RESEARCH ARTICLE

DETERMINANTS OF FIRM'S ACCESS TO FINANCE: A STUDY IN MICRO, SMALL AND MEDIUM ENTERPRISES IN WOLAITA ZONE, SODO TOWN.

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Manuscript Info	Abstract

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the global economy. It had a major part in creating jobs and as a source of social stability, either there is major contribution for MSMEs in Ethiopia as it faces great economic challenges that need cooperation from all stakeholders. However, access to finance is still one of the greatest obstacles facing MSMEs all over the world and prevents them from developing. Thus, the purpose of the study was to investigate the factors that influence MSMEs' access to finance. The factors that were addressed included strong business plan, credit history, collateral requirements, awareness of funding opportunity, and availability and credibility of financial statements. The target population was 366 MSMEs that are operating in Wolaita Zone, Sodo Town. The research focused on a sample size of 188 MSMEs. Data obtained from research instruments was analyzed using the Statistical Package for Social Science (SPSS) version 20.0. Descriptive statistics was used to summarize the data collected from the sample respondents in a meaningful form including tabulations, figures and percentages. ANOVA and multiple linear regressions were also used in inferential part of the study. The findings of the study implied that there is significant relationship between business plan and access to finance by MSMEs; there is no significant relationship between credit history and access to finance by MSMEs; there is significant relationship between collateral requirements and access to finance by MSMEs; there is significant relationship between awareness of funding opportunity and access to finance by MSMEs; there is significant relationship between availability and credibility of financial statements and access to finance by MSMEs; The study findings are significant since they would enable the stakeholders to come up with appropriate regulation, funding programs, and schemes toward improvement of access to finance by MSMEs.

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Introduction:-
Micro, small and medium enterprises (MSMEs) are the economic backbone of virtually every economy in the world. According to World Bank Group report (2017), while some SMEs can play a critical role in creating jobs, they also perform other exceedingly important functions such as supporting innovation, helping with diversification and

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beyond. However, these enterprises are generally perceived as risky by most banks, and access to finance is an important constraint on them playing a fuller role in supporting economic growth, jobs and development.

In Sub-Saharan Africa, the fact that the rapid rural-urban migration and deficiency to absorb this migration, MSMEs have become important urban economic activities particularly in providing urban employment. In similar scenario, in cities and towns of Ethiopia, SMEs and the informal sector are the predominant income generating activities and thus they have a significant contribution to local economic development and used as the basic means of survival (Gebre-egiziabher and Demeke, 2004).

Despite the enormous importance of MSMEs sector to the national economy with regards to job creation and the alleviation of abject poverty, many of the MSMEs in Ethiopia are unable to realize their full potential due to the existence of different factors that inhibit their growth and performance. One of the leading factors contributing to the unimpressive growth and performance of the enterprises is limited access to finance (Wolday and Gebrehiwot, 2004). In a similar way, comparing small and large firms the World Bank finds that small firms face more challenges in obtaining formal financing than large firms; they are much more likely to be rejected for loans, and are less likely to have external financing (World Bank, 2015).

Improving access to funding for micro, small and medium enterprises is crucial in fostering entrepreneurship, competition, innovation and growth in Ethiopia. Access to sufficient and adequate capital to grow and further develop their activities is a difficulty faced by many Ethiopian MSMEs (Amare A. and Raghurama A, 2017). This situation is compounded by the difficulties in accessing finance as MSME financing is considered by many financial providers as a high risk activity that generates high transaction costs and/or low returns on investment. Moreover, MSMEs need to meet the challenge of adapting to the changing financial environment and the increasing complexity and extent of financial acquisition (Wajohi, 2009). Therefore, this study investigated the factors influencing access to finance by MSMEs in Ethiopia with special emphasis on Wolaita Zone, Sodo Town in order to set some light on how the problem of access to finance would be addressed to reduce the number of MSMEs collapsing.

Statement of the Problem
SMEs tend by their very nature to show a far more volatile pattern of growth and earnings, with greater fluctuations, than larger companies. Their survival rate is lower than that of larger companies. Thus, SMEs are at a disadvantage when trying to obtain financing relative to larger and more established firms. It can also be difficult for potential creditors or investors to distinguish the financial situation of the company from that of its owners (Smallbone and Wyer, 2000).

In most developing countries, SMEs face constraints both at start up phases and after their establishment. In Africa, for example, the failure rate of MSEs is 85% out of 100 enterprises due to lack of skills and access to capital (Fedahunsi, 1997). It is typical of MSMEs in Africa to be lacking in business skills and collateral to meet the existing lending criteria of financial institutions (World Bank, 2004). This, according to World Bank, has created finance gap in most markets. The MSMEs are able to source and obtain finance mostly from informal sectors like friends and relatives while medium or large enterprises obtain funds from banks. This unequal access to finance by MSMEs and medium and large enterprises has undermined the role of MSMEs in the economic development in African countries (World Bank, 2004).

Zeleke Worku (2009) noted that lack of access to finance is the most influential factor from among all adverse factors hindering the growth and development of the MSE sector in Ethiopia.

As part of efforts to bridge the MSME financing gap, there have been several attempts by governments and private institutions to enhance the flow of funds to these businesses. There have been schemes introduced by the government, either alone or with the support of donor agencies, to support MSMEs.

In SPNNR, SMEs have a problem of finance when establishing the business most individual sources of finance come from personal savings and loans acquired from relatives, friends and money lenders with high amount of interests (MoTI, 2015).

To address above problems, this study therefore aims to provide a holistic view of factors hindering SMEs access to finance through a comprehensive review of literature and empirical study available on the area. This resulted in the

development of a theoretical framework for the initiation of policies and programs for enterprise development. From the practical point of view, it serves not only to provide a self-check to current enterprise sector's financing decision, but also to increase the involvement in business activities through a better understanding of the determinants of the enterprises' access to finance. Such an understanding of the pre-requisites for Wolaita Zone, Sodo Town MSMEs to perform well in their businesses is of critical importance especially in today's competitive business environment.

