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PRACTICE AND CHALLENGES OF: ACCESS TO CREDIT FOR SMALL AND MICRO ENTERPRISES: IN THE CASE OF ARADA SUB CITY OF ADDIS ABABA CITY ADMINISTRATION

BY Kaleab Belete

JUNE 2023

ADDIS ABABA, ETHIOPIA

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By Kaleab. Belete

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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Declaration

I, undersigned, declare that this research report is my original work and has not been presented for a degree in any other university, and all the materials used for this study have been duly acknowledged.

Name Kaleab Belete Signature--------------------------------- Date---------------------

Endorsement

The research work entitled "Access to Credit for Small and Micro Enterprises: Practice and Challenges in the case of Arada sub-city Addis Ababa Ethiopia" is the original work of Kaleab Belete and is submitted for examination with my approval as a university advisor

Advisor Name Dr.Tewodros Mekonnen Signature----------------------- Date-----------------------

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Table of Continent

Acronyms & Abbreviations

AfDB	African Development Bank
FeMSEDA	Federal Micro and Small Enterprise Development Agency (Ethiopia)
GDPs	Gross domestic product
GTP	Growth and Transformation Plan
MoFED	Ministry of Finance Ethiopia
MSEs	Micro and Small Enterprise
ILO	International Labor Organization
IFC	International Finance Corporation
OECD	Organization for Economic Co-operation and Development
SD	Standard Deviation
SMEs	Small and Micro Enterprises
USD	United States Dollar
WEA	Woman Entrepreneur Association

List of Table

Abstract

This thesis attempted to evaluate the nature of access to credit for small and micro firms in terms of The practice and issues they encounter using the case of Arada Sub City Addis Ababa, Ethiopia. Data were gathered from sample respondents who worked for SMEs using questionnaires and Interviews. Through the use of a mixed research approach and an explanatory and descriptive Study design, 200 SMEs were selected by a random selection technique. Data from both primary and secondary sources were gathered, and descriptive analysis was used to examine the result. The thesis particularly assesses how these four objectives—credit standards, credit accessibility, credit adequacy, and challenges for SMEs to receive credit—have an impact on the subject at hand. The findings of the study indicate that funds are available for SMEs; however they are insufficient for their operation. Despite the fact that they can obtain financing from banks and MFIs, SMEs mostly rely on their own earnings and savings as a source of capital. Lack of collateral, a lengthy loan application process, and high interest rates have all been noted as significant obstacles to getting a loan from banks and MFIs. These findings are expected to help both SMEs and financial resource providers come up with appropriate methods to bridge the gap toward promoting economic and societal advancement of SMEs.

Key terms: *Credit, Accessibility of credit, Lack of Adequate Credit, Requirements for Credit*

CHAPTER ONE: INTRODUCTION

1.1Background of the Study

The definition of a small and micro-sized enterprise varies from nation to nation. The company's industry of operation may occasionally be taken into consideration, along with certain size requirements they give financial benefits according to the World Bank, (2020) relies on country standards to classify MSMEs based on the number of employees, total assets, and annual sales. They can function with a small amount of finance and have the ability to impact the society and help the poor communities Small and micro-sized businesses (SMEs) create jobs and bring value to national economies all over the world according to (OECD, 2016).

Ayyagari, et al. (2011) examined the part SMEs play in job creation and demonstrated that SMEs with fewer than 250 employees were the growth engine in several nations. (Elhassan,2019) agreed with this statement and stated It is crucial to recognize the significant role that small businesses play in national economies. Is it the commencement of economic activity that first consisted of little projects before growing to be large projects? Even in the economy of the industrialized nations, they continue to account for a sizable percentage. According to many economists, one of the primary drivers of economic and social progress in nations is the growth and encouragement of small and micro-sized businesses. Particularly in developing nations, these businesses serve as a fundamental building block for raising production capacity and assisting in the fight against unemployment and poverty. As a result, numerous States have increased their focus on these programs, given them support.

The functions of SMEs have their positive effects on improved income distribution, job creation, poverty alleviation, quick industrialization, regional development, and export growth. Small and micro-sized enterprises (SMEs) also play a significant role in a country's economy, particularly in emerging nations (Mamo 2020). (Knife,2019) confirmed that Smaller companies with the potential to create more jobs, such as micro businesses, have demonstrated to be effective boosters of economic growth and he also stated that lack of access to credit is the major barrier for growth and success of SMEs. SMEs need access to suitable sources of financing at all phases according to (OECD, 2022) of their life cycles for their development, continuation, and expansion. Despite the fact that SME access to bank financing has generally recovered since the financial crisis, persistent issues like information asymmetries, high transaction costs, and a lack of financial literacy among small business owners still exist. However, the potential of financing methods other than pure debt is frequently still unrealized. Young businesses, start-ups, creative projects, and small businesses typically have a harder time getting financing.

Many developing countries continue to severely restrict SMEs' access to financial services, which limits the expansion of their businesses. Access to capital is recognized by owners and entrepreneurs as one of their most difficult difficulties Even so Small and micro-sized businesses (SMEs) are critical to the social and economic growth of emerging markets. Between 70 and 95 percent of new job possibilities in emerging economies are created by these enterprises, which also generate money. When SMEs have access to financing, they are more likely to create jobs, and they do so more quickly (IFC, 2011).

And the majority of small and micro-sized firms (SMEs) experience inadequate access to funding due to the current rapid expansion of many market-driven economies (Olana, 2020) which limits their ability to achieve competitive development. The literature on entrepreneurship claims that SMEs promote economic growth in both rich and developing nations, for instance, by stimulating innovation and creativity and significantly boosting GDPs when they have access to financing (Ghosh, 2016). Unfortunately, the majority of SMEs in developing nations still struggle to obtain bank financing, which limits their ability to expand.

When we come to the Ethiopia contest, the majority of the economy of Ethiopia, an emerging nation in Africa, is heavily dependent on Small and Micro-Sized Enterprises (SMEs). Small and micro-sized enterprises (SMEs) are crucial for generating employment possibilities as well as for the nation's economic progress, notably as a driver of the transition to an industrialized society. SMEs are thought to serve as a breeding environment for the development of large enterprises (Olana, 2020). Additionally, it is also thought that the SMEs growth of this industry in Ethiopia will be the main driver of employment and income generation for a larger segment of the population, and for urban young in particular. Ethiopia's Growth and Transformation Plan (GTP) for the next five years includes establishing three million micro and small businesses overall by the end of the plan term (MoFED, 2013)

It goes beyond simply making money accessible to support and promote Micro and Small Enterprises (MSEs) in Ethiopia. Access to financing has been one of the major obstacles to MSE operators expanding their operations, particularly in their early growth and start-up phase. This issue is made worse by the information asymmetry issue and the unavailability of real estate collateral Schiffer and Weder (2001).

even so there are numerous researches were written about lack of accessibility of credit for SMEs the problem of not having adequate finance is not still solved and the the researcher believe the reason for it is other researchers did not show the whole environment for accessibility of credit for SMEs and they also did not include these four dimensions requirement for access to credit which include interest rate charged and collateral , accessibility of credit , the adequacy of credit and challenges they face because of lack of adequate credit finance.

1.2. Statement of the Problem

SMEs are typically seen as the backbone of the economy but are denied access to loans due to their hazy status. Without adequate credit facilities for small enterprises, the entire economy will break down and eventually collapse (Munir,2009)

Despite the huge contribution that the SMEs sector makes to the growth of the national economy in terms of reducing poverty and generating jobs, many SMEs in Ethiopia are unable to reach their full potential due to a number of problems that limit their performance and development. The main cause of SMEs' underwhelming performance and growth is the scarce supply and accessibility of financing (ayyagorser.al. 2006).

Financial literacy is crucial for overall financial development, according to Andoh and Nunoo (2011). (Hasnah et al. (2013) and Fatoki and Asah (2011) conducted studies on how SMEs use credit, and they all arrived at the same conclusion: among other problems, the lack of collateral was inhibiting SMEs' access to credit from financial institutions.

Unquestionably, Addis Ababa needs to create more jobs in order to combat the rising unemployment rate, especially for young people. The labor-intensive, simple entry, low startup costs, and low skill (knowledge) required characteristics of micro and small firms play a vital role in the generation of revenue and improved income distribution for the jobless labor force. Although the sector's critical role in fostering economic growth and job creation is becoming increasingly clear, little has been done to support the micro and small enterprise industries, much alone a plan, because growth and expansion have been poor or slow.

