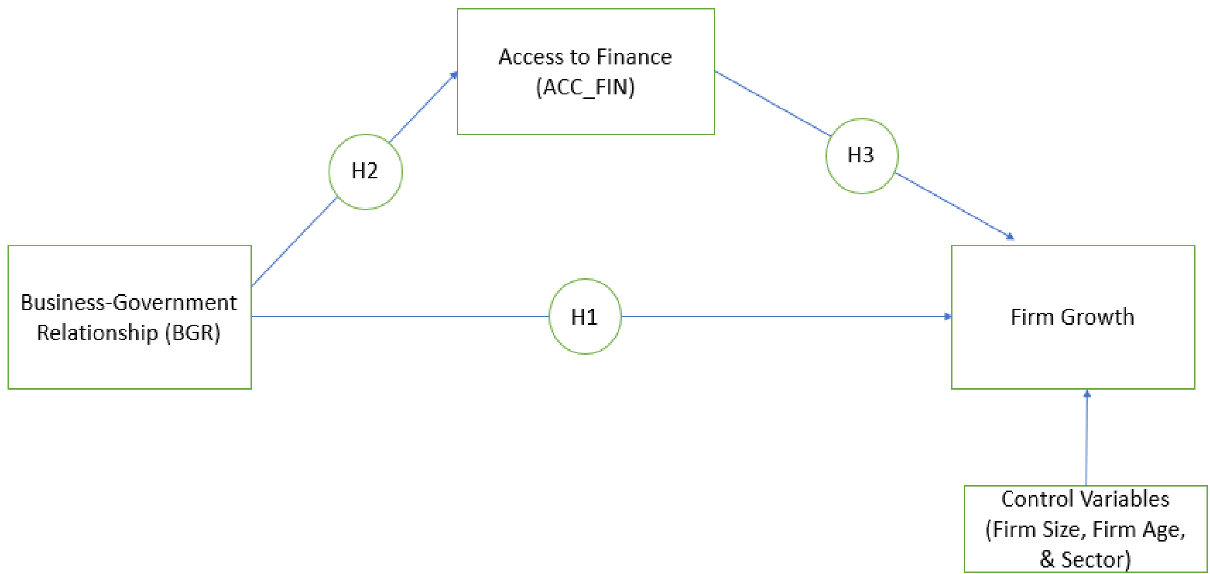

Figure 2.1. Conceptual Framework (self-developed)

Figure 2-1 Conceptual Framework

2.5.2. Hypotheses Development

2.5.2.1. Hypothesis on Business government relation and firm growth

Business government relation is very important in transition markets. Scholars studying business-government relations from the business perspective always emphasize what firms can extract from such relationships while paying less attention to what firms must pay in return; however, firms do not receive benefits from the government without paying anything back (Frye, 2002).

Business-government relations are a form of "exchange" between firms and politicians. In such exchanges, economic rewards are transferred to firms, and then, firms offer politicians politically valuable services in return. One thing that the government or incumbent politicians want and the business sector can give is economic stability (Quinn & Woolley, 2001). Economic stability is crucial to a government because it is highly related to the tenure of incumbent politicians who are currently running the government.

It has been widely accepted that firms receive economic benefits through building and maintaining a good relationship with their governments (Bertrand, Kramarz, Schoar, &Thesmar, 2004; Faccio 2006; Johnson &Mitton, 2003; Li, Meng, Wang, & Zhou, 2008).Previous research suggests that business-government relations help firms in various ways: the securing of favorable regulatory conditions (Agrawal &Knoeber, 2001) and access to resources, such as bank loans (Faccio, 2006; Khwaja&Mian, 2005).Using firm-level data from seven Sub-Saharan African countries (Benin, Ethiopia, Madagascar, Malawi, Mauritius, South Africa and Zambia) Qureshi and teVelde (2012) find that effective state-business relations enhance firm productivity. Ackah et al. (2013), Kathuria et al. (2013) and Hampwaye and Jeppesen(2014) find similar support for effective state-business relations enhancing firm productivity for Ghana, India and Zambia. Bad on the these evidence, the study proposed the following hypothesis that indicate the relationship between BGR and firm growth.

Hypothesis 1 (H1):- There is a statistically significant positive relationship between business government relation and firm growth.

2.5.1.1 Hypothesis on Business government relation access to finance

Strong checks and balances on government policies and on tax and expenditure help ensure that taxation policies and the provision of public goods are appropriate and of good quality (teVelde 2013). The design of effective government policies and regulations depends, among other things, on input from, and consultation with, the private sector. More efficient institutions and rules and regulations might be achieved through policy advocacy which could reduce the costs and risks faced by the private sector and enhance productivity (teVelde 2009).

The emergence of effective state-business relations is also related to the presence of strong peak and sect oral business associations representing the interests of business (Doner and Schneider 2000).Peak and sectorial business associations that are active, independent of the state and representative of the private sector in the region, can resolve many of the collective action problems that are inherent in developing countries, where most firms are small or medium sized and are unable to articulate their views and concerns to state agencies (Doner and Schneider 2000).