Research Questions
In view of the problems, the central question of this study is: what are the factors that mostly affecting MSMEs accesses to finance that are operating in Wolaita Zone? Specifically, the following sub-questions are raised:
1. What are the main factors that hindered MSMEs access to finance?
2. What framework is available to improve the MSMEs lending process in Wolaita Zone, Sodo Town?
3. How can the challenges of MSMEs in Wolaita Zone, Sodo Town access to finance be minimized?

Objectives of the Study:-
General Objective
The main objective of the study is to uncover major determinants of MSMEs access to finance in SPNNR, Wolaita Zone.

Specific Objectives
The specific objectives are to:
1. Examine the various factors that affect MSMEs access to funding.
2. Assess the framework available to improve the MSMEs lending process in Wolaita Zone, SodoTown?
3. Recommend possible solution to alleviate the identified problem of MSMEs.

Significance of The Study
The findings of this study will be useful to the stakeholders such as researchers and academicians in providing a thorough understanding of the critical factors that affect MSMEs access to finance. Moreover, the findings of this study will help MSMEs in Wolaita Zone and others, within an insight into the benefits of using different factors studied in this research to predict the factors that affect MSMEs access to funding.

Research Rationale
The rationale for selecting this study is based on the premises that the findings of the study aims at investigating the contributing factors that deterring MSMEs role on the nation's economic development due to lack of access to finance. Micro and small enterprises in Ethiopia provide goods and services in promoting innovation and enhancing the enterprise culture, which is necessary for private sector development and industrialization. This study with its stakeholders as owner managers would use the research findings to predict the success or failure of the business financing, and therefore choose what would be best outfit for their financing practice.

Organization of the Study
Chapter two of this paper reviews the theoretical and empirical aspects of the study and chapter three presents research methodology while chapter four discusses data presentation, analysis and interpretation. Finally, chapter five concludes and suggests possible recommendations.

Literature Review
This section presents both the theoretical and empirical review of the related literature on the subject under study.

Theoretical review
Definition of Micro and Small Enterprises
There is no single and universally acceptable definition of a small enterprise (Ayyagari, 2007). Since, the criteria and ways of categorizing enterprises as micro and small from institution to institution and from country to country depend essentially on the country's level of development. Even within the same country, definitions also change overtime due to changes in price levels, advances in technology or other considerations (Emma I. et al., 2009). Firms differ in their levels of capitalization, sales and employment. Hence, definitions that employ measures of size (number of employees, turnover, profitability, net worth, etc.) when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to a different sector could lead to a different result. The absence of such uniform definition of MSMEs has created a difficulty. In line with this, Tegegne and

Meheret (2010) argued that the absence of a single or globally applicable definition has made the task of counting the number of MSMEs and assessing their impact extremely difficult across countries, though the rationale for most governments to make such definition and categorization is mainly for functional and promotional purposes to achieve the desired levels of development of the sector.

On the other hand, United Nations Industrial Development Organizations (UNIDO) gives alternative definition for developing countries. Accordingly, it defines micro enterprises as the business firms with less than 5 employees and small enterprises as the business firms with 5-19 employees (UNIDO, 2002).

The Role of the MSMEs in Ethiopian Economy
The Micro, Small and Medium Enterprise (MSME) sector has emerged as a highly vibrant and dynamic sector of the Ethiopian economy over the last decade. MSMEs not only play a crucial role in providing employment opportunities but also contribute enormously to the socio-economic development of the country, notably in their role as catalysts for the transition to an industrial society. MSMEs are viewed as seedbeds for the development of medium and large enterprises. It is reported that there are approximately 800,000 SMEs across the country.

In order to promote a broader, deeper engagement with MSMEs and help them fulfill their full economic potential, the government published its first National Micro and Small Enterprise Development Strategy in 1997. The main objectives of the strategy were to promote economic growth, create sustainable jobs, strengthen collaboration among MSMEs and provide a platform for transformation to medium and large enterprises.

Driven by the conviction that MSMEs are keys to laying the foundations for industrial development, the Ethiopian government placed them at the heart of successive poverty reduction and economic development plans, including Plan for Accelerated and Sustained Development to End Poverty (PASDEP), Growth and Transformation Plan (GTP I and GTP II).

Within the framework of PASDEP, which ran from 2005-2010, MSMEs were seen as the most promising avenue for job creation and tackling pervasive youth unemployment. To achieve this objective, MSMEs received basic training (such as business management, entrepreneurship and production techniques), upgraded business development services and enhanced market linkages. By the end of the plan, a total of 167,835 MSEs had created approximately 1.46 million employment opportunities (MoUDC, 2011).

PASDEP's successor, the first GTP (Growth and Transformation Plan), also prioritized MSME development and sought to scale up support. During GTP I (2010-2015), ETB 16.4 million (USD 689,000) was disbursed in loans to MSMEs and more than 7 million employment opportunities were created (MoFED, 2016).

Finally, the second Growth and Transformation Plan (GTP II - 2016 to 2020) continues to prioritize MSMEs but places greater emphasis on manufacturing, increased productivity and competitiveness. GTP II aims to disburse ETB 21 billion (USD 904 million) in loans to MSMEs through MFIs and stimulate the creation of 8.4 million jobs.

Empirical Review
Credit Risk Assessments
Credit risk assessment had become a particularly challenging issue for banks. It's serving as the stimulus to evaluate the credit admission or possibility business failure, in order to make aggravate initial movements (Zhang Q. et al., 2017). Spuchlakova E. et al., (2015) on the other hand, explained that credit risk management is monitoring system intent for continuity of the business and considered as one of the important task banks handled. Credit officers use different methods to evaluate the customers by using quantitative methods, such as financial statement full analysis, credit scoring, and using qualitative methods such as credit analysis, which depend on evaluating factors and criteria related mainly to customers as follows.