Since SMEs operate in a variety of environments, there is a lack of knowledge in this area that Prevents generalizations from being made, and the lack of data makes it difficult to respond. These Four dimensions requirements for access to credit which include interest rate charged, collateral, credit accessibility, credit Adequacy, and challenges SMEs face as a result of a lack of adequate credit financing—were not Included by researchers as a whole, which depicts the environment for SMEs' access to credit which is a major problem in this research aim was to solve these problem.

1.3. Research Questions

The following research questions were the leading questions of the study.

1. What are the requirements for Credit for SMEs in the Arada sub- city?
2. How do SMEs get the accessibility of credit for their activities in the Arada sub-city?
3. What is the extent of the adequacy for credit to SMEs in Arada sub-city?
4. What are the challenges of access to credit for SMEs in Arada sub-city?

1.4. Objective of the Study

1.4.1 General Objective

The general objective of the study was to investigate access to credit for small and micro enterprises in terms of practice and challenges taking the case of Arada sub-city Addis Ababa Ethiopia.

1.4.2. Specific Objective

1. To identify the of requirements for credit for small and micro enterprises in Arada sub-city, Addis Ababa
2. To investigate accessibility of credit for small and micro enterprises in Arada sub-city, Addis Ababa
3. To assess the adequacy of credit for small and micro enterprises in Arada sub-city, Addis Ababa
4. To examine challenges of access to credit for small and micro enterprises in Arada sub city, Addis Ababa.

1.5. Significance of the Study

The growing importance of SMEs in the Ethiopian economy and the ongoing obstacles they confront in their operations served as the driving forces behind this study. One of the major strategies for advancing industry, creating jobs, and eradicating poverty in Ethiopia has been highlighted as SMEs. The study's findings will be crucial to small and micro- businesses since they identify the main obstacles that small- and medium-sized business owners in Ethiopia County face when trying to acquire finance.

In order to improve the efficiency and sustainability of micro and small companies in the Arada sub-city zone, the study calls management and policy-makers' attention to the urgent need for specialized management techniques.

Finally, from a scholarly standpoint, this study's findings should help this field of study continue to be pursued in other parts of the Regions for generalization and in other parts of the Addis Ababa region in particular. The study is therefore highly valuable to both academics and practitioners.

1.6. Scope of the Study

The Addis Ababa ARADA sub-city woredas are the only small- and micro-sized businesses that Are the subject of this study. Credit needs, financial accessibility, financial adequacy, and financial Access problems were the four components that the researcher employed. SMEs' difficulties obtaining credit finance and offering remedies. Due to the large number of SMEs, the population of The study is primarily restricted to the Addis Ababa Arada sub-city. The time frame for this study Is limited to January through June 16 of 2023 Explanatory and Descriptive and explanatory research design Methodologies were used, Frequency, Mean and standard deviation were implemented and all questionnaires, interviews, distributed and collected on schedule.

1.7 Limitation of the Study

The limitation of the study was that the SMEs location was hard to find because the house number And work location was not registered on Arada sub-city database because of this the researcher Had to call and find each location and some of the business owners were not willing to meet

1.8. Definition of key terms

Access to Finance :- refers to a person's or an organization's capacity to obtain financial services like credit, deposits, payments, insurance and other risk management services. Those who unintentionally have limited or no access to financial services are referred to as "under-banked" and "unbanked," respectively (World Bank, 2012).

Credit: - is the ability to obtain goods or services or to borrow money with the intention of paying for them later (World Bank, 2012).

Credit Availability:-The amount of credit that a borrower has access to at any given time. The most one can borrow on credit cards and line of credit is a certain amount (low insider, 2022). Lenders employ credit criteria to assess whether or not to approve a new loan (Zhen, X et al, 2020).

Lack of Adequacy of credit :-Lack of financing, which refers to a situation in which one market sector (clients, small firms, traders, etc.) does not have appropriate access to money at acceptable rates in order to either finance their main business activities or expand their business, poses a significant barrier to market expansion.

1.9. Organizations of the study

Chapter 1: Background of the study and introduction to the study

The study's background of the study is provided in this chapter. This chapter presents the research problem statement, the research questions, and the study objectives. Additionally, the study's significance and limitations are investigated.

Chapter 2: Literature review

Includes review of theoretical literature, definition of SMEs and access to finance , sources of Finance challenges of access to finance and conceptual framework of the study are presented.

Chapter 3: Research Methodology

Research approach, research design, population sampling, data collection tools, Reliability and validity, methods of data analysis and Ethical consideration are presented in this chapter

Chapter 4: Result and Discussion

Demographic characteristics of respondents, Results and Discussion will be presented in this chapter.

Chapter 5: Conclusion and Recommendation

Conclusion and recommendation will be presented in this chapter

CHAPTER TWO: LITERATURE REVIEW

The literature review for this paper will consist of a theoretical review, an empirical review and a conceptual framework. In this chapter, the researcher makes an effort to review some relevant literature on micro and small business operations and the working conditions of entrepreneurs in the sector and show their sources of finance and their challenges. as well as Descriptions of SMEs, their significance for developing countries, experiences with enterprise development in other countries, including Ethiopia.

2.1 Review of Theoretical Literature

2.1.1 The Definition and Concept of SMEs

There is no official or established definition of the SME by the International Bank for Reconstruction and Development. Essentially, the definition of a small to micro-sized business is based on the number of employees or annual sales of the business. According to Tom Gibson and H. J. van der Vaart's work from 2008, the African Development Bank (AfDB) defines SMEs as businesses with a maximum of fifty employees and no minimum requirements for revenues or turnover. (2015, World Bank)

An enterprise in Ethiopia is considered to be a micro-enterprise if it has no more than five employees, including the owner, and total assets that are less than or equivalent to $5,000 US for businesses in the industrial sector and $2,500 US for businesses in the service sector. Small enterprises are defined as businesses with six to thirty employees and total assets between $5,000 and $75,000 US in the manufacturing sector and between $2,500 and $25,000 US in the service sector (MulukenAlemu, 2022)

Table 1 Definitions of Micro & Small Enterprises according to FEMSEDA

Type of Enterprises	Sector	Man power	Total asset
Micro enterprise	Industry	<5	<birr 100,000
	Service	<5	<birr 50,000
Small enterprise	Industry	6-30	<birr 1.5 million
	Service	6-30	<birr 500,000

Micro Enterprises: In the manufacturing, construction, and mining industries, a micro enterprise is one that employs up to five people, including the owner, and/or has assets worth no more than Birr 100,000 (about $5, 00). Similar to this, a micro enterprise is defined as one that employs up to five people, including the owner, and/or has total assets that do not exceed Birr 50,000 (roughly US$2,500). This definition also applies to activities in the service sector (retail, transport, hotel, tourism, ICT, and maintenance).

Small Businesses: In the industrial sector, a small business is one that employs six to thirty people, has paid-up capital of less than 1.5 million birr, or both. Similar to this, a small service sector business is one that employs six to thirty people and/or has paid up capital of Birr 500,000.

2.1.2 Defining Access to Finance

Having access to financing is essential for the expansion of small and micro-sized businesses (SMEs). It enables business owners to innovate, increase productivity, diversify into new markets, and create millions of employment. However, the majority of SMEs in developing nations are unable to secure the finance they require to realize their potential. Lenders may find it hazardous and costly to finance SMEs in developing nations, leaving an estimated $1 trillion USD financing gap (International Finance Corporation, 2011).

The core of the development process is finance (World Bank, 2016). Development professionals are becoming increasingly convinced, supported by convincing empirical evidence, that effective, well-functioning financial systems are essential for directing resources to the most productive uses and allocating risks to those who can bear them most effectively, thereby fostering economic growth, improving opportunities and income distribution, and reducing poverty. The World Bank and other international organizations recognize Microfinance and other financial institutions for their humanitarian efforts in underdeveloped nations for this reason.

2.1.3 Availability to Finance and potential source of finance

Cash, liquid securities, and credit lines that is available to a business for spending. An entrepreneur needs to collect enough financial resources before starting their business in order to be able to function effectively and successfully enough to promote success.

The financing of small and micro-sized businesses, or SME finance, is a key component of the wider business finance market, where money is supplied, acquired, and priced for various sorts of businesses. It's crucial for small businesses to have access to financing throughout their initial stages of growth because they create jobs, foster innovation, and increase market competitiveness Ellis & Ben (2017).

There are actually many potential sources of financing for SMEs. However, a lot of them have real-world issues that can make them less beneficial. Here are some of the main sources of financing for SMEs as original sources or additional capital required for operations.

2.1.3.1 The SME owner, family and friends

We propose that while societal preferences make family financing affordable, they also provide hidden costs that deter its usage. Interfamily insurance is replaced with risky investments made with family finances, undermining the concept of limited liability. Intermediation and semi formalization may be essential for encouraging risk taking, even when overcoming capital limits necessitates social ties.