Business associations that can play an effective role in promoting the interests of the private sector are usually well organized, well-resourced and staffed by professionals. They are also likely to be more effective when they represent a sizeable portion of the productive economy, and represent the range of business interests in the country, such as a strong peak association that speaks for all of its members, including small and medium enterprises, rather than a few large, politically connected firms (Bräutigam et al. 2002, Handley 2008). Qureshi and teVelde (2012) found that, in Zambia, joining a business association was particularly useful for small and medium firms (SMEs) as this allowed them to participate in state-business relations, and voice their concerns, especially since they generally lacked the necessary financial and institutional means for effectively lobbying the government directly. Finally, the second hypothesis developed as follow

Hypothesis 2 (H2):- There is a statistically significant positive relationship between business government relation and the firm's access to finance.

2.5.2.3. Hypothesis on Access to finance and Firm Growth

In countries with weak legal systems, and consequently weak financial systems, firms obtain less external financing and this result in lower growth. The effect of growth obstacles on firm growth is smaller in countries with better-developed financial and legal systems (Beck et al 2005). Ayyagariet al (2005) showed that finance, crime and political instability are the only obstacles that have a direct impact on firm growth and finance is the most robust one among those. Jonson, McMillan and Woodruff (2002) pointed out that it is hard to separate the effects of property rights from external financing because external financing is strongly influenced by the security of property rights.

There is a direct relationship between access to finance and financial sector development and macroeconomic growth. Financial sector can affect economic growth in three ways: (a) it can increase the productivity of investments; (b) more efficient financial sector reduces transaction costs and thus widens the share of savings channeled to productive investments; and (c) the financial sector development can affect saving rates (Pagano, 1999). Financing is important for firms because it helps in expansion of operations, innovation, and investing in production facilities and new staff (OECD, 2006b).

Many firms that are willing to expand often find it difficult to obtain financing from financial institutions and they face a credit constrained. This essentially constitutes the 'financing-gap' faced by firms and this gap is more prevalent in developing countries while it is not such a problem in advanced economies because various risk-coping strategies have been adopted by banks for lending to firms (OECD, 2006b).

In African countries, it is seen that on average, the percentage of firms citing access to finance as a major or severe constraint was higher than for any other constraint (electricity, corruption, macro-economic instability, and labor regulations.

Some studies, in contrast show that access to finance constraint has a significant negative effect on employment growth. However, majorities of prior studies find that inadequate financing is a serious constraint that firms face, and which adversely affects their growth (Dinh et al., 2012; Ayyagari et al., 2008; Fowowe, 2017). Thus, the final hypothesis is postulated as follow.

Hypothesis 3 (H3):- Access to finance has a statistically positive effect on firm's growth.

CHAPTER THREE

3 RESEARCH DESIGN AND METHODOLOGY

This chapter presents about the study research methodology. The chapter organized in to four main contents. The first section presents the research design and approach. The second section presents data source and the data source method of data collection. The third section presents

about sample selection, composition and distribution. The fourth main section of the chapter presents about research models and econometric specification.

3.1 Research design and Approach

The general purpose of this study is to show the relationship between Business-government relation, access to finance and firm growth in Ethiopia. In any study, the research design constitutes the blue print for the gathering, measurement and analysis of data Kothari (2004). This study adopted explanatory research design. Explanatory research, on the other hand, was used to explain, understand and predict the cause and effect relationship between the variables (Neuman, 2014).

Accourding to Cresswell (2004), there are three types of research approach; qualitative, quantitative, and mixed research. This study used quantitative research approach. According to Vander Merwe (1996) quantitative research Approach: is a research approach aimed at testing theories, determining facts, demonstrating relationships between variables, and predicting outcomes. Quantitative research uses methods from the natural sciences that are designed to ensure objectivity, generalizability, reliability and reality that exists independent of human perception, the investigator and investigated are independent entities. Therefore, the investigator is capable of studying a phenomenon without influencing it or being influenced by it and concerned with the collection & analysis of data in numeric form (Guba and Lincoln, 1994).

3.2 Data sources and Type

The Study was investigated using secondary data because they are conducted to gather data from different secondary sources which includes books, personal sources, websites and government records etc. secondary data is known to be readily available compared to that of the primary data. Secondary data are those that have been collected, arranged and evaluated by other researchers and organizations. common sources of secondary data for social science includes statements, data collected from government agencies, organizational documents and data that was basically collected for other research objectives.

One of the most noticeable advantages of using secondary data analysis is its cost effectiveness. Because someone else has already collected the data the researcher does not need to invest any

money, time or effort into the data collection stages of his or her study. Another advantage of analyzing secondary instead of collecting and analyzing primary data is the sheer volume and breadth of data that is publicly available today. Secondary data analysis is convenient and powerful tool for researchers looking to ask broad questions at a large scale.