A strong business plan for capital infusion:
The business plan is a fundamental management method utilizes set of documents arranged by enterprise administration to abridge its operational and financial objectives for the near the future and to indicate how they will be accomplished. Bandar W. (2016) stated that bankers want more than just ideas to providing credit to the firms; they want facts and details. Kwaning C. et al., (2015) also noted that borrowers produce a clearly written plan for how the firm will use financing to grow profits as the banks in Ghana required practical business plan before

preparing the proposal and lend MSMEs. It includes the type of loan terms needed and build the loan specifics into the firm's projected profitability forecast. Nanyondo, M. (2017) on the other hand, described that there are some critical relationships between Existence of a business plan, Business ownership type, annual growth rate of an enterprise and access to finance. Nanyondo further stated that the most common criteria used in the assessment of credit risk were business plan the bank use it to evaluate whether this is profitable to lend money or not, and if it is a business that the bank wants to engage with.

Credit history:
It refers to a borrower's reputation or track record for repaying debts. According to Karen M. and Brayden M.(2014), credit score appears on the borrower's credit reports which contain detailed information about how much an applicant has borrowed in the past and whether they have repaid loans on time to the creditors. These reports also contain information on collection accounts and bankruptcies, and they retain most information for seven to 10 years. A consumer's credit history includes the number and types of credit accounts, how long each account has been open, amounts of available credit used and the number of recent credit inquiries (Kessey D., 2015).

Collateral requirements:
Collateral refers to the extent to which assets are committed by borrowers to a lender as security for debt payment (Gitman, 2003). The security assets should be used to recover the principal in case of default. MSMEs in particular provide security in form of properties (houses, the businesses, the car, and anything that could actually bring back the principal) in case of default on loans (Garrett, 2009). Security for loans must actually be capable of being sold under the normal conditions of the market, at a fair market value and also with reasonable promptness. However, in most banks, in order to finance MSMEs and to accept loan proposals, the collateral must be 100 % or more, equal to the amount of credit extension or finance product (Mullei and Bokea, 2000).

Awareness of funding opportunities:
The flow of information in the financial market is crucial for both MSMEs and financial providers (Falkena et al. 2001). In order for MSMEs to identify potential supplier of financial services, they require enough information. The financial institutions require information to enable them to evaluate the potential risks associated with the MSMEs that apply for bank financing and also to access the location where the same SMEs will be operating and its market segments (Othieno, 2010). Information is concerned with awareness of funding opportunities by MSMEs. In addition, information asymmetry is that relevant information is not available and known to all players in the financial market (Agostino, 2008). Information asymmetries are actually concerned with the two players in the financial market. In this case, the borrowers know more about their business cases and the bankers may not know more about it on one hand. On the other hand, it entails the lack of timely, accurate, quality, quantity, and complete information regarding the ability of the applicants to repay back the loan and to access financial products from the banking institutions (Bazibu, 2005). A study by Agostino (2008), conducted on agricultural sector, pointed out that the failure of the current African market is because of the number of the current agricultural credit problems. These problems are associated with the imperfection of the information in the risk presences. The failures of the market mostly occur due to the fact that it is costly to screen credit applicants. The imperfections of the information affect almost all small holder farmers who are in most cases African women.

Availability and Credibility of Financial Statements:
One of the primary purposes of financial statements is to facilitate the exchange of financial information between creditors and enterprises. The extent to which creditors rely on the information reported in financial statements depends on the credibility of those financial statements – that is, the trust or faith creditors have in the financial statements presented to them. A strong business with poorly documented financial statements can even cause a lender to question approval (Garrett, 2009). On the other hand, Fatoki O. (2014) claimed that banks required audited financial statements before lending MSME to assess their credit worthiness and decrease the risk of default. Gamage P. (2015) affirmed that MSMEs in Sri Lanka face significant constraints to access bank finance, due to the lack of reliable financial information required by banks to take a decision for granting loans. Zeneli F. and Zaho L. (2014) described that constrain for funding MSMEs came from lack of real financial information presented by MSMEs in Albania so banks could not evaluate the applicant performance. Kalya E. (2013) also implied that internal factors relating to MSMEs lending assessment were the audited financial statements which might forecast the ability for the debt repayment. The banks seek trustworthy in the financial statement as they affirm the business will produce enough earnings to repay their obligations. Therefore, it may be appropriate for MSMEs to rely on compiled financial statements.

Access to finance:
For MSMEs, there are two external financing that are mostly important for financing the businesses. The first is the equity financing which is provided in form of venture capital and available for new small businesses (Deakins, 2008). However, due to lack of equity financing, the small businesses go after debt financing that is mostly provided by the banks and non-banking institutions. Indeed, access of debt financing is very limited especially for MSMEs due to the requirements for the provision of debt (Deakins, 2008).

Debt financing:
Debt financing refers to the case where companies get finance products in a form of loan from lending institutions and give their promise to repay back at a given period of time and interest rate (Cooper and Ejarque, 2003). Furthermore, debt financing is the most common instrument used in the financial market for obtaining funds for investments and to finance new businesses including MSMEs. This involves an agreement between the lenders and the borrowers, concerning the fixed interest rate to be paid for the loan in a given period of time. The maturity date of a debt of less than 1 year is considered as short-term debt and more than a year is considered as the long-term debt (Mahembe, 2011). Debt financing includes, therefore, the secured loans which involve the collateral requirements for securing bank financing. When the MSMEs default on the loan commitments, banks usually rely on collateral to recover the money invested in a particular business (Falkena et al., 2001). In the case of unsecured loans, the lender provides loans taking into account the borrower's reputation. For that transaction to take place, a strong relationship between the borrowers and the banks is needed. Loans of this kind are usually short term and the rate of interest is often high (Cole, 2003). Most of the lenders are more unlikely to provide unsecured loans to the small businesses unless there was a lot of business that were made in the past between the borrower and lender, otherwise the lender will still insist that the borrower provide collateral for the loans. The insistence of the lenders on collateral relies on the borrower's present financial and economic conditions. The loans are actually subjected to the repayment period which include short time (less than 1 year or between 6 and 18 months), the intermediary term (the repayment between 3 years), and the long term (paid back in 5 years) (Falkena et al., 2001). Bank financing is important for the growth of small firms. Young businesses and any other enterprises in the world including MSMEs depend mostly on bank financing to boost the business and to carry out new investments and projects

Conceptual framework of the study
The conceptual framework of this study shows the focus on the factors influencing access to finance by small and medium enterprises. The variables in the conceptual framework are tested as hypotheses to establish the relationships between variables.