2.1.3.2 Angel Investors

An angel investor is typically a wealthy individual who is looking for an investment opportunity in a sector they are familiar with or have an interest in. In exchange for an equity stake in the company, they offer funds and occasionally expertise. According to Denis (2004), angel investors are high net worth individuals who put their own money into a select group of startups. According to (Scarborough et al.,2009). Angel investors are rich, private investors who make investments in new businesses in exchange for ownership holdings in the businesses. Angel investors frequently demonstrate their willingness to fund tiny businesses based on recommendations from friends and family.

2.1.3.3 Trade credit

Trade credit is a significant alternative to bank financing and is thought to account for about one third of US SMEs' debt, providing about equal amounts of external financing as bank loans OECD (2014). Berger &Udell (2006).

2.1.3.4 Factoring and invoice discounting

Both of these financial resources effectively allow a company to borrow money against the security of its outstanding receivables. Once more, this financing is just temporary and is typically more expensive than an overdraft. However, one of the characteristics of those sources of funding is that if a SME expands, their outstanding receivables expand, and as a result, so will the amount they borrow from their factor or from invoice discounting. Therefore, factoring and invoice discounting are two of the relatively few financing options that expand as the business expands. 2016 (William)

2.1.4 Assumption or Theories on Source of Finance

In order to question and progress current knowledge while maintaining within the confines of essential limiting assumptions, theoretical assumptions that are utilized for the formation of the theoretical framework and further serve as the basis to explain the phenomena that are present frequently. The theoretical framework of a research study is the framework that can sustain or back up the theory. Inferred from the book Access to Finance and Development: Theory and

Measurement, the following underlying beliefs can be employed to hold or support a study theory.

Pecking Order Theory

Pecking order theory was developed by Myers and Majluf in 1984. (1984). One of the most important theories of capital structure is the pecking (preference) order hypothesis. Its premise is that businesses prioritize different forms of financing in a hierarchy that reflects their relative costs. Internal financing is prioritized first, followed by the safest form of security (debt), and equity comes in last. Internal financing is favored initially because it has no fees associated with flotation and requires no disclosure of the financial information of the companies, which may include possible investment opportunities and profits that may follow from making such investments. Thus, this theory contends that successful businesses, particularly those with sizable amounts of retained earnings, tend to hold low levels of debt in their capital structure. It is relevant to Ethiopian SMEs since external financing demands collateral and the majority of small business owners don't have enough real estate or other assets to provide to the lender as security for a loan. As a result, people tend to favor alternative sources (Gebreyohannes, 2015).The pecking order theory, one of the aforementioned hypotheses, is applicable to this study.

2.1.5 Challenges Influencing Accessibility and Availability of Credit

According to prior research, the factors that affect how easily SMEs can receive loans can be divided into four categories: - Collateral Security, Interest rate charged, Level of Literacy, and Number of financial institutions

The availability of collateral and the accessibility of the businesses' financial information are two ways that businesses might demonstrate their creditworthiness. First off, numerous studies indicate that collateral aid in increasing an enterprise's access to financing at lending institutions. The inability of businesses to acquire official finance is significantly hampered by the lack of collateral. (Shinozaki, 2012).

Discriminatory regulatory practices, a lack of access to finance, market, and business information, a lack of business space, the inability to amass managerial expertise and skills, a lack of access to acceptable technology, and a lack of access to the basic business infrastructure are the constraints faced by SMEs in the majority of countries, including Ethiopia. Due to financial sector inefficiencies, banks' lack of expertise, asymmetries in data like unaudited financial accounts, and the high risks involved in lending to SMEs, SMEs are typically more credit limited than other economic sectors (Adzido et al., 2016).

Administrative burden: protracted and intricate processes numerous studies demonstrate that a significant barrier to accessing financing in North Macedonia is the length and complexity of the loan application process. For instance, the RCC's Business Opinion Survey offers details on the limitations faced by businesses when asking for bank loans. It demonstrates that North Macedonian businesses struggle with the administrative load. In the SEE countries in 2018, the approval of credit took an average of 15 days, whilst businesses in North Macedonia stated that the loan application process takes an average of 25 days. The SEE countries with North Macedonia performing the worst are Kosovo (11 days), Montenegro (12 days), and Serbia (12 days), respectively(Jakimova et al .,2019).

According to research by Bataaganbold,(2008). chen SMEs typically face greater credit constraints than other economic sectors because of the following factors: I financial sector policy distortions; (ii) banks' lack of expertise; (iii) information asymmetries, such as the absence of audited financial statements; and (iv) the high risks involved in lending to SMEs. Here are in-depth descriptions of each of those factors.

The International Labor Organization (ILO) reports that it appears that businesses begin at a tiny, subsistence level and rarely have the opportunity to expand beyond two to three employees in size. Ethiopia faces the same challenges that most developing nations do with micro and small businesses: Unfavorable legal and regulatory frameworks, including occasionally discriminatory regulatory practices; a lack of access to markets, finance, and business information; a lack of business space (at a reasonable rent); a limited capacity to develop managerial expertise and skills; a lack of access to the right technology; and a lack of access to high-quality business infrastructure.

According to research by (Bataa, M. et al.,2008). SMEs typically face greater credit constraints than other economic sectors due to the following factors: financial sector policy distortions; (ii) bank ignorance; (iii) information asymmetries, such as the absence of audited financial statements; and (iv) high risks associated with lending to SMEs. Here are in-depth descriptions of each of those factors.

2.2. Review of Empirical Literature

Several related investigations have been carried out by various researchers in various nations at distinct periods are reviewed below. According to the World Bank (2009), access only refers to the presence of financial services and is defined as the availability of those services at a "reasonable cost" (where "reasonable" is determined by an objective criterion and "cost" includes all financial and non-financial expenditures). The actual use of financial services is referred to as use. In a typical demand supply paradigm, access denotes the availability of supply (at a "reasonable cost"), and utilization denotes the point at which supply and demand really meet. Due to their own limitations—a usage-related issue—or the formal financial system's inability to appropriately meet their needs—an access-related issue—firms and households may not be obtaining financial services.

There are many obstacles According to a study by Jane Anne Wangui et al. (2014). The main obstacles preventing micro and small businesses in Nairobi City, Kenya, from accessing credit facilities are the high cost of repayment, stringent collateral requirements, the unwillingness of people to serve as guarantors, the high processing fees of credit facilities, and the short repayment period. Collateral may play a disciplinary role in the behavior of the borrower. Ayyagari, et al. (2011) Consequently, because of these it is collateral demanded by sources of finance.andHanedar et .al (2014). Stated SMEs are thought to be risky investments As a result, lenders are more likely to impose stricter loan terms, such as greater collateral requirements, for these potentially hazardous SMEs.

(Jakimova et al., 2019) also showed obstacles In the North Macedonia Enterprise Survey, of the enterprises that were interviewed listed access to capital as their main (principal) business constraint. However, the size of the companies varies significantly. For small businesses and 19.2% of micro-sized businesses, access to capital is the biggest barrier. This is somewhat comparable to how businesses responded in the Europe and Central Asia (ECA) region, but it is still well below the global average. However, compared to the ECA area and the global average, only 3% of North Macedonia's large enterprises said that access to capital is a serious barrier. Despite the fact that access to capital may not seem to be a major barrier for entrepreneurs, these results imply that the access to financing is more severely restricted for small and micro-sized businesses in North Macedonia than for large businesses.

In a similar spirit, OECD (2019) stated that lengthy and difficult loan application processes in North Macedonia restrict MSMEs' access to financing. The lengthy approval process for the loan may be a sign of poorer banks' efficiency in the credit process or lengthy, challenging procedures.

In a related note (OECD, 2020). also showed a lack of collateral and high interest are the main obstacles preventing businesses from obtaining bank financing while simultaneously facilitating informal financing (from family and friends). According to Macedonian enterprises, some of the major barriers to accessing financing are that banks require too much information before approving a loan, The procedures are excessively lengthy and the lending procedure is too lengthy.

According to (Ghosh, 2016). The majority of small and micro-sized firms (SMEs) experience inadequate access to funding due to the current rapid expansion of many market-driven economies, which limits their ability to achieve competitive development. The literature on entrepreneurship claims that SMEs promote economic growth in both rich and developing nations, for instance, by stimulating innovation and creativity and significantly boosting GDPs when they have access to financing. Regrettably, the majority of SMEs in developing nations still struggle to obtain bank financing, which limits their ability to expand and the high interest rate additionally is another barrier. Govori, A. (2013). SMEs frequently encounter obstacles related to expensive administrative costs, stringent collateral requirements, and banks' unwillingness to lend to them.