Since the Study was used secondary data based on Cross – sectional data type because they involving different organisations or groups of people to look at similarities or differences between them at any one particular time and this study is done when time or resources for more extended research. It involves a close analysis of a situation at one particular point in time or pulled data.

Therefore Cross sectional data type and secondary data source was used and data's are obtained from World Bank's Enterprise Survey (WBES) conducted in 2015 covering the period from 2012-2014. The World Bank's Enterprise Surveys (WBES) collect data from key manufacturing and service sectors in every region of the world. The Surveys use standardized survey instruments and a uniform sampling methodology to minimize measurement error and to yield data that are comparable across the world's economies. Thus the use of properly designed survey instruments and a uniform sampling methodology provide a solid foundation for recommendations that stem from this analysis.

The purpose of World Bank's Enterprise Survey is to obtain opinion from enterprises on the state of the private sector as well as to help in building a panel of enterprise data that will make it possible to track changes in the business environment overtime thus allowing for example impact assessment of reforms

3.3 Sample Selection, Composition and Distribution

According to WBES, the sampling methodology (2009) the World Bank's Enterprise Survey generates sample sizes appropriate to achieve two main objectives: first, to benchmark the investment climate of individual economies across the world and, second to conduct firm performance analyses focusing mainly on how investment climate constraints affect productivity and job creation in selected sectors. To achieve both objectives the sampling methodology:

- Generates a sample representative of the whole non-agricultural private economy that substantiates assertions about this part of the economy, not only about the manufacturing sector.

- Generates large enough sample sizes for selected industries to conduct statistically robust analyses with levels of precision at a minimum 75% precision for 90% confidence intervals about: Estimates of population proportions (percentages), at the industry level and Estimates of the mean of log of sales at the industry level.
- In general sample sizes for both enterprise surveys and indicator surveys are determined by the degree of stratification of the sample. The overall sample size depends on the decision of the sample size for each level of stratification and the objectives of stratification are to allow an acceptable level of precision for estimates, at, first, different size (small, medium, and large), second, at the different levels of regional stratification, and third, for the different sectors of stratification (which, as explained before, are chosen depending on the size of the economy).

The 2015 WBES for Ethiopia used a global methodology which is universal for all countries surveyed by the World Bank Group. In the 2015 WBES for Ethiopia a total of 849 firms are included of which only 555 firms satisfy our screening criterions. The following screening criterion was used in to have a final usable sample of 555 firms. First, spontaneous response (e.g, I don't know) for the variable of interest are removed as such response are difficult to quantify. Second, variable with omitted data are dropped these a firms that jump to fill the answer to the survey question are dropped. Third, all micro firms (a firm with less than 5 permanent employees) are removed from our sample as these type of firms may not have objective report(document) related to access to finance, innovation, and degree of connectedness. Finally, firms with possible out-layer effect are removed to keep the regression output safe.
Table 3.1 present sample distribution across regions. From the 555 sampled firms 308 are located from Addis Ababa which is 55.5% 77 firms are from Tigray which is 13.87 %, 75 firms are from Oromia which is 13.51, 42 firms are from Amhara which is 7.57 %, 36 firms are from SNNPR which is 6.49 and 17 firms are from Dire Dawa which is 3.06 %. The sample selected from Addis Ababa is more than the rest of them.

Table 3-1 Sample distribution across regions

location	Freq.	Percent	Cum.
AddisAbaba	308	55.5	55.5
Amhara	42	7.57	63.06
Dire Dawa	17	3.06	66.13
Oromia	75	13.51	79.64
Tigray	77	13.87	93.51
SNNPR	36	6.49	100
Total	555	100	

3.4 Research Models and Econometric Specifications

Data was analyzed by quantitative approaches. The data obtained from World Bank will enter into a computer and analyzed by using STATA version 14. It is a package of programs for manipulating, analyzing, calculating and presenting data.

The purpose of this study is; 1) to investigate the effect of Business-Government relation (BGR) and access to finance (ACC_FIN) on firm's growth; and 2) to examine the effect of business-government relation on firm's access to finance. In the first objective, the dependent variable 'firm growth is a continues variable measured as the difference between the current year permanent employees and the number of permanent employees three years before the survey year divided by the current year number of permanent employees.Therefore, a linear model can be applied to examine the relationship. This multiple linear regression model is specified as follow;

$$GROWTH = \beta 0+\beta 1BGR + \beta 2\ ACC_FIN + \beta 3\mathrm{Log(size)} + \beta 4\mathrm{Log(age)} + \beta 5Sector_dummy + \varepsilon \ldots\ldots\ldots\ldots (3.1)$$

Where, GROWTH refer firm growth as measured by employeement growth, BGR represent Business-Government Relation, ACC_FIN represent access to finance, and Log(size) and Log(age) represent natural logarithm of firm size and firm age, respectively while *Sector dummy which used to control scrotal variation. Firm size (Log(size), Firm age (log(age) are control variables in the model* . Moreover,β_0,$\beta 1$, $\beta 2$, $\beta 3$, $\beta 4$, and $\beta 5$ represent the coefficient of the constant, BGR, ACC_FIN, firm size, firm age, and Sector, respectively.