Figure 1 shows the conceptual framework showing the relationship among variables.
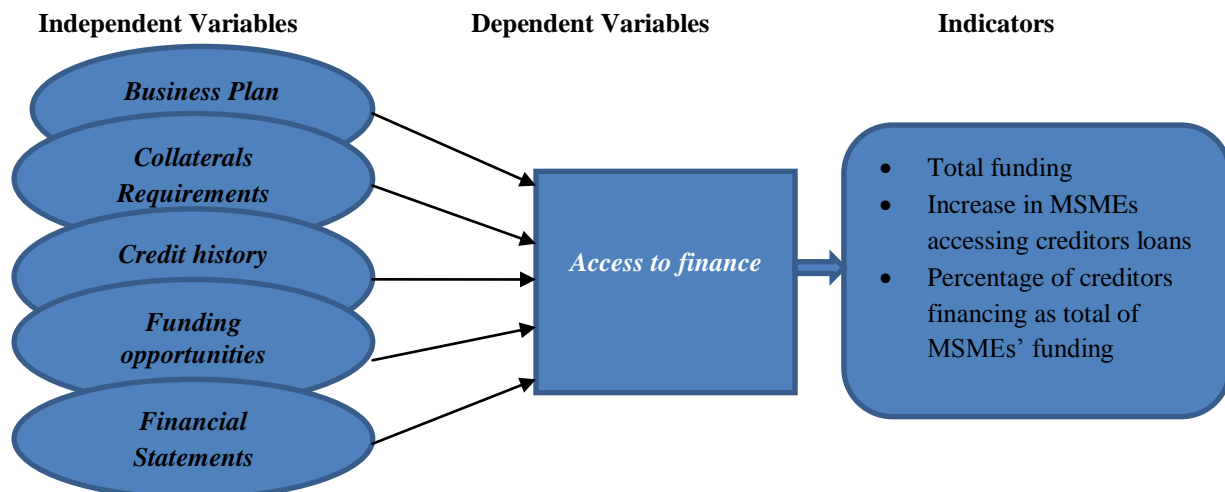
The independent variables of this study include business plan, credit history, collateral requirements, awareness of funding opportunities, and availability and credibility of financial statements; and the dependent variable is the access to finance by MSMEs. The measures or indicators for access to finance include the amount of financing provided to MSMEs as a total funding, increase in number of MSMEs accessing financial institutions loans, and the percentage of the institutions financing as total of MSMEs' funding.

Methodology:-
Research Design
Research design is defined as a framework of methods and techniques chosen by a researcher to combine various components of research in a reasonably logical manner so that the research problem is efficiently handled (Ranjit K., 2011). Based on the nature and objective of the study, both descriptive and inferential research design was used so that organize, analyze and present the data in a meaningful way and drawing conclusions about the study.

Source of data and Method of data collection
The researcher used both primary and secondary data to obtain relevant information. The questionnaires consisted both self -administered closed and open ended questions. A five point Likert scale ranging from strongly agree to strongly disagree were used in measuring the extent of the responses provided.

Target Population
The target population of the study was the chief operators of Micro, Small and Medium Enterprises (MSMEs) in Wolaita Zone, Sodo Town. As the primary focus of the government is transforming agriculture based economy to industry lead economy, the study focused only on enterprises engaged on production sector. Hence, the target population of the study for MSMEs only dwells on the production sector such as manufacturing, construction and urban agriculture that are currently operating in Sodo Town. The MSMEs were those licensed and which operate under the legal framework of doing business in Ethiopia.

Table 1:-Number Of Msmes Engaged In Production Sector In Wolaita Zone, Sodo Town

SN	Production Sector	Number of MSMEs
1	Manufacturing	144
2	Construction	149
3	Urban Agriculture	73
	Total	**366**

Source: Wolaita Zone Job Creation and Food Security Agency Office (2019)

Sampling Technique and Sample Size
In this study, stratified random sampling was used. The stratified random sampling was used to classify the respondents into strata that included the relevant management dealing with MSMEs engaged on production sector in Wolaita Zone, Sodo Town. To determine the sample size, the following formula provided by Easterby-Smith et al. (1999) was used by the researcher since it was relevant to studies where a probability sampling method was used.

$$SS = Z^2 pq \left[\frac{N}{E^2(N-1)+Z^2 pq} \right]$$

Where:

SS = required sample size;
Z = z value at 95 % confidence level = 1.96;
p = estimated variance in the population = 50%;
q = 100 − p = 50%;
N = total population;
E = margin error = 5%.

Table 2:-Sample Size

Production Sector of MSMEs	Population	Sample Size	Percentage (%)
Manufacturing	144	74	39
Construction	149	77	41
Urban Agriculture	73	37	20
Total	**366**	**188**	**100**

Source: Wolaita Zone Job Creation and Food Security Agency Office (2019)

A sample size of 188 MSMEs was computed from a population of 366 MSMEs in three production sectors (as in Table 2). From the data collected, out of the 188 questionnaires administered to MSMEs owners, 126 were filled and returned. This represented a response rate of 67% which corroborates Bailey's (2000) assertion that a response rate greater than 50 % is adequate. This implies that based on this assertion the response rate in this case is good.

Data Analysis and Presentation
Data obtained from research instrument was analyzed using the Statistical Package for Social Science (SPSS) version 20.0. Descriptive statistics was used to summarize the data collected from the sample respondents in a meaningful form including tabulations, figures and percentages. ANOVA and multiple linear regressions were also used in inferential part of the study.