(ECB, 2017). showed that obstacles to debt financing the interest rate spread in North Macedonia has been shrinking, which is partially due to greater competition within the industry. Nevertheless, a number of international research and comparisons demonstrate that interest rates in North Macedonia are generally high or are thought to be high by businesses. A recent analysis by the ECB (2017) reveals that a main credit limitation for about 75% of the enterprises in the Western Balkan region is high interest rates. Particularly in North Macedonia, 58.2 percent of businesses who did not seek for a loan stated that unfavorable interest rates were their key deterrent.

Elvy Maria Manurung, (2019). The goal of this study was to find a solution to several issues that small and micro-sized businesses have while trying to get bank financing. There has been a lot of research on this subject in Asia, particularly in Indonesia, but little of it has focused on how banks evaluate credit according to their speculation .This study revealed The following criteria(requirements) are fulfilled: Make a monthly report on business sales, company purchases, and business costs. Market segmentation (excellent business prospects) and good character with effective business management are the only forms of "collateral" business required. a fresh approach to credit evaluation in numerous rural banks. Elvy Maria Manurung, (2019).finding support ECB findings Elvy stated Higher interest rates make it more expensive for people to borrow money.

According to Urak et al. (2013), there are three factors that are linked to large non-performing loans: low economic growth, inflation, and interest rates. and these are areas to focus on and his findings support the outcome of this paper.

And Hezron and Hilario (2016) also found that there is a correlation between the structure of the financial sector and SMEs' access to financing, as well as a linkage between SMEs' awareness of funding, adherence to collateral requirements and access to external finance will include hidden cost interest, and access to financing in general. They also found a correlation between SMEs' access to financing and their access to small business support. which supports Urak et al. (2013), that collateral is an obstacle for non performing loans.

A study was done (Kiplimo et al., 2015) to determine how smallholder farmers in Kenya's Western (Bungoma and Siaya counties) and Eastern (Embu, Meru, and TharakaNithi counties) areas obtain loans. The factors influencing credit access were identified using the logistic regression model. The measure of access to credit was the actual receipt of credit or financial services from any particular source. The results demonstrated that education level (literacy in years) had a considerable favorable impact on credit availability. This worked out well (Hussein, 2007).this statement supports that education level of managers have a great impact on success of SMEs

Andoh and Nunoo (2014) also investigated the importance of financial literacy in four districts of Ghana's Greater Accra Region. Measurements of financial literacy included understanding of interest rates, inflation, savings, and insurance, as well as owner characteristics including educational attainment, age, and sex of the business owner. Utilization of financial services was gauged as a proxy for credit availability. Researchers discovered a strong correlation between financial literacy of business owners and their company's use of financial services for microcredit.

MSEs have a tough time getting credit since their greater risk profile is thought to be a barrier. MSEs are viewed as riskier businesses by lending institutions for a variety of reasons, such as an unstable business climate, insufficient accounting systems, an unpredictable operating environment in developing and emerging markets, improperly registered assets, late payments for goods and services rendered, and a lack of human and financial resources to withstand economic resources (Van Aardt&Fatoki, 2012)

Access to financing may also be hampered by the need for collateral. High collateral requirements in North Macedonia are functioning as a barrier for access to financing, according to a number of comparative studies that are currently accessible (EIB, 2016) According to the Enterprise study, 76% of loans to Macedonian businesses need collateral. This percentage rises with the size of the company (and likely the quantity of the loan required) and is now 72% for small businesses, 83% for micro-sized businesses, and 87% for large businesses. For both small and micro-sized businesses, the collateral needed for a loan is roughly 172% of the loan amount. Similar to what is required for the ECA region, these collateral requirements and the globe However, compared to the ECA area and the global average, large enterprises (241 of the loan) have substantially higher collateral requirements. High collateral requirements may be linked to corruption and a lack of a strong legal system, as was argued in section IV.3, which would have a detrimental impact on the financing options available to businesses.

Matavire et al.'s (2013) study supports (EIB, 2016) statement on the difficulties SMEs have in obtaining financing from financial institutions: The case of Belaway, Zimbabwe, SMEs are unable to receive loans due to the financial institutions' stringent requirements, the most important of which is collateral security. One of their suggestions is for the government to fulfill its obligation to help SMEs get financing from financial institutions.

Brehanu and Mesfin (2015) study also in Dilla Town's micro and small businesses lack the funding to launch and maintain their projects. Because MSEs are unable to meet standards such as business plans, governance structures, collateral and other accountability issues that are related to business risk management, conventional financial institutions have been unable to provide the credit demands of MSEs.

And Eshetu and Mammo (2009, 15) argue that "commercial banks are reluctant to lend small amounts of money to small businesses because the cost of administering the loan exceeds the value accrued to them." This is cited in Hagos, YaredHaftay (2012). This demonstrates that banks are not motivated to create a novel and methodical strategy that reduces risk and overhead to serve the industry.

In contrast, a study by Selamawit et al. (2014) found that personal savings are a substantial source of startup funding as well as working capital. On the other hand, family and friends, followed by microfinance and "Equb," are the top sources of loans for startups. The impact on MSEs' access to credit from formal financial institutions of the Assessment of Access to Finance and Its Availability for SMEs in Addis Ababa..

Due to the nature of their firms, many SMEs experience severe competitive disadvantages when attempting to get the financial data required to obtain enough bank credit. SMEs need proper information to identify possible providers of loan funds, despite the fact that the type of SMEs and their capacity do influence the restrictions they encounter regarding access to the needed funds (Osanon&Languitone, 2016).

Lack of collateral was one of the targets of Makena et al.'s (2014) study on the difficulties faced by female entrepreneurs in Kenya while obtaining business financing: Case of Ruiru Township, Kiambu County. The survey did find that a bigger barrier to women entrepreneurs' access to loans was a lack of collateral. This is because there aren't as many physical assets, like land, to use as collateral for loans. One of their suggestions is for the government to fulfill its obligation to help SMEs get financing from financial institutions.

According to Fetene's (2010) research, Ethiopian small enterprises fall behind every other industry. Their growth is sluggish, and their product's marketability is constrained by factors including product quality, competition, a lack of a market (an absence of a market for their product), limited access to inputs with high input costs, and restricted access to and usage of finance.

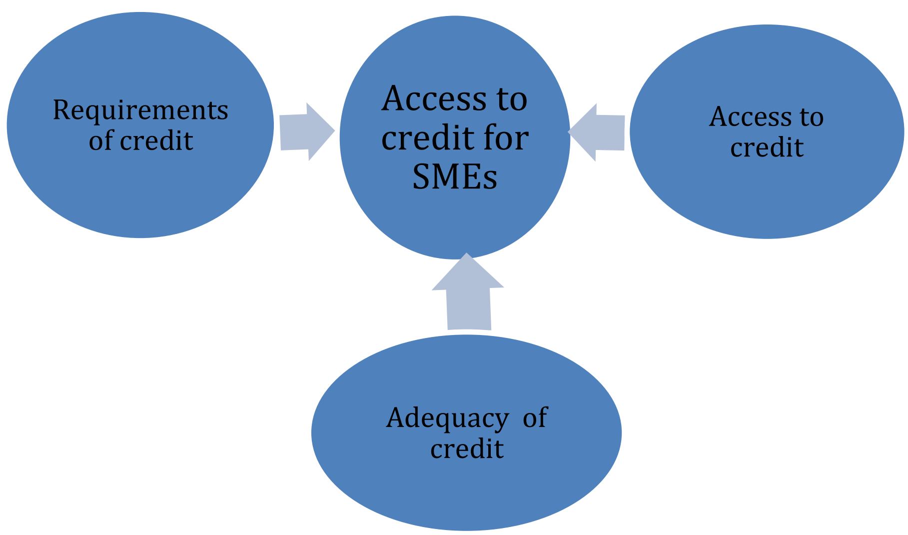
2.2.1 Literature Gap

Numerous academic works have been produced over the years that make the assumption that there is a connection between the structure of financial use, the likelihood of credit repayment, and the creditworthiness of SMEs in many credit-restricted nations. Since there are numerous sources of funding and research has not been done for the majority of them, the majority of these studies only focus on banks as a source of funding, which will have a limited impact because they do not adequately depict the availability and sufficiency of credit financing for SMEs.