However, in the second objective; examine the effect of BGR on ACC_FIN , the dependent variable access to finance (ACC_FIN) is a dummy variable which takes value 1 or zero. Thus, a binary model must be used. We used a probit model (probit regression) in order to estimate the effect of BGR on firm's access to external finance. The word probit is a combination of the words probability and unit; the probit model estimates the probability a value will fall into one of the two possible binary (i.e. unit) outcomes. The probit model uses the cumulative normal distribution function (Φ) to transform the model (Brooks, 2008). The model is specified as follow.

$$ACC_FIN = \beta 0 + \beta 1 BGR + \beta 2 \text{ Log(size)} + \beta 3 \text{Log(age)} + \beta 4 Sector_dummy + \varepsilon \ldots\ldots\ldots\ldots (3.2)$$

The control variables are the same on the linear model specified in equation 31.

3.5 Variable Definition and measurement

3.5.1 Measuring Business Government Relation

Based on the WBES, this study used three indicators of business-government relations.

1. **Business-Government Relations** ***by Management time (BGR-MT):*** In the assessment of World Bank enterprises survey questionnaires number J2 is used which represent, in a typical week over the last year, what percentage of total senior management's time was spent on dealing with requirements imposed by government regulations? (By senior management mean managers, directors, and officers above direct supervisors of production or sales workers. Based on the response to this question we measure this variable as percentage of total senior management's time spent on dealing with requirements imposed by government regulations
2. **Business-Government Relations** ***by Government contract (BGR-GOVCONT):*** In the study of World Bank enterprise survey questionnaire number J6 which represent, over the last year, has this establishment secured or attempted to secure a government contract? Based the respondent response a dummy variable equals to 1 if the establishment secured or attempted to secure a government contract

3. **Business-Government Relations *by Corruption (BGR_CURROPTION):*** Percentages of total annual sales the establishment made informal payment or gift to public officials for the purpose of things done.

3.5.2 Measurement of Access to finance

Access to finance used as both the dependent and independent variable. There several measures of access to finance. This study measure access to finance using direct measures based on survey data. Different scholars use different measures of access to finance including the availability of overdraft facility and line of credit/loan. Firms asked question of access to finance, question of access to line of credit or loan (K.8), does this establishment have a line of credit or a loan from a financial institution? The response indicates whether the firm has access to line of credit/loan or not. Based on the response to (k.8), dummy variable equal to 1 if a establishment have a line of credit or a loan from a financial institution, 0 otherwise. This measure is related previous studies such as Ayalew et al., (2019a).

3.5.3 Measuring Firm growth and Control variables

WBES of 2015 (2012-2014) Firms asked question first (L.1)**,** how many permanent, full-time individuals worked in this establishment? The response indicates to this question the number of permanent employee at the end of fiscal year. Second (L.2)**,** how many permanent, full-time individuals worked in this establishment? The response to this question is the total number of permanent employee. Based on their response to the question (L,1 & L,2), The difference between the current year permanent employees and the number of permanent employees three years before the survey year divided by the current year number of permanent employees.This measure is related previous studies that also used variables as measures for performance of firm.(Ayalew and Xianzhi (2019b), Gorodnichenko and Schnitzer (2013).

To indicate the effect of control variables firms asked first question of firm size (L.1)**,** how many permanent, full-time individuals worked in this establishment? The response indicates that number permanent employee in the firm. Based on the response, Natural logged value of the number of permanent full-time employees. This measure is related previous studies that also

used variables as measures the effect of performance of the firm as well as level of innovativeness.(Gorodnichenko and Schnitzer (2013), Ayalew and Xianzhi (2019), Savignac (2008)).

Second question of firm age (B.5), in what year did this establishment begin operations? The response indicates that the age of the firm. Based on the response, Natural logged value of age in years of a firm since its establishment. This measure is related previous studies that also used variables as measures the effect of performance of the firm or level of innovativeness (Gorodnichenko and Schnitzer (2013), Ayalew and Xianzhi (2019), Savignac (2008). Table 3.2 present summary of definition and measurement of for both main and control variables.