Model specification
According to Kothari (2004), when study includes two or more independent variables, multiple linear regressions is appropriate. The study adopted linear regression model to test the relationship between dependent variable (access to finance) and independent variables (Business plan, Credit history, Collateral requirements, Awareness of funding opportunities, Availability and credibility of financial statements. Multiple regression analysis was used to establish the relationship between the variables of the study.

Hence, the regression model below was used.

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \varepsilon.$$

Where: y = dependent variable (access to finance) which was evaluated using the questionnaires by measuring the level of factors affect the enterprises access to finance; β_0 = constant; $\beta_1 - \beta_5$ = model parameters or coefficients; $x_1 - x_5$ = independent variables (determinant factors} namely business plan, credit history, collaterals, awareness of funding opportunities, availability and credibility of financial statements; and ε=error terms.

Results And Discussions:-
This section presents results and findings from the study. The first section deals with the background information of the respondents; while the other two sections present results and findings of the analysis, based on the objectives of the study where both descriptive and inferential statistics have been employed.

Socio-Demographic Characteristics of the Respondents
Many scholars believe that the socio-demographic characteristics of the respondents have an important implication for access to funding. In this section, rough analysis has been made to examine the relationship between socio-demographic characteristics such as age, sex and educational backgrounds against the MSMEs access to funding status.

Size and Age of the MSMEs
The questions were meant to capture the relation between the size and age of MSME and its access to funding. Of the 126 respondents 54% were micro, 32% small while 14% were medium enterprises. Very young were those MSMEs below 3 years, young were those below 10 years, medium were firms below 20 years while old were those above 20 years of operation (Wolaita Zone Job Creation and Food Security Agency Office, 2019).

Table 1:-Distribution of Size and Age of the MSMEs

Size	Very Young	Young	Medium	Old	Total
Micro	33	10	25	0	68
Small	2	29	9	0	40
Medium	0	14	4	0	18
Total	**35**	**53**	**38**	**0**	**126**

Source: Own survey (2019)

Table 1 shows the majority of micro enterprises (33) have an age of below three years while a large number of small and medium enterprises (29 and 14) respectively have been operating for the last ten years. The firms that were considered very young (28%) considered themselves disadvantaged while trying to access funds from the bank. This was true for especially start- up businesses. Different stages of growth at which the firms were directly related to the age of the MSMEs.

Table 2:-Data on Responses to Questions Containing background information

Statements	SD	DA	N	A	SA	Total
The age of the firm affects its ability to access funds.	5	11	36	48	26	**126**
Gender of the operators makes it hard to borrow money from	8	25	39	41	13	**126**

creditors.					
Educational background of the operators has an influence on firms' access to funding.	4	9	27	57	29	**126**

Source: *Own survey (2019)*

Age of MSME and its access to finance
The answers of the respondents on whether the age of the firm affects its ability to access funds were depicted in the following figure.

Figure 1 Age of the MSME affects its ability to access funds
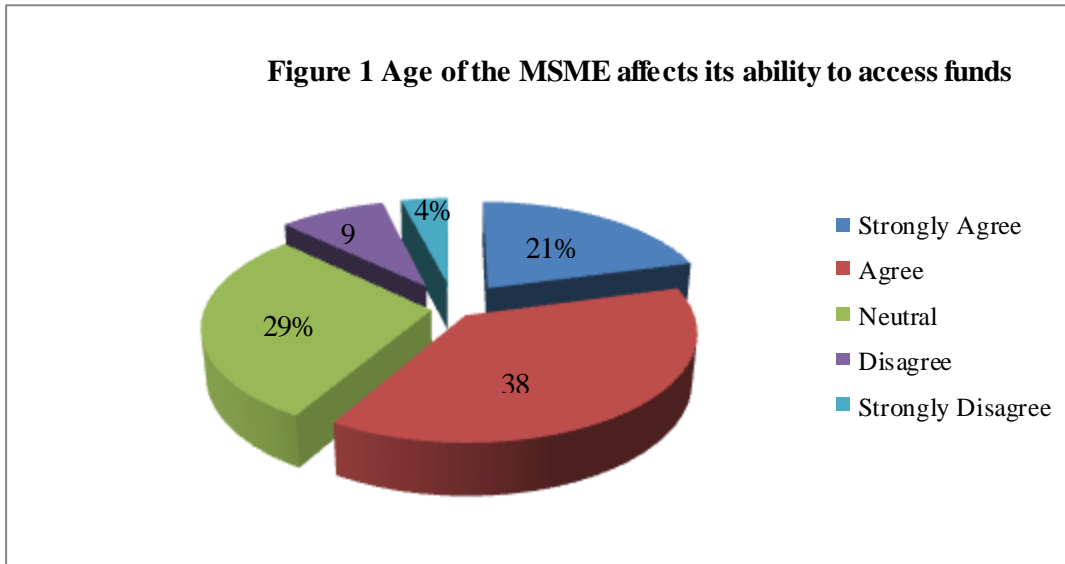
Concerning the influence of age of the firms on the access to funding, 29%% were neutral, while 38% agreed with only 9% disagreeing with this statement. This pointed out that there were more respondents who generally agreed than those who disagreed that being in business for a longer time may influence access to funding (see Figure 1). Among the respondents who were neutral to this statement, it was found that they either lacked proper information on the relation between age and fund accessibility or did not consider borrowing.

Gender of the operators and MSMEs access to funding
The opinion of the respondents towards the influence of operators' gender on firms' access to funding was presented in figure 2.