2.3. Conceptual Framework of the Study

conceptual framework demonstrates how the Study's are related to one another (Mugenda& Mugenda,2003).it is to assess the practice of access to credit for SMEs and the challenges that are present on access to credit the main objective of the research is to assess accessibility of finance to SMEs to do this the first thing we must know is what are the available source of finance then we find what are their requirements of credit to get granted then we will see is the credit adequate enough for the SMEs then to know what are the challenges for access to credit for SMEs.

Challenges to access to credit



This figure shows the objectives which are used to show the environment of access to credit for SMEs

CHAPTER THREE: RESEARCH METHODOLOGY OF THE STUDY

As cited by Jeremiah, and Sadock,(2021). According to Kothari (2004), research technique is described as "the systematic approach to solving the research problems." The study questions the researcher addresses are described in detail in this chapter, as well as how the researcher interprets the findings in light of the main issue. The presentation of the research design, targeted population, sample and sampling techniques, data collection methods, data analysis and interpretation, reliability and validity of the research instrument and ethical issues is the main objective of this chapter.

3.1 Research Approach

Descriptive and inferential statistics are used in this research to examine the Access to credit finance in Addis Ababa Arada sub city with respect to Small and Micro Scale Enterprises (SMEs) in Addis Ababa. The researcher used both a quantitative and a qualitative (Mixed) research approach to achieve the study's goals and respond to the research questions. To gather data that could not be obtained by employing a single method, a hybrid approach is justified (Creswell, 2003). Because the research questions are both qualitative and quantitative, the foundation of this technique helps to balance out the drawbacks of using a single approach.

3.2. Research Design

The study followed Explanatory descriptive research design. The data were gathered from the same individuals or similar target audiences because the overall goal of this strategy is to better grasp or get a more in-depth understanding of the phenomenon under research. The primary aim of the research was to find the accessibility of credit finance to SMEs and descriptive research design was used to show the connection between the objectives set and the questionnaire outcome and interview were .

3.3. Population and Sampling

sample were taken from the population of SMEs 552 by using formula n = N/1 + N (e) 2

there were 375 micro and 177 small enterprises in Arada sub city the sample of 232 was selected from these sectors n = N/1 + N (e) 2 Where n is the sample size, N is the population size, and e is the sampling error = (0.05) n=N/(1+552*0.05^2)=**232**n=232 micro 552=232

375=x

375*232=x552

87,000/552=x 552/552

x=158 small 552=232

177=x x=74

158+74=232

from 552 sample size of 232 were be randomly selected by using the above formula this table was calculated

Table 2 sampling based on woreda

Wereda	Micro	small
1	x=6	x=6
2	x=41	x=24
3	x=23	x=2
4	x=17	x=5
5	x=24	x=15
6	x=35	x=18
7	x=6	x=3
8	x=6	x=2
total	x=158	x=74

3.4 Data Collection Tools

For analytical objectives, both primary and secondary data were gathered for this study. Data was gathered using a

Questionnaire:- In this study, a structured questionnaire in the form of a Likert scale was utilized to gather the necessary information from the sample respondents regarding the practices and challenges SMEs face in obtaining financing. Such a data gathering tool was created to collect vast amounts of data without putting respondents under undue pressure (Creswell, 2003).

Interview:- is a flexible method of knowledge acquisition. In order to understand the motivations behind people's actions, human language is extremely helpful (Zikgmund, 1994). Interviews enable one-on-one communication that may boost insights into respondents' attitudes, feelings, and behavior about significant concerns of credit access. The interview's versatility in conveying various points of view on the topic at hand is another benefit that can be obtained from it. As a result, during working hours, key informants (SMEs managers and owners) were thoroughly questioned utilizing unstructured questions. Due to their proximity to the topics at hand, the participants were chosen via a judging process.

3.5 Reliability and validity

Examining a study’s validity external validity determines whether its findings may be applied to different situations. Studies are based on samples, and if the sampling was random, the sample is representative of the population, allowing valid generalization of the study's findings to that group. (Lewkowicz, 2001). In this study, random sampling was used and the study was under close supervision of my adviser and validity was checked by the manager/ owners of the SMEs and my advisor.

The following table 5 describes the reliability statistics that are gained for the four Dimensions that are parts of the objectives

Table 3 reliability statistics of all Cranach’s Alpha result

Construct	Cronbach's Alpha	N of Items
requirements for credit	.783	5
accessibility of credit	.808	5
adequacy of credit	.803	5
challenges for access to credit	.753	5
for the entire	.929	20

Source: own survey (2023) SPSS output

Cronbach's alpha is a commonly used method for evaluating the internal dependability of the research instrument, according to (Bonett and Wright, 2015). Since the Cronbach's alpha values for this study were greater than 0.7, and varies from 7.53 up to .808 as defined by Andy (2006), the study is reliable. and for the entire cronbach’s alpha result was high .929 which shows good reliability of questionnaire

3.6 Methods of data analysis

After data collection was complete, data processing was carried out by removing inaccurate, inconsistent, incomplete, and illegible portions of the raw data to facilitate analysis. Manual editing, coding, data entering, and consistency checking were carried out to address these issues. Both quantitative and qualitative methodologies were used to analyze the data. Using the computer program SPSS version 20, the survey data were examined using quantitative descriptive statistical methods such percentages and frequencies, means, and standard deviations. Analysis of the sentence-level data from the interviews was qualitative. The results were finally examined and interpreted in order to derive significant conclusions, suggestions, and implications.

3.7 Ethical consideration

Normative ethical principles were applied. Voluntary involvements, informed consent, anonymity, confidentiality, risk of harm, were considered results of communication are some of these guiding concepts. And the research's findings are presented accurately without any alteration. And the researcher has cited all the information gathered from all the sources fully.

CHAPTER FOUR: ANALYSIS AND INTERPRETATION

In this chapter the data that was obtained throughout the course of the study is analyzed and explained and the final paragraph then provides a summary.

4.1. Response Rate

Table 4 Response Rate

questionnaires	frequency	percentage
Returned complete	200	86.2%
Incomplete data returned	10	4.3%
Not returned	22	9.4%
total	232	100%

The objective of this study was to find the practice and challenges of access to credit and to achieve These objectives 232 respondents were selected as part of the survey analysis. For proper illustration, appropriate frequency Tables were incorporated. 232 questionnaires were given to owners, shareholders, and employees/managers of SMEs; according to the data gathered, 200 of those were completed and returned, representing response rates of 86.2% and 100%, respectively. This supports (Bailey's ,2000). Claim that a response rate of at least 50% is sufficient. A total of 232 respondents received the survey tool, and 210 completed questions were gathered. 10 of the questionnaires that were gathered were discarded because they were either insufficient or inappropriate for use in this study. The data was analyzed using SPSS 20

4.2 demographic characteristics of respondents

Table 5 Gender of respondents

Demographic characteristics	alternatives	frequency	percent
Gender	Male	135	67.5%
	Female	65	32.5%
	Total	200	100%

Source: own survey (2023) SPSS output

The following truths can be inferred from the Table: 7 above. 135 (67.5) of the respondents were male, making up the vast majority, and 65 (32.5) were female.This indicates that male employees predominated in the SMEs sector and that female involvement was low in comparison to male participation. According to Watson, J. (2001). Firms run by women had much lower profitability and overall income (sales plus additional income) than businesses handled by men.

From this statement one can state that male SMEs owners are preferred and successful than female SMEs

Table 6 occupation of respondents

occupation	employee	32	16%
	manager	12	6%
	owner	140	70%
	share holder	16	8%

Source: own survey (2023) SPSS output

Table: 8's explanation explains 70% of the responses were from SMEs' owners, who made up the majority of the N Respondents. Consequently, the outcome is more accurate. because the owners have a deeper understanding of the SME. Employees made up 16% of respondents. From these we can conclude SMEs employees have a good knowledge about the SMEs, whose response is more than managers. Managers also have a great understanding of SMEs who had 6% responses and came in last, while shareholders made up 8% of respondents, they had more capacity for responses than managers.

Table 7 Main Activity of Respondents

main activity of the SME	textile	54	27%
	wood work	49	24.5%
	metal and wood work	20	10%
	leather	32	16%
	jewelry	7	3.5%
	agro	27	13.5%
	chemical production	7	3.5%
	animal product	4	2%

Source: own survey (2023) SPSS output

Table 9 shows the rationale. The primary activity of the SMEs respondents 27% of the population works in the textile industry. From this one can conclude that the textile industry is more preferred for SMEs, which employ more people than other SMEs sectors. With 24.5% of the workforce employed in woodworking it is the second-largest industry sector for SMEs and is chosen by many entrepreneurs. 13.5% of SMEs who responded to the survey work in agro which makes it the third preferred sector for SMEs investment , with leather and chemical manufacture holding the fifth and sixth spots in terms of response percentage, and 10% of respondents. Work in the metal and wood industry ranks fourth with 6% fewer replies than the leather industry. With a 2% response rate, animal products received the smallest responses.