Table 3-2 **variable definition and measurement**

Variable	Measurement and definition	**Measure adopted from**	**Question No. in the WBES**
Employee Growth (Growth)	The difference between the current year permanent employees and the number of permanent employees three years before the survey year divided by the current year number of permanent employees.	Ayalew and Xianzhi (2019b), Gorodnichenko and Schnitzer (2013),	L1 & L2
Business government management time (BGR_MT)	Percentage of total senior management's time spent on dealing with requirements imposed by government regulations	Own proxy based on WBES	J2
Business government relation -informal payment (BGR_CORRUPTION)	Percentages of total annual sales the establishment made informal payment or gift to public officials for the purpose of things done.	Own proxy based on WBES	J7
Business government Relation-Government contract (BGR_GovCont)	Dummy variable equals to 1 if the establishment secured or attempted to secure a government contract	Own proxy based on WBES	J6a
Access to finance line of credit/loan (ACC_FIN)	Dummy variable equal to 1 if a establishment have a line of credit or a loan from a financial institution, 0 otherwise.	Fowowe (2017) , Lee el.ta (2017),	K8
Control variables			
Firm size (Log(size))	Natural logged value of the number of permanent full-time employees.	Ayalew et al (2019)	L1
Age (Log(age))	Natural logged value of age in years of a firm since its establishment.	Ayalew et al (2019)	B5
Sector_Dummy	A dummy variable equal to 1, if the firm belongs to manufacturing sector, 0 otherwise	Ayalew et al (2019)	B2b

CHAPTER FOUR

4 DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This section presents results and findings from the study. Present findings of the analysis based on the objectives of the study, the first section is descriptive statistical analysis, correlation matrix and the second section regression result shows that the effect BGR on Access to finance on probit regression model and BGR and Access to finance on firm Growth result in OLS regression result, whereas the last section Summary of the result and discussion have been employed.

4.1 Descriptive Statistics

Table 41. present the descriptive statistics. The study used 555 a total numbers of firms (observations).The average growth of sampled firms were 10.73%, with a minimum of negative 140% (loss) and maximum of 80% growth. This study used these indicators of BGR. The first, BGR_MT (management time spend in dealing with government regulation) show that, on average, top manager spend about 10% of their business time in dealing with government regulation. The second indicator of BGR_GOVCONT (secure government contract) show that about 355 sampled firms has secured government contract at least once. On average, firms pay about 1% of their annual sales to government officials in the form of corruption with amixamim of firms paying their 30% of annual sale.

The statistics show that approximately 30% of sampled firms has access to finance. The average number of employees for sampled is about 103 with minimum of 5 and maximum of 5,600 employees. Similarly, the average age of sampled firm is 16 years with a minimum of 3 years and maximum of 90 years old. Finally, about 48% of sampled firms are from manufacturing sector while the remaining 52% belongs to service sector.

Table 4-1 Summary of descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Growth	555	0.1073	0.2962	-1.4	0.807
bgrmt	555	0.0934	0.1498	0	0.9
bgr_govcont	555	0.3550	0.4789	0	1
bgrcorruption	555	0.0026	0.0187	0	0.3
ACC_FIN	555	0.2991	0.4583	0	1
Fim size	555	103.71	321.54	5	5,600
Firmage	555	15.75	13.3968	3	90
Sector_dummy	555	0.4703	0.4996	0	1

4.2 Correlation analysis

Table 4.2 present correlation matrix. It shows the association of the variables (both dependent and independent variables). Table 4.2 report the correlation matrix. The main objective of testing the correlation matrix is to check whether there is a multicollinearity problem between the explanatory variables or not. It shows that the correlation between explanatory variables is very small with maximum of 0.19.However, a correlation up to 0.7 is often acceptable .The correlation between of the explanatory variables is attractive less than 0.2 in all case .Therefore there is no multicollinearity problem in our model.

Table 4-2 correlation matrix

		1	2	3	4	5	6	7	8
1	Growth	1							
2	BGR_MT	-0.0471	1						
3	BGR_gov_cont	0.0512	0.1659	1					
4	BGR_corruption	0.0293	0.1934	0.118	1				
5	ACC_FIN	0.0351	-0.0164	0.0006	-0.0808	1			
6	Log(size)	-0.0449	0.0363	0.1678	0.0313	0.0916	1		
7	Log (age)	-0.1974	-0.0014	0.0741	0.035	0.04	0.3986	1	
8	Sectordummy	-0.0572	-0.0621	-0.0199	-0.0641	-0.0399	0.3001	0.1041	1

4.3 Normality and Heteroscedastic Test

Table 4.3 present Shapiro-Wilk W test for normal data. It shows that accept two variables where the p-value is in excess of 0.1, other variables has p-value of less than 0.1, suggesting the distribution is normal.

Table 4-3 Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
growth	555	0.91618	30.978	8.292	0.000
bgrmt	555	0.77808	82.021	10.643	0.000
bgr_govcont	555	0.99749	0.929	-0.178	0.571
bgrcorruption	555	0.62461	138.744	11.913	0.000
ACC_FIN	555	0.99539	1.705	1.288	0.099
Log(size)	555	0.93994	22.198	7.487	0.000
Log(age)	555	0.98018	7.325	4.809	0.000
Sector-dummy	555	0.99965	0.131	-4.915	1.000

Table 4.4. report heteroscedastic test. The probability of Prob > chi2 is statistically significant. This indicate the existence of heteroscedastic problem which a common problem from most of researches conducted using cross-sectional data. Therefore, in the regression analysis we must account measure to mitigate the heteroscedastic problem. Usually, "robust" standard error specification is used to account heteroscedastic problem.