Figure 2 Gender of the operators makes it hard to borrow money from creditors
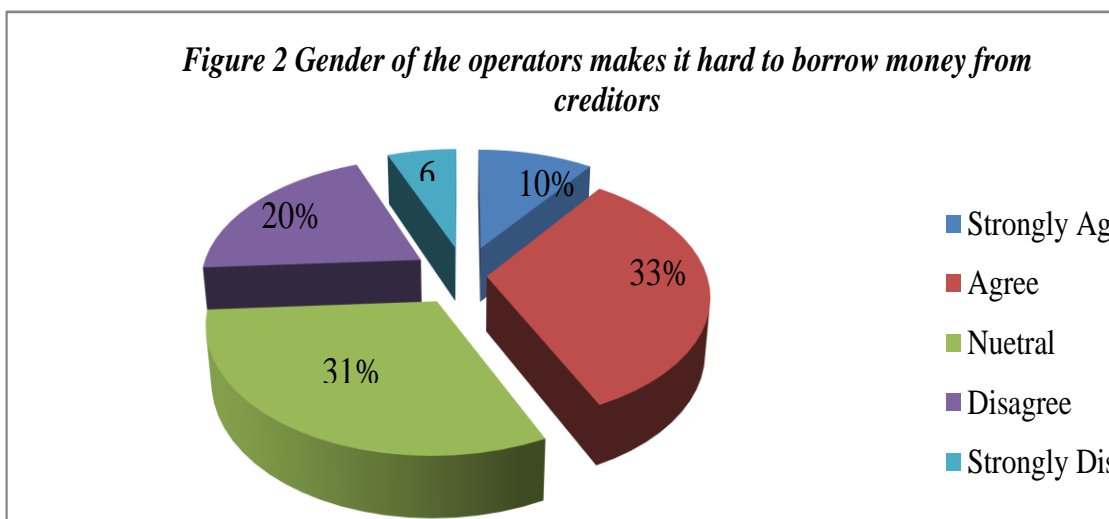
Figure 2 shows the majority of the respondents (33%) believe that gender disparity of the operators can make it the accessibility of funds difficult while 31% of the respondents have no idea whether gender of the operators influences the status of firms' access to funding.

Education background and firms' access to finance
The respondents' opinion on whether education background of the business operators has an influence on firms' ability to borrow funds or not was presented in figure 3.
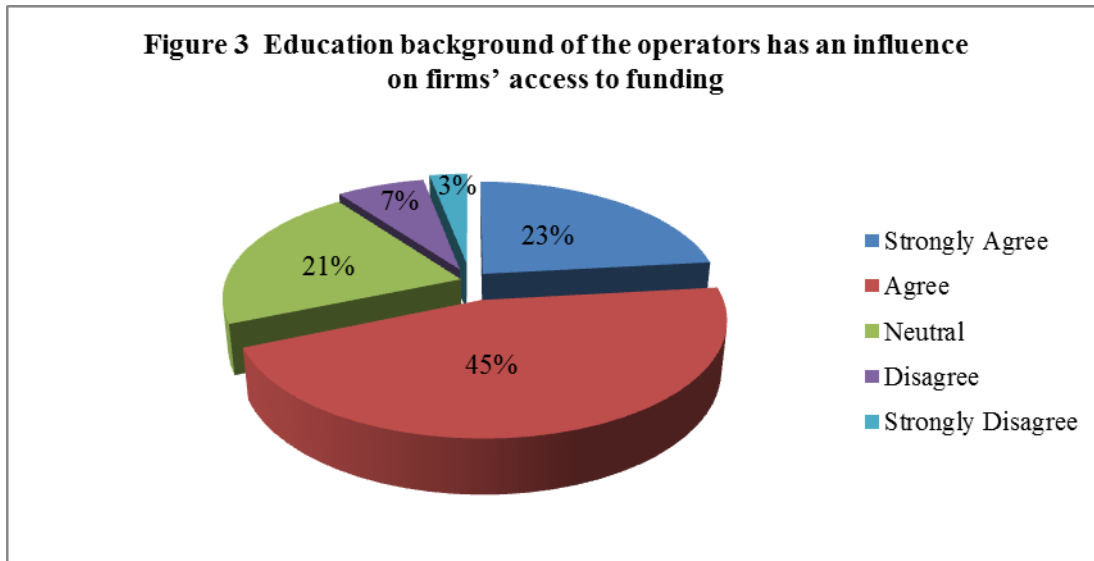
In figure 3, most of the respondents agree that educational background of the operators has an influence on firm's access to finance. Only 10% of the respondents answer educational background of the operators has nothing to do with firms' access to finance.

Validity and reliability results
Validity results
Validity refers to the degree to which the measures of the instruments measure what it is supposed to measure (Joppe 2000; Mugenda, 2008). Face validity of a measuring instrument was established by pre-testing questionnaires on four MSMEs. The research assessed the clarity and ease of use of the research instruments and any sensitive, biased items were identified and modified. Content validity of this study was determined by first discussing the items in the instrument with three experts who indicated against items (with a rating scale of 1–5) in the questionnaire whether it measured what it was meant to measure or not in relation to the research objectives. Content validity index of 0.802 was computed. Mugenda and Mugenda (2003) recommend a content validity index of above 0.5, indicating that the validity of the instrument was acceptable.

Reliability results
Reliability of research instruments indicates the degree to which the research is without bias therefore ensured consistent measurement across time and the several items within instrument (Kothari, 2004). The study used the Cronbach's alpha coefficient to determine the internal consistency of the scale that was used to measure the reliability of the variables of the study. In this regard, a Cronbach's alpha of 0.6 is considered satisfactory and 0.7 to 0.8 good (Cooper and Schindler 2008; Mugenda and Mugenda, 2003; Sekaran and Bougie, 2013). The alpha coefficient was 0.7698, indicating an acceptable reliability of the instruments. The instrument therefore was appropriate for the study. (See Table 2).

Table 2:-Reliability Results (Cronbach's Alpha)

Reliability Statistics	
Cronbach's Alpha	N of Items
0.7698	5

Pearson's correlation matrix

The study conducted a correlation analysis of the variables of the study which included collateral requirements, awareness of funding opportunities, structure of financial sector, and small business support services and access to finance. To establish the relationship between the variables, the study used Karl Pearson's coefficient of correlation (see Table 3).