Table 8 Capital of Respondents

SMEs capital	less than 500.000	148	74%
	500,000 to 1 million	30	15%
	1,000,001-5000.000	22	11%

Source: own survey (2023) SPSS output

Explanation: Table 10 shows that 74% of SMEs have capital under $500,000, which means that they don't need a lot of money to get started. This makes them more effective and less expensive Investments for new business owners. Table 10 also shows that 15% of SMEs have capital between $500,000 and $1,000,000, which puts them in second place, and 11% have capital between $1,000,001 and $500,000, which demonstrates that SMEs can increase their capital to Millions.

4.3. Analysis and Interpretation

4.3.1 Requirements for credit for SMEs

The goal of the study was to determine small and micro sized businesses' practice and challenge to access and availability and adequacy of credit of financing in the Addis Ababa ARADA sub-city. A five point Likert scale was used to assess the degree to which perceptions of constructs ranging from strongly disagree (1), disagree (2), neutral (3), agree (4), and strongly agree (5) to show access to finance and its availability. Table provides the key for interpreting the means recorded. The following ranges of values were reallocated to each scale in order to facilitate the interpretation of Mean value: Strongly disagree:1- 1.8, Disagree: 1.81–2.6, Neutral: 2.61–3.4, Agree: 3.4–4.20, and Strongly Agree: 4.21–5. as referenced in Yonas (2013). Statistical procedures were carried out using SPSS version 20 software to analyze the acquired data in accordance with the general goal of the research undertaking. While responses collected through questionnaires were combined with the findings of the interview question.

Table 9 Requirement for Accessing credit

Statement	Respondents	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	SD
Physical working Place is not a requirement for accessing credit.	#	2	18	36	97	47	3.85	0.919
	(%)	1.0	9.0	18.0	48.5	23.5		
Long term plan is required to access to credit	#	7	9	42	107	35	3.77	0.912
	(%)	3.5	4.5	21.0	53.5	17.5		
Physical asset is requirement for collateral guarantee	#	5	8	58	76	53	3.82	0.955
	(%)	2.5	4.0	29.0	38.0	26.5		
Time of payback affect access to credit	#	5	6	53	96	40	3.85	0.941
	(%)	2.5	3.0	26.5	48.0	20		
SMEs must have a tax identity number to get credit.	#	4	11	49	84	52	3.8	0.88
	(%)	2.0	5.5	24.5	42.0	26.0		
average of							3.818	0.9214

Source: own survey (2023) SPSS output

Measuring the requirements for access to credit towards the concept of access to to credit based on Questionnaire provided to them which comprise: physical asset requirement , time of pay back , Physical working place , Tax identity number with are crucial to understand the requirement for Credit and mean and standard deviation were used to analyze results for all sub-contract stated in The above Table 11.

The third construct, which has a mean value of 3.82 and a standard deviation of 0.955, indicates that tangible assets are necessary as collateral for receiving credit financing. This low deviation reflects the respondents' relatively comparable views. This implies that collateral must meet certain physical specifications, therefore a government employee's ID could be used as collateral to obtain financing by pledging their monthly wage.One can infer from this description that the respondents were aware of and had a solid comprehension of the conditions for credit access and collateral.The study findings of Gassiah, N., &Kikula, J. (2022) imply that the costs incurred by SMEs to guarantee the loan make it very difficult for SMEs to obtain bank loans and the high collateral demand from their financial sources and according to (OECD, 2022), level of knowledge about collateral requirements adds to the SMEs challenges of access to loan . Therefore, understanding the requirements for credit will enable SMEs to choose from a wider range of financial sources.

The Table 11 above shows the requirements for credit concepts. The score Mean value 3.85 According to 70% of respondents agree, shows a physical workplace is not necessary to get loans. And as the respondents stated in the interview they only need collateral to access credit. As the statement agrees with the findings of this research (Hainz, 2003; Menkhoff et al., 2006) they stated Collateral pledges are frequently an effective way to facilitate lending access. Because of the often opaque information and lax enforcement in developing nations' financial environments collateral requirements are stricter there.

As it is also evidenced in the Table 11 above, the scored mean value of the second subconstruct, Long term being requirement for access to credit, the view point was 3.77 indicating the Respondents agree with the case described with standard deviation of .912 low deviation of

Response. The result of these analyses provided that respondents are aware of long term plan requirements.

Table 11 above , displays the score Mean value of fourth construct i.e The respondents' ratings were generally consistent, with a standard deviation of 3.85, indicating a high degree of response homogeneity. The respondents had a solid understanding of the notion of time to pay back, according to the sub-construct's score Mean value. A large percentage of SMEs link the timing of repayment to the purpose of borrowing money.According to Rui Zhao and Xiaoyan Zhang (2019), the strength of SMEs is constrained, and their development will undoubtedly be constrained by their own conditions, such as the length of the payback term, which will affect SMEs' access to finance. One can associate with these leads. SMEs respondents are aware of time of payback and they prefer longer time of payback according to their interview statement.

Table 11 above shows Regarding the fifth construct, respondents' responses demonstrate strong agreement that SMEs Must obtain a tax ID number in order to receive loans, with a mean score of 3.8 and a standard Deviation of 0.88. The score mean value of the responses reveals that SMEs respondents are Well-versed in the subject matter needed for financing access.

Summary of respondents Awareness of requirements for access to credit

Given that the average mean value presented in Table 11 of all contracts resulted in a value of 3.818 and the standard deviation average Is.9214, it is clear that respondents are in agreement and that there is a high degree of response Homogeneity. It suggests that SMEs have an in-depth knowledge of the criteria for obtaining loans And financing.

4.3.2 Access to Credit

Table 10Accessibilityof credit

statement	respondents	strongly disagree	disagree	neutral	agree	strongly agree	mean	SD
Time of payback affect access to credit	#	2	12	40	82	64	3.97	0.924
	(%)	1.0	6.0	20.0	41.0	32.0		
The Ability to Access credit finance any time encourages to access credit	#	4	9	27	97	63	4.03	0.902
	(%)	2.0	4.5	13.5	48.5	31.5		
Frequently having access to credit encourages demand.	#	2	11	18	89	80	4.17	0.88
	(%)	1.0	5.5	9.0	44.5	40.0		
Accessing requested amount is convenient for SMEs	#	3	9	31	80	77	4.1	0.922

	(%)	1.5	4.5	15.5	40.0	38.5		
High interest rates discourage demand for accessing credit.	#	4	12	7.4	39.5	38.6	4.15	0.9 46
	(%)	2.0	6.0	8.0	42.5	41.5		
average of							4.08 4	0.9 148

Source: own survey (2023) SPSS output

In accordance with table 12 accessibility of credit the first sub-construct i.e. about Time of payback affecting access to credit responses scored mean value of 3.97, indicating that the respondents‟ agreed in their agreement response showing that they feel all right with the case described. The standard deviation of this sub-construct was 0.924 this implies that the relative homogeneity of the respondents on their responses. From this result one can infer that the time of payback time is a major concern for SMEs

The Table 12 above also reveals that, the second sub-construct i.e. The Ability to Access credit finance any time encourages access credit the scored mean value of the respondents to was 4.03 signifying that “strongly agree.” This shows that the respondents were satisfied with the case described and the standard deviation of the sub-construct was 0.902 which is relatively low being evidence for the relative homogeneity of the responses. Within accessing credit any time context, are the demands for SMEs determine level of optimal performance and standards for excellence.

Table 12 above, displays the score Mean value of third construct 4.17 i.e The respondents' ratings were generally consistent, with a standard deviation of 0.88, indicating a high degree of response homogeneity. The respondents had a solid understanding of the notion of frequently having access to credit encourages demand, according to the sub-construct's score Mean value. A large percentage of SMEs linked demand credit finance with frequent availability of finance.

The fourth construct's mean value is 4.1, or with a standard deviation of 0.922, the respondents' ratings were largely constant, demonstrating a high level of response homogeneity. According to the sub-construct's score Mean value, the respondents well understood the idea that accessing requested amounts is convenient for SMEs. Due to their low capital requirements, a significant portion of SMEs find it easy to get the needed amount. The findings of Altman et al. (2005) support this finding: the study conducted in New Basel Capital Accord results on bank capital requirements for small and medium-sized businesses (SMEs). They discovered that when banks regard small and medium sized businesses as retail clients, they will experience significant benefits, including lower capital requirements. From these results one can conclude accessing requested amounts is convenient for SMEs because they don't require high capital finance.