Table 4-4 Heteroscedastic test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of emp_growth
chi2(1) = 20.71
Prob > chi2 = 0.0000

4.4 Regression Results

4.4.1 The Impact of Business-Government Relation and Access to finance on Firm Growth

Table 4.5. report the OLS estimation output. The model R^2 is 0.048 indicating the overall model fitness. The variable included in the model explain firms growth only about 5%, the remain unincluded variable explain firm growth about 95%. However low R^2 is not affect the parameter obtained.

BGR_MT have a statistically significant negative effect on firm growth. The result is significant at 10% level. A one unit increase in management time spend in dealing with regulation will reduce firms growth by 0.13. Another indicators of BGR relations (BGR_GOVCONT and BGR_corruption) are positively associated with firm growth. But only BGR_GOVCONT is statistically significant. The result indicate firms that secure government contract show bette growth than those who do not secure. The result indicate that firms that pay corruption in the form of informal payment show positive growth but the effect is not statistically significant. Generally, the result support hypothesis (H1).

Access to finance (ACC_FIN) has a statistically significant positive effect on firm's growth. Firms that have access to finance are 2.6% more likely to grow than those who do not have access. Regarding control variables firm size(Log (size)) have positive impact on firm's growth but the effect is insignificant. Firm age is negative and significantly related with firm growth. A one year increase in age will lead to 0.22 point decrease in firm growth

Table 4-5 The effect of business-government relation and access to finance on Firm growth: Linear model estimate

				Number of obs		555
				F(7, 547)		4.37
				Prob > F		0.0001
				R-squared		0.053
				Adj R-squared		0.0408
Growth	Coef.	Std. Err.	t	P>t	[95% Conf.Interval]	
BGR_MT	-0.1386	0.0849	-1.83	0.083*	-0.3055	0.0282

BGR_GOVCOT	0.0408	0.0266	1.96	0.050**	-0.0114	0.0931
BGR_corruption	0.6600	0.6783	0.98	0.331	-0.6724	1.9924
Acc_FIN	0.0260	0.0272	2.01	0.040**	-0.0274	0.0794
Log(size)	0.0196	0.0225	0.87	0.384	-0.0246	0.0638
Log(age)	-0.2208	0.0461	-4.79	0.000**	-0.3113	-0.1302
Sectordummy	-0.0272	0.0261	-1.04	0.298	-0.0785	0.0241
_cons	0.3212	0.0500	6.42	0.000***	0.2230	0.4195
***, **, and * represent significant at 1%, 5%, and 10% respectively.						

4.4.2 The effect of Business-Government Relation on access to finance

In order to estimate the effect of BGR on access to finance, we used a standard probit model. Table 4.6 present this estimated output. The result shows that except BGR_MT the remaining two indicators are positively and significantly related with access to finance. Thus, firms that make relationship with government have better access than those who do not have or have less relationship. For instance, firms that secure government contract are 2.7% more likely to have access to external finance. In addition, a firm that pay corruption to government official have better access to external finance . For instance, a one unit increase in informal payment will increase access to finance by 6 times higher. The result suggest our hypothesis (H2) accepted.

Regarding control variables, firm size, and sector has shown a statistically significant positive and negative effect on access to finance, respectively. Large firms are more like to have access to finance than their smaller counterparts. However, firm age did not have statistically significant effect on access to finance. Finally, the result show that manufacturing firms are less likely to have access to external finance than service frims.

Table 4-6 the effect of business-government relationship on firm's access to finance: Probit model estimate

Acc_Fin	Coef.	Marginal effect	Robust Std. Err.	z	P>z	[95% Conf.Interval]	
BGR_MT	-0.0912	-0.0311	0.4068	-0.22	0.823	-0.8885	0.7061
BGR_gov_cont	0.0277	0.0094	0.1351	1.92	0.083*	-0.2924	0.2371
BGR_corruption	18.8673	6.4356	3.4467	5.47	0.000***	-25.6228	-12.1119
Log(size)	0.2509	0.0856	0.1300	1.93	0.054*	-0.0039	0.5057
Log(age)	0.0266	0.0091	0.2627	0.1	0.919	-0.4882	0.5414
Sectordummy	-0.2258	-0.0766	0.1151	-1.96	0.050**	-0.4514	-0.0002
_cons	-0.7772		0.1877	-4.14	0.000***	-1.1451	-0.4094
No. observations		555					
Pseudo R2		0.0423					

Log pseudolikelihood	-330.765					
***, **, and * represent significant at 1%, 5%, and 10% respectively. Marginal effect is computed after probit estimate.						