Table 3:-Pearson correlation coefficient matrix

		Business Plan	Credit History	Collateral	Funding opportunities	Financial Statements	Firm's access to Finance
Business Plan	Pearson Correlation	1	0.054	0.331	0.062	0.141	0.294
	Sig. (2-tailed)		.621	.056	.716	.425	.091
Credit History	Pearson Correlation	0.054	1	0.062	0.067	0.021	0.055
	Sig. (2-tailed)	.760		.726	.716	.837	.078
Collateral	Pearson Correlation	0.331	0.062	1	0.564*	0.043	.087
	Sig. (2-tailed)	.046	.011		.021	.031	.623
Funding opportunities	Pearson Correlation	0.062	0.067	0.564*	1	0.065	0.309
	Sig. (2-tailed)	.760	.425	.001		.716	.076
Financial Statements	Pearson Correlation	0.141	0.021	0.043	0.065	1	0.058
	Sig. (2-tailed)	.067	.037	.031	.074		.549
Firm's access to Finance	Pearson Correlation	0.087	0.294	0.044	0.055	0.309	1
	Sig. (2-tailed)	.625	.091	.643	.756	.076	
*. Correlation is significant at the 0.01 level (2-tailed).							

It was found that there was a positive correlation between collateral requirements and strong business plan (r = 0.331). It was also found that there was a positive correlation between collateral requirements and awareness of funding opportunity (r=0.564, sig. 0.001, two-tailed). However, there was no significant correlation between all the independent variables and access to finance.

Regression analysis

Multiple regression analysis was used to establish the relationship between the variables of the study. Hence, the regression model below was used: $y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \beta_5 x_5 + \varepsilon$. where y=dependent variable (access to finance) which was evaluated using the questionnaires by measuring the level of factors affect the enterprises access to finance; $\beta_1 - \beta_6$ = model parameters or coefficients; $x_1 - x_6$ =independent variables (determinant factors} namely business plan, credit history, collaterals, awareness of funding opportunities and availability and credibility of financial statements; and ε=error terms.

Table 4:-Coefficient of determination (R2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
**Model Summary**				
1	.271[a]	.745	.704	.715
a. Predictors: (Constant), Business plan, Credit History, Collateral Requirements, Awareness of Funding opportunities, Credibility of Financial Statements.				

Table 4 shows a model summary and indicates the adjusted R square used as test for model fitness. The F-test was carried out to test the significance of the regression model in predicting the dependent variable (access to finance). From the results, it was found that the four independent variables moderately predict access to finance in MSMEs (adjusted R squared=0.704). That means the model explains 70.4 % the variance in the access to finance; 29.6 % of variations are brought about by factors not captured in the objectives. Therefore, further research should be conducted to investigate the other factors (29.6 %) that affect access to finance in MSMEs. The regression equation appears to be very useful for making predictions since the value of R^2 is close to 1.

Table 5 indicates the ANOVA (F-test results for the regression model). The null hypothesis was rejected because the linear regression F-test results (F=4.244; and 446 df) are significant at $p < 0.05$. Therefore, the null hypothesis (H_o) was rejected and concluded that the regression model linearly explains the access to finance.

Table 5:-Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
**ANOVA[a]**						
1	Regression	6.227	14	1.557	4.244	.034[b]
	Residual	18.831	432	.649		
	Total	25.059	446			
a. Dependent Variable: Firm's access to Finance						
b. Predictors: (Constant), Business plan, Credit History, Collateral Requirements, Awareness of Funding opportunities, Credibility of Financial Statements.						

Therefore, the study accepted alternative hypothesis:

H_{a1}: There is a relationship between firm's business plan and access to finance;

Ha_2: There is a relationship between credit history and access to finance;

H_{a3}: There is a relationship between collateral requirement and access to finance;

H_{a4}: There is a relationship between awareness of funding opportunities and access to finance;

H_{a5}: There is a relationship between credibility of financial statements and access to finance.

The study conducted a multiple regression analysis so as to determine the regression coefficients (β) which shows that all the independent variables of business plan, credit history, collateral requirements, awareness of funding opportunities, and credibility of financial statements to the dependent variable have a significant contribution to access to finance (Table 6).

Table 6:-Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
**Coefficients[a]**						
		B	Std. Error	Beta		
1	(Constant)	1.138	.3917		2.905	.000
	Business Plan	.157	.0724	.238	2.169	.033
	Credit History	.258	.1304	.387	0.979	.103
	Collateral Requirements	.479	.2397	.586	1.998	.001
	Funding opportunities	.423	.1897	.609	2.229	.031
	Credibility of Financial Statement	.364	.1405	.488	2.134	.004
a. Dependent Variable: Firm's access to Finance						

1. Business Plan: Beta = .238; t = 2.169; p = .033   Significant
2. Credit History: Beta = .387; t = 0.979; p = .103   Insignificant
3. Collateral Requirements: Beta = .586; t = 1.998; p = .001   Significant
4. Funding opportunities: Beta = .609; t = 2.229; p = .031   Significant
5. Credibility of Financial Statements: Beta = .488; t = 2.134; p = .004   Significant

The constant beta value under the un-standardized coefficients implies that the value of the dependent variable if the value of all predictors is zero. One unit change in strong business plan has resulted in 0 .238 unit increases of the firms' capital infusion and one unit change in credit history results in an increase of 0.387 unit firms' access to finance.   Similarly one unit change in collateral requirements has led to 0.586 unit change in firms' access to funding. Moreover, one unit change in creating awareness of funding opportunities has contributed 0.609 unit increases in firms' access to finance and one unit change in availability and credibility of financial statements has resulted in an increase of 0.488 unit increases in firms' access to funding. Based on the regression analysis the results show that strong business plan, collateral requirements, awareness of funding opportunities and availability and credibility of financial statements affect MSMEs access to funding in Wolaita Zone, Sodo Town.

Discussion of findings:-
Effect of business plan in access to finance
The study found that business plan influences SMEs' access to finance. Charbonneau and Menon (2013) suggest that MSMEs for their sustenance need to set clear goals and develop a deep understanding of its market which can then make them become more competitive and provide opportunities to participate in global value chains. Also the respondents agreed that business plan could improve access to finance in a sense that it sharpen firms' forecasts and articulate growth plan. There are enough number of funding programs and financial schemes to assist MSMEs but most of them are not able make proper proposals for funding. Hence, business plan is an opportunity to convince potential lenders about the importance the business. This finding agrees with Rambo (2013) observations that most MSMEs are not aware of funding programs and that most MSMEs face difficulties in providing strong business plan required by creditors for capital infusion.