The fifth construct’s Demonstrates the outcome shown in Table 12. High interest rates reduce consumer demand for Credit. The statement, as indicated by Mean 4.15, is highly agreed upon by the respondents. Demonstrating a high level of response homogeneity of standard deviation .0946

Summary of respondents Awareness of accessibility of credit

Given that the standard deviation average is.9148 and the average mean value of all contracts, as shown in Table 12, is 4.084, it is obvious those respondents are in agreement and that there is a high degree of response homogeneity. It implies that SMEs are well-versed in the availability of credit financing. This indicates that having easy access to credit increases one's propensity to take out additional debt. If that occurs, SMEs will have no trouble getting the desired amounts since they don't need a lot of funding. Getting the requested cash is easy for SMEs. They don't require a lot of cash.

4.3.3 Adequacy of credit

Table 11 Adequacy of credit

Statement	Respondents	Strongly disagree	Disagree	Neutral	agree	Strongly agree	Mean	SD
It is not easy to access adequate finance frequently.	#	7	35	59	81	18	3.34	0.985
	(%)	3.5	17.5	29.5	40.5	9.0		
Adequate finance improves access to credit.	#	6	10	15	92	77	4.12	0.959
	(%)	3.0	5.0	7.5	46.0	38.5		
Getting adequate finance on time leads to function better.	#	3	13	7	89	88	4.23	0.906
	(%)	1.5	6.5	3.5	44.5	44.0		
Less bureaucracy and steps encourage to get adequate demand for credit.	#	4	9	28	101	58	4	0.891
	(%)	2.0	4.5	14.0	50.5	29.0		

Appropriate payback period leads to performing loan.	#	1	12	22	81	84	4.18	0.8 88
	(%)	.5	6.5	11.0	40.5	42.0		
average of							3.97 4	0.9 258

Source: own survey (2023) SPSS output

Measuring the requirements for access to credit towards the concept of access to to credit based on Questionnaire provided to them which comprise: adequacy of Credit and mean and standard deviation were used to analyze results for all sub-contract stated in The above Table 11.

According to responses to accessing regular, adequate financing being difficult. The level of agreement of response shown by Mean of 3.34 and standard deviation of 0.985 and as of agreed response stated Credit availability is improved by adequate funding. As of the statement 88.5% response Functioning better is a result of receiving appropriate funding on schedule. The ability to obtain sufficient credit demand is encouraged by less bureaucracy and few steps. With this statement majority of the respondents agree and the response shows low deviation of response with 0.891 standard deviation these shows there is high homogeneity of response and 4.18 Mean. And 40.5% agree and 42.0% strongly agree that the right payback time results in a loan that is performing.

(Audretsch 2002). For new businesses to be formed, for investments to be made, and for organizations to reach their full growth potential, financing for SMEs is essential. Lack of capital may restrict cash flow and affect a business' survival chances. That is the reason Adequate funding is required for a better and more hopeful future. Out of 200 Respondents, 169 of them agreed or strongly agreed with the following statement: "Adequate finance improves access to credit." This demonstrates that 84.5% of respondents concur that there is a need for adequate financing in the Arada sub-city, supporting the findings of (Audretsch 2002). According to 177 respondents, receiving appropriate funding on schedule makes it easier to function. The fact that 88 of them strongly agree and 89 of them agree indicates that more than 88.5% of them agree, with a Mean of 3.34 which suggests that acquiring sufficient cash only is not enough; it also needs to be available frequently and on the Time its Needed and standard deviation of .0985 meaning their is low deviation of response and high homogeneity of agreement between responses.

Out of 200 responders, 159 said they agreed, which is the majority of the total. 79.5% of Respondents want speedy service, as indicated by the Mean of 4.0 short procedures urged to Achieve appropriate demand for credit. The standard deviation result of 0.981 indicates low Answer variance and excellent agreement homogeneity between responses.

And out of 165 responses, the majority (Mean of 4.18, total percentile of 82.5%) concur, Demonstrating that a suitable payback length encourages performing loans. According to Table's Findings, getting credit that's adequate is the demand of SMEs. Responses from the respondents Reveal a slight variation of 0.888 and high homogeneity of response.

4.3.4 Challenges of Credit

Table 12 Challenges of Credit

statement	respondents	strongly disagree	disagree	neutral	agree	strongly agree	mean	SD
Bureaucracy is a big challenge for access to credit	#	4	11	39	79	67	3.97	0.966
	(%)	2.0	5.5	19.5	39.5	33.5		
Fear of not being able to pay back a challenge for Access to credit.	#	1	14	52	79	54	3.86	0.916
	(%)	.5	7.0	26.0	39.5	27.0		
short payback time is reason for non performing loan	#	3	12	50	80	55	3.86	0.941
	(%)	1.5	6.0	25.0	40.0	27.5		
higher interest rate is challenge for paying back loan	#	6	13	36	80	65	3.93	.917
	(%)	3.0	6.5	18.0	40.0	32.5		
Lack of transparency of loan conditions is a challenge for access to credit	#	4	16	62	81	37	3.66	0.938
	(%)	2.0	8.0	31.0	40.5	18.5		

average of							3.856	0.9556

Source: 0wn survey (2023) SPSS output put

Measuring the challenges towards the concept of access to credit based on Questionnaire provided to them which comprise: five constructs and mean and standard deviation were used to analyze results for all sub-contracts stated in The above Table 14.

73% of respondents said the presence of bureaucracy is a significant obstacle and has a detrimental impact on the availability of financing. 33.5 highly agree, and 39.5 agree. According to 133 respondents, Fear of not being able to pay back the loan is a barrier to obtaining credit. 145 respondents concur. It is challenging to repay debts with higher interest rates. 135 participants concur. A loan fails if the payback period is too short. 118 respondents concur that the loan terms' obscurity hinders access to financing.

According to the World Bank (2009), "access" primarily refers to the availability of financial services, and it is defined as those services being provided at a "reasonable cost" (where "cost" includes both financial and non-financial expenses and "reasonable" is determined by an objective standard). As reported by the participants, higher interest rates make it difficult to repay loans. more than 70 % of the respondents agree with a Mean of 3.93 and standard deviation of .917 with low deviation and which shows there is high homogeneity of response about that higher interest rate is a challenge For SMEs out of 70 % 65 of them strongly agree and 80 of them agree that higher interest rate is a huge challenge on related research (ECB, 2017) demonstrated that there are challenges with debt financing because of with regard to the high interest rate

(2019) Elvy Maria Manurung.finding support ECB conclusions Elvy remarked Borrowing money becomes more expensive when interest rates rise. which will lead to Fear of not being able to pay back a challenge for Access to credit on this statement 66.5 % of respondents agree with the result of Mean 3.86 and standard deviation of .916 with low deviation and which shows there is high homogeneity of response .

and as the findings of Abid et al. (2014), show that the collateral amount for SMEs are more than they should be these theses findings supports this argument higher interest rate is challenge for paying back loan the environment of SMEs Lack of transparency of loan conditions is a challenge for access to credit not only high interest rate but also short payback time is reason for non performing loan more than 65% of respondents agree on these point. According to Urak et al. (2013), there are three factors that are linked to large non-performing loans: low economic growth, inflation, and interest rates. And these are areas to focus on and his findings support the outcome of this paper.

Summary of respondents Awareness of accessibility of credit

Given that Table 14s average mean value for all contracts is 3.856 and the standard deviation average is.9556, it is clear that respondents are in agreement and that there is a high degree of response homogeneity. It suggests that SMEs are well aware of the difficulties in obtaining credit finance. This shows that SMEs may change these circumstances since they are conscious of their surroundings.

4.4 Interview Results

As for the statement of respondents that the requirement for collateral is affecting or limiting their source of finance, they also stated they don't have adequate finance because most family and friends worry they won't be able to pay back or they won't have enough for the loan granting and physical working place. For the majority of SMEs, their own finance and family and friends are the major sources of finance because they don't demand collateral or high interest.

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

The conclusion and recommendations are presented in this section. The study's key findings are outlined in this chapter, along with conclusions, recommendations, and ideas for additional research.

5.1 SUMMARY OF MAJOR FINDINGS

The purpose of this study was to examine access to credit for SMEs: the requirement for credit, credit accessibility, credit adequacy, and barriers to credit dimensions were tested .Based on the objectives and presumptions of the study, questionnaires (survey instruments) were selected and designed from the body of existing literature to measure the research variables. Out of a total of 232 circulated questionnaires, 200 valid ones were gathered and used for the study. A statistical package for social science (SPSS) was used to analyze the data. Descriptive analyses were used to test the Dimensions. Instrument validity and reliability were evaluated. The results showed that all of the measures used in this study had accuracy and are reliable.