4.5 Summary of major Findings and Discussions

This chapter empirically investigate; 1) the impact of business-government relation on the firm's access to finance and growth, and the effect of access to finance on firms growth. The result show that BGR has a positive effect on firm's access to external finance and their growth. Thus, regarding Hypothesis 1 and 2, we find strong evidence that firms that have relationship with government have better access to external finance, and hence, exhibit better growth performance. It has been widely accepted that firms receive economic benefits through building and maintaining a good relationship with their governments (Bertrand, Kramarz, Schoar, &Thesmar, 2004; Faccio 2006; Johnson &Mitton, 2003; Li, Meng, Wang, & Zhou, 2008).Previous research suggests that business-government relations help firms in various ways: the securing of favorable regulatory conditions (Agrawal &Knoeber, 2001) and access to resources, such as bank loans (Faccio, 2006; Khwaja&Mian, 2005).Using firm-level data from seven Sub-Saharan African countries (Benin, Ethiopia, Madagascar, Malawi, Mauritius, South Africa and Zambia) Qureshi and teVelde (2012) find that effective state-business relations enhance firm productivity. Ackah et al. (2013), Kathuria et al. (2013) and Hampwaye and Jeppesen(2014) find similar support for effective state-business relations enhancing firm productivity for Ghana, India and Zambia

Access to Finance and firm Growth: In Ethiopia, about 30% sampled firms have access to finance as measured by the availability of new credit line. The result shows that there is a consistent significant positive effect of access to finance on growth. This indicates frims that have access to finance has faster growth than those who do not have an access. The result supports hypothesis 3 (H3). The empirical literature on the effect of access to line of credit or loan on firm growth remains main issue for further discussion and studies continued to provide additional investigation. The majority of empirical studies indicate the factors that influence in raising funds for firm growth and investigate the influence of credit constrain to firm growth (Petersen and Rajan, 1994; Wiedmaier-Pfister.et.al., 2008; Ghimire and Abo, 2013; Lucumay Gloria, 2014; David F. Moreiraa 2016; David Fielding.et.al., 2017). This finding indicates credit constraints have effect on the possibility of firm growth and that the negative effect tends to be higher for young firms compared to old firms. Similarly, BabajideFowowe (2017) examine

results of credit constraint exerts a significant negative effect on firm growth in Africa. This finding is evidence for firms that are not credit constrained experience faster growth than firms which are credit constrained. The finding of the present study supports these prior studies.

Finally, we find a very consistent evidence that the control variables specially firm size, firm age and sectoral variation has an effect on the firms access to finance and growth.

CHAPTER FIVE

5 CONCLUSION AND RECOMMENDATION

5.1 Conclusion

From a sample of 555 firms in Ethiopia, this paper examines; 1) the effect of business-government relation on access to finance 2) the effect of Business government relation on firm growth and 3) the impact of access to finance on firm growth. The data was obtained from the WBES which is conducted in 2015 covering the period 2012 to 2014. The study used a standard probit model and OLS regression to examine the impact of business-government relation on Access to finance and the effect of business-government relation on firm's growth in Ethiopia, respectively. Thus, a quantitative research approach along with explanatory research design was used. Various indicators of business-government indicators were used. The study control the possible effect of firm size, firm age, and sect oral variations in studying the relationship between business-government relation, on access to finance and firm growth.

The result obtained from the OLS estimate show that business-government relation and access to fiancé has a statistically positive effect on firm's growth. In other words, a firm that have relationship with government are more likely to have access to finance than those who do not form business relationship with the government. Similarly, firms that have connection with the government exhibit growth than those who do not or has weaky connected. Informal (corruption) BGR have more effect on firm's access to finance this implies that a one unit increase in informal BGR have 6.43% access to finance and there is statistically significant effect on access to finance. While BGR-MT have negative effect and also there is insignificant relationship b/n access to finance.

The result obtained from the OLS regression show that firm growth and BGR govcont, BGR Corruption and Acc Fin have positive relations. BGR_GOVCONT and ACC_FIN have statistically significant on firm growth while BGR Corruption have insignificant relationship with firm growth. Regarding control variables Log (size) have positive relation with firm growth but Log (size) have insignificant relationship with firm growth whileLog(age) and Sectordummy have negative relation with firm growth but cons have positive relation on firm growth. Finally, only 305 of sampled firm have access to finance in Ethiopia.

5.2 Recommendations

The result shows that firms that formed connection with the government have better access to finance and also shown high growth performance. Therefore, we recommend company manger to strength the connection with the government so as to get access to external finance which will be used to cover their financial needs and expaned their business. Similarly, policymakers should developed and try to facilitate the formal business government relation to get external access to finance. This might have the biggest effect in promoting growth and business sustainability in the form of providing additional resources for finance constrained firms such as small and young enterprises. Thus Business managers should have to developed formal relationship with government officials and receiving support from government organizations which in turn support their need of access to finance and growth.

5.3 Limitations and Future Research Directions

As the researcher stated earlier this study is the first in its kind conducted in Ethiopia, it is not free of limitations so the researcher try to open the road for other researchers. Among others, this study has the following limitations. First, this study mainly focus on business government relation access to finance and firm growth. The study used only employee growth and the other growth indicaters such as sales,asset and market is not covered becuase of time constraint. Accounting growth measures such as sales growth might have good implication than using employee growth. Moreover, this study used cross-sectional survey data that comes from the WBES. This indict of panel data might provide robust finding. Thus, future researchers can fill and strengthen the findings of this study by filling the above gaps.