Influence of firms' credit history in access to finance
The study showed that there is no relationship between firms' credit score and access to finance. This study finding disagrees with the findings of Scott and William (2001) that there is a clear relationship between recording payment history for loans and credit cards, credit utilization rate, the number and severity of late payments and MSMEs' access to finance. Therefore, this study concludes that either the concept of credit score has not yet understood as a key factor for access to finance by the business operators or no trends have been made so far at all.

Influence of collateral requirements in access to finance
The study sought to establish the influence of collateral requirements on access to finance. Collateral refers to the assets committed by borrowers to a lender as security for debt payment (Gitman, 2003).

The study found that collateral requirements influence access to finance by MSMEs in Sodo Town. It is evident that most MSMEs are denied and discriminated by the lenders in provision of financing. This is because of high risk and for not having adequate resources to provide as collateral. The study also found that houses, land, and businesses are used as security and that creditors demand MSMEs to post the collateral in order to reduce moral hazard. This finding is in line with the findings of Mullei and Bokea (2000) that financial institutions ask for collaterals in order to finance MSMEs and to accept loan proposal and that the collateral must therefore be 100 % or more, equal to the amount of credit extension or finance product.

Further, the study revealed that collateral creates disincentive to the MSMEs to acquire financing and that MSMEs are discriminated by banks due to high risks in lending to them. This finding concurs with Kihimbo et al. (2012) that most MSMEs are denied and discriminated by the lenders in providing financing.

Effect of awareness of funding opportunities in access to finance
The study found that awareness of funding affects access to finance. It was found that there is information asymmetry. The financial institutions know very little about the MSMEs. Information asymmetries are actually concerned with the two players in the financial market in the case that the borrowers know more about their business cases and the creditors may not know more about it on one hand. On the other hand, it entails the lack of timely,

accurate, quality, quantity and complete information regarding the ability of the applicants to repay back the loan and to access financial products from the financial institutions.

The study revealed that the financial institutions require more information to evaluate potential risks associated to MSMEs. The flow of information in the financial market is crucial for both MSMEs and financial providers (Falkena et al., 2001). In order for MSMEs to identify potential suppliers of financial services, they require enough information. This study therefore infers that availability of information is essential to both the creditors and the MSMEs. This will enhance the understanding of the potential risks associated with the MSMEs that apply for financing and also to access the location where the same MSMEs will be operating and its market segments (Othieno, 2010).

Effect of availability and credibility of financial statements in access to finance
The extent to which creditors rely on the information reported in financial statements depends on the credibility of those financial statements. The study sought that the availability and credibility of financial statements influence the firms' ability to access funding. The MSME failure of disclosing its financial position, profit and loss statements, cash inflows and outflows and lack of having independently verified financial statement disclosures have caused a lender to question approval. As a result, the finding agrees with the claim of Fatoki O. (2014) that credit institutions required audited financial statements before lending MSME to assess their credit worthiness and decrease the risk of default.

Conclusions and Recommendations:-
This section draws the conclusions based on the objectives of the study and suggests possible policy recommendations.

Conclusions
MSMEs' access to finance is one of the key challenges not only when starting the business process but also when operating in the actual circumstances. Therefore, identifying the major determinants of firms' access to finance is primary objective of this study. From the finding the   following observations were drawn.

The MSMEs' access to finance has been significantly affected by lack of preparing strong business plan for capital infusion. Absence of involving management team and key advisors (including bankers) to test business cases, sharpen forecasts and articulate growth plan hamper the enterprises opportunity to grant loans. On the other hand the study concluded that recording payment history for loans and credit cards, absence of credit utilization rate and unknown total debt and amounts owed have no significant effects on firm's access to funding. Regarding to the influence of collateral requirements to access loans, it had been observed that houses, land, and businesses were provided as security and that financial institutions demand MSMEs to provide collateral in order to reduce moral hazard; collateral creates disincentive to the MSMEs to acquire financing and that MSMEs are discriminated by creditors due to high risks in lending to them. The study further concluded that the banks require more information to evaluate potential risks associated to MSMEs in Ethiopia. Information asymmetry is one of the major factors that affect decision of MSME operators and owner managers to apply for loan. The study concludes that the MSME poor financial statement records such as disclosing its financial position, profit and loss statements, cash inflows and outflows and lack of having independently verified financial statement disclosures impede firms' access to finance.

Recommendations
MSMEs need to provide a business plan rigorously supported by fact evidence that forecasts projected return to be seen on the loan so as to improve firms' access to finance and to become more competitive. Financial institutions need to change the mindset of top management to extend finance to MSME sector and train credit officers with suitable financial concepts to deal with this type of business, as well as developing a full range of tailored products that would facilitate the credit process and increase the flexibility of loan requirements and conditions. A credit guarantee schemes should play a bigger role in spreading and dealing with financial institutions, as a type of collateral provides the lender with a security and it mitigates the risks of defaults with affordable fees. Financial institutions need to ally with business colleges and concerned government organizations to launch a financial education campaign targeting at youth, children and business societies to gain knowledge in running businesses. Either setting training activities for MSMEs to enhance their capabilities in developing business plans and feasibility studies as it will help them to manage their business. MSME operators need to improve their performance and present their financial statements fairly, in order to provide the evidences for their growth, so creditors would be

more trusted to funding them. So all parties may gain when cooperating, which will be reflected positively on the economic development. Thus, the study might provide a guideline for credit decision makers to concentrate on testing specific factors in every business task. However, the majority of these factors need to be assumed as bundle, which will reduce the uncertainty and time consuming for the credit officers when preparing the credit proposal. Furthermore, the research may provide the knowledge for MSMEs to know what are creditors looking and how they are evaluated, which will help them to develop, improve their performance and shift to the official market to comply with the creditors' requests for approving funding.

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