Regarding the demographics of the respondents, the majority of respondents are male small business owners. According to the responses, the biggest investment sectors for SMEs are textile and wood work, and the majority of SMEs have capital under $500,000. This indicates that they don't require a lot of capital to operate.

When we look at the average response to the objectives, the respondents concur that the dimensions of credit requirements, credit accessibility, credit adequacy, and credit access problems effectively depict the availability and accessibility of credit finance for small and micro firms.

5.2 CONCLUSION

To analyze current practices and obstacles to SMEs' access to funding, ADDIS ABABA ARADA sub-city 9 woredas was selected as the study's target area. This section will come to a conclusion by considering the literature as well as the data from the surveys and interviews.

According to the study's findings, all of the objectives—including those related to credit requirements, credit availability, credit adequacy, and access challenges—are significant to show the environment of credit availability. The survey's findings demonstrate the importance of convenience, completeness, security, privacy, and dependability of the result in determining if credit is available and available in an adequate amount to meet requirements. And the dimensions used to measure the accessibility of credit need to include these four Dimensions for getting adequate credit.

As the literature review shows Physical working Place is not a requirement for accessing credit; they only need collateral. and for SMEs Physical asset is requirement for collateral guarantee long-term plan, which is a requirement time of payback affects access to credit

The capacity to obtain credit funding at any time promotes SMEs to access credit, and the more frequently having access to credit is available, the more demand is stimulated. Ample funding makes it easier for SMEs to access credit because they don't require a lot of funding. Receiving the right financing on time leads to improved performance. People are more prone to seek credit when they need it when there is less bureaucracy and paperwork.

According to the literature, a barrier to obtaining credit is fear of not being able to pay it back. A debt that has a short payback period becomes non-performing and The intricacy of loan terms makes it harder to borrow money and makes it difficult to repay loans with higher interest rates.

5.3. RECOMMENDATIONS

The researcher has supplied the following remedies, which are suggested by those who find them to be helpful, based on the aforementioned issues and analysis done using primary and secondary data that was gathered.

- Women's Involvement: To address the issues associated with women's low participation in MSEs, the MSEDA, WEA, and other relevant institutions should offer training and advisory services to women to improve their involvement in micro and small enterprise activities to reduce women's unemployment.
- Financial sources for SMEs should, like banks and microfinance, create a separate branch whose main concern is providing finance for SMEs in order to satisfy customers and deal with the fear of not being able to pay back, which is a major obstacle for SMEs who require credit financing.
- Entrepreneurial Skill: MSE should designate a coordinating sector for business development system services in its office in order to implement all the aforementioned proposals. In addition, support and encouragement should be given to WEA in its efforts to increase the participation of women in micro and small businesses, provide other business information through their membership networks, and kickstart the formation of other business-oriented organizations. These services should be offered to make entrepreneurs more aware of the laws, regulations, financing options, marketing information, and training opportunities that are already in place.
- High interest rates are a major deterrent and cause of worry for SMEs seeking financing, according to empirical research, and the current finding supports this with the following implications: Having a separate sector will aid loan providers in choosing the best performing sector because the environment of SMEs will be made clear.The loan providers can extend credit regularly in order to boost demand for SMEs and a sizable number of new client bases that will increase revenue by establishing a separate sector that only provides financing for SMEs.

- For SMEs to enhance their management skills and knowledge of finances, training and capacity-building initiatives are also required. In order to provide seminars, workshops, training, and resource coordination for SMEs owners seeking technical and management training for managing a successful small business, the government and relevant organizations must make a significant effort.

- These SMEs must also forge connections with their business partners and the financial source providers so that they may share information about financial services and expand their knowledge of them. Some SMEs are not aware of the funding plans and financial schemes given by the public and private sectors, and there are not enough financing plans and financial programs to assist SMEs. The report recommends that SMEs be made aware of funding programs and financial schemes offered by the government and business sector, and that these initiatives and schemes be put into action. In order to share information regarding financial resources, these SMEs must also establish links with their business partners and the financial source suppliers.Through group conversation and the creation of a seminar that discusses SMEs' advancements, people can learn more about procedures and services.

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Appendices 1: Questionnaires

Survey Questionnaire for SMEs in English version ST.MARY'S UNIVERSITY QUESTIONNAIRE Dear Participants The name of the researcher is Kaleab Belete, who is currently an MSC student in the department of MBA. The aim of this project is to assess ACCESS

TO CREDIT FOR SMEs: PRACTICE AND CHALLENGES IN THE CASE OF ARADA SUB

CITY ADDIS ABABA ETHIOPIA. To make it easier for business owners to secure funding for their ventures, data gathered from this survey questionnaire will be utilized. The researcher does think that the study's findings will aid in offering both immediate and long-term answers to the problems that these businesses are now dealing with. The decision to participate in this survey is entirely up to you. Whether or not you have asked for funding sources, the investigator respectfully seeks your assistance in answering all of the questions honestly as you can. Your response will be kept completely confidential and anonymous. Your participation in this survey is greatly appreciated. For further information, please contact the researcher using the following address:

Tel. (mobile): +251 932505088 E-mail: beletekaleab21@gmail.com

Part I - General Information of the Respondent

About You

1. Gender: Female [ ] Male [ ]

2. Occupation: Employee/manager [ ] Owner/manager [ ] shareholder [ ]

Part I - General information on the business

3. What is the main activity of your company?

- ❖ Manufacturing ………………………………………………………. [ ]
- ❖ Wood word………………………………………………………. [ ]
- ❖ Mining…………………………………………………………………. [ ]

- ❖ Jewelry…………………………………………………. [ ]
- ❖ Construction Materials …………………………………….. [ ]
- ❖ Wholesale or retail trade………………………………….. [ ]
- ❖ Agricultural ……………………………………………………….. [ ]
- ❖ Textile ………………………………………………………………… [ ]
- ❖ Real estate …………………………………………………… [ ]
- ❖ Other services ____

4. Where does your company's capital stand right now?

Less than birr 500,000 [ ]   between 500,000 to 1,000,000 [ ]

Between 1,000,001 to 5,000,000   [ ] Between 5,000,001 to 10,000,000 [ ] Above 10,000,000 birr [ ]

Part –III accessibility and availability Perception

Please check the relevant number on the following statements to indicate your degree of agreement using the key provided below. Indicate your level of agreement by marking a number between 1 up to 5, where 1 indicates "Strongly Disagree" (SD), 2 "Disagree(D)," 3 "Neutral,(N)" 4 "Agree(A)," and 5 "Strongly Agree" (SA).

Research questionnaires	SD	D	N	A	SA
What are the Requirements for Credit for SMEs?					
1.Physical working Place is not a requirement for accessing credit.	1	2	3	4	5
2.Long term plan is required to access to credit	1	2	3	4	5
3.Physical asset is requirement for collateral guarantee	1	2	3	4	5
4.SMEs must have a tax identity number to get credit.	1	2	3	4	5
5.SMEs lenders require high collateral guarantee,	1	2	3	4	5

access to credit					
6.Time of payback affect access to credit	1	2	3	4	5
7.The Ability to Access credit finance any time encourages to access credit	1	2	3	4	5
8. Frequently having access to credit encourages demand.	1	2	3	4	5
9. Accessing requested amount is convenient for SMEs	1	2	3	4	5
10.High interest rates discourage demand for accessing credit .	1	2	3	4	5
adequacy of credit					
11. It is not easy to access adequate finance frequently.	1	2	3	4	5
12. Adequate finance improves access to credit .	1	2	3	4	5
13. Getting adequate finance on time leads to function better.	1	2	3	4	5

14. Less bureaucracy and steps encourages to get adequate demand for credit.	1	2	3	4	5
15. Appropriate payback period leads to performing loan.	1	2	3	4	5
What are the challenges of access to credit for SMEs?					
16. Bureaucracy is a big challenge for access to credit	1	2	3	4	5
17. Fear of not being able to pay back a challenge for access to credit.	1	2	3	4	5
18. short payback time is reason for non performing loan	1	2	3	4	5
19. higher interest rate is challenge for paying back loan	1	2	3	4	5
20. Lack of transparency of loan conditions is a challenge for access to credit.	1	2	3	4	5

Appendices 2: Interview Questions

Research Questions

1. What are your Major sources of finance
2. Is the requirement for credit and collateral affecting your access to finance
3. Do you have access to adequate credit finance
4. Is physical working place requirement for access to credit
5. what challenges you are facing currently