REFERENCE

- Agrawal, A., & Knoeber, C. K. (2001). Do some outside directors play a political role? *Journal of Law and Economics, 44*, 179-198.
- AYYAGARI, M, T, Beck and DERMIGUC-KUNT, A (2007). Small and Medium Enterprisesacross the globe. *Small Business Economics*, **29** (3), pp 415-434.
- Beck, Thorsten, Asli Demirgüç-Kunt, and Vojislav Maksimovic. 2005. Financial and Legal Constraints to Firm Growth: Does Firm Size Matter? *Journal of Finance* 60, 137-177.
- Beck, Thorsten, Patrick Behr and Andreas Madestam. 2011. Sex and Credit: Is There a
- Berg, G., Fuchs, M., 2013. Bank Financing of SMEs in Five Sub-Saharan African Countries: The Role of Competition, Innovation, and the Government. *Policy Research Working Paper, World Bank.*
- Bertrand, M., Kramarz, F., Schoar, A., & Thesmar, D. (2004). *Politically Connected CEOs and Corporate Outcomes: Evidence from France*. Retrieved from http://www.mit.edu/~aschoar/politics_fulldraft4.pdf.
- Dinh, H.T., Mavridis, D.A., Nguyen, H.B., 2012. The binding constraint on the growth of firms in developing countries. In: Dinh, H.T., Clarke, G.R.G. (Eds.), Performance of Manufacturing Firms in Africa: An Empirical Analysis. World Bank, Washington D.C, pp. 87–137.
- El-Said, H., Al-Said, M., Zaki, C., 2013. What determines the access to finance of SMEs?
- Evidence from the Egyptian case. *Working Paper Series, Economic Research Forum*.
- Faccio, M. (2006). Politically connected firms. *American Economic Review, 96*(1), 369-386.
- Fowowe, B., Abidoye, B., 2013. The effect of financial development on poverty and inequality in African countries. Manchester School 81 (4), 562–585.
- Galor, Oded and Omer Moav. 2004. From Physical to Human Capital Accumulation:
- Gender Bias in Microfinance? Mimeo.
- Hausmann, R. (2014). The productivity of trust. *Project syndicate*. http://www.project-syndicate.org/commentary/government-private-sector-cooperation-by-ricardo-hausmann-2014-12 .

- Hillman, A. J., Keim, G. D., & Schuler, D. (2004). Corporate political activity: A review and research agenda. *Journal of Management, 30*, 837-857.
- Honohan , Patrick and Thorsten Beck. 2007. *Making Finance Work for Africa*, World Bank, Washington, D.C.
- Inequality and the Process of Development. *Review of Economic Studies* 71, 1001-26.
- *Institutional Patterns in Organizations: Culture and Environment.* Cambridge, MA: Ballinger. pp. 101- 13.
- Johnson, S., McMillan, J., & Woodruff, C. (2002). Property rights and finance. *American Economic Review*. 93(5), 1335-1356.
- Leon, F. (2015) Does bank competition alleviate credit constraints in developing countries? *Journal of Banking and Finance* 57, pp. 130-142.
- Meyer, John and Rowan, Brian (1977) 'Institutionalized organizations: formal structure as myth and ceremony', *American Journal of Sociology,* 83: 340- 63.
- OECD, 2006b. Financing SMEs and Entrepreneurs, OECD Policy Brief. Organisation for Economic Co-operation and Development, Paris (November).
- Pagano, M. (1993). Financial markets and growth: An overview, *European Economic Review*, 37, 426-434.
- Rousseau, P. & Wachtel, P. (1998). Financial dependence and growth. *American Economic Review,* 88,559-586.
- Sen, K. (2013c). State-business relations and economic development. In D. W. te Velde (Ed.), *State-business relations and industrial policy: current policy and research debates*. London: ESRC DFID Growth Research Programme.
- Scherer FM. 1984. Innovation and Growth: Schumpeterian Perspective
- Taboada, A.G. (2011) The impact of changes in bank ownership structure on the allocation of capital: International evidence. *Journal of Banking and Finance* 35(10), pp. 2528-2543.
- Te Velde, D. W. (2013). Introduction and overview. In D. W. te Velde (Ed.), *State-business relations and industrial policy: current policy and research debates*. London: ESRC DFID Growth Research Programme.

- Tehulu, T.A., and Olana, D.R. (2014) Bank-specific determinants of credit risk: Empirical evidence from Ethiopian banks. *Research Journal of Finance and Accounting* 5(7), pp. 80-85.
- Tolbert, Pamela S. (2011) 'Institutional sources of culture in major law firms', in L. Zucker (ed.),
- World Bank. 2007. *Finance for All? Policies and Pitfalls in Expanding Access*. Washington, D.